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## **STOCK EXCHANGE ANNOUNCEMENT**

24 August 2020

### **Chorus 2020 full year results & annual report**

The following are attached in relation to Chorus' FY20 full year results and annual report:

1. Media Release
2. Investor Presentation
3. Annual Report (including audited financial statements)
4. NZX Financial Results Announcement
5. NZX Distribution Notice
6. Letter to investors

Chief Executive Officer JB Rousselot, and Chief Financial Officer David Collins, will discuss the FY20 full year results by webcast at 10.00am New Zealand time today. The webcast will be available at [www.chorus.co.nz/webcast](http://www.chorus.co.nz/webcast).

## **ENDS**

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24 August 2020

## **Chorus delivers in-line result despite COVID-19 impact**

Chorus today released its audited annual results confirming earnings before interest, tax, depreciation and amortisation (EBITDA) of \$648m for the year ended 30 June 2020.

### **Summary**

- Final EBITDA result in line with February's guidance of \$640 - \$655m
- Net profit after tax was **\$52m** (FY19: \$53m)
- Operating revenue for the period was **\$959m** (FY19: \$970m)
- Operating expenses were **\$311m** (FY19: \$334m)
- Capital expenditure **\$663m** (FY19: \$804m)
- Depreciation and amortisation for the period was **\$402m** (FY19: \$393m)
- Earnings before interest and tax of **\$246m** (FY19: \$243m)
- Final, fully imputed dividend of **14 cents per share**
- **751,000** active fibre connections (FY19: 610,000)
- UFB1 fibre uptake at **63%** of homes and businesses (FY19: 54%)

Speaking about the results, Chorus CEO JB Rousselot said: "This year saw our broadband infrastructure pass its greatest ever test. The COVID-19 pandemic meant New Zealanders were heavily reliant on our copper and fibre networks to keep connecting, working and learning through months of change and uncertainty.

"I'm proud of how our business, and our people, rose to the challenge presented by the pandemic. They helped deliver strong operational results and further cemented broadband's role as an essential utility for all New Zealanders.

The sudden suspension of non-essential field activity through the alert level 4 lockdown period placed financial strain on Chorus' service companies.

"We chose to provide \$5 million in financial support to our service companies and their subcontractors. This assisted them with the impact of reduced levels of work and helped retain the workforce for a rapid resumption of activity as alert levels relaxed.

"We also agreed a relief fund of \$2 million which we made available to retailers to help address the expected increase in bad debts for consumers and small businesses unable to pay their bills during lockdown," said Mr Rousselot.

The demands placed on our network as a result of COVID-19 underlines the importance of continuing to invest in network capacity. Broadband traffic increased by about 35 percent during the lockdown period and to meet this and other demands Chorus is continually upgrading its network.

“In July, before Auckland moved back into alert level 3, we announced the commissioning of two new multi-terabit core routers that increase network capacity in the Auckland area by more than 200 percent.

“Behind the scenes, we work with the broadband retailers to fast-track the handover and backhaul capacity upgrades they need to keep their services congestion free.”

In November, Chorus celebrated a significant milestone with the completion of the original Ultra-Fast Broadband (UFB1) fibre roll-out to 28 major towns and cities across the country.

The completion of the UFB1 rollout, together with the suspension of non-essential roll-out and connection activity during the first lockdown, saw a substantial drop in overall capital expenditure from \$804 million in FY19 to \$663 million this year.

“At the end of the June there were 751,000 active fibre connections on our network. In UFB1 areas uptake of fibre reached 63 percent, while in UFB2 areas uptake has already reached 37 percent.

“The UFB project was a textbook case study of how a public-private partnership can combine the benefits of private sector disciplines with broader socio-economic objectives,” said Mr Rousselot.

### **Looking ahead into FY21**

While the impact of COVID-19 had a negative financial impact on Chorus’ EBITDA in FY20, it has accelerated some positive underlying trends that support the business.

“We remain focused on connecting more New Zealanders to fibre,” said Mr Rousselot.

“We’re continuing to lift our game as an active wholesaler and our latest advertising campaign demonstrates this. It helps position fibre as the ‘new normal’ for internet connectivity by showing the everyday benefits of a rock-solid connection to encourage late adopters to make the change.

“We’re seeing something of a *fixed-line renaissance* as consumers place even greater value on the reliability and unlimited capacity of fibre relative to other broadband technologies.

“The Minister for Broadcasting, Communications and Digital Media, Hon Kris Faafoi, recently said that fibre represents the ‘gold standard’ for internet connectivity. His view is backed up by independent testing from the Commerce

Commission that shows fibre generally supports latency-sensitive applications, like videoconferencing or gaming, better than other technologies.

Later this year Commerce Commission is expected to publish the final copper withdrawal code.

"I would like to make it clear that we're not going to switch off the copper network overnight. There will be lengthy notice requirements that we'll follow, and we'll take a careful, considered and consumer-centric approach.

"As we've said before, it will only be where fibre is already available, and on a localised street-by-street basis."

### **New connectivity offerings**

Chorus continues to explore opportunities to grow revenues through new products and services that offer improved connectivity options for its customers.

"We're starting to see interest from local government organisations for 'smart location' connectivity, like CCTV cameras, traffic lights and digital advertising sites. Often these will be switching from existing copper or mobile connections, taking advantage of fibre's higher and more consistent bandwidth.

"We have also developed a service that makes it easier for retailers to expand their fibre services nationwide and we're planning the launch of a new peering service in the first half of FY21 in conjunction with the New Zealand Internet Exchange.

"The opportunities presented with the latest consumer and business Wi-Fi standard, Wi-Fi 6, is interesting. Internationally this is considered a potential alternative to 5G in enterprise and other private environments (like airports or stadiums) where cost effective capacity and support for a large number of devices is important."

### **Evolving regulatory environment**

In the next few months, the Commerce Commission will make its final decisions on key aspects of the new regulatory regime for fibre.

These decisions present the Commission with an opportunity to ensure that investors get a return that represents the risk they took to build a fibre network.

"The Commission can make these decisions in the knowledge that that end users are well protected with the 100Mbps fibre service price capped as an 'anchor' service. There is great potential for a win-win here.

"Under the current proposed settings, investors will not get a return that reflects the risk they took. Instead the Commission's approach banks the success of the build and, with the benefit of hindsight, effectively de-risks it.

“If this occurs investors will not consider UFB a model for the successful transformation of additional New Zealand infrastructure,” said Mr Rousselot.

## **Dividend**

Chorus will pay a final dividend of 14 cents per share, fully imputed, on 12 October 2020 to all shareholders registered at 5pm on 15 September 2020.

A dividend reinvestment plan will apply for the final dividend at a discount rate of 2%. Applications to participate must be received by 5pm (NZ time) on 16 September 2020.

## **FY21 guidance**

- EBITDA: \$640 - \$660 million
- Capital expenditure: \$630 - \$670 million
- FY21 dividend: 25 cents per share, subject to no material adverse changes in circumstances or outlook.

**UFB2 programme guidance:** updated from range of \$505 - \$565 million to a new range of \$548 - \$568 million to reflect greater proportion of underground build and extended footprint of ~1,000 premises.

## **ENDS**

Chorus Chief Executive, JB Rousselot, and Chief Financial Officer, David Collins will discuss the full year results from 10.00am, NZ time, at [www.chorus.co.nz/webcast](http://www.chorus.co.nz/webcast)

## **For further information:**

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# FY20 FULL YEAR RESULT

24 August 2020

C H ● R U S

# Disclaimer

This presentation:

- Is provided for general information purposes and does not constitute investment advice or an offer of or invitation to purchase Chorus securities.
- Includes forward-looking statements. These statements are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond Chorus' control, and which may cause actual results to differ materially from those contained in this presentation.
- Includes statements relating to past performance which should not be regarded as reliable indicators of future performance.
- Is current at the date of this presentation, unless otherwise stated. Except as required by law or the NZX Main Board and ASX listing rules, Chorus is not under any obligation to update this presentation, whether as a result of new information, future events or otherwise.
- Should be read in conjunction with Chorus' audited consolidated financial statements for the year to 30 June 2020 and NZX and ASX market releases.
- Includes non-GAAP financial measures such as "EBITDA". These measures do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. They should not be used in substitution for, or isolation of, Chorus' audited consolidated financial statements. We monitor EBITDA as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of our business.
- Has been prepared with due care and attention. However, Chorus and its directors and employees accept no liability for any errors or omissions.
- Contains information from third parties Chorus believes reliable. However, no representations or warranties (express or implied) are made as to the accuracy or completeness of such information.

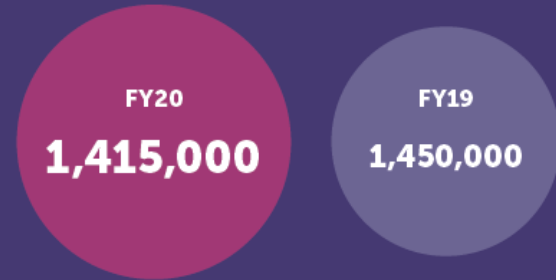
# Agenda

<b>JB Rousselot, CEO</b>	> FY20 overview, COVID-19 impact	4-7
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# FY20 overview

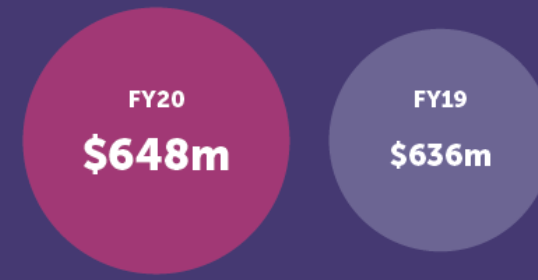
## Fixed line connections<sup>1</sup>



## Broadband connections<sup>1</sup>



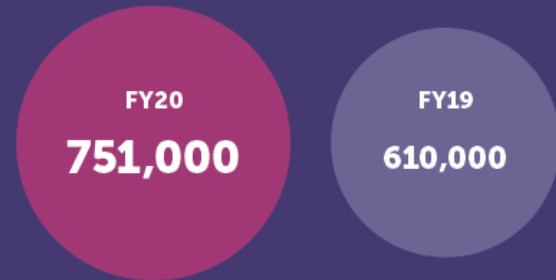
## EBITDA<sup>2</sup>



## Customer satisfaction



## Fibre connections<sup>1</sup>



## Net profit after tax



## Dividend



## Employee engagement score<sup>3</sup>



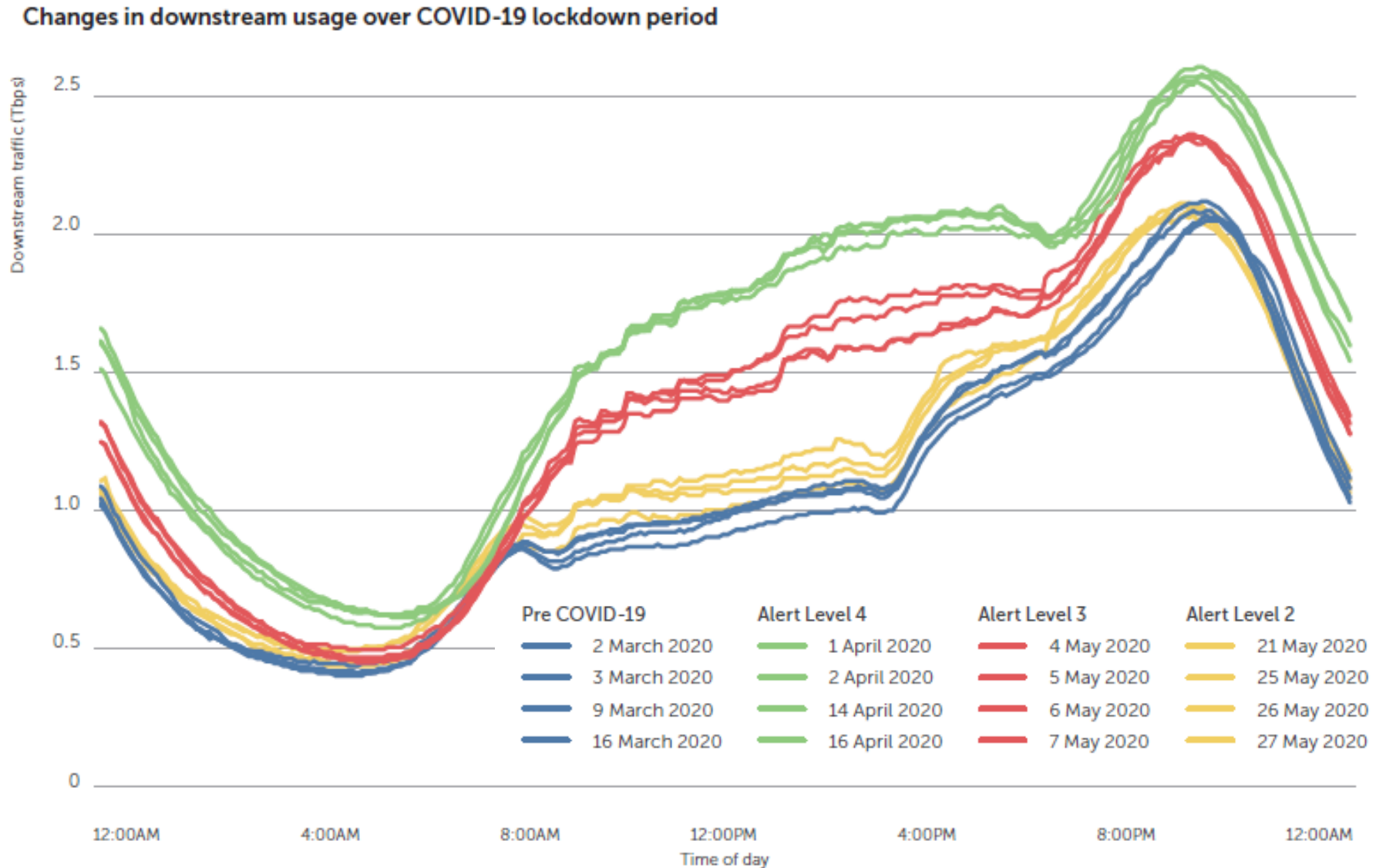
1. Excludes free education connections provided as part of Chorus' COVID-19 response.

2. Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of our business.

3. Based on the mean response to "How likely are you to recommend your company as a place to work?"

# Our network passed its biggest test in FY20

COVID-19 proved the value of fixed line network capacity



# Our response to COVID-19

We implemented a range of initiatives to support community, industry and our people

10,000 free education connections

\$2 million relief fund for retailer bad debt

Price reductions on 1Gbps and small business plans

Fees removed to enable temporary business disconnections

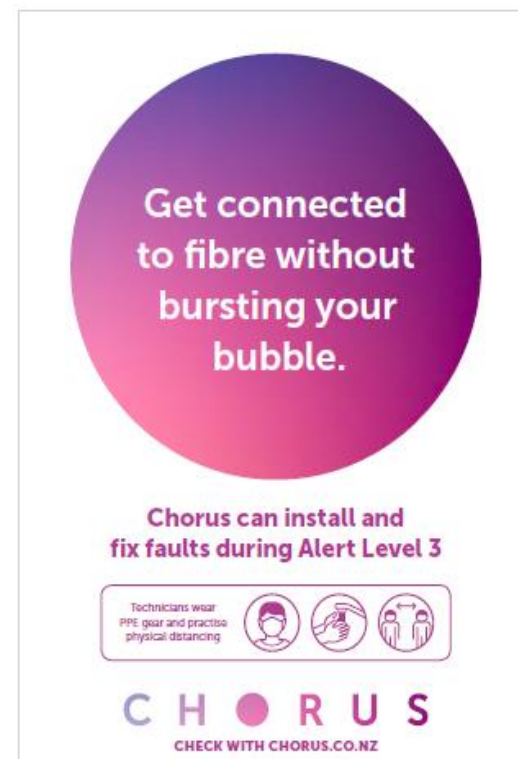
Ongoing investment in network capacity

CPI increase delayed by 3 months

Staff wellbeing initiatives e.g. *Mentemia* app

\$5 million support to service companies and subcontractors

Focus on field force worker welfare



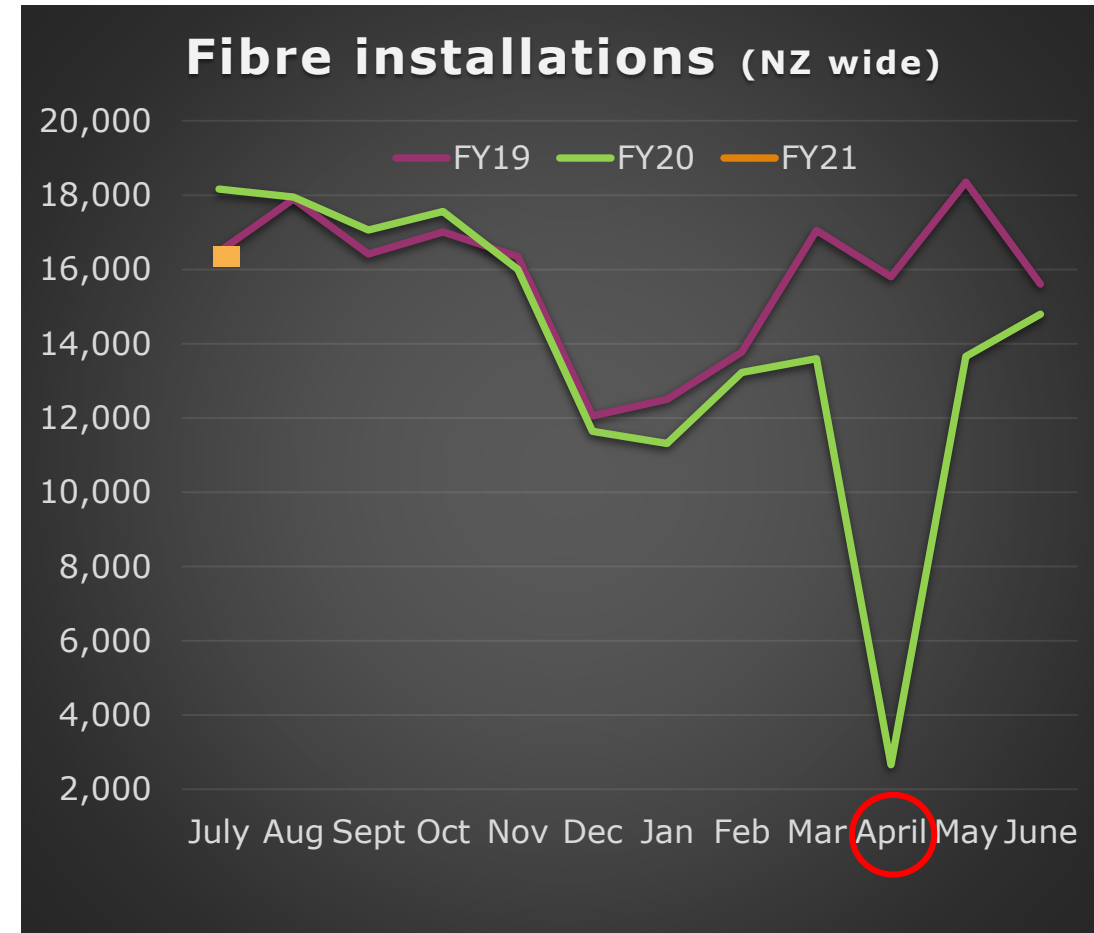
# COVID-19 had substantial impact on field activity

## > Lockdown constrained fibre rollout and uptake

- UFB2 rollout halted
- restrictions on non-essential activity reduced fibre installations by ~15k
- reduced installations and managed migration activity saw Q4 fibre connection growth drop to 27k (Q3: 32k)

## > Rollout and connection activity rebounded faster than initially expected

- July installations back at 16k
- UFB2 rollout almost back to pre-COVID schedule

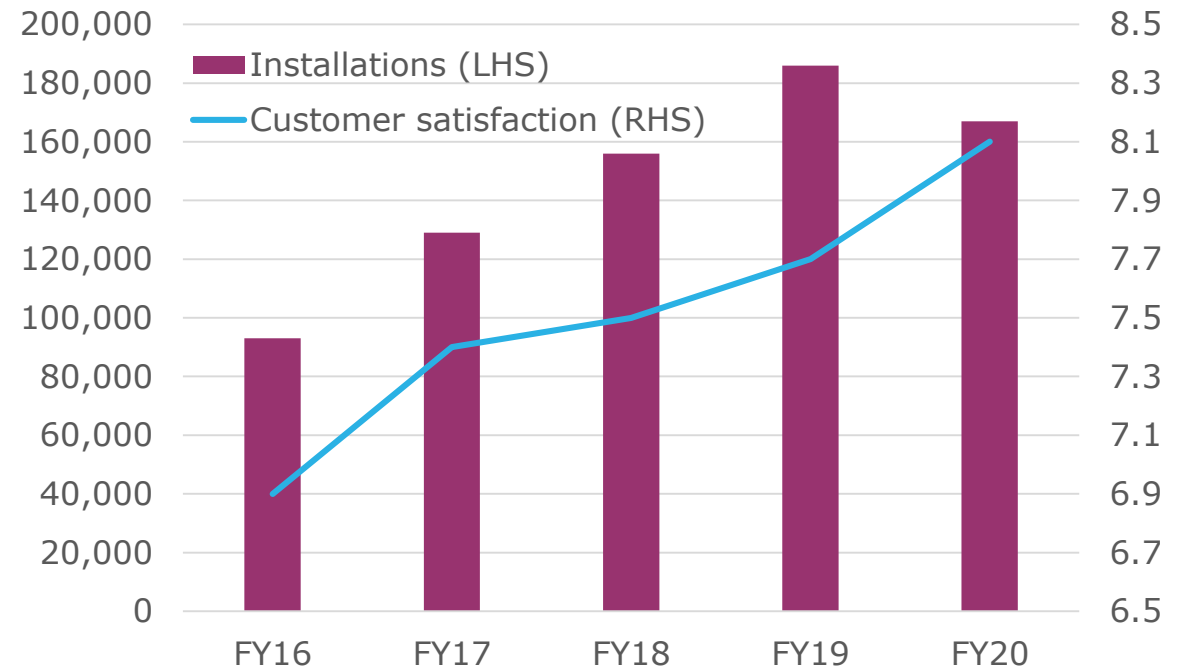


# Significant lift in customer experience in FY20

167k fibre installations (FY19:186k)

- lifted customer satisfaction with installation from 7.7 to **8.1** exceeding target of 7.9
- customer satisfaction with technicians lifted from 8.5 to **8.7**
- installation crews reduced from 670 to **~600**
- lead times flat at **8 days**
- work in progress reduced from 23k to **16k**
- managed migration installations increased from 23k to **32k**, activation rate ~50% within 6 months and ~60% within 12 months

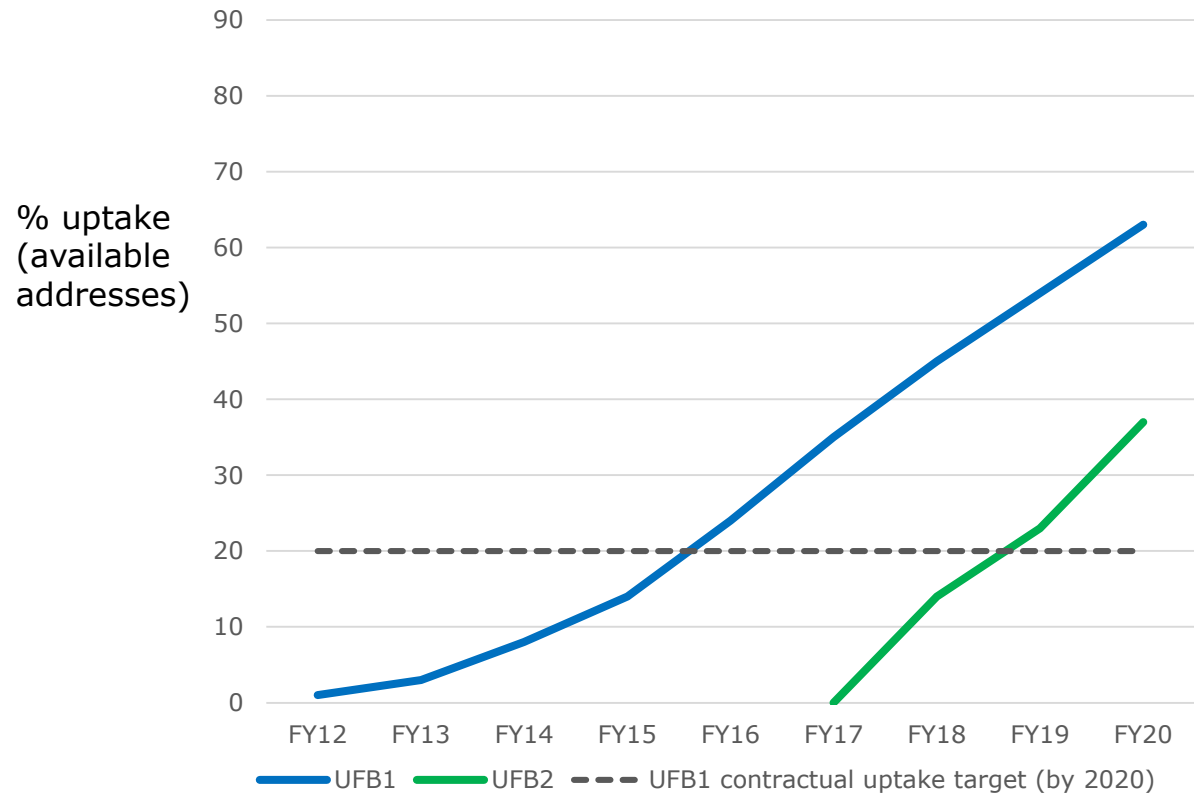
Fibre installations and customer experience



No. of crews: 524 615 800 670 600

# UFB uptake reaches 60%; rollout 88% complete

Chorus UFB uptake by programme



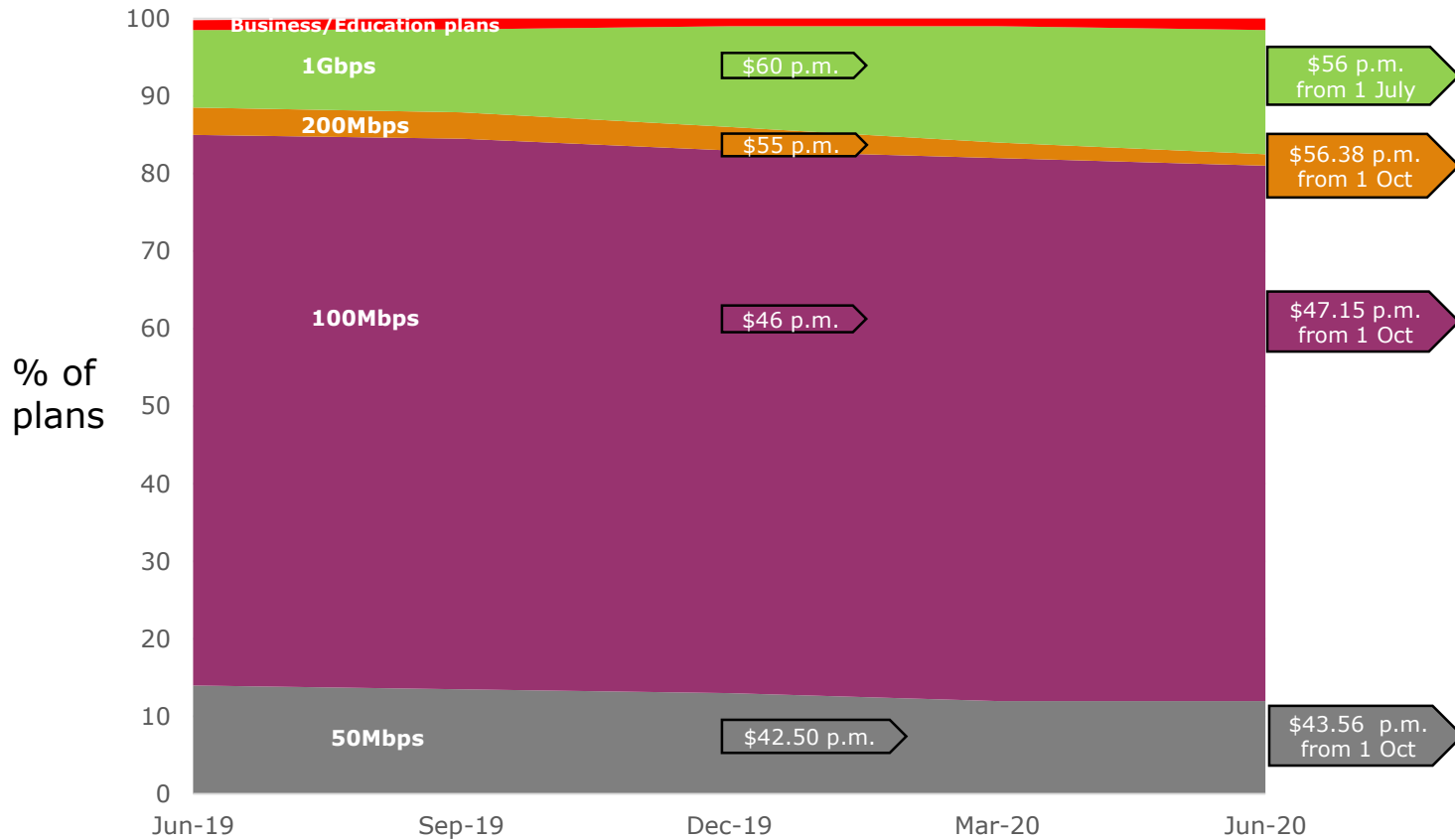
- > **UFB uptake increased from 53% to 60% within completed footprint**
  - uptake in UFB1 areas grew from 54% to **63%**
  - uptake in UFB2 areas grew from 23% to **37%**

(note: uptake includes some UFB2 areas that have been partially built, but not yet submitted for Crown sign-off)
  
- > **1,209,000** customers able to connect (FY19: 1,108,000)
  - **725,000** connections (FY19: 584,000) now within completed footprint, including business premium connections
  - **931,000** premises passed\* (FY19: 842,000) out of 1,054,000 target = UFB rollout 88% complete

\*under the UFB contract, a multi-dwelling unit or single office block is one premises

# 1Gbps plans grew 98% to 115k

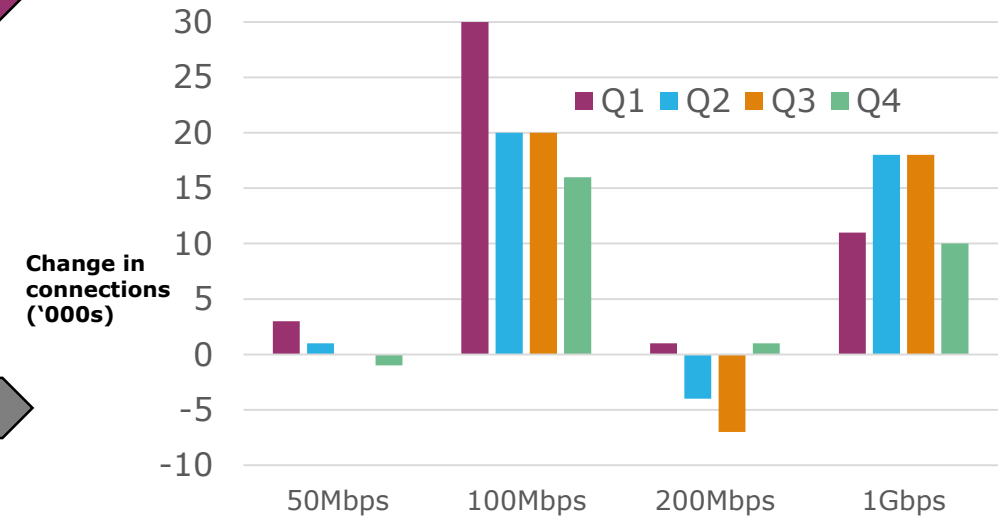
**Total mass market fibre uptake by plan type**



## 141,000 mass market fibre connections added in FY20 (FY19: 166k)

- 1Gbps connections grew from 10% to 16% of connections (58k to 115k)
- 100Mbps plans reduced from 71% to 69%
- small business plans grew to 3k

*Fibre plan movement by quarter*



# Connection changes by Zone (indicative)

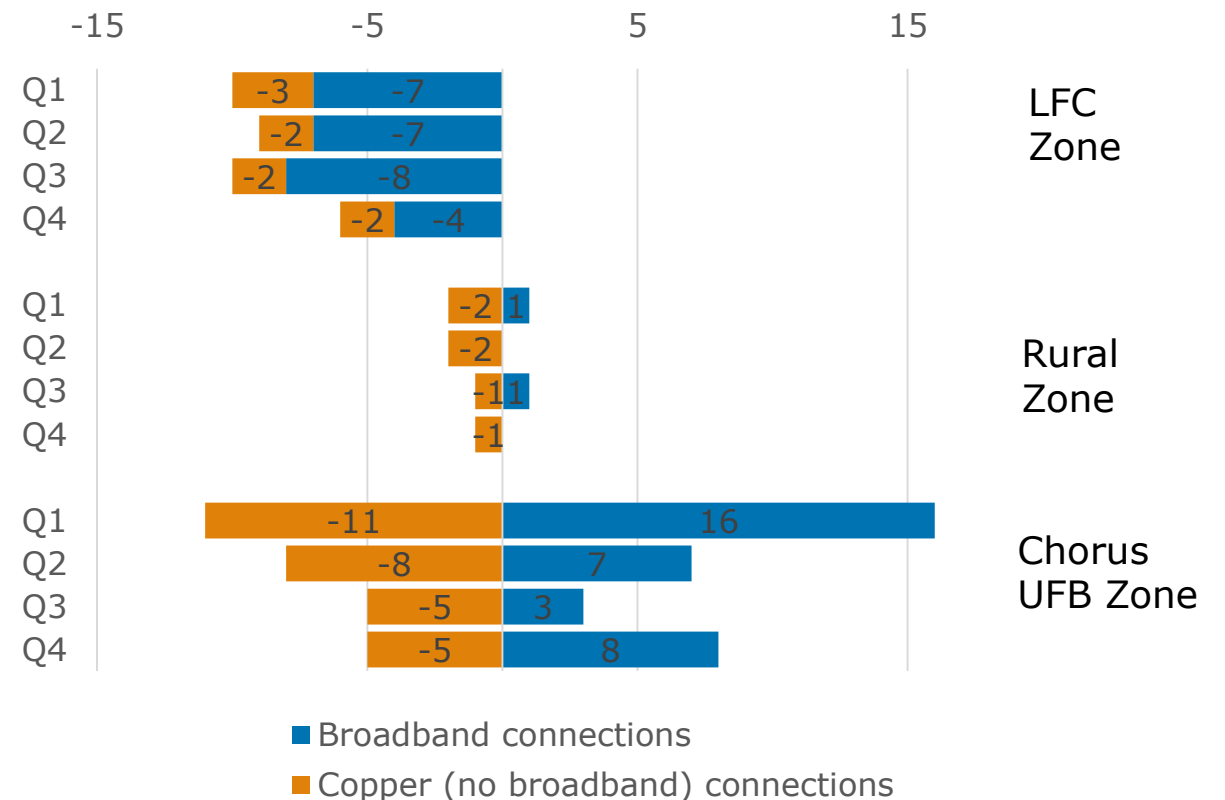
- > **Chorus UFB zone:** 34k broadband growth more than offset copper voice disconnects of 29k. Fibre growth constrained in Q4 by COVID-19 limitations on non-essential work.
- > **Local Fibre Company (LFC) zone:** Reduction of about 35k lines through FY20, with slight slowdown through lockdown period.
- > **Rural:** VDSL and fibre connections continued to grow, helping offset copper voice and ADSL reductions. Fibre connections now 20k.

	Chorus UFB zone*	Rural (non-UFB) zone	Local Fibre Company UFB zone
<b>Total connections at 30 June**</b>	<b>1,097,000</b>	<b>195,000</b>	<b>108,000</b>
Broadband connections	980,000	155,000	71,000
Copper (no broadband) connections	117,000	40,000	37,000

\* Includes planned UFB1 and 2 coverage

\*\*Excludes 15k fibre premium and data services (copper) connections

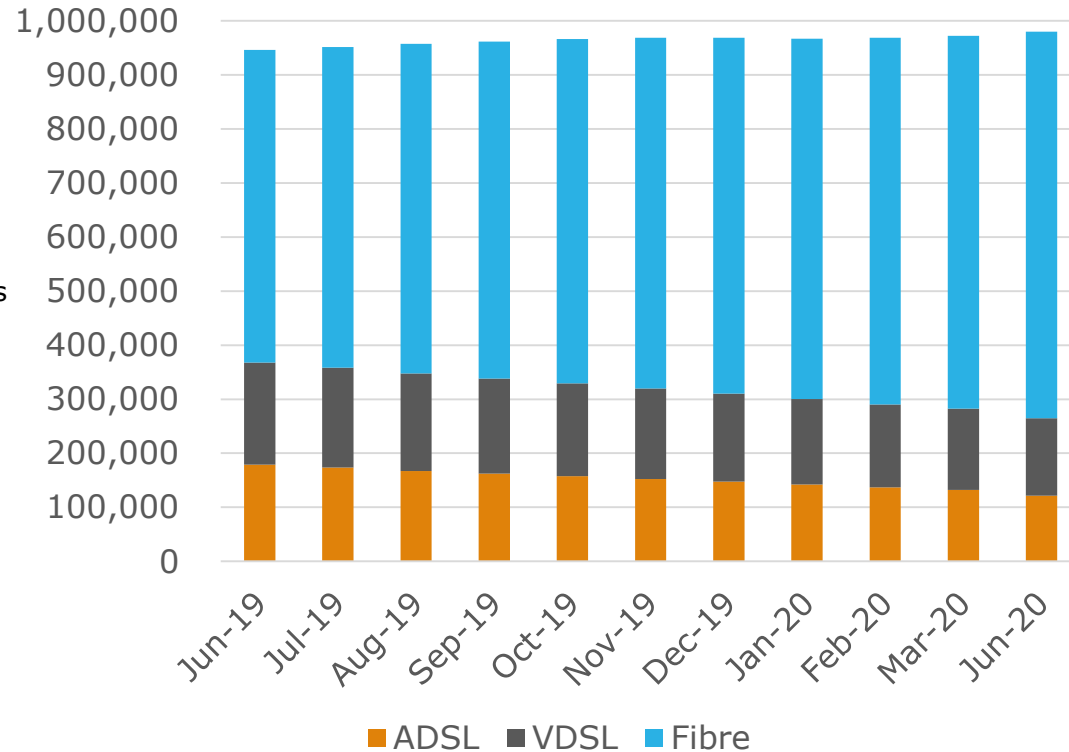
Change in connections ('000s) by zone\*\*



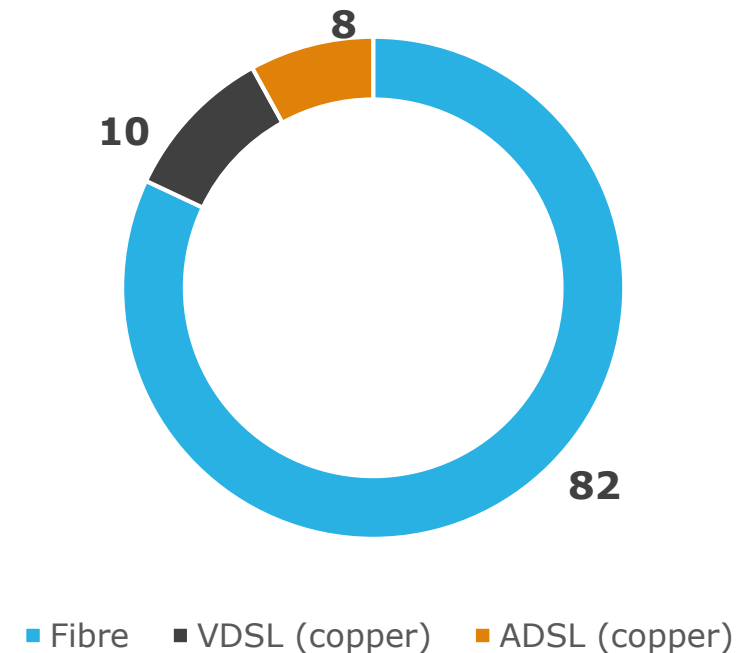


# Chorus broadband mix in planned UFB zone

73% of Chorus broadband connections in planned UFB zone are on fibre (FY19:61%)



**Auckland:** Chorus broadband connections by type (%)



# Financial performance

David Collins, Chief Financial Officer

# Income statement

	FY20 \$m	FY19 \$m
Operating revenue	959	970
Operating expenses	(311)	(334)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>648</b>	<b>636</b>
Depreciation and amortisation	(402)	(393)
Earnings before interest and income tax	246	243
Net finance expense	(173)	(165)
Net earnings before income tax	73	78
Income tax expense	(21)	(25)
<b>Net earnings for the year</b>	<b>52</b>	<b>53</b>

- > ~\$3m COVID-19 impact from industry hardship fund (\$2m) and migrations/connections
- > ~\$9m COVID-19 impact across labour, other network (sercos \$5m) and provisioning lines
- > Increasing with fibre asset; Crown funding offset increased from \$25m to \$27m
- > EUR300m bond issued in Dec 2019; average interest rate on debt was 5.16%

# Revenue

	FY20 \$m	FY19 \$m
Fibre broadband (GPON)	393	294
Fibre premium (P2P)	73	74
Copper based voice	82	106
Copper based broadband	271	344
Data services copper	16	18
Field Services	65	74
Value added network services	29	30
Infrastructure	24	24
Other	6	6
<b>Total</b>	<b>959</b>	<b>970</b>

- > Growing fibre uptake and ARPU: June FY20 \$48.42\* vs June FY19: \$47.50
- > Direct fibre and backhaul growth helping offset legacy churn
- Copper revenues declining as customers migrate to Chorus fibre or competing fibre/wireless networks
- > Reduced demand largely due to COVID-19 restrictions on activity
- > Commercial co-lo growth offsetting reduced copper unbundling demand

\*FY20 ARPU adjusted to exclude COVID-19 related industry credits

# Expenses

	FY20 \$m	FY19 \$m	
Labour	80	74	> 5% reduction in staff numbers, offset by COVID-19 impact on capitalisation rates and annual leave costs, plus investment in regulatory capability
Network maintenance	64	75	> Lower fault volumes due to favourable weather, fibre uptake and COVID-19 restrictions on activity
Other network costs	29	33	> Included \$5m COVID-19 serco support payments
IT	47	50	> New platforms enabling lower IT maintenance and support costs
Rent, rates and property maintenance	25	30	> Property maintenance activity reduced, partly COVID-19 related
Regulatory levies	7	16	> Reduction in annual Telecommunications Development Levy
Electricity	15	17	> Lower electricity prices and consumption
Provisioning	5	6	
Consultants	9	7	> Increase in external advice related to new regulatory framework
Insurance	3	3	
Other	27	23	> Increased marketing to support copper to fibre migration
<b>Total</b>	<b>311</b>	<b>334</b>	

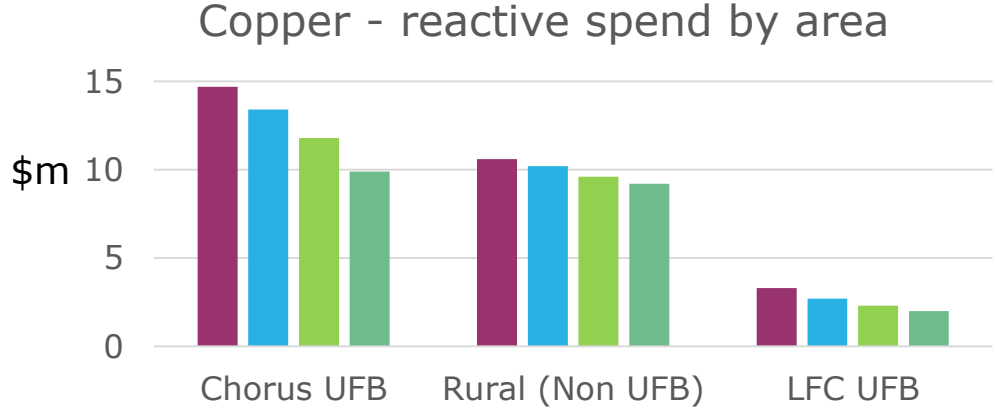
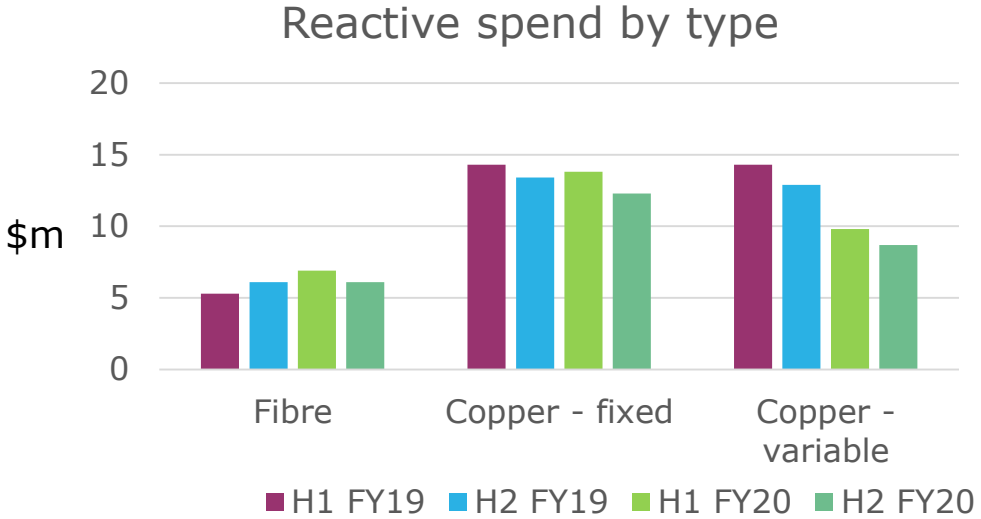
# Reactive maintenance: Chorus network

## Key drivers for \$58m spend

- reactive maintenance spend in H2 FY20 was affected by COVID-19 with lower reported fault volumes
- copper (fixed and variable) fault volumes reduced due to drought conditions in upper North Island and the ongoing reduction in total copper connections
- fibre maintenance increasing as share of connections grows, but fault rate is lower on fibre (although costlier to fix)
- long run annual saving from full copper to fibre migration in Chorus UFB areas estimated at ~\$10m p.a for fixed fault costs

**Note:**

- reactive maintenance excludes spend on proactive maintenance and customer networks (i.e. premises wiring, no fault found, cancellations)
- 'fixed' faults: occur in parts of the network that affect multiple customers (e.g. cable between exchange and cabinet)
- 'variable' faults: only affect one customer (e.g. cable on customer property)



# FY20 gross capex \$663m vs \$610m - \$650m range

Faster than expected recovery from initial COVID-19 lockdown

Fibre capex	FY20 \$m	FY19 \$m	
UFB communal	170	245	> includes \$145m UFB2 rollout (FY19: \$105m)
Fibre connections & layer 2	282	308	> 167,000 installations (FY19: 186,000), including 27,000 UFB2
Fibre products & systems	14	17	
Other fibre connections & growth	62	65	> greenfields spend of \$42m
Customer retention costs	20	29	> incentive campaigns affected by COVID-19 restrictions
<b>Subtotal</b>	<b>548</b>	<b>664</b>	

- **Cost per UFB1 premises passed (CPPP): ~\$1,558** vs \$1,500 - \$1,600 guidance (FY19: \$1,573)

# Capex: Fibre connections & layer 2

Connections capex of **\$282m** vs FY20 guidance of \$260m-\$280m

- **Cost per UFB1 premises connected (CPPC): \$1,022\*** vs \$1,000 - \$1,150 guidance (FY19: \$1,025)  
\* excludes layer 2 and includes standard installations, some non-standard single dwellings and service desk costs

Fibre connections & layer 2 capex	FY20 spend	FY19 spend
Layer 2	<b>\$31m</b>	<b>\$25m</b>
Premium business fibre connections	<b>\$10m:</b> 1,400 connections	<b>\$8m:</b> 1,200 connections
Single dwelling units and apartments connections	<b>\$173m:</b> 167,000 connections (FY20 estimate: 160k-180k)	<b>\$198m:</b> 186,000 connections (FY19 estimate: 175k -195k)
Backbone build: multi-dwelling units and rights of way	<b>\$68m:</b> 11,000 completed (FY20 estimate: 11,000)	<b>\$77m:</b> 16,000 completed (FY19 estimate: 19,000)
<b>TOTAL SPEND</b>	<b>\$282m</b>	<b>\$308m</b>



# Capex: Copper and Common

Copper capex	FY20 \$m	FY19 \$m
Network sustain	31	44
Copper connections	1	2
Copper layer 2	7	12
Product	0	1
Customer retention costs	16	22
<b>Subtotal</b>	<b>55</b>	<b>81</b>

- **network sustain:** weather driven spend reduced; proactive work realigned as customers shift to fibre.
- **copper layer 2:** reduced following Rugby World Cup capacity investment in FY19.
- **customer retention costs** reducing as demand and provisioning activity shifts to fibre.

Common capex	FY20 \$m	FY19 \$m
Information technology	43	34
Building & engineering services	17	22
Other	0	3
<b>Subtotal</b>	<b>60</b>	<b>59</b>

- IT spend to support integrated provisioning and assure platforms for better customer outcomes.
- planned building and engineering work delayed by COVID-19 restrictions.

# FY21 guidance summary

## **EBITDA: \$640m to \$660m**

- subject to no material changes in expected regulatory and competitive outlook
- includes ~\$10m allowance for ongoing COVID-19 impact and broader economic uncertainty

## **Gross capex: \$630m to \$670m**

### > **Fibre \$530m-\$560m**

- **\$275m-\$295m** fibre connections & layer 2 (based on mass market 145,000 – 165,000 fibre connections, 9,000 backbone builds and including service desk costs)
- **\$125m-\$145m** spend for UFB2 communal
- includes **~\$30m for West Coast fibre** rollout in FY21 (3-year project ~\$50m, largely government funded)
- **UFB1 CPPC \$1,025 - \$1,175\***
- **UFB2 CPPC \$1,200 - \$1,350\***

\*excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs

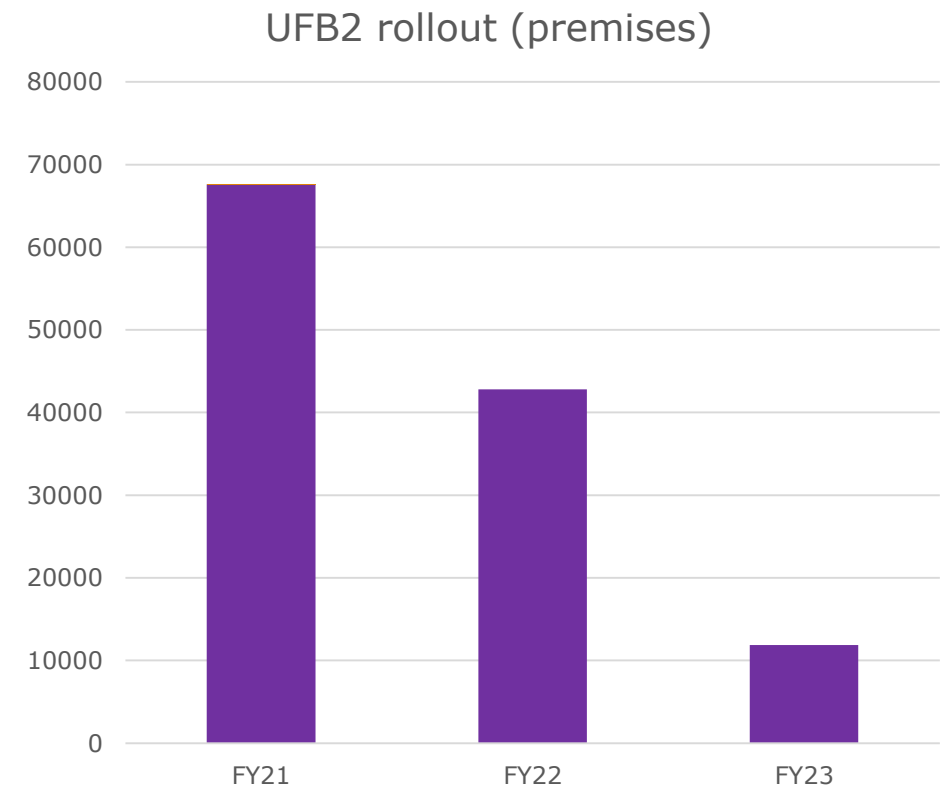
### > **Copper \$35m-\$55m**

### > **Common \$50m-\$65m**

# UFB2 programme guidance update

With rollout now almost halfway complete we're narrowing communal guidance

- > **Updating communal guidance** range from \$505m to \$565m to a new range of **\$548m to \$568m** to reflect:
  - greater proportion of underground build than aerial in rollout to date
  - extension of the UFB2 footprint to include ~1,000 additional premises
- > **Removing** UFB2 CPPC programme guidance (in 2017 dollars and with estimated backbone build) given now providing annual guidance for single dwelling units in current dollars and inclusion of backbone costs in fibre connection and layer 2 guidance



## FY20 final dividend

**14cps**, fully imputed

- supplementary dividend of **2.47 cps** payable to non-resident shareholders
- **record date**: 15 September 2020
- **payment date**: 12 October 2020
- **Dividend Reinvestment Plan** applies with 2% discount to prevailing market price; open to New Zealand and Australian resident shareholders

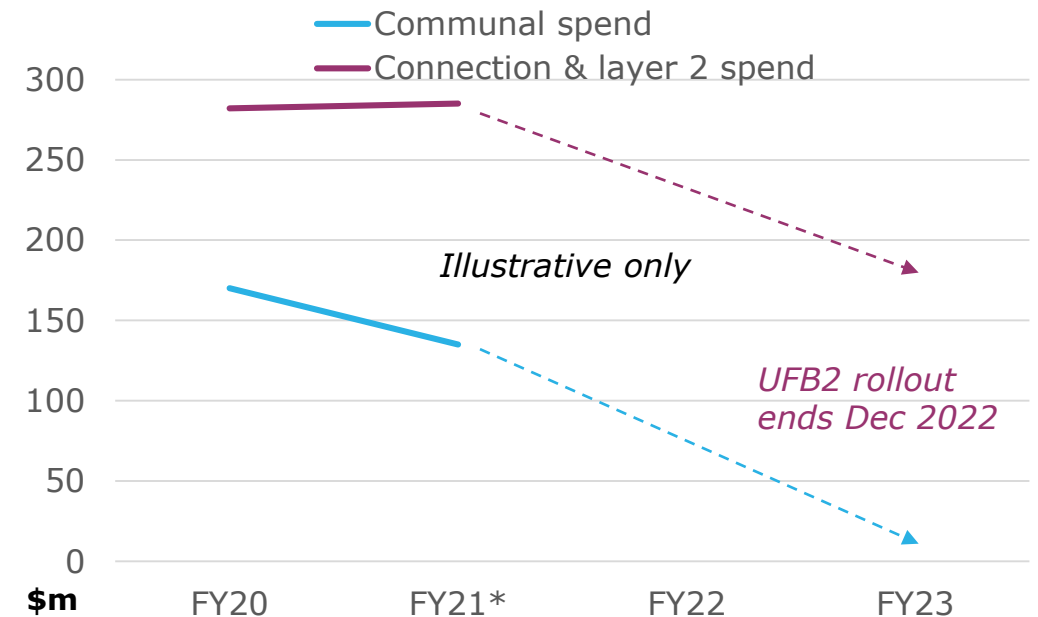
## FY21 dividend guidance

**25cps**, subject to no material adverse changes in circumstances or outlook

# Transition to free cash flow based dividend policy

- > from FY22 we will transition to a dividend policy based on a pay-out range of free cash flow
  - free cash flow will be defined as net cash flows from operating activities minus sustaining capex
- > dividend levels through the transition period will reflect the following considerations:
  - maintenance of a BBB credit rating
  - UFB related capital expenditure remains elevated initially, reducing as the UFB rollout winds down (ends Dec 2022)
  - fibre connection spend tapers off gradually, subject to ongoing demand and timing of copper migration in selected areas
  - copper capex is declining as connections reduce

## *UFB capex demands reducing*



\*based on midpoint of FY21 guidance

# Defining sustaining capex

\$186m of FY20 capex was sustaining

- > Sustaining capex is defined as total capex excluding:
  - UFB communal & future footprint expansion
  - Fibre connections & greenfield growth
  - Customer retention spend (incentives related)
- > Exclusions within FY20 Capex of \$663m were:
  - UFB communal \$170m
  - Fibre connections \$251m
  - Greenfield growth \$42m
  - Customer retention \$14m
  - Sub total \$477m
  - **FY20 Sustaining Capex \$186m**
- > Fibre sustaining capex is expected to increase over time as the asset ages

Fibre capex: sustaining	\$m
Layer 2	31
Fibre products & systems	14
Other fibre connections	20
Customer retention costs*	7
<b>Subtotal</b>	<b>72</b>

Copper capex: sustaining	\$m
Network sustain	31
Copper connections	1
Copper layer 2	7
Customer retention costs*	15
<b>Subtotal</b>	<b>54</b>

Common capex: sustaining	\$m
Information technology	43
Building & engineering services	17
<b>Subtotal</b>	<b>60</b>

\*Relates to provisioning, systems and service desk costs

# FY22 capital allocation framework driven by shareholder value

**Net cash flow from operating activities**

**Sustaining capital expenditure**

**Dividend distribution**

**Surplus capital**

**Share buy backs**

**Additional dividends**

**Discretionary capex \***

- > **Transition from FY22 to dividend distribution based on payout range of free cash flow to reflect:**
  - a focus on providing shareholders with dividend predictability, stability and sustainable growth
  - comparable Australasian infrastructure and utility-like businesses that pay out the majority of FCF
  - robust management of sustaining capital expenditure
  - transition period based on completion of UFB2 communal by December 2022 and ongoing tapering of connection capex
- > **Surplus capital after dividend to be allocated based on maximising shareholder value, and guided by:**
  - debt levels consistent with existing credit rating, noting potential re-gearing from any relaxation of rating thresholds
  - discretionary capex will only be pursued where:
    - greater shareholder value is created compared to share buy backs and/or additional dividends; and
    - regulatory incentives are appropriate (e.g. regulatory WACC vs Chorus WACC)

\* Examples include fibre footprint expansion, greenfield connections & customer retention spend

# Net debt/EBITDA

	As at 30 June 2020 \$m
Borrowings	2,234
+ PV of CIP debt securities (senior)	183
+ Net leases payable	<u>263</u>
Sub total	2,680
- Cash	0
<b>Total net debt</b>	<b>2,680</b>
Net debt/EBITDA*	4.14 times

- > **S&P** ND/EBITDA threshold **4.25x** on a sustained basis
- > **Moody's** intend to review **4.2x** threshold once there is further clarity on regulatory framework and portion of revenue regulated
- > **Financial covenants** require senior debt ratio to be no greater than **4.75 times**
- > The Board considers that a 'BBB' credit rating or equivalent credit rating is appropriate for a company such as Chorus.

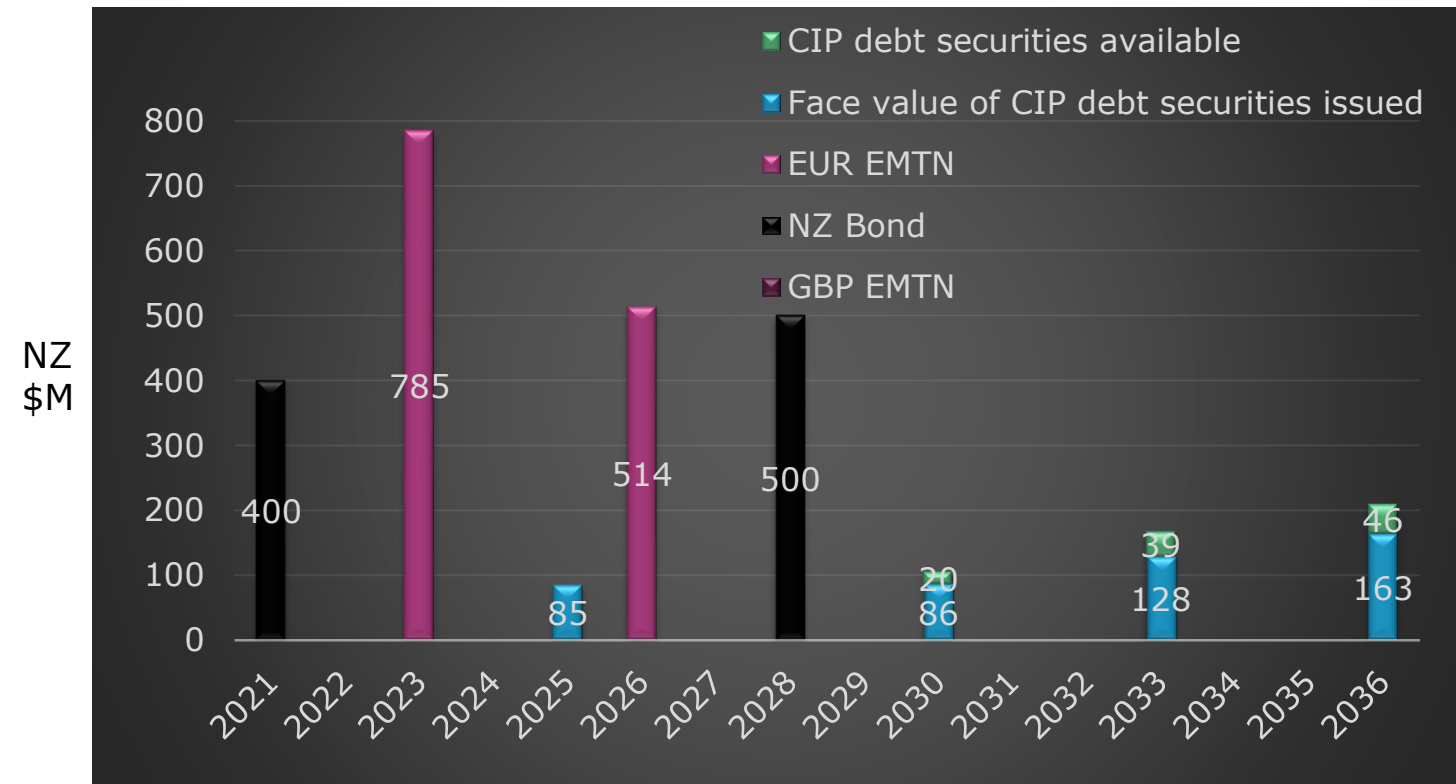
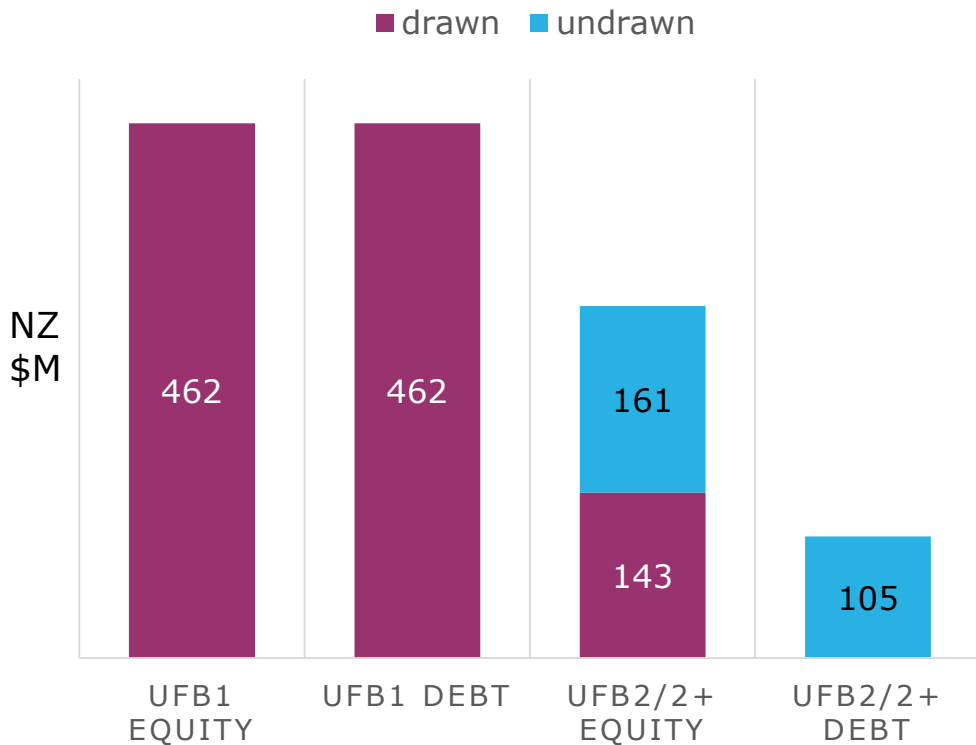
\*Based on S&P and bank covenant methodologies



# Crown financing and debt profile

- > up to \$1.33 billion CIP financing available by 2023 (57:43 equity/debt)
- > \$1,067m drawn at 30 June 2020

- > At 30 June, debt of \$2,234m comprised:
  - Long term bank facilities of \$550m (\$30m drawn); \$5m OD
  - NZ bond: \$400m and \$500m
  - Euro Medium Term Notes \$1,299m (NZ\$ equivalent at hedged rates)



# Implementation Methodologies (IM) update

## Recent IM process developments

- > Commerce Commission is nearing completion of substantial and complex IM process
- > Key IM elements under continued consideration include:
  - **Financial loss asset** – proposed shift from a building block approach to discounted cash flow
  - **pre-2022 WACC** - proposed shift in annual WACC calculation from using a diminishing term of the risk free rate (to 2022), to use of a fixed term of 5 years
  - **Crown financing** – reversal on draft decision to recognise cost; now proposed as costless to Chorus by deducting WACC from funded assets; arbitrary cost allowance of 25bps from 2022 with possible amendments

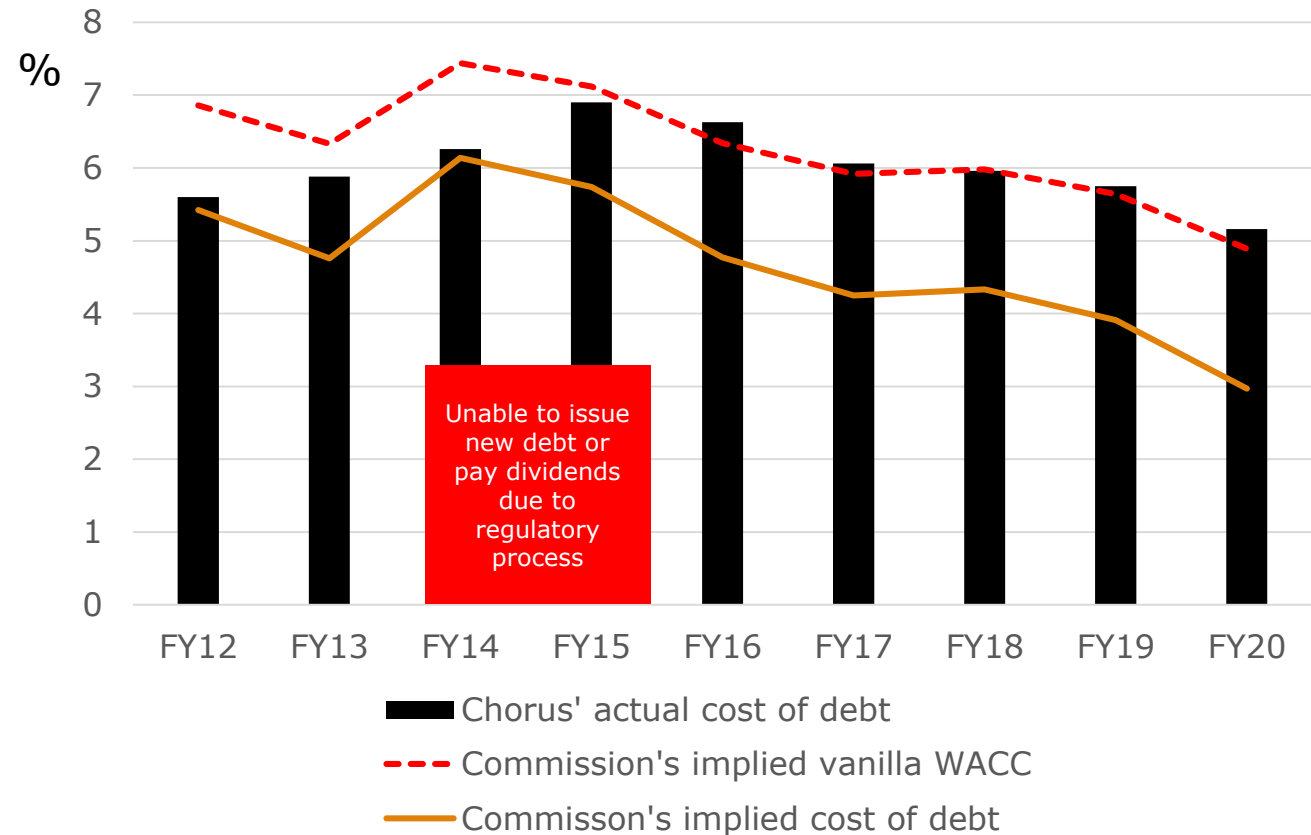
## Chorus' view

- > Final IMs should deliver outcomes that:
  - provide ongoing incentives for fibre companies to drive fibre uptake and extend the socio-economic benefits of gigabit broadband to more consumers
  - reflect the public-private partnership entered into with government, including government policy statements that price regulation should take "...into account the start-up risks associated with the introduction of new technology."
- > Aspects of the recent regulatory proposals run counter to the true nature of the UFB partnership
  - the financial loss asset and pre-2022 WACC does not address the start-up and ongoing risks faced by Chorus
  - Crown financing was not costless and the Commission's expert agrees Chorus bore residual risk

# Chorus' commercial UFB reality

Commission's implied debt and WACC doesn't reflect Chorus' actual cost

- > Standard commercial infrastructure practice to recognise build and financing risks at the start of a project, not optimised with the benefit of hindsight
  - Crown Fibre Holdings (CFH) estimated 9% WACC for fibre companies
  - CFH, NBN Co (Australia) and Ofcom (UK) have all indicated higher asset betas for fibre rollouts
  - Ofcom has proposed a ~6% WACC for FTTH over the period 2021-2026, compared to a 4.88% WACC for Chorus in the Commission's November 2019 draft decision



# Next regulatory steps

## Indicative fibre regulation timeline

October 2020	Input methodologies final decision due
November 2020	Input methodologies decision due on financial loss asset provisions
Q3 2020	Proposed approach & process paper for price-quality decision
Q2 2021	Draft price-quality decision due
Q3/Q4 2021	Final price-quality decision due

## What we're focused on....

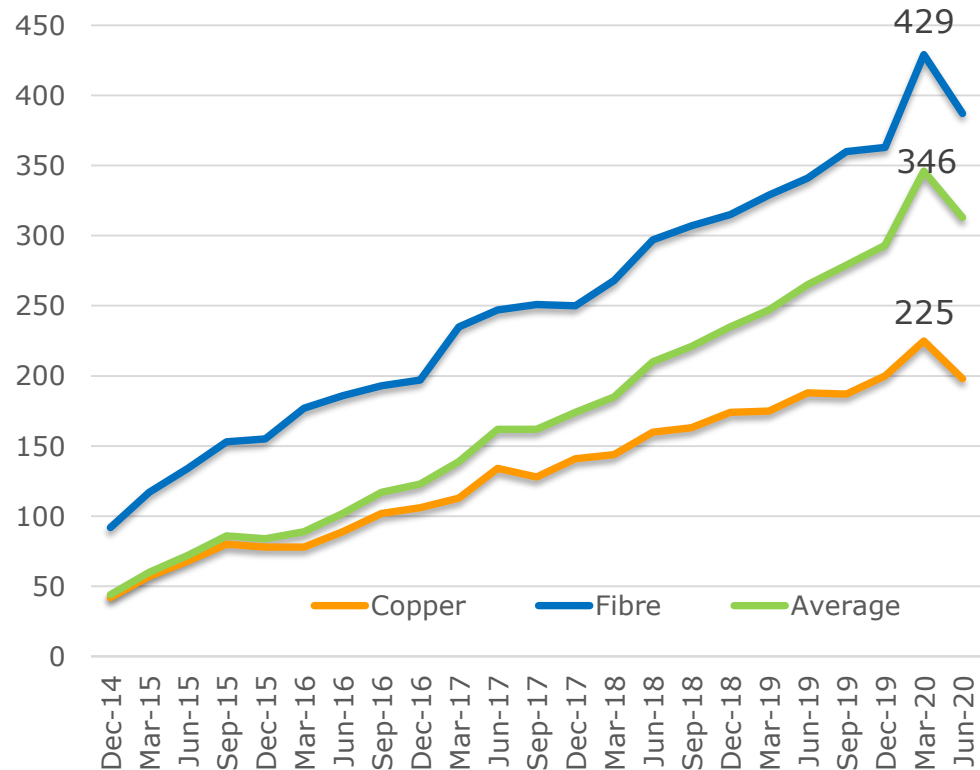
- > **Final submission rounds on Input Methodologies**
  - Cross submissions on updated draft determinations (excluding financial losses)  
*3 September*
  - Submissions on financial loss asset consultation  
*10 September*
  - Cross submissions on financial loss asset consultation  
*1 October*
  - Commencement of consultation on Price Quality and Information Disclosure – expected Q3 2020
- > **Regulatory Period 1 Proposal**
  - expect to submit in December 2020 subject to final Input Methodologies

# Fibre. It's how we internet now.

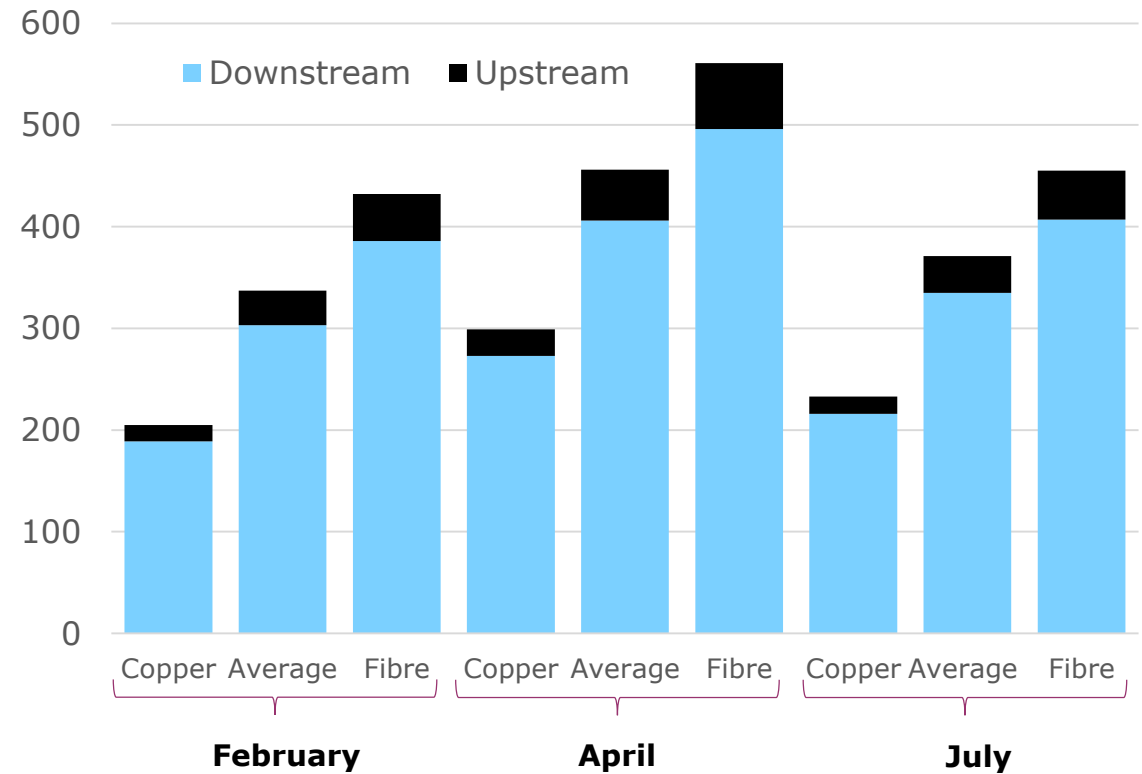
JB Rousselot, Chief Executive Officer

# COVID-19 has cemented broadband's utility role

**Monthly average data usage per connection on our network (downstream)**

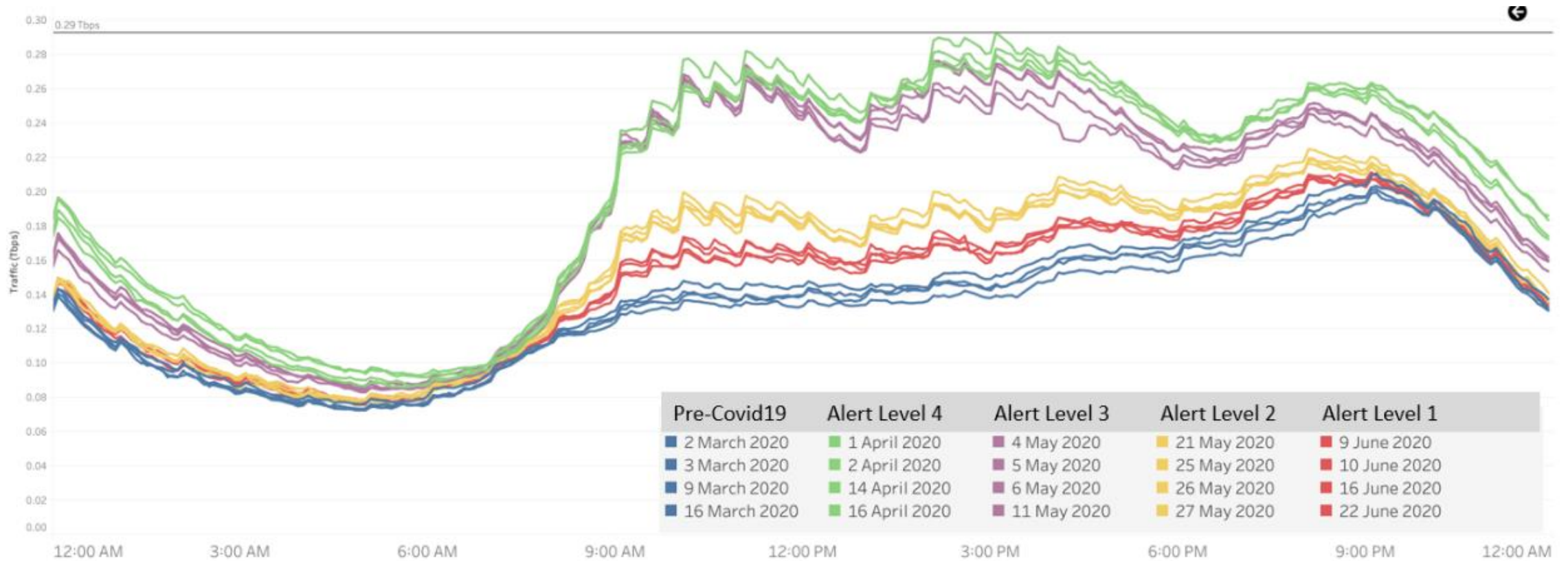


**Monthly average data usage (combined downstream and upstream)**



# Video meetings create Godzilla effect

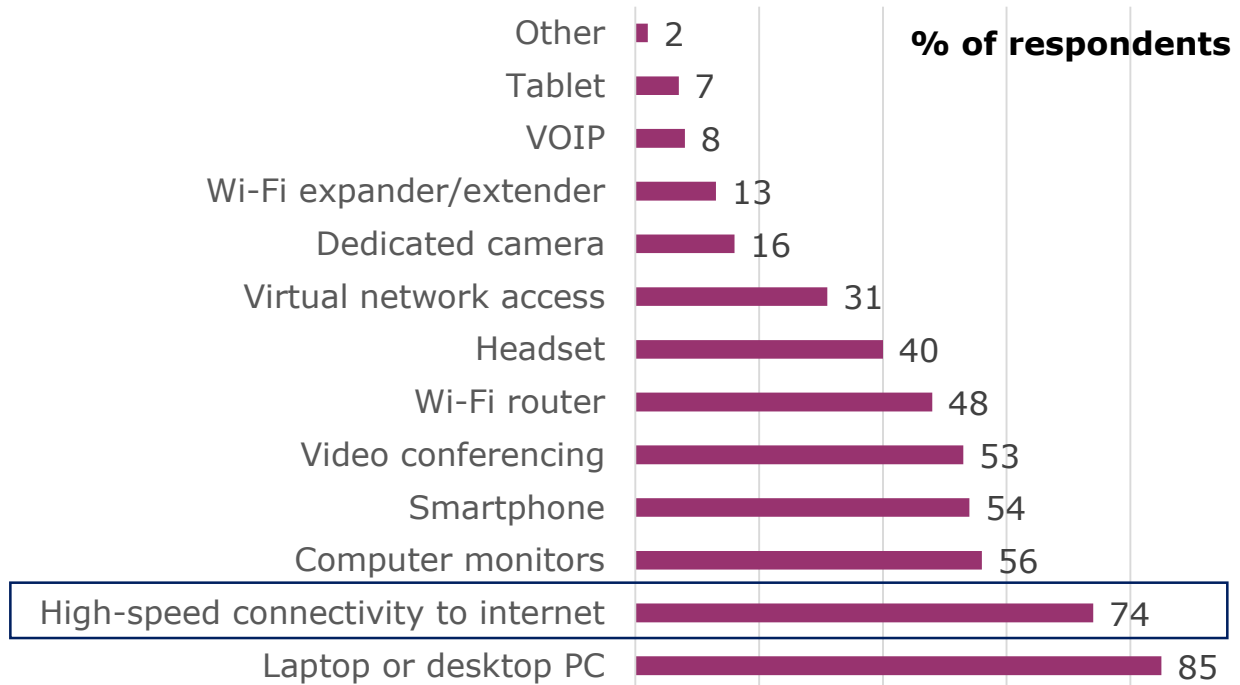
Upstream traffic spikes half hourly, consistent with meeting start times



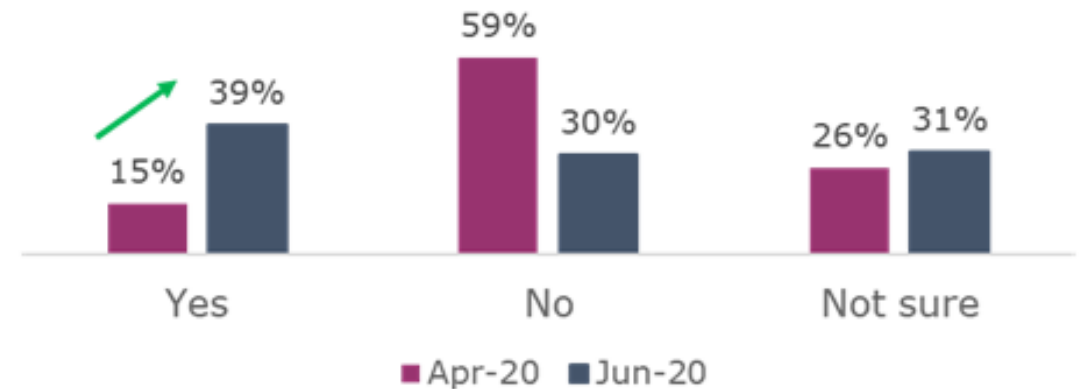
# The shift to remote working

## Reliable broadband becomes a necessity

Which of the following workplace technologies do you consider as 'must have' when working from home or remotely in general?



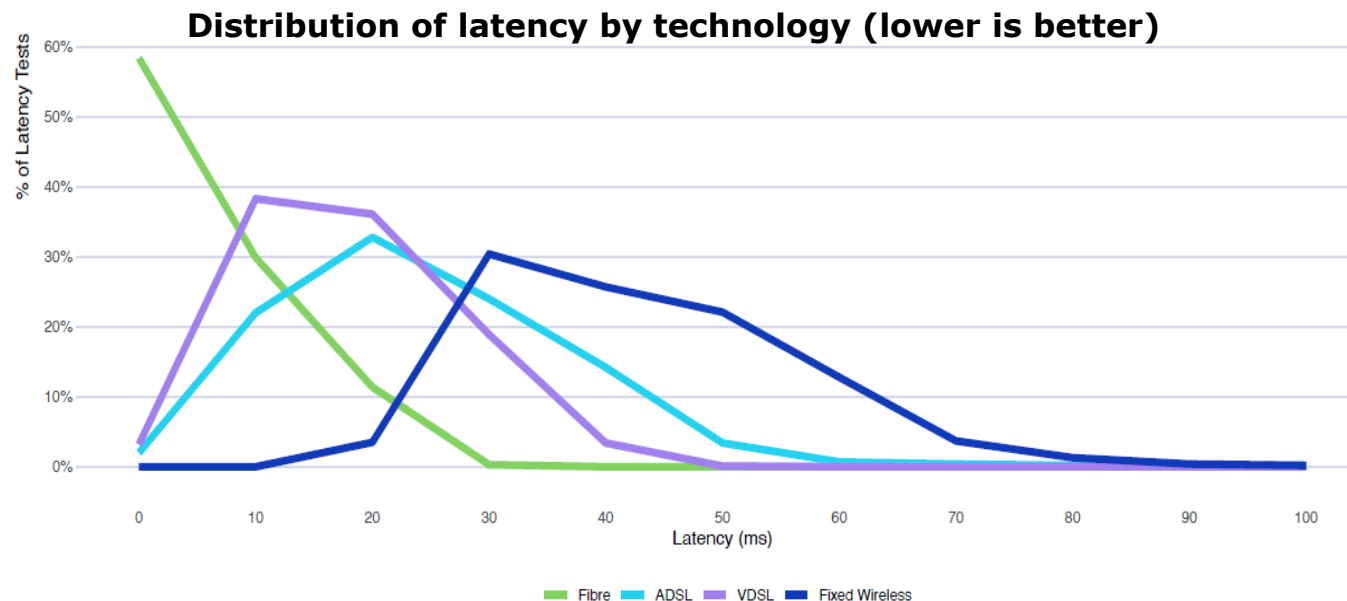
Do you plan to upgrade your home broadband service?





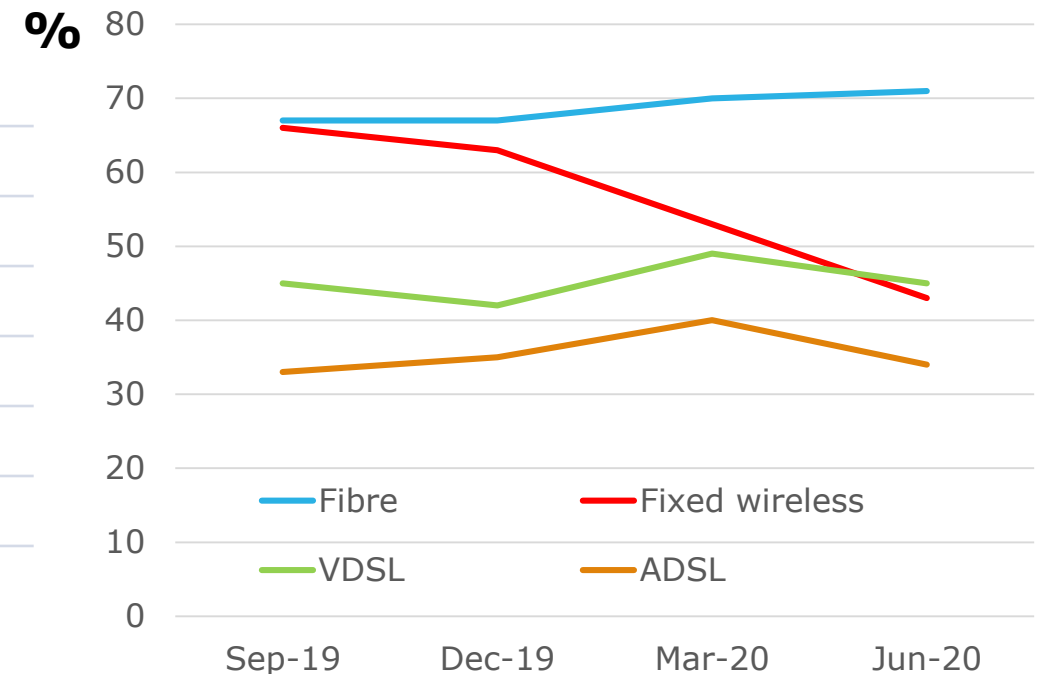
# Fibre = the “gold standard” of broadband

> Commerce Commission report (May 2020) noted reliability of fixed line services through lockdown vs fixed wireless (average download speeds decreased by around 25% and 96% of latency tests were above 30ms)



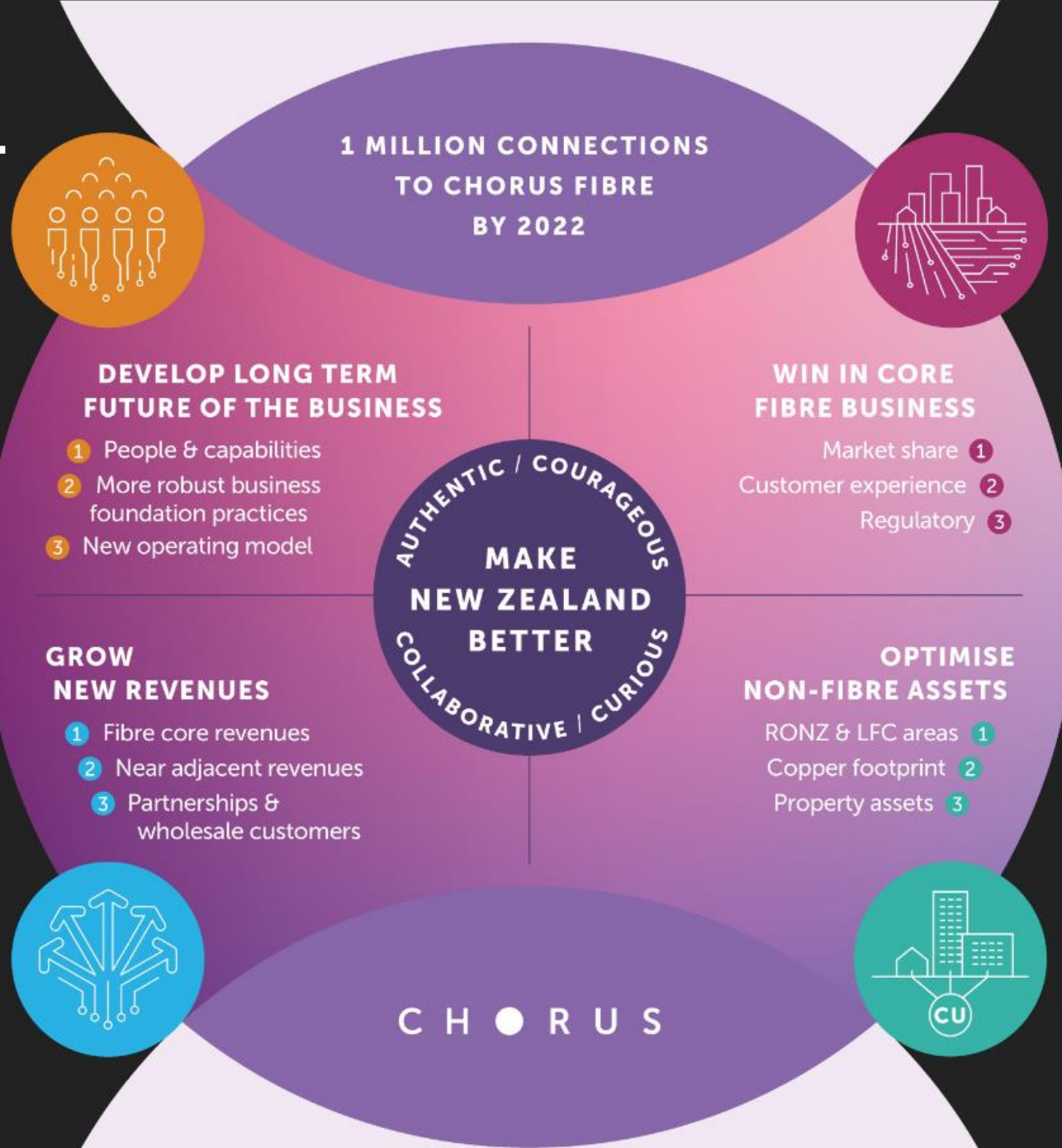
Source: *Measuring Broadband New Zealand, Winter Report, August 2020*

> ~70% of Chorus survey respondents consistently rate fibre 8-10 (out of 10) for internet satisfaction



Source: Chorus consumer perception survey

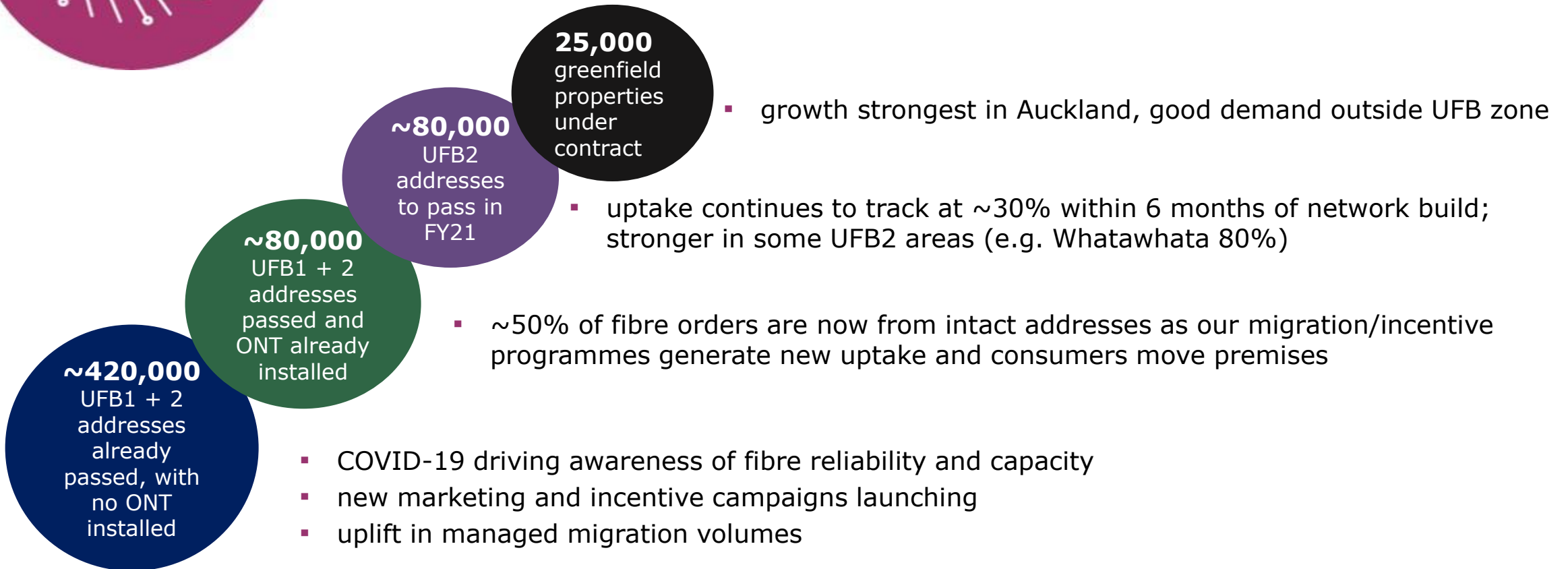
# Our strategic focus in FY21





# 1. Winning in our core fibre business

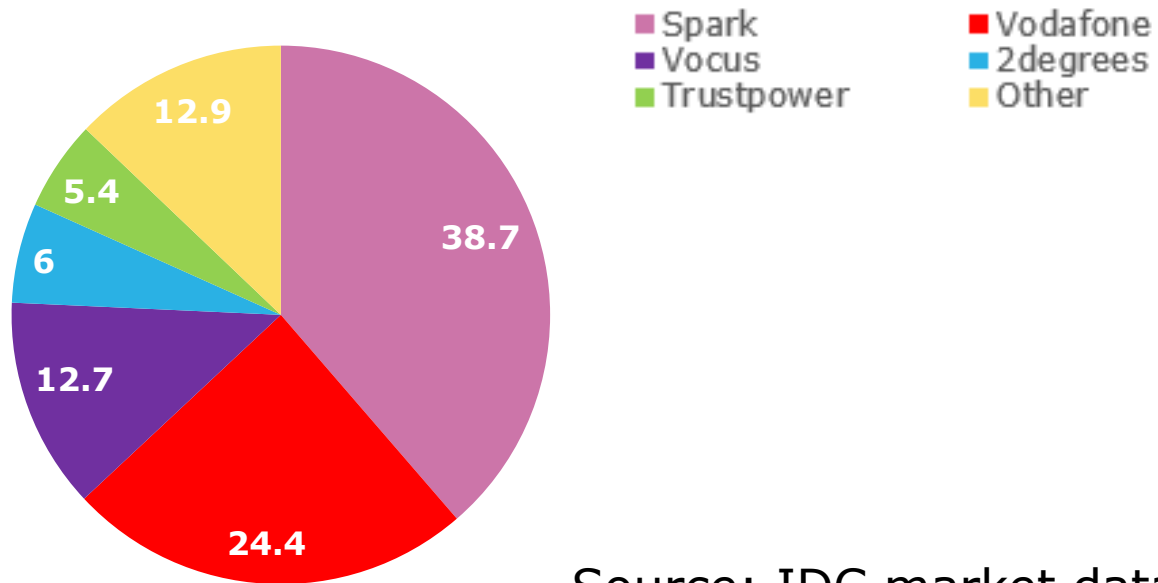
We're lifting our connections intensity in FY21



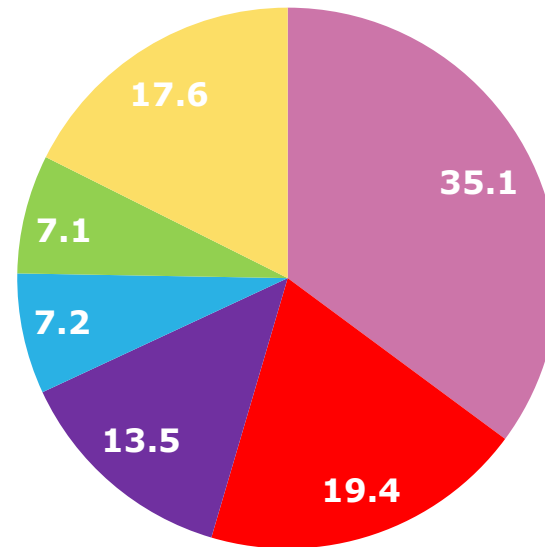


## Leveraging fibre uptake across a suite of retailers

**Broadband connection market share Q4 19**



**Fibre market share Q4 19**



Source: IDC market data



## Lifting our open access wholesaler programme another level

### > Migration and winback incentives

- upweighting retailer incentives based on customer segment, plan and volumes (up to \$300 for targeted copper 'late adopters'; up to \$500 for winback of offnet connections)
- direct to consumer incentives (e.g. prezzy cards)

### > Managed migration programme

- record month in July with 5,000+ installations, up from an average of ~3,000 per month
- proportion of installation orders for offnet customers increased from 35% (July 2019) to 50% (June 2020)
- targeted campaigns: UFB2 townships, MDUs



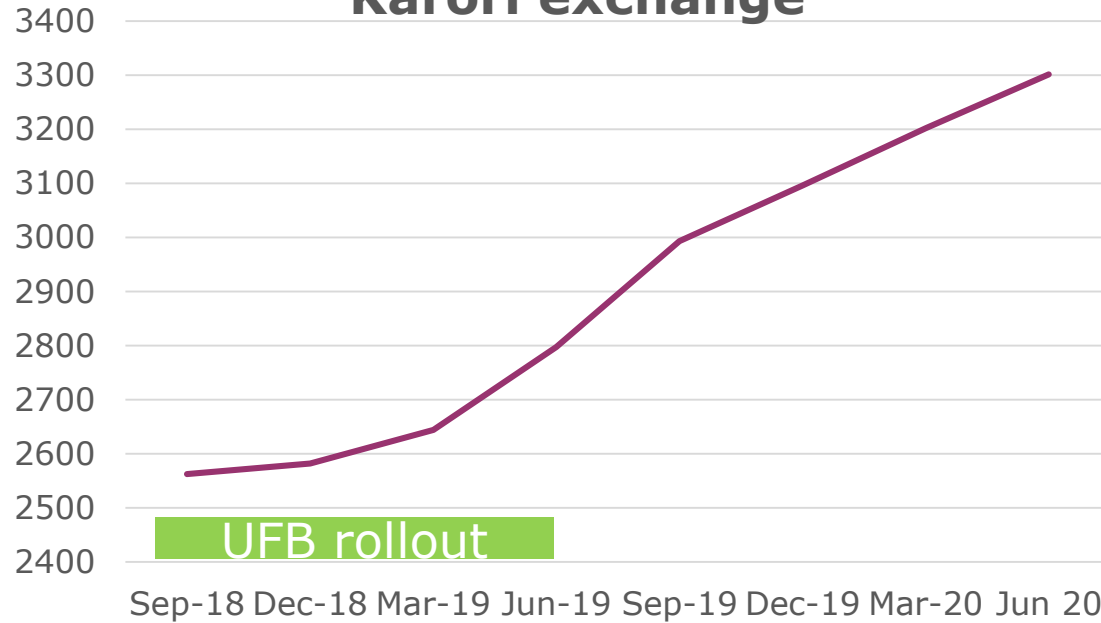
**Fibre campaign: putting the focus on badnet**



## Continued connection growth in legacy cable areas

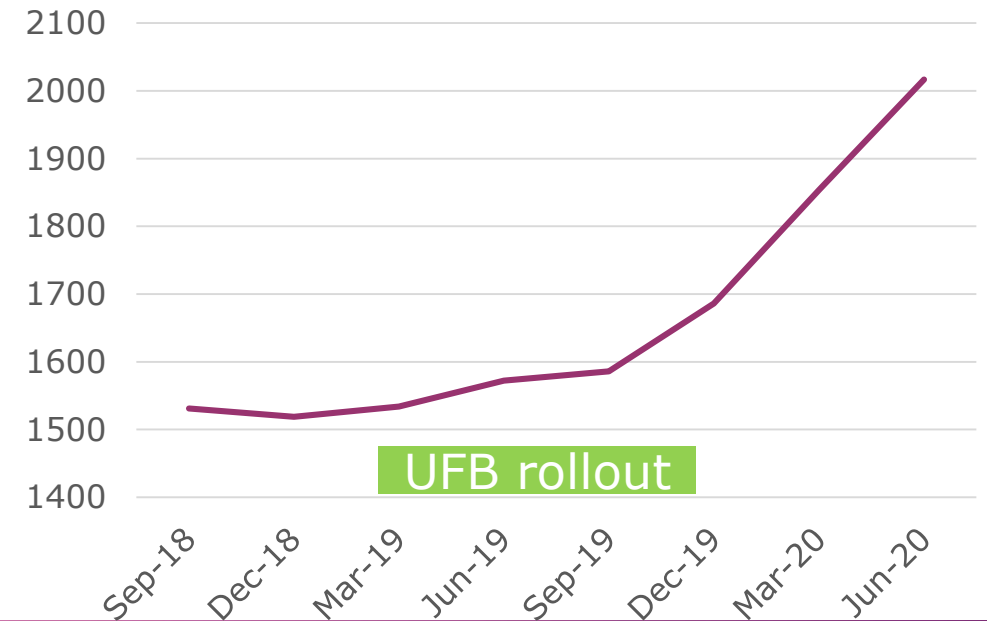
No. of connections

### Karori exchange



No. of connections

### Island Bay exchange







## Boosting our business and network portfolio

### > Enhancing our business services

- plan to expand **Hyperfibre** footprint beyond initial centres in H1 FY21
- **small business** fibre uptake doubled to 3k in H2; revised \$52 pricing to drive uptake further
- upgraded **premium business services** with proactive fault response, reduced high bandwidth costs, 'hot' cutover of legacy fibre to GPON and other installation/provisioning incentives

### > Growing our role as neutral network host

- **backhaul**: continuing to connect rural cellsites for Rural Connectivity Group; new tail extension service to facilitate nationwide UFB coverage for RSPs
- **edge centre**: adding Tauranga site to meet customer demand
- **peering**: planning to launch new service H1 FY21 to enhance interconnection between RSPs and cloud or content providers



## 2. Grow new revenues

### Smart locations (e.g. CCTV, traffic lights)

- streamlined our processes to help realise market growth opportunity
- new 50Mbps symmetrical plan to support connectivity of urban infrastructure (e.g. poles, traffic lights) \$55 per month

### Wi-Fi ONT service

- co-developed service with retailers
- launching with \$1.30 monthly fee; providing upfront credits to support retailers switching systems
- will enhance customer experience with shorter connection time for homes with fibre already installed
- potential to broaden fibre market by lowering router costs to connect customers on short term contracts







### 3. Optimise non-fibre assets

Detailed review underway of existing network infrastructure

> **Focus on reducing ongoing network costs**

- 20 network sites exited in FY20 (e.g. New Plymouth site – LFC zone; Whangarei Heads rural site)
- reshaping proactive maintenance programme in UFB zone to reflect shift to fibre
- reviewing copper broadband network assets in UFB zone
  - ~20 copper broadband cabinets with no customers
  - ~30 cabinets with <10 customers



**BEFORE**



**AFTER**

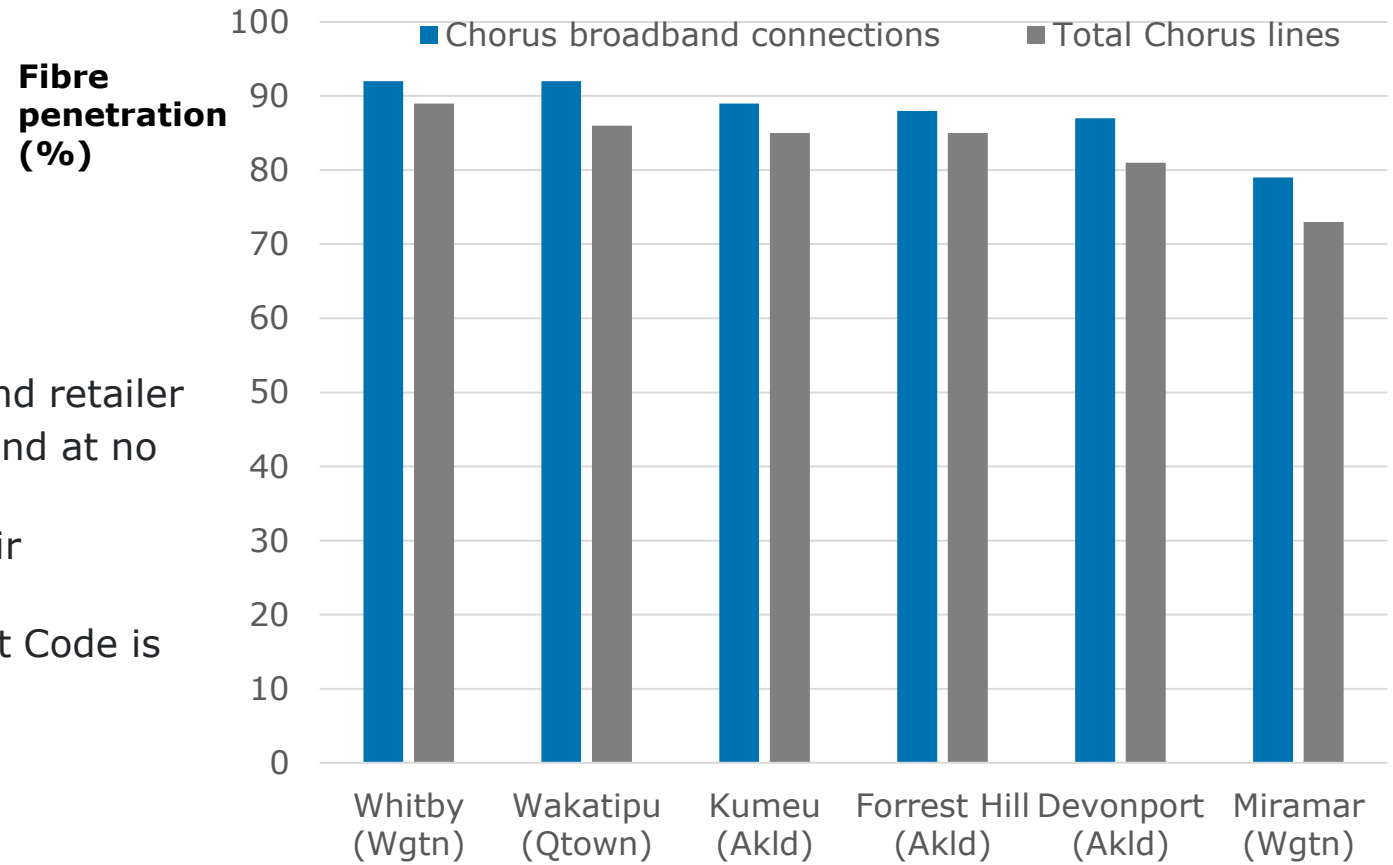


## Copper withdrawal in UFB areas won't happen overnight

### Draft copper withdrawal code

- > The Commerce Commission has proposed:
  - six months' notice by Chorus to the end user and retailer
  - able to install fibre in a reasonable timeframe and at no cost to the end user
  - providing end users with information about their protections under the code
  - requirement that the Commission's 111 Contact Code is in force

### Fibre penetration - exchange area

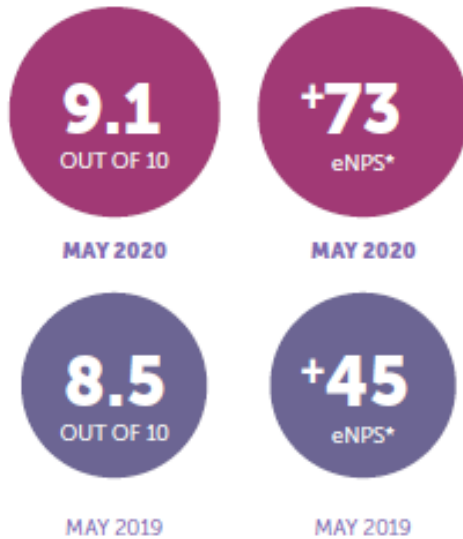




## 4. Develop long term future of the business

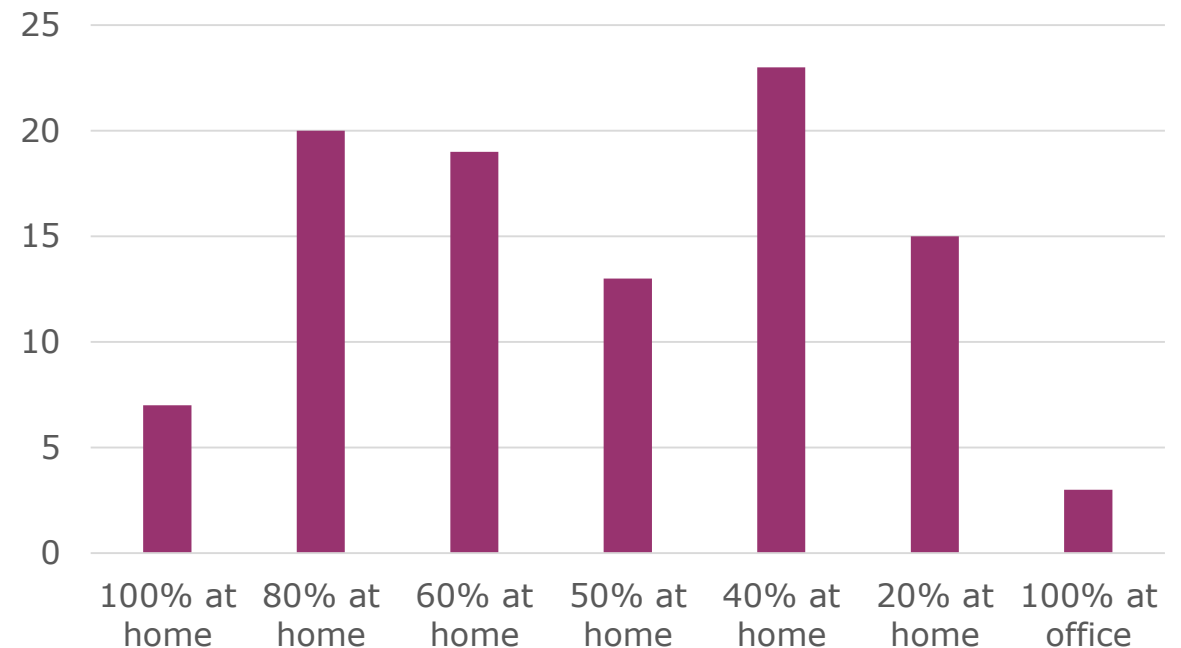
Reviewing our operating model, including flexible working

I am satisfied with our flexible working policy



% of responses

Employee preference for % of working week at home vs office



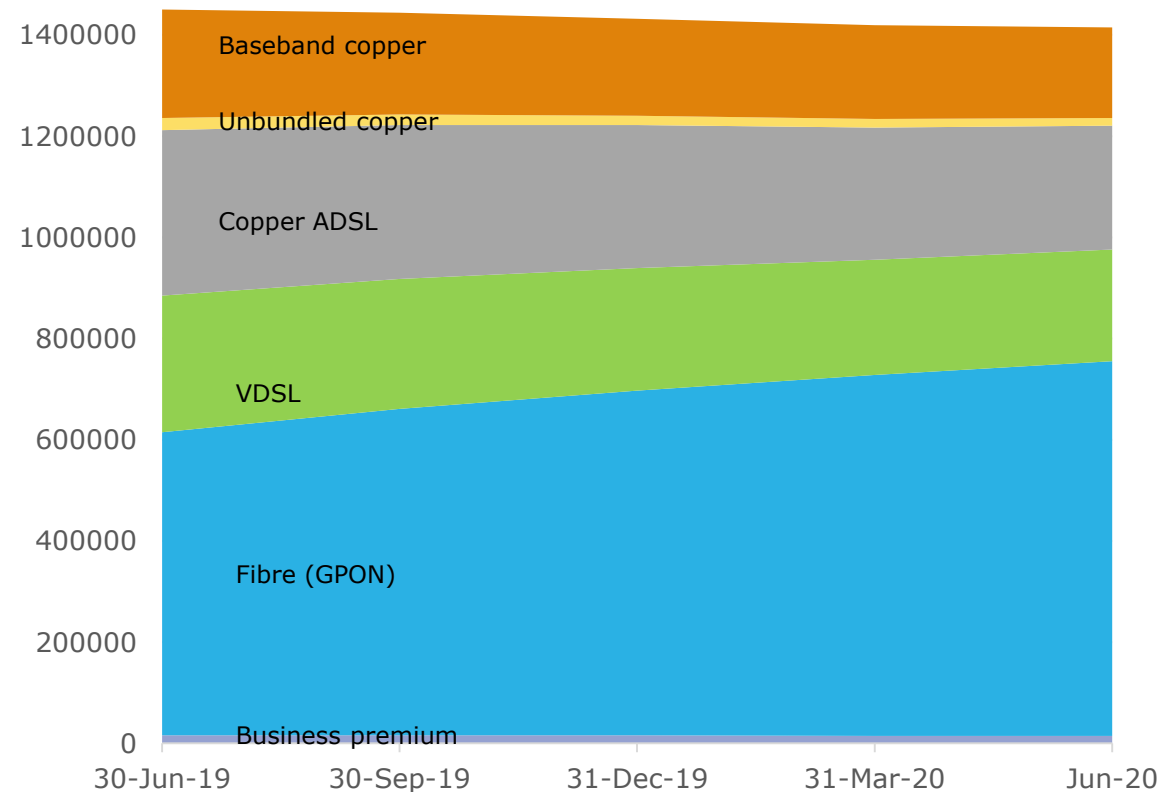
**FIBRE.  
IT'S HOW WE  
INTERNET NOW.**





# Appendix A: Connection and market trends

	30 June 2019	30 Sept 2019	31 Dec 2019	31 March 2019	30 June 2020
Unbundled copper (no broadband)	24,000	21,000	18,000	17,000	15,000
Baseband copper (no broadband)	214,000	201,000	192,000	185,000	179,000
Copper ADSL (includes naked)	327,000	304,000	283,000	261,000	245,000
VDSL (includes naked)	270,000	257,000	242,000	228,000	221,000
Fibre broadband (GPON)	599,000	645,000	681,000	713,000	740,000
Data services (copper)	5,000	4,000	4,000	4,000	4,000
Fibre premium (P2P)	11,000	12,000	12,000	11,000	11,000
<b>Total connections</b>	<b>1,450,000</b>	<b>1,444,000</b>	<b>1,432,000</b>	<b>1,419,000</b>	<b>1,415,000</b>



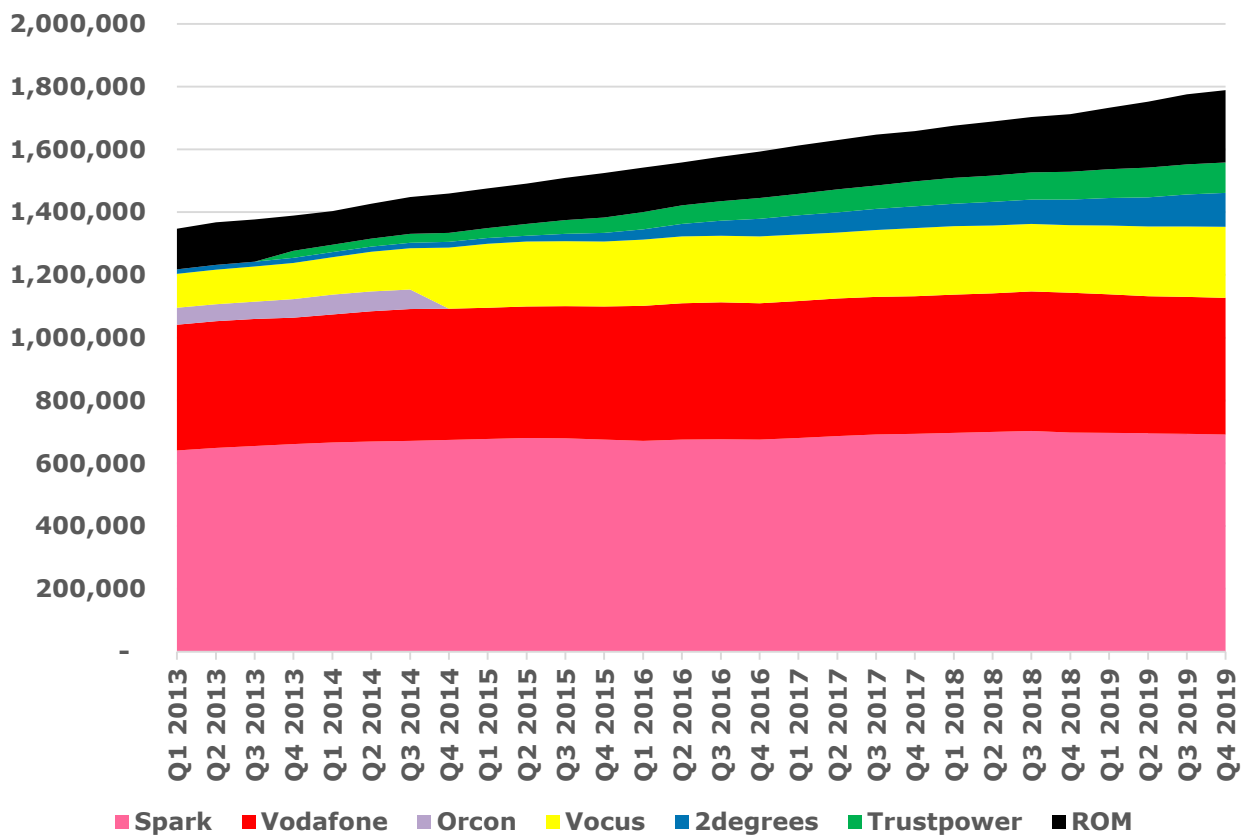
> **1,206,000 broadband connections comprises:**

- 740,000 fibre (GPON) connections
- 466,000 VDSL/ADSL (copper) connections

**Note:** Free education connections are excluded from this data

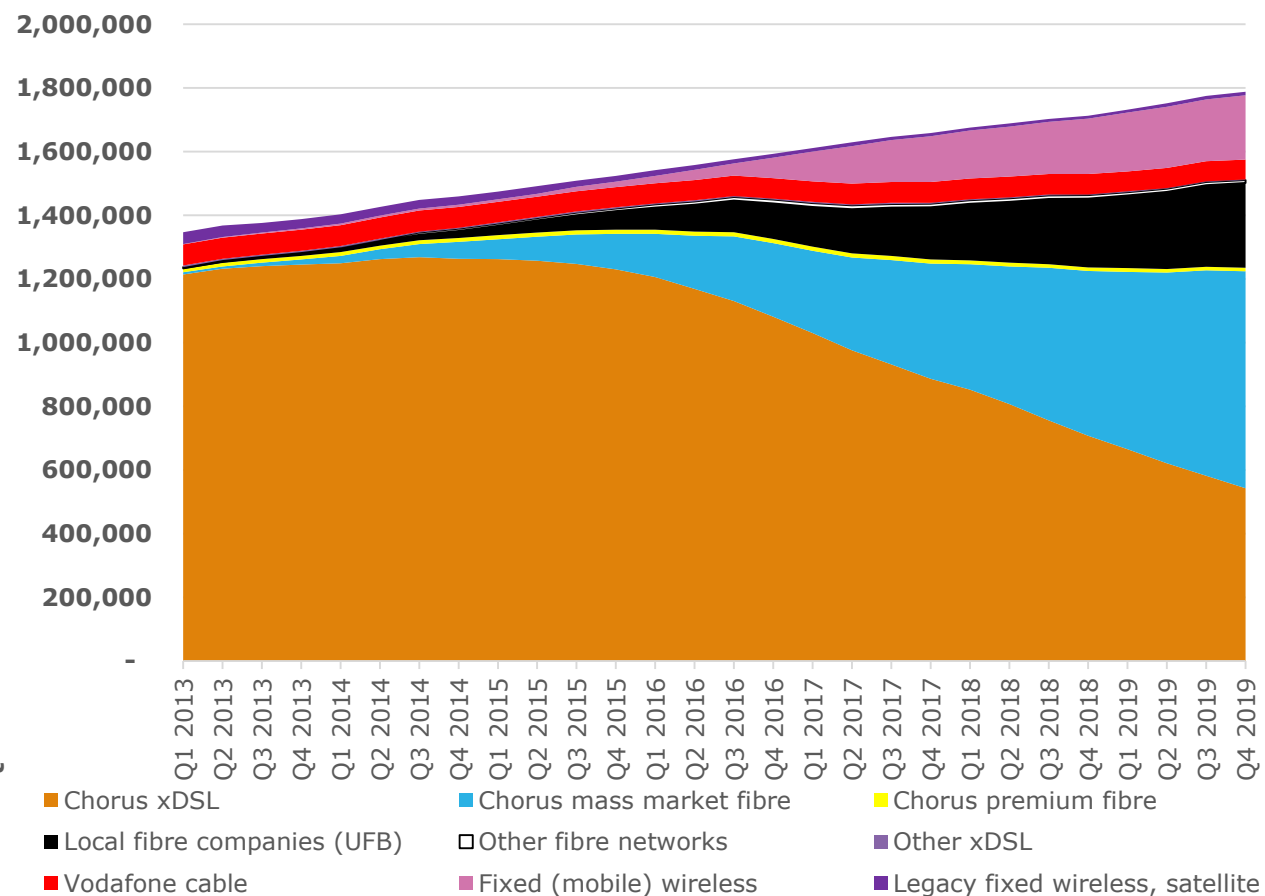
# Appendix A: Connection and market trends (continued)

## Broadband uptake by retailer (all technology)



Source: IDC

## NZ broadband market – by technology



Source: IDC

# Appendix B: RAB parameters

Parameters	Summary of key parameters indicated by Commission process to date
Crown financing	New proposal to not treat Crown financing as debt-like and instead apply a WACC to Crown-funded assets, removing any return on capital pre-2022. A -25bps WACC adjustment would apply post 2022.
Taxation	Accepted that tax losses in pre-implementation period can be carried forward.
TAMRP	Tax-Adjusted Market Risk Premium updated from 7% to 7.5% (effective from end of IM process)
Credit rating	If the Commission continues to use BBB+ for WACC, then leverage should be higher at 34%. Chorus' view is our actual credit rating (BBB) is more appropriate.
WACC: 2011-2022	WACC for the unrecovered loss asset will be calculated annually, by 'locking in' the risk-free rate from the year the capex was incurred until implementation, using 5-year term.
WACC: asset beta	Proposed a revised asset beta of 0.49, up from 0.46, for both pre and post 2022 periods. Commission says difficult to quantify the pre-2022 asset beta and unrecovered losses compensate for higher systematic risk.
WACC: percentile	No uplift (above 50 <sup>th</sup> percentile) is required to mitigate risk of under-investment. We believe uplift to 75 <sup>th</sup> percentile should apply for initial rollout, consistent with regulatory practice at the time, and 67 <sup>th</sup> percentile from implementation date.
Ex-ante allowance for asset stranding	10bps (of the average total RAB) ex-ante allowance proposed, from a range of 5 to 40bps, to be included in the maximum allowable revenue. We believe an accurate allowance requires confirmation of the total RAB and our experts showed it could be above 40bps.
Depreciation	Act requires straight line depreciation for initial RAB valuation, but Commission accepts non-standard depreciation (i.e. tilted) could be considered post-implementation.

# Crown financing

## ▪ CIP equity securities

- unique class of security with no right to vote at shareholder meetings, but entitle the holder to a right to repayment preference on liquidation
- an increasing portion of the securities will attract dividend payments from 30 June 2025 onwards
- the dividend rate is based on 180 day NZ bank bill rate, plus 6% p.a. margin
- may be redeemed at any time by cash payment of total issue price or the issue of Chorus shares (at a 5% discount to the 20-day VWAP for Chorus shares)

## ▪ CIP debt securities

- unsecured, non-interest bearing and carry no voting rights at shareholder meetings
- Chorus is required to redeem the securities in tranches from 30 June 2025 to 2036 by repaying the issue price to the holder

Equity securities subject to paying dividends (cumulative)	30 June 2025	30 June 2030	30 June 2033	30 June 2036	TOTAL
UFB1 & 2	\$85.3m	\$197.1m	\$377.7m	\$766.4m	\$766.4m

Debt securities maturity profile	30 June 2025	30 June 2030	30 June 2033	30 June 2036	TOTAL
UFB1 & 2	\$85.3m	\$104.7m	\$166.7m	\$210.2m	\$566.9m



# Appendix C: Making New Zealand better

We take a long term view of our network infrastructure investments and our people take pride in delivering an asset for New Zealand's ongoing social and economic betterment. Chorus is included in the Dow Jones Sustainability Australia Index.

## > Environment

- Target of 80% reduction in scope 1 and 2 emissions, from our FY12 base year, by 2030. Achieved 37% reduction against target in FY20.
- B rating from CDP for FY19 reporting.
- Extensive waste minimisation: 195 tonnes of waste ducting and 37 tonnes metal network components recycled in FY20.

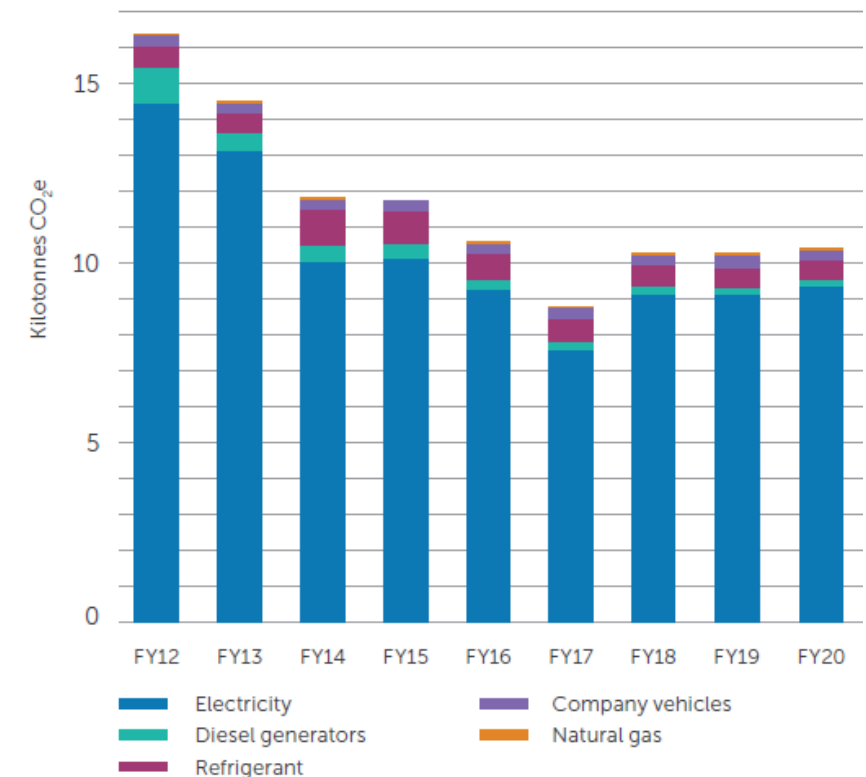
## > Social

- FTTH estimated (2012) to contribute \$32 billion in economic benefits to NZ over 20 years. Social benefits estimated (2017) at \$2 billion annually.
- Winner of Broadband World Forum's *Broadband delivering social impact award 2018* for rural broadband rollout.
- Employee engagement 8.5 out of ten in June 2020 (7.6 in FY19).

## > Governance

- Director gender ratio of 38% women, 62% men at 1 July 2020.
- Target of 40:40:20 gender ratio achieved for Chorus' people leader community in FY20. Largest gender pay gap by career level is 4.1%. Objective to achieve 0% gender career level pay gap.
- New Minimum Shareholding Policy for directors.
- Total Recordable Injury Frequency Rate decreased from 2.67 to 2.43 in FY20 with an overall reduction in injuries requiring medical treatment.

Scope 1 and 2 Emissions





## Annual Report 2020

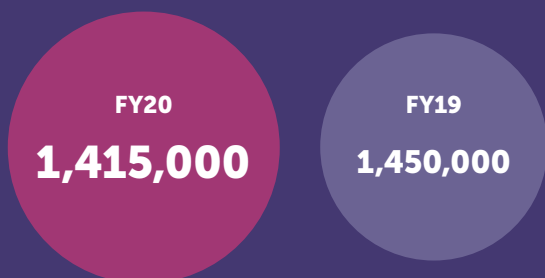
- 01** Chorus Board and management overview
- 21** Management commentary
- 31** Financial statements
- 69** Governance and disclosures
- 104** Glossary

C H ● R U S

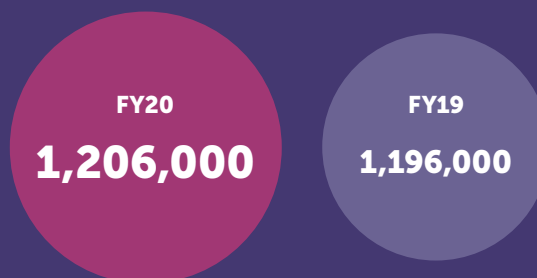


# FY20 results overview

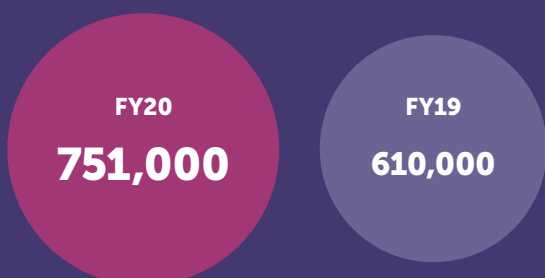
## Fixed line connections<sup>1</sup>



## Broadband connections<sup>1</sup>



## Fibre connections<sup>1</sup>



## Net profit after tax



## EBITDA<sup>2</sup>



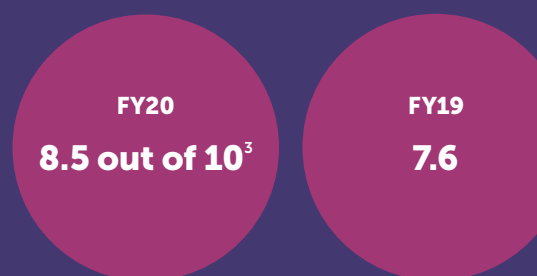
## Customer satisfaction



## Dividend



## Employee engagement score<sup>3</sup>



This report is dated 24 August 2020 and is signed on behalf of the Board of Chorus Limited.

  
Patrick Strange  
Chair

  
Mark Cross  
Chair Audit & Risk Management Committee

1 Excludes free education connections provided as part of Chorus' COVID-19 response.

2 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of our business.

3 Based on the mean response to "How likely are you to recommend your company as a place to work?"

# Dear investors

**This year saw our broadband infrastructure pass its greatest ever test. The COVID-19 pandemic meant New Zealanders were heavily reliant on our copper and fibre network to keep connecting, working and learning through months of change and uncertainty. Our business and our people rose to the challenge, helping deliver strong operational results and further cement broadband's role as an essential utility.**

**Despite the operational restrictions and financial impact of COVID-19, we were pleased to be able to achieve our goal of modest EBITDA growth. This was achieved through our ongoing focus on reducing costs and reshaping our business for a fibre-centric future.**

We celebrated a significant milestone with the completion of the original ultrafast broadband (UFB1) rollout in November. There are now approximately 150,000 homes and businesses remaining to pass in the UFB2 rollout area by the end of 2022. Together, these projects are delivering far reaching socio-economic benefits, with a growing number of smaller communities throughout New Zealand connected to fibre.

We've continued to see strong growth in fibre uptake, up from 53% to 60% during the year. Just as importantly, customer satisfaction with fibre installations rose from 7.7 to 8.1 out of ten. This exceeded our target of 7.9. Together, these developments helped us deliver another strong year of broadband connection growth, with an increase of 10,000 lines. We finished the year with 1,415,000 fixed line connections, down just 35,000 lines from the year before. This was a marked improvement on the level of line reductions experienced in prior years.

The good progress we made in optimising our business and reducing costs meant we achieved EBITDA of \$648 million. This was up from \$636 million in FY19 and was in line with our February upgrade to EBITDA guidance of a range of \$640 to \$655 million. Net profit after tax was \$52 million compared to \$53 million in FY19.

While COVID-19 had a negative financial impact on EBITDA, it has accelerated some of the positive underlying trends that support our business. International telecommunications providers are seeing a "fixed line renaissance", with consumers now placing even greater value on the reliability and capacity of fixed line services relative to alternative wireless networks. We've seen this reflected in demand trends on our network, with a growing proportion of consumers opting for our premium 1 gigabit per second plans.

The consumption of streaming services through lockdown contributed to significant increases in monthly broadband usage, while the almost overnight adoption of videoconferencing services has reinforced the need for stable upstream broadband performance.

Monthly average household data usage surged from 265GB to 313GB across the year. Fibre customers averaged 387GB in June, up from 341GB the year before.

The completion of the UFB1 rollout, together with the suspension of non-essential rollout and connection activity during the COVID-19 lockdown, saw a substantial drop in overall capital expenditure from \$804 million in FY19 to \$663 million this year.

The sudden suspension of non-essential field activity through the lockdown period placed financial strain on our service companies and we chose to provide \$5 million in financial support to them and their subcontractors. This helped assist with reduced workflow and retain our workforce for the rapid resumption of activity when alert levels were relaxed. A relief fund of \$2 million was also made available to retailers to help address the expected increase in bad debts for consumers and small businesses unable to pay their bills during lockdown.

We were pleased to be able to play a part in supporting the wider community deal with the consequences of COVID-19. Where the Ministry of Education identified households needing a broadband connection, for students to keep up with their schooling, we made our existing network connections available free of charge for a six-month period. About 10,000 students had been connected under this initiative by the end of FY20.

Our people helped make our COVID-19 initiatives happen, and keep our essential infrastructure going, all while embracing working from home in an extremely short timeframe. They've shown great resilience through change this year as we've begun reshaping our organisational structure from a build to operate focus. Despite the resulting reduction in staff numbers, employee engagement was 8.5 in June 2020, up from 7.6 out of 10 in FY19. Our employee net promoter score<sup>1</sup> also rose, from +28 to +67, putting us in the top 5% of our international 'technology' company benchmark.

We continue to put considerable effort and focus into the Commerce Commission's process to establish the new utility-style regime for our fibre access network. Aspects of the Commission's November 2019 draft decision were an improvement on their earlier views. However, we believe the proposed settings don't yet reflect the commercial realities of the network investment we've made since 2011. The various phases of the implementation process will continue through FY21, with the new framework to apply from January 2022.

A fully imputed final dividend of 14 cents per share will be paid on 12 October 2020, bringing total dividends for FY20 to 24 cents per share.

<sup>1</sup> Net Promoter Scores can range from -100 to +100 and are calculated by subtracting the percentage of detractors (0-6 engagement score) from the percentage of promoters (9-10 engagement score).

### 1.1 A major milestone: UFB1 complete

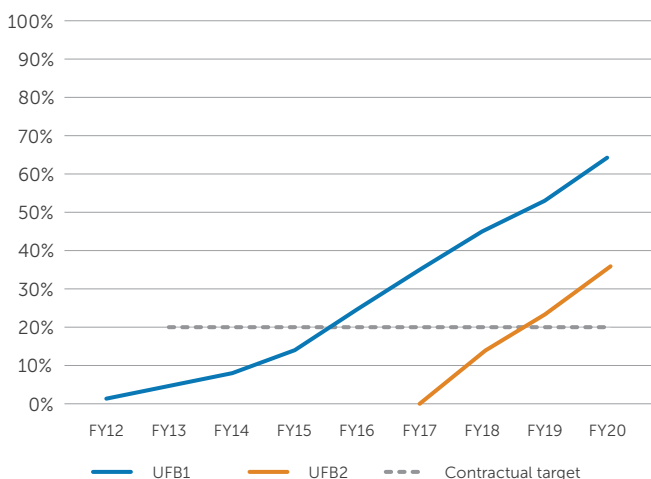
In November 2019, we celebrated the completion of our nine-year contract with the Government to bring fibre to 28 major towns and cities. The rollout of 28,000 kilometres of fibre was achieved on time and within our guidance range of \$1.75 to \$1.8 billion. The project was a textbook case study of how a public-private partnership can combine the benefits of private sector disciplines with broader socio-economic objectives.

We're already approaching the halfway mark of the second phase of our fibre rollout programme, UFB2. Together, the UFB1 and 2 projects have, so far, made fibre available to about 1.2 million homes and businesses.

Our successful execution of the UFB programme is clear when you consider the UFB1 contractual target was 20% uptake by 2020. We finished FY20 with 751,000 active fibre connections nationwide, up from 610,000 the year before. Across the UFB1 area, fibre uptake grew from 54% to 63% of homes and businesses. In our recently completed UFB2 areas, uptake has already reached 37%. The increased pace at which consumers are embracing fibre, as it becomes available, is evident from Figure 1 when you compare the uptake rates of UFB1 and 2.

Figure 1:

#### UFB1 and UFB2 uptake rates



### 1.2 COVID-19 pauses fibre deployment

Fibre uptake would have been higher still had it not been for COVID-19. When New Zealand entered Alert level 4 on 25 March we ceased all non-essential build, maintenance and installation activity. This meant the UFB2 rollout went on hold until the lockdown restrictions began easing from 27 April.

Although broadband was recognised as an essential service, we could only perform physical broadband installations in limited circumstances: for those premises that did not have an existing fixed line, or where customers had business or educational requirements not met by an existing service. Our door-to-door fibre migration programme was also suspended. Fibre installations slowed markedly, from a typical average of 650 daily to about 100 a day and the number of working installation crews dropped from ~640 to ~260.

As a result, on 27 March we announced a reduction in our FY20 capital expenditure guidance from a range of \$660 million to \$700 million, to a new range of \$610 million to \$650 million.

Behind the scenes, the telecommunications industry was working together to keep networks operating. We worked with retailers to fast track the handover and backhaul capacity upgrades they needed to keep services congestion free. We introduced a process to enable retailers to temporarily disconnect business lines, so businesses wouldn't be charged while they couldn't trade, and we waived our reconnection fee. As the economic consequences of the nationwide lockdown became clearer, we announced we would delay an expected annual inflation increase on our wholesale broadband charges until later in the year.

Other support measures included \$5 million to support our service company workforce and their subcontractors through the period of reduced workflow, as well as a \$2 million relief fund to help retailers address expected increases in customers unable to pay their bills during lockdown.

### 1.3 Broadband confirmed as the 4th utility

The demands placed upon our network as a result of COVID-19 clearly confirmed broadband's status as the 4th utility. Broadband traffic increased by about 35% through the lockdown period as New Zealanders were required to connect, work and learn from home. This increase would've been approximately 10% higher if global streaming services such as Netflix and Youtube hadn't limited the bandwidth requirements of their streaming service. These measures were intended to assist international network operators, but they were in no way needed for our network because of the significant capacity we had available.

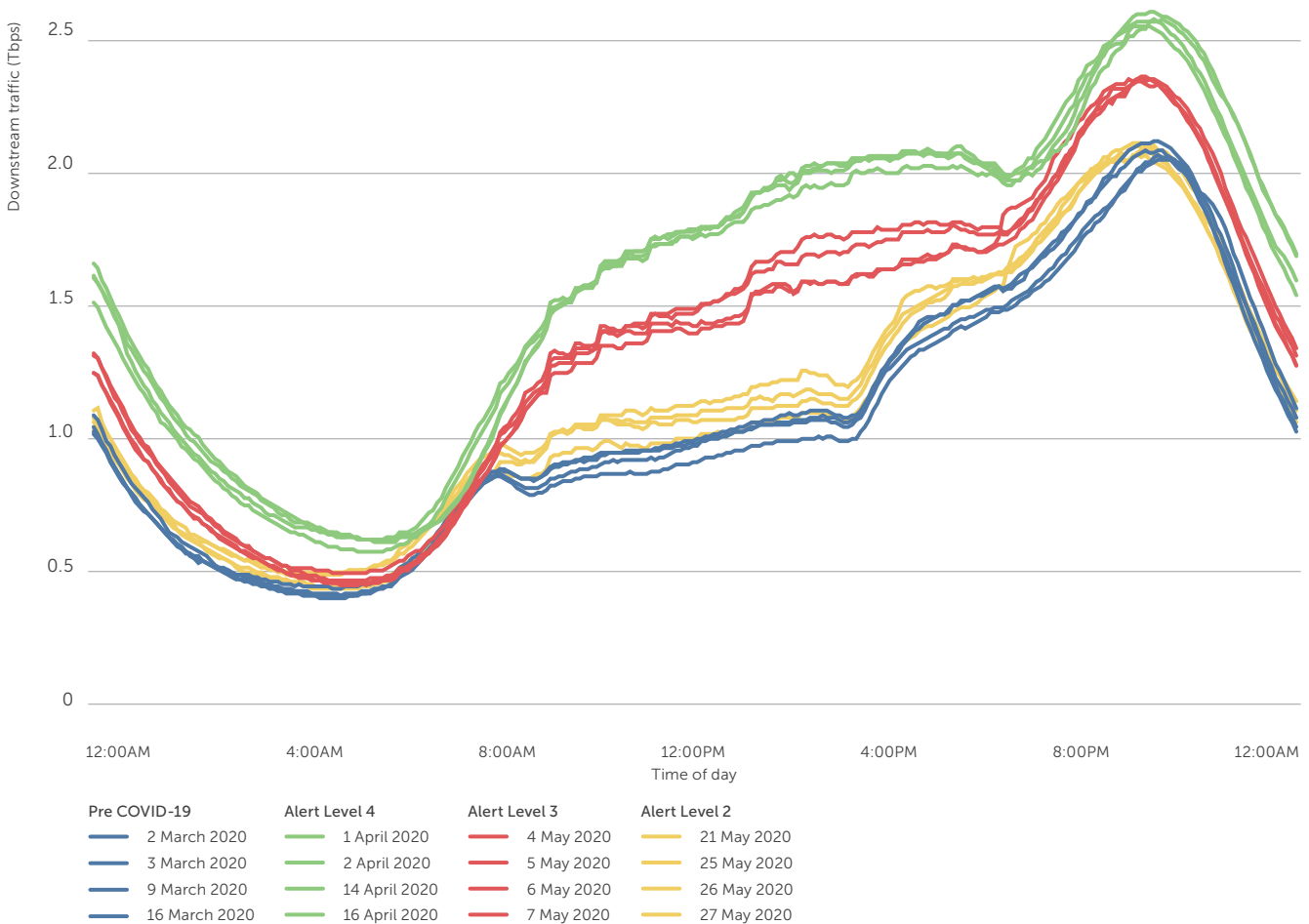
Once fibre has been laid, we can continue to add capacity to the fibre network by investing in network electronics. We'd made substantial investment in capacity ahead of the Rugby

World Cup in September/October 2019. This meant that when the COVID-19 lockdown occurred, we were able to manage a record peak in demand of 3 terabits per second (Tbps) on the evening of 27 March. This was substantially higher than the prior record of 2.6Tbps that we experienced during the streaming of a Rugby World Cup quarter-final match.

Figure 2 shows how usage patterns changed from the pre-lockdown period (in blue) to the Alert Level 4 lockdown period (in green), and then began to moderate as restrictions were gradually relaxed through Alert levels 3 and 2, enabling growing numbers of people to return to work and school.

Figure 2:

Changes in downstream usage over COVID-19 lockdown period



Another notable development during the lockdown period was the significant change in upstream traffic, with growth of 85%. This was because video conferencing services came to the fore during lockdown as people sought a richer connection experience than voice calls. Applications such as Zoom, Skype,

Google Hangouts and Houseparty, require two-way video traffic. The effect on upstream data traffic on our network can be seen in Figure 3. Interestingly, the staggered spikes in the daytime traffic profile are consistent with video conferencing meetings being scheduled on the hour and half hour.

**Figure 3:**

**Changes in upstream usage over COVID-19 lockdown period**



We believe increased daytime bandwidth demand and consumers' stronger focus on broadband reliability, particularly for videoconferencing, is here to stay. Our consumer research found that over two-thirds of those in the workforce want to continue working from home or have flexible working days.

About 26% of working New Zealanders believe their productivity during lockdown was the same as being in the office, while 46% thought they were more productive at home.

### 1.4 Data usage momentum continues

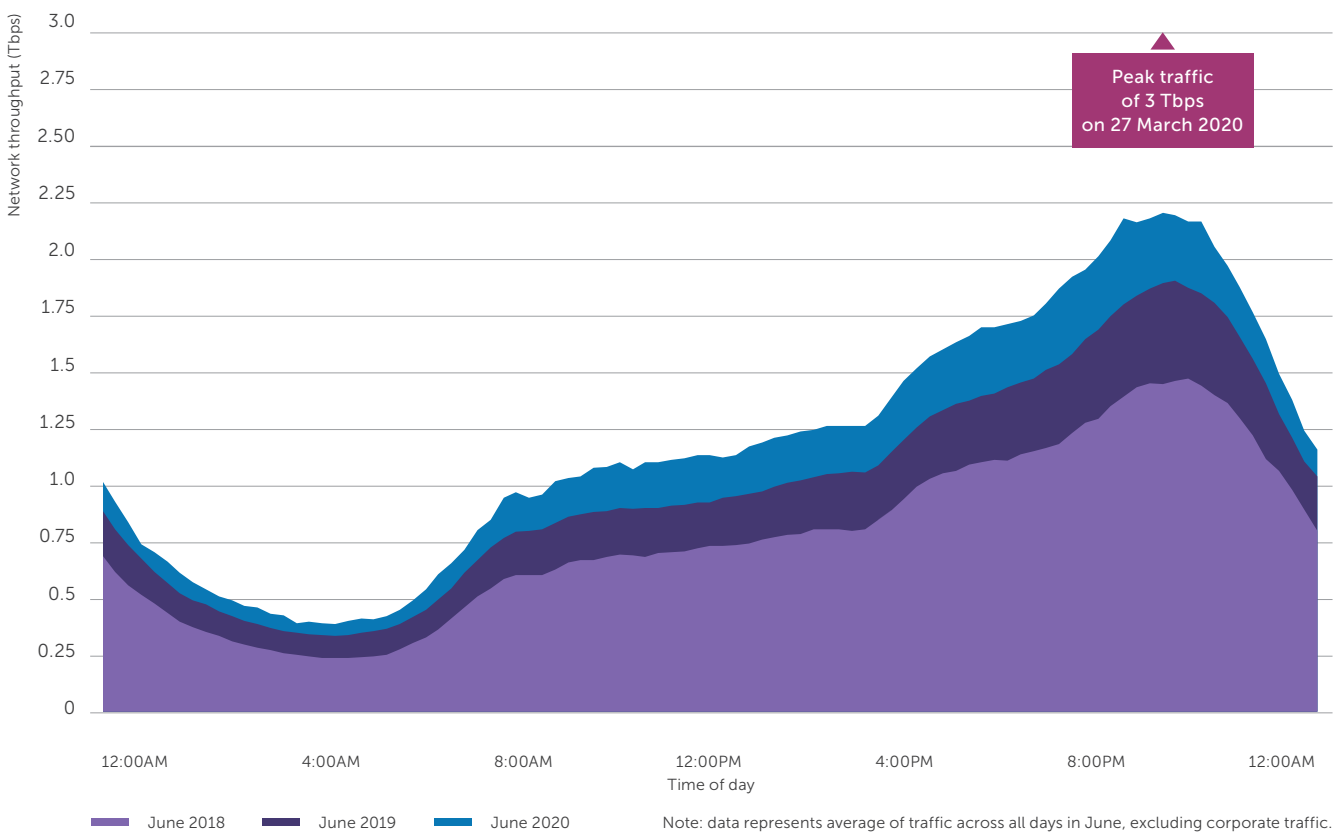
The combination of continuing growth in online streaming demand and COVID-19 driven changes to consumer behaviour saw peak time usage grow more than 30% from the year before. That’s the equivalent of more than half a million simultaneous high-definition video streams.

Translated to monthly average usage, households were using 313GB in June 2020, up from 265GB last year. Fibre consumers were averaging 387GB a month, compared to 198Gb for copper customers.

Our own and independent forecasts suggest average data usage on fibre is likely to exceed 1,000GB a month by 2024. This may be conservative. The increase is expected to be fuelled by the proliferation of 4K television sets, followed by 8K in the near future, and bandwidth hungry services such as online gaming. The highest peak time usage during the lockdown period, for example, coincided with the international release of a game update for Call of Duty.

Figure 4:

Average daily internet usage across the Chorus network June 2018 – 2020



As data demand keeps growing, fibre’s ability to deliver consistent throughput at dedicated speeds is a significant competitive advantage. We’ve seen uptake of 1Gbps connections on our network grow from 10% to 16% of mass market fibre connections this year. Our consumer research in the weeks following the COVID-19 lockdown indicates a greater willingness from customers to consider upgrading their broadband plans, to ensure broadband reliability.

An independent report, published by the Commerce Commission in May, highlighted the strong performance of fibre and copper broadband despite the increased bandwidth demand through lockdown. In contrast to fixed line services, their monitoring highlighted a 25% reduction in average download speeds for wireless broadband, particularly at peak times. This reflects the shared nature of wireless networks, that makes them more prone to congestion. The report also noted that fixed wireless connections are more likely to experience issues with applications requiring low latency, such as online gaming and video calls.



## 1.5 Keeping our focus on customer experience

We're focused on continuing to do everything we can to make it as easy as possible for consumers to get fibre connected.

Our overall customer satisfaction score for fibre installations had increased to 8.1 by the end of FY20, up from 7.7 out of ten at the start of the period. This was above our target of 7.9 and reflects the positive effects of various initiatives we've implemented through FY19 and FY20. These included a focus on reducing rescheduling, minimising site visits through our fibre in a day process and managing a growing proportion of installations through our door knocking programme. Our technicians also continued to rate highly, with scores increasing from 8.5 to 8.7 over the year. These were good results, but we're continuing to aim higher.

With fibre now installed in more than 800,000 homes and businesses, we're putting a greater focus on the switching experience of customers when they move to fibre 'intact' premises. These are homes, or businesses, where fibre is already installed and we just need to activate the broadband service. We improved customer satisfaction in these instances from 7.0 to 7.3 through the year, but we believe there's plenty of room to make the process much better for customers. We're working with retailers on ways we can do this.

Our digital systems are playing a growing role in simplifying the end-to-end experience for consumers. Traffic on our website, for example, doubled in the year as we've made it a richer source of information for people wanting to learn more about their broadband options and performance. Retailers and service companies are embracing the online tools we've deployed to improve the experience for customers. This includes our new assurance channels that are providing better diagnosis of faults and automate the dispatch of technicians. We've seen a three-fold increase in the volume of requests on these digital tools, including those used by our internal teams, and this is helping streamline processes and reduce our operational costs.

## 1.6 Driving fibre uptake as an active wholesaler

While demand for fibre is growing, the continuing evolution of technology, market dynamics and industry regulation means we operate in a dynamic sector. With some retailers promoting access to their own mobile and fixed wireless networks to their existing customers, we've adopted an active wholesaler strategy. This means that we have a range of in-market activity to promote uptake of our services and help consumers understand that nothing beats a fibre connection when it comes to reliable, uncongested and unlimited broadband.

With rollout growth in our fibre footprint beginning to slow, our active wholesaling activity has stepped up another level and included:

- our own door knocking campaigns to drive hundreds of daily fibre installation requests
- retailer incentives to connect customers on alternative networks to our network
- sending selected consumers prepaid gift cards for redemption on uptake of a fibre service
- advertising campaigns tailored to specific customer segments
- improving our processes for property developer customers.

Our local fibre migration campaigns have proved highly successful in stimulating additional fibre demand. We had 32,000 homes receive an installation through this programme and we're seeing about half of these customers switch their fibre connection on within just six months.

## 1.7 Continuing to innovate

Another important aspect of being an active wholesaler is our desire to keep innovating, finding new ways in which our network can be used to make New Zealand better. During the year we launched our new *Hyperfibre* services, utilising new network technology that enables 2Gbps or 4Gbps symmetric speeds. This equipment is only just beginning to be deployed in other countries and we believe it will make big differences for businesses that transfer large amounts of data, work in the cloud, or rely on instantaneous communication.

Small businesses are an integral part of the economy and we introduced a revised fibre product to provide them with a faster fault restoration commitment. This puts small businesses on an even footing with those that use our premium fibre products.

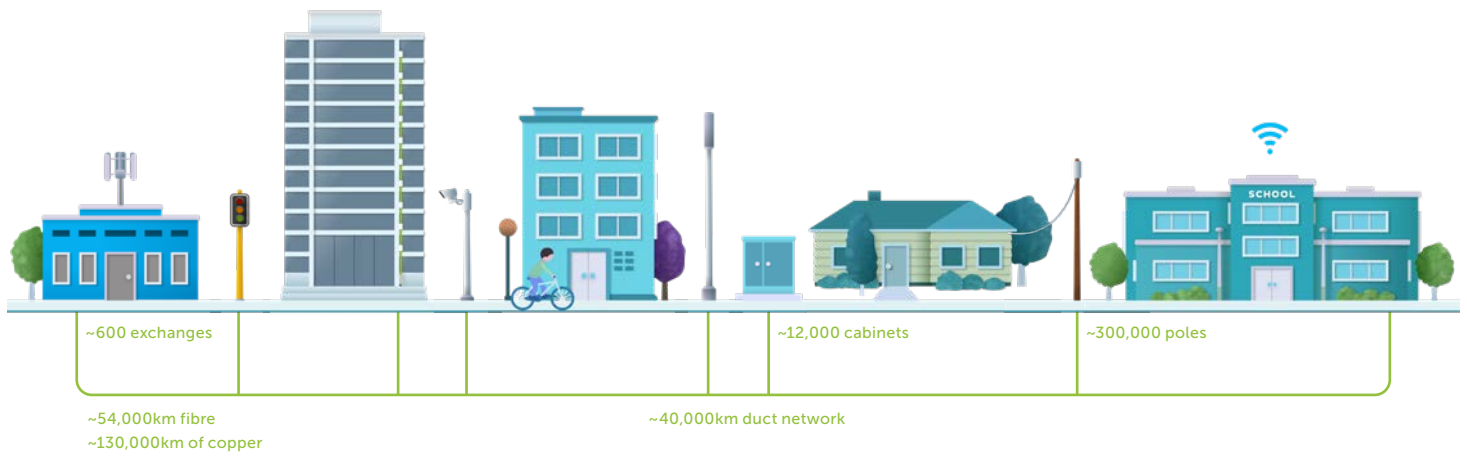
For retailers, we developed a national tail extension service so it's easier for them to expand their fibre services nationwide. This service means they only need one network handover point, greatly reducing the cost of transport services between multiple UFB areas and enhancing their ability to grow a geographically dispersed customer base.

With our new Wi-Fi capable fibre terminals installed in a growing number of homes and businesses, we've taken a new approach and co-developed a Wi-Fi service based on detailed input from our retailers. The proposed new service will remove the need for retailers to dispatch their own routers to customers and enable customers to get their broadband up and running almost straight away. This could in turn reduce the retail cost of broadband for short term customer connections, because retailers would no longer need to recover the cost of a router over a short timeframe.

We're taking a close interest in the release of the new Wi-Fi standard, Wi-Fi 6. Wi-Fi 6 capable devices, like routers and mobile phones, are now available and can deliver a big step up in Wi-Fi performance with enhanced speed and reduced latency. As well as enabling better home broadband performance, Wi-Fi 6 is being seen as a potential alternative to 5G in enterprise and other private environments where cost effective capacity and support for a large number of devices is important. We're exploring the different roles Wi-Fi 6 might play in complementing the unlimited capacity provided by our fibre access products.

Figure 5:

**Our network infrastructure**

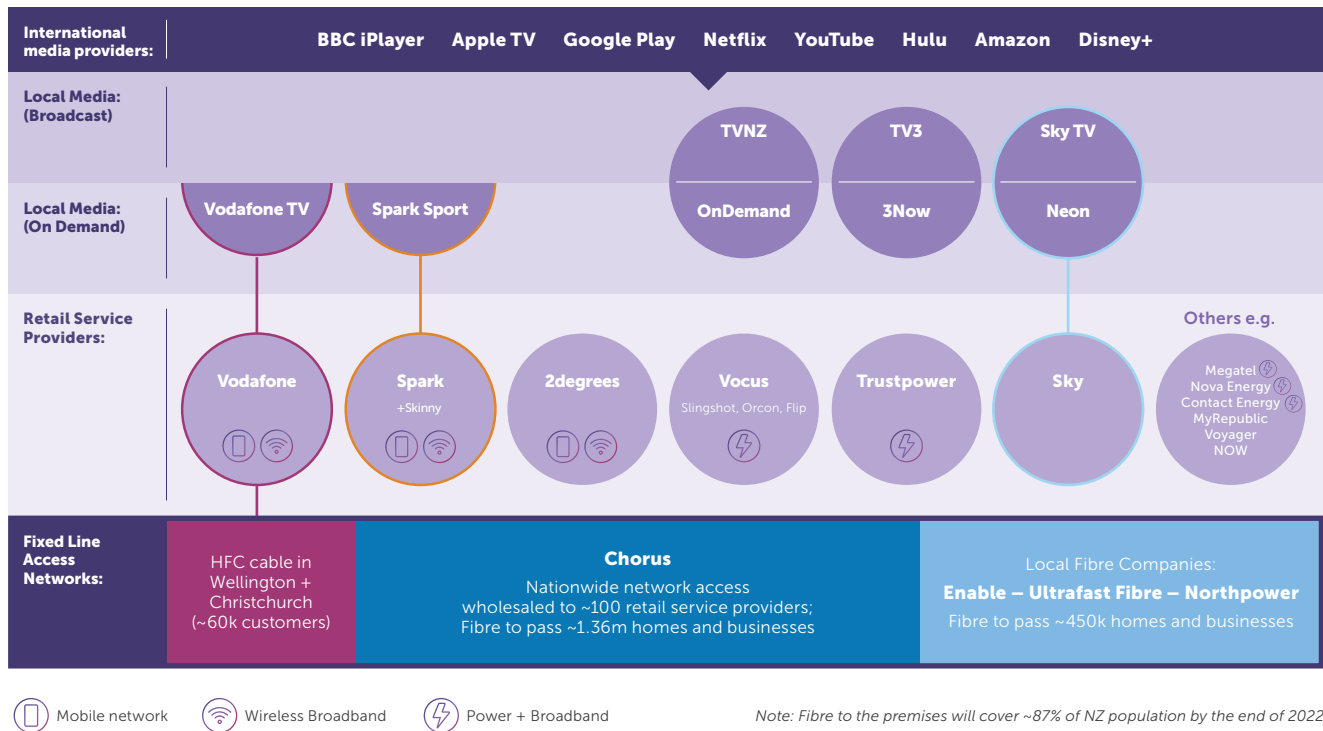


# The New Zealand market

Figure 6:

## The New Zealand fixed line market

Rationalisation, new entrants and new business models are disrupting the NZ market.



**The New Zealand broadband market remains highly competitive. Since 2011 the fibre rollout has been a trigger for consumers to reconsider their choice of broadband provider, with industry reports suggesting large incumbent retailers continue to experience declining market share. This reflects the way our open access network fosters competition, by enabling about 100 retailers to offer services on an equivalent basis. Another notable feature of the retail landscape in recent years is the growth of retailers that bundle electricity and broadband services.**

Further competition is expected with Sky TV's announcement in April 2020 that it intends to become a broadband retailer. Sky TV currently delivers most of its pay TV content via satellite with about 586,000 subscribers. However, it has increased its online delivery in recent years and also reported 415,000 streaming subscribers, including about 130,000 subscribers on the Lightbox streaming service purchased from Spark.

The strength of our role as a neutral host, providing independent network infrastructure to various service providers, was reflected in our winning a new contract with the Rural Connectivity Group. A joint venture between New Zealand's three mobile network operators – 2degrees, Spark and Vodafone – the Group is building hundreds of new mobile sites under a rural service agreement with the Government. We've been selected to provide fibre backhaul for their rural cellsites within fibre reach for a 10-year period.

We saw some industry consolidation during the year, with the most notable development being Vocus' purchase of Stuff Fibre and its reported 20,000 customers. Infrastructure funds also showed increasing interest in the New Zealand telecommunications industry.

In May 2020, First State Investments announced an agreement to purchase Ultrafast Fibre from its electricity network owners. Their fibre network covers about 237,000 homes and businesses in the central North Island. This follows Brookfield and Infratil's acquisition of Vodafone New Zealand in mid-2019.

## 2.1 Initial 5G deployments

In the months immediately following its transfer of ownership, Vodafone New Zealand announced an intention to invest in 5G capability. 5G coverage was switched on in parts of Auckland, Wellington, Christchurch and Queenstown in December 2019. Vodafone has said it hopes 25% of its broadband customers will migrate to its fixed wireless network and it will provide 5G fixed wireless services later in 2020. Using its 4G network, it offers fixed wireless plans in datacap tiers up to 600GB in major cities and urban regional centres.

Spark launched 5G in five provincial townships in late 2019 with fixed wireless broadband plans sold in three datacap tiers: up to 60GB; 60GB to 120GB; and more than 120GB. In Auckland, Spark offers plans of up to 600GB on its 4G network. Spark announced the launch of 5G mobile and fixed wireless services in Palmerston North in July 2020, with four more centres to follow.

The Government had intended to hold an auction for short term management rights, through to late 2022, for 3.5GHz spectrum. This auction was cancelled in May 2020 as a result of COVID-19 and the spectrum was directly allocated to 2degrees (60MHz), Spark (60MHz) and wholesale wireless network operator Dense Air (40MHz). The auction of 3.5 GHz rights beyond 2022 is yet to be scheduled.

The interim allocation of 3.5GHz spectrum is expected to make further expansion of 5G coverage possible. However, dates are yet to be announced for the auction of the millimetre wave spectrum considered necessary for small cell coverage. To date, international experience suggests the business case for small cell deployments remains uncertain. We're continuing to explore opportunities to grow our backhaul and co-location services for mobile network operators.

Figure 7:

### Summary of key market trends

Our market drivers	What we're focused on
Large vertically integrated retailers are encouraging customers to use their own fixed wireless, cable and legacy fibre networks to reduce their wholesale network costs.	We're an active wholesaler, promoting our extensive broadband footprint through advertising, retailer campaigns and our own door knocking initiatives. Our network supports about 100 retailers.
Competing fibre companies have overbuilt our existing copper network with fibre as part of the Government's UFB programme.	We're optimising our business in these competing areas and maximising our broadband share in other areas experiencing premises growth, particularly Auckland.
Traditional voice only connections are declining with changing demographics and wireless service options.	We're commercialising new potential revenue streams identified by our innovation programme, such as data centres and smart city connectivity.
Technology keeps evolving, with 5G potentially enhancing the capability of mobile/wireless technologies as a fixed line alternative for low data users.	We see 5G as complementary technology with many more cellsites likely to require fibre backhaul. Fibre is recognised as providing highly reliable broadband, particularly at peak usage times. About 16% of our fibre consumers are on 1Gbps services and we've launched 2Gbps and 4Gbps Hyperfibre products.

# Regulatory environment

**We operate our wholesale only network within the regulatory framework established by the Telecommunications Act. We're also subject to the requirements of four open access deeds of undertaking for copper, fibre and Rural Broadband Initiative services that focus on the provision of services on a non-discriminatory basis. This regime will remain in place outside of the revised utility model now being implemented by the Commerce Commission.**

Approximately 40% of our FY20 revenues were from copper services with pricing and terms regulated by the Commerce Commission (the Commission) under the Act. The Commission set a five-year schedule of pricing for our regulated copper services in December 2015, following a detailed price review process. Our fibre services aren't currently regulated with most instead subject to contractual pricing and terms agreed with the Government as part of our UFB contracts.

### 3.1 Moving to a regulated utility model

In November 2018, the Telecommunications (New Regulatory Framework) Amendment Act passed into law with bipartisan political support. This marked the culmination of five years of policy review of the regulatory framework that applies to our business and the decision to transition to a utility-style framework for fibre access services.

Under the new framework our fibre investment will be regulated according to a utility style building block model from 2022. This model is already used to regulate other New Zealand utility businesses, such as electricity lines and gas networks. It is recognised as supporting private sector investment to meet network upgrades and increasing consumer demands through ongoing incentives to innovate, invest and improve efficiency for the long term benefit of customers.

Key features of the proposed regime are:

- deregulation of the copper network from 1 January 2020 in areas where fibre is available and the right to withdraw copper services, where this is appropriate, subject to a code being developed by the Commission.
- continued regulation of the copper network in areas where fibre is not available, with copper pricing adjusted for inflation.
- the regulated asset base (RAB) for fibre will include unrecovered losses incurred before 2022, with pre 2011 assets valued at depreciated historical cost and post 2011 assets at depreciated actual cost.
- Crown financing will be treated according to its actual cost to Chorus.
- key fibre prices will be frozen at 2020 pricing levels, adjusted for inflation, until 2022.
- unbundling of the fibre network available in UFB1 areas on a commercial basis from 2020.

Figure 8:

### New regulatory framework to replace UFB contractual framework by January 2022

87% of population where fibre will be available by end of 2022 →		Remaining 13% of population →
<p><b>Fibre access network</b></p> <ul style="list-style-type: none"> <li>• Regulated asset base (RAB) with revenue cap to be determined by Commerce Commission</li> <li>• Price caps on contracted fibre products, with annual inflation adjustment, until 2022. Price caps then only apply to fibre voice service, a fibre broadband service and direct fibre.</li> <li>• Unbundled fibre (commercial price) to be available in UFB1 areas from 2020 and UFB2 areas from 2026</li> <li>• Three years after new regime commences, the Commission can review the revenue cap model and anchor products, subject to specified conditions and statutory criteria</li> </ul>	<p><b>Copper - where fibre is available:</b></p> <ul style="list-style-type: none"> <li>• Copper network to be deregulated and Telecommunications Service Obligation (TSO) removed</li> <li>• Chorus can withdraw copper service, subject to minimum consumer protection requirements being developed by the Commission and due in September 2020</li> </ul>	<p><b>Copper - where fibre is not available:</b></p> <ul style="list-style-type: none"> <li>• Copper remains regulated and TSO applies</li> <li>• Copper pricing capped at 2019 levels with CPI adjustments</li> <li>• Commission required to review pricing framework no later than 2025</li> </ul>

The Commission is required to establish the key input methodologies that set the framework for determining the starting value of our regulated asset base, the regulatory weighted average cost of capital, cost allocations, and our maximum allowable revenue. It has been granted a one-time deferral from 1 January 2020 until 1 January 2022 to complete its implementation work.

#### Indicative fibre regulation timeline

October 2020	Input methodologies final decision due
November 2020	Input methodologies decision due on financial loss asset provisions
Q3 2020	Proposed approach & process paper for price-quality decision
Q2 2021	Draft price-quality decision due
Q3/Q4 2021	Final price-quality decision due

### 3.2 Fibre input methodologies

The Commission released its draft decision on the Fibre Input Methodologies in November 2019. While the draft decision improved on aspects of the Commission's prior Emerging Views paper, we and our investors have made subsequent submissions on areas of concern, including:

- the implied WACC rate for the period to 2022 is still below that required to ensure our cost of capital reflects a fair return to investors, given the substantial investment risks taken in financing the UFB rollout. In particular, the Commission has proposed calculating the WACC each year from 2011 through to 2022, by using the prevailing 5-year risk free rate that applied in each year.
- the proposed asset beta of 0.49 underestimates the asset beta of a fibre network, particularly through the rollout period. A higher asset beta was acknowledged by Crown Fibre Holdings before the rollout began and has been used by regulators for European fibre networks.
- the draft decision suggested no WACC uplift from the 50th percentile. This is completely at odds with all other regulated utilities in New Zealand, and other international regulators have recognised the need for an uplift to encourage fibre network investment.
- while a small ex ante allowance to compensate for asset stranding risk is considered, the indicated allowance doesn't adequately reflect the technological risk that could emerge over time and the effect this could have on our return on network investment.

A final decision is expected in October 2020, with a separate decision on the financial loss asset due in November. This will set the rules for a Price Quality Determination, which will establish our revenue cap and quality requirements for 1 January 2022 to 31 December 2024. The final Price Quality Determination is expected in late 2021.

### 3.3 Commercial services for fibre unbundling

We've built our fibre network to enable unbundled fibre services by providing a second fibre to each premises. This means retailers can choose to use our passive infrastructure - fibre optic cables, ducts, and poles - and their own broadband electronics, to deliver services to customers. Unbundled services are available in our UFB1 areas from today and will be in UFB2 areas from 2026.

We've developed commercial terms for these services, including a monthly access charge of \$28.55 per month to cover access to the fibre between the premises and the splitter, as well as \$200 per month to access the feeder fibre from each splitter to a central network point. The pricing reflects the fact that passive infrastructure costs, known as layer 1, comprise most of our rollout investment, with broadband electronics, known as layer 2, representing a very small component.

The architecture of the fibre network, with most customers connected to street-based splitters, means the economics of fibre unbundling are different from copper unbundling, where exchange-based equipment could potentially serve much larger numbers of customers. This means fibre unbundling will most likely appeal to larger retailers. Our pricing seeks to strike a fair balance between enabling fibre unbundling and ensuring a competitive playing field for all other retailers.

The Commission has said that it will develop guidance on fibre equivalence and non-discrimination obligations following concerns from some retailers about our proposed pricing. This is expected in September 2020.

### 3.4 Copper withdrawal code

The Commission is developing a copper withdrawal code that it aims to publish in September 2020. This will detail the consumer protections and process that will regulate when we'll be permitted to stop providing copper services, in areas where an equivalent fibre service is available.



# Making New Zealand better

**We take a long term view of our network infrastructure investments and our people take pride in delivering an asset for New Zealand's ongoing social and economic betterment. The broadband networks we build and maintain are closely aligned with the infrastructure-focused elements of the United Nations Sustainable Development Goals.**



Infrastructure is at the heart of the delivery of economic, environmental and social sustainability. It's also at the heart of what we do. We've invested in substantial upgrades of our communications infrastructure for more than a decade,

enabling New Zealanders to access data at ever increasing speeds and reduced latency. This investment means New Zealand is one of just a few countries already well on the way to becoming a Gigabit society.

- We completed an ADSL2+ fibre to the cabinet upgrade, reaching 80% of the population, in 2012
- In partnership with Government, the Rural Broadband Initiative between 2011-2016 connected fibre to rural schools, hospitals and Vodafone towers. It also enabled further expansion of our fibre to the cabinet and VDSL footprint in rural areas.
- An upgrade to VDSL vectoring technology in 2018 gave broadband speeds a further boost for tens of thousands of homes across selected rural and urban areas
- Our fibre to the premises rollout began in 2011 and has progressively extended gigabit speeds across larger towns and cities. The UFB2 rollout is expanding this reach further again, to hundreds of smaller communities, some with as few as 50 premises.

Outside of these larger infrastructure projects, we're continually upgrading parts of our network as technology evolves and changes in local demand, or investment barriers, enable new investment. During FY20 we completed work to remove the remaining first generation copper broadband equipment serving some remote rural areas. This involved laying 70 kilometres of fibre and installing about 160 VDSL capable network nodes. Fibre was also extended to provincial marae as part of a Government development project and we built our first submarine fibre connection, to provide network resiliency for Waiheke Island.

We continue to look for ways to bridge the challenging economics of rural fibre investment. We collaborated with a community near Akaroa, for example, to integrate the extension of fibre with their waterpipe project. This was a new model for us and helped connect about 40 homes.



Our network construction programmes have been a significant source of employment since 2011. However, the biggest benefit is for New Zealand's wider economy over time. In 2012, Alcatel Lucent's Bell Labs estimated the rollout of fibre could contribute more than \$32 billion in economic

benefits to New Zealand over 20 years. A 2017 Sapere Research Group study estimated the wider social benefits from fibre uptake at about \$2 billion annually. This was on top of a \$3 billion annual contribution business uptake could make to Gross Domestic Product.

Businesses are making use of gigabit connectivity to innovate and deliver new sustainable services both in New Zealand and overseas. We're continuing to enhance our products to give businesses an added edge, with features such as prioritised restoration. Our new Hyperfibre products, offering 2Gbps and 4Gbps speeds, are unlocking a new era of connectivity for customers such as film production businesses who transfer large amounts of data.



Our network links communities across New Zealand, providing the platform over which a range of increasingly essential digital services are delivered. Our work on the Rural Broadband Initiative with Nokia, for example, was recognised with the

*Broadband Delivering Social Impact* award at the Broadband World Forum in FY19.

Broadband networks are set to play an even larger part in the future of sustainable communities as technology evolves. We've undertaken trials to explore how our infrastructure may help develop the Internet of Things and other solutions that make our communities more inclusive, safe and resilient. This might include our cables connecting devices, such as traffic lights and CCTV cameras, or it could involve the use of our pole, cabinet and exchange assets as sites for other network connectivity (e.g. mobile networks) and devices.



Education has been a major focus of our work ever since schools were some of the priority customers we first connected to fibre by our urban and rural rollouts.

In recent years we've worked with government organisations to explore ways our network technology could bridge the digital divide between those students who have broadband at home and those who don't. This has included trials using Wi-Fi access points to enable students without home broadband to log in to their local school network from home.

When COVID-19 forced the shutdown of schools across New Zealand, our broadband network underpinned a rapid transformation in education practices, as schooling was shifted online. However, we were also concerned about the effect an extended lockdown period could have on the digital divide within school communities. We therefore offered to switch our existing intact connections on for

homes identified by the Ministry of Education as requiring broadband for essential learning. About 10,000 homes have been connected by retailers delivering broadband services using our free wholesale connections. We've made this service available for free for a six-month period.



COVID-19 has accelerated awareness of how broadband can reduce the need for carbon emitting activity. The widespread availability of fibre means businesses and employees throughout most of New Zealand can adopt flexible work options and video conferencing.

Faster adoption will magnify the potential environmental benefits. The Energy Efficiency and Conservation Authority has estimated if one in five New Zealanders opted to work from home once a week, it would prevent 84 kilotonnes of carbon dioxide entering the atmosphere annually. Swapping business flights between Auckland and Wellington for an online meeting could reduce transport emissions by another 65 kilotonnes.

We expect our investment in fibre to help us achieve an 80% reduction in our scope 1 and 2 emissions, from our FY12 base year, by 2030. The fibre network requires less electricity to operate than our existing copper network and, as customers migrate to fibre, we'll begin to switch off some of the copper network equipment. The fibre network will also require fewer technician visits, leading to a reduction in vehicle related emissions over time.

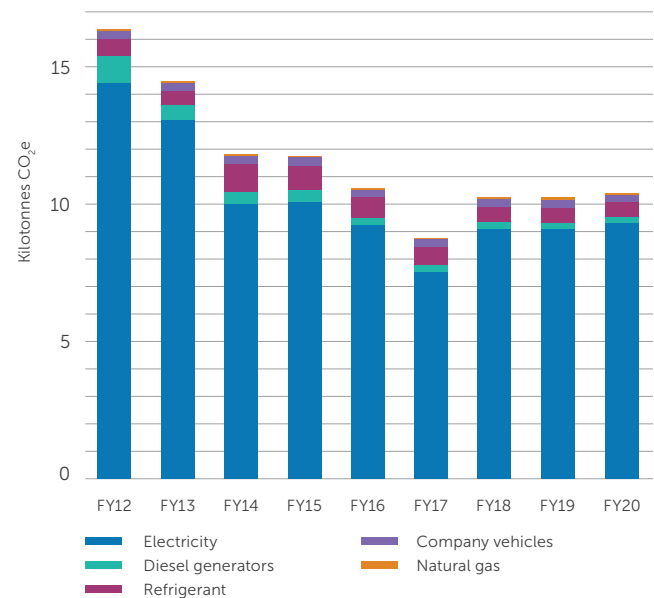
We've avoided a net cumulative 73 kilotonnes of carbon dioxide equivalent emissions (CO<sub>2</sub>e) since FY12, including Scope 3 emissions. Our FY20 emissions were 19 kilotonnes-CO<sub>2</sub>e, 44% lower than in FY12, with reductions across all major sources. This included a reduction of 1 kilotonne of Scope 1 direct emissions, due to lower generator diesel consumption and fewer refrigerant losses.

Scope 2 electricity emissions reduced by 5 kilotonnes from our FY12 base year. Network electricity consumption accounted for 89% of combined Scope 1 and 2 emissions. Emission reductions were mainly due to a greening national electricity grid and energy efficiency improvements. The national grid has been over 80% renewable since 2015, although carbon intensity has increased over the past few years.

Scope 3 value chain emissions were 9 kilotonnes and have halved since FY12. This is driven by reduced electricity consumption by customers' network located in our exchanges. Our field service vehicle fleet, excluding subcontractors, accounted for 56% of measured Scope 3 emissions. The COVID-19 lockdown and increased videoconferencing meant our travel emissions were 40% below base year levels.

Figure 9:

Scope 1 and 2 Emissions



Note: FY20 electricity emissions have been estimated in advance of the release of government electricity generation and emission data. Service company fleet emissions are included in Scope 3 value chain emissions because the vehicles are owned and operated by third parties. Our FY19 reporting again achieved a B rating from CDP, a global organisation that collects self-reported environmental information.



While enhanced broadband infrastructure was previously acknowledged as helping medical practitioners deliver telemedicine for regional patients, no-one had envisaged the degree to which COVID-19 would normalise telemedicine as a solution for urban medical practices. Hospitals and medical centres have fibre readily available because they were priority customers for our urban and rural fibre rollouts. We expect COVID-19 to stimulate greater adoption of broadband-based technology solutions for health purposes in the coming years.

For our own business, COVID-19 spurred an increased focus on the mental wellbeing of our people while they were required to work from home. We delivered webinars from mental health experts and partnered with *Mentemia*, a local online app providing mental health and wellbeing resources, led by Sir John Kirwan. Our internal mental support network increased the frequency of their meetings to provide peer support and helped identify specific matters we could focus our resources on. These included online fitness videos, a working with children webinar, nutrition and mental health motivation sessions.

We ran monthly engagement surveys through the heightened Alert Levels. These helped us understand employee wellbeing in greater detail and measure the effectiveness of our COVID-19 response.



## 4.1 Our people

We monitor employee engagement regularly as part of our commitment to building an inspiring culture and improving customer experience. We were pleased to grow employee engagement from 7.6 out of 10 in FY19 to 8.5 in June 2020. The increase in our employee net promoter score, from +28 to +67, puts us in the top 5% of our international 'technology' company benchmark. Our company values, culture and concern for wellbeing continue to rate highly.

Our people said we responded appropriately to the COVID-19 pandemic with an average score of 9.5 out of ten. This reflected our comprehensive programme of work to ensure people were informed and kept connected with each other through an uncertain time. The nature of our business meant we were able to rapidly transition to online working from the start of the lockdown period. With an existing flexible work policy and technology platforms that enable remote working, we're considering how we can continue to improve the flexible options available for our people.

We continue to evolve our employee benefits programme to help shape our culture. In addition to two wellbeing leave days we've now launched a new parental leave policy – Families@Chorus – that provides up to eight weeks paid leave for all new parents.

Employees can also take a volunteer day each year to undertake activities in their local community. About 2,700 volunteer days have been used since we began the programme in FY13. Given the limitations created by COVID-19 this year, employees who hadn't used their volunteer day could select a charity to receive the equivalent of a day's pay. This saw \$207,000 donated amongst four charities: Lifeline, Women's Refuge, KidsCan and the Porirua E-Learning Trust.

The structure of our organisation also underwent some change this year as we began the transition from a build to operate focus. We merged our Network and Field Management team with our Customer Care team during the year to reflect the changing nature of our work focus now that the fibre rollout peak is behind us. This meant a reduction in roles and we finished the year with 870 permanent and fixed term employees, down from 918 at the end of FY19.

In November, we bade farewell to chief executive Kate McKenzie when she returned home to Australia after leading the company for almost three years. JB Rousselot has stepped easily into the role from the Australian equivalent of Chorus, NBN Co, where he previously held roles as Chief Strategy Officer and oversaw network and service operations. JB has a great mix of skills and telecommunications industry experience, to help drive our focus on making the most of our fibre network's potential.

For more information on our people, see the Diversity & Inclusion section on page 86.

## 4.2 Keeping communities connected

A large part of our everyday work is focused on providing a stable and reliable network for customers. New Zealanders place great reliance upon the availability of our network both as a utility service for their daily lives and businesses, as well as a critical lifeline service in times of emergency. Our people and technicians often go the extra mile to keep communities connected when extreme events occur.

The substantial investment we've made in deploying fibre to the premises has increased our network's resilience to climate-related risks. Fibre is less susceptible to water and lightning related faults than the cables and street-based electronics in the copper network. This has been demonstrated by low fibre fault volumes in extreme weather events, including tornadoes and flooding.

Earthquakes remain a primary focus for our network resiliency planning. In the past, network damage from large quakes was largely restricted to localised copper cables, with minimal damage to exchange buildings. We have a comprehensive insurance programme typical of large scale infrastructure utilities, covering all risks of physical damage and business interruption for above ground assets. Specific cover is provided for earthquake damage to underground cables in Auckland, Hamilton, Wellington and Dunedin. We undertake probability based loss estimate modelling to ensure that the policy limit covering material damage and business interruption is adequate.

The average duration of network interruptions was 23 hours across our fibre and copper network in FY20. This was within our targeted service levels, but was up from 18 hours in FY19, partly due to the effects of several large storm events. We met our fibre service level targets as contracted with the Crown:

- Layer 1: actual downtime of 40 minutes vs limit of 120 minutes (FY19: 50 minutes)
- Layer 2: actual downtime of 1 minute vs limit of 30 minutes (FY19: 1 minute)

We worked with and supported a wide range of groups and organisations in FY20, including:

- industry and government organisations such as TUANZ, InternetNZ, the Telecommunications Forum (TCF) and Local Government New Zealand
- membership and initiatives with Business NZ and Infrastructure NZ
- the creativebusinessnow.nz campaign, promoting New Zealand's creative media industry globally, in the wake of COVID-19
- enabling online viewing of the Doc Edge 2020 documentary film festival for the first time, with subsidised tickets, free short movies and free screenings for schools
- School Gateway Programmes, our fifth year of offering insights into the telecommunications industry, with NCEA credits, to groups of year 12 and 13 students in Auckland, Wellington and Tauranga
- partnership with Squawk Squad to develop and grow their digital education platform in NZ schools for an eight-week programme on the environment and climate change
- providing community groups with technology-related gifts as part of our Little Fibre Miracles initiative to mark the end of phase one of our Ultra-Fast Broadband rollout

- Digital Journey, a social enterprise that delivers digital projects and initiatives to support businesses to deploy, use, understand and benefit from digital services
- support for NZ TechWeek, with training seminars for older consumers to learn the benefits of smart home applications and broadband technology.
- partnership with Keep NZ Beautiful, local councils, business associations and community beautification groups to select about 120 of our street cabinets for illustration by local artists
- a range of community support, learning and art organisations that use subsidised space within our exchange buildings.

### 4.3 Focus on our supply chain

We're committed to doing the right thing by people working on our behalf, including those workers who've come to New Zealand to build a better life for themselves and their families. We commissioned an independent review into our subcontractor workforce in FY19, after the Labour Inspectorate identified allegations ranging from poor labour standard practice (e.g. poor record keeping, non-payment of holiday pay) through to a small number of serious allegations of exploitation.

The Board receives regular updates on the implementation of initiatives recommended by the review. Action we've taken so far includes:

- incorporating a supplier code of practice into key supply contracts
- setting up a trust fund to support workers affected by discontinued contractors
- establishing a worker welfare portal and independent whistleblower process
- requiring subcontractors to complete training that ensures awareness of minimum employment standards, along with mandatory statutory declarations of compliance
- implementing some changes to payment codes and processes to improve fairness and transparency
- barring 28 companies from working on our network, out of approximately 800 subcontractors.

As we approach the end of the UFB rollout we're concentrating on the transition that will be required in the way we operate and maintain our network assets. The volume of build work has begun declining with the end of the UFB1 rollout. The volume of network faults requiring technician support is also reducing as customers transition from our copper network either to our fibre network, or alternative fibre and wireless networks. With our fibre uptake at 60%, the volume of new fibre installations required each year is also expected to begin declining.

We work closely with our service company partners to maintain our workforce at sustainable levels so we can meet customer demand for fibre connections and deliver a good customer experience. They have completed strategic workforce plans for the expected decline in workforce numbers as the UFB rollout winds down.

Fixed price contracts are in place for the remaining UFB2 network deployment and for subsequent connections to customers. Contracts are in place through to March 2022 for maintenance of our copper and fibre networks, as well as new fibre build outside our planned UFB areas.

Figure 10:

#### Service company contracts

Contract scope	Maintenance of copper and fibre; fibre build outside UFB areas	Connecting premises to fibre	UFB2 network build
Contractor	Downer Visionstream	UCG Visionstream	Broadspectrum Electronet Visionstream
Contract period	Until March 2022	Until March 2022	Until December 2022

### 4.4 Health and safety

The health, safety and wellbeing of our people is paramount. No business objective will be prioritised over the health or safety of any person. This includes our direct employees and the thousands of people working on our behalf to build, connect and maintain our network. Our health and safety focus extends to anyone who is in, or in the vicinity of, our workplaces.

We've established an open reporting culture and work with our contractors and suppliers to ensure their systems and procedures meet our health and safety expectations. Technicians must undergo induction training, including health and safety, before conducting any work on our behalf.

Worker welfare was a priority for us as we developed our response to the COVID-19 pandemic. We worked closely with our service company partners to develop clear guidelines for work that could be undertaken through the lockdown period and kept customers informed of our focus on social distancing practices. We also sourced and provided additional personal protection kit to service companies.



**Chorus are installing broadband and fixing faults**



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The volume of work performed, including our service companies, reduced from 13 million work hours in FY19 to 10 million in FY20. This was due to a combination of the end of the UFB1 rollout, changed installation processes and the suspension of non-essential work during the COVID-19 lockdown.

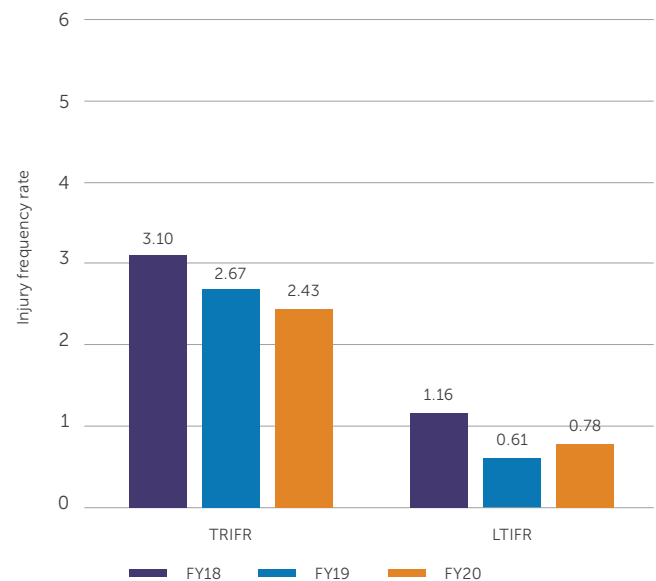
The Total Recordable Injury Frequency Rate (TRIFR) decreased from 2.67 to 2.43 with an overall reduction in the number of injuries requiring medical treatment. The main injuries were sprains and strains and hand lacerations caused by manual handling activity. There were no fatalities. Although the number of lost time injuries remained stable year on year, the reduction in work hours meant an increase in the Lost Time Injury Frequency Rate (LTIFR) from 0.61\* in to 0.78. Our results are favourable when benchmarked with other infrastructure companies, with the next closest result a TRIFR of 7.16 and LTIFR of 2.69 (May 2020 results).

For FY21, we're focusing our efforts on the continuous improvement of governance and operational assurance. Our approach is prioritised by our critical risks, such as vehicle accidents and electricity network strikes when digging. We're benchmarking our assurance and management activity against the three lines of defence risk management methodology. The capabilities of our people and continued collaboration with our service company partners to enhance health and safety practices is a constant priority.

\* FY19 LTIFR previously reported as 0.53 was updated to 0.61 following reclassification of an incident

Figure 11:

Injury frequency rates FY19 – FY20



LTIFR: number of lost time injuries + medical treatment injuries + restricted work injuries divided by total work hours x 1,000,000

#### **4.5 Cybersecurity and privacy**

As a wholesale network operator, rather than a retailer, we don't bill consumers directly for broadband or phone services. This means we hold very limited consumer information. For the information we do hold, we adhere to the requirements of the New Zealand Privacy Act. The Telecommunications Information Privacy Code (2003) also stipulates that we must not collect telecommunications information except in limited exceptional circumstances. We provide our people with annual information security and awareness training.

Our Board receives comprehensive cybersecurity reports every six months, with interim updates as required. We have detailed policies, processes, and registers to ensure cybersecurity is addressed through technology selection, network delivery practices, and ongoing operations and protection of our IT systems. We undertake regular reviews, including external audits and ad-hoc reviews, to provide

assurance and feedback on our assessments and controls. This includes testing our security incident responses and liaising with New Zealand's National Cyber Security Centre on advanced cyber threats. We have insurances for key cybersecurity risks.

We recorded no material cybersecurity incidents or privacy complaints from regulatory bodies in FY20.

#### **4.6 Waste and recycling**

We have an extensive waste minimisation process for network activities. In FY20, we recovered 195 tonnes of waste ducting from our fibre rollout for re-use in the local manufacturing of new duct. About 37 tonnes of redundant metal network components were recovered for recycling. About 24 tonnes of batteries and 4 tonnes of e-waste were diverted from landfill. We recorded no significant environmental incidents during the year.

# Outlook

**COVID-19 has both underlined broadband's role as an essential utility, while also increasing global appreciation of the true value of a fibre network. We're thankful that New Zealand made infrastructure choices a decade ago that have allowed us to be in the enviable position of having already deployed fibre to most New Zealanders. This has meant that demand for our services has continued to be strong, despite the wider economic impact of the pandemic. We're hopeful this demand continues and we'll keep considering ways we can support the wider community and economy beyond the various initiatives we've already undertaken.**

With the UFB rollout winding down, our focus is all about connecting more New Zealanders to fibre. We've put this at the top of our strategic focus with a target of 1 million fibre connections by 2022. This is a substantial step up from the 751,000 connections we have today, but we know the socio-economic benefits of fibre connectivity make it a worthwhile goal. The sustainability of our business rests on making New Zealand better, by bridging digital divides and enabling work, education and creativity through better broadband.

It's reflected too in one of the four pillars of our strategy: to win in our core fibre business. In FY21, you can expect to see us continuing to lift our activity as an active wholesaler. We'll be knocking on a whole lot more doors and providing targeted incentives to retailers and customers to sustain the connection momentum we've built up over the last year.

We know there will be increased competitive intensity as mobile network operators seek to leverage their own 5G investments, but we have the utmost confidence in our product. As the Commerce Commission has shown through its reporting, fixed line services clearly outperform shared wireless networks on key measures such as latency and concurrent streaming on multiple devices. We believe recent COVID-19 experiences and the shift to more home-based work mean Kiwis will value unlimited data and rock solid broadband like never before.

Although the Commerce Commission is expected to publish a copper withdrawal code before the end of 2020, we're not going to switch copper off overnight. There'll be lengthy notice requirements that we'll need to follow and we'll take a careful, considered and consumer-centric approach. As we've said before, it will only be where fibre is already available, and on a localised street-by-street basis. Consumers should, therefore, be aware that suggestions of needing to immediately change networks because of a 'pending shutdown of copper' may not be correct. Many retailers provide services across our copper and fibre network, so consumers might wish to shop around by visiting websites like [www.broadbandcompare.co.nz](http://www.broadbandcompare.co.nz).

The gradual withdrawal of copper services is linked closely with another of our strategic pillars, the optimisation of our non-fibre assets. As our network becomes increasingly fibre-centric we're looking closely at the assets we need to deliver services into the future. We've already begun to dispose of non-essential network sites and are reshaping our investment programmes to better reflect ongoing local demand. The removal of legacy broadband equipment from our network should also start to reduce ongoing maintenance and electricity costs.

At the same time, we keep exploring opportunities to grow new revenues. Our innovation programme has successfully identified several initiatives that we've moved through to product stage, such as our edge centre facilities and the impending launch of a Wi-Fi service using our latest in-home fibre network devices. We have more ideas in the pipeline, including exploring the opportunities created by technology developments like the latest Wi-Fi standard, Wi-Fi 6. As technology and consumer demands evolve, we're conscious too of the need to look for potential new partnerships and wholesale customers that might deliver innovative new services for consumers.

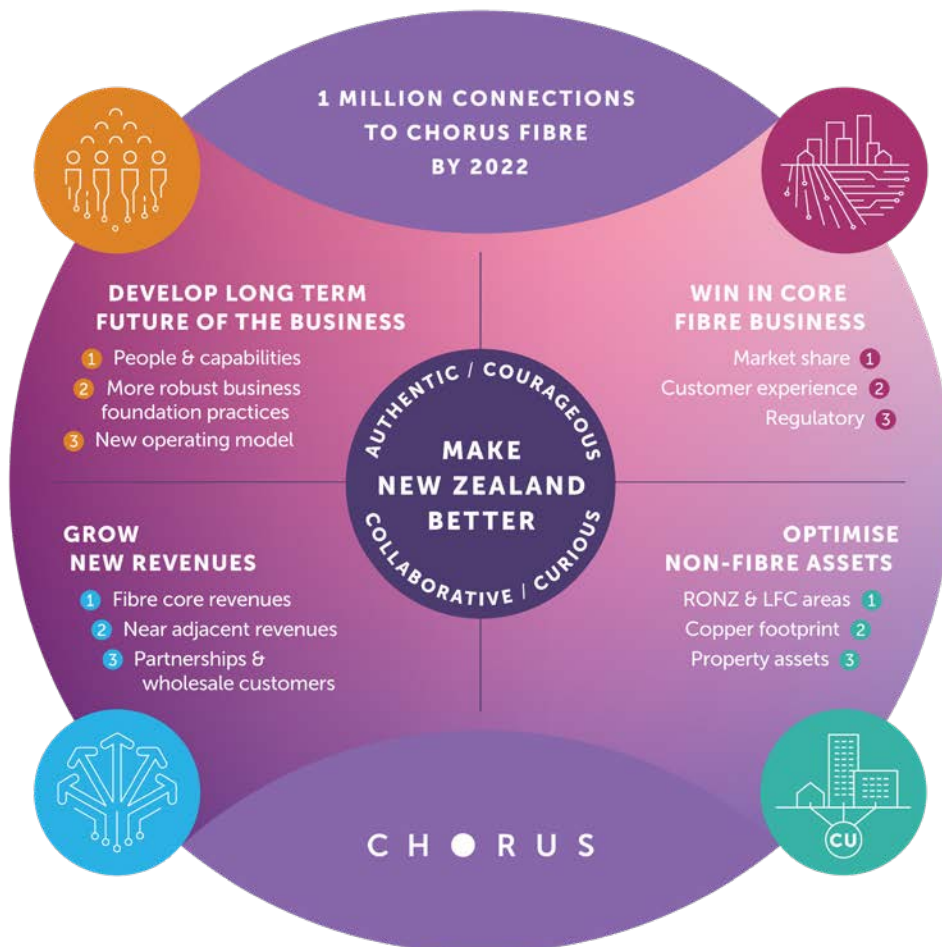
The changes to our strategic focus are of course occurring against the backdrop of our shift from building to operating our new fibre network, and the shift to becoming a regulated utility from January 2022. While these aren't immediate changes, they're already shaping the way we think about Chorus' future operating model. We know, for example, that we'll need to develop core utility functions such as compliance and asset management that are subtly different from the way we've traditionally operated. Our organisation and our service company partners will also need to keep evolving as the fibre rollout winds down and we no longer have to operate a copper and fibre network side by side.

Underpinning this all, is of course the expectation of a clear and certain regulatory environment that supports ongoing infrastructure investment. We, and many investors, continue to advocate for a fair return that respects the risks taken in the first decade of our partnership with Government and

the longer-term nature of our investment. As we've said previously, while the Commission's November 2019 draft decision was an improvement on its earlier views, there is still a significant gap between retrospective economic assumptions and commercial reality. Under the current proposed settings, investors will not consider UFB a model for the successful transformation of more New Zealand infrastructure.

We know too that investors are rightly interested in more clarity of our future dividend intentions, given the constraints on past returns through the UFB investment cycle. Our intention is that in FY22 we'll transition to a more utility-like dividend policy, based on a pay-out range of free cash flow. This transition period will be moderated by the need to balance our BBB credit rating with the ongoing investment needed to complete the UFB rollout and fibre connections. In the meantime, we've provided more commentary on our proposed approach in the full year results presentation, as well as guidance of a FY21 dividend of 25 cents per share.

**Our strategic focus**









A man in a blue and white striped shirt is pointing towards a whiteboard. The whiteboard has several colorful sticky notes (yellow, orange, green, blue) and some faint writing. Another man is visible in the background, looking towards the whiteboard.

## Management commentary

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# Management commentary

	2020 \$M	2019 \$M
Operating revenue	959	970
Operating expenses	(311)	(334)
<b>Earnings before interest, income tax, depreciation and amortisation</b>	<b>648</b>	<b>636</b>
Depreciation and amortisation	(402)	(393)
<b>Earnings before interest and income tax</b>	<b>246</b>	<b>243</b>
Net finance expense	(173)	(165)
<b>Net earnings before income tax</b>	<b>73</b>	<b>78</b>
Income tax expense	(21)	(25)
<b>Net earnings for the year</b>	<b>52</b>	<b>53</b>

## In summary

We report earnings before interest, income tax, depreciation and amortisation (EBITDA) of \$648 million for the year ended 30 June 2020 (FY20), an increase of \$12 million on the prior year (FY19). Net earnings decreased by \$1 million year on year.

The FY20 results reflect the positive benefits of a continued decline in network maintenance costs and a reduction in annual regulatory levies. However, there was also a net \$12 million impact to EBITDA from the COVID-19 lockdown. We responded to the broader effect of COVID-19 on our industry and community with funding for a range of support initiatives, while work restrictions reduced both maintenance and capitalisable work.

Depreciation has increased, reflecting the continued rollout of our network partially offset by older software assets coming to the end of their useful lives. There has been a net increase in finance expense due to an overlap in debt,

between the new Euro Medium Term Notes (EMTN) issued in December 2019 and the old EMTN repaid in April 2020. This increase is also due to a full year of interest being incurred on the NZD Bond issued in December 2018.

Capital expenditure of \$663 million was above the revised FY20 guidance range of \$610 million to \$650 million, because of a faster than expected resumption of fibre installations after the lockdown period ended. The significant decrease from FY19 capital expenditure of \$804 million was due to the conclusion of the UFB1 rollout in December 2019, ongoing reductions in copper network spend, as well as the reduced activity during the COVID-19 lockdown period.

We will pay a final dividend of 14 cents per share on 12 October 2020 and the dividend reinvestment plan will be available.

	Connections 30 Jun 2020	Connections 31 Dec 2019	Connections 30 Jun 2019
Fibre broadband (GPON)	740,000	681,000	599,000
Fibre premium (P2P)	11,000	12,000	11,000
Copper VDSL	221,000	242,000	270,000
Copper ADSL	245,000	283,000	327,000
Data services over copper	4,000	4,000	5,000
Unbundled copper	15,000	18,000	24,000
Baseband copper	179,000	192,000	214,000
<b>Total fixed line connections<sup>1</sup></b>	<b>1,415,000</b>	<b>1,432,000</b>	<b>1,450,000</b>

1 Excludes free education connections provided as part of Chorus' COVID-19 response.

## Revenue commentary

	2020 \$M	2019 \$M
Fibre broadband (GPON)	393	294
Fibre premium (P2P)	73	74
Copper based voice	82	106
Copper based broadband	271	344
Data services over copper	16	18
Value added network services	29	30
Infrastructure	24	24
Field services products	65	74
Other	6	6
<b>Total revenue</b>	<b>959</b>	<b>970</b>

### Revenue overview

Our product portfolio encompasses a broad range of wholesale broadband, data and voice services across a mix of regulated and commercial products. Revenues of \$959 million decreased from FY19 revenues of \$970 million. This largely reflected a reduction of 35,000 total fixed line connections from FY19, as customers migrated to alternative fibre and wireless networks. These line losses were predominantly copper based voice connections and were partly offset by an increase of 10,000 broadband connections over the year, together with increases in average revenue per user across our fibre broadband services.

### Fibre broadband (GPON)

Fibre broadband revenues continue to grow as customers migrate to our growing fibre network and broadband penetration increases. Fibre broadband connections grew by 24% to 740,000, with about 69% of connections on 100/20 Mbps plans, down from 71% in FY19. Uptake of 1 Gbps plans grew from 10% to 16% throughout the year, driven by our incentive campaigns to promote higher speed plans. This revenue category was also impacted by \$1 million of relief provided by Chorus to customers for their losses incurred over the COVID-19 lockdown.

### Fibre premium (P2P)

Fibre premium (point to point) revenues remained in line with FY19. Direct Fibre Access Service and other backhaul connections grew to 5,600 and 2,100 connections respectively, largely offsetting ongoing reductions in legacy point to point connections.

### Copper based voice

Copper based voice revenues continue to decline as customers migrate to either a fibre based connection on our network, or to alternative fibre and wireless networks. The pace of decline slowed from 54,000 baseband copper lines in FY19 to 35,000 in FY20. Unbundled copper connections declined at the same rate as the prior year.

### Data services over copper

Data services over copper connections continued to decline as retailers transition business customers from legacy services to cheaper fibre based services, either on our fibre network, or on alternative local and CBD fibre networks.

### Copper based broadband

Copper based broadband revenue continues to decline as customers migrate from our ADSL and VDSL broadband services to either our fibre network, or alternative fibre and wireless networks. This revenue category was also impacted by \$1 million of relief provided by Chorus to customers for their losses incurred over the COVID-19 lockdown.

### Value added network services

Value added network services revenue declined slightly in FY20. The main driver for this revenue category is national data transport services, which provide network connectivity across legacy backhaul links and aggregation handover links.

### Infrastructure

Infrastructure revenues remained flat year on year. While there was ongoing growth in demand for commercial co-location, this was largely offset by a reduction in demand for unbundled copper access space in exchanges.

### Field services

Field services revenue reduced by \$9 million relative to FY19, due to reduced demand across a range of field services. These included copper-based installations, new property developments and roadworks, as well as the effect of COVID-19 restrictions on field activity.

### Other

Other income largely consisted of revenue generated from the provision of billing and network management services to Spark, and settlements.

## Expenditure commentary

### Operating expenses

	2020 \$M	2019 \$M
Labour	80	74
Network maintenance	64	75
Other network costs	29	33
Information technology	47	50
Rent and rates	13	13
Property maintenance	12	17
Electricity	15	17
Provisioning	5	6
Insurance	3	3
Consultants	9	7
Regulatory levies	7	16
Other	27	23
<b>Total operating expenses</b>	<b>311</b>	<b>334</b>

Total operating expenses were \$311 million in FY20, a 7% reduction from \$334 million in FY19. This reflected our continued focus on reducing overall costs, supported by the network maintenance benefits of an increasingly fibre-centric customer base and a net reduction in regulatory related costs. These savings were partly offset by COVID-19 cost impacts.

### Labour

Labour of \$80 million represented staff costs that were not capitalised. At 30 June 2020 we had 870 employees, a 5% decrease from 30 June 2019 of 918 employees. These staff reductions were due to the conclusion of the UFB1 fibre rollout and the resulting merger of our Network and Field Management team with our Customer Care team.

However, labour costs increased by \$6 million from FY19 due to:

- COVID-19 related reductions in capitalisable activity and an increase in annual leave provisions; and
- Additional staff and contractors required to support our transition to the new regulated utility framework.

Labour costs and the associated overheads in relation to the UFB build and connect activity are capitalised. As this activity reduces over time, we expect the related labour cost savings to be largely capital in nature.

## Network maintenance

Network maintenance costs reduced by \$11 million from FY19. This was due to fewer network faults and technician visits as a result of a number of factors, including:

- Very dry weather conditions in the upper North Island for much of FY20;
- An ongoing decrease in fault volumes as more customers are connected to the newer fibre network and our total connection numbers reduce; and
- A reduction in reported faults and third party damage to the network through COVID-19 alert levels 3 and 4.

While the volume of technician visits reduced, the average cost per fault increased with a higher mix of higher cost faults on our fibre street network.

## Other network

Other network costs are variable year to year and include a range of costs associated with service partner contracts, fibre access from third parties, roadworks projects, fibre order cancellations and network spares. In FY20, these costs included approximately \$5 million in payments to service companies for COVID-19 support. Total costs were lower due to reduced activity and outgoings across a range of areas.

## Information technology

Information technology costs were down \$3 million compared to FY19. The ongoing replacement of legacy shared systems with our own in-house solutions has achieved lower maintenance and support costs.

## Rent and rates

Rent and rates costs relate to the operation of our network estate including exchanges, radio sites and roadside cabinets. These costs include rates that are levied on network assets both above and below ground. Increases in rates expenditure for FY20 have largely been offset by reductions in building operating costs.

## Property maintenance

Property maintenance costs decreased in FY20, as FY19 costs included deferred maintenance activity and the COVID-19 lockdown prevented some programmed work from being undertaken in FY20.

## Electricity

Electricity costs decreased in FY20 due to lower electricity prices and consumption. About 50% of our electricity requirements have been hedged, with a current end date of June 2022.

## Provisioning

Provisioning represents costs to provide connection services that are unable to be capitalised. These costs are reducing as the level of copper related activity reduces.

## Consultants

Consultant costs increased by \$2 million from FY19 as we engaged consultants to provide advice and support implementing the new regulated utility framework applying to our fibre access network from January 2022.

## Regulatory levies

Regulatory levies reduced by \$9 million compared to FY19. This reflected a reduction in our share of the FY18/19 Telecommunications Development Levy and confirmation that our contribution will reduce further for the FY19/20 period when the total industry levy reduces from \$50 million to \$10 million.

## Other

Other costs include expenditure on general costs such as advertising, telecommunications, travel, training and legal fees. These increased by \$4 million in FY20, mainly as a result of increased marketing expenses to support our copper to fibre migration initiatives.



## Depreciation and amortisation

	2020 \$M	2019 \$M	Estimated useful life (years)	Weighted average useful life (years)
Fibre cables	103	90	20	20
Ducts, manholes and poles	54	48	20-50	49
Copper cables	60	61	10-30	22
Cabinets	37	41	5-20	17
Property	15	15	5-50	25
Network electronics	62	60	2-25	10
Right of use assets	14	13	10-50	27
Other	1	–	2-10	6
Less: Crown funding	(27)	(25)		
<b>Total depreciation</b>	<b>319</b>	<b>303</b>		
<b>Amortisation</b>				
Software	49	56	2-10	5
Other intangibles	–	–	6-35	22
Customer retention	34	34	0-4	4
<b>Total amortisation</b>	<b>83</b>	<b>90</b>		

The weighted average useful life represents the useful life in each category weighted by the net book value of the assets.

During FY20, \$663 million of expenditure on network and intangible assets was capitalised. The 'UFB communal' and 'Fibre connections and fibre layer 2' included in 'fibre' capital expenditure was largely capitalised against the network assets categories of fibre cables (45%) and ducts, poles and manholes (40%). The average depreciation rate for UFB communal infrastructure spend is based on an estimated life of 40 years, reflecting the very high proportion of long life assets being constructed.

Software and other intangibles largely consist of the software components of billing, provisioning and operational systems, including spend on Spark-owned systems.

We expect that incremental costs incurred in acquiring new contracts with new and existing customers are recoverable.

These costs are capitalised as customer retention assets. Capitalised customer retention assets are amortised against expenses when related revenues are recognised, either upfront or over the life of the contract (currently estimated to be within a maximum of four years). In FY20, the amount of amortisation was \$34 million and there was no impairment in relation to the costs capitalised.

Our depreciation profile is expected to reflect the greater mix of longer dated UFB assets we've been building since 2011. The offset of Crown funding against depreciation is expected to increase over time until the UFB build is completed in December 2022 and the contracted Crown funding is received. The associated amortisation credit to depreciation will continue to increase accordingly.

## Finance income and expense

(Income)/expense	2020 \$M	2019 \$M
<b>Finance income</b>	<b>(12)</b>	<b>(10)</b>
Interest on syndicated bank facility	5	5
Interest on EMTN – GBP	40	53
Interest on EMTN – EUR	44	39
Interest on fixed rate NZD bonds	40	31
Other interest expense	27	26
Capitalised interest	(3)	(4)
<b>Interest costs</b>	<b>153</b>	<b>150</b>
Fair value adjustment on interest rate swaps not in hedge relationship	-	(3)
Ineffective portion of changes in fair value of cash flow hedges	3	6
<b>Total finance expenses excluding CIP securities (notional) interest</b>	<b>156</b>	<b>153</b>
CIP securities (notional) interest	29	22
<b>Total finance expense</b>	<b>185</b>	<b>175</b>

Finance income is higher in FY20 as the proceeds from the December 2019 EUR denominated Euro Medium Term Notes (EMTN) and the December 2018 NZD Bond were held on term deposit, until required for repayment of the GBP EMTN.

Interest costs increased by \$3 million year on year. This was due to the new EUR 300 million EMTN issued in December 2019, and a full year's interest being paid on the \$500 million NZD fixed rate bonds issued in December 2018. The increase was partly offset by the reduction in the GBP EMTN interest expense, following repayment of the debt in April 2020. The weighted effective interest rate on debt has reduced to 5.16% (FY19: 5.75%).

Other interest expense includes lease interest of \$21 million (FY19: \$20 million), \$5 million amortisation (FY19: \$3 million) arising from the difference between fair value and proceeds realised from interest rate swap resets, and a \$1 million one-off expense in FY20 for restructuring forward dated interest rate swaps (FY19: \$2 million). Notional interest on Crown Infrastructure Partners (CIP) securities also increased as Crown funding continued to grow.

At a minimum, we aim to maintain 50% of our debt obligations at a fixed rate of interest. We have fully hedged the foreign exchange exposure on the EUR EMTNs with cross currency interest rate swaps. A portion of the floating interest on the EUR cross currency interest rate swaps has been hedged using interest rate swap instruments.

### Ineffectiveness

The GBP EMTN hedging relationship was reset with a fair value of \$49 million on 9 December 2013, following the close out of the interest rate swaps relating to the EMTN. This amount was being amortised over the life of the derivative and flowed as ineffectiveness in the income statement. In FY20, the remaining balance of \$2 million (FY19: \$6 million) flowed through as ineffectiveness, closing out this derivative instrument.

The foreign exchange exposure on the EUR EMTNs has been fully hedged and interest rate exposure partially hedged.

For hedge accounting purposes the hedging relationships consist of a fair value hedge and two cash flow hedges. The interest rate exposure on the ten-year resettable NZD bond from December 2023 has also been fully hedged. Provided that the hedges remain effective, any future gains or losses will be processed through the hedge reserve. Minor differences in the hedged values will flow to finance expense in the income statement over the life of the derivatives as ineffectiveness. Neither the direction, nor the rate of the impact on the income statement can be predicted as it is influenced by external market factors. In FY20, ineffectiveness was \$1 million (FY19: nil) across these hedge relationships.

### Taxation

The FY20 effective tax rate is 29% (FY19: 32%). The reduction from FY19 is due to the re-introduction of building depreciation for tax, which resulted in a one-off reduction to tax expense of \$5 million. This was a government initiative to provide tax relief in response to the COVID-19 pandemic, refer to the taxation note in the FY20 financial statements (note 14) for further details. The effective tax rate is higher than the NZ company tax rate of 28% due to permanent differences between tax and accounting. Ongoing permanent differences arise from the tax treatment of CIP securities and Crown funding for the Rural Broadband Initiative (RBI).

The accounting interest and depreciation credit recognised in the Income statement in relation to CIP securities are non-taxable, as confirmed via binding rulings issued by Inland Revenue. RBI assets were funded by non-taxable government grants. The accounting amortisation of RBI government grants and RBI accounting depreciation recognised in the Income statement are non-taxable and tax depreciation is not claimed.



# Capital expenditure commentary

	2020 \$M	2019 \$M
Fibre	548	664
Copper	55	81
Common	60	59
<b>Gross capital expenditure</b>	<b>663</b>	<b>804</b>

Gross capital expenditure for FY20 was \$663 million. This was \$141 million lower than FY19 gross capital expenditure spend. Fibre spend reduced significantly following the conclusion of the UFB1 rollout in December 2019 and

the cessation of field work due to COVID-19 lockdown restrictions. Copper-related expenditure reduced by 32% year on year.

## Fibre capital expenditure

	2020 \$M	2019 \$M
UFB communal	170	245
Fibre connections and fibre layer 2 <sup>1</sup>	282	308
Fibre products and systems	14	17
Other fibre connections and growth	62	65
Customer retention	20	29
<b>Total fibre capital expenditure</b>	<b>548</b>	<b>664</b>

Fibre capital expenditure included spend specifically focused on fibre assets and represented approximately 83% of our FY20 gross capital expenditure, consistent with FY19.

The cost of the deployment of the UFB communal network for FY20 was \$170 million, including about \$145 million for the UFB2 rollout (FY19: \$105 million).

The average cost per UFB1 brownfields premises passed during the year was \$1,558, within FY20 guidance of \$1,500 to \$1,600.

Fibre connections and layer 2 spend was \$282 million. About 167,000 fibre installations were completed nationwide, with 27,000 for UFB2 customers. This activity was a reduction from 186,000 installations in FY19, largely due to COVID-19 lockdown restrictions.

About \$60 million was provided in upfront investment for 'backbone' network to enable the connection of multiple customers located along rights of way and multi-dwelling units.

The average cost per premises connected (CPPC) in UFB1 areas was \$1,022<sup>2</sup> which was at the lower end of the FY20 guidance range of \$1,000 to \$1,150. The CPPC in UFB2 areas was \$1,190<sup>2</sup> This was in line with the lower end of UFB2 programme guidance, which includes layer 2 and service desk costs, and backbone costs for multi-dwelling units and rights of way with 10 or fewer premises.

Customer retention costs decreased by \$9 million because of COVID-19 restrictions on connection activity which impacted planned targeted incentive campaigns.

1 Layer 2 equipment, such as gigabit capable passive optical network ports, is installed ahead of demand as the UFB footprint expands.

2 Excluding layer 2 and backbone costs for multi-dwelling units and rights of way, and including standard installations and some non-standard single dwellings and service desk costs.

## Copper capital expenditure

	2020 \$M	2019 \$M
Network sustain	31	44
Copper connections	1	2
Copper layer 2	7	12
Product fixed	–	1
Customer retention	16	22
<b>Total copper capital expenditure</b>	<b>55</b>	<b>81</b>

Copper capital expenditure decreased by \$26 million from FY19 reflecting the lower spend required as customer numbers on our copper network reduce.

Network sustain spend decreased by \$13 million as we realigned proactive copper network spend to reflect fibre uptake and weather-driven network replacement reduced.

Copper layer 2 spend reduced year on year because FY19 included additional investment in network capacity for the Rugby World Cup.

Customer retention costs reduced by \$6 million in line with declining uptake of copper broadband.

### Common capital expenditure

	2020 \$M	2019 \$M
Information technology	43	34
Building and engineering services	17	22
Other	-	3
<b>Total common capital expenditure</b>	<b>60</b>	<b>59</b>

Information technology increased by \$9 million as we developed integrated provisioning and assure platforms to support simplification and better customer outcomes.

Building and engineering services decreased by \$5 million as COVID-19 restrictions delayed planned work.

### Contributions to capital expenditure

We received \$7 million in contributions towards our gross capital expenditure. These contributions are included as part of Crown funding and represent instances where central or

local government authorities asked us to relocate or rebuild existing network.

## Long term capital management

We will pay a final dividend of 14 cents per share on 12 October 2020 to all holders registered at 5.00pm 15 September 2020. The shares will be quoted on an ex-dividend basis from 14 September 2020. The dividends paid will be fully imputed, at a ratio of 28/72, in line with the corporate income tax rate. In addition, a supplementary dividend of 2.47 cents per share will be payable to shareholders who are not resident in New Zealand.

The dividend reinvestment plan will remain in place for the final dividend at a discount rate of 2%. Shareholders who have previously elected to participate in the dividend reinvestment plan do not need to take any further action. For those shareholders who wish to participate, election notices to participate must be received by 5.00pm (NZ time) on 16 September 2020.

For FY21, Chorus expects to pay a dividend of 25 cents per share, subject to no material adverse changes in circumstance or outlook.

The Board's expectation is that, from FY22, Chorus will transition to a dividend policy based on a pay-out range of free cash flow.

The NZD Bond \$400 million is due for repayment in May 2021, and is therefore a current liability. Refinancing of this bond is planned for FY21. If refinancing was not achievable for any reason, bank debt facilities of \$550 million are available as an alternative option to use for repayment (\$30 million drawn down at 30 June 2020).

The Board considers that a 'BBB' or equivalent credit rating is appropriate for a company such as Chorus. It intends to maintain capital management and financial policies consistent with these credit ratings. At 30 June 2020, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.





## Financial statements

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# Independent auditor's report



## To the shareholders of Chorus Limited

### Report on the consolidated financial statements

#### Opinion

In our opinion, the accompanying consolidated financial statements of Chorus Limited (the 'company') and its subsidiaries (the 'Group') on pages 35 to 67:

- i. present fairly in all material respects the Group's financial position as at 30 June 2020, its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to regulatory audit services, tax compliance services and other assurance and advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

#### Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$8.7 million, determined with reference to a benchmark of Group revenue. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

#### The key audit matter

#### How the matter was addressed in our audit

#### Capitalisation of assets

Refer to Note 1 to the Financial Statements.

During the year ended 30 June 2020 the Group has \$620 million in network asset additions as it continues with its purpose of bringing better broadband to New Zealanders. Capitalisation of these costs and useful lives assigned to these assets are a key audit matter due to the significance of network assets to the Group's business, and due to the judgement involved in the:

Our audit procedures included:

- Examining that the controls to recognise capital projects in the fixed asset register and the approval of the asset life annual review are effective.
- Assessing the nature of costs incurred in capital projects by checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria.

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**The key audit matter****How the matter was addressed in our audit**

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**Capitalisation of assets (continued)**

- decision to capitalise or expense costs relating to the network. This decision depends on whether the expenditure is considered to enhance network capability (and therefore capital), or to maintain the current operating capability of the network (and therefore an expense);
  - estimation of the stage of completion of assets under construction; and
  - estimation of the useful life of the asset once the costs are capitalised. There is also judgment when estimating asset lives due to the uncertainty of the impact of technological change .
- Evaluating a sample of assets under construction in which no costs had been incurred in the final three months of the financial reporting period. We challenged the status of those assets under construction to determine whether they remained appropriately capitalised.
  - Assessing, on a sample basis, whether the accruals recorded for assets under construction were calculated in accordance with the progress of construction and the arrangements with external suppliers.
  - Assessing the useful economic lives of the assets, by comparing to our knowledge of the business and its operations and industry benchmarks.

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**Chorus funding**

Refer to Notes 4, 6, 7 and 19 to the Financial Statements.

The CIP securities and interest rate derivatives are a key audit matter due to their significance to the Group's consolidated statement of financial position. There is complexity and judgement involved in determining the appropriate valuation and accounting treatment for the interest rate derivatives and the CIP securities.

Our audit procedures to assess the valuation and accounting treatment for the Group's interest rate derivatives and CIP securities included:

- Our financial instrument specialists re-valuing all interest rate derivatives using valuation models and inputs independent from those utilised by management.
- Evaluating the hedge effectiveness of the interest rate derivatives hedging the GBP and EUR denominated Euro Medium Term Notes. In both instances, our financial instrument specialists assessed the effectiveness of these hedges by independently modelling the future changes in the value of these instruments to assess whether the underlying derivatives were effective.
- Assessing the accounting treatment of the CIP securities. We read the underlying loan agreement and analysed the various features of the loan agreement to determine whether the CIP securities were a debt or equity instrument.
- Evaluating the valuation of the CIP securities. Our valuation specialists assessed the methodology used by management for determining the amounts allocated to debt and government grant.
- Assessing the inputs used in the valuation of the CIP securities. On a sample basis we compared interest rates and credit spreads to independent sources of information to determine an acceptable range of valuation inputs.

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**Revenue recognition**

Refer to Note 9 to the Financial Statements.

Accuracy of revenue is considered to be a key audit matter due to the nature of the underlying billing processes that existed following the Chorus demerger from Spark in 2011.

There are certain legacy products where the billing is based on network consumption which cannot be easily linked to a physical end user connection. There is a risk that revenue billed on this basis may be disputed by Chorus' customers who have a different view of their consumption of the Chorus network.

Our audit procedures included:

- Evaluating the Group's recognition of revenue by assessing any revenue disputes recorded in the industry's dispute reporting tool by Chorus customers. We compared the disputes raised by Chorus customers to the revenue recorded by Chorus and checked a sample of settled disputes to the final settlement agreements.
- Independently confirming the accuracy of a sample of outstanding debtor balances with Chorus customers.
- Agreeing a sample of revenue adjustments recorded during the year to authorised credit notes.

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**Other information**

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information includes Chorus' operating, market and regulatory overviews, management commentary and disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

### Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards);
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Ed Loudon.

For and on behalf of



KPMG  
Wellington  
24 August 2020



# Income statement

For the year ended 30 June 2020

(Dollars in millions)	Notes	2020 \$M	2019 \$M
Operating revenue	9	959	970
Operating expenses	10	(311)	(334)
<b>Earnings before interest, income tax, depreciation and amortisation</b>		<b>648</b>	<b>636</b>
Depreciation	1	(319)	(303)
Amortisation	2	(83)	(90)
<b>Earnings before interest and income tax</b>		<b>246</b>	<b>243</b>
Finance income		12	10
Finance expense	4	(185)	(175)
<b>Net earnings before income tax</b>		<b>73</b>	<b>78</b>
Income tax expense	14	(21)	(25)
<b>Net earnings for the year</b>		<b>52</b>	<b>53</b>
<b>Earnings per share</b>			
Basic earnings per share (dollars)	17	0.12	0.12
Diluted earnings per share (dollars)	17	0.10	0.10

# Statement of comprehensive income

For the year ended 30 June 2020

(Dollars in millions)	Note	2020 \$M	2019 \$M
<b>Net earnings for the year</b>		<b>52</b>	<b>53</b>
<b>Other comprehensive income</b>			
<b>Items that will be reclassified subsequently to Income statement when specific conditions are met net of tax</b>			
Movements in effective cash flow hedges	19	(28)	(45)
Amortisation of de-designated cash flow hedges transferred to Income statement	19	(3)	(2)
Movement in cost of hedging reserve	19	3	–
<b>Other comprehensive income net of tax</b>		<b>(28)</b>	<b>(47)</b>
<b>Total comprehensive income for the year net of tax</b>		<b>24</b>	<b>6</b>

The accompanying notes are an integral part of these financial statements.

# Statement of financial position

As at 30 June 2020

(Dollars in millions)	Notes	2020 \$M	2019 \$M
<b>Current assets</b>			
Cash and call deposits	15	–	273
Income tax receivable		20	11
Trade and other receivables	11	140	140
Derivative financial instruments	19	2	3
Finance lease receivable	5	3	6
<b>Total current assets</b>		<b>165</b>	<b>433</b>
<b>Non-current assets</b>			
Derivative financial instruments	19	93	56
Trade and other receivables	11	1	7
Deferred tax receivable	14	116	101
Customer retention assets	3	56	61
Software and other intangible assets	2	159	137
Network assets	1	5,052	4,823
<b>Total non-current assets</b>		<b>5,477</b>	<b>5,185</b>
<b>Total assets</b>		<b>5,642</b>	<b>5,618</b>
<b>Current liabilities</b>			
Cash overdraft	15	5	–
Trade and other payables	12	279	360
Income tax payable		–	2
Lease payable	5	9	8
Derivative financial instruments	19	–	197
Debt	4	430	491
<b>Total current liabilities excluding Crown funding</b>		<b>723</b>	<b>1,058</b>
Crown funding	7	26	25
<b>Total current liabilities</b>		<b>749</b>	<b>1,083</b>
<b>Non-current liabilities</b>			
Trade and other payables	12	3	–
Deferred tax payable	14	350	326
Derivative financial instruments	19	148	91
Lease payable	5	257	246
Debt	4	1,892	1,741
<b>Total non-current liabilities excluding CIP and Crown funding</b>		<b>2,650</b>	<b>2,404</b>
Crown Infrastructure Partners (CIP) securities	6	461	355
Crown funding	7	855	797
<b>Total non-current liabilities</b>		<b>3,966</b>	<b>3,556</b>
<b>Total liabilities</b>		<b>4,715</b>	<b>4,639</b>
<b>Equity</b>			
Share capital	16	666	638
Reserves	19	(111)	(83)
Retained earnings		372	424
<b>Total equity</b>		<b>927</b>	<b>979</b>
<b>Total liabilities and equity</b>		<b>5,642</b>	<b>5,618</b>

The accompanying notes are an integral part of these financial statements.

The financial statements are approved and signed on behalf of the Board.

  
**Patrick Strange**  
 Chair

Authorised for issue on 24 August 2020

  
**Mark Cross**

Chair, Audit and Risk Management Committee

# Statement of changes in equity

For the year ended 30 June 2020

(Dollars in millions)	Notes	Share capital \$M	Retained earnings \$M	Hedging-related reserves \$M	Total \$M
<b>Balance at 1 July 2018</b>		<b>590</b>	<b>468</b>	<b>(36)</b>	<b>1,022</b>
<b>Comprehensive income</b>					
Net earnings for the year		–	53	–	53
<b>Other comprehensive income</b>					
Movement in cash flow hedge reserve	19	–	–	(45)	(45)
Amortisation of de-designated cash flow hedges transferred to income statement	19	–	–	(2)	(2)
<b>Total comprehensive income</b>		<b>–</b>	<b>53</b>	<b>(47)</b>	<b>6</b>
<b>Contributions by and (distributions to) owners:</b>					
Dividends	16	–	(97)	–	(97)
Supplementary dividends		–	(12)	–	(12)
Tax credit on supplementary dividends		–	12	–	12
Dividend reinvestment plan	16	48	–	–	48
<b>Total transactions with owners</b>		<b>48</b>	<b>(97)</b>	<b>–</b>	<b>(49)</b>
<b>Balance at 30 June 2019</b>		<b>638</b>	<b>424</b>	<b>(83)</b>	<b>979</b>
<b>Comprehensive income</b>					
Net earnings for the year		–	52	–	52
<b>Other comprehensive income</b>					
Movement in cash flow hedge reserve	19	–	–	(28)	(28)
Amortisation of de-designated cash flow hedges transferred to income statement	19	–	–	(3)	(3)
Movement in cost of hedging reserve	19	–	–	3	3
<b>Total comprehensive income</b>		<b>–</b>	<b>52</b>	<b>(28)</b>	<b>24</b>
<b>Contributions by and (distributions to) owners:</b>					
Dividends	16	–	(104)	–	(104)
Supplementary dividends		–	(12)	–	(12)
Tax credit on supplementary dividends		–	12	–	12
Dividend reinvestment plan	16	28	–	–	28
<b>Total transactions with owners</b>		<b>28</b>	<b>(104)</b>	<b>–</b>	<b>(76)</b>
<b>Balance at 30 June 2020</b>		<b>666</b>	<b>372</b>	<b>(111)</b>	<b>927</b>

The accompanying notes are an integral part of these financial statements.

# Statement of cash flows

For the year ended 30 June 2020

(Dollars in millions)	Notes	2020 \$M	2019 \$M
<b>Cash flows from operating activities</b>			
<i>Cash was provided from/(applied to):</i>			
Cash received from customers		940	966
Finance income		12	1
Payment to suppliers and employees		(329)	(339)
Taxation paid		(12)	(3)
Interest paid		(137)	(129)
<b>Net cash flows provided from operating activities</b>		<b>474</b>	<b>496</b>
<b>Cash flows applied to investing activities</b>			
<i>Cash was applied to:</i>			
Purchase of network and intangible assets		(679)	(806)
Capitalised interest paid		(3)	(4)
<b>Net cash flows applied to investing activities</b>		<b>(682)</b>	<b>(810)</b>
<b>Cash flows from financing activities</b>			
<i>Cash was provided from/(applied to):</i>			
Net outflow from leases		(23)	(21)
Crown funding (including CIP securities)		162	167
Proceeds from debt		544	500
Repayment of debt		(677)	(60)
Dividends paid		(76)	(49)
<b>Net cash flows applied to financing activities</b>		<b>(70)</b>	<b>537</b>
<b>Net cash flows</b>		<b>(278)</b>	<b>223</b>
Cash at the beginning of the year		273	50
<b>Cash at the end of the year</b>	15	<b>(5)</b>	<b>273</b>

## Reconciliation of net earnings to net cash flows from operating activities

(Dollars in millions)	Notes	2020 \$M	2019 \$M
<b>Net earnings for the year</b>		<b>52</b>	<b>53</b>
<i>Adjustment for:</i>			
Depreciation charged on network assets	1	346	328
Amortisation of Crown funding	1	(27)	(25)
Amortisation of software and other intangible assets	2	49	56
Amortisation of customer retention assets	3	40	35
Deferred income tax	14	11	18
Ineffective portion of changes in fair value of cash flow hedges	4	3	6
Amortisation of non cash finance expenses		(5)	(3)
CIP securities (notional) interest	4	29	22
Other		(7)	2
		<b>491</b>	<b>492</b>
<i>Change in current assets and liabilities:</i>			
Decrease/(increase) in trade and other receivables	11	6	(4)
(Decrease)/increase in trade payables	12	(12)	5
(Increase)/decrease in tax receivable		(9)	4
Decrease in tax liability		(2)	(1)
		<b>(17)</b>	<b>4</b>
<b>Net cash flows from operating activities</b>		<b>474</b>	<b>496</b>

The accompanying notes are an integral part of these financial statements.

## Reconciliation of movements of liabilities to cash flows arising from financing activities

(Dollars in millions)	Debt \$M	Crown funding \$M	CIP securities \$M	Lease payable (net) \$M	Share capital \$M	Retained earnings \$M
<b>Balance at 1 July 2018</b>	<b>1,807</b>	<b>758</b>	<b>273</b>	<b>238</b>	<b>590</b>	<b>468</b>
<b>Movements from cash flows</b>						
Payment of lease liabilities	–	–	–	(21)	–	–
Proceeds from funding	500	95	72	–	–	–
Proceeds from repayment of borrowings	(60)	–	–	–	–	–
Dividends paid	–	–	–	–	–	(49)
<b>Total changes from financing cash flows</b>	<b>440</b>	<b>95</b>	<b>72</b>	<b>(21)</b>	<b>–</b>	<b>(49)</b>
<b>Non-cash movements</b>						
Movements in fair value (including foreign exchange rates)	(10)	–	–	–	–	–
Transaction costs and amortisation related to financing	(5)	(25)	22	–	–	–
Accruals	–	(6)	(12)	–	–	–
Dividend reinvestment plan	–	–	–	–	48	(48)
Lease additions	–	–	–	31	–	–
Net earnings for the year ended 30 June 2019	–	–	–	–	–	53
<b>Balance at 30 June 2019</b>	<b>2,232</b>	<b>822</b>	<b>355</b>	<b>248</b>	<b>638</b>	<b>424</b>
<b>Movements from cash flows</b>						
Payment of lease liabilities	–	–	–	(23)	–	–
Proceeds from funding	544	85	77	–	–	–
Repayment of borrowings	(677)	–	–	–	–	–
Dividends paid	–	–	–	–	–	(76)
<b>Total changes from financing cash flows</b>	<b>(133)</b>	<b>85</b>	<b>77</b>	<b>(23)</b>	<b>–</b>	<b>(76)</b>
<b>Non-cash movements</b>						
Movements in fair value (including foreign exchange rates)	224	–	–	–	–	–
Transaction costs and amortisation related to financing	(1)	(29)	29	–	–	–
Accruals	–	3	–	–	–	–
Dividend reinvestment plan	–	–	–	–	28	(28)
Lease additions	–	–	–	38	–	–
Net earnings for the year ended 30 June 2020	–	–	–	–	–	52
<b>Balance at 30 June 2020</b>	<b>2,322</b>	<b>881</b>	<b>461</b>	<b>263</b>	<b>666</b>	<b>372</b>

The accompanying notes are an integral part of these financial statements.

# Notes to the financial statements

## Reporting entity and statutory base

Chorus includes Chorus Limited together with its subsidiaries.

Chorus is New Zealand's largest fixed line communications infrastructure business. It maintains and builds a network predominantly made up of fibre and copper cables, local telephone exchanges and cabinets.

Chorus Limited is a profit-oriented company registered in New Zealand under the Companies Act 1993 and is a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Chorus Limited was established as a standalone, publicly listed entity on 1 December 2011, upon its demerger from Spark New Zealand Limited (Spark, previously Telecom Corporation of New Zealand Limited). The demerger was a condition of an agreement with Crown Infrastructure Partners Limited (previously Crown Fibre Holdings) to enable Chorus Limited to provide the majority of the Crown's Ultra-Fast Broadband (UFB). Chorus Limited is listed and its ordinary shares are quoted on the NZX main board equity security market (NZX Main Board) and on the Australian Stock Exchange (ASX) and has bonds quoted on the NZX and ASX debt markets. American Depositary Shares, each representing five ordinary shares (and evidenced by American Depositary Receipts), are not listed but are traded on the over-the-counter market in the United States.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and Part 7 of the Financial Markets Conduct Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and with International Financial Reporting Standards.

These financial statements are expressed in New Zealand dollars. All financial information has been rounded to the nearest million, unless otherwise stated.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of financial instruments as identified in the specific accounting policies below and the accompanying notes.

The Directors have considered the impact of the COVID-19 pandemic on these financial statements and note no material impact to the going concern basis on which they are prepared.

## Accounting policies and standards

Accounting policies that summarise the measurement basis used which are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted and methods of computation have been applied consistently throughout the periods presented in these financial statements.

## Reclassification and re-statement of comparatives

Where management have reclassified items in the financial statements, the related comparative disclosures have been adjusted to provide a like-for-like comparison.

## Accounting estimates and judgements

In preparing the financial statements, management has made estimates and assumptions about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated and are based on experience and other factors, including macro-economic and market factors, and expectations of future events that may have an impact on Chorus. All judgements, estimates, and assumptions are believed to be reasonable based on the most current set of circumstances available to Chorus. The principal areas of judgement in preparing these financial statements are set out below.

### Network assets (note 1)

Assessing the carrying value of network assets for impairment considerations which includes assessing the appropriateness of useful life and residual value estimates of network assets, the physical condition of the asset, technological advances, regulation and expected disposal proceeds from the future sale of the asset.

### Customer retention assets (note 3)

Assessing the carrying value of customer retention assets for impairment considerations which includes assessing the appropriateness of useful life, contract terms, revenue and customer connections data.

### Crown Infrastructure Partners (CIP) securities (note 6)

Determining the fair value of the CIP securities requires assumptions on expected future cash flows and discount rates based on future long dated swap curves.

### Financial risk management (note 19 & 20)

Accounting judgements have been made in determining hedge designation and the fair value of derivatives and borrowings. The fair value of derivatives and borrowing are determined based on valuation models that use forward-looking estimates and market observable data, to the extent that it is available.

## Note 1 – Network assets

In the Statement of financial position, network assets are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of additions to network assets and work in progress constructed by Chorus includes the cost of all materials used in construction, direct labour costs specifically associated with construction, interest costs that are attributable to the asset, resource management consent costs and attributable overheads.

Repairs and maintenance costs are recognised in the Income statement as incurred. If the useful life of the asset is extended or the asset is enhanced then the associated costs are capitalised.

### Estimating useful lives and residual values of network assets

The determination of the appropriate useful life for a particular asset requires management to make judgements about, amongst other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of Chorus ceasing to use the asset in business operations.

Where an item of network assets comprises major components having different useful lives, the components are accounted for as separate items of network assets.

Where the remaining useful lives or recoverable values have diminished due to technological, regulatory or market condition changes, depreciation is accelerated. The assets' residual values, useful lives, and methods of depreciation are reviewed annually and adjusted prospectively, if appropriate.

Depreciation is charged on a straight-line basis to write down the cost of network assets to their estimated residual value over their estimated useful life.

### Estimated useful lives are as follows:

Fibre cables	20 years
Ducts, manholes and poles	20–50 years
Copper cables	10–30 years
Cabinets	5–20 years
Property	5–50 years
Network electronics	2–25 years
Right of use (leases)	10–50 years
Other	2–10 years

Other network assets include motor vehicles, test instruments and tools and plant.

Any future adverse impacts arising from assessing the carrying value or lives of network assets could lead to future impairment losses or increases in depreciation charges that could affect future earnings.

An item of network assets and any significant part is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Where network assets are disposed of, the profit or loss recognised in the Income statement is calculated as the difference between the sale price and the carrying value of the asset.

Leased assets and corresponding liabilities are recognised as 'right of use' assets and depreciated over the life of the lease.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Land and work in progress are not depreciated. Work in progress is reviewed on a regular basis to ensure that costs represent future assets.



## Note 1 – Network assets (cont.)

30 June 2020	Fibre cables \$M	Ducts, manholes, and poles \$M	Copper cables \$M	Cabinets \$M	Property \$M	Network electronics \$M	Right of use assets \$M	Other \$M	Work in progress \$M	Total \$M
<b>Cost</b>										
Balance at 1 July 2019	2,044	2,498	2,394	661	420	1,778	275	5	215	10,290
Additions	231	256	15	32	17	56	13	–	248	868
Disposals	–	–	–	–	(2)	(23)	–	–	–	(25)
Transfers from work in progress	–	–	–	–	–	–	–	–	(297)	(297)
Other	1	–	–	–	–	–	4	–	–	5
<b>Balance at 30 June 2020</b>	<b>2,276</b>	<b>2,754</b>	<b>2,409</b>	<b>693</b>	<b>435</b>	<b>1,811</b>	<b>292</b>	<b>5</b>	<b>166</b>	<b>10,841</b>
<b>Accumulated depreciation</b>										
Balance at 1 July 2019	(627)	(605)	(1,988)	(436)	(262)	(1,497)	(50)	(2)	–	(5,467)
Depreciation	(103)	(54)	(60)	(37)	(15)	(62)	(14)	(1)	–	(346)
Disposals	–	–	–	–	2	22	–	–	–	24
Other	1	–	–	–	–	–	–	(1)	–	–
<b>Balance at 30 June 2020</b>	<b>(729)</b>	<b>(659)</b>	<b>(2,048)</b>	<b>(473)</b>	<b>(275)</b>	<b>(1,537)</b>	<b>(64)</b>	<b>(4)</b>	<b>–</b>	<b>(5,789)</b>
<b>Net carrying amount</b>	<b>1,547</b>	<b>2,095</b>	<b>361</b>	<b>220</b>	<b>160</b>	<b>274</b>	<b>228</b>	<b>1</b>	<b>166</b>	<b>5,052</b>

30 June 2019	Fibre cables \$M	Ducts, manholes, and poles \$M	Copper cables \$M	Cabinets \$M	Property \$M	Network electronics \$M	Right of use assets \$M	Other \$M	Work in progress \$M	Total \$M
<b>Cost</b>										
Balance at 1 July 2018	1,782	2,228	2,384	620	404	1,735	261	5	207	9,626
Additions	263	270	17	41	20	81	16	–	711	1,419
Disposals	(1)	–	(7)	–	(6)	(38)	(2)	–	–	(54)
Transfers from work in progress	–	–	–	–	–	–	–	–	(708)	(708)
Other	–	–	–	–	2	–	–	–	5	7
<b>Balance at 30 June 2019</b>	<b>2,044</b>	<b>2,498</b>	<b>2,394</b>	<b>661</b>	<b>420</b>	<b>1,778</b>	<b>275</b>	<b>5</b>	<b>215</b>	<b>10,290</b>
<b>Accumulated depreciation</b>										
Balance at 1 July 2018	(538)	(557)	(1,934)	(395)	(251)	(1,475)	(35)	(2)	–	(5,187)
Depreciation	(90)	(48)	(61)	(41)	(15)	(60)	(13)	–	–	(328)
Disposals	1	–	7	–	5	38	(2)	–	–	49
Other	–	–	–	–	(1)	–	–	–	–	(1)
<b>Balance at 30 June 2019</b>	<b>(627)</b>	<b>(605)</b>	<b>(1,988)</b>	<b>(436)</b>	<b>(262)</b>	<b>(1,497)</b>	<b>(50)</b>	<b>(2)</b>	<b>–</b>	<b>(5,467)</b>
<b>Net carrying amount</b>	<b>1,417</b>	<b>1,893</b>	<b>406</b>	<b>225</b>	<b>158</b>	<b>281</b>	<b>225</b>	<b>3</b>	<b>215</b>	<b>4,823</b>

There are no restrictions on Chorus' network assets or any network assets pledged as securities for liabilities. At 30 June 2020 the contractual commitments for acquisition and construction of the network assets was \$196 million (30 June 2019: \$300 million).

## Note 1 – Network assets (cont.)

### Depreciation

	2020 \$M	2019 \$M
Depreciation charged on network assets	346	328
Crown funding	(27)	(25)
<b>Total depreciation</b>	<b>319</b>	<b>303</b>

Chorus receives funding from the Crown to finance the capital expenditure associated with the development of the UFB network, rural broadband services and other services. Where funding is used to construct assets, it is offset against depreciation over the life of the assets constructed.

Refer to note 7 for information on Crown funding.

### Property exchanges

Chorus has leased exchange space and commercial co-location space owned by Spark which is subject to lease arrangements (included within right of use assets). Chorus in turn leases exchange space and commercial co-location space owned by Chorus to Spark under a finance lease arrangement.

For sites that it does not own, Chorus recognises its share of the assets based on occupancy percentage, as well as a liability for the future payments due. For sites that it does own, Chorus derecognises the share of the asset used by Spark, as well as recognising a receivable for the future receipts due.

### Impairment

The carrying amounts of non-financial assets including network assets, software and other intangibles and customer retention assets are reviewed at the end of each reporting period for any indicators of impairment.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised in earnings whenever the carrying amount of an asset exceeds its estimated recoverable amount. Should the conditions that gave rise to the impairment loss no longer exist, and the assets are no longer considered to be impaired, a reversal of an impairment loss would be recognised immediately in earnings. In the period to 30 June 2020, there was no impairment in relation to the costs capitalised (30 June 2019: no impairment).

The recoverable amount is the greater of an assets value in use and fair value less costs to sell. Chorus' assets do not generate independent cash flows and are therefore assessed from a single cash-generating unit perspective. In assessing the recoverable amount, the estimates of future cash flows are discounted to their net present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the business.

### Capitalised interest

Finance costs are capitalised on qualifying items of network assets and software assets at an annualised rate of 5.8% (30 June 2019: 6.0%). Interest is capitalised over the period required to complete the assets and prepare them for their intended use. In the current year finance costs totalling \$3 million (30 June 2019: \$4 million) have been capitalised against network assets and software assets.

### Right of use assets

	Fibre cables \$M	Ducts, manholes, and poles \$M	Property \$M	Total \$M
Balance 1 July 2018 (net)	9	26	191	226
Additions	1	10	5	16
Relinquishments	–	–	(4)	(4)
Depreciation charge	(1)	(2)	(10)	(13)
<b>Balance at 30 June 2019</b>	<b>9</b>	<b>34</b>	<b>182</b>	<b>225</b>
Additions	–	10	7	17
Depreciation charge	–	(2)	(12)	(14)
<b>Balance at 30 June 2020</b>	<b>9</b>	<b>42</b>	<b>177</b>	<b>228</b>

Right of use assets are the present value of leases held by Chorus as a lessee, as defined in the accounting policies. Leases are capitalised at the present value of the minimum lease payments at inception of the lease.

Chorus has applied a single discount rate to a portfolio of leases across the two main portfolios of leases ('Property' and 'Ducts, manholes, and poles') due to the long term usage nature of the underlying assets used to service the same network. This is reflective of the longer term nature of infrastructure assets. The nature of these assets are similar enough that borrowing rates on commercial debt would not change asset to asset. The incremental borrowing rate is reviewed annually.

## Note 2 – Software and other intangible assets

Software and other intangible assets are initially measured at cost. The direct costs associated with the development of network and business software for internal use are capitalised where project success is probable and the capitalisation criteria is met. Following initial recognition, software and other intangible assets are stated at cost less accumulated amortisation and impairment losses. Software and other intangible assets with a finite life are amortised from the date the asset is ready for use on a straight-line basis over its estimated useful life which is as follows:

Software	2–10 years
Other intangibles	6–35 years

Other intangibles mainly consist of land easements.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated.

There are no restrictions on software and other intangible assets, or any intangible assets pledged as securities for liabilities.

30 June 2020	Software \$M	Other intangibles \$M	Work in progress \$M	Total \$M
<b>Cost</b>				
Balance at 1 July 2019	752	6	23	781
Additions	52	–	69	121
Disposals	(16)	–	–	(16)
Transfers from work in progress	–	–	(50)	(50)
<b>Balance at 30 June 2020</b>	<b>788</b>	<b>6</b>	<b>42</b>	<b>836</b>
<b>Accumulated amortisation</b>				
Balance at 1 July 2019	(643)	(1)	–	(644)
Amortisation	(49)	–	–	(49)
Disposals	16	–	–	16
<b>Balance at 30 June 2020</b>	<b>(676)</b>	<b>(1)</b>	<b>–</b>	<b>(677)</b>
<b>Net carrying amount</b>	<b>112</b>	<b>5</b>	<b>42</b>	<b>159</b>

30 June 2019	Software \$M	Other intangibles \$M	Work in progress \$M	Total \$M
<b>Cost</b>				
Balance at 1 July 2018	694	6	28	728
Additions	58	–	53	111
Disposals	–	–	–	–
Transfers from work in progress	–	–	(58)	(58)
<b>Balance at 30 June 2019</b>	<b>752</b>	<b>6</b>	<b>23</b>	<b>781</b>
<b>Accumulated amortisation</b>				
Balance at 1 July 2018	(587)	(1)	–	(588)
Amortisation	(56)	–	–	(56)
Disposals	–	–	–	–
<b>Balance at 30 June 2019</b>	<b>(643)</b>	<b>(1)</b>	<b>–</b>	<b>(644)</b>
<b>Net carrying amount</b>	<b>109</b>	<b>5</b>	<b>23</b>	<b>137</b>

At 30 June 2020 the contractual commitment for acquisition of software and other intangible assets was \$8 million (30 June 2019: \$9 million).

### Amortisation

	Note	2020 \$M	2019 \$M
Amortisation charged on software and intangible assets		49	56
Amortisation charged on customer retention assets	3	34	34
<b>Total amortisation</b>		<b>83</b>	<b>90</b>

### Note 3 – Customer retention assets

Customer retention costs are incremental costs incurred in acquiring new contracts with new and existing customers that Chorus expects are recoverable and are capitalised as customer retention assets. Following initial recognition, customer retention assets are stated at cost less accumulated amortisation and impairment losses. Customer retention assets have a finite life and are amortised from the month that costs are capitalised on a straight-line basis over the average connection life which is as follows:

New connections and migrations	0–4 years
Customer incentives	1 year

	New connections and migrations \$M	Customer incentives \$M	Total \$M
<b>30 June 2020</b>			
<b>Cost</b>			
Balance at 1 July 2019	145	5	150
Additions	31	4	35
<b>Balance at 30 June 2020</b>	<b>176</b>	<b>9</b>	<b>185</b>
<b>Accumulated amortisation</b>			
Balance at 1 July 2019	(88)	(1)	(89)
Amortisation	(34)	(6)	(40)
<b>Balance at 30 June 2020</b>	<b>(122)</b>	<b>(7)</b>	<b>(129)</b>
<b>Net carrying amount</b>	<b>54</b>	<b>2</b>	<b>56</b>
<b>30 June 2019</b>			
<b>Cost</b>			
Balance at 1 July 2018	96	–	96
Additions	49	5	54
<b>Balance at 30 June 2019</b>	<b>145</b>	<b>5</b>	<b>150</b>
<b>Accumulated amortisation</b>			
Balance at 1 July 2018	(54)	–	(54)
Amortisation	(34)	(1)	(35)
<b>Balance at 30 June 2019</b>	<b>(88)</b>	<b>(1)</b>	<b>(89)</b>
<b>Net carrying amount</b>	<b>57</b>	<b>4</b>	<b>61</b>

#### Amortisation of customer retention assets

Customer retention assets are amortised to the Income statement, either as amortisation expense or operating revenue, based on the nature of the specific costs capitalised.

	Note	2020 \$M	2019 \$M
Amortised to amortisation expense	2	34	34
Amortised to operating revenue		6	1
<b>Total customer retention assets amortisation</b>		<b>40</b>	<b>35</b>

## Note 4 – Debt

Debt is classified as non-current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

Debt is initially measured at fair value, less any transaction costs that are directly attributable to the issue of the instruments.

Debt is subsequently measured at amortised cost using the

effective interest method. Some borrowings are designated in fair value hedge relationships, which means that any change in market interest and foreign exchange rates result in a change in the fair value adjustment on that debt.

The weighted effective interest rate on debt including the effect of derivative financial instruments was 5.16% (30 June 2019: 5.75%).

	Due date	2020 \$M	2019 \$M
Syndicated bank facilities	Sep 2020	30	–
Euro medium term notes GBP	Apr 2020	–	491
Euro medium term notes EUR	Oct 2023	883	858
Euro medium term notes EUR	Dec 2026	527	–
Fixed rate NZD Bonds	May 2021	400	400
Fixed rate NZD Bonds	Dec 2028	500	500
Less: facility fees		(18)	(17)
<b>Total Debt</b>		<b>2,322</b>	<b>2,232</b>
<b>Current</b>		<b>430</b>	<b>491</b>
<b>Non-current</b>		<b>1,892</b>	<b>1,741</b>

### Syndicated bank facilities

As at 30 June 2020 Chorus had \$550 million committed syndicated facilities on market standard terms and conditions (30 June 2019: \$550 million). In April 2020, \$490 million of facilities were extended by a year.

The facilities are split into 3 tranches:

- \$60 million which expires in May 2022. At 30 June 2020 there was \$5 million drawn down on this tranche.

- \$290 million which now expires in May 2023. At 30 June 2020 there was \$25 million drawn down on this tranche.
- \$200 million which now expires in May 2025.

The amount undrawn of the syndicated bank facilities that are available for future operating activities is \$520 million (30 June 2019: \$550 million). The syndicated bank facilities are held with bank and institutional counterparties rated - A to AAA, based on rating agency Standard & Poor's ratings.

### Euro Medium Term Notes (EMTN)

Face value	Interest rate	2020 \$M	2019 \$M
GBP 260 million	6.75%	–	491
EUR 500 million	1.13%	883	858
EUR 300 million	0.88%	527	–

Chorus has in place cross currency interest rate swaps to hedge the foreign currency exposure to the EMTN. The cross currency interest rate swaps entitle Chorus to receive EUR principal and EUR fixed coupon payments for NZD principal and NZD floating interest payments. The EUR cross currency interest rate swaps are partially hedged for the NZD interest payments using interest rate swaps (notional amount \$800 million).

For the GBP EMTN cross currency interest rate swaps, the floating interest rate exposure on the NZD interest payments were hedged using interest rate swaps. The EUR 500 EMTN cross

currency interest rate swaps are partially hedged for the NZD interest payments using interest rate swaps (notional amount \$500 million). The EUR 300 cross currency interest rate swaps are also partially hedged for the NZD interest payments using an interest rate swap (notional amount \$300 million).

The following table reconciles EMTN at hedged rates to EMTN carrying value based on spot rates, as reported under NZ IFRS. EMTN at hedged rates is a non-GAAP measure and is not defined by NZ IFRS:

	2020 EUR 300 \$M	2019 EUR 300 \$M	2020 EUR 500 \$M	2019 EUR 500 \$M	2020 GBP \$M	2019 GBP \$M
EMTN (at carrying value)	527	–	883	858	–	491
Impact of fair value hedge	(5)	–	(12)	(12)	–	–
Impact of hedged rates used	(8)	–	(86)	(61)	–	186
<b>EMTN at hedged rates</b>	<b>514</b>	<b>–</b>	<b>785</b>	<b>785</b>	<b>–</b>	<b>677</b>

## Note 4 – Debt (cont.)

The fair value of EMTN, calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date, was \$881 million (30 June 2019: \$882 million) compared to a carrying value of \$883 million (30 June 2019: \$858 million) for the EUR 500 EMTN; \$539 million

(30 June 2019: nil) compared to a carrying value of \$527 million (30 June 2019: nil) for the EUR 300 EMTN; and nil fair value and carrying value (30 June 2019: \$518 million, \$491 million) for the GBP EMTN at balance date. This fair value has been determined using Level 2 of the fair value hierarchy as described in note 20.

### Fixed rate NZD bonds

	Due date	Interest rate	2020 \$M	2019 \$M
Fixed rate NZD Bonds	May 2021	4.12%	400	400
Fixed rate NZD Bonds	Dec 2028	4.35%	500	500
<b>Total fixed rate NZD bonds</b>			<b>900</b>	<b>900</b>

At 30 June 2020, Chorus had \$900 million of unsecured, unsubordinated debt securities (30 June 2019: \$900 million).

### Schedule of maturities

	2020 \$M	2019 \$M
Current	430	491
Due one to two years	–	400
Due two to three years	–	–
Due three to four years	883	–
Due four to five years	–	858
Due over five years	1,027	500
<b>Total due</b>	<b>2,340</b>	<b>2,249</b>
Less: facility fees	(18)	(17)
	<b>2,322</b>	<b>2,232</b>

No debt has been secured against assets. However, there are financial covenants and event of default triggers, as defined in the various debt agreements. During the current year

Chorus complied with the requirements set out in its financing agreements (30 June 2019: complied).

Refer to note 20 for information on financial risk management.

### Finance expense

	2020 \$M	2019 \$M
Interest on syndicated bank facility	5	5
Interest on EMTN - GBP	40	53
Interest on EMTN - EUR	44	39
Interest on fixed rate NZD bonds	40	31
Fair value adjustment on interest rate swap not in hedge relationship	–	(3)
Ineffective portion of changes in fair value of cash flow hedges	3	6
Other interest expense	27	26
Capitalised interest	(3)	(4)
<b>Total finance expense excluding CIP securities (notional) interest</b>	<b>156</b>	<b>153</b>
CIP securities (notional) interest	29	22
<b>Total finance expense</b>	<b>185</b>	<b>175</b>

Other interest expense includes \$21 million lease interest expense (30 June 2019: \$20 million), \$5 million of amortisation arising from the difference between fair value and proceeds realised from the swaps reset (30 June 2019: \$3 million), \$1 million cost to restructure interest rate swaps (30 June 2019: \$2 million).

The GBP EMTN hedging relationship was reset with a fair value of \$49 million on 9 December 2013 following the close out of the interest rate swaps relating to the EMTN. Ineffectiveness of \$2 million (30 June 2019: \$6 million) flowed through interest expense relating to the amortisation of this reset. The GBP EMTN was repaid and settled on 6 April 2020 and all related amounts held in the cash flow hedge reserve flowed to the Income statement over the life of the debt (30 June 2019: \$2 million remained).



## Note 4 – Debt (cont.)

As long as the existing hedge relationships remain effective, any future gains or losses will be processed through the hedge equity reserves. Minor differences in the hedged values will flow to finance expense in the income statement over the life of the derivatives as ineffectiveness. Neither the direction, nor the rate

of the impact on the income statement can be predicted as it is influenced by external market factors. Ineffectiveness was \$1 million (30 June 2019: nil) across the other hedge relationships (refer note 19).

## Note 5 – Leases

Chorus is a lessee and lessor of certain network assets under lease arrangements. For all leases Chorus recognises assets and liabilities in the Statement of financial position, except those determined to be short-term or low value. On inception of a new lease, the lease payable is measured at the present value of the remaining lease payments, discounted at Chorus' incremental borrowing rate at that date. Practical expedients within

NZ IFRS 16 Leases have been applied to allow a single discount rate to a portfolio of leases with similar characteristics. Lease costs are recognised through interest expense over the life of the lease. The corresponding right of use asset incurs depreciation over the estimated useful life of the asset.

### Lease Liabilities

	2020 \$M	2019 \$M
<b>Liabilities</b>		
<b>Maturity analysis - contractual discounted cash flows</b>		
Less than one year	9	8
Between one and five years	36	30
More than five years	221	216
<b>Total lease payable</b>	<b>266</b>	<b>254</b>
<b>Current</b>	<b>9</b>	<b>8</b>
<b>Non-current</b>	<b>257</b>	<b>246</b>
	2020 \$M	2019 \$M
<i>Amounts recognised in Income statement:</i>		
Interest on lease payable	21	20
	2020 \$M	2019 \$M
<i>Amounts recognised in Statement of cash flows:</i>		
Principal payments (net)	(8)	(2)
Lease interest (net)	(15)	(19)

### Extension options

Most leases contain extension options exercisable by Chorus up to one year before the end of the non-cancellable contract period. Where practicable, Chorus seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by Chorus and not by the lessors. Chorus assesses at lease commencement

whether it is reasonably certain the extension options will be exercised, and where it is reasonably certain, the extension period has been included in the lease liability calculation. Chorus reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

	Lease liabilities recognised (discounted) 2020 \$M	Potential future lease payments not included in lease liabilities (discounted) 2020 \$M	Lease liabilities recognised (discounted) 2019 \$M	Potential future lease payments not included in lease liabilities (discounted) 2019 \$M
Fibre cables	9	–	10	–
Ducts, manholes and poles	45	1	35	1
Property	212	–	209	–
<b>Total Lease Payable</b>	<b>266</b>		<b>254</b>	

### Other leases

Chorus also leases IT equipment with contract terms of one to three years. These leases are of low value. Chorus has elected not to recognise right of use assets and lease liabilities for these leases.

### Lease receivable

Chorus has leased exchange space and commercial co-location space owned by Spark. Chorus in turn leases exchange space and commercial co-location space to Spark under finance lease arrangements. The term of the leases varies from three to ten years and include rights of renewal.

## Note 5 – Leases (cont.)

The full term has been used in the calculation of finance lease receivables as it is likely due to the specialised nature of the buildings that the leases will be renewed to the maximum term. The payable and receivable under these finance lease arrangements are net settled in cash.

Lease income from lease contracts in which Chorus acts as a lessor is as below:

	2020 \$M	2019 \$M
<b>Finance leases</b>		
Finance income on the net investment in the lease	3	8

The following table sets out a maturity analysis of lease payments receivable:

	2020 \$M	2019 \$M
Less than one year	3	6
One to two years	–	4
<b>Total lease receivable</b>	<b>3</b>	<b>10</b>

Non-current lease payables are shown net of non-current lease receivable.

## Note 6 – Crown Infrastructure Partners (CIP) securities

### Ultra-Fast Broadband (UFB)

Chorus receives Crown funding to finance construction costs associated with the development of the UFB network. For the first phase of the UFB network build (UFB1) Chorus received funding at a rate of \$1,118 for every premises passed (as certified by CIP), in return Chorus issued CIP equity securities, CIP debt securities and CIP warrants. The equity and debt securities had an issue price of \$1 and were issued on a 50:50 basis. For each premises passed, \$559 of equity securities and \$559 of debt securities were issued and Chorus received \$1,118 funding in return. CIP warrants were issued for nil value. UFB1 build was completed in December 2019 to a total value of \$924 million funding received. This was slightly below the \$929 million allowed for under the programme, because small infill developments did not meet the programme criteria for CIP funding. As at 30 June 2020, there have been 827,000 premises passed and tested by CIP under UFB1 (30 June 2019: 761,000).

For the second phase of the UFB network build (UFB2 and UFB2+), there are five different funding rates applied, at an average rate of \$1,828 for every premises passed (as certified by CIP). In return for the CIP funding, CIP equity and debt securities will be issued on very similar terms as UFB1 securities. Chorus can elect the mix of securities to be issued (up to a maximum of \$189 million equity securities for UFB2). There are no CIP warrants in relation to UFB2 and UFB2+ funding. The total committed funding available for Chorus for the second phase is expected to be \$409 million. As at 30 June 2020, for UFB2 and UFB2+ there have been 83,000 premises passed and tested by CIP (30 June 2019: UFB2 and UFB2+ 36,000).

The CIP equity and debt securities are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. The fair value is derived by discounting the equity securities and debt securities per premises passed by the effective rate based on market rates. The difference between funding received and the fair value of the securities is recognised as Crown funding. Over time, the CIP debt and equity securities increase to face value and the Crown funding is released against depreciation and reduces to nil.

### CIP equity securities

CIP equity securities are a class of non-interest bearing security that carry no right to vote at meetings of holders of Chorus ordinary shares but entitle the holder to a preferential right to repayment on liquidation and additional rights that relate to Chorus' performance under its construction contract with CIP.

Dividends will become payable on a portion of the CIP equity securities from 2025 (2030 for UFB2 and UFB2+) onwards, with the portion of CIP equity securities that attract dividends increasing over time.

CIP equity securities can be redeemed by Chorus at any time by payment of the issue price or issue of new ordinary shares (at a 5% discount to the 20-day volume weighted average price) to the holder. In limited circumstances CIP equity securities may be converted by the holder into voting preference or ordinary shares.

The CIP equity securities are required to be disclosed as a liability until the liability component of the compound instrument expires.

## Note 6 – Crown Infrastructure Partners (CIP) securities (cont.)

### CIP debt securities

CIP debt securities are unsecured, non-interest bearing and carry no voting rights at meetings of holders of Chorus ordinary shares. Chorus is required to redeem the CIP debt securities in tranches from 2025 (2030 for UFB2 and UFB2+) to 2036 by repaying the face value to the holder.

The principal amount of CIP debt securities consists of a senior portion and a subordinated portion. The senior portion ranks equally with all other unsecured, unsubordinated creditors of Chorus, and has the benefit of any negative pledge covenant that may be contained in any of Chorus' debt arrangements. The subordinated portion ranks below all other Chorus indebtedness but above ordinary shares of Chorus. The initial value of the senior portion is the present value (using a discount rate of 8.5%) of the sum repayable on the CIP debt securities, and the initial subordinated portion will be the difference between the issue price of the CIP debt security and the value of the senior portion.

### CIP warrants

Chorus issues warrants to CIP for nil consideration along with each tranche of CIP equity securities. Each CIP warrant gives CIP the right, on a specified exercise date, to purchase at a set strike price a Chorus share to be issued by Chorus. The strike price for a CIP warrant is based on a total shareholder return of 16% per annum on Chorus shares over the period December 2011 to June 2036.

At 30 June 2020, Chorus had issued a total 14,216,213 warrants which had a fair value and carrying value that approximated zero (30 June 2019: 12,544,286 warrants issued). The number of fibre connections made by 30 June 2020 impacts the number of warrants that could be exercised. Because fibre connections already exceed 20% before 30 June 2020, the number of warrants that would be able to be exercised is 14,216,213 (30 June 2019: 12,544,286).

At 30 June 2020, the component parts of debt and equity instruments including notional interest were:

	2020			2019		
	CIP debt securities \$M	CIP equity securities \$M	Total CIP securities \$M	CIP debt securities \$M	CIP equity securities \$M	Total CIP securities \$M
<b>Fair value on initial recognition</b>						
Balance at 1 July	154	129	283	132	91	223
Additional securities recognised at fair value	22	55	77	22	38	60
<b>Balance at 30 June</b>	<b>176</b>	<b>184</b>	<b>360</b>	<b>154</b>	<b>129</b>	<b>283</b>
<b>Accumulated notional interest</b>						
Balance at 1 July	36	36	72	26	24	50
Notional interest	13	16	29	10	12	22
<b>Balance at 30 June</b>	<b>49</b>	<b>52</b>	<b>101</b>	<b>36</b>	<b>36</b>	<b>72</b>
<b>Total CIP securities</b>	<b>225</b>	<b>236</b>	<b>461</b>	<b>190</b>	<b>165</b>	<b>355</b>

The fair value of CIP debt securities at balance date was \$287 million (30 June 2019: \$248 million) compared to a carrying value of \$225 million (30 June 2019: \$190 million). The fair value of CIP equity securities at balance date was \$291 million (30 June 2019: \$235 million) compared to a carrying value of \$236 million (30 June 2019: \$165 million). The fair value has been calculated using discount rates from market rates at balance date and using Level 2 of the fair value hierarchy as described in note 20.

### Key assumptions in calculations on initial recognition

On initial recognition, the discount rate between 4.49% to 6.90% (30 June 2019: 4.64% to 8.49%) for the CIP equity securities and 2.50% to 6.90% (30 June 2019: 3.42% to 6.16%) for the CIP debt securities used to discount the expected cash flows is based on the NZ swap curve. The swap rates were adjusted for Chorus specific credit spreads (based on market observed credit spreads for debt issued with similar credit ratings and tenure). The discount rate on the CIP equity securities is capped at Chorus' estimated cost of (ordinary) equity.

## Note 7 – Crown funding

Crown funding is recognised at fair value where there is reasonable assurance that the funding is receivable and all attached conditions will be complied with. Crown funding is then recognised in earnings as a reduction to depreciation expense on a systematic basis over the useful life of the asset the funding was used to construct.

	2020				2019			
	UFB \$M	RBI \$M	Other \$M	Total \$M	UFB \$M	RBI \$M	Other \$M	Total \$M
<b>Fair value on initial recognition</b>								
Balance at 1 July	628	242	60	930	548	242	51	841
Additional funding recognised at fair value	79	–	7	86	80	–	9	89
<b>Balance at 30 June</b>	<b>707</b>	<b>242</b>	<b>67</b>	<b>1,016</b>	<b>628</b>	<b>242</b>	<b>60</b>	<b>930</b>
<b>Accumulated amortisation of funding</b>								
Balance at 1 July	(56)	(38)	(14)	(108)	(41)	(30)	(12)	(83)
Amortisation	(18)	(8)	(1)	(27)	(15)	(8)	(2)	(25)
<b>Balance at 30 June</b>	<b>(74)</b>	<b>(46)</b>	<b>(15)</b>	<b>(135)</b>	<b>(56)</b>	<b>(38)</b>	<b>(14)</b>	<b>(108)</b>
<b>Total Crown funding</b>	<b>633</b>	<b>196</b>	<b>52</b>	<b>881</b>	<b>572</b>	<b>204</b>	<b>46</b>	<b>822</b>
<b>Current</b>				<b>26</b>				<b>25</b>
<b>Non-current</b>				<b>855</b>				<b>797</b>

### Ultra-Fast Broadband (UFB)

Chorus receives Crown funding to finance construction costs associated with the development of the UFB network. During the period Chorus has recognised funding for 112,438 (UFB1 65,274; UFB2 and UFB2+ 47,164) premises where the premises was passed and tested by CIP as at 30 June 2020 (30 June 2019: 109,784; UFB1 75,860; UFB2 and UFB2+ 33,924).

This brings the total number of premises passed and tested by CIP at 30 June 2020 to approximately 910,000 (30 June 2019: 797,000). The total number of premises passed (including those that have not been tested by CIP) was approximately 917,000 at 30 June 2020 (30 June 2019: 842,000).

Continued recognition of the full amount of the Crown funding is contingent on certain material performance targets being met by Chorus. The most significant of these material performance targets relate to compliance with certain specifications under user acceptance testing by CIP. Performance targets to date have been met.

### Other

Chorus receives funding towards the cost of relocation of communications equipment, school lead-ins and extending the network coverage to rural areas.

## Note 8 – Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and for which operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

Chorus' Chief Executive Officer (CEO) has been identified as the chief operating decision maker for the purpose of segmental reporting.

Chorus has determined that it operates in one segment providing nationwide fixed line communications infrastructure. The determination is based on the reports reviewed by the CEO in assessing performance, allocating resources and making strategic decisions.

All Chorus' operations are provided in New Zealand, therefore no geographic information is provided.

Three Chorus customers met the reporting threshold of 10 percent of Chorus' operating revenue in the year to 30 June 2020. The total revenue for the year ended 30 June 2020 from these customers was \$409 million (30 June 2019: \$433 million), \$195 million (30 June 2019: \$197 million) and \$117 million (30 June 2019: \$109 million).

## Note 9 – Operating revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Chorus recognises revenue when it transfers control of a product or service to a customer.

Chorus services provided to customers	Nature, performance obligation and timing of revenue
Fibre and copper connections	Providing access to the Chorus fixed lines network to enable connections to the internet. Chorus recognises revenue as it provides this service to its customers at a point in time. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue is deferred in respect of the portion of fixed monthly charges that have been billed in advance.
Value added network services	Providing enhanced access to the Chorus fixed line network to enable internet access, through backhaul and handover link services to connect across wider areas and to higher quality levels. Recognition is the same as described for fibre and copper connections above.
Infrastructure	Providing physical storage and site-sharing rental services for co-location of third party or shared assets. This is billed and recognised on a monthly basis, based on a point in time.
Field services	Providing services in the field to protect, strengthen, and increase the available network – for example, installation services, wiring and consultation services. This is billed and recognised as the service is provided over time. Revenue from installation of connections is recognised upon completion of the connection.

### Revenue by service

	2020 \$M	2019 \$M
Fibre broadband	393	294
Fibre premium	73	74
Copper based voice	82	106
Copper based broadband	271	344
Data services copper	16	18
Value added network services	29	30
Infrastructure	24	24
Field services	65	74
Other	6	6
<b>Total operating revenue</b>	<b>959</b>	<b>970</b>

## Note 10 – Operating expenses

	2020 \$M	2019 \$M
Labour	80	74
Network maintenance	64	75
Other network costs	29	33
Information technology	47	50
Rent and rates	13	13
Property maintenance	12	17
Electricity	15	17
Provisioning	5	6
Insurance	3	3
Consultants	9	7
Regulatory levies	7	16
Other	27	23
<b>Total operating expenses</b>	<b>311</b>	<b>334</b>

### Labour

Labour of \$80 million (30 June 2019: \$74 million) represents employee costs which are not capitalised.

### Pension contributions

Included in labour costs are payments to the New Zealand Government Superannuation Fund of \$335,000 (30 June 2019: \$350,000) and contributions to KiwiSaver of \$3.2 million (30 June 2019: \$3.1 million). At 30 June 2020 there were 14 employees in New Zealand Government Superannuation Fund (30 June 2019: 16 employees) and 752 employees in KiwiSaver (30 June 2019: 840 employees). Chorus has no other obligations to provide pension benefits in respect of employees.

### Charitable and political donations

Other costs include charitable donations to Lifeline, Women's Refuge, KidsCan and Porirua E-Learning Trust of \$207,295 (30 June 2019: Consumer Foundation of \$21,000, other smaller charities of \$20,000). Chorus has not made any political donations (30 June 2019: nil).

### Auditor remuneration

Included in other expenses are fees paid to auditors:

	2020 \$000's	2019 \$000's
<b>Audit and review of statutory financial statements</b>	<b>537</b>	<b>537</b>
Regulatory audit and assurance work	298	268
Tax compliance services <sup>1</sup>	21	50
Other assurance services <sup>2</sup>	22	23
Other services <sup>3</sup>	10	59
<b>Total other services</b>	<b>351</b>	<b>400</b>
<b>Total fees paid to the auditor</b>	<b>888</b>	<b>937</b>

1 Includes the tax treatment of the interest rate swap restructure and other sundry tax assistance (30 June 2019: Balance of GST review, tax treatment of interest rate swaps closed out and other sundry tax assistance).

2 Relates to attendance at the Annual Shareholders Meeting and assurance relating to EMTN refresh comfort letters. (30 June 2019: Same services as current year).

3 Other services included preparation and presentation of hedge accounting training (30 June 2019: preparation and presentation of hedge accounting training and assistance in documenting current state process).

## Note 11 – Trade and other receivables

Trade and other receivables are initially recognised at the fair value of the amounts to be received, plus transaction costs (if any). They are subsequently measured at amortised cost (using the effective interest method) less impairment losses.

	2020 \$M	2019 \$M
Trade receivables	107	96
Other receivables	10	23
Prepayments	24	28
<b>Trade and other receivables</b>	<b>141</b>	<b>147</b>
<b>Current</b>	<b>140</b>	<b>140</b>
<b>Non-current</b>	<b>1</b>	<b>7</b>

Trade receivables are non-interest bearing and are generally on terms of 20 working days or less.

Chorus maintains a provision for impairment losses when there is objective evidence of its customers being unable to make required payments and makes provision for doubtful debt

where debt is more than 60 days overdue. There have been no significant individual impairment amounts recognised as an expense. Trade receivables are net of allowances for disputed balances with customers.

The ageing profile of trade receivables is as follows:

	2020 \$M	2019 \$M
Not past due	91	84
Past due 1–30 days	16	12
	<b>107</b>	<b>96</b>

Chorus has a concentrated customer base consisting predominantly of a small number of retail service providers. The concentrated customer base heightens the risk that a dispute with a customer, or a customer's failure to pay for services, will have a material adverse effect on the collectability of receivables.

Any disputes arising that may affect the relationship between the parties will be raised by relationship managers and follow a dispute resolution process. Chorus has \$16 million of accounts receivable that are past due but not impaired (30 June 2019: \$12 million). The carrying value of trade and other receivables approximates the fair value. The maximum credit exposure is limited to the carrying value of trade and other receivables.

## Note 12 – Trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs (if any). They are subsequently measured at amortised cost using the effective interest method. Trade and other payables are non-interest bearing and are normally settled within 30 day terms. The carrying value of trade and other payables approximates their fair values.

	2020 \$M	2019 \$M
Trade payables	82	94
Accruals	125	187
Personnel accrual	16	20
Revenue billed in advance	59	59
<b>Trade and other payables</b>	<b>282</b>	<b>360</b>
<b>Current</b>	<b>279</b>	<b>360</b>
<b>Non-current</b>	<b>3</b>	<b>–</b>



## Note 13 – Commitments

### Network infrastructure project agreement

Chorus is committed to deploying infrastructure for premises in the UFB2 and UFB2+ candidate areas awarded to Chorus, to be built according to annual build milestones and to be completed no later than December 2022. In total it is expected that the communal infrastructure for UFB2 and UFB2+ will pass an estimated 223,000 premises. Chorus has estimated it will cost \$548 to \$568 million to build the communal UFB2 and UFB2+ network by the end of 2022.

### West Coast Southland Network Build (WCSNB) agreement

Chorus has signed a contract with CIP to deploy fibre in the West Coast area of the South Island. Chorus will be receiving funding from CIP of \$29 million for phase 1 of this project.

### Capital expenditure

Refer to note 1 and note 2 for details of capital expenditure commitments.

### Lease commitments

Refer to note 5 for details of lease commitments.

## Note 14 – Taxation

This note provides an analysis of Chorus' income tax expense and shows which amounts are recognised in the Income statement, Statement of other comprehensive income or directly in equity and how income tax expense is affected by non taxable items. Income tax expense for the current year comprises current and deferred tax. Income tax expense is recognised in the Income statement, except to the extent it relates to items recognised in the Statement of other comprehensive income or directly in equity. In these cases, income tax expense is recognised in the Statement of other comprehensive income or directly in equity.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of the deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using the tax rates enacted or substantially enacted at reporting year end. A deferred tax asset is recognised only to the extent it is probable it will be utilised.

On 25 March 2020, Parliament passed legislation that restored tax depreciation on non-residential buildings. The change increases the tax base for these assets, giving rise to a reduced difference between the carrying value and tax base. This results in a reduction in deferred tax liability and income tax expense of \$5 million.

### Income tax expense

	2020 \$M	2019 \$M
<b>Recognised in Income statement</b>		
Net earnings before tax	73	78
Tax at 28%	21	22
<i>Tax effect of adjustments</i>		
Other non-taxable items	5	3
Reinstatement of depreciation on buildings	(5)	–
<b>Tax expense reported in Income statement</b>	<b>21</b>	<b>25</b>
<i>Comprising:</i>		
Current tax expense	1	6
Deferred tax expense	20	19
	<b>21</b>	<b>25</b>
<b>Recognised in other comprehensive income</b>		
Net movement in hedging related reserves	39	65
Tax at 28%	11	18
<b>Tax benefit reported in other comprehensive income</b>	<b>11</b>	<b>18</b>
<i>Comprising:</i>		
Deferred tax benefit	11	18
	<b>11</b>	<b>18</b>

## Note 14 – Taxation (cont.)

The movement in the deferred tax assets and liabilities is presented below. The deferred tax assets and liabilities are not offset as Chorus is not a consolidated group for tax purposes.

### Deferred tax receivable

	Fair value portion of derivatives \$M	Changes in fair value of hedging reserves \$M	Finance leases \$M	Total \$M
<b>Balance at 1 July 2018</b>	<b>2</b>	<b>15</b>	<b>65</b>	<b>82</b>
Recognised in the Income statement	(2)	–	3	1
Recognised in other comprehensive income	–	18	–	18
<b>Balance at 30 June 2019</b>	<b>–</b>	<b>33</b>	<b>68</b>	<b>101</b>
Recognised in the Income statement	–	–	4	4
Recognised in other comprehensive income	–	11	–	11
<b>Balance at 30 June 2020</b>	<b>–</b>	<b>44</b>	<b>72</b>	<b>116</b>

### Deferred tax payable

	EMTN debt securities \$M	Network, software, customer retention and other intangible assets \$M	Other \$M	Total \$M
<b>Balance at 1 July 2018</b>	<b>4</b>	<b>301</b>	<b>1</b>	<b>306</b>
Prior period adjustment	–	(3)	1	(2)
Recognised in the Income statement	(2)	22	2	22
<b>Balance at 30 June 2019</b>	<b>2</b>	<b>320</b>	<b>4</b>	<b>326</b>
Recognised in the Income statement	(2)	18	8	24
<b>Balance at 30 June 2020</b>	<b>–</b>	<b>338</b>	<b>12</b>	<b>350</b>

### Imputation credits

There are \$74 million (30 June 2019: \$103 million) imputation credits available for subsequent reporting periods. Chorus has sufficient imputation credits to fully impute the 2020 final dividend.

## Note 15 – Cash, call deposits, and cash overdraft

Cash and call deposits are held with bank and financial institution counterparties rated at a minimum of A+, based on rating agency Standard & Poor's ratings.

There are no cash or call deposit balances held that are not available for use.

The carrying values of cash and call deposits approximate their fair values. The maximum credit exposure is limited to the carrying value of cash and call deposits.

Cash and call deposits denominated in foreign currencies are retranslated into New Zealand dollars at the spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the Income statement.

Chorus has a \$10 million overdraft facility which is used in normal course of operations.

### Cash flow

Cash flows from derivatives in cash flow and fair value hedge relationships are recognised in the Statement of cash flows in the same category as the hedged item.

For the purposes of the Statement of cash flows, cash is considered to be cash on hand, in banks and cash equivalents, including bank overdrafts and highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in values.

## Note 16 – Equity

### Share capital

Movements in Chorus Limited's issued ordinary shares were as follows:

	2020 Number of shares (millions)	2019 Number of shares (millions)
Balance 1 July	439	429
Dividend reinvestment plan	5	10
<b>Balance at 30 June</b>	<b>444</b>	<b>439</b>

Chorus Limited has 444,491,560 fully paid ordinary shares (30 June 2019: 439,288,154). The issued shares have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of Chorus Limited. Under Chorus Limited's constitution, Crown approval is required if a shareholder wishes to have a holding of 10% or more of Chorus Limited's ordinary shares, or if a shareholder who is not a New Zealand national wishes to have a holding of 49.9% or more of ordinary shares.

On 8 October 2019 and 14 April 2020, fully imputed dividends of 13.5 cents per share and 10 cents per share respectively were paid to shareholders. These two dividend payments totalled \$104 million (30 June 2019: 22.5 cents, \$97 million).

Eligible shareholders (those resident in New Zealand or Australia) can choose to have Chorus Limited reinvest all or part of their dividends in additional Chorus Limited shares. For the year ended 30 June 2020, 5,203,406 shares with a total value of \$28 million (30 June 2019: 9,646,957 shares, \$48 million) were issued in lieu of dividends.

Chorus Limited issues securities to CIP based on the number of premises passed. CIP securities are a class of security that carry no right to vote at meetings of holders of Chorus Limited ordinary shares but carry a preference on liquidation. Refer to note 6 for additional information on CIP securities.

Should Chorus Limited return capital to shareholders, any return of capital that arose on demerger may be taxable as Chorus Limited had zero available subscribed capital on demerger.

### Employee share plans

#### Employee equity building scheme

Chorus operated an employee equity building scheme to provide employees the opportunity to become familiar with the shareholder experience. Chorus and eligible employees contributed together to purchase shares on market. The shares were then held by the Trustee (Trustees Executors Limited) and vested to participating employees after a three year period.

Chorus terminated the scheme in the year ended 30 June 2020, so no offer was made to employees and there were no shares purchased for the employee share plan (30 June 2019: nil). At 30 June 2020 the scheme held no shares on behalf of any employees (30 June 2019: 72,219 shares, 539 employees), and the trust was wound up.

#### Long-term performance share scheme

Chorus operates a long-term performance share scheme for selected key management personnel.

In August 2017, Chorus issued one three-year grant. The shares have a vesting date of 8 September 2020 and an

expiry date of 8 September 2021. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.6% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period.

In August 2018, Chorus issued one three-year grant. The shares have a vesting date of 27 August 2021 and an expiry date of 27 February 2022. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.4% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following six month period.

The shares are held by a nominee (Chorus LTI Trustee Limited) on behalf of the participants, until after the shares vest when the nominee is directed to transfer or sell the shares. If the shares do not vest, they may be held or sold by the nominee. The shares carry the same rights as all other shares.

Participants have been provided with interest-free limited recourse loans to fund the 245,094 shares purchased under the LTI scheme (30 June 2019: 380,026 shares).

The Chorus Board of Directors (Board) approved a different long-term performance share scheme for key senior management from 1 July 2019, based on issuing share-rights instead of issuing shares. The existing grants will continue until their vesting date.

In August 2019, Chorus issued a tranche of share rights under the new scheme. The shares have a vesting date of 30 August 2022 and an expiry date of 30 August 2023. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.35% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period.

The LTI scheme is an equity settled scheme and treated as an option plan for accounting purposes. Each tranche of each grant was valued separately. The absolute performance hurdle was valued using the Black Scholes valuation model.

The combined option cost for the year ended 30 June 2020 of \$392,000 has been recognised in the Income statement (30 June 2019: \$334,000).

Significant assumptions used in the valuation models are:

- 1) A volatility of the Chorus share price of 21%,
- 2) That dividends will be paid over the term of the scheme, and
- 3) An absolute Total Shareholder Return performance threshold percentage.

### Reserves

Refer to note 19 for information on the cash flow hedge reserve and cost of hedging reserve.

## Note 17 – Earnings per share

The calculation of basic earnings per share at 30 June 2020 is based on the net earnings for the year of \$52 million (30 June 2019: \$53 million), and a weighted average number of ordinary shares outstanding during the period of 444 million (30 June 2019: 435 million), calculated as follows:

Basic earnings per share	2020	2019
Net earnings attributable to ordinary shareholders (\$ millions)	52	53
Denominator - weighted average number of ordinary shares (millions)	444	435
<b>Basic earnings per share (dollars)</b>	<b>0.12</b>	<b>0.12</b>
<b>Diluted earnings per share</b>		
Net earnings attributable to ordinary shareholders (\$ millions)	52	53
Weighted average number of ordinary shares (millions)	444	435
Ordinary shares required to settle CIP equity securities (millions)	83	88
Ordinary shares required to settle CIP warrants (millions)	14	13
Denominator - diluted weighted average number of shares (millions)	541	536
<b>Diluted earnings per share (dollars)</b>	<b>0.10</b>	<b>0.10</b>

The number of ordinary shares that would have been required to settle all CIP equity securities and CIP warrants on issue at 30 June has been used for the purposes of the diluted earnings per share calculation.

### Net tangible assets per security

Net tangible assets per security as at 30 June 2020 was \$1.39 (30 June 2019: \$1.64).

## Note 18 – Related party transactions

### Transactions with related parties

Key management personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, and include the Directors, the Chief Executive, and his direct reports. Certain key management personnel have interests in a number of companies that Chorus has transactions with in the normal course of business.

Chorus has loans to employees and nominees receivable at 30 June 2020 of \$0.9 million (30 June 2019: \$1.5 million) as outlined in the employee share plan section of note 16. All loans outstanding are interest-free limited recourse loans.

### Key management personnel compensation

	2020 \$000's	2019 \$000's
Short term employee benefits	8,368	8,316
Termination benefits	–	302
Share based payments	392	334
	<b>8,760</b>	<b>8,952</b>

This table includes gross remuneration of \$1.1 million (30 June 2019: \$1.1 million) paid to Directors and \$7.7 million (30 June 2019: \$7.9 million) paid to key management personnel for the year.

Refer to note 16 for details of long term incentives.

## Note 19 – Derivatives

Chorus uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates, interest rates and the spot price of electricity. The use of hedging instruments is governed by the treasury policy approved by the Board. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value, with an adjustment made for credit risk in accordance with NZ IFRS 9: Financial Instruments.

The fair values are estimated on the basis of the quoted market prices for similar instruments in an active market, or quoted prices for identical or similar instruments in inactive markets. Where quoted prices are not available, the fair value of financial instruments is valued using models where all significant inputs are observable.

The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument. If the derivative is not designated as a hedging instrument, the remeasurement gain or loss is recognised immediately in the Income statement.

Finance expense includes any unrealised ineffectiveness arising from the Euro Medium Term Notes (EMTN) hedge relationships. The GBP EMTN matured on 6 April 2020 and the remaining unamortised balance was recognised in the period to 30 June 2020. For the year ended 30 June 2020, a debit of \$2 million ineffectiveness was recognised within finance expense in the Income statement (30 June 2019: \$6 million).

In conjunction with the EMTN EUR 500 million issued in October 2016 and the EMTN EUR 300 million issued in December 2019, Chorus entered into cross currency interest rate swaps to hedge the foreign currency and foreign interest rate risks on the EUR EMTNs. The 2016 swaps have an aggregate principal of EUR 500 million on the receive leg and NZD 785 million on the pay leg, and the 2019 swaps have an aggregate principal of EUR 300 million on the receive leg and NZD 514 million on the pay leg. Using the cross currency interest rate swaps, Chorus will pay New Zealand Dollar floating interest rates and receive EUR nominated fixed interest with coupon payments matching the underlying notes. Chorus designated the EMTN and cross currency interest rate swaps into three-part hedging relationships for each issue; a fair value hedge of EUR benchmark interest rates, a cash flow hedge of margin and a cash flow hedge of the principal exchange. For the year ended 30 June 2020, \$1 million ineffectiveness was recognised in finance expense (30 June 2019: nil). The cost of hedging (the fair value of the change in currency basis spread) recognised in the cost of hedging reserve, for the year ended 30 June 2020, was \$4 million (30 June 2019: nil).

As at 30 June 2020 Chorus holds all interest rate swaps in designated hedging relationships. All are held in effective hedging relationships and their unrealised gains or losses are recognised in the cash flow hedge reserve.

Three interest rate swaps have been restructured; two in December 2018 and one in February 2020. The two December 2018 restructured interest rate swaps have a combined face value of \$500 million and were reset in conjunction with the resettable NZD fixed rate bond issued on 6 December 2018 to hedge interest rate exposure from December 2023. As part of the restructure, the original hedge relationship was discontinued and on termination there was a net present value of \$14 million to be recognised in the cash flow hedge reserve. This amount was held in the cash flow hedge reserve as the hedged item still exists and is amortised over the original hedge period (April 2020-April 2026). The unamortised balance of the original fair values at 30 June 2020 is \$13 million (30 June 2019: \$14 million). The forward dated interest rate swap restructured in February 2020 had a face value of \$200 million and was reset to be in conjunction with the EUR 300 million EMTN issued on 5 December 2019, to hedge interest rate exposure from April 2020. The original hedge relationship was discontinued and on termination had a net present value of \$27 million. This amount was held in the cash flow hedge reserve as the hedged item still exists and will be amortised over the original hedge period (April 2020-April 2026). The unamortised balance of the original fair values at 30 June 2020 was \$26 million (30 June 2019: nil).

As long as the hedges remain effective, any future gains or losses will be processed through the hedge reserve; however, the initial fair values will flow to finance expense in the Income statement at some time over the life of the derivatives as ineffectiveness. Neither the direction, nor the rate of the impact of the Income statement can be predicted. For the period to 30 June 2020, nil ineffectiveness was recognised within finance expense in the Income statement in relation to these restructures (30 June 2019: nil).

### Hedge accounting

Chorus designates certain derivatives as either:

- Fair value hedges (of the fair value of recognised assets or liabilities or firm commitments); or
- Cash flow hedges (of highly probable forecast transactions).

At inception each hedge relationship is formalised in NZ IFRS 9 compliant hedge documentation.

Chorus has a 1:1 hedge ratio and sources of ineffectiveness are driven by credit value adjustment of derivatives.

### Cash flow hedges

For cash flow hedges the effective part of the changes in fair value of the hedging derivative are deferred in Other comprehensive income and are transferred to the Income statement when the hedged item affects the Income statement. Any gain or loss relating to the ineffective portion of the hedging instrument in cash flow hedge relationships are recognised in the Income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

## Note 19 – Derivatives (cont.)

Once hedging is discontinued, any cumulative gain or loss previously recognised in Other comprehensive income is recognised in the Income statement either:

- at the same time as the forecast transaction; or
- immediately if the transaction is no longer expected to occur.

### Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected the Income statement.

For cash flow hedges, the effective portion of gains or losses from remeasuring the fair value of the hedging instrument is recognised in Other comprehensive income and accumulated in the cash flow hedge reserve. Accumulated gains or losses are subsequently transferred to the Income statement when the hedged item affects the Income statement, or when the hedged item is a forecast transaction that is no longer expected to occur. Alternatively, when the hedged item results in a non-financial asset or liability, the accumulated gains and losses are included in the initial measurement of the cost of the asset or liability.

A reconciliation of movements in the cash flow hedge reserve:

	2020 \$M	2019 \$M
Balance at 1 July	74	27
Changes in cash flow hedges	39	63
Amortisation of de-designated cash flow hedges transferred to Income statement	4	2
Tax benefit	(12)	(18)
<b>Closing balance at 30 June</b>	<b>105</b>	<b>74</b>

### Fair value hedges

Under a fair value hedge, the hedged item is revalued at fair value in respect of the hedged risk. This revaluation is recognised in the Income statement to offset the mark-to-market revaluation of the hedging derivative.

Once hedging is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the Income statement from that date through to maturity of the hedged item. If the hedged item is derecognised any corresponding fair value hedge adjustment is immediately recognised in the Income statement.

To hedge the interest rate risk and foreign currency risk on the EUR EMTN, Chorus uses cross currency interest rate swaps. For hedge accounting purposes, these swaps were aggregated and designated as two cash flow hedges and a fair value hedge. Chorus hedges a portion of the EUR EMTN for Euro fixed rate interest to Euro floating rate interest via a fair value hedge. In this case, the change in the fair value of the hedged risk is also attributed to the carrying value of the EMTN (refer to note 4).

### Cost of hedging reserve

The cost of hedging reserve captures changes in the fair value of the cost to convert foreign currency to NZD of Chorus' cross currency interest rate swaps on the EUR EMTN.

A reconciliation of movements in the cost of hedging reserve:

	2020 \$M	2019 \$M
Balance at 1 July	9	9
Change in currency basis spreads (when excluded from the designation)	(4)	–
Tax expense	1	–
<b>Closing balance at 30 June</b>	<b>6</b>	<b>9</b>

## Note 19 – Derivatives (cont.)

Hedging instruments used (pre-tax):

				Life to date values as at 30 June 2020					Year to date values recognised during the year ended 30 June 2020			
				Carrying amount of the hedging instrument					Hedge effectiveness in reserves	Hedge effectiveness	Hedge ineffectiveness	
Currency	Maturity years	Average rate	Nominal amount of the hedging instrument \$M	Assets \$M	Liabilities \$M	Change in value used for calculating hedge effectiveness \$M	Cost of hedging reserve \$M	Cash flow hedge (OCI) \$M	Cash flow hedge reclassified to the Income statement \$M	Fair value hedge (Income statement gain) \$M	Recognised in the Income statement loss \$M	
<b>Cash flow hedges</b>												
Cross currency interest rate swaps	NZD:GBP	0 Floating	–	–	–	–	–	178	(186)	–	(2)	
Interest rate swaps	NZD	0 4.89%	–	–	–	–	–	18	–	–	–	
Interest rate swaps (including forward starting)	NZD	4–9 1.93%	600	–	(31)	(31)	–	12	–	–	–	
Restructured interest rate swaps 2018 (forward starting)	NZD	9 4.41%	500	–	(81)	(65)	–	(31)	–	–	–	
Restructured interest rate swap 2020	NZD	7 3.35%	200	–	(36)	(8)	–	(34)	–	–	–	
Forward exchange rate contracts	NZD:USD	1–2 0.6586	22	1	–	1	–	1	(1)	–	–	
Forward exchange rate contracts	NZD:SEK	1 6.0168	34	–	–	–	–	–	–	–	–	
Electricity futures	NZD	1–3 NA	NA	1	–	1	–	1	(1)	–	–	
<b>Fair value and cash flow hedges</b>												
Cross currency interest rate swaps	NZD:EUR	4 Floating	785	85	–	95	(11)	27	(24)	(1)	–	
Cross currency interest rate swaps	NZD:EUR	7 Floating	514	8	–	6	2	5	(8)	(6)	(1)	
<b>Total hedged derivatives</b>			<b>2,655</b>	<b>95</b>	<b>(148)</b>	<b>(1)</b>	<b>(9)</b>	<b>177</b>	<b>(220)</b>	<b>(7)</b>	<b>(3)</b>	
<b>Current</b>			–	<b>2</b>	–	–	–					
<b>Non-current</b>			–	<b>93</b>	<b>(148)</b>	–	–					



## Note 19 – Derivatives (cont.)

										Year to date values recognised during the year ended 30 June 2019			
Life to date values as at 30 June 2019										Hedge effectiveness in reserves		Hedge effectiveness	Hedge ineffectiveness
Carrying amount of the hedging instrument										Cash flow hedge reclassified to the Income statement		Fair value hedge (Income statement gain)	Recognised in the Income statement loss
Currency	Maturity years	Average rate	Nominal amount of the hedging instrument \$M	Assets \$M	Liabilities \$M	Change in value used for calculating hedge effectiveness \$M	Cost of hedging reserve \$M	Cash flow hedge (OCI) \$M	Income statement \$M	\$M	\$M	\$M	\$M
<b>Cash flow hedges</b>													
Cross currency interest rate swaps	NZD:GBP	1	Floating	677	–	(179)	(63)	–	29	(16)	–	(6)	
Interest rate swaps	NZD	1	4.89%	676	–	(18)	(18)	–	(15)	–	–	–	
Interest rate swaps (including forward starting)	NZD	1–7	2.87%	750	–	(42)	(42)	–	(35)	–	–	–	
Restructured interest rate swaps (forward starting)	NZD	9	4.41%	500	–	(49)	(33)	–	(33)	–	–	–	
Forward exchange rate contracts	NZD:USD	1–2	0.6933	32	1	–	1	–	1	3	–	–	
Forward exchange rate contracts	NZD:SEK	1–2	5.8879	51	–	–	–	–	–	–	–	–	
Electricity futures	NZD	1–2	NA	NA	2	–	2	–	2	–	–	–	
<b>Fair value and cash flow hedges</b>													
Cross currency interest rate swaps	NZD:EUR	4	Floating	785	56	–	67	(12)	16	(17)	(24)	–	
<b>Total hedged derivatives</b>				<b>3,471</b>	<b>59</b>	<b>(288)</b>	<b>(86)</b>	<b>(12)</b>	<b>(35)</b>	<b>(30)</b>	<b>(24)</b>	<b>(6)</b>	
<b>Current</b>				<b>–</b>	<b>3</b>	<b>(197)</b>	<b>–</b>	<b>–</b>					
<b>Non-current</b>				<b>–</b>	<b>56</b>	<b>(91)</b>	<b>–</b>	<b>–</b>					

All hedging instruments can be found in the derivative finance assets and liabilities, in the Statement of financial position. Items taken to the Income statement have been recognised in finance expenses (refer note 4).

Credit risk associated with derivative financial instruments is managed by ensuring that transactions are executed with counterparties with high quality credit ratings along with credit exposure limits for different credit classes. The counterparty credit risk is monitored and reviewed by the Board on a regular basis.

## Note 20 – Financial risk management

Chorus' financial instruments consist of cash, short-term deposits, trade and other receivables (excluding prepayments), investments and advances, trade payables and certain other payables, syndicated bank facilities, EMTN, fixed rate NZD bonds, derivative financial instruments and CIP securities. Financial risk management for currency and interest rate risk is carried out by the treasury function under policies approved by the Board. Chorus' risk management policy, approved by the Board, provides the basis for overall financial risk management.

Chorus does not hold or issue derivative financial instruments for trading purposes. All contracts have been entered into with major creditworthy financial institutions. The risk associated with these transactions is the cost of replacing these agreements at the current market rates in the event of default by a counterparty.

### Currency risk

Chorus' exposure to foreign currency fluctuations predominantly arises from the foreign currency debt and future commitments to purchase foreign currency denominated assets. The primary objective in managing foreign currency risk is to protect against the risk that Chorus assets, liabilities and financial performance will fluctuate due to changes in foreign currency exchange rates. Chorus enters into foreign exchange contracts and cross currency interest rate swaps to manage the foreign exchange exposure.

Chorus has EUR 800 million foreign currency debt in the form of EMTN. The EUR EMTN has in place cross currency interest rate swaps under which Chorus receives EUR 800 million principal and EUR fixed coupon payments for \$1.299 billion principal and floating NZD interest payments. The exchange gain or loss resulting from the translation of EMTN denominated in foreign currency to NZD is recognised in the Income statement. The movement is offset by the translation of the principal value of the related cross currency interest rate swap.

As at 30 June 2020, Chorus did not have any significant unhedged exposure to currency risk (30 June 2019: no significant unhedged exposure to currency risk). A 10% increase or decrease in the exchange rate, with all other variables held constant, would have minimal impact on profit and equity reserves of Chorus.

### Electricity price risk

In the normal course of business, Chorus is exposed to a variety of financial risks which include the volatility in electricity prices. Chorus has entered into electricity swap contracts to reduce the exposure to electricity spot price movements. Chorus has designated the electricity contracts as cash flow hedge relationships.

A 10% increase or decrease in the spot price of electricity, with all other variables held constant, would have minimal impact on profit and equity reserves of Chorus.

### Interest rate risk

Chorus has interest rate risk arising from the cross currency interest rate swap converting the foreign debt into a floating rate NZD obligation as well as loans under the syndicated bank facility, which are subject to floating interest rates.

Where appropriate, Chorus aims to reduce the uncertainty of changes in interest rates by entering into interest rate swaps to fix the effective interest rate to minimise the cost of net debt and manage the impact of interest rate volatility on earnings. The interest rate risk on a portion of the EUR cross currency interest rate swaps has been hedged using interest rate swaps.

### Interest rate repricing analysis

	Within 1 Year \$M	1–2 Years \$M	2–3 Years \$M	3–4 Years \$M	4–5 Years \$M	Greater than 5 years \$M	Total \$M
<b>30 June 2020</b>							
<b>Floating rate</b>							
Cash and deposits	5	–	–	–	–	–	5
Debt (after hedging)	599	–	–	–	–	–	599
<b>Fixed rate</b>							
Debt (after hedging)	430	–	–	350	–	850	1,630
CIP securities	–	–	–	–	–	461	461
Leases (net settled)	(1)	2	2	2	3	166	174
	<b>1,033</b>	<b>2</b>	<b>2</b>	<b>352</b>	<b>3</b>	<b>1,477</b>	<b>2,869</b>
<b>30 June 2019</b>							
<b>Floating rate</b>							
Cash and deposits	(273)	–	–	–	–	–	(273)
Debt (after hedging)	335	–	–	–	–	–	335
<b>Fixed rate</b>							
Debt (after hedging)	877	400	–	–	250	500	2,027
CIP securities	–	–	–	–	–	355	355
Leases (net settled)	(5)	(1)	2	2	2	165	165
	<b>934</b>	<b>399</b>	<b>2</b>	<b>2</b>	<b>252</b>	<b>1,020</b>	<b>2,609</b>

## Note 20 – Financial risk management (cont.)

### Sensitivity Analysis

A change of 100 basis points in interest rates with all other variables held constant, would increase or decrease equity (after hedging) and earnings after tax by the amounts shown below:

	2020 \$M Profit/(loss)	2020 \$M Equity (increase) /decrease	2019 \$M Profit/(loss)	2019 \$M Equity (increase) /decrease
100 basis point increase	3	(4)	1	(12)
100 basis point decrease	(3)	6	(1)	14

### Credit risk

In the normal course of business, Chorus incurs counterparty credit risk from financial instruments, including cash, trade and other receivables, finance lease receivables and derivative financial instruments.

Chorus has certain derivative transactions that are subject to bilateral credit support agreements that require Chorus or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2020 no collateral was posted.

The maximum exposure to credit risk at the reporting date was as follows:

	Notes	2020 \$M	2019 \$M
Cash and call deposits	15	–	273
Trade and other receivables	11	117	119
Derivative financial instruments	19	95	59
Lease receivable	5	3	6
<b>Maximum exposure to credit risk</b>		<b>215</b>	<b>457</b>

Refer to individual notes for additional information on credit risk.

Chorus enters into derivative transactions under the International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the Statement of financial position. This is because Chorus does not currently have any legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to

offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is shown below. Chorus does not hold, and is not required to post, collateral against its derivative positions.

Net derivatives after applying rights of offset under ISDA agreements:

	2020 \$M	2019 \$M
Derivative assets	95	59
Derivative liabilities	(148)	(288)
<b>Net amount</b>	<b>(53)</b>	<b>(229)</b>

## Note 20 – Financial risk management (cont.)

### Liquidity risk

Liquidity risk is the risk that Chorus will encounter difficulty raising liquid funds to meet commitments as they fall due or foregoing investment opportunities, resulting in defaults or excessive debt costs. Prudent liquidity risk management implies maintaining sufficient cash and the ability to meet its financial obligations. Chorus' exposure to liquidity risk based on contractual cash flows relating to financial liabilities is summarised below:

	Carrying amount \$M	Contractual cashflow \$M	Within 1 Year \$M	1–2 Years \$M	2–3 Years \$M	3–4 Years \$M	4–5 Years \$M	5+ Years \$M
<b>30 June 2020</b>								
<b>Non derivative financial liabilities</b>								
Trade and other payables	282	282	279	3	–	–	–	–
Leases (net settled)	266	442	14	17	17	16	17	361
Debt	2,322	2,610	487	40	40	911	31	1,101
CIP securities	461	461	–	–	–	–	–	461
<b>Derivative financial liabilities</b>								
Interest rate swaps	148	157	16	16	16	21	25	63
<i>Cross currency interest rate swaps:</i>								
Inflows	–	(1,464)	(14)	(14)	(14)	(885)	(5)	(532)
Outflows	93	1,444	31	29	30	806	13	535
Electricity contracts	1	(1)	(1)	–	–	–	–	–
<i>Forward exchange contracts:</i>								
Inflows	1	(45)	(24)	(21)	–	–	–	–
Outflows	–	44	23	21	–	–	–	–
<b>30 June 2019</b>								
<b>Non derivative financial liabilities</b>								
Trade and other payables	360	360	360	–	–	–	–	–
Leases (net settled)	254	442	9	14	17	16	16	370
Debt	2,232	2,578	575	451	35	35	881	601
CIP securities	355	426	–	–	–	–	–	426
<b>Derivative financial liabilities</b>								
Interest rate swaps	109	127	22	8	8	8	13	68
<i>Cross currency interest rate swaps:</i>								
Inflows	–	(1,401)	(522)	(10)	(10)	(10)	(849)	–
Outflows	123	1,612	722	32	32	32	794	–
Electricity contracts	2	(2)	(2)	–	–	–	–	–
<i>Forward exchange contracts:</i>								
Inflows	1	(59)	(59)	–	–	–	–	–
Outflows	–	58	58	–	–	–	–	–

The gross (inflows)/outflows of derivative financial liabilities disclosed in the table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out prior to contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement (for example forward exchange contracts).

Chorus manages liquidity risk by ensuring sufficient access to committed facilities, continuous cash flow monitoring and maintaining prudent levels of short term debt maturities. At balance date, Chorus had available \$520 million under the syndicated bank facilities (30 June 2019: \$550 million).

### Capital risk management

Chorus manages its capital considering shareholders' interests, the value of its assets and credit ratings. The capital Chorus manages consists of cash and debt balances.

## Note 20 – Financial risk management (cont.)

The Chorus Board's broader capital management objectives include maintaining an investment grade credit rating with headroom. In the longer term, the Board continues to consider a 'BBB' rating appropriate for a business like Chorus.

### Hedge accounting

Chorus designates and documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. At hedge inception (and on an ongoing basis), hedges are assessed to establish if they are effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued if:

- (a) the hedging instrument expires or is sold, terminated, or exercised;
- (b) the hedge no longer meets the criteria for hedge accounting; or
- (c) the hedge designation is revoked.

Hedges are classified into two primary types: cash flow hedges and fair value hedges. Refer to note 19 for additional information on cash flow and fair value hedge reserves.

### Fair value

Financial instruments are either carried at amortised cost, less any provision for impairment losses, or fair value. The only significant variances between instruments held at amortised cost and their fair value relates to the EMTN.

For those instruments, recognised at fair value in the statement of financial position, fair values are determined as follows:

Level 1: Quoted market prices – financial instruments with quoted prices for identical instruments in active markets.

Level 2: Valuation techniques using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets. Where quoted prices are not available, the fair value of financial instruments is valued using models where all significant inputs are observable.

Level 3: Valuation techniques with significant non-observable inputs – financial instruments valued using models where one or more significant inputs are not observable.

The relevant financial assets and financial liabilities and their respective fair values are outlined in note 19 and are all Level 2 (30 June 2019: Level 2).

### Cross currency interest rate swaps, interest rate swaps and forward-dated interest rate swaps

Fair value is estimated by using a valuation model involving discounted future cash flows of the derivative using the applicable forward price curve (for the relevant interest rate and foreign exchange rate) and discount rate.

### Electricity swaps

Fair value is estimated on the ASX forward price curve that relates to the derivative.

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## Note 21 – Contingent liabilities

Chorus has an outstanding legal dispute with Creative Development Solutions (CDS) where CDS allege that Chorus breached obligations of confidentiality in respect of telecommunications network design in Marlborough. Chorus was successful on all counts at the High Court hearing in September 2019 and was awarded costs against CDS. CDS has appealed the High Court decision and Chorus remains confident that the High Court's decision will be upheld by the Court of Appeal when the appeal is heard in October.

There are no other contingent liabilities as at 30 June 2020.

## **Note 22 – Subsequent events**

### **Dividends**

On 24 August 2020 Chorus declared a dividend in respect of year ended 30 June 2020. The total amount of the dividend is \$62 million, which represents a fully imputed dividend of 14.0 cents per ordinary share.

### **West Coast Southland Network Build (WCSNB) agreement**

Chorus has signed an additional agreement as part of the WCSNB in July 2020 and is committed to deploying fibre in the Milford Sound area of the South Island. Chorus will be receiving CIP funding of \$17 million for phase 2 of this project.

### **CIP Non-Standard Installations (NSI) agreement**

In September 2016 Chorus agreed with CIP that Chorus would continue to fund non-standard installations (NSI) of UFB fibre connections on the basis that the NSI contribution from Chorus would be recoverable as part of the regulated asset base that will underpin the new regulatory model to be implemented by the Commerce Commission. At the request of the Commission the implementation of the new regulatory model was delayed by two years to 1 January 2022. Chorus and CIP have agreed to adjust some unissued equity securities due to the consequential delay in recovering the NSI funding. CIP will extend the dividend payment dates to 2036 on all UFB2 equity securities called by Chorus after 1 July 2020. The dividend payment dates of \$90m of UFB2 equity securities that are still to be issued have been extended by a weighted average of 4 years.



$$[x + \frac{1}{x}] < (x + \frac{1}{h})_{x=2}$$

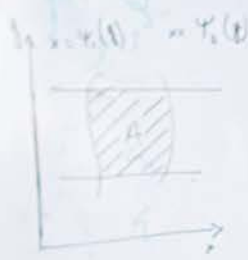
$$\int_0^h \pi \left(\frac{r}{h}x\right)^2 dx = \int_0^h \frac{\pi r^2}{h^2} x^2 dx$$

$$= \frac{\pi r^2}{h^2} \left[ \frac{x^3}{3} \right]_0^h = \frac{\pi r^2}{h^2} \cdot \frac{h^3}{3} = \frac{\pi r^2 h}{3}$$

$$+ C (a+x)^n = \sum_{k=0}^n C \binom{n}{k} a^{n-k} x^k$$

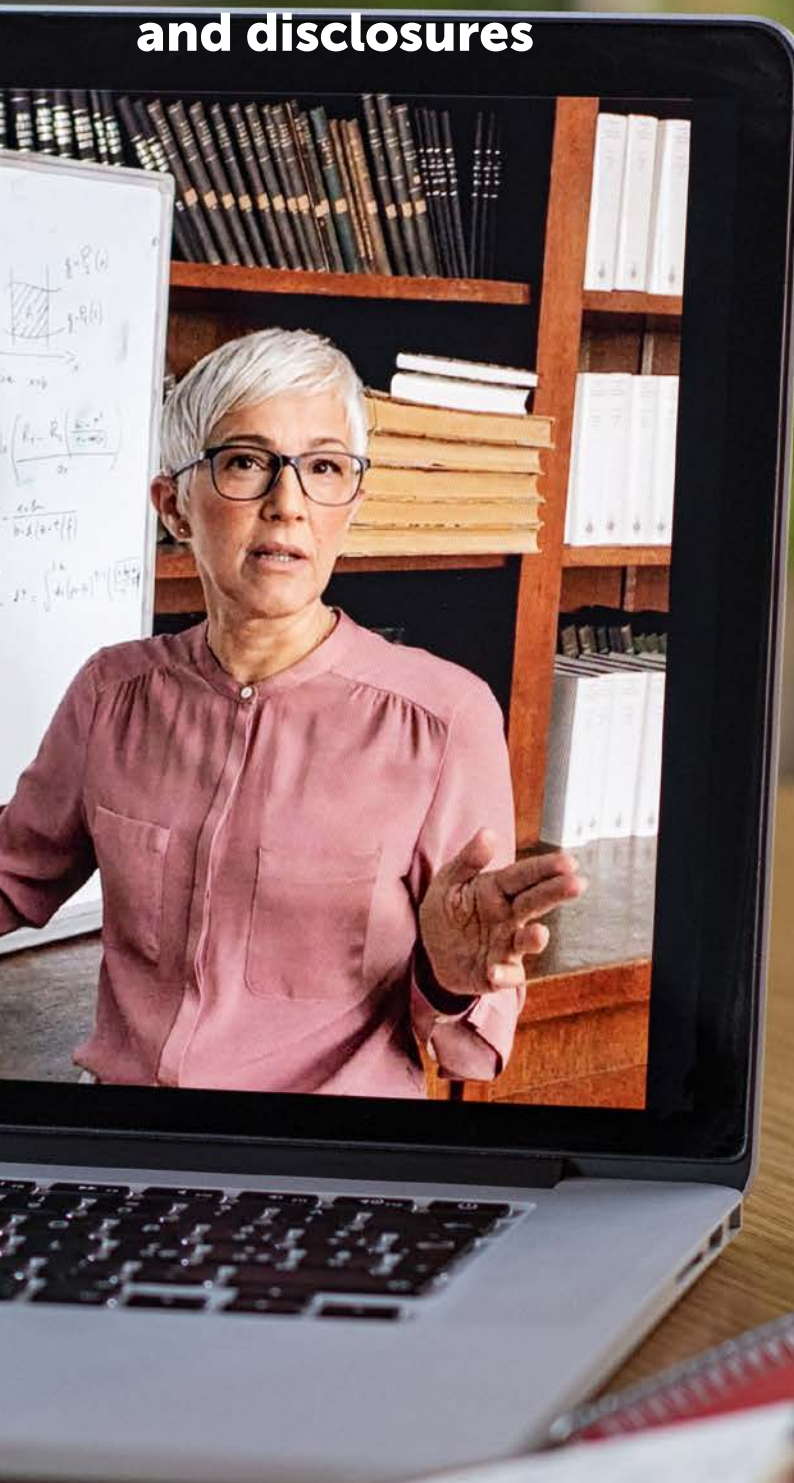
$$= \int_0^h x \left(\frac{r}{h}x\right)^2 dx = [x + \frac{1}{x}]$$

$$= \frac{\pi r^2 h}{3} + \frac{1}{x}$$





## Governance and disclosures



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# Our Board



## Patrick Strange

BE (Hons), PhD

### Chair

Director since 6 April 2015  
Independent

Patrick has spent 30 years working as a senior executive and director in both private and listed companies, including more than six years as Chief Executive of Transpower where he oversaw Transpower's \$3.8 billion of essential investment in the National Grid. Patrick is currently chair of Auckland International Airport, and a director of Mercury NZ.

Patrick is chair of our Nominations and Corporate Governance Committee.



## Jon Hartley

BA Econ Accounting (Hons), Fellow ICA (England & Wales), Associate ICA (Australia), Fellow AICD

### Deputy Chair

Director since 1 December 2011  
Independent

Jon is a chartered accountant and fellow of the Australian Institute of Company Directors.

He has held senior roles across a diverse range of commercial and not for profit organisations in several countries, including as chair of SkyCity, deputy chair of ASB Bank and Sovereign Assurance Company, director of Mighty River Power, chair of VisionFund International, chair of the Wellington City Mission, a trustee of World Vision New Zealand, CEO of Brierley New Zealand and Solid Energy, and CFO of Lend Lease in Australia.

Jon is currently chair of Kiwibank Limited, Timberlands and VisionFund International.

Jon is on our Audit and Risk Management Committee and our Nominations and Corporate Governance Committee.

Jon will step down from the Board as at 31 August 2020.



## Mark Cross

BBS (Accounting & Finance), CA

Director since 1 November 2016  
Independent

Mark is an experienced director with more than 20 years of international experience in corporate finance and investment banking.

Mark is currently chair of Milford Asset Management, and MFL Mutual Fund Superannuation Investments, and is a director of Z Energy and Xero. He is also a former director of Genesis Energy and Argosy Property.

Mark is a member of Chartered Accountants Australia and New Zealand, a chartered member of the Institute of Directors NZ and a member of the Australian Institute of Company Directors.

Mark is chair of our Audit and Risk Management Committee.



## Prue Flacks

LLB, LLM

Director since 1 December 2011  
Independent

Prue is a professional director with experience across a range of industries.

Prue was formerly a commercial lawyer and a partner in the national law firm Russell McVeagh for 20 years. Her expertise includes corporate and regulatory matters, corporate finance, capital markets and business restructuring.

Prue is currently a director of Bank of New Zealand and chair of Mercury NZ Limited. She is a chartered member of the Institute of Directors.

Prue is on our People, Performance and Culture Committee and on our Nominations and Corporate Governance Committee.



**Our Board and management are committed to ensuring our people act ethically, with integrity and in accordance with our policies and values.**



**Murray Jordan**

MProp

Director since  
1 September 2015  
Independent

Murray has extensive experience in the management of highly customer focused organisations and in navigating extremely complex environments, including as managing director of Foodstuffs North Island, one of New Zealand's largest companies.

Murray has also previously held various general manager positions at Foodstuffs and management roles in the property investment and development sectors. He is a director of Metcash Limited, an ASX listed company, Southern Cross Medical Care Society, SkyCity and Stevenson Group, and a Board trustee of Starship Foundation.

Murray is chair of our People, Performance and Culture Committee.



**Jack Matthews**

BA Philosophy, College of William and Mary

Director since  
1 July 2017  
Independent

Jack is an experienced director who has held a number of senior leadership positions within the media, telecommunications and technology industries in Australia and New Zealand.

Jack has extensive telecommunications industry experience having been CEO of TelstraSaturn during the period they deployed their HFC network in New Zealand, as well as a former director of Crown Fibre Holdings, the Crown agency overseeing the rollout of New Zealand's fibre infrastructure network.

Formerly, Jack was CEO of Fairfax Media's Metro Division, CEO of Fairfax Digital and Chief Operating Officer of Jupiter TV (Japan).

Jack is currently the chair of MediaWorks, a director of Plexure Group and New Zealand Golf Network Limited and a former director of The Network for Learning, APN Outdoor Group and Trilogy International.

Jack is on our Audit and Risk Management Committee.



**Sue Bailey**

Graduate Diploma in Marketing (with Distinction) from RMIT University

Director since  
31 October 2019  
Independent

Sue has over 30 years experience in telecommunications, across fixed telephony, mobile and broadband. She has worked for Telstra, Virgin Mobile and most recently for Optus where she was a member of the executive leadership team.

From 2010 to 2013, Sue was the CEO for Virgin Mobile Australia, a fully owned subsidiary of Optus. Prior to that, she was a Senior Vice President at Virgin Mobile USA where her responsibilities included product marketing, customer lifecycle management and analytics. Sue's career began in Telstra, where she held a range of marketing and product roles.

Sue is on our People, Performance and Culture Committee.



**Kate Jorgensen**

BBus, CA

Director (Board appointment of 1 July 2020 to be confirmed by shareholder vote at Annual Shareholder Meeting on 29 October 2020)  
Independent

Kate has significant financial, audit, governance and commercial experience and has held a number of senior leadership positions within the telecommunications, infrastructure and construction industries in New Zealand.

Most recently, she was CFO of Vodafone New Zealand. Prior to that, Kate was CFO of KiwiRail, CFO of Fletcher Building's infrastructure division and a senior audit manager for KPMG.

Kate is a member of Chartered Accountants Australia and New Zealand.

Kate is a member of our Audit and Risk Management Committee.

# Corporate governance framework

## **This statement outlines the key aspects of our corporate governance framework and was approved by our Board on 24 August 2020.**

As a New Zealand company listed on the NZX, our corporate governance policies and practices meet or exceed the standards of that market. We have adopted and fully followed the recommendations set out in the NZX Corporate Governance Code.

Although we have an ASX “foreign exempt” listing status<sup>1</sup> we also continue to take the ASX Corporate Governance Code into account in our governance practices and policies.

Our Board regularly reviews and assesses our governance policies, processes and practices to identify opportunities for enhancement.

Our corporate governance practices are outlined on the following pages and available at [www.chorus.co.nz/governance](http://www.chorus.co.nz/governance).

Key corporate governance documents are also available at [www.chorus.co.nz/governance](http://www.chorus.co.nz/governance).

### **Our Board’s role**

Our Board is appointed by shareholders and has overall responsibility for strategy, culture, health and safety, governance and performance.

### **Board membership**

Our Board’s skills, experience and composition support effective governance and decision making, positioning it to add value.

Supported by the Nominations and Corporate Governance Committee (NCGC) our Board regularly assesses its composition utilising a skills matrix and annual evaluation processes. Training is provided or recruitment undertaken if new or additional skills or experience is required. This ensures diversity of thought, skills and expertise and that our Board remains aligned with our strategic direction.

Our constitution provides for a minimum of five and a maximum of 12 directors.

As at 30 June 2020 we had seven directors all of whom are independent directors.

Directors are not appointed for specified terms. However, the NZX listing rules compulsorily require that no director term exceeds three years, requiring all directors to stand again for re-election before their third anniversary. Due to Chorus’ succession planning, Chorus has at least one director standing for re-election each year. Mark Cross stood for re-election in 2019, while Sue Bailey stood for election as a new director.

We recognise that women and ethnic minorities are still under-represented in the leadership of New Zealand businesses and our Board remains actively conscious of this in its succession planning. More information on our approach to diversity is set out later in this report.

<sup>1</sup> An ASX foreign exempt listing is based on the principle of substituted compliance. This means our primary obligation is to comply with the NZX listing rules (as our home exchange). As a result we do not need to follow or report against compliance with the ASX Corporate Governance Code.

<b>Summary<sup>1</sup> of our Board's roles and responsibilities:</b>	
Culture	<ul style="list-style-type: none"> <li>• Leading culture "from the top" so our culture is consistent with our values</li> </ul>
Strategy & performance	<ul style="list-style-type: none"> <li>• Engaging in ongoing strategy development</li> <li>• Overseeing capital allocation</li> <li>• Approving, and reviewing performance against, our strategy and business plans (including capital expenditure and operating budgets)</li> </ul>
Financial oversight & reporting	<ul style="list-style-type: none"> <li>• Overseeing our accounting and reporting systems and, where appropriate, approving our financial and other reporting</li> <li>• Overseeing and monitoring the performance of internal and external auditors</li> <li>• Overseeing our control and accountability systems</li> <li>• Overseeing long term capital management (balance sheet and dividends)</li> <li>• Setting, monitoring and reviewing our internal audit plan</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>• Adopting and reviewing Chorus' risk management framework, including setting the risk appetite</li> <li>• Regularly reviewing principal risk reporting</li> </ul>
Health & safety	<ul style="list-style-type: none"> <li>• Setting the strategy, culture and expectations in relation to health and safety</li> </ul>
Board composition & performance	<ul style="list-style-type: none"> <li>• Reviewing and evaluating Board, Board committee and individual director performance</li> <li>• Appointing members to Board committees</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Overseeing corporate governance, including reviewing key governance documents</li> <li>• Carrying out the functions specifically reserved to our Board and its committees under Board approved policies and committee charters</li> <li>• Monitoring compliance with our continuous disclosure obligations</li> </ul>
People	<ul style="list-style-type: none"> <li>• Reviewing and approving remuneration and people strategies, structures and policies</li> <li>• Appointing and removing our CEO, CFO and General Counsel &amp; Company Secretary</li> <li>• Assessing the measurable objectives set for, and progress towards achieving, our diversity and inclusiveness goals</li> </ul>
Significant transactions	<ul style="list-style-type: none"> <li>• Approving major capital expenditure and business activities outside the limits delegated to management</li> </ul>

<sup>1</sup> Summary primarily drawn from our Charter but also from other supporting governance documents.

Figure 12

Director tenure

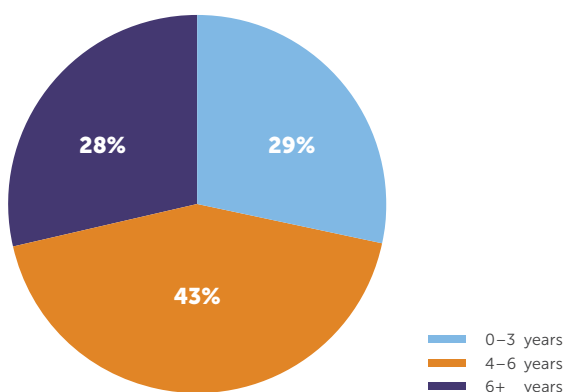
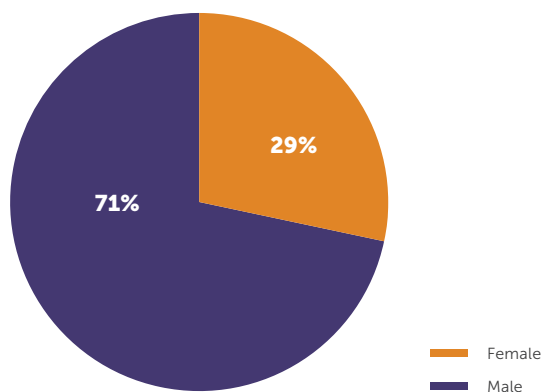


Figure 13:

Board gender diversity



\* Tenure and Gender Diversity calculated ahead of Kate Jorgensen’s appointment on 1 July, 2020. If calculated at 1 July 2020, Director Tenure ratios would be 38% : 37% : 25%. Board gender diversity would be 38% female : 62% male.

Director	Appointed	Last elected at ASM
Prue Flacks	2011	2017
Jon Hartley	2011	2017
Murray Jordan	2015	2018
Patrick Strange	2015	2018
Mark Cross	2016	2019
Jack Matthews	2017	2017
Sue Bailey	2019	2019

Prue Flacks and Jack Matthews are retiring by rotation and standing for re-election at our 2020 ASM. Kate Jorgensen is also standing for election following her appointment by the Board.

Our Board has determined that collectively its directors have a broad range of managerial, financial, accounting and industry skills and experience in the key areas set out on the following page.

A summary of current directors skills, experience and qualifications is set out on our website at [www.chorus.co.nz/governance](http://www.chorus.co.nz/governance).

As the Chorus business evolves, so too does the Board. Chorus’ beginnings were focused on infrastructure build

and project management. With the success of the build, we are increasingly focused on connecting customers and their experience as well as future connectivity and innovation opportunities. The Board considers it is important to balance both specialist expertise and the ongoing need for strong general commercial expertise.

The following table reflects the strengths of the current Board based on a mix of key skills and experiences that are currently relevant for Chorus.

Skill/experience	Description	Combined Board
Capital markets and investment	Experience in, and understanding of, capital markets, market regulation, capital investment and the investor experience	
Communications connectivity and technology	Understanding, expertise and/or experience in communications connectivity, adopting new technologies, leveraging and implementing technologies	
Governance – financial, audit, legal, listed company	Experience with, and a commitment to, high corporate governance standards including in listed companies Understanding financial business drivers, and/or experience implementing or overseeing financial accounting, external reporting and internal financial controls	
Physical infrastructure and operations including contracting, safety and risk	Experience in leading, and/or understanding of, physical infrastructure operations, including contracting Commitment and experience in management of workplace safety Experience anticipating and identifying key risks and monitoring the effectiveness of risk management frameworks and controls	
Governance – executive experience in large businesses	Executive experience in leading large businesses, developing and implementing strategy and strategic objectives, assessing business plans and driving execution	
Infrastructure regulation	Understanding the current and developing regulatory environment, complexities and actual and potential impacts Expertise identifying and managing legal, regulatory, public policy and corporate affairs issues	
Customer experience	Experience in customer-led transformation, customer focus and/or customer centric organisations	

■ Substantial experience   
 ■ Moderate experience   
 ■ Some experience



## Appointment

Our Board may appoint additional directors to our Board or to fill a casual vacancy.

The independence, qualifications, skills and experience needed for the future and those of existing Board members are reviewed before appointing new directors. External advisors are also engaged to identify potential candidates.

To be eligible for selection, candidates must demonstrate appropriate qualities and satisfy our Board they will commit the time needed to be fully effective in their role.

Appropriate checks are undertaken before a candidate is appointed or recommended for election as a director, including as to the person's character, experience, education, criminal record and bankruptcy history.

Shareholders may also nominate candidates for appointment to our Board. In addition, under the agreements entered into with CIP relating to our UFB programme, CIP is entitled to nominate one person as an independent director, however CIP have never exercised this entitlement. Should this occur, our Board must consider this nomination in good faith, but the appointment (and removal) of any such person as a director is to be made by shareholders in the same way as other directors.

We have written agreements with each non-executive director setting out the terms of their appointment, including obligations and responsibilities, compliance with our policies (including code of ethics and securities trading) and ongoing professional development.

No person who is an 'associated person' of a telecommunications services provider in New Zealand may be appointed or hold office as a director.

## Minimum shareholding policy

Chorus' Minimum Shareholding Policy sets the expectation on Directors to hold, at minimum, shares equal in value to one year's director base fee (after tax). If not held at date of appointment (or policy), the policy expects Directors to accumulate this holding over the first three years in office.

## Director induction and professional development

Our director induction programme ensures new directors are appropriately introduced to management and our business, provides directors with relevant industry knowledge and familiarises them with key governance documents and key stakeholders.

Our directors are expected to continue ongoing professional development to ensure they maintain appropriate expertise to effectively perform their duties.

We hold dedicated Board education sessions covering a range of topical matters, both technical and cultural.

Visits to our operations, briefings from key management, industry experts and key advisers, together with educational and stakeholder visits, are also arranged for our Board.

## Review and evaluation of Board performance

Our Board uses internally and externally facilitated performance and evaluation processes overseen by our NCGC. As part of this process our chair meets with directors individually to discuss performance.

Our Board also formally engages in annual reviews of our Board chair, and chairs of our standing Board committees.

In addition to Board performance reviews, our Board takes a future focused approach to future Board capability, composition and the potential contribution of each existing director.

## Independent advice

A director may, with our chair's prior approval, obtain independent professional advice (including legal advice) and request the attendance of advisers at Board and Board committee meetings.

## Independence

All our directors are independent directors.

For a director to be considered independent our Board must affirmatively determine he or she does not have a disqualifying relationship as set out in our Board charter. These disqualifying relationships reflect those set out in the NZX listing rules and NZX and ASX corporate governance codes.

Our Board has not set financial materiality thresholds for determining independence but considers materiality in the context of each relationship and from the perspective of the parties to that relationship.

## Delegation of authority

Our Board has overall responsibility for strategy, culture, health and safety, governance and performance.

Implementation of our Board approved strategy, business plan and governance frameworks, and responsibility for developing our culture and health and safety practices, is delegated by the Board to management through the CEO.

As such our CEO (with the support of his executive team) is responsible for Chorus' day-to-day management, operations and leadership, reporting to the Board on key performance, management and operational matters.

Our CEO sub-delegates authority to his executive team and they sub-delegate their authority to other Chorus employees within specified financial and non-financial limits.

Formal policies and procedures govern the parameters and operation of these delegations.

Three standing Board committees also assist our Board in carrying out its responsibilities. Some Board responsibilities, powers and authorities are delegated to those committees.

Other committees may be established and specific responsibilities, powers and authorities delegated to those committees and/or to particular directors.

### Board committees

Board committees assist our Board by focusing on specific responsibilities in greater detail than is possible for the Board as a whole. Each standing Board committee has a Board approved charter and chair. Committee members are appointed by our Board.



#### Audit and Risk Management Committee (ARMC)

Role	Our ARMC assists our Board in overseeing our risk and financial management, accounting, audit and financial reporting
Members	Mark Cross (chair), Jon Hartley, Jack Matthews
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> <li>Overseeing the quality and integrity of external financial reporting, financial management and internal controls</li> <li>Regularly reviewing principal risk reporting</li> <li>Recommending to our Board the appointment, and if necessary removal, of the external auditor</li> <li>Assessing the adequacy of the external audit and independence of the external auditor</li> <li>Reviewing and monitoring the internal audit plan and reporting</li> <li>Overseeing the independence and objectivity of the internal audit function</li> <li>Reviewing compliance with applicable laws, regulations and standards</li> </ul>

#### People Performance and Culture Committee (PPCC)

Role	Our PPCC assists our Board in overseeing people, culture and related policies and strategies
Members	Murray Jordan (chair), Prue Flacks, Sue Bailey
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> <li>Reviewing people and remuneration strategies, structures and policies</li> <li>Approving annual remuneration increase guides and budgets</li> <li>Reviewing candidates for, and the performance and remuneration of, our CEO</li> <li>Approving, on the recommendation of our CEO, the appointment of our CEO's executive direct reports (except our CFO and General Counsel &amp; Company Secretary whose appointment is approved by our Board)</li> <li>Reviewing our CEO's performance and his evaluation of his executive direct reports</li> <li>Developing and annually reviewing and assessing diversity and its reporting</li> <li>Overseeing recruitment, retention and termination policies and procedures for senior management</li> <li>Making recommendations (including proposing amendments) to our Board with respect to senior executive (including CEO) incentive remuneration plans</li> <li>Annually reviewing non-executive director remuneration</li> </ul>

## Nominations and Corporate Governance Committee (NCGC)

Role	Our NCGC assists our Board in overseeing and promoting continuous improvement of corporate governance at Chorus
Members	Patrick Strange (chair), Jon Hartley, Prue Flacks
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> <li>Identifying and recommending suitable candidates for appointment to our Board and Board committees</li> <li>Reviewing the size, independence, qualifications, skills, experience and composition of our Board</li> <li>Developing, reviewing and making recommendations to our Board on corporate governance principles</li> <li>Establishing, developing and overseeing a process for the annual review and evaluation of Board, Board committee, and individual director performance</li> <li>Developing and reviewing Board succession planning (including for the Board chair)</li> <li>Monitoring compliance with our codes of ethics and managing breaches of the Director Code of Ethics</li> <li>Reviewing and overseeing director induction and ongoing professional development</li> </ul>

### Board chair

Our chair is elected by the Board and must be a non-executive, independent director.

The chair's responsibilities include:

- Leading the Board;
- Setting the agenda for Board meetings in consultation with the CEO;
- Facilitating the effective contribution of all directors; and

- Promoting constructive relationships between directors and management.

The chair's other commitments must not hinder his or her effective performance in the role.

The Board has appointed an independent director as deputy chair to undertake chair's duties in her/his absence and assist our chair (including leading the annual review of our chair's performance).

### Board and Board committee meeting attendance in the year ended 30 June 2020

	Regular Board meetings	Other Board meetings <sup>1</sup>	ARMC	PPCC	NCGC
Total number of meetings held	9	6	4	4	2
Patrick Strange <sup>2</sup>	9	6			2
Jon Hartley	8	3	4		2
Mark Cross	9	5	4		
Prue Flacks	8	6		4	2
Murray Jordan	9	6		4	
Jack Matthews	9	6	3 <sup>5</sup>	2 <sup>6</sup>	
Sue Bailey <sup>4</sup>	7	4		3 <sup>6</sup>	
Anne Urlwin <sup>4</sup>	2	2	1 <sup>5</sup>		
Kate McKenzie <sup>3,4</sup>	3	2			

JB Rousselot is not a director, but has attended 100% (6) of all Board meetings as CEO since his appointment.

#### Notes:

- Includes dedicated Board education, and strategy and business planning, meetings. Directors also have at least two health and safety site visits each year.
- Patrick Strange, as Board chair, attends all Board committee meetings. As he is not a formal member of those committees that attendance is not noted in the table.
- Kate McKenzie was not a member of any of the Board committees but attended all committee meetings as CEO and an observer.
- Sue Bailey, Anne Urlwin and Kate McKenzie each respectively attended 100% of Board meetings during their tenures as director.
- Anne Urlwin resigned from ARMC on 31 October 2019, and Jack Matthews was appointed on this date.
- Jack Matthews resigned from PPCC Committee on 31 October 2019, and Sue Bailey was appointed on this date.

# Managing risk

**Like all businesses, we are exposed to a range of risks. Our risk management activities aim to ensure we identify, prioritise and manage key risks so we can execute our strategies and achieve our goals.**

## Risk management

No business can thrive without taking on risk. Effective risk management is about informed risk taking and appropriate and active management of risks.

We seek to understand and respond to our current and future business environment, and to actively seek and robustly evaluate opportunities and initiatives which protect and achieve our business strategies. We strive to understand, meet and appropriately balance stakeholders' expectations to deliver value to shareholders and a sustainable environment for Chorus in the long term.

## Our Board

Our Board is ultimately responsible for risk management governance:

- Annually setting risk appetite and tolerances and determining principal risks;
- Approving and regularly reviewing our Managing Risk Policy and supporting framework;
- Promoting a culture of proactively managing risk; and
- Through our ARMC, providing risk oversight and monitoring.

## Risk appetite

Our risk appetite sets our tolerable levels of risk. It forms a dynamic link between strategy, target setting and risk management and sets boundaries for day-to-day decision making and reporting.

## Risk management processes

Our Managing Risk Policy sets out how we manage our risks, including by:

- Having a single risk management framework;
- Providing the CEO and executive team with discretion to manage risk within the guidance provided in our framework;
- Balancing the level of control implemented to mitigate identified risks with our commitment to comply with external regulation and governance requirements and Chorus' value and growth aspirations; and
- Meeting good practice standards for risk management processes and related governance.

## Principal risks

Principal risks are owned by relevant executives. This promotes integration into operations and planning and a culture of proactive risk management. Notwithstanding individual ownership, our CEO and executive hold collective responsibility for considering how risk and events interrelate and for managing our overall risk profile.

Principal risks are reported to our ARMC quarterly and, if necessary, also by exception. Principal Risk owners support the regular reporting from the Internal Audit & Compliance Manager's by providing "deep dives" on the risks they own. Our ARMC reports to our Board.

Principal risks are assessed with each responsible executive and collectively with the executive team before being reported to the ARMC. This allows for constructive challenge and debate. Underlying risk assessment and monitoring practices are undertaken by each principal risk owner with assistance from our Risk Compliance & Internal Audit team.

Our Board also receives management and other internal and external reporting over risk positions and our risk management operation (including from internal audit plans approved by the ARMC) through our overall governance framework.

## The risk and control environment



Our ARMC reviews the remuneration and incentive arrangements of our Head of Risk Compliance & Internal Audit and our Risk & Assurance Manager each year.

Principal risks are our key risks to the achievement of our strategy. These are assessed on a risk profile identifying likelihood of occurrence and potential severity of impact. Current principal risk categories are identified via a comprehensive enterprise risk management framework encompassing financial and non-financial risks. They include anticipating and responding to:

- Customer/market risks: customer service and experience; revenue growth and market changes;
- Operational risks: e.g. network and IT quality, availability and resilience; delivering effective and quality outcomes (including with service partners); labour market risks;
- People & culture: e.g. health & safety; engagement; capability; talent and change management;
- Regulatory risks and broader societal expectations: e.g. working within the regulatory and legal environment, and broader societal expectations;
- Capital management: e.g. working within appropriate capital management settings.

Our climate change risks are reviewed as part of our operational risks (see the Climate Change Assessment section on page 83).

### Internal audit

We operate a co-sourced internal audit model with our Head of Risk, Compliance & Internal Audit and her team supported by external advisors PricewaterhouseCoopers to provide additional resource and specialist expertise as required.

The responsibilities of our internal audit function include:

- Assisting our ARMC and Board in their assessment of internal controls and risk management;
- Developing an internal audit plan for review and approval by the ARMC each year;
- Executing the plan and reporting progress against it, significant changes, results and issues identified; and
- Escalating issues as appropriate (including to our ARMC and/or Board chairs).

Our executive team and ARMC monitor key outstanding internal audit issues and recommendations as part of regular reporting and review, including the timeliness of resolution.

Our ARMC has direct and unrestricted access to our internal audit function, including meeting them without management.

Our Head of Risk, Compliance & Internal Audit has a management reporting line to our General Counsel & Company Secretary and a direct reporting line to our ARMC, attending every ARMC meeting.

### External auditor

Our Board and ARMC monitor the ongoing independence and quality of our external auditor. Our ARMC also meets with our external auditor without management present.

Our ARMC charter and External Auditor Independence Policy amongst other things:

- Prohibit the provision of certain non-audit services by our external auditor;
- Require ARMC approval of all audit and permitted non-audit services;
- Require our client services partner and lead/engagement partner to be rotated every five years (with a five year cooling off period) and other audit partners to be rotated every seven years (with a two year cooling off period);
- Require our ARMC to review our external auditor's fees half yearly (including the ratio of fees for audit vs. non-audit services); and
- Impose restrictions on the employment of former external audit personnel.

The non-audit services undertaken by our external auditor KPMG in the year to 30 June 2020 are set out in note 10 of the financial statements in this report. Those services were provided in accordance with our ARMC charter and External Auditor Independence Policy and did not affect KPMG's independence, including because:

- They were approved only where we were satisfied the services would not compromise KPMG's independence; and
- They did not involve KPMG acting in a managerial or decision-making capacity.

KPMG confirm their independence via independence declarations every six months.

Our external auditors attend our ASM each year.

## Health & Safety

**We are committed to taking all reasonably practicable steps to ensure a healthy, safe and secure environment for our people and anyone who is in the vicinity of our workplaces.**

We are committed to an open reporting culture and continuous improvement. We have zero tolerance for major injuries or fatalities. No business objective is prioritised over the health and safety of any person.

Our Board has a terms of reference setting out its roles and responsibilities in relation to health and safety at Chorus which is reviewed every two years.

Our Board ensures appropriate policies and procedures are adopted and implemented and reviews the monitoring, identification reporting and management of significant health and safety risks.

Health and safety is discussed at each scheduled Board meeting with our Board receiving reports from management containing comprehensive summaries of health and safety activity and outcomes, including data on all actual health and safety incidents, near misses, breaches, subsequent investigations (including assessment of root causes) and remedial actions.

Our Board receives additional quarterly reports on progress against our annual health and safety plan and directors carry out at least two health and safety site visits each year.

## People

### Managing performance

Our performance management approach is based on fostering and rewarding valuable business outcomes.

Our people have performance and development plans, which are regularly reviewed with their people leaders.

Performance plans are developed to connect our people with our strategy, their functional plans and individual roles. Performance plans include outcome based objectives, behavioural measures and an individual development plan.

Formal performance reviews were undertaken for all our people during the year. As part of this, people leaders sought feedback and participated in peer review and moderation sessions, resulting in an overall performance rating and remuneration recommendations determining an individual's total pay (fixed remuneration and variable).

A similar process is undertaken each year for our executive team, with our CEO making recommendations to our PPCC for executive team members, and our PPCC leading the performance review of our CEO, making recommendations to our Board. These processes are consistent with those set out in our PPCC charter and allow our Board to provide input into individual performance outcomes, total reward approvals (fixed and variable) and development plans. These processes were all undertaken in the year ended 30 June 2020.

We have written agreements with our CEO and each of our senior executives setting out the terms and conditions of their employment.



# Acting ethically

## Codes of ethics

Directors and employees are expected to act honestly and with high standards of personal integrity. Codes of ethics for our directors and employees set the expected minimum standards for professional conduct. These codes facilitate behaviours and decisions that are consistent with our values, business goals and legal and policy obligations, including in respect of:

- Conflicts of interest;
- Gifts and personal benefits;
- Anti-bribery and corruption;
- Use of corporate property, opportunities and information;
- Confidentiality;
- Compliance with laws and policies; and
- Reporting unethical behaviour.

We have communicated our codes of ethics and provided annual training to our directors and employees. Our people are also encouraged to report any unethical behaviour, including quarterly reporting of any potential conflicts. This process is subject to internal audit. All reported breaches are investigated.

Other policies reinforce the behaviours we expect at Chorus, including:

- **Bribery & gifts:** Acceptance of bribes, or gifts/other benefits which could be perceived as influencing decisions, are prohibited under our codes of ethics policies. Our Gifts and Entertainment Policy, which applies to all employees, contractors and the Chorus Board, sets out the parameters within which gifts and entertainment may be accepted and our approval processes for gifts and entertainment over \$150.
- **Anti-bullying, Harassment and Discrimination:** Our Anti-bullying, Harassment and Discrimination Policy reinforces our commitment to a psychologically and physically safe working environment including our zero tolerance approach to bullying, harassment and discrimination. Our policy is reflective of wider New Zealand legislation, such as the New Zealand Bill of Rights Act 1990 and Human Rights Act 1993, which prohibits discrimination and protects the right to freedom of expression. We have annual anti-bullying training.
- **Whistle blowing and fraud:** Our Whistle Blowing and Fraud policies allow for confidential reporting of serious misconduct or wrongdoing and suspected fraud or corruption. We have a dedicated whistleblower email address and phone number, the latter monitored by PWC. This latter number is available to all employees and also sub-contractors. New Zealand law also provides protection to employees who disclose information about serious wrongdoing in, or by, an organisation. These existing protections will be further enhanced by the Protected Disclosures (Protection of Whistleblowers) Act which is expected to become law from 2021. We also have a dedicated address for reporting any suspected fraud.

We did not receive any reports of serious instances of unethical behaviour by our employees in the year to 30 June 2020. Unfortunately we did receive reports of alleged unethical behaviour by some sub-contractors used by our service company partners.

We, and an independent reviewer, fully investigated these allegations.

## Trading in Chorus securities

Chorus' Minimum Shareholding Policy, sets the expectation on Directors to, subject to chair discretion, hold at a minimum, shares equal in value to one year's, post-tax, director base fees, accumulated over the first 3 years in office.

All trading in Chorus securities by directors and employees must be in accordance with our Securities Trading Policy. That policy prohibits trading in Chorus securities while in possession of inside information and requires, amongst other things:

- Directors to notify, and obtain consent from, the chair (or in the chair's case, the ARMC chair) before trading; and
- Employees identified as potentially coming across market sensitive information in the course of their employment ("restricted persons"), to obtain consent from our General Counsel & Company Secretary (or in our General Counsel & Company Secretary's case, our Board chair) before trading.

Trading in Chorus shares or NZX listed bonds by directors is disclosed to our Board, the NZX and ASX. Trading by "senior managers" is disclosed to the NZX.

## Market disclosures

We are committed to providing timely, factual and accurate information to the market consistent with our legal and regulatory obligations.

We have a Board approved Disclosure Policy and a CEO approved Market Disclosure Policy setting out our disclosure practices and processes in more detail.

Our disclosure policies are designed to ensure:

- Roles of directors, executives and employees are clearly set out.
- Appropriate reporting and escalation mechanisms are established.
- There are robust and documented confidentiality protocols in place where appropriate.
- Only authorised spokespersons comment publicly, within the bounds of information which is either already publicly known or non-material.

## Our approach to tax

We take our tax obligations seriously and work closely with Inland Revenue to ensure we meet our tax obligations.

We obtain external advice and Inland Revenue's views (through informal correspondence, determinations or rulings) in respect of unusual or material transactions.

As we operate only in New Zealand all our tax is paid in New Zealand at the prevailing corporate tax rate (currently 28%). We have paid all taxes we owe and all tax compliance obligations are up to date.



# Climate change assessment

We've considered our approach to climate change risk in line with the Task Force on Climate-related Financial Disclosure framework. We consider the potential near to medium term financial impact of climate change effects to be low for our business.

## Governance

The Board is responsible for Chorus' risk management framework, which includes climate-related risks, with our ARMC providing risk oversight and monitoring.

Risks are regularly identified, assessed, mitigated and reported at both the Executive Management and ARMC level. Key staff are responsible for managing risk within Chorus. For example, the GM Customer & Network Operations is responsible for operational risks relating to our nationwide physical network. Aspects of operational risks are identified under the risk management framework as principal climate-related risk. Mitigation includes planning for network deployment and protection, as well as ongoing maintenance and fault management.

## Risk Management

As part of our risk management framework, Chorus identifies different risks to our business, along with our mitigants. While many risks will be identified through the ordinary course of business, others, such as climate-related risks, are specifically assessed.

Our risk mitigation approach (including mitigating controls, risk responses and action plans designed to mitigate a risk), determines the appropriate level of response for identified issues. Mitigation actions for climate-related risks may include physical resilience improvements, relocation of assets, response planning, as well as risk transfer/insurance initiatives.

We expect our future asset management plans will continue to incorporate climate change considerations to increase resilience as the emerging effects and regional considerations become clearer.

## Strategy

### Physical risks

Our deployment of fibre past approximately 1.36 million homes and businesses by the end of 2022 is enhancing our network's resilience and making ultra-fast broadband more widely available. Fibre is less susceptible to water and lightning related faults than the cables and street-based electronics in the copper network.

Operational risk has been identified as one of our principal climate-related risks (as assessed against a risk profile identifying likelihood of occurrence and potential severity of impact). This incorporates a focus on network availability and resilience, including weather-related impacts.

In FY19 we commissioned an external climate change impact assessment to conduct high-level desktop risk screening of our key network assets. This identified that exposure of existing assets is most likely to occur along the New Zealand coastline due to projected sea level rise.

An 0.5 metre sea level rise, corresponding to projections to 2060 under representative concentration pathway 8.5H+, identified that in the medium term:

- five exchanges of varying size may be at potential risk from coastal inundation
- 0.3% or ~260 kilometres of core fibre routes are potentially at risk
- less than 0.5% of all point assets (exchanges, sites, terminal enclosures, underground utility boxes, and poles) are potentially at risk.

This report has been used along with other network information, such as experience from past extreme weather events, to inform our existing network planning and management practices. For example:

- we have a regular programme of building maintenance and flood protection work has been undertaken on the South Dunedin exchange.
- we use geotechnical surveys to identify potential landslip and other topographic risks when selecting fibre routes in rural areas.
- we place our cables on the downstream side of bridges, as protection against flood damage.

Some of the assets identified in the climate risk assessment are in areas where we aren't the local fibre network provider and will therefore have diminished relevance in the future.

## **Transition to a low-carbon economy**

As COVID-19 has demonstrated, high quality broadband supports alternative business models and communications options that reduce the need for carbon emitting activity (e.g. virtual desktop services enable work from home and reduce commuting; video conferencing reduces the need for regional travel while enhancing employee collaboration).

Broader consumer awareness of climate change may help drive wider adoption of fibre broadband, and higher speed 1Gbps plans, as a carbon minimising technology.

Fibre also requires less electricity to operate than the existing copper network. We expect our electricity usage to decline over time as we migrate customers to fibre, thereby reducing our network-related carbon emissions.

Our vehicle related emissions (direct and indirect) will also reduce as we shift from building and connecting customers to simply operating the new fibre network. Technology is enabling better identification of faults without the need for technician visits. Adoption of electric vehicles for field visits may also become feasible in the future with improvements in technology and cost.

## **Metrics and Targets**

We have a science based target of achieving an 80% reduction in our scope 1 and 2 greenhouse gas emissions, from our FY12 base year, by 2030. In FY20 we achieved a 37% reduction against this target. We've avoided a net cumulative 43 kilotonnes of carbon dioxide equivalent emissions since FY12.

# Stakeholder engagement

## Shareholder engagement

We are committed to fostering constructive relationships with shareholders that encourage engagement with us, including by:

- Communicating effectively with them;
- Giving ready access to balanced and understandable information;
- Making it easy for shareholders to participate in general meetings; and
- Maintaining an up to date website providing information about our business.

Our investor relations programme is designed to further facilitate two-way communication with shareholders, provide them and other market participants with an understanding of our business, governance and performance and an opportunity to express their views. As part of this programme we enable investors and other interested parties to ask questions and obtain information, meet with investors and analysts and undertake formal investor presentations. Our annual and half year results presentations are made available to all investors via webcast.

Annual meetings are held in a main centre and webcast to enable shareholders to view and hear proceedings online.

We enable shareholders to vote by proxy ahead of meetings without having to physically attend or participate in those meetings and adopt the one share one vote principle, conducting voting at shareholder meetings by poll.

Because of the ownership restrictions contained in our constitution, there may be rare circumstances where, in the event that the restriction is breached, our Board may prohibit the exercise of voting rights. More information on our ownership restrictions is included later in this report and in our constitution.

We consider that shareholders should be entitled to vote on decisions which would change the essential nature of our business.

Shareholders are also able to ask questions of, and express their views in respect of, our Board, management and auditors (including via appointed proxies) at and before annual meetings.

We encourage shareholders to communicate with us and our share registrar electronically, including by providing email communication channels and online contact details and instructions on our website.

## Stakeholder survey

We conduct a biennial survey of a diverse group of stakeholders to gauge perceptions of our performance and identify any matters that may require further attention. These stakeholders include investors and analysts, business leaders, central and local government, media, and telecommunications industry organisations.

# Diversity and inclusion

**Chorus has an established Belonging strategy to deliver and maintain our inclusive culture. Our aim is to strengthen our collective capability, identify, attract and retain diverse talent, and leverage the diversity of our people. The strategy is owned by the Board and Executive team.**

Our Board considers progress is being made in developing Chorus' diverse and inclusive culture. This is based on our annual review of the effectiveness of our strategy, as well as progress against our measurable diversity metrics and objectives.

## 1

### Flexible and adaptable workforce

In early 2019, we launched Flex@Chorus, our approach to flexible working. The policy provides access to multiple flexible working options for employees, including part-time hours, flexible locations, the ability to stagger a return to work and options for flexibility in work schedule. The key requirement for any application for flexibility is that it works for the individual, the team, the customer and Chorus as a whole.

The Flex@Chorus policy, together with our COVID-19 response, has had a strong positive effect on employee perceptions.

We now see an opportunity to extend our approach to flexible working further, post the COVID-19 lockdown where we were able to successfully establish "work from home" for all of our employees. A project team is working on how Chorus might reimagine the future of our work. This is a collaborative process, seeking input from our employees regarding their preferences and involving them in the design elements for the next iteration of Flex@Chorus.

### My work schedule is flexible enough to accommodate my family or personal life.

### I am satisfied with our flexible working policy



MAY 2020



MAY 2020



MAY 2020



MAY 2020



MAY 2019



MAY 2019



MAY 2019



MAY 2019

THE SUCCESS OF OUR FLEX@CHORUS POLICY IS REFLECTED IN ENGAGEMENT RESPONSES<sup>1</sup> PLACING

CHORUS IN THE TOP

**5%**

OF THE GLOBAL TECHNOLOGY BENCHMARK

<sup>1</sup> Chorus engagement survey data is provided by Peakon who are able to provide industry sector benchmarks for data comparison. Achieving a score that compares within the top 10% of the industry benchmark is considered best in class.

\* eNPS means employee Net Promoter Score. Net promoter scores can range from -100 to +100 and are calculated by subtracting the percentage of detractors (0-6 engagement score) from the percentage of promoters (9-10 engagement score).

2

### Diverse leadership

We achieved our target of a 40:40:20<sup>1</sup> gender ratio in our people leader community during the year. This means our people leader population is reflective of our wider employee population when gender is considered.

Chorus uses a career level remuneration system that has a total of nine career levels. The largest gender pay gap by career level is 4.1%. The remaining eight career levels have a gap of less than 3%, with five of those having a gap of less than 1%.

Chorus is committed and focused on promoting fair pay in our remuneration and pay strategy. Our objective is to achieve a 0% gender career level pay gap. A comprehensive pay analysis will be completed in FY21, following the completion of remuneration review processes.

We're very proud to have received three awards in the 2019 YWCA Equal Pay Awards. These were the Leadership, Progressive and Supreme Awards. This demonstrates the meaningful progress we've made in supporting equality in the workplace.

We continue to provide targeted development opportunities to support diversity in leadership and have a focus on gender diversity in leadership roles.

Figure 14:

#### Ethnicity by role 2020

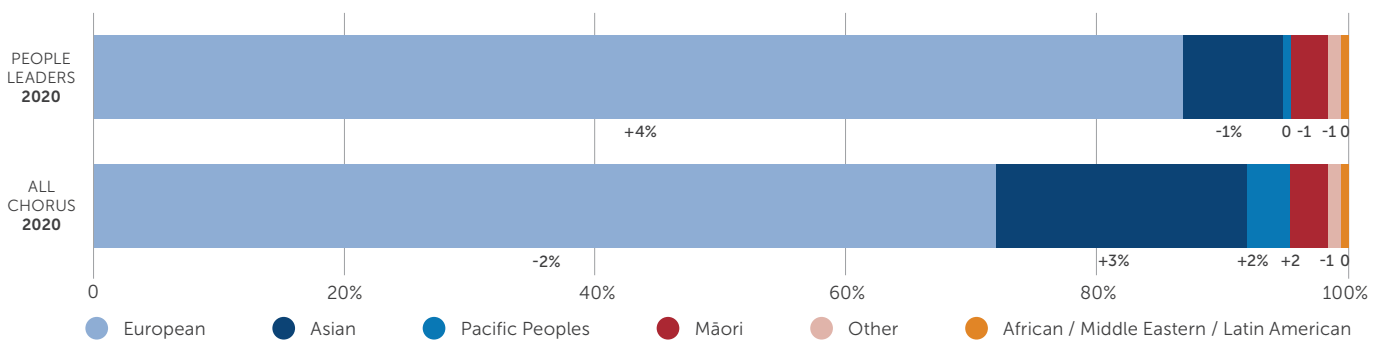


Figure 15:

#### Gender by role 2019 vs 2020



\* As at 1 July 2020

1 40% men, 40% women, 20% of any/either gender.

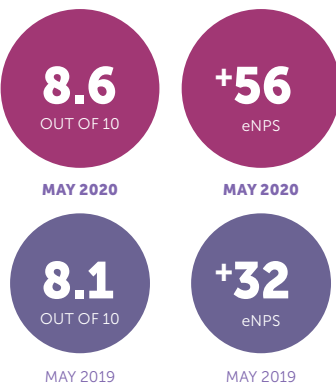
## Wellbeing

The Chorus wellbeing programme has four components – financial, physical, career and mental wellbeing. Each component has associated learning whether it be nutrition seminars, financial literacy, or ways to combat stress and anxiety. The wellbeing of our employees remains a priority and this was certainly amplified throughout our COVID-19 response.

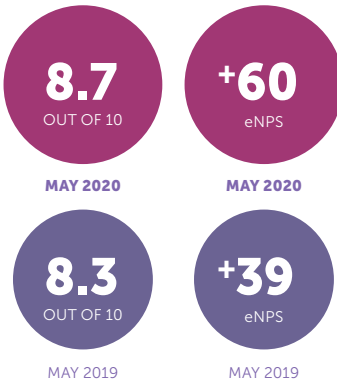
In FY20 we delivered the following wellbeing initiatives:

- retirement planning and financial wellbeing workshops through Sorted, an independent financial advice provider
- health challenges to encourage movement, increased vegetable and water intake and quality sleep
- promotion of anti-bullying and harassment through promotion of Pink Shirt Day
- Anxiety in Disguise workshops to educate employees on the benefits of correct breathing techniques to manage anxiety.

### Working here, I feel that I can live a balanced, healthy lifestyle.



### Chorus really cares about my mental wellbeing



THE SUCCESS OF OUR HEALTH & WELLBEING PROGRAMME IS REFLECTED IN ENGAGEMENT RESPONSES PLACING CHORUS IN THE TOP **5%** OF THE GLOBAL TECHNOLOGY BENCHMARK

## COVID-19

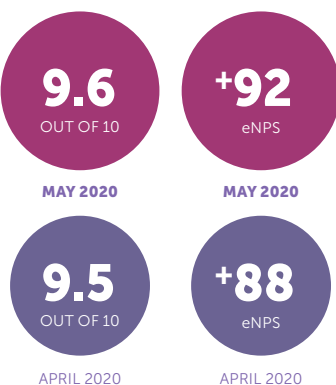
The COVID-19 lockdown tested the strength of our wellbeing programme. Across this period, we placed a concerted effort on supporting the health and wellbeing of our people. Some of the key initiatives we delivered included:

- working at home e-learning module
- access to 6 online financial modules through Sorted
- webinars on posture and pain prevention, growing vegetables, working with children

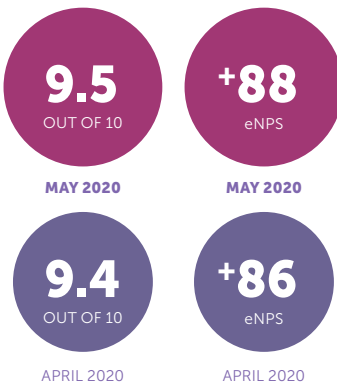
- supporting mental wellbeing with Sir John Kirwan and Mentemia and webinars with Jimi Hunt
- a Change and Resilience programme through the Langley Group
- online exercise videos for employees to follow.

To measure the effectiveness of our COVID-19 response, we asked specific questions in employee engagement surveys in April and May. The results for the health and wellbeing questions are outlined below:

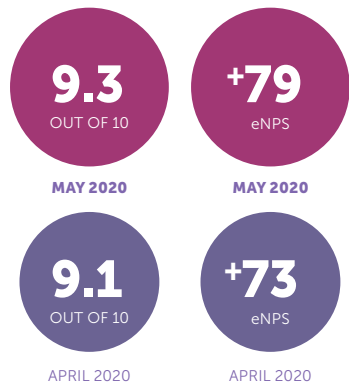
### Chorus has implemented appropriate precautions to keep me safe during the COVID-19 pandemic.



### Chorus is supportive of me caring for my loved ones during the COVID-19 pandemic.



### Chorus is doing enough to support my physical and mental wellbeing during the COVID-19 pandemic.



4

**Inclusive culture**

A number of employee networks that support our inclusive culture are now well established at Chorus. These include our Women’s network, Maori & Pasifika network and Wellbeing committees. The networks meet regularly and hold events, either for their members or more broadly for Chorus employees.

This year we established Mums and Dads networks and renamed our Mental Wellbeing network – Mental Fitness – in line with the network’s aim of continuing to build and maintain their mental fitness.

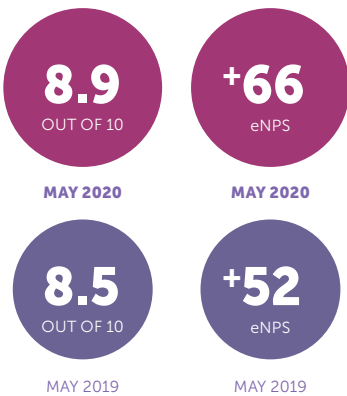
Another established network is our Rainbow network. We proudly received Rainbow Tick certification in 2019 and were reaccredited in 2020.

We understand, value and welcome sexual and gender diversity and celebrated our reaccreditation with a panel discussion to help our wider employee population understand the importance of Rainbow accreditation.

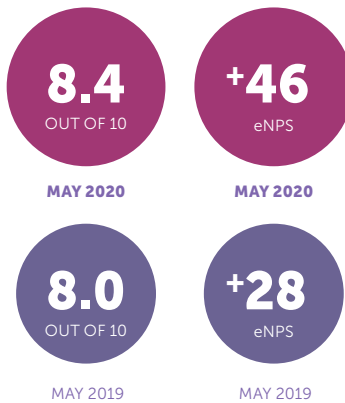
Our Belonging Committee is an umbrella group where all networks are represented alongside employees passionate to support inclusion at Chorus. The committee continue to work collaboratively with the People & Culture team to deliver diversity and inclusion initiatives based on the pillars of our programme.

The Engagement survey measures the success of having an inclusive culture via the following questions:

**People from all backgrounds are treated fairly at Chorus**



**I am treated like a valued member of Chorus.**





# Remuneration and performance

## Our remuneration model

Our remuneration model is designed to enable the achievement of our strategy, whilst ensuring that remuneration outcomes are aligned with employee and shareholder interests.

Remuneration is governed through the Board and assisted by the PPCC. The PPCC supports the Board to fulfil their remuneration obligation by overseeing our remuneration strategy and policy.

Figure 16:

Our remuneration policy is designed around six guiding principles:

Remuneration principles	What does this mean?
1 <b>Fair</b> to all - employees and shareholders, sharing in the success of Chorus.	= Commitment to pay equity and alignment with our shareholders' expectations.
2 Supports a <b>Performance</b> focused culture.	= Rewards aligned with performance.
3 <b>Valued</b> by our people.	= We have a diverse workforce and aim to provide an appropriate suite of rewards that provide value, now and in the future.
4 <b>Simple</b> to understand and administer.	= Simplicity promotes understanding, clarity and fairness perception.
5 <b>Market</b> — aligned with our competitors.	= We ensure we are not over or underpaying our people through robust market analysis that guides our decisions on remuneration.
6 <b>Point of difference</b> — how we know it is Chorus.	= Support our purpose, strategy, values, and employee value proposition.

For FY20 all employees had fixed remuneration, targeted at the market medium. During FY20, two material changes were made to Chorus' remuneration strategy.

1) Eligibility of the FY20 short term incentive (STI) scheme was reviewed and only senior employees were invited to participate in the FY20 STI scheme. Further details of the scheme are outlined on page 91; and

2) As a result of changes to tax legislation, a new Chorus Executive Long Term Incentive (LTI) scheme was agreed and an initial grant of performance share rights was made to eligible executives. The fundamental value of the new scheme was unchanged from the old. Further details of the FY20 Chorus Long Term Incentive Plan are outlined on pages 57 and 91.

As well as a STI, the CEO and members of the executive leadership team also have the potential to earn a LTI. Both STI and LTI are deemed at risk because the outcome is determined by performance against a combination of pre-determined financial and non-financial objectives.

## Fixed remuneration

Fixed remuneration (not at risk) consists of base salary and other benefits including KiwiSaver. Fixed remuneration is adjusted each year based on data from independent remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current position when compared to the market.

### Short term incentive

The FY20 STIs are at risk component payments that are set as a percentage of fixed remuneration, from 15% to 30% based on the complexity of the role (the CEO’s STI is a higher percentage of fixed remuneration as set out later in this report). STI payments are determined following a review of Company and individual performance and paid out at a multiplier of between 0x and 1.75x for the CEO and executive leadership team, and between 0x and 2.8x for all other employees.

Company performance goals are set and reviewed annually by our Board to align with shareholder value. A focus on the customer experience continued to be a feature for the FY20 STI measures.

FY20 STI goals	
EBITDA	40% target to align with objective of modest growth
Customer experience	20% target based on customer experience, as measured by consumer scores for fibre installation and intact installation experience;
Connections	20% target based on Q4 revenue; and
Strategic and transformation initiatives	20% based on progress against key strategic and transformation initiatives.

Fundamental to the Chorus STI structure is a gateway goal. The philosophy of the gateway goal is to provide a preliminary threshold of financial success and affordability, before any other measures can be considered for potential STI payments. If the gateway goal is not achieved, then no STI is payable.

Individual performance goals for all employees are tailored to their role, with 70% of the goals based on what they achieve and 30% based on how they perform their role, which includes a health and safety component for all people leaders. Payments are subject to the Board’s discretion.

As an example of how the STI is calculated, an employee with fixed remuneration of \$100,000 and an STI element of 15% may receive between \$0 and \$42,000 (0x to 2.8x their STI percentage) depending on the level of company performance and their individual performance.

### Long term incentives

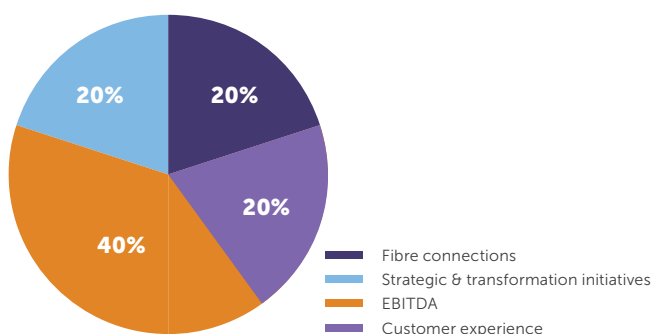
We offer long term incentives under an executive LTI share scheme to reward and retain key executives. The LTIs are an at risk payment designed to align the interests of executives and shareholders and encourage longer term decision making.

The LTI is described in more detail in Note 16 of the financial statements on page 57.

To further align executive interests with those of shareholders, a minimum shareholding policy was introduced in 2019. The policy prohibits executives from selling shares received under the new LTI, unless the executive holds the equivalent of at least 25% of their after tax base remuneration in Chorus shares (or 33% for the CEO).

Figure 17:

#### FY21 STI Goals



The FY21 STI scheme largely has the same focus areas as the FY20 scheme. The key change is the introduction of a fibre connection target, that replaces the Q4 fibre revenue target. For the strategic and transformation STI component, the Board will make a qualitative assessment on the transition to the new regulatory regime and other long-term business initiatives.

## Chief Executive employment agreement and remuneration

JB Rousselot's employment agreement reflects standard conditions that are appropriate for a senior executive of a listed New Zealand company.

The employment agreement may be terminated by:

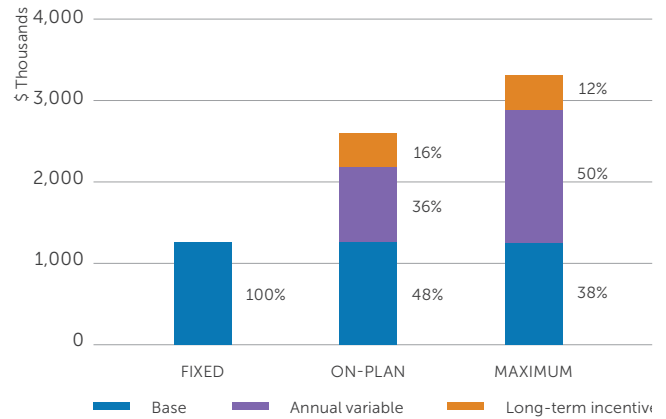
- either he or the company giving six months' notice in writing;
- the company without notice in the case of serious misconduct, serious breach (including substantial non-performance) or other cause justifying summary dismissal; or
- the company immediately, if the Board forms the view that substantial incompatibility and/or irreconcilable differences have developed with him, or the Board otherwise wishes to terminate his employment when he is not at fault (including a redundancy situation or medical incapacity).

Our CEO continues to have a significant portion of his remuneration linked to performance and at risk. Total remuneration for our CEO continues to be determined using a range of external factors, including advice from external

remuneration specialists and is reviewed annually by the PPCC and Board.

## CEO remuneration performance pay

The scenario chart below demonstrates the elements of the CEO remuneration design in the year ended 30 June 2020.



CEO remuneration for FY19 and FY20 was:

		Fixed remuneration		Pay for performance		Total remuneration
		Salary	STI	LTI		
JB Rousselot	FY20 <sup>1</sup>	763,699 <sup>2</sup>	661,554 <sup>3</sup>	–	–	1,425,253
Kate McKenzie	FY20	588,325 <sup>4</sup>	–	–	–	588,325
Kate McKenzie	FY19	1,224,000	844,560 <sup>5</sup>	–	–	2,068,560

1 JB Rousselot became CEO on 20 November 2019.

2 Salary pro-rated from 20 November start date.

3 STI for FY20 (paid FY21), pro-rated from 20 November start date.

4 Salary pro-rated to end date of 20 December 2019.

5 STI for FY19 performance period (paid FY20).

Other benefits paid to Kate McKenzie: Company Kiwisaver contributions in FY20 \$52,311 (FY19: \$67,372)

Other benefits paid to JB Rousselot: Company Kiwisaver contributions in FY20 \$22,672.

## Five year summary of CEO remuneration:

CEO		Total remuneration	% STI awarded against maximum	% STI extension awarded against maximum	% LTI awarded against maximum	% LTI replacement awarded against maximum	Span of LTI performance period
JB Rousselot	FY20	1,425,523 <sup>1</sup>	66	–	–	–	–
Kate McKenzie	FY20	588,325 <sup>2</sup>	–	–	–	–	–
Kate McKenzie	FY19	2,068,560	53%	–	–	–	–
	FY18	2,219,475	65%	–	–	–	–
	FY17	845,618	60%	–	–	–	–
Mark Ratcliffe	FY18	–	–	–	89%	–	FY15 – FY18 <sup>3</sup>
	FY17	1,981,987	48%	–	100%	100%	FY15 – FY17
	FY16	2,249,276	75%	100%	70%	–	FY13 – FY15

1 Total remuneration pro-rated from 20 November 2019 start date.

2 Total remuneration pro-rated to 20 December 2019 end date.

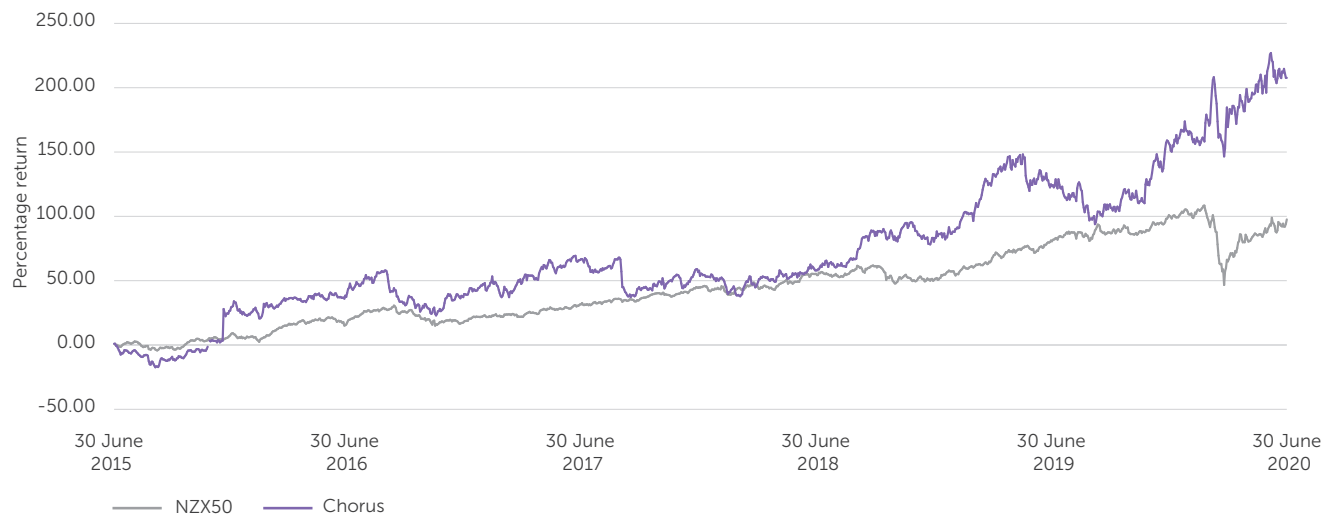
3 Three year grant made 1 July 2015.

The table below outlines the CEO's STI, LTI and extended LTI schemes for the performance period ending 30 June 2020<sup>1</sup>:

	Description	Performance measures	Percentage achieved
STI	Set at 75% of base remuneration. Based on key financial and non-financial performance measures.	<ul style="list-style-type: none"> <li>Company performance – see FY20 STI Goals table on page 91 for weightings.</li> <li>Individual performance – based on business fundamentals (both financial and non-financial), connections, revenue, customer experience and strategic initiatives.</li> </ul>	66%
LTI	Three-year grant made November 2019, equivalent to 33% of base remuneration.	Chorus TSR performance over grant period must exceed 10.35% on an annualised basis, compounding.	Assessed August 2022 with possible retesting up to August 2023.

<sup>1</sup> The STI payments for FY20 will be paid in FY21.

#### Total Shareholder Return (TSR) performance



The graph above shows Chorus' TSR performance against the NZX50 between 30 June 2015 and 30 June 2020.

## Executive shareholding

Chorus Executives hold shares in Chorus as shown in the table below.

Executive	Current Holdings	Shares Eligible to Vest
Andrew Carroll	72,651	43,089
David Collins	–	–
Ed Hyde	–	16,137
Elaine Campbell	–	14,670
Ewen Powell	49,584	28,330
Ian Bonnar	25,107	20,113
JB Rousselot	–	–
Kate McKenzie	–	65,862
Shaun Philp	327	26,606
Vanessa Oakley	64,658	30,287
<b>Total</b>	<b>212,327</b>	<b>245,094</b>

## Median pay gap

The median pay gap represents the number of times greater the CEO remuneration is to an employee paid at the median of all Chorus employees. At 30 June 2020, the CEO's base salary at \$1,250,000 (on an annualised basis), was 11.6 times that of the median employee at \$107,872 per annum.

The CEO's total remuneration (on an annualised basis and including STI), was 20 times the total remuneration of the median employee (including STI) at \$107,956

## Employee remuneration range for the year ended 30 June 2020

The table opposite shows the number of employees and former employees who received remuneration and other benefits in excess of \$100,000 during the year ended 30 June 2020.

The number of employees has increased from FY19 due to changes in the STI scheme. This meant an increase in base salaries for employees no longer eligible for STI.

During the year, certain employees received contributions towards membership of the Marram Trust (a community healthcare and holiday accommodation provider), received contributions toward their Government Superannuation Fund (a legacy benefit provided to a small number of employees) and, if a member, received contributions of 3% of gross earnings towards their KiwiSaver accounts. These amounts are not included in these remuneration figures. Any benefits received by employees that do not have an attributable value are also excluded.

The remuneration paid to, and other benefits received by, JB Rousselot in his capacity as CEO are detailed on page 92 to 93, and are excluded from the table opposite.

The Living Wage in 2019/20 was \$21.15 per hour. Chorus does not have any permanent employee earning less than the current living wage.

Remuneration range \$ (Gross)	Number of employees in the year ended 30 June 2020		
	Actual Payment	REM only	REM including benefits
1,740,001–1,750,000		1	1
900,001–910,000		–	1
770,001–780,000		1	–
690,001–700,000		–	1
610,001–620,000		1	1
600,001–610,000		1	1
590,001–600,000		1	–
570,001–580,000		–	1
540,001–550,000		1	1
490,001–500,000		1	1
480,001–490,000		1	–
410,001–420,000		2	3
400,001–410,000		1	1
380,001–390,000		1	1
350,001–360,000		2	1
340,001–350,000		1	1
330,001–340,000		1	1
320,001–330,000		4	4
310,001–320,000		2	2
300,001–310,000		3	3
290,001–300,000		3	3
280,001–290,000		2	2
270,001–280,000		4	4
260,001–270,000		3	3
250,001–260,000		2	2
240,001–250,000		7	7
230,001–240,000		11	11
220,001–230,000		13	13
210,001–220,000		7	7
200,001–210,000		8	8
190,001–200,000		25	25
180,001–190,000		21	21
170,001–180,000		38	38
160,001–170,000		45	45
150,001–160,000		39	39
140,001–150,000		49	49
130,001–140,000		53	53
120,001–130,000		57	57
110,001–120,000		59	59
100,000–110,000		59	59
<b>Grand Total</b>		<b>530</b>	<b>530</b>

## Director remuneration

### Fee structure

Total remuneration available to directors (in their capacity as such) in the year ended 30 June 2020 was fixed at our 2019 annual shareholders' meeting at \$1,169,042 an increase of \$19,542 (1.7%) from the last fixed increase in 2016.

Annual fee structure	Year ended 30 June 2020 \$	Year ended 30 June 2019 \$
<b>Board fees:</b>		
Board chair	223,650	223,650
Deputy chair	167,750	167,750
Non-executive director	114,000	114,000
<b>Board committee fees:</b>		
<b>Audit and Risk Management Committee</b>		
Chair	32,600	32,600
Member	16,300	16,300
<b>People, Performance and Culture Committee</b>		
Chair	22,900	22,900
Member	11,750	11,750
<b>Nominations and Corporate Governance Committee</b>		
Chair	16,720	16,720
Member	8,880	8,880

### Notes:

- The Board chair and deputy chair receive Board fees only. Other directors receive committee fees in addition to their Board fees.
- Directors do not participate in a bonus or profit-sharing plan, do not receive compensation in share options, and do not have superannuation or any other scheme entitlements or retirement benefits.
- Directors may be paid an additional daily rate of \$2,400 for additional work as determined and approved by our chair and where the payment is within the total fee pool available. There was a zero increase in director and committee base fees in the year to 30 June 2020.

### Fees paid to Directors (in their capacity as such) in the year ended 30 June 2020

Director	Total fees <sup>1</sup> \$	Board fees	ARMC	PPCC	NCGC
Patrick Strange	223,650	223,650			-
Jon Hartley	167,750	167,750	-		-
Mark Cross	141,166	114,000	27,166		
Prue Flacks	138,346	114,000		15,466	8,880
Murray Jordan	133,183	114,000		19,183	
Jack Matthews	128,783	114,000	10,866	3,916	
Anne Urtwin <sup>5</sup>	48,866	38,000	10,866		
Sue Bailey <sup>6</sup>	83,833	76,000		7,833	
Kate McKenzie <sup>2</sup>	-	-			
<b>Total</b>					

### Notes:

- Amounts are gross and exclude GST (where applicable).
- Kate McKenzie as CEO did not receive any remuneration in her capacity as a director.
- Directors (other than the CEO) did not receive any other benefits.
- Directors are entitled to be reimbursed for travel and incidental expenses incurred in performance of their duties in addition to the above fees.
- Anne Urtwin retired as a director effective 31 October 2019.
- Sue Bailey was appointed as a director effective 31 October 2019.

### Fee structure from 1 July 2021

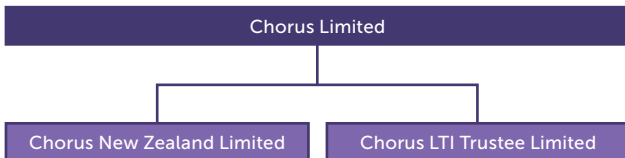
Our PPCC reviews non-executive director remuneration annually based on criteria developed by that committee. Based on that committee's recommendation the Board has determined not to change Board fees for the year from 1 July 2020.

# Disclosures

## Group structure

Chorus Limited has two wholly owned subsidiaries:

Chorus New Zealand Limited (CNZL) and Chorus LTI Trustee Limited (CLTL).



Chorus Limited is the entity listed on the NZX and ASX<sup>1</sup>. It is also the borrowing entity under the group's main financing arrangements and the entity which has partnered with the Crown for the UFB build.

CNZL undertakes (and is the contracting entity for) Chorus' operating activities and is the guarantor of Chorus Limited's borrowing. CNZL also employs all Chorus people. CNZL has its own constitution but its Board is the same as the Chorus Limited Board.

CLTL was incorporated in December 2014 as trustee for our long term incentive plan.

Disclosures in respect of CNZL and CLTL are set out in the "Subsidiaries" section on page 103.

## Indemnities and insurance

Chorus indemnifies directors under our constitution for liabilities and costs they may incur for their acts or omissions as directors (including costs and expenses of defending actions for actual or alleged liability) to the maximum extent permitted by law. We have also entered into deeds of indemnity with each director under which:

- Chorus indemnifies the director for liabilities incurred in their capacity as a director and as officers of other Chorus companies.
- Directors are permitted to access company records while directors and after they cease to hold office (subject to certain conditions).

Deeds of indemnity have also been entered into on similar terms with certain senior employees for liabilities and costs they may incur for their acts or omissions as employees, directors of subsidiaries or as directors of non-Chorus companies in which Chorus holds interests.

We have a directors' and officers' liability insurance policy in place covering directors and senior employees for liability arising from their acts or omissions in their capacity as directors or employees on commercial terms. The policy does not cover dishonest, fraudulent, malicious or wilful acts or omissions.

## Director change

Anne Urlwin, Kate McKenzie and Jon Hartley resigned as directors effective 31 October 2019, 19 November 2019 and 31 August 2020 respectively. Sue Bailey was elected as a director as at 31 October 2019. Kate Jorgensen's appointment as a director, effective 1 July 2020, was announced during the year to 30 June 2020.

## Notes:

<sup>1</sup> Chorus Limited is no longer listed on Luxembourg stock exchange following repayments of our GBP 260 million bonds in April, 2020



## Director interests and trading

As at 30 June 2020, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.069% of shares as follows:

### Current Directors

Director	Interest as at 30 June 2020		Transactions during the reporting period			
	Shares	Interest	Number of shares	Nature of transaction	Consideration	Date
Patrick Strange	41,000	Beneficial owner as beneficiary of Three Kings Trust	6,000	On market acquisition	\$30,600.00	28 August 2019
Mark Cross	28,616	Beneficial owner as beneficiary of Alpha Investment Trust; power to exercise voting rights and acquire/dispose of financial products as director of trustee.	696	Acquisition of shares on reinvestment of dividends under Chorus' dividend reinvestment plan	\$3,458.09	8 October 2019
			5,000	On market acquisition	\$25,500.00	29 August 2019
			415	Acquisition of shares on reinvestment of dividends under Chorus' dividend reinvestment plan	\$2,620.64	14 April 2020
Prue Flacks	19,442	Registered holder and beneficial owner	473	Acquisition of shares on reinvestment of dividends under Chorus' dividend reinvestment plan	\$2,350.11	8 October 2019
			4,000	On market acquisition	\$20,040.00	28 August 2019
			282	Acquisition of shares on reinvestment of dividends under Chorus' dividend reinvestment plan	\$1,780.77	14 April 2020
Murray Jordan	115,549	Registered holder and beneficial owner of ordinary shares as trustee and beneficiary of Endeavour Trust	78,438	On market acquisition	\$400,002.42	4 September 2019
			2,808	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$13,951.63	8 October 2019
			1,678	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$10,596.23	14 April 2020
Jack Matthews	10,147	Registered holder and beneficial owner	147	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$928.28	14 April 2020
Sue Bailey	5,000	Registered holder and beneficial owner	5,000	On market acquisition	\$39,524.42	10 June 2020
Anne Urlwin	20,768	Director and shareholder of registered holder	5,000	On market acquisition	\$25,399.87	4 September 2019
			627	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$3,115.26	8 October 2019
			374	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$2,361.74	14 April 2020*
* Disclosure made after Anne's resignation on 31 October 2019, pursuant to listing rule obligations to continue to disclose trading 6 months post resignation.						
Kate McKenzie	65,862	Beneficial interest under Chorus' long term incentive plan	58,095*	Off market purchase of shares granted under Chorus' long term incentive plan	Nil	17 October 2019
* Forfeited on her resignation rights to 58,095 shares under Chorus' long term incentive plan						

As at 30 June 2020, no directors had relevant interests (as defined in the Financial Markets Conduct Act 2013) in any Chorus' NZX bonds maturing May 2021.

As at 30 June 2020, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.111% of Chorus' NZX bonds maturing December 2028 as follows:

Director	Interest as at 30 June 2020		Transactions during the reporting period			
	Bonds	Interest	Number of bonds	Nature of transaction	Consideration	Date
Patrick Strange	340,000	Beneficial owner as beneficiary of Three Kings Trust	–	–	–	–
Prue Flacks	15,000	Registered holder as trustee of CJH Bull Family Trust	–	–	–	–
Murray Jordan	100,000	Registered holder and beneficial owner as trustee and beneficiary of Endeavour Trust	–	–	–	–
Jon Hartley	70,000	Beneficial owner as trustee and beneficiary of Hartley Family Trust	–	–	–	–
Anne Urlwin	30,000	Director and shareholder of registered holder	–	–	–	–

#### Changes in Director interests

Patrick Strange	None
Jon Hartley	Ceased as chair of Wellington City Mission <sup>1</sup> and chair of VisionFund International <sup>2</sup> . Appointed chair of Kiwibank Ltd <sup>3</sup>
Mark Cross	Became a director of Xero <sup>4</sup> .
Prue Flacks	Ceased as chair of Queenstown Airport Corporation <sup>5</sup> . Became chair of Mercury NZ Limited <sup>6</sup>
Murray Jordan	Became a Trustee of Southern Cross Health Trust which has 2 subsidiaries which Murray is a director of - Southern Cross Hospitals Limited and Southern Cross Benefits Limited. <sup>7</sup>
Jack Matthews	Post 30 June 2020 - Became a director of New Zealand Golf Network Limited <sup>8</sup>
Sue Bailey	None

#### Notes:

- 1 From 24 June 2020.
- 2 From 30 September 2019
- 3 From 28 November 2019
- 4 From 1 April 2020.
- 5 From 18 May 2020.
- 6 From 28 September 2019.
- 7 From 1 August 2019.
- 8 From 1 July 2020

### Director restrictions

No person who is an 'associated person' of a telecommunications services provider in New Zealand may be appointed or hold office as a director. NZX has granted a waiver to allow this restriction to be included in our constitution.

### Securities and security holders

#### Ordinary shares

Chorus Limited's shares are quoted on the NZX and on the ASX and trade under the 'CNU' ticker. There were 444,491,560 ordinary shares on issue at 30 June 2020. Each share confers on its holder the right to attend and vote at a shareholder meeting (including the right to cast one vote on a poll on any resolution).

#### Constitutional ownership restrictions

As part of the establishment of Chorus we inherited an obligation to obtain Crown approval prior to any person:

- Having a relevant interest in 10% or more of our shares; or
- Other than a New Zealand national, having a relevant interest in more than 49.9% of our shares.

On each request the Crown has provided approval, currently:

- L1 Capital Pty Ltd can hold a relevant interest in up to 15% of our shares.

- AMP Capital Holdings Limited can hold a relevant interest in up to 15% of our shares.

If our Board or the Crown determines there are reasonable grounds for believing a person has a relevant interest in our shares in excess of the ownership restrictions, our Board may, after following certain procedures, prohibit the exercise of voting rights (in which case the voting rights vest in our chair) and may force the sale of shares. Our Board may also decline to register a transfer of shares if it reasonably believes the transfer would breach the ownership restrictions.

NZX has granted waivers allowing our constitution to include the power of forfeiture, the restrictions on transferability of shares and our Board's power to prohibit the exercise of voting rights relating to these ownership restrictions. ASX has also granted a waiver in respect of the refusal to register a transfer of shares which is or may be in breach of the ownership restrictions.

#### Takeovers protocol

We have established a takeovers protocol setting out the procedure to be followed if there is a takeover offer, including managing communications between insiders and the bidder and engagement of an independent adviser. The protocol includes the option of establishing an independent takeover committee, and the likely composition and implementation of that committee.

### Shareholder distribution as at 30 June 2020

Holding	Number of holders	% of holders	Total number of shares held	% of shares issued
1 to 999	11,440	52.57%	4,727,138	1.06%
1,000 to 4,999	6,738	30.96%	15,907,776	3.58%
5,000 to 9,999	2,018	9.27%	13,422,849	3.02%
10,000 to 99,999	1,487	6.83%	30,993,401	6.97%
100,000 and over	80	0.37%	379,440,396	85.37%
Total	21,763	100%	444,491,560	100%

### Substantial holders

We have received substantial product holder notices from shareholders as follows:

Notices received as at 30 June 2020		
	Number of ordinary shares held	% of shares on issue
Mitsubishi UFJ Financial Group, Inc., Mitsubishi UFJ Trust and Banking Corporation, First Sentier Investors (Australia) IM Ltd, First Sentier Investors Realindex Pty Ltd	20,514,691	4.615% <sup>1</sup>
L1 Capital Pty Ltd	48,819,484	10.983% <sup>2</sup>
Commonwealth Bank of Australia	19,276,728	4.344% <sup>3</sup>
The Vanguard Group, Inc.	28,825,843	6.497% <sup>4</sup>

<sup>1</sup> & <sup>2</sup> As reported in the substantial product holder notices, based on 444,491,560 ordinary shares on issue at that time.

<sup>3</sup> & <sup>4</sup> As reported in the substantial product holder notices, based on 443,709,223 ordinary shares on issue at that time.

## Twenty largest shareholders as at 30 June 2020

Rank	Holder name	Holding	%
1	HSBC Custody Nominees (Australia) Limited	53,162,949	11.96
2	JP Morgan Nominees Australia Limited	48,546,487	10.92
3	Citibank Nominees (New Zealand) Limited	33,389,965	7.51
4	HSBC Nominees (New Zealand) Limited*	26,280,951	5.91
5	Citicorp Nominees Pty Limited	23,677,583	5.32
6	BNP Paribas Nominees (NZ) Limited*	22,427,964	5.04
7	National Nominees Limited	20,812,010	4.68
8	Accident Compensation Corporation	16,984,797	3.82
9	HSBC Nominees (New Zealand) Limited A/C State Street*	16,933,664	3.8
10	JP Morgan Chase Bank NA NZ Branch – Segregated Clients ACCT*	15,280,020	3.43
11	HSBC Custody Nominees (Australia) Limited	7,985,572	1.79
12	Forsyth Barr Custodians Limited <1-CUSTODY>	7,479,001	1.68
13	New Zealand Depository Nominee Limited A/C 1 Cash Account	6,241,061	1.4
14	BNP Paribas Nominees (NZ) Limited*	6,065,271	1.36
15	ANZ Wholesale Australasian Share Fund	5,964,701	1.34
16	JBWere (NZ) Nominees Limited NZ Resident A/C	5,939,069	1.33
17	HSBC Custody Nominees (Australia) Limited Nt-Comnwlth Super Corp A/C*	5,532,952	1.24
18	HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	5,344,719	1.2
19	BNP Paribas Nominees (NZ) Limited*	4,592,875	1.03
20	ANZ Custodial Services New Zealand Limited*	3,926,284	0.88

\* Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members. As at 30 June 2020, 143,968,887 Chorus ordinary shares (or 32% of the ordinary shares on issue) were held through NZCSD.

## American depositary receipts

American Depositary Shares, each representing five shares and evidenced by American Depositary Receipts, are not listed but are traded on the over-the-counter market in the United States under the ticker 'CHRY' with Bank of New York Mellon as depositary bank. As at 30 June 2020 Chorus had 1.1 million ADR's on issue.

## Twenty largest bondholders (May 2021) as at 30 June 2020

Rank	Holder name	Holding	%
1	FNZ Custodians Limited	40,635,000	10.15
2	TEA Custodians Limited Client Property Trust Account*	30,264,000	7.56
3	BNP Paribas Nominees (NZ) Limited*	27,990,000	6.99
4	Forsyth Barr Custodians Limited – 1-Custody	25,892,000	6.47
5	Citibank Nominees (New Zealand) Limited	20,837,000	5.2
6	Custodial Services Limited – A/C 4	19,471,000	4.86
7	Custodial Services Limited – A/C 3	18,467,000	4.61
8	Investment Custodial Services Limited – A/C C	16,667,000	4.16
9	HSBC Nominees (New Zealand) Limited O/A Euroclear Bank	15,698,000	3.92
10	Custodial Services Limited – A/C 2	13,603,000	3.4
11	HSBC Nominees (New Zealand) Limited*	8,765,000	2.19
12	JBWere (NZ) Nominees Limited – NZ Resident A/C	8,413,000	2.1
13	Custodial Services Limited – A/C 1	8,013,000	2.0
14	Southern Cross Medical Care Society	8,000,000	2.0
15	Generate Kiwisaver Public Trust Nominees Limited	7,956,000	1.98
16	National Nominees New Zealand Limited*	7,364,000	1.84
17	JP Morgan Chase Bank NA NZ Branch – Segregated Clients ACCT*	6,727,000	1.68
18	Custodial Services Limited – A/C 18	6,524,000	1.63
19	NZPT Custodians (Grosvenor) Limited	5,751,000	1.43
20	ANZ Custodial Services New Zealand Limited*	5,122,000	1.28

## Twenty largest bondholders (December 2028) as at 30 June 2020

Rank	Holder name	Holding	%
1	Forsyth Barr Custodians Limited – 1-Custody	76,695,000	15.33
2	ANZ Custodial Services New Zealand Limited*	50,403,000	10.08
3	JBWere (NZ) Nominees Limited – NZ Resident A/C	42,470,000	8.49
4	HSBC Nominees (New Zealand) Limited O/A Euroclear Bank*	30,000,000	6.0
5	Custodial Services Limited – A/C 4	28,005,000	5.6
6	FNZ Custodians Limited	24,981,000	4.99
7	Investment Custodial Services Limited – A/C C	20,266,000	4.05
8	Custodial Services Limited – A/C 3	17,587,000	3.51
9	Custodial Services Limited – A/C 2	15,646,000	3.12
10	BNP Paribas Nominees (NZ) Limited*	15,075,000	3.01
11	Custodial Services Limited – A/C 1	9,196,000	1.83
12	Custodial Services Limited – A/C 18	7,716,000	1.54
13	Forsyth Barr Custodians Limited – Account 1 E	6,630,000	1.32
14	Generate Kiwisaver Public Trust Nominees Limited*	5,750,000	1.15
15	JBWere (NZ) Nominees Limited – 55527 A/C	5,000,000	1.0
16	TEA Custodians Limited Client Property Trust Account*	4,619,000	0.92
17	JBWere (NZ) Nominees Limited – 44626 A/C	4,000,000	0.8
18	HSBC Nominees (New Zealand) Limited A/C State Street*	3,750,000	0.75
19	Custodial Services Limited – A/C 16	3,524,000	0.7
20	JBWere (NZ) Nominees Limited – 54440 A/C	3,500,000	0.7

\* Held through New Zealand Central Securities Depository Limited (NZCSD).

## Debt listings

Chorus Limited has the following bonds on issue:

- \$400 million bonds traded on the NZX debt market (the NZDX) maturing May 2021;
- \$500 million bonds traded on the NZX debt market maturing December 2028;
- EUR 500 million EMTNs traded on the ASX maturing October 2023; and
- EUR 300 million EMTNs traded on the ASX, maturing December 2026.

## NZX bondholder distribution as at 30 June 2020

### May 2021 maturity

Holding	Number of holders	% of holders	Total number of bonds held	% of bonds issued
1,000 to 4,999	0	0%	0	0%
5,000 to 9,999	193	11.8%	1,078,000	0.27%
10,000 to 99,999	1,253	76.64%	33,492,000	8.37%
100,000 and over	189	11.56%	365,430,000	91.36%
Total	1,635	100%	400,000,000	100%

### December 2028 maturity

Holding	Number of holders	% of holders	Total number of bonds held	% of bonds issued
1,000 to 4,999	0	0%	0	0%
5,000 to 9,999	81	4.72%	477,000	0.1%
10,000 to 99,999	1,385	80.71%	44,112,000	8.82%
100,000 and over	250	14.57%	455,411,000	91.08%
Total	1,716	100%	500,000,000	100%

## Unquoted securities

### Crown Infrastructure Partners (CIP) Securities

The terms of issue for the CIP1 and CIP2 securities are set out in the subscription agreements between Chorus Limited and CIP.

These terms are summarised in note 6 of our Financial Statements and on our website at [www.chorus.co.nz/reports](http://www.chorus.co.nz/reports).

Security	Number issued in the year ended 30 June 2020	Total on issue at 30 June 2020	Holder	Percentage held
CIP1 equity securities	36,488,166	462,052,071	CIP	100%
CIP1 debt securities	36,488,166	462,052,071	CIP	100%
CIP1 equity warrants	1,463,982	14,008,268	CIP	100%
CIP2 equity securities	82,733,495	142,631,045	CIP	100%

## Other disclosures

### New NZX listing rules

NZX updated its listing rules from 1 January 2020.

### NZX waivers

On 28 March 2019 Chorus applied for the continuation of existing and still required waivers and rulings. On 3 April 2020 a waiver from NZX listing rule 2.3.2, 4.1.1, 4.1.2, 4.2.1, 4.14, 6.6.1, 8.1.5 and a ruling from NZX on listing rule 4.9.1 were granted.

A summary of all waivers granted and published by NZX in the 12 months ending 30 June 2020 and relied on is available on our website at [www.chorus.co.nz/investor-info](http://www.chorus.co.nz/investor-info).

### Non-standard designation

NZX has attached a 'non-standard' designation to Chorus Limited because of the ownership restrictions in our constitution (described above).

### ASX disclosures

Chorus Limited and its subsidiaries are incorporated in New Zealand.

Chorus Limited is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial shareholdings and takeovers).

Our constitution contains limitations on the acquisition of securities, as described above.

For the purposes of ASX listing rule 1.15.3 Chorus Limited continues to comply with the NZX listing rules.

### Registration as a foreign company

Chorus Limited has registered with the Australian Securities and Investments Commission as a foreign company and has been issued an Australian Registered Body Number (ARBN) of 152 485 848.

### Net tangible assets per security

As at 30 June 2020, consolidated net tangible assets per share was \$1.39 (30 June 2019: \$1.64).

Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS.

## Revenue from ordinary activities and net profit

In the year ended 30 June 2020:

- Revenue from ordinary activities decreased 1% to \$959 million (30 June 2019: \$970 million); and
- Profit from ordinary activities after tax, and net profit, attributable to shareholders decreased 2% to \$52 million (30 June 2019: \$53 million).

## Subsidiaries

### Chorus New Zealand Limited (CNZL)

Directors as at 30 June 2020: Patrick Strange, Jon Hartley, Mark Cross, Prue Flacks, Murray Jordan, Jack Matthews, Sue Bailey.

Both Kate McKenzie and Anne Urlwin resigned as directors from CNZL during the year to 30 June 2020. Sue Bailey was appointed as a director.

Current CNZL directors are also Chorus Limited directors and do not receive any remuneration in their capacity as CNZL directors.

### Chorus LTI Trustee Limited (CLTL)

Directors as at 30 June 2020: Prue Flacks, Murray Jordan and Sue Bailey.

Jack Matthews resigned and Sue Bailey was appointed as a director of CLTL during the year to 30 June 2020.

Current and former directors of CLTL did not receive any remuneration in their capacity as directors of CLTL.

### Other subsidiaries

Chorus Limited has no other subsidiaries.



# Glossary

ASX Corporate Governance Code	ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition).	Gbps	Gigabits per second. A measure of the average rate of data transfer.
Backbone network	Fibre cabling and other shared network elements required either in the common areas of multi-dwelling units to connect individual apartments/offices, or to serve premises located along rights of way.	Gigabit	The equivalent of 1 billion bits. Gigabit Ethernet provides data transfer rates of about 1 gigabit per second.
Backhaul	The portion of the network that links local exchanges to other exchanges or retail service provider networks.	GPON	Gigabit Passive Optical Network.
Baseband	A technology neutral voice input service that can be bundled with a broadband product or provided on a standalone basis.	IT	Information Technology.
Board	Chorus Limited's Board of Directors.	Layer 2	The data link layer, including broadband electronics, within the Open Systems Interconnection model. Layer 1 is the physical cables and co-location space.
Building block model	A methodology used for regulating monopoly utilities. Under BBM a regulated supplier's allowed revenue is equal to the sum of the underlying components or 'building blocks', consisting of the return on capital, depreciation, operating expenditure and various other components such as tax.	Mbps	Megabits per second – a measure of the average rate of data transfer.
Chorus	Chorus Limited and subsidiaries.	NZ IFRS	International Financial Reporting Standards – the rules that the financial statements have to be prepared by.
CIP	Crown Infrastructure Partners, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.	P2P	Where two parties or devices are connected point-to-point via fibre.
Commission	Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.	RAB	Regulatory Asset Base refers to the value of total investment by a regulated utility in the assets which will generate revenues over time.
Constitution	Chorus Limited's Constitution.	RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas between 2011 and 2016.
CPI	Consumer Price Index (inflation).	Share	Means an ordinary share in Chorus.
Direct fibre access	Also known as 'dark' fibre, a fibre service that provides a point to point fibre connection and can be used to deliver backhaul connections to mobile sites.	TSO	Telecommunications Services Obligation – a universal service obligation under which Chorus must maintain certain coverage and service on the copper network.
Director	A director of Chorus Limited.	TSR	Total shareholder return.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.	UFB	Ultra-Fast Broadband refers to the Government programme to build a fibre to the premises network to about 85% of New Zealanders. UFB1 refers to the original phase of the rollout to 75% of New Zealanders. UFB2 and UFB2+ were subsequent phases announced in 2017.
EMTN	European Medium Term Notes.	VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides a better broadband connection than ADSL.
FY	Financial year – twelve months ended 30 June. e.g. FY20 is from 1 July 2019 to 30 June 2020.		

# Disclaimer

This annual report:

- May contain forward looking statements. These statements are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond Chorus' control, and which may cause actual results to differ materially from those expressed in the statements contained in this annual report.
- Includes statements relating to past performance. These should not be regarded as reliable indicators of future performance.
- Is current at its release date. Except as required by law or the NZX and ASX listing rules, Chorus is not under any obligation to update this annual report or the information in it at any time, whether as a result of new information, future events or otherwise.
- Contains non-GAAP financial measures, including EBITDA. These measures may differ from similarly titled measures used by other companies because they are not defined by GAAP. Although Chorus considers those measures provide useful information they should not be used in substitution for, or isolation of, Chorus' audited financial statements.
- May contain information from third parties Chorus believes reliable. However, no representations or warranties are made as to the accuracy or completeness of such information.
- Should be read in the wider context of material previously published by Chorus and released through the NZX and ASX.
- Does not constitute investment advice or an offer or invitation to purchase Chorus securities.

## Directory

### Registrars

#### NEW ZEALAND

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Private Bag 92119, Victoria Street West  
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P: +64 9 488 8777 F: +64 9 488 8787  
E: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)  
[investorcentre.com/nz](http://investorcentre.com/nz)

#### AUSTRALIA

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E: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)  
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### Registered Offices

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Sydney, NSW 2000, Australia  
P: +61 2 9230 4000

### ADR Depository

BNY Mellon Shareowner Services  
PO Box 505000, Louisville, KY 40233-5000  
United States of America  
P: US domestic calls (toll free) 1 888 269 2377  
P: International calls +1 201 680 6825  
E: [shrrelations@cpushareownerservices.com](mailto:shrrelations@cpushareownerservices.com)  
<https://www-us.computershare.com/investor>

ARBN 152 485 848



NEW ZEALAND'S EXCHANGE  
TE PAEHOKO O AOTEAROA

## Results announcement

(for Equity Security issuer/Equity and Debt Security issuer)

Updated as at 17 October 2019

Results for announcement to the market		
Name of issuer	Chorus Limited	
Reporting Period	12 months to 30 June 2020	
Previous Reporting Period	12 months to 30 June 2019	
Currency	New Zealand Dollars	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$959,000	-1%
Total Revenue	\$959,000	-1%
Net profit/(loss) from continuing operations	\$52,000	-2%
Total net profit/(loss)	\$52,000	-2%
Interim/Final Dividend		
Amount per Quoted Equity Security	\$0.14000000	
Imputed amount per Quoted Equity Security	\$0.05444444	
Record Date	15 September 2020	
Dividend Payment Date	12 October 2020	
	Current period	Prior comparable period
Net tangible assets per Quoted Equity Security	\$1.39	\$1.64
A brief explanation of any of the figures above necessary to enable the figures to be understood	This announcement should be read in conjunction with the attached annual report, audited financial statements for the year ended 30 June 2020 contained in that report, media release and investor presentation.	
Authority for this announcement		
Name of person authorised to make this announcement	David Collins Chief Financial Officer	
Contact person for this announcement	Brett Jackson Investor Relations Manager	
Contact phone number	+64 4 896 4039	
Contact email address	Brett.Jackson@chorus.co.nz	
Date of release through MAP	24/08/2020	

Audited financial statements accompany this announcement.

Please note: all cash amounts in this form should be provided to 8 decimal places

Section 1: Issuer information				
Name of issuer	Chorus Limited			
Financial product name/description	Ordinary shares			
NZX ticker code	CNU			
ISIN (If unknown, check on NZX website)	NZCNUE0001S2			
Type of distribution (Please mark with an X in the relevant box/es)	Full Year	X	Quarterly	
	Half Year		Special	
	DRP applies	X		
Record date	15/09/2020			
Ex-Date (one business day before the Record Date)	14/09/2020			
Payment date (and allotment date for DRP)	12/10/2020			
Total monies associated with the distribution <sup>1</sup>	\$62,228,818			
Source of distribution (for example, retained earnings)	Retained earnings			
Currency	NZD			
Section 2: Distribution amounts per financial product				
Gross distribution <sup>2</sup>	\$0.19444444			
Gross taxable amount <sup>3</sup>	\$0.19444444			
Total cash distribution <sup>4</sup>	\$0.14000000			
Excluded amount (applicable to listed PIEs)	\$0.00000000			
Supplementary distribution amount	\$0.02470588			
Section 3: Imputation credits and Resident Withholding Tax <sup>5</sup>				
Is the distribution imputed	<b>Fully imputed</b>			
	Partial imputation			
	No imputation			

<sup>1</sup> Continuous issuers should indicate that this is based on the number of units on issue at the date of the form

<sup>2</sup> "Gross distribution" is the total cash distribution plus the amount of imputation credits, per financial product, before the deduction of Resident Withholding Tax (RWT).

<sup>3</sup> "Gross taxable amount" is the gross distribution minus any excluded income.

<sup>4</sup> "Total cash distribution" is the cash distribution excluding imputation credits, per financial product, before the deduction of RWT. This should include any excluded amounts, where applicable to listed PIEs.

<sup>5</sup> The imputation credits plus the RWT amount is 33% of the gross taxable amount for the purposes of this form. If the distribution is fully imputed the imputation credits will be 28% of the gross taxable amount with remaining 5% being RWT. This does not constitute advice as to whether or not RWT needs to be withheld.

If fully or partially imputed, please state imputation rate as % applied <sup>6</sup>	100%	
Imputation tax credits per financial product	\$0.05444444	
Resident Withholding Tax per financial product	\$0.00972222	
<b>Section 4: Distribution re-investment plan (if applicable)</b>		
DRP % discount (if any)	2%	
Start date and end date for determining market price for DRP	14/09/2020	18/09/2020
Date strike price to be announced (if not available at this time)	29/09/2020	
Specify source of financial products to be issued under DRP programme (new issue or to be bought on market)	New Issue	
DRP strike price per financial product	\$unknown	
Last date to submit a participation notice for this distribution in accordance with DRP participation terms	16/09/2020	
<b>Section 5: Authority for this announcement</b>		
Name of person authorised to make this announcement	David Collins Chief Financial Officer	
Contact person for this announcement	Brett Jackson Investor Relations Manager	
Contact phone number	+64 27 488 7808 +64 4 896 4039	
Contact email address	Brett.Jackson@chorus.co.nz	
Date of release through MAP	24/08/2020	

<sup>6</sup> Calculated as (imputation credits/gross taxable amount) x 100. Fully imputed dividends will be 28% as a % rate applied.



# FIBRE. IT'S HOW WE INTERNET NOW.



## Letter to investors: FY20 full year result

### dear investors

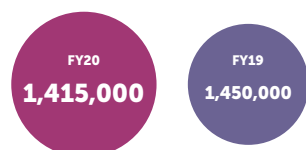
#### This year saw our broadband infrastructure pass its greatest ever test.

The COVID-19 pandemic meant New Zealanders were heavily reliant on our copper and fibre network to keep connecting, working and learning through months of change and uncertainty.

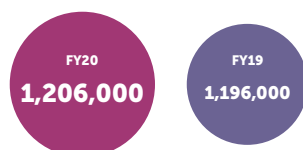
Our business and our people rose to the challenge, helping deliver strong operational results and further cement broadband's role as an essential utility. Despite the operational restrictions and financial impact of COVID-19, we were pleased to be able to achieve our goal of modest EBITDA growth. This was achieved through our ongoing focus on reducing costs and reshaping our business for a fibre-centric future.

#### FY20 result overview

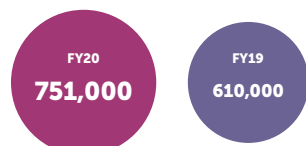
##### Fixed line connections<sup>1</sup>



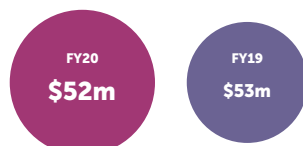
##### Broadband connections<sup>1</sup>



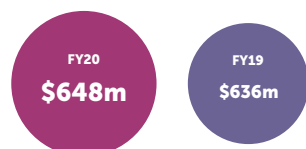
##### Fibre connections<sup>1</sup>



##### Net profit after tax



##### EBITDA<sup>2</sup>



##### Customer satisfaction



##### Dividend



##### Employee engagement score<sup>3</sup>



Kind regards

Patrick Strange  
Chair

#### Dividend reinvestment plan for shareholders

A dividend reinvestment plan is available to our Australian and New Zealand resident shareholders. There will be a 2% discount rate applied for the 12 October 2020 dividend payment.

If you haven't previously registered to participate and wish to do so, you'll need to have registered your participation by 5:00pm (NZ time) on 16 September 2020.

You can register, or deregister, by logging into your Computershare profile at [www.investorcentre.com/nz](http://www.investorcentre.com/nz) or downloading the Participation Notice at [www.chorus.co.nz/dividends](http://www.chorus.co.nz/dividends) and returning it to Computershare.

The full terms of the reinvestment plan can be read in our Offer Document dated February 2016 at [www.chorus.co.nz/dividends](http://www.chorus.co.nz/dividends), or you can request a copy free of charge. Our most recent audited financial statements, and auditor's report, are included in our 2020 annual report, which is available free of charge on request and at [www.chorus.co.nz/financial-results](http://www.chorus.co.nz/financial-results).

- 1 Excludes free education connections provided as part of Chorus' COVID-19 response.
- 2 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of our business.
- 3 Based on the mean response to "How likely are you to recommend your company as a place to work?"



## FY20 overview

We celebrated a significant milestone with the completion of the original ultrafast broadband (UFB1) rollout in November. There are now approximately 150,000 homes and businesses remaining to pass in the UFB2 rollout area by the end of 2022. Together, these projects are delivering far reaching socio-economic benefits, with a growing number of smaller communities throughout New Zealand connected to fibre.

We've continued to see strong growth in fibre uptake, up from 53% to 60% during the year. Just as importantly, customer satisfaction with fibre installations rose from 7.7 to 8.1 out of ten. This exceeded our target of 7.9. Together, these developments helped us deliver another strong year of broadband connection growth, with an increase of 10,000 lines. We finished the year with 1,415,000 fixed line connections, down just 35,000 lines from the year before. This was a marked improvement on the level of line reductions experienced in prior years.

The good progress we made in optimising our business and reducing costs meant we achieved EBITDA of \$648 million. This was up from \$636 million in FY19 and was in line with our February upgrade to EBITDA guidance of a range of \$640 to \$655 million. Net profit after tax was \$52 million compared to \$53 million in FY19.

While COVID-19 had a negative financial impact on EBITDA, it has accelerated some of the positive underlying trends that support our business. International telecommunications providers are seeing a "fixed line renaissance", with consumers now placing even greater value on the reliability and capacity of fixed line services relative to alternative wireless networks.

We've seen this reflected in demand trends on our network, with a growing proportion of consumers opting for our premium 1 gigabit per second plans.

The consumption of streaming services through lockdown contributed to significant increases in monthly broadband usage, while the almost overnight adoption of videoconferencing services has reinforced the need for stable upstream broadband performance.

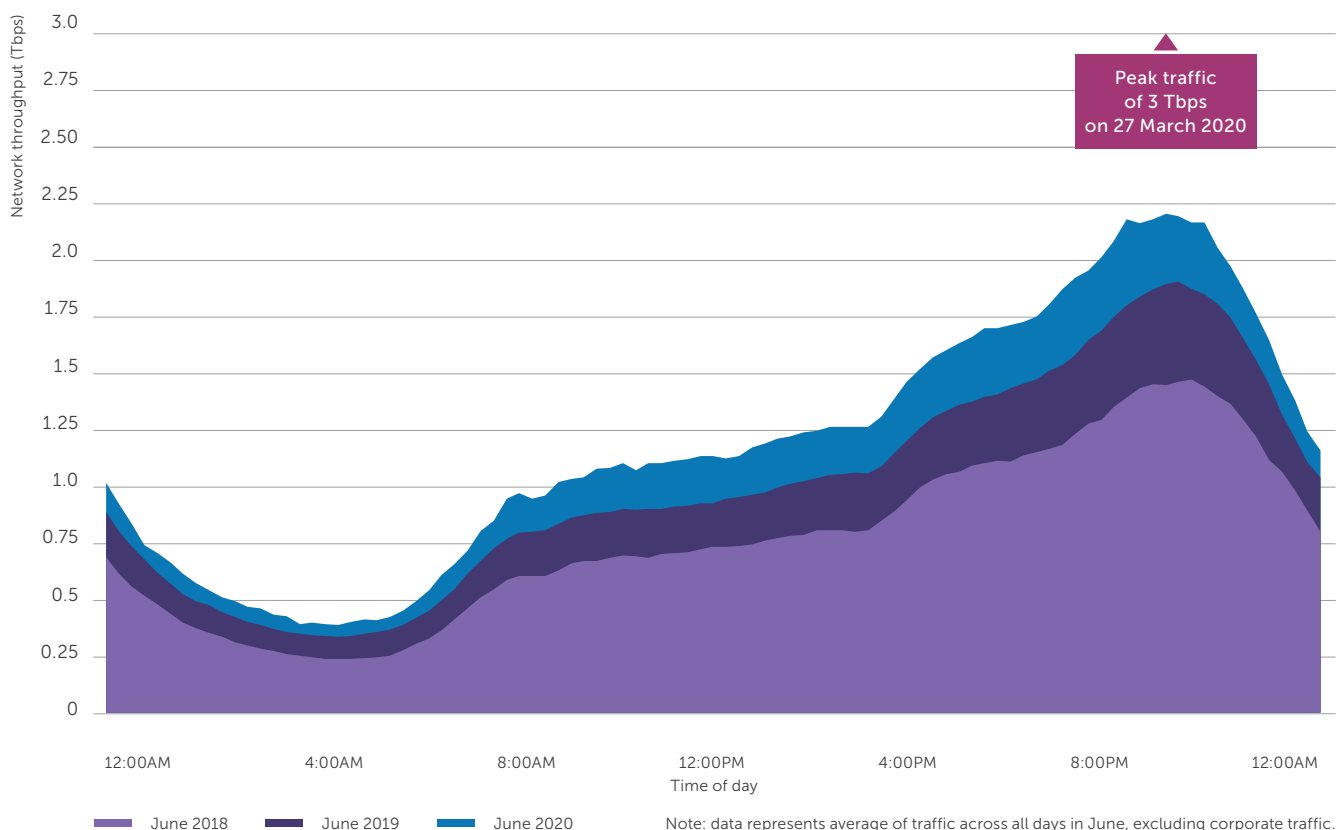
Monthly average household data usage surged from 265GB to 313GB across the year. Fibre customers averaged 387GB in June, up from 341GB the year before,

The completion of the UFB1 rollout, together with the suspension of non-essential rollout and connection activity during the COVID-19 lockdown, saw a substantial drop in overall capital expenditure from \$804 million in FY19 to \$663 million this year.

The sudden suspension of non-essential field activity through the lockdown period placed financial strain on our service companies and we chose to provide \$5 million in financial support to them and their subcontractors. This helped assist with reduced workflow and retain our workforce for the rapid resumption of activity when alert levels were relaxed. A relief fund of \$2 million was also made available to retailers to help address the expected increase in bad debts for consumers and small businesses unable to pay their bills during lockdown.

Figure 2:

Average daily internet usage across the Chorus network June 2018 – 2020



We were pleased to be able to play a part in supporting the wider community deal with the consequences of COVID-19. Where the Ministry of Education identified households needing a broadband connection, for students to keep up with their schooling, we made our existing network connections available free of charge for a six-month period. About 10,000 students had been connected under this initiative by the end of FY20.

Our people helped make our COVID-19 initiatives happen, and keep our essential infrastructure going, all while embracing working from home in an extremely short timeframe. They've shown great resilience through change this year as we've begun reshaping our organisational structure from a build to operate focus. Despite the resulting reduction in staff numbers, employee engagement was 8.5 in June 2020, up from 7.6 out of 10 in FY19. Our employee net promoter score<sup>4</sup> also rose, from +28 to +67, putting us in the top 5% of our international 'technology' company benchmark.

We continue to put considerable effort and focus into the Commerce Commission's process to establish the new utility-style regime for our fibre access network. Aspects of the Commission's November 2019 draft decision were an improvement on their earlier views. However, we believe the proposed settings don't yet reflect the commercial realities of the network investment we've made since 2011. The various phases of the implementation process will continue through FY21, with the new framework to apply from January 2022.

A fully imputed final dividend of 14 cents per share will be paid on 12 October 2020, bringing total dividends for FY20 to 24 cents per share.

<sup>4</sup> Net Promoter Scores can range from -100 to +100 and are calculated by subtracting the percentage of detractors (0-6 engagement score) from the percentage of promoters (9-10 engagement score).

## Outlook

**COVID-19 has both underlined broadband's role as an essential utility, while also increasing global appreciation of the true value of a fibre network. We're thankful that New Zealand made infrastructure choices a decade ago that have allowed us to be in the enviable position of having already deployed fibre to most New Zealanders. This has meant that demand for our services has continued to be strong, despite the wider economic impact of the pandemic. We're hopeful this demand continues and we'll keep considering ways we can support the wider community and economy beyond the various initiatives we've already undertaken.**

With the UFB rollout winding down, our focus is all about connecting more New Zealanders to fibre. We've put this at the top of our strategic focus with a target of 1 million fibre connections by 2022. This is a substantial step up from the 751,000 connections we have today, but we know the socio-economic benefits of fibre connectivity make it a worthwhile goal. The sustainability of our business rests on making New Zealand better, by bridging digital divides and enabling work, education and creativity through better broadband.

It's reflected too in one of the four pillars of our strategy: to win in our core fibre business. In FY21, you can expect to see us continuing to lift our activity as an active wholesaler. We'll be knocking on a whole lot more doors and providing targeted incentives to retailers and customers to sustain the connection momentum we've built up over the last year.

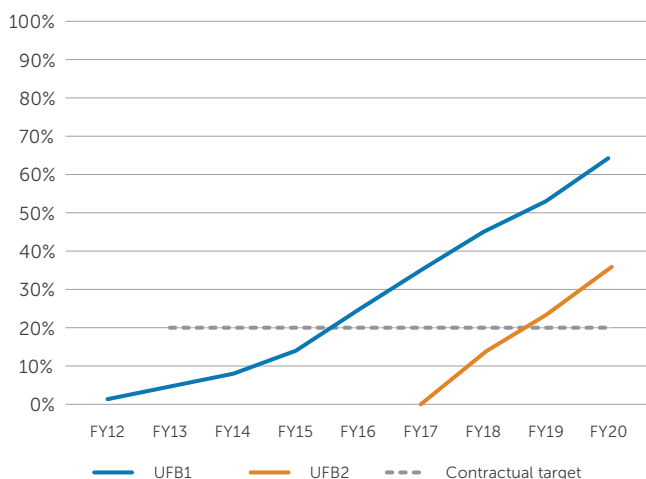
We know there will be increased competitive intensity as mobile network operators seek to leverage their own 5G investments, but we have the utmost confidence in our product. As the Commerce Commission has shown through its reporting, fixed line services clearly outperform shared wireless networks on key measures such as latency and concurrent streaming on multiple devices. We believe recent COVID-19 experiences and the shift to more home-based work mean Kiwis will value unlimited data and rock solid broadband like never before.

Although the Commerce Commission is expected to publish a copper withdrawal code before the end of 2020, we're not going to switch copper off overnight. There'll be lengthy notice requirements that we'll need to follow and we'll take a careful, considered and consumer-centric approach. As we've said before, it will only be where fibre is already available, and on a localised street-by-street basis. Consumers should, therefore, be aware that suggestions of needing to immediately change networks because of a 'pending shutdown of copper' may not be correct. Many retailers provide services across our copper and fibre network, so consumers might wish to shop around by visiting websites like [www.broadbandcompare.co.nz](http://www.broadbandcompare.co.nz).

The gradual withdrawal of copper services is linked closely with another of our strategic pillars, the optimisation of our non-fibre assets. As our network becomes increasingly fibre-centric we're looking closely at the assets we need to deliver services into the future. We've already begun to dispose of non-essential network sites and are reshaping our investment programmes to better reflect ongoing local demand. The removal of legacy broadband equipment from our network should also start to reduce ongoing maintenance and electricity costs.

Figure 1:

### UFB1 and UFB2 uptake rates



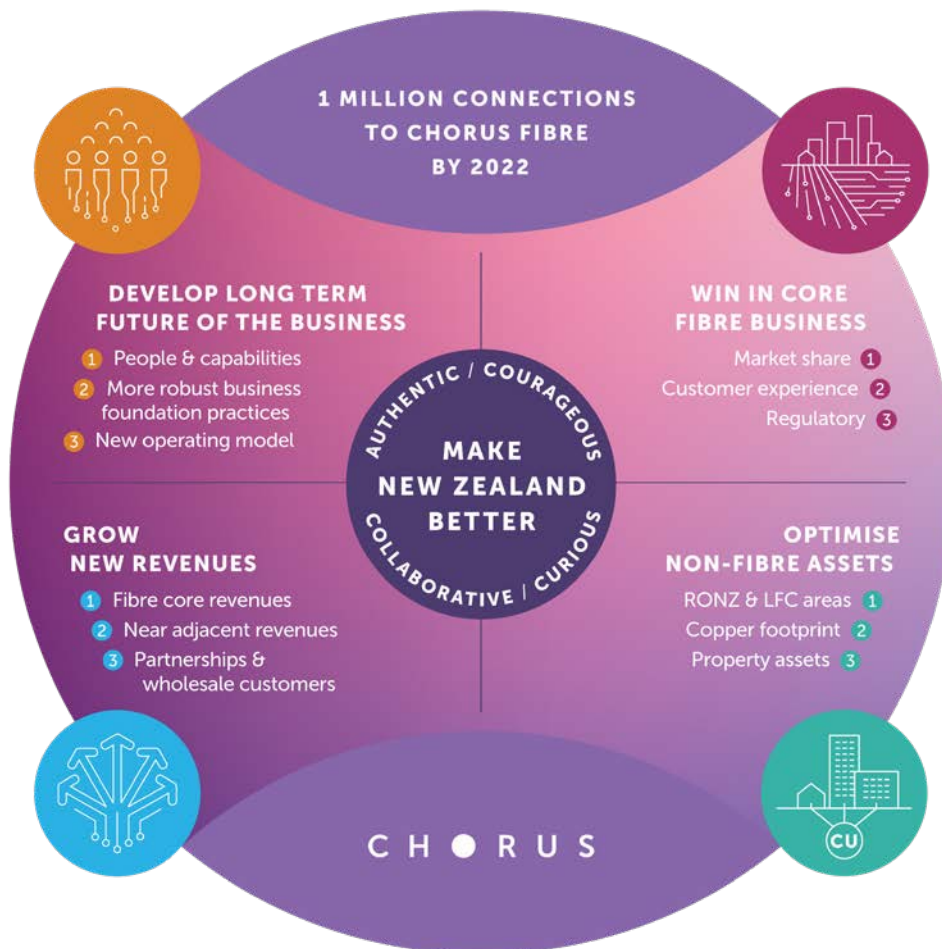
At the same time, we keep exploring opportunities to grow new revenues. Our innovation programme has successfully identified several initiatives that we've moved through to product stage, such as our edge centre facilities and the impending launch of a Wi-Fi service using our latest in-home fibre network devices. We have more ideas in the pipeline, including exploring the opportunities created by technology developments like the latest Wi-Fi standard, Wi-Fi 6. As technology and consumer demands evolve, we're conscious too of the need to look for potential new partnerships and wholesale customers that might deliver innovative new services for consumers.

The changes to our strategic focus are of course occurring against the backdrop of our shift from building to operating our new fibre network, and the shift to becoming a regulated utility from January 2022. While these aren't immediate changes, they're already shaping the way we think about Chorus' future operating model. We know, for example, that we'll need to develop core utility functions such as compliance and asset management that are subtly different from the way we've traditionally operated. Our organisation and our service company partners will also need to keep evolving as the fibre rollout winds down and we no longer have to operate a copper and fibre network side by side.

Underpinning this all, is of course the expectation of a clear and certain regulatory environment that supports ongoing infrastructure investment. We, and many investors, continue to advocate for a fair return that respects the risks taken in the first decade of our partnership with Government and the longer-term nature of our investment. As we've said previously, while the Commission's November 2019 draft decision was an improvement on its earlier views, there is still a significant gap between retrospective economic assumptions and commercial reality. Under the current proposed settings, investors will not consider UFB a model for the successful transformation of more New Zealand infrastructure.

We know too that investors are rightly interested in more clarity of our future dividend intentions, given the constraints on past returns through the UFB investment cycle. Our intention is that in FY22 we'll transition to a more utility-like dividend policy, based on a pay-out range of free cash flow. This transition period will be moderated by the need to balance our BBB credit rating with the ongoing investment needed to complete the UFB rollout and fibre connections. In the meantime, we've provided more commentary on our proposed approach in the full year results presentation, as well as guidance of a FY21 dividend of 25 cents per share.

### Our strategic focus



i) If you'd like more detail on our financial results, the annual report and a recorded webcast of our results briefing will be available on our website at [www.chorus.co.nz/reports](http://www.chorus.co.nz/reports)