

Welcome to the era of

HYPERFIBRETM

MADE POSSIBLE BY CHORUS

FY20 half year result

dear investors

It's been a strong six months for your company

We reported EBITDA of \$332 million for the six months ending 31 December 2019, up from \$318 million on the same period the year before. Net profit after tax increased by \$1 million to \$31 million over the same period. Our growth in EBITDA was achieved through a combination of operating cost reductions and strong broadband connections growth. An interim dividend of 10 cents per share will be paid on 14 April 2020.

UFB1 rollout wraps up

In November, we completed the original ultra-fast broadband (UFB1) rollout contract that was the catalyst for Chorus' share market listing back in late 2011. This milestone marks the beginning of the wind down in our deployment programme, with the UFB extension (UFB2) already close to 40% complete and just 150,000 premises remaining to be passed by December 2022.

As we marked the end of UFB1, we bade farewell to Kate McKenzie and welcomed JB Rousselot as our new chief executive. He previously held senior positions at the Australian equivalent of Chorus, NBN Co, where he had been Chief Strategy Officer and oversaw network and service operations. JB has a great mix of skills and experience to help drive our focus as we move from building the fibre network to helping New Zealand make the most of its potential.



New Chorus CEO, J B Rousselot

Half year result overview

Fixed line connections



Broadband connections



Fibre connections



Dividend



EBITDA¹



Net profit after tax



Dividend reinvestment plan for shareholders

A dividend reinvestment plan is available to our Australian and New Zealand resident shareholders. There will be **no discount rate** applied for the 14 April 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 18 March 2020.

You can register, or deregister, by logging into your Computershare profile at www.investorcentre.com/nz or downloading the Participation Notice at 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, or you can request a copy free of charge. Our most recent audited financial statements, and auditor's report, are included in our 2019 annual report, which is available free of charge on request and at www.chorus.co.nz/financial-results.

HY20: The six months ending 31 December 2019
FY19: The 12 months ending 30 June 2019

¹ 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 the business.

Gigabit fibre strikes a chord with Kiwis

In the six months since we last reported our financial results to you, we've built fibre past another 77,000 customers. Uptake across the areas where we've deployed fibre, including these new ones, has grown from 53% to 56%. In Auckland, New Zealand's largest city, uptake is already at 63%. Word about the reliability and speed of fibre broadband has clearly reached much smaller communities too, with uptake in our completed UFB2 areas quickly surpassing one third.

Pleasingly, our customer experience scores for fibre installations have continued to improve. This follows our work last financial year to redesign our processes, so we can connect most customers in a single visit.

Data usage continues to grow ever higher. Fibre users now average 372 gigabytes (GB) a month, while customers on our copper services average 205GB. Contrast that to 12GB that was the average usage back when we started deploying fibre.

We've seen an amazing change in the way people use the internet since then and the pace of change isn't slowing. The launch of Disney's new streaming service has made 4K, or ultra high definition (UHD), video content available to consumers at no additional cost. We expect bandwidth demand to step up yet again as 4K televisions and online content become more widespread.

Our focus on encouraging uptake of our fastest 1 gigabit per second plans is yielding positive results. The proportion of our growing pool of fibre customers taking a gigabit service has gone from 10 to 13% in the six-month period. That's been helped by a reduction in our wholesale pricing and some sharp retail offers at levels previously equated with a 100 megabits per second service. There's never been a better time for people to shop around when considering a new broadband plan.

While 1 gigabit speeds may seem plenty, we're already thinking ahead to broadband that can enable a new era of high-capacity creativity, innovation and efficiency. We've just connected our first customers to Hyperfibre, our new 2Gbps and 4Gbps services that use advanced technology with the potential to deliver speeds up to 8Gbps. These services will make big differences for customers who transfer large amounts of data, or rely on instantaneous communication.

Regulation

In November, the Commerce Commission released its draft decision on the input methodologies (IM), or rule book, that will apply to our fibre access network from January 2022. We thank the Commission for the considerable work that has gone into the draft decision and welcome this step towards establishing a utility style framework for New Zealand's key communications infrastructure. This decision was an improvement on some of the proposals in the Commission's prior Emerging Views paper released in May, and we've recently made more submissions on aspects of the draft decision. The Commission's final IM determination is due in mid-2020.

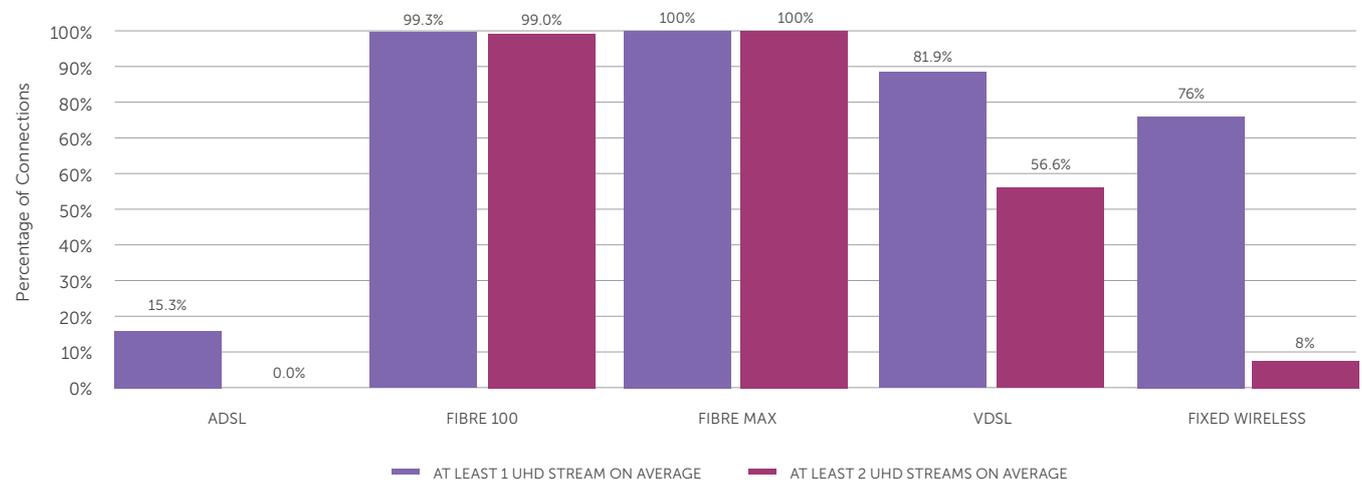
At the heart of our submissions is the belief that incentive-based regulation should enable the continued delivery of high quality, innovative services for consumers and fair returns for investors. A key issue is the need for the regulated cost of capital to better reflect the significant risks investors have faced throughout the UFB rollout, and ensuring the post-rollout cost of capital adequately reflects the ongoing risks inherent in our fast evolving industry. Our view is clearly supported by European precedents and a regulator's recent proposal for fibre network investment in the United Kingdom.

The UFB rollout simply wouldn't have happened if the currently proposed level of returns had been suggested to investors at the time. This viewpoint is reflected in the submissions also made by some of our large institutional investors.

The final shape of the new regime will, therefore, send important signals regarding the regulatory treatment of infrastructure investment in New Zealand. This is at a time when there is a major infrastructure deficit. If New Zealand wants to attract private investors to fund some of this deficit, investors need to know they will be able to earn an appropriate return if they navigate the considerable risks.

Figure 1:

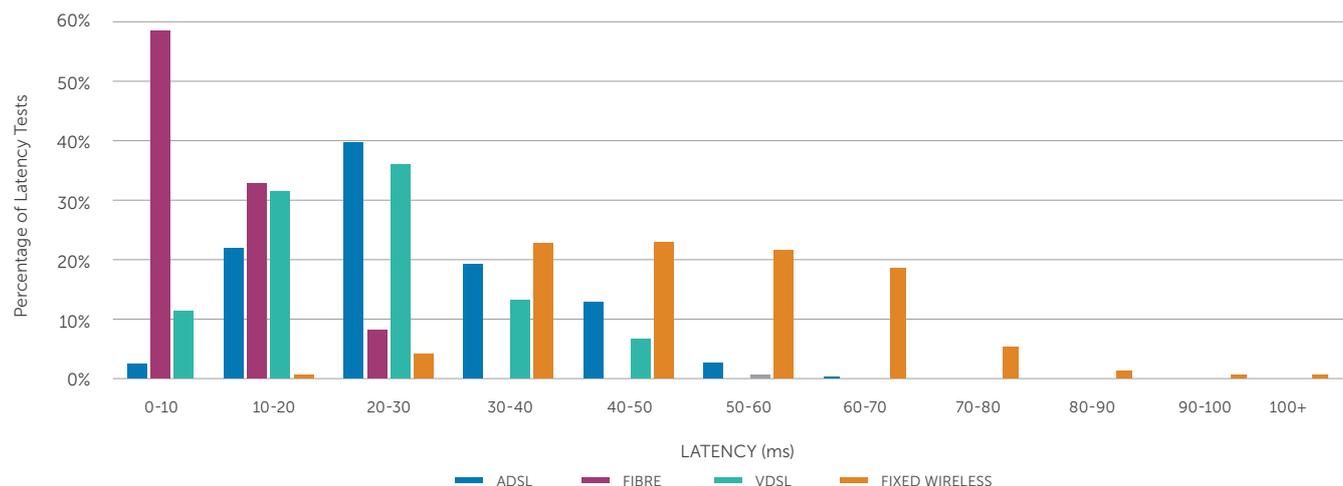
Number of concurrent users per connection who can stream



Source: Measuring Broadband New Zealand, Spring Report, December 2019, Commerce Commission

Figure 2:

Distribution of latency by technology



Source: Measuring Broadband New Zealand, Spring Report, December 2019, Commerce Commission

2 Latency is sometimes called ‘ping’ and is the time it takes for a packet of data to get from, for example, your computer to a website and back again. Fibre enables very low latency. High latency can result in a poor consumer experience, particularly for applications such as video calls or gaming.

Outlook

Our strategy hasn’t changed. With the UFB rollout coming to an end, we’re even more focused on connecting as many customers as we can to our fibre network. That includes making the experience when people, or things, are connected the best we possibly can. In short, it’s all about winning with fibre and you can expect us to be doing even more to encourage fibre uptake in the months ahead. The fact is, while 56% of homes and businesses are connected, there are 44% that aren’t. This is despite fibre running past their front door, simple residential fibre installations currently being free, and fibre being clearly the best technology available.

While the number of disconnections from our fixed line network slowed markedly in the first six months, some vertically integrated mobile network operators are naturally promoting their own fixed wireless broadband as an alternative to our fixed line services. Occasionally, the ‘pending shutdown of copper’ is incorrectly cited as a reason.

As we’ve said before, consumers should be aware that we have not announced any timeframes for the switch-off of our copper network. If, and when we decide to do so, it would only be on a street-by-street basis and when fibre is available to replace it. In the meantime, there are many retailers providing services across our network and it may pay for consumers to shop around by visiting websites like www.broadbandcompare.co.nz.

The Commerce Commission has helpfully published a report showing the relative performance of our fixed line services and wireless technology when it comes to key measures like latency² and streaming on multiple devices. We’ll work hard to ensure New Zealanders have full information about the clear superiority of fibre over other technologies when they make broadband decisions.

Our people are also working hard to optimise our business and reduce costs. We’ve seen good progress in the first six months with initiatives such as the issuing of a new 7-year Euro 300 million bond at below 4% interest, which will help reduce our future interest expenses.

We merged two of our largest teams into a single Customer Network Operations group to help streamline functions and deliver on our operational goals. This progress, together with broadband connection performance, has given us the confidence to increase FY20 EBITDA guidance to a new range of \$640 million to \$655 million, from a prior range of \$625 million to \$645 million.

As we draw near to the end of the UFB rollout our expected return to positive free cash flow is also coming into view. In November, S&P announced an increase in our credit downgrade threshold to a debt to EBITDA ratio of 4.25x at the current rating level, from 4x previously. This follows on from Moody’s Investors Services saying they expect to revise their threshold for Chorus in 2021, after the Commerce Commission’s final determination on our fibre price path, to be more in line with other regulated utilities.

Our reducing capital expenditure requirements and the strong first half performance means we have decided to remove the discount previously offered on the dividend reinvestment plan. We will continue to review the availability of the plan at each financial result.

We’ve had some investors seeking more clarity on our future dividend intentions. The Board recognises that investors have had constrained returns through the decade long UFB investment cycle and our focus is on returning surplus cash flows to shareholders. Our expectation is that from FY22 we’d transition to a dividend policy based on a pay-out range of free cash flow. More commentary on our thinking and the broader result presentation can be viewed at www.chorus.co.nz/webcast.

Thank you for your support of Chorus.

Kind regards

Patrick Strange
Chair