

dear investors

We've made strong progress this year in our quest to keep New Zealand new.

It is easy to overlook the scale and pace of the technological change we're bringing to New Zealand communities. More than 900,000 homes and businesses now have fibre at their gate and uptake has surged from 35% to 45% during FY18. This has been achieved through our focus on the more visible and challenging part of our broadband rollout – the connection from the street into customers' homes and businesses. We didn't get it right every time, but we've continued to improve the experience for customers while completing 156,000 fibre installations. That's a 20% lift in productivity from the previous year.

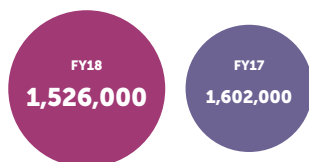
We ended the year with 64% of our broadband connections on either fibre or high-speed VDSL broadband, up from 45% last year. This was driven by our shift to being an active wholesaler, investing to promote awareness of the better broadband options already available to many New Zealanders through

advertising, collaborative campaigns with retailers and our own door knocking initiatives. This new approach, combined with underlying demand for broadband, helped us to turn last year's decline of 40,000 broadband connections into a gain of 1,000 connections for FY18. Although competition from wireless and other fibre networks meant our total fixed line connections continue to reduce, the pace slowed to 76,000 connections compared to 125,000 connections in FY17. This reduction in connections was predominantly copper lines outside of our fibre network areas.

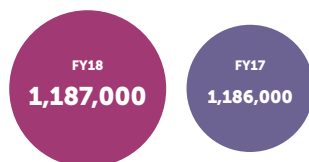
Against this backdrop of declining connection numbers, we took steps to implement a range of cost management initiatives identified in our FY17 strategic review. This included reducing our internal workforce by 12%, from peak August 2017 levels, as part of broader organisational change. We achieved net profit after tax of \$85 million and EBITDA of \$653 million, modestly above the top end of our initial FY18 EBITDA guidance

FY18 results overview

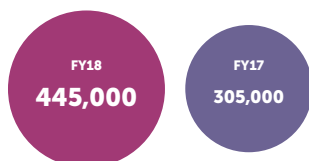
Fixed line connections



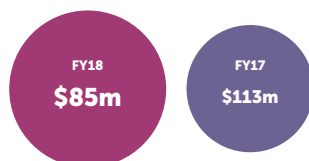
Broadband connections



Fibre connections



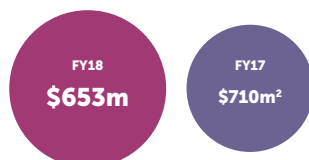
Net profit after tax



EBITDA¹



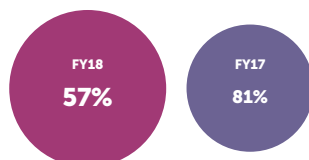
Adjusted² EBITDA



Dividend



Employee engagement score



Dividend reinvestment plan for shareholders

A dividend reinvestment plan is available to our Australian and New Zealand resident shareholders with a discount rate of 3% for the 9 October 2018 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 26 September 2018.

You can register by logging into our 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 2018 annual report, which is available free of charge on request and at www.chorus.co.nz/financial-results.

- 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.
- 2 Adjusted to reflect the effect the NZ IFRS accounting standards adopted in FY18 would have had if they had applied in FY17.

of \$625 million to \$650 million. This compares with adjusted¹ FY17 EBITDA of \$710 million, reflecting the effect of fewer connections on our revenues. A fully imputed final dividend of 13 cents per share will be paid on 9 October 2018, bringing total dividends for FY18 to 22 cents per share.

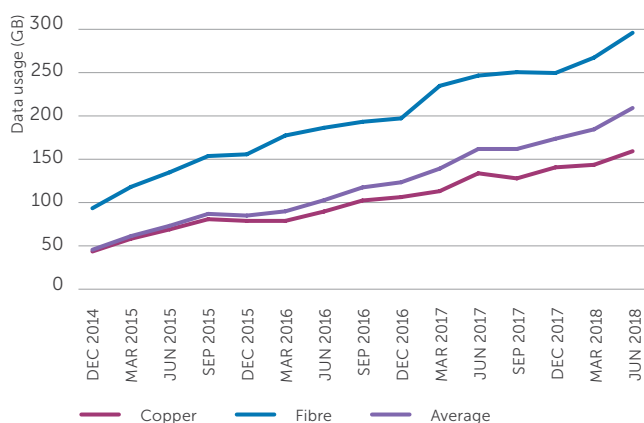
Our focus on tight cost management meant we met our fibre capital expenditure forecasts for another year, despite a record year for fibre connections and inflation in the wider construction market. Our commitment to investing in a fibre future was evident in our August 2017 UFB2+ agreement with the Government to take fibre even further. By the end of 2022 we'll have extended fibre to about three-quarters of the 87% of New Zealanders to be covered by the UFB programme. In the meantime, our investment in VDSL broadband upgrades has helped narrow the digital divide, improving potential broadband speeds for up to 85,000 rural addresses.

We invested in bridging the digital divides within urban communities too. We worked with Network for Learning, a government education group, to trial the extension of a school wi-fi network to students in the surrounding community, using our street poles and copper cables in new ways. This was part of our innovation initiatives, focused on identifying opportunities to use our network assets to develop future products and services. We've also run trials to develop connectivity options for the Internet of Things, network edge computing and television broadcasting. The success of these trials has increased our belief in the potential socio-economic benefits our infrastructure can bring to New Zealanders, while providing future alternative sources of revenue for our business.

Regulatory clarity remains critical to our focus on long-term shareholder value. We worked through the year to assist the progress of the utility style regulatory framework, as initially set out in draft legislation in August 2017, through Select Committee and revised legislation is expected before Parliament in FY19. We look forward to working with the Commerce Commission on a smooth and timely transition to a framework that aligns the interests of customers and investors through recognition of a fair return on investment.

Figure 1:

Monthly average data usage per connection on our network



More than 60% of New Zealand households are estimated to be on unlimited broadband plans and average monthly bandwidth demand on our network grew from 155 gigabytes (GB) per customer to 210GB in the 12 months to the end of FY18. Usage for fibre customers was higher again at an average of 297GB per month. Much of this demand is occurring in the evening as more New Zealanders shift to streaming video on demand services. We've seen average peak usage on our network grow 37%.

Outlook

This financial year, FY19, will be the peak year of our fibre rollout with a large step up in the number of premises to be passed. Auckland and Wellington are expected to be largely complete by the end of the financial year, while the UFB2 rollout will see us bridging the digital divide in a growing number of smaller towns and communities. We need to maintain our relentless focus on keeping the rollout on time and on budget, so that we deliver on our contractual commitments and the expectations of customers keenly awaiting access to fibre.

We expect customer demand for fibre connections to maintain its strong momentum. In larger centres where we are approaching the end of the UFB1 rollout, awareness of fibre is already high and there are a lot of people keen to connect after seven years of waiting. For smaller communities, the rollout of fibre is a high profile event that generates strong interest of its own accord, as well as an opportunity for retailers to compete in areas they may not have previously marketed to. We need to keep improving the fibre installation process so we both increase our productivity and customers' satisfaction with the experience. We've already raised the bar by setting ourselves the target of reducing customer effort to a single visit for a large proportion of customers. Achieving this requires us to work even more collaboratively with our service company partners and retailers to get our processes and systems working in concert.

62%

of New Zealanders now stream video on demand, up from 12% in 2014 – NZ On Air

The strategic changes we started making in FY18 and are continuing through FY19 are focused on achieving our objective of a return to modest EBITDA growth in FY20. This aspiration is subject to no material changes in the expected regulatory environment or competitive outlook. Our return to broadband connection growth in FY18, together with strong forecasts for urban housing development and underlying broadband trends – such as fibre uptake and the demand for streamed video content – give us added confidence in our strategy. By innovating for growth and optimising today's business, we believe our infrastructure will continue to help make New Zealand better well into the future.

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/financial-results.

Thank you for your support of Chorus.

Kind regards

Patrick Strange
Chair

1 Adjusted to reflect the effect of the new NZ IFRS accounting standards adopted in FY18 as if they had applied in FY17.