

## Summary of CIP1 Securities

*Summary of key terms of securities issued by Chorus to CIP under the UFB1 Subscription Agreement.*

### UFB1 Subscription Agreement

- 1 Chorus is a cornerstone partner in the Government's ultra-fast broadband (UFB) programme.
- 2 As part of UFB1 Chorus and CIP entered into the UFB1 Subscription Agreement on 9 November 2011, and amendments on 18 September 2016 and 26 January 2017.
- 3 Under the UFB1 Subscription Agreement Chorus may require CIP to subscribe for CIP1 Securities during the UFB1 build period to 31 December 2019 (unless terminated earlier). The maximum value of CIP1 Securities that Chorus can require CIP to subscribe for at any time is determined according to the number of premises passed by Chorus' fibre network under UFB1 up to that time. The maximum aggregate value of CIP1 Securities to be subscribed for by CIP is approximately NZ\$929 million.
- 4 Half of each tranche of investment by CIP must be used to subscribe for CIP1 Equity Securities and the other half for CIP1 Debt Securities. With each issue of CIP1 Securities, Chorus also issues a tranche of CIP1 Warrants to CIP for no consideration. The key terms of the CIP1 Equity Securities, CIP1 Debt Securities and CIP1 Warrants are described below.
- 5 There are certain conditions that must be met by Chorus before it is entitled to call on CIP to subscribe for a tranche of CIP1 Securities. Those conditions include:
  - (i) there being no breach by Chorus of a financial covenant under a principal banking facility that is preventing Chorus from drawing on the relevant banking facility; and
  - (ii) there being no material breach by Chorus under NIPA1.

- 6 During the term of NIPA1 (until 31 December 2019, unless terminated earlier), the CIP1 Securities and CIP1 Warrants may only be held by CIP or by another Crown Entity. After that, the CIP1 Securities and CIP1 Warrants become freely transferable.

### CIP1 Debt Securities

- 7 The CIP1 Debt Securities are unsecured, non-interest-bearing and carry no voting rights at meetings of holders of Chorus Shares.
- 8 Chorus is required to redeem the CIP1 Debt Securities in tranches from 2025 to 2036 by repaying the issue price to the holder as follows:

	30-Jun				30-Jun			
	2025	2030	2033	2036	2025	2030	2033	2036
Debt repayment	\$86m	\$86m	\$129m	\$164m	18.5%	18.5%	27.7%	35.4%

- 9 A postponed repayment schedule applies if at 31 December 2020 not all of Chorus' actual residential non-standard installation costs are included in the proposed regulatory building block model, or if such a building block model has not been introduced.
- 10 The postponement dates range from a few months in the event that 80% of the costs are included in the building block model, to about two years in the event that none of those costs are included (or a building block model has not been introduced).
- 11 The principal amount of each CIP1 Debt Security consists of a senior portion and a subordinated portion, the ratio of which will change over time as described below. The senior portion ranks equally with all other unsecured, unsubordinated creditors of Chorus. The subordinated portion ranks below all other indebtedness of Chorus. On winding up, dissolution or liquidation of Chorus, no payment shall be made to holders of CIP1 Debt Securities in respect of the subordinated portion until all other indebtedness of Chorus is repaid in full.
- 12 The value of the senior portion of a CIP1 Debt Security at any time is the present value of the sum repayable on the CIP1 Debt Security (i.e. the issue price) at that time, calculated using a discount rate of 8.5%. The subordinated portion of a CIP1 Debt Security at any time is the difference between the issue price and the senior portion at that time (i.e. the remainder of the issue price after subtracting the senior portion).
- 13 Repayment of the CIP1 Debt Securities cannot be accelerated by a holder unless NIPA1 is terminated by CIP for a material breach by Chorus or a challenge by Chorus

to the enforceability of liquidated damages, service default payments or material breach liquidated damages under NIPA1. CIP or a Crown Entity (who has executed the applicable accession documentation) can also accelerate repayment of the CIP1 Debt Securities it holds if a prescribed insolvency event occurs in relation to Chorus. If a holder accelerates repayment, all outstanding CIP1 Debt Securities it holds will become immediately payable (although the ranking of the subordinated portion will remain as described above).

## CIP1 Equity Securities

- 14 The CIP1 Equity Securities are a unique class of security that carry no right to vote at meetings of holders of Chorus Shares, but entitle the holder to a right to a repayment preference on liquidation and additional rights that relate to Chorus' performance under NIPA1.
- 15 Dividends become payable on a portion of the CIP1 Equity Securities from 2025 onwards, with the portion of CIP1 Equity Securities that attract dividends increasing over time.
- 16 The dividend rate on the CIP1 Equity Securities (when payable) is equal to a reference rate (based on the 180 day bank bill rate in New Zealand) plus a margin of 6% per annum. Dividends are payable six-monthly in advance, and the dividend payment dates will be aligned with the dividend payment dates for Chorus Shares.
- 17 The number of CIP1 Equity Securities on which the dividend is payable at any date will be reduced by the number of CIP1 Equity Securities which have been redeemed by Chorus up to that date (the redemption terms are described below).
- 18 The table below shows the number of CIP1 Equity Securities that will attract dividends (unless redeemed earlier):

	30-Jun				30-Jun			
	2025	2030	2033	2036	2025	2030	2033	2036
Equity on which dividends become payable	\$86m	\$172m	\$300m	\$465m	18.5%	36.9%	64.6%	100%

- 19 As with CIP1 Debt Securities, the CIP1 Equity Securities attract dividends at a slower rate if at 31 December 2020 not all of Chorus' actual residential non-standard installation costs are included in the proposed regulatory building block model, or if such a building block model has not been introduced.

- 20 The postponed dividend repayment schedule will range from a few months in the event that 80% of the costs are included in the building block model, to about two years in the event that none of those costs are included (or a building block model has not been introduced).
- 21 Chorus is not obliged to declare any dividend on CIP1 Equity Securities in respect of any period, but if it doesn't make a scheduled dividend on the CIP1 Equity Securities it may not pay dividends on Chorus Shares until a subsequent dividend on the CIP1 Equity Securities is paid in full. The dividends payable on the CIP1 Equity Securities are non-cumulative, which means that if Chorus does not make a scheduled dividend payment, the unpaid dividend falls away and does not become a debt due to the holder of the CIP1 Equity Securities.
- 22 If at any time Chorus' credit rating is three notches or more below its initial rating (being BBB by S&P Global Ratings and Baa2 by Moody's Investors Service), no dividends will be scheduled or payable on the CIP1 Equity Securities. In this instance, the terms of the CIP1 Equity Securities do not prohibit Chorus paying dividends on Chorus Shares. However, the dividend stopper contained in NIPA1, which prohibits Chorus paying dividends on Chorus Shares without CIP's consent if Chorus does not have an investment grade credit rating, may apply.
- 23 On a liquidation or winding up of Chorus, holders of CIP1 Equity Securities have the right to repayment of the issue price ranking behind creditors of Chorus but ahead of the holders of Chorus Shares. The CIP1 Equity Securities otherwise carry no right to share in the surplus assets of Chorus on winding up or liquidation.
- 24 Chorus may redeem CIP1 Equity Securities at any time:
- (i) by cash payment of the total issue price of CIP1 Equity Securities to be redeemed; or
  - (ii) by the issue of Chorus Shares of a value equal to the total issue price of the CIP1 Equity Securities to be redeemed (with those Chorus Shares valued at a 5% discount to the 20-day VWAP for Chorus Shares traded in ordinary trading on NZX).
- 25 Chorus may not redeem CIP1 Equity Securities by the issue of Chorus Shares unless Chorus Shares are listed and actively traded on NZX at the time and such issue does not cause a holder of CIP1 Equity Securities to have an interest in 20% or more of Chorus (unless the holder otherwise agrees).

- 26 In the event that NIPA1 is terminated, either for a material breach by Chorus or for a challenge by Chorus to the enforceability of liquidated damages, service default payments or material breach liquidated damages under NIPA1, or in the event that the Chorus Board resolves to pay a dividend on the CIP1 Equity Securities but that dividend is not paid, a holder of CIP1 Equity Securities can elect to:
- (i) continue to hold the CIP1 Equity Securities;
  - (ii) exchange the CIP1 Equity Securities for voting preference shares (which are described below); or
  - (iii) exchange the CIP1 Equity Securities for Chorus Shares of a value equal to the lesser of the "fair value" and the issue price of the CIP1 Equity Securities (with those Chorus Shares valued at a 5% discount to the 20-day VWAP for Chorus Shares traded in ordinary trading on NZX).
- 27 Voting preference shares issued to a holder under (ii) above will have the same total issue price as the CIP1 Equity Securities exchanged by that holder and, to the extent applicable, the same terms and conditions as the CIP1 Equity Securities. However, each voting preference share carries one right to vote at a meeting of holders of Chorus Shares. A holder exchanging CIP1 Equity Securities for voting preference shares receives the same number of voting rights they would have received had they instead exchanged those CIP1 Equity Securities for Chorus Shares under (iii) above.

## **CIP1 Warrants**

- 28 Chorus issues CIP1 Warrants to CIP for no consideration along with each tranche of CIP1 Equity Securities. The CIP1 Warrants are intended to allow CIP (or the holder, if they are transferred) to participate in the upside if Chorus Shares perform in excess of a total shareholder return of 16% per annum over the relevant period described below.
- 29 Each CIP1 Warrant gives the holder the right, on a specified exercise date, to purchase at a set strike price a Chorus Share to be issued by Chorus. A CIP1 Warrant will therefore be "in the money" to the extent the price the holder can realise for the Chorus Share issued on exercise of a CIP1 Warrant exceeds the price paid to exercise the CIP1 Warrant. As described further below, the strike price for a CIP1 Warrant is based on a total shareholder return of 16% per annum on Chorus Shares over the relevant period. Therefore, a holder of a CIP1 Warrant is only likely to exercise the CIP1 Warrant if total shareholder return on Chorus Shares has exceeded 16% per annum over that period.

- 30 The strike price for a warrant will be calculated using a total shareholder return of 16% per annum from the base share price to the exercise date of the warrant. The base share price for a tranche of warrants is:
- (i) for warrants issued during the first 18 months of Chorus trading, the VWAP of Chorus ordinary shares over the first 20 days of Chorus trading; and
  - (ii) for warrants issued after the first 18 months of Chorus trading, the VWAP during months 16 to 18 of Chorus trading.
- 31 Standard adjustments will be applied to the strike prices to account for any distribution by Chorus to shareholders or a reorganisation of Chorus' share capital.
- 32 The exercise dates for the CIP1 Warrants correspond to the repayment dates for the CIP1 Debt Securities and the dates on which dividends become payable on an increased proportion of CIP1 Equity Securities, and will therefore be between 2025 and 2036.

## Glossary

<b>CIP</b>	Crown Infrastructure Partners Limited (formerly Crown Fibre Holdings Limited)
<b>CIP1 Debt Security</b>	a debt security issued or, as the context may require, to be issued by Chorus to CIP pursuant to the UFB1 Subscription Agreement and on the terms set out in schedule 2 of that Agreement
<b>CIP1 Equity Security</b>	an equity security issued or, as the context may require, to be issued by Chorus to CIP pursuant to the UFB1 Subscription Agreement and on the terms set out in schedule 3 of that Agreement
<b>CIP1 Security</b>	CIP1 Debt Security and/or CIP1 Equity Security, as the context may require
<b>CIP1 Warrant</b>	a warrant issued or, as the context may require, to be issued by Chorus to CIP pursuant to the UFB1 Subscription Agreement and on the terms set out in schedule 4 of that Agreement
<b>Chorus</b>	Chorus Limited and, where the context requires, its subsidiaries from time to time
<b>Chorus Share</b>	a fully paid ordinary share in Chorus
<b>Crown Entity</b>	a person that is wholly owned by the Crown and, in the case of the CIP1 Debt Securities, also means the Guardians of New Zealand Superannuation, the Accident Compensation Corporation, the Board of Trustees of the National Provident Fund, the Government Superannuation Fund Authority or any entity wholly owned by any one of these
<b>NIPA1</b>	the Network Infrastructure Project Agreement dated 24 May 2011 between Chorus and CIP (as amended from time to time)
<b>non-standard installation costs</b>	the cost to Chorus of providing free non-standard residential installations to customers for the period from 1 January 2017 to 31 December 2019
<b>NSI Agreement</b>	the agreement between Chorus and CIP detailing the terms agreed between them relating to non-standard installation costs
<b>NZX</b>	NZX Limited

**UFB1**

the New Zealand Government's initial programme to bring ultra-fast broadband access to New Zealanders by 31 December 2019

**UFB1 Subscription Agreement**

the subscription agreement dated 9 November 2011 between Chorus and CIP, as amended on 18 September 2016 and 26 January 2017

**VWAP**

volume-weighted average price