Letter to investors:
FY19 half year result

dear investors

We're pleased to provide you with our update on the progress your company is making towards our goal of keeping New Zealand new.

Recent changes to the NZX Listing Rules mean we're no longer required to publish a half year report, but we'll continue to provide you with a summary of key developments in this newsletter format, as well as making our management commentary and financial statements available online at www.chorus.co.nz/reports. The web page also has a link to the webcast of our half year result presentation, featuring our Chief Executive, Kate McKenzie, and Chief Financial Officer, David Collins. David joined us recently from Aurizon, Australia's largest regulated rail freight operator in Queensland.

Net profit for the six months to 31 December 2018 was $30 million and we achieved EBITDA[1] of $318 million. Our EBITDA guidance for the full year remains $625 million to $645 million. A fully imputed interim dividend of 9.5 cents per share will be paid on 16 April 2019.

Half year result overview

Fixed line connections

HY19	1,486,000
FY18	1,526,000

Broadband connections

HY19	1,186,000
FY18	1,187,000

Fibre connections

HY19	529,000
FY18	445,000

Dividend

HY19	9.5cps
HY18	9cps

EBITDA[1]

HY19	$318m
HY18	$329m

Net profit after tax

HY19	$30m
HY18	$47m

Legislation marks the beginning of our transition to a regulated utility

We reached a significant milestone in November with the Telecommunications (New Regulatory Framework) Amendment Act passing into law following bipartisan political support. This marked the culmination of about 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. The Commerce Commission is now required to implement the new framework that transitions us from a contractual model into a regulatory model by establishing a regulated asset base and allowable revenues for fibre.

Our focus is on ensuring that the significant investments we've made in enabling fibre broadband, both through the ultra-fast broadband (UFB) rollout and the extensive shared infrastructure that underpins it, are fully and fairly reflected in the regulated asset base determined by the Commission. The Commission has requested, and been granted, a deferral of the implementation from 1 January 2020 until 1 January 2022 to complete its work.

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 16 April 2019 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 20 March 2019.

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.

An indicative implementation timeline has been published for its various workstreams. We know investors would like further regulatory clarity sooner rather than later, and we'll do what we can to support the Commission's concurrent workstreams and expedite certainty within the process.

The transition to the new regulatory framework has provided us with the clarity necessary to begin increasing our debt maturity profile to better align with the long term nature of our assets. In December, strong investor interest saw us issue $500 million of 10-year unsecured, unsubordinated bonds maturing in 2028.

Demand for fibre continues to surge

Our market research shows that New Zealanders' recognise fibre broadband as the premium technology for a broadband connection and this is evident in the continued strength of fibre demand. We added another 84,000 fibre connections nationwide in this six-month period, and fibre uptake grew to 51% across our UFB footprint, up from 45% at the end of June. This includes smaller, recently completed UFB2[2] towns, such as Hokitika and Horotiu, where we are seeing uptake rates of 43% and 52% respectively within a very short time.

The ongoing rollout of our fibre network, together with the investment we made in enhanced copper broadband technology in some areas last year, are helping us win cable and fixed wireless broadband customers back from other networks. However, the popularity of fibre broadband means other fibre companies continue to reduce our copper broadband connections in areas where we're not the Government's UFB partner. Our voice only copper connections, for which we receive lower revenue than a broadband connection, also continue to decline as customers take up broadband or migrate to alternative fibre, mobile or fixed wireless networks.

The net effect of these trends was a decline of 40,000 connections in total fixed line connections in the six-month period to a total of 1,486,000. This was higher than the 33,000 disconnections in the six months to 30 June 2018, but the months prior to Christmas are typically characterised by higher disconnections.

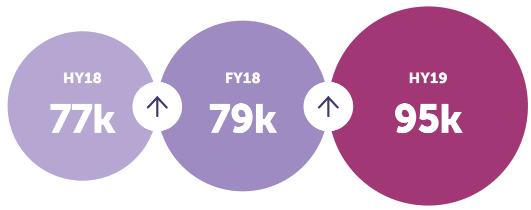
The number of connections taking a broadband service decreased by just 1,000 connections in the six months, to a total of 1,186,000. This is the same number of broadband connections we had at 30 June 2017. In our UFB rollout areas, broadband connections grew by 18,000 connections across the six months. This reflects the degree to which premises growth and increasing broadband penetration, as broadband becomes the fourth utility, is helping offset ongoing line loss to the other local fibre company networks.

A very pleasing aspect of the demand for fibre is the improvements we're starting to see with customer satisfaction with the fibre installation experience. We've put a lot of focus on improving our processes, as well as working closely with individual retailers on theirs, to lift customer satisfaction scores. We know the need to be at home for several technician visits isn't convenient for customers and our goal by Christmas was to start completing 50% of installations with just one visit. We achieved that goal and recorded our highest ever customer satisfaction score of 7.9 out of 10 in December, up from 7.5 in June. Moreover, we installed fibre in 95,000 homes and businesses in the six months to the end of December, compared to 79,000 installations in the six months to the end of June.

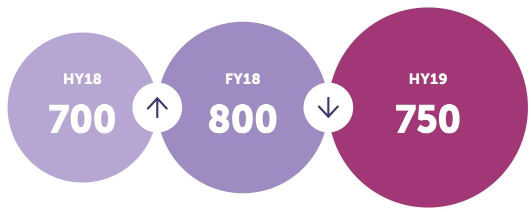
These customer results also reflect the efforts of the service company subcontractors undertaking installation work on our behalf. Our ability to draw upon this subcontractor workforce has been critical to help us address the rapid growth in demand for fibre broadband. We were, therefore, very disappointed when the government Labour Inspectorate announced early findings of breaches of employment standards by some subcontractors.

While there has been no suggestion of wrongdoing by Chorus, we believe anyone working on our behalf should be treated fairly and within the law. Our primary contractors, Visionstream and UCG, have initiated their own independent audits and stood down a handful of subcontracting firms. We're working with our primary contractors to try to minimise disruption to any affected workers, by helping those workers find roles with other subcontractors. We're also working closely with the Labour Inspectorate and commissioned an independent review into the work practices of our subcontractors to identify what improvements we could make. We'll share the outcomes of this review when it is completed.

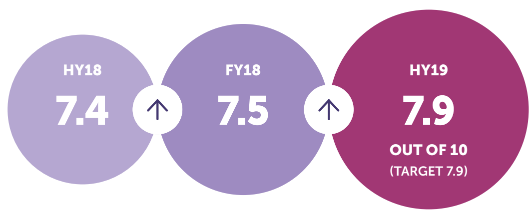
Completed installations



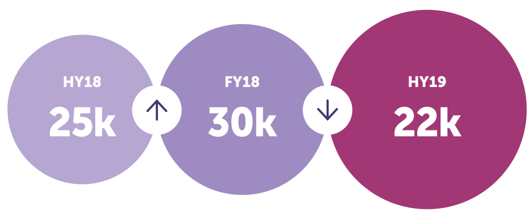
Fibre installation crews



Customer satisfaction



Work in progress (fibre orders)



2 UFB2 refers to the additional UFB rollout areas agreed with the Government in 2017

Outlook

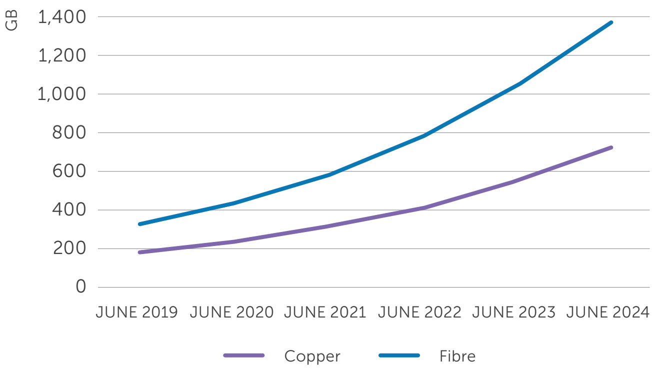
The second half of FY19 seems likely to set a new record for fibre demand. Orders are already tracking ahead of our expectations leading into what is typically a busy seasonal connection period, with the return of university students and the completion of approximately 80,000 more premises in our UFB rollout areas scheduled by the end of June. Spark's plans to launch a sports streaming service and broadcast the 2019 Rugby World Cup online, together with other retailers' individual marketing strategies and our own migration campaigns, should give fibre demand added momentum.

Our objective is simply to connect as many customers to our fibre network as fast as we can, while continuing to lift customer satisfaction. To do this, we'll keep working with our service company partners and retailers to improve our connection processes and productivity. Our new target is to be completing 75% of installations in a single visit by the end of June.

Where fibre isn't available, or sports events drive short term shortages in workforce capacity, we'll continue to drive awareness of the availability of our high speed VDSL capability. The continuing growth in data usage - with monthly average household data usage of 235 gigabytes (GB) in December, compared to 210GB in June, and fibre customers consuming an average of 315GB – means customers are increasingly conscious of the limitations of fixed wireless networks. Data usage is growing across all our network technologies as streaming becomes mainstream and consumers adopt new bandwidth hungry devices. Freeview's new streaming device, for example, removes the need for a TV aerial or satellite dish by transferring their content entirely onto broadband. These technology developments support our own and independent forecasts that suggest average data usage by 2024 is likely to exceed 1,000GB a month.

Figure 1:

Chorus forecast: average monthly broadband usage (GB)



Our objective is to return to modest EBITDA growth in FY20, subject to no material changes in expected regulatory environment or competitive outlook. Maximising the number of connections on our network through broadband growth and our innovation programme are pivotal to this. At a cost level, we're maintaining a tight focus on capital and operating expenditure as we optimise our business. Our fibre rollout remains on time and on budget, and we're beginning to see some of the benefits of the migration to fibre flow through to reduced network maintenance and other operational costs.

The pace of this migration will continue to shape our business as we transition to a fibre future and the new regulatory framework. We look forward to updating you on our progress at the full year result in late August.

Thank you for your support of Chorus.

Kind regards

Patrick Strange
Chair