

Summary of CIP2 Securities

Summary of key terms of securities issued by Chorus to CIP under the UFB2 Subscription Agreement.

UFB2 Subscription Agreement

- 1 Chorus is a cornerstone partner in the Government's extension of its ultra-fast broadband (UFB2) programme.
- 2 As part of UFB2 Chorus and CIP entered into the UFB2 Subscription Agreement on 26 January 2017. The UFB2 Subscription Agreement is amended from time to time as new towns and funding are added to the UFB2 programme..
- 3 Under the UFB2 Subscription Agreement, Chorus may require CIP to subscribe for CIP2 Securities during the UFB2 build period to 22 June 2023(unless terminated earlier). The maximum value of CIP2 Securities that Chorus can require CIP to subscribe for at any time is determined according to the number of Network Stages completed and the agreed amount for each Network Stage as set out in NIPA2. The maximum aggregate value of CIP2 Securities to be subscribed for by CIP is approximately NZ\$409 million.
- 4 Subject to a maximum total face value of NZ\$304 million for CIP2 Equity Securities, Chorus can choose the mix of CIP2 Debt Securities and CIP2 Equity Securities it issues. The key terms of the CIP2 Equity Securities and CIP2 Debt Securities are described below.
- 5 There are certain conditions that must be met by Chorus before Chorus is entitled to call on CIP to subscribe for a tranche of CIP2 Securities. Those conditions include:
 - (i) prior to 31 December 2019, there being no breach by Chorus of a financial covenant under a bank facility that is preventing Chorus from drawing on the relevant bank facility;
 - (ii) after 1 January 2020 (or earlier if Chorus does not have a bank facility with financial covenants), Chorus having an investment grade credit rating from S&P and Moody's (or one of them if only one is rating Chorus at the time);
 - (iii) there being no material breach by Chorus under NIPA2;

- (iv) CIP not suspending performance of NIPA2 as a consequence of a serious health and safety event; and
- (v) the subscription occurring before 22 June 2023.

6 During the expected build period under NIPA2 (until 20 December 2022, unless terminated earlier) the CIP2 Securities may only be held by CIP or by another Crown Entity. After that, the CIP2 Securities become freely transferable.

CIP2 Debt Securities

- 7 The CIP2 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 CIP2 Debt Securities in tranches from 2030 to 2036 by repaying the issue price to the holder as follows:

	<u>30-Jun</u>			<u>30-Jun</u>		
	<u>2030</u>	<u>2033</u>	<u>2036</u>	<u>2030</u>	<u>2033</u>	<u>2036</u>
Debt repayment ¹	\$19.4m	\$38.7m	\$46.8m	18.5%	36.9%	44.6%

- 9 The principal amount of each CIP2 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 CIP2 Debt Securities in respect of the subordinated portion until all other indebtedness of Chorus is repaid in full.
- 10 The value of the senior portion of a CIP2 Debt Security at any time will be the present value of the sum repayable on the CIP2 Debt Security (i.e. the issue price) at that time, calculated using a discount rate of 8.5%. The subordinated portion of a CIP2 Debt Security at any time will be 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).
- 11 Repayment of the CIP2 Debt Securities cannot be accelerated by a holder unless NIPA2 is terminated by CIP for a material breach by Chorus, a serious health and safety event, a challenge by Chorus to the enforceability of liquidated damages, service default payments or material breach liquidated damages under NIPA2.

¹ Assuming \$105m CIP2 Debt Securities issued.

- 12 CIP or a Crown Entity (which has executed the applicable accession documentation) can also accelerate repayment of the CIP2 Debt Securities it holds if a prescribed insolvency event occurs in relation to Chorus or if any indebtedness under Chorus' bank facility or, if it does not have a bank facility, the master trust deed for its domestic bonds is accelerated by reason of an event of default or similar event.
- 13 If a holder accelerates repayment, all outstanding CIP2 Debt Securities it holds will become immediately payable (although the ranking of the subordinated portion will remain as described above).

CIP2 Equity Securities

- 14 The CIP2 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 NIPA2.
- 15 Dividends become payable on a portion of the CIP2 Equity Securities issued prior to 1 July 2020 from 2030 onwards, with the portion of CIP2 Equity Securities that attract dividends increasing over time.
- 16 For CIP2 Equity Securities issued after 1 July 2020 no dividends are payable until 2036 at which point dividends will be payable on 100% of these CIP2 Equity Securities.
- 17 The dividend rate on the CIP2 Equity Securities (when payable) will be 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.
- 18 The number of CIP2 Equity Securities on which the dividend is payable at any date will be reduced by the number of CIP2 Equity Securities which have been redeemed by Chorus up to that date (the redemption terms are described below).
- 19 The table below shows the number of CIP2 Equity Securities issued **before** 1 July 2020 that will attract dividends (unless redeemed earlier).

	<u>30-Jun</u>			<u>30-Jun</u>		
	<u>2030</u>	<u>2033</u>	<u>2036</u>	<u>2030</u>	<u>2033</u>	<u>2036</u>
Equity on which dividends become payable ²	\$26.4m	\$79.0m	\$142.6m	18.5%	55.4%	100%

² Assuming \$142.6m CIP2 Equity Securities issued before 1 July 2020.

20 The table below shows the number of CIP2 Equity Securities issued **after** 1 July 2020 that will attract dividends (unless redeemed earlier).

	June 2036
Equity on which dividends become payable ³	\$161.8m (100%)

- 21 Chorus is not obliged to declare any dividend on CIP2 Equity Securities in respect of any period, but if it doesn't make a scheduled dividend on the CIP2 Equity Securities it may not pay dividends on Chorus Shares until a subsequent dividend on the CIP2 Equity Securities is paid in full. The dividends payable on the CIP2 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 CIP2 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 CIP2 Equity Securities. In this instance, the terms of the CIP2 Equity Securities do not prohibit Chorus paying dividends on Chorus Shares. However, the dividend stopper contained in NIPA2, 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 CIP2 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 CIP2 Equity Securities will otherwise carry no right to share in the surplus assets of Chorus on winding up or liquidation.
- 24 Chorus may redeem CIP2 Equity Securities at any time:
- (i) by cash payment of the total issue price of CIP2 Equity Securities to be redeemed; or
 - (ii) by the issue of Chorus Shares of a value equal to the total issue price of the CIP2 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).

³ Assuming \$161.8m CIP2 Equity Securities issued after 1 July 2020

- 25 Chorus may not redeem CIP2 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 CIP2 Equity Securities to have an interest in 20% or more of Chorus Shares (unless the holders otherwise agree).
- 26 In the event that NIPA2 is terminated, either for a material breach by Chorus, a serious health and safety event, or for a challenge by Chorus to the enforceability of liquidated damages, service default payments or material breach liquidated damages under NIPA2, or in the event that the Board of Chorus resolves to pay a dividend on the CIP2 Equity Securities but that dividend is not paid, a holder of CIP2 Equity Securities can elect to:
- (i) continue to hold the CIP2 Equity Securities;
 - (ii) exchange the CIP2 Equity Securities for voting preference shares (which are described below); or
 - (iii) exchange the CIP2 Equity Securities for Chorus Shares of a value equal to the lesser of the "fair value" and the issue price of the CIP2 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 CIP or a Crown Entity (who has executed the applicable accession documentation) can also elect one of the options under (i) to (iii) above in relation to the CIP2 Equity Securities it holds if a prescribed insolvency event occurs in relation to Chorus.
- 28 Voting preference shares issued to a holder under (ii) above will have the same total issue price as the CIP2 Equity Securities exchanged by that holder and, to the extent applicable, the same terms and conditions as the CIP2 Equity Securities. However, each voting preference share carries one right to vote at a meeting of holders of Chorus Shares. A holder exchanging CIP2 Equity Securities for voting preference shares receives the same number of voting rights they would have received had they instead exchanged those CIP2 Equity Securities for Chorus Shares under (iii) above.

Glossary

CIP	Crown Infrastructure Partners Limited (formerly Crown Fibre Holdings Limited)
CIP2 Debt Security	a debt security issued or, as the context may require, to be issued by Chorus to CIP pursuant to the UFB2 Subscription Agreement and on the terms set out in schedule 2 of that Agreement
CIP2 Equity Security	an equity security issued or, as the context may require, to be issued by Chorus to CIP pursuant to the UFB2 Subscription Agreement and on the terms set out in schedule 3 of that Agreement
CIP2 Security	a CIP2 Debt Security and/or CIP2 Equity Security, as the context may require
Chorus	Chorus Limited and, where the context requires, its subsidiaries from time to time
Chorus Share	a fully paid ordinary share in Chorus
Crown Entity	a purchaser of CIP2 Securities from CIP which is: <ul style="list-style-type: none">• a person that is wholly owned by the Crown; or• any of the Guardians of New Zealand Superannuation, the Accident Compensation Corporation, the Board of Trustees of the National Provident Fund, or the Government Superannuation Fund Authority, or any entity wholly owned by any one of these
NIPA2	the Network Infrastructure Project Agreement dated 26 January 2017 between Chorus and CIP (as amended from time to time)
NZX	NZX Limited
UFB2	the extension of the Crown's UFB initiative to enable further New Zealanders to be able to access ultra-fast broadband
UFB2 Subscription Agreement	the subscription agreement dated 26 January 2017 between Chorus and CIP (as amended from time to time)
VWAP	volume-weighted average price