FIBRE.
IT'S HOW WE INTERNET NOW.

Letter to investors:
FY20 full year result

dear investors

This year saw our broadband infrastructure pass its greatest ever test.

The COVID-19 pandemic meant New Zealanders were heavily reliant on our copper and fibre network to keep connecting, working and learning through months of change and uncertainty.

FY20 result overview

	FY20	FY19
Fixed line connections[1]	1,415,000	1,450,000
Broadband connections[1]	1,206,000	1,196,000
Fibre connections[1]	751,000	610,000
Net profit after tax	$52m	$53m
EBITDA[2]	$648m	$636m
Customer satisfaction	8.1 out of 10 (target 7.9)	7.7
Dividend	24cps	23cps
Employee engagement score[3]	8.5 out of 10[3]	7.6

1 Excludes free education connections provided as part of Chorus' COVID-19 response.
2 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 our business.
3 Based on the mean response to "How likely are you to recommend your company as a place to work?"

Our business and our people rose to the challenge, helping deliver strong operational results and further cement broadband's role as an essential utility. Despite the operational restrictions and financial impact of COVID-19, we were pleased to be able to achieve our goal of modest EBITDA growth. This was achieved through our ongoing focus on reducing costs and reshaping our business for a fibre-centric future.

Kind regards

Patrick Strange
Chair

Dividend reinvestment plan for shareholders

A dividend reinvestment plan is available to our Australian and New Zealand resident shareholders. There will be a 2% discount rate applied for the 12 October 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 16 September 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 2020 annual report, which is available free of charge on request and at www.chorus.co.nz/financial-results.

CHORUS

FY20 overview

We celebrated a significant milestone with the completion of the original ultrafast broadband (UFB1) rollout in November. There are now approximately 150,000 homes and businesses remaining to pass in the UFB2 rollout area by the end of 2022. Together, these projects are delivering far reaching socio-economic benefits, with a growing number of smaller communities throughout New Zealand connected to fibre.

We've continued to see strong growth in fibre uptake, up from 53% to 60% during the year. Just as importantly, customer satisfaction with fibre installations rose from 7.7 to 8.1 out of ten. This exceeded our target of 7.9. Together, these developments helped us deliver another strong year of broadband connection growth, with an increase of 10,000 lines. We finished the year with 1,415,000 fixed line connections, down just 35,000 lines from the year before. This was a marked improvement on the level of line reductions experienced in prior years.

The good progress we made in optimising our business and reducing costs meant we achieved EBITDA of $648 million. This was up from $636 million in FY19 and was in line with our February upgrade to EBITDA guidance of a range of $640 to $655 million. Net profit after tax was $52 million compared to $53 million in FY19.

While COVID-19 had a negative financial impact on EBITDA, it has accelerated some of the positive underlying trends that support our business. International telecommunications providers are seeing a "fixed line renaissance", with consumers now placing even greater value on the reliability and capacity of fixed line services relative to alternative wireless networks.

We've seen this reflected in demand trends on our network, with a growing proportion of consumers opting for our premium 1 gigabit per second plans.

The consumption of streaming services through lockdown contributed to significant increases in monthly broadband usage, while the almost overnight adoption of videoconferencing services has reinforced the need for stable upstream broadband performance.

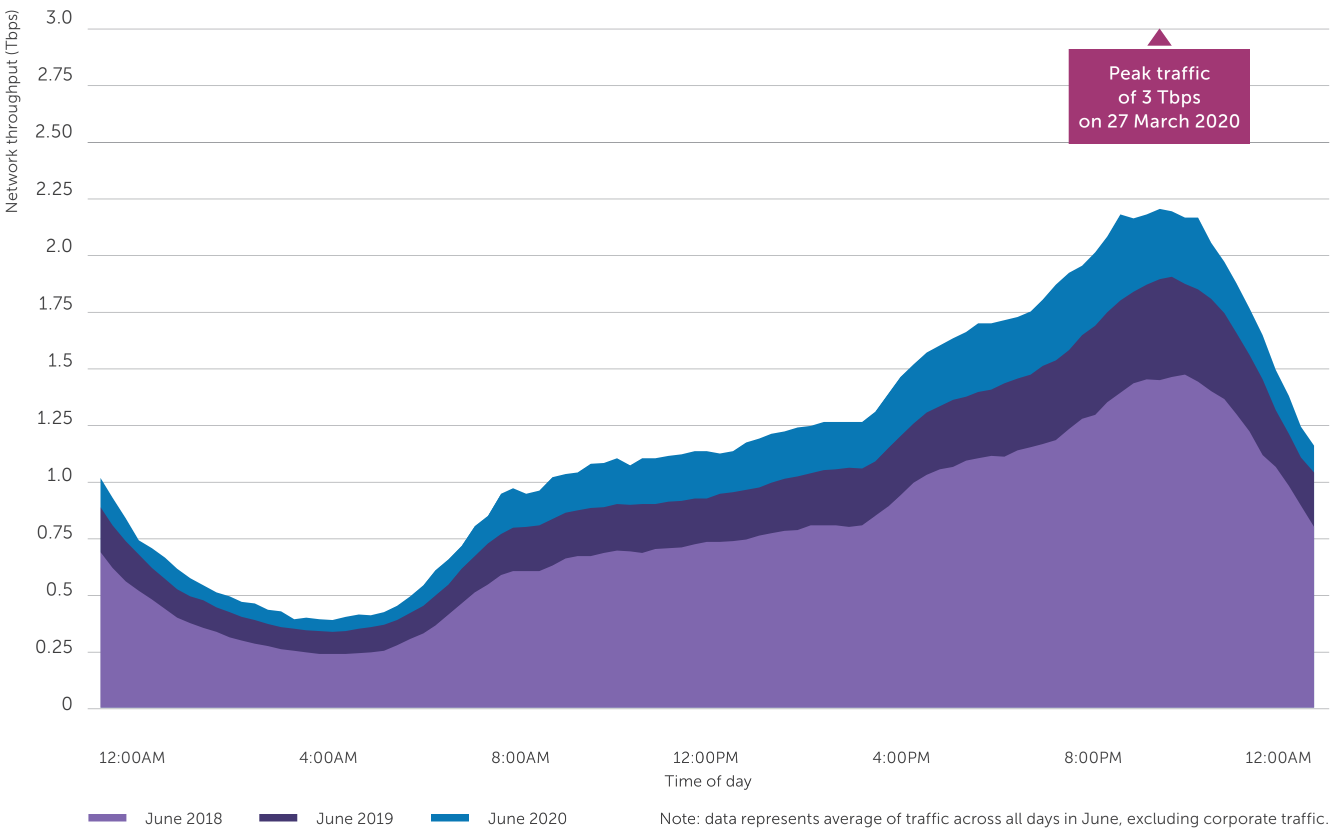
Monthly average household data usage surged from 265GB to 313GB across the year. Fibre customers averaged 387GB in June, up from 341GB the year before,

The completion of the UFB1 rollout, together with the suspension of non-essential rollout and connection activity during the COVID-19 lockdown, saw a substantial drop in overall capital expenditure from $804 million in FY19 to $663 million this year.

The sudden suspension of non-essential field activity through the lockdown period placed financial strain on our service companies and we chose to provide $5 million in financial support to them and their subcontractors. This helped assist with reduced workflow and retain our workforce for the rapid resumption of activity when alert levels were relaxed. A relief fund of $2 million was also made available to retailers to help address the expected increase in bad debts for consumers and small businesses unable to pay their bills during lockdown.

Figure 2:

Average daily internet usage across the Chorus network June 2018 – 2020



Note: data represents average of traffic across all days in June, excluding corporate traffic.

We were pleased to be able to play a part in supporting the wider community deal with the consequences of COVID-19. Where the Ministry of Education identified households needing a broadband connection, for students to keep up with their schooling, we made our existing network connections available free of charge for a six-month period. About 10,000 students had been connected under this initiative by the end of FY20.

Our people helped make our COVID-19 initiatives happen, and keep our essential infrastructure going, all while embracing working from home in an extremely short timeframe. They've shown great resilience through change this year as we've begun reshaping our organisational structure from a build to operate focus. Despite the resulting reduction in staff numbers, employee engagement was 8.5 in June 2020, up from 7.6 out of 10 in FY19. Our employee net promoter score[4] also rose, from +28 to +67, putting us in the top 5% of our international 'technology' company benchmark.

We continue to put considerable effort and focus into the Commerce Commission's process to establish the new utility-style regime for our fibre access network. Aspects of the Commission's November 2019 draft decision were an improvement on their earlier views. However, we believe the proposed settings don't yet reflect the commercial realities of the network investment we've made since 2011. The various phases of the implementation process will continue through FY21, with the new framework to apply from January 2022.

A fully imputed final dividend of 14 cents per share will be paid on 12 October 2020, bringing total dividends for FY20 to 24 cents per share.

4 Net Promoter Scores can range from -100 to +100 and are calculated by subtracting the percentage of detractors (0-6 engagement score) from the percentage of promoters (9-10 engagement score).

Outlook

COVID-19 has both underlined broadband's role as an essential utility, while also increasing global appreciation of the true value of a fibre network. We're thankful that New Zealand made infrastructure choices a decade ago that have allowed us to be in the enviable position of having already deployed fibre to most New Zealanders. This has meant that demand for our services has continued to be strong, despite the wider economic impact of the pandemic. We're hopeful this demand continues and we'll keep considering ways we can support the wider community and economy beyond the various initiatives we've already undertaken.

With the UFB rollout winding down, our focus is all about connecting more New Zealanders to fibre. We've put this at the top of our strategic focus with a target of 1 million fibre connections by 2022. This is a substantial step up from the 751,000 connections we have today, but we know the socio-economic benefits of fibre connectivity make it a worthwhile goal. The sustainability of our business rests on making New Zealand better, by bridging digital divides and enabling work, education and creativity through better broadband.

It's reflected too in one of the four pillars of our strategy: to win in our core fibre business. In FY21, you can expect to see us continuing to lift our activity as an active wholesaler. We'll be knocking on a whole lot more doors and providing targeted incentives to retailers and customers to sustain the connection momentum we've built up over the last year.

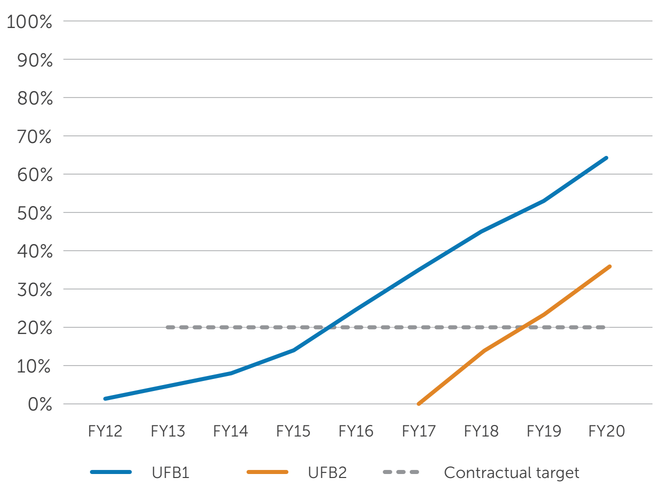
We know there will be increased competitive intensity as mobile network operators seek to leverage their own 5G investments, but we have the utmost confidence in our product. As the Commerce Commission has shown through its reporting, fixed line services clearly outperform shared wireless networks on key measures such as latency and concurrent streaming on multiple devices. We believe recent COVID-19 experiences and the shift to more home-based work mean Kiwis will value unlimited data and rock solid broadband like never before.

Although the Commerce Commission is expected to publish a copper withdrawal code before the end of 2020, we're not going to switch copper off overnight. There'll be lengthy notice requirements that we'll need to follow and we'll take a careful, considered and consumer-centric approach. As we've said before, it will only be where fibre is already available, and on a localised street-by-street basis. Consumers should, therefore, be aware that suggestions of needing to immediately change networks because of a 'pending shutdown of copper' may not be correct. Many retailers provide services across our copper and fibre network, so consumers might wish to shop around by visiting websites like www.broadbandcompare.co.nz.

The gradual withdrawal of copper services is linked closely with another of our strategic pillars, the optimisation of our non-fibre assets. As our network becomes increasingly fibre-centric we're looking closely at the assets we need to deliver services into the future. We've already begun to dispose of non-essential network sites and are reshaping our investment programmes to better reflect ongoing local demand. The removal of legacy broadband equipment from our network should also start to reduce ongoing maintenance and electricity costs.

Figure 1:

UFB1 and UFB2 uptake rates



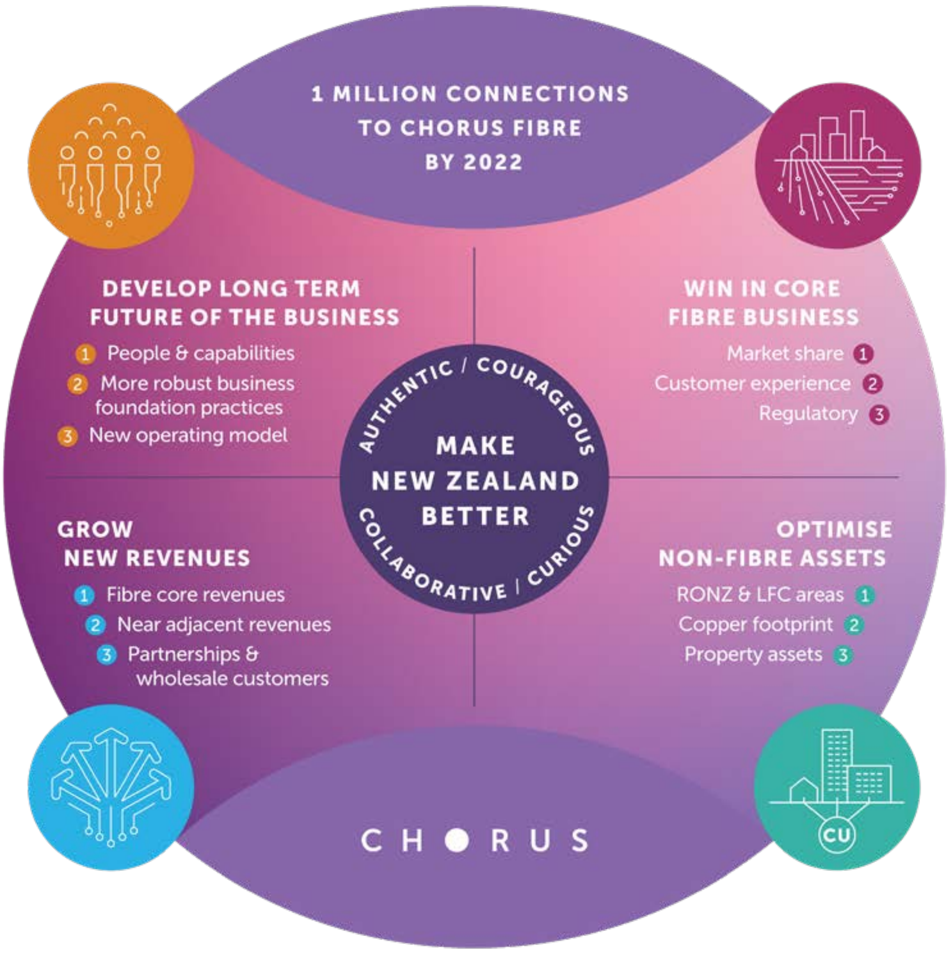
At the same time, we keep exploring opportunities to grow new revenues. Our innovation programme has successfully identified several initiatives that we've moved through to product stage, such as our edge centre facilities and the impending launch of a Wi-Fi service using our latest in-home fibre network devices. We have more ideas in the pipeline, including exploring the opportunities created by technology developments like the latest Wi-Fi standard, Wi-Fi 6. As technology and consumer demands evolve, we're conscious too of the need to look for potential new partnerships and wholesale customers that might deliver innovative new services for consumers.

The changes to our strategic focus are of course occurring against the backdrop of our shift from building to operating our new fibre network, and the shift to becoming a regulated utility from January 2022. While these aren't immediate changes, they're already shaping the way we think about Chorus' future operating model. We know, for example, that we'll need to develop core utility functions such as compliance and asset management that are subtly different from the way we've traditionally operated. Our organisation and our service company partners will also need to keep evolving as the fibre rollout winds down and we no longer have to operate a copper and fibre network side by side.

Underpinning this all, is of course the expectation of a clear and certain regulatory environment that supports ongoing infrastructure investment. We, and many investors, continue to advocate for a fair return that respects the risks taken in the first decade of our partnership with Government and the longer-term nature of our investment. As we've said previously, while the Commission's November 2019 draft decision was an improvement on its earlier views, there is still a significant gap between retrospective economic assumptions and commercial reality. Under the current proposed settings, investors will not consider UFB a model for the successful transformation of more New Zealand infrastructure.

We know too that investors are rightly interested in more clarity of our future dividend intentions, given the constraints on past returns through the UFB investment cycle. Our intention is that in FY22 we'll transition to a more utility-like dividend policy, based on a pay-out range of free cash flow. This transition period will be moderated by the need to balance our BBB credit rating with the ongoing investment needed to complete the UFB rollout and fibre connections. In the meantime, we've provided more commentary on our proposed approach in the full year results presentation, as well as guidance of a FY21 dividend of 25 cents per share.

Our strategic focus



ⓘ 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/reports**