

Making New Zealand Better



dear investors

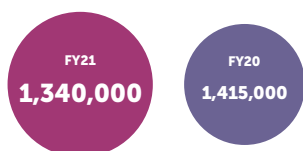
Our focus in FY21 was to help consumers capitalise on the gigabit head start our fibre network has given New Zealand. We knocked on about a quarter of a million doors and supported our 100 or so retailers to connect another 120,000 consumers to fibre. This saw fibre uptake grow from 60% to 65% across the year and represents strong momentum towards our target of 1 million connections in 2022. Pleasingly, we lifted customer satisfaction again, up from 8.1 out of ten to 8.2 for installations and up from 7.3 to 7.5 for service to homes with an existing or 'intact' fibre socket.

Softer market conditions due to the ongoing effects of COVID-19 on demand, together with competition from other fibre and wireless networks, resulted in a \$12 million drop in revenue compared to FY20. Operating expenses reduced by \$13 million, reflecting our continued tight management of costs and the absence of the significant one-off COVID-19 costs experienced in FY20. This helped us just achieve our goal of a modest increase in EBITDA, with FY21 EBITDA of \$649 million up \$1 million from FY20. Net profit after tax was \$47 million compared to \$52 million in FY20.

A fully imputed final dividend of 14.5 cents per share will be paid on 12 October 2021, bringing total dividends for FY21 to 25 cents per share.

FY21 result overview

Fixed line connections¹



Broadband connections¹



Fibre connections¹



Net profit after tax



EBITDA²



Customer satisfaction



Dividend



Employee engagement score³



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 2021 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 15 September 2021.

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 2021 annual report, which is available free of charge on request and at www.chorus.co.nz/financial-results.

1 Excludes partly subsidised 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 average response to four key engagement questions.

FY21 overview

We continued to expand our fibre footprint under our public-private partnership with the Government. There are just 53,000 or so homes and businesses remaining to pass by the end of 2022. Hundreds of small provincial communities can already enjoy the socio-economic benefits of fibre connectivity. As New Zealand turns its focus to the challenges of climate change, there is a growing appreciation too of the environmental benefits of fibre broadband. As the greenest broadband technology, using materially less electricity than copper or mobile technology, fibre is reducing Chorus' network energy needs. It is also enabling New Zealanders to work more flexibly, lowering commuting-driven carbon emissions.

Broadband's role as an essential utility is reflected in the ongoing surge in data demand. Monthly average household data usage, including both downloads and uploads, grew from 350 gigabytes (GB) to 432GB across the year. Fibre customers averaged 500GB in June, up from 436GB the year before. At the same time, demand for reliable high capacity broadband was evident in 1 gigabit per second (Gbps) connections growing to 19% of our fibre connections, up from 16% last year. This growth is being increasingly driven by new entrant retailers from the electricity and pay TV sectors.

We enhanced our product portfolio during the year with new services to support greater industry peering and data centre connectivity. An 8Gbps *Hyperfibre* plan was launched and our in-home Wi-Fi service is being used by some smaller retailers. These are not yet large revenue earners, but they underpin our role as a neutral host helping improve New Zealand's connectivity.

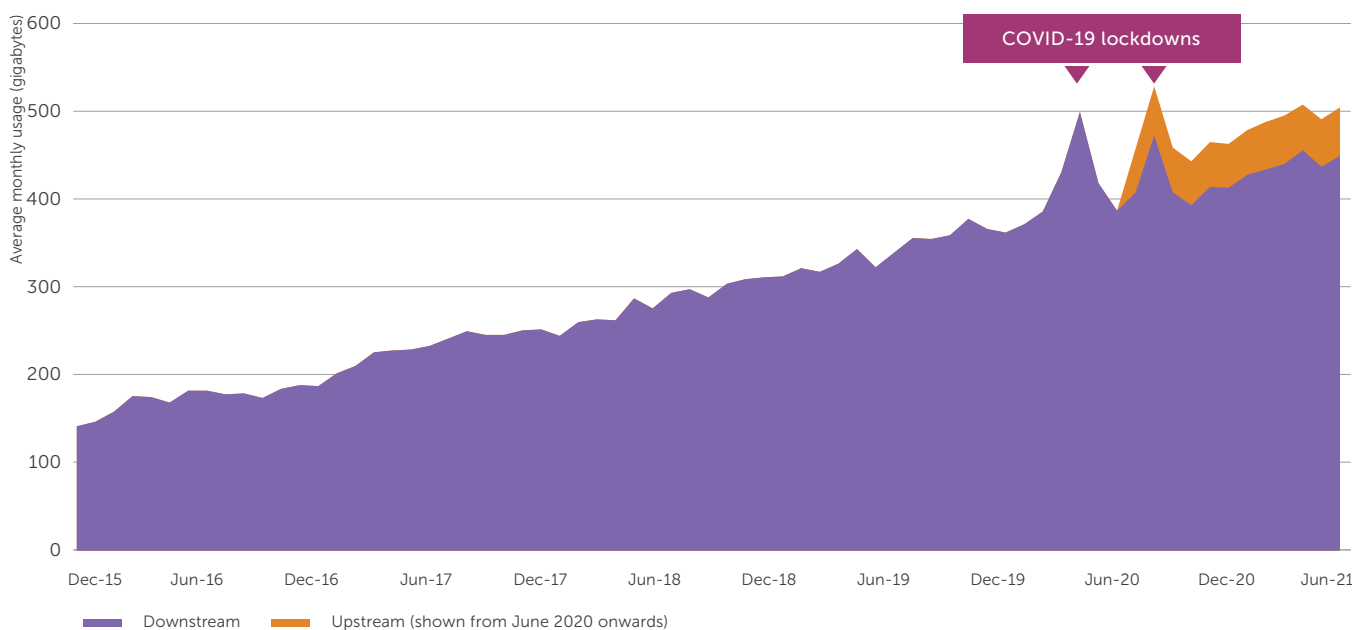
We did face some headwinds. COVID-19 continued to make its presence felt with several short lockdowns in Auckland affecting our fibre marketing activity. The historic levels of growth in the broadband market have also been constrained significantly by restrictions on migration into New Zealand. These pressures, together with the loss of international roaming revenue, have seen the traditional vertically integrated mobile network providers increase their focus on switching their customers from our network to their fixed wireless solutions.

At times, these campaigns have led to customer confusion, especially about the status of the copper network, and we continue to advocate for clearer product disclosure requirements to help ensure a level playing field. This is especially important because fixed wireless services don't provide the same level of service as fibre - or even VDSL in most cases - and these service limitations often aren't made clear to the customer.

As expected, other fibre companies continued to win copper customers in those areas where they have overbuilt our network with fibre. Together, these factors meant we ended FY21 with 1,340,000 fixed line connections, down 75,000 lines from the year before. Within this total, broadband connections were down 26,000 to 1,180,000. Most of this reduction was in other fibre company areas. Our broadband connections grew by 5,000 in our UFB areas, helped by strong premises growth. These totals exclude the 10,000 student households we've continued to keep connected to broadband as part of our COVID-19 response, partly subsidised for the last quarter by the Ministry of Education.

Figure 2 :

Average monthly usage per connection on our fibre network



Average monthly data usage grew by almost a quarter through FY21 from 350GB to 432GB, with fibre consumers averaging 500GB a month by the end of the year. Average throughput on our network at these times is close to consistently touching the 3 terabit per second record that was set during the nationwide lockdown in March 2020. Peak time traffic around 9pm grew by 28%.

Outlook

FY22 is a crossroads year for Chorus and the ongoing development of New Zealand's broadband landscape. We've invested billions of dollars since 2011 to help create a fibre network that other countries are now racing to replicate. The challenges of COVID-19 have accelerated the digitalisation of socio-economic activity and demand for bandwidth that's always on has made fibre networks a must have. In Australia the government-owned National Broadband Network has said it will upgrade up to 2 million more premises to full fibre. In the United Kingdom, BT has committed to take fibre to 25 million homes after regulatory commitments to a fair return on fibre investment.

With our fibre network now 95% complete, our strategy for FY22 remains largely unchanged. At its core, we're more focussed than ever on making New Zealand better. We want to keep unlocking the potential of fibre by continuing to connect people and technology, while developing services that underpin even better applications and use of the cloud.

We've put our new sustainability policy at the heart of our strategy with an emphasis on helping more Kiwis participate in a positive digital life. Our first Sustainability Report has been published alongside our Annual Report. Greater adoption of digital tools and solutions, backed by the low emission advantages of fibre broadband, has an important part to play in accelerating New Zealand's journey to carbon neutrality. We'll be working with groups like Senior Net and Digital Journeys to help close the digital divide and strengthen digital skills of people and businesses.

We've got plenty of work to do to get to our goal of 1 million fibre connections by the end of 2022. Fixed wireless services can deliver a broadband service that may provide a credible alternative for some customers, depending on things like coverage and data needs. We're comfortable with competition, but we believe consumers should be fully informed about their options and the characteristics of the product they are paying for. Too often we're being contacted by consumers who haven't realised that they've been switched from a fixed line, or where their wireless service is of a lower quality.

This is why we've been investing in strong public information campaigns and advertising activity. We want consumers to be able to make an informed choice. We've also been providing retailers with marketing incentives to promote fibre uptake. These are a critical tool for us when mobile network operators have substantial retail market power, large incumbent customer bases, and prefer that consumers use their wireless networks. The playing field is further tilted in their favour because, unlike fibre, fixed wireless services aren't subject to price or quality regulation.

We're encouraged by recent Commerce Commission proposals to require retailers to provide clearer product disclosure for consumers. However, we're concerned by the suggestion in the Commission's draft price-quality decision that our retailer incentives require a drawn-out approval process. This would tilt the retail broadband market in the favour of large incumbents that do not have the willingness to promote fibre like the smaller retailers do.

We wrote to the Commission to express our concern that this approach and their draft cuts to our expenditure proposals do not adequately reflect our market context. Taken together with the low WACC settings and our proposed initial asset valuation of \$5.5 billion, there is a genuine risk that the new regulatory framework could discourage anything but essential investment for the next three years.

Chorus' share price has dropped substantially over the last six months, reflecting initial asset valuations below market expectations and the potential for the cap on our regulated fibre revenues to be set below our business plan forecasts. Investors are concerned that the regulatory process has retrospectively written down the value of the investment we've made in the fibre network over the last decade. This is an extremely poor advertisement for investment in future New Zealand infrastructure public-private partnerships.

Market analysis suggests that a fairer approach to our investment risks, the cost of equity and the treatment of Crown funding should value the fibre network at more than \$7 billion. Our initial \$5.5 billion valuation, based on measures that don't reflect our commercial reality, means we've had to propose acceleration of depreciation as a way to bridge the potential gap between our business plan revenue forecasts and the revenue cap for 2022 to 2024.



Please visit www.chorus.company.co.nz/sustainability to read our Sustainability Report 2021.

With fibre uptake at 65%, a revenue cap that doesn't allow for growth at the rate we've forecast means we would be discouraged from making ongoing discretionary investment in fibre. We've already responded to investor feedback by ruling out expansion of the fibre footprint into more rural areas under current settings. Our investment appetite for things like the expansion of our *Hyperfibre* footprint and projects to enhance network resilience will also be shaped by regulatory outcomes.

In the meantime, we're proceeding with our current business plan. We'll continue to promote the migration of copper customers to fibre and there will be a growing, but still very modest, number of copper broadband cabinets that we can retire. And just so there's no confusion, our copper network is not being shut down on a widespread basis. It's still very much a street by street proposition. As the Commerce Commission's broadband monitoring shows, our copper network continues to provide a high quality of service.

We'll keep making our organisation more adaptive and even easier for customers to deal with. In FY22 we're lifting our focus on customer experience measures from installations and intact connections to include a new service assurance measure. Customer experience will also be an important element of our new service company contracts from March 2022.

The unrelenting growth in demand for data, the increasing reliance on both high-speed download and upload performance, as well as the emerging awareness of fibre broadband's contribution to sustainability, are all underlying trends that support our business. Our *Hyperfibre* services are already making 8Gbps symmetrical speeds available and 25Gbps capability is on the horizon. This is why fibre remains the world's fastest growing and most future proof access technology.

The rapid evolution of cloud computing and Wi-Fi capability is exciting and points to future revenue opportunities for us to explore. We've made a promising start with *EdgeCentre* facilities and services that leverage our role as a neutral host. Wi-Fi applications and technologies are where significant innovation is occurring and governments around the world have begun to acknowledge this with increased Wi-Fi spectrum allocations.

Decisions on policy matters like this and within our broader regulatory context have the potential to amplify the consumer benefits from fibre in the next few years. New Zealand has a gigabit head start over the rest of the world. Let's make the most of that advantage.

Thank you for your support of Chorus.

Kind regards,

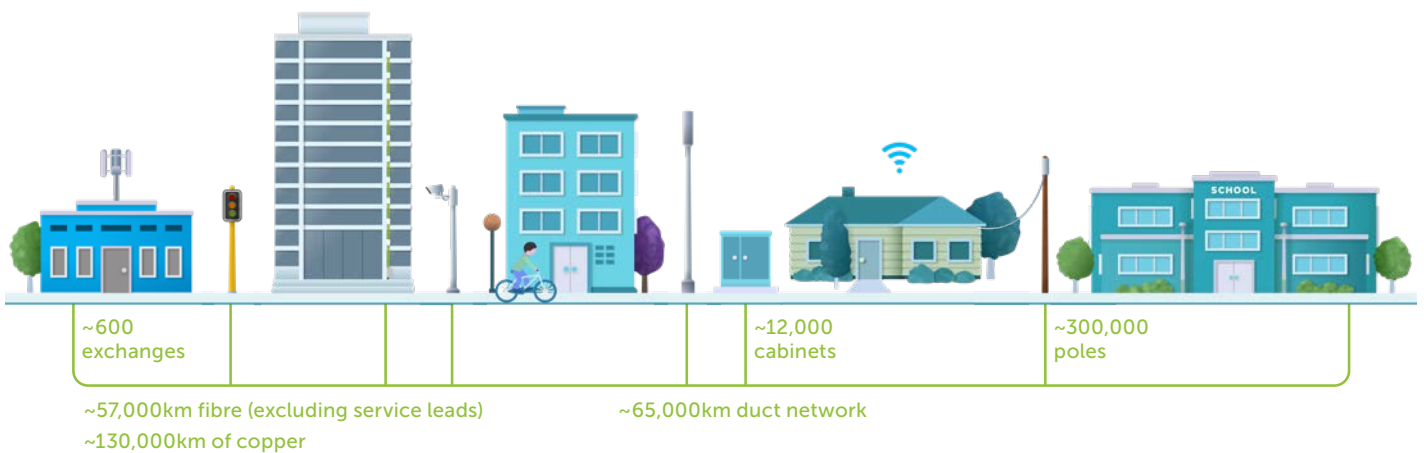


Patrick Strange
Chair



Figure 3:

Our network infrastructure



We're a wholesale only, fixed line telecommunications network operator.



Our network infrastructure enables ~100 retail service providers to connect homes and businesses nationwide.



We have about 820 permanent and fixed term employees and 140 independent contractors for our core operations. Several thousand service company workers and subcontractors undertake activity on our behalf.



73% of our broadband connections are fibre, enabling rapid growth in broadband speeds and data demand. 8Gbps Hyperfibre speeds just launched.



Gigabit broadband and our fibre backhaul is underpinning the development of sustainable communities through connections to devices and other network connectivity.



A 2017 study¹ estimated the wider social benefits from fibre uptake at about NZ\$2 billion annually, in addition to a \$3 billion annual contribution to GDP from business uptake.

1. Sapere Research Group: Estimating the wider socio-economic impacts of Ultra Fast Broadband for New Zealand, August 2018.

i 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