



## Dear investors

**On behalf of your Board, I'm pleased to report that Chorus has delivered another strong financial result in a year of operating challenges and change.**

**Over a period of economic volatility, inflationary pressures and uncertainty, Chorus continued to prove its resilience as an essential utility provider. As the recent pandemic and extreme weather events have shown, Kiwi homes and businesses are more reliant than ever on our fast and reliable broadband connections to live, learn, work and play.**

**We've announced a final unimputed dividend for the year of 25.5 cents per share, bringing total dividends for FY23 to 42.5 per share. The dividend reinvestment plan remains paused.**

This is my first annual report as Chair after six years on the Board as a director. I'm excited to be part of Chorus' transition from a successful era of building one of the world's most advanced fixed broadband networks to now operating as a digital infrastructure company that can power New Zealand's digital future.

### Strategy and Core Beliefs

I think it's important for shareholders to understand what our beliefs as a board are for your company. These beliefs underpin Chorus' three strategic pillars: to win in core fibre, to optimise the non-fibre asset base and to grow new revenues.

- **Empowering our people:** One of the best investments we can make is in having the right people, empowered and appropriately incentivised. Our aspiration is for Chorus to be a diverse and inclusive employer of choice.
- **Fibre is future-proofed:** We believe fibre is the most effective technology choice for the vast majority of New Zealanders because it provides a dedicated connection that delivers fast and extremely reliable connectivity. While alternative technologies have a place in the market, fibre has a clear and easily scalable upgrade path to meet the expected growth in consumer needs far into the future.
- **Connections, connections, connections:** Chorus' long-term value is inextricably linked to fibre connections. Now that we've built a world-class network, in partnership with government, the greatest benefit to the country is to harness its potential. We've begun retiring the copper network in our urban fibre areas and this will drive fibre uptake even higher. Consumers value fibre above other technologies as a high-quality dependable service and we're willing to invest in connecting more addresses and devices (e.g. traffic cameras) where the acquisition cost is justified by the long-term value of that connection.
- **Managed exit from copper:** Our copper network is nearing the end of its technological life and alternative technologies will be needed beyond the reach of fibre. Our focus is on managing our copper costs down while deploying fibre to the maximum extent and ensuring regulation supports consumers to get the best possible services.
- **Be an active wholesaler:** As an open access wholesaler we treat all our retailer customers equally. Yet, our largest customers are also our network competitors and have direct consumer relationships where we don't. This means we need to be an active wholesaler, promoting our network services and ensuring that the regulatory regime supports a level playing field between network providers and keeps consumers fully informed.
- **Promote digital equity:** We're the provider of an essential utility service that enables New Zealanders to access an increasingly digitised world. This means Chorus can and should play its part in improving digital equity. Because we're a wholesale only provider, this requires a collaborative effort with government agencies and retail service providers.
- **Prioritise long-term value:** Capital allocation is one of our most important responsibilities. We're making investment decisions for long-term value, not short-term profit. We'll prioritise the efficient allocation of capital that grows shareholder value and supports a growing sustainable dividend through time. Our assessment of the necessary level of returns, the impact on consumer pricing, competitive market conditions, and the parameters of our dividend policy and debt limits, will guide our approach to discretionary investment.
- **A considered approach to new opportunities:** We believe generating non-regulated income streams is important, but they must pay their way. We would need to have, or build, the capability to run these businesses well. We'll tread carefully and generally steer away from businesses that our shareholders can invest in directly, unless there is a compelling adjacency to, and synergies with, our core business.
- **An appropriate capital structure:** We're committed to maintaining a capital structure reflective of a utility business. At the heart of this is the maintenance of an investment-grade credit rating (BBB or equivalent) and financial policies that support this. We've begun turning our minds to the first tranche of Crown funding that will be due in mid-2025.

## Reshaping Chorus for its next phase

We've spoken in the past about the transition from a fibre rollout organisation to one that is focused more on operating that network. With the UFB rollout finished and the new regulatory regime for fibre established, Chorus is entering this new phase of its evolution.

In May, we announced the beginning of changes to our operating model to better execute our strategy, reflect the new regulatory framework and respond to a changing market environment. That environment includes the progressive withdrawal of our copper network, the emergence of new technologies and changing consumer needs.

This new operating model includes the introduction of three end-to-end value streams that are aligned to the core focus areas of our strategy: win in fibre, grow new revenues and optimise non-fibre assets. New capabilities, tools and ways of working are also being introduced so our people can deliver key initiatives with better focus and prioritisation, and ultimately provide improved consumer outcomes. This is a significant change from our historical operating model that had been built around delivering a 12-year fibre rollout and the mass uptake of fibre.

Unfortunately, it has meant the disestablishment of some executive roles. I would like to acknowledge Andrew Carroll (GM Customer & Network Operations) and Ed Hyde (Chief Customer Officer) for the significant contributions they made to Chorus. Andrew was a member of the leadership team since Chorus was listed and helped us navigate a number of significant challenges over many years. Ed was instrumental in developing our fibre proposition for consumers and ultimately reaching our target of one million connections in FY23.

## Governance

Two directors, Jack Matthews and Kate Jorgensen, are scheduled to be up for re-election at this year's annual shareholders meeting, with no retirements. We've had two director changes during the year, with the retirement of Patrick Strange as Chair and the subsequent appointment of Will Irving as a director. Will has been an excellent addition to the Board, bringing a combination of regulatory, technology and operational telco experience from his roles at Telstra and the National Broadband Network in Australia.

I'd like to acknowledge Patrick for his leadership over a long period at Chorus and for the smooth handover to me. I extend that appreciation to my fellow Board members for their support to me in the Chair role and their valuable contributions.

As directors we're energised by the goals we have set for the company. I believe the Board has the right blend of experience and diversity in the broadest sense to drive the strategy of the company, and to support and challenge our management.

**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](http://www.chorus.co.nz/reports)

## Becoming an all-fibre digital infrastructure company

We've provided dividend guidance of 47.5 cents per share, unimputed, for FY24. There is approximately \$11 million remaining to be returned to shareholders through the \$150 million share buyback programme. To date, more than 17 million shares have been bought back.

In April, we were pleased to see UniSuper receive government approval to increase its shareholding in Chorus up to 20%, should it choose to do so. We see this as a positive endorsement both of Chorus' strategy and growing investor recognition of our value as a provider of essential digital infrastructure.

The global boom in fibre rollouts gives us great confidence that we've invested in the right infrastructure for the future. Recent OECD data shows fibre already accounting for 38% of all fixed broadband subscriptions at the end of 2022, surpassing cable on 32% and copper broadband on 24%.

This shift to fibre, and the emergence of alternative wireless and satellite broadband networks in rural areas, has started the countdown on the usefulness of copper networks. Norway and Sweden, for example, are well advanced in the retirement of copper. We expect this to occur here in the next decade and we believe fibre should be extended further to help bridge the digital divide between urban and rural communities. We're exploring how we could play a part with the right investment incentives.

At the same time, we're enhancing our existing fibre footprint with upgrades to multi-gigabit Hyperfibre capability. We know we're on the right path when Singapore's latest Digital Connectivity Blueprint calls for seamless 10Gbps connectivity to be enabled within the next five years. The trends all point to exponential data growth in the coming years and the rapid rise of artificial intelligence services in the past year shows just how fast and far-reaching changes in our industry can be.

I'd like to thank our chief executive JB Rousselot, our executive team and the wider Chorus team for their outstanding efforts over the past year, particularly the way they dealt with significant operating challenges, including Cyclone Gabrielle and the ongoing technician shortages.

Finally, I would like to thank you, our shareholders, for your continued support of Chorus and we look forward to updating you at our annual meeting in November.



**Mark Cross**

Chair



# FY23 results overview

## Operating revenue



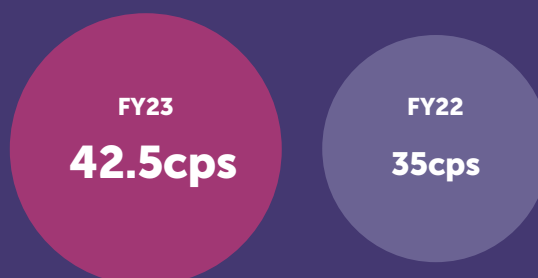
## EBITDA<sup>1</sup>



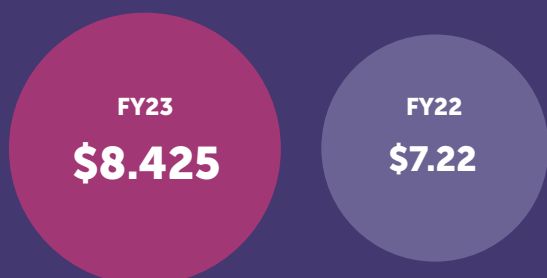
## Net profit after tax



## Dividend



## Share price



### About this report

Our 2023 Annual Report covers the financial year ended 30 June 2023 and includes aspects of our environment, social and governance (ESG) performance. For additional ESG reporting, including emissions and climate-related information, please refer to our separate 2023 Sustainability Report available at [www.chorus.co.nz/reports](http://www.chorus.co.nz/reports).

<sup>1</sup> 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 core operations of our business.

### We'd like to keep in touch by email

With postage costs rising and our desire to reduce our environmental impact, we are reconsidering how we keep in touch.

Please send your email address (and include your postal address so we can identify the right recipient) to:

**[company.secretary@chorus.co.nz](mailto:company.secretary@chorus.co.nz)**

so we can email this letter to you paper-free next time.

# Outlook

## Market dynamics

We're focused on continuing to grow uptake of our network so its socio-economic benefits can help power Aotearoa's digital future. Our copper withdrawal programme will keep driving fibre uptake in our urban areas and we're continuing to be an active wholesaler. Our latest *New Zealand runs on fibre* advertising campaign showcases some of the ways fibre is now used by about three million Kiwis. Market data shows that consumers value fibre's reliability and speeds.

We're cognisant that there are shadows over the wider economy. We see inflationary pressures across our business through direct labour costs and our service companies. There are signs too that our housing development pipeline is slowing from its recent peak. We know consumers face economic pressures and, although we're increasing prices on some fibre plans by inflation from 1 October, we'll again hold the wholesale price of our entry level 50Mbps Home Fibre Starter plan at its current level.

While Commerce Commission reporting shows no other technology beats fibre for reliability and capability, we know that the evolution of 5G fixed wireless will bring more competition from mobile network operators. The Commission's oversight of marketing practices will be integral to ensuring that vertically integrated providers don't use their direct consumer relationships to unfairly undermine the open access fibre regime the government created in 2011.

The gap between network capability and in-home Wi-Fi performance is another area that requires ongoing focus from the industry and government. The age and quality of home Wi-Fi devices is a potential handbrake on consumers enjoying the full benefits of the investment made in fibre. While some retailers are providing Wi-Fi 6 capable mesh devices, the next generation of Wi-Fi 6E devices could enable peak speeds of 2Gbps by using 6GHz spectrum to provide greater bandwidth.

Leading tech countries have already taken the step to release the entire 6GHz band for this purpose, because they recognise Wi-Fi is critical to the consumer experience and ongoing technology innovation. However, to date, the New Zealand government has opted to release only the lower 6GHz band for Wi-Fi and other unlicensed use.

## Regulatory framework

We're now halfway through our first three-year regulatory period under a utility-style framework for fibre. In May, we lodged our Information Disclosure reporting for the 2022 calendar year showing the regulated asset base had grown from \$5.4 billion to \$5.7 billion and that we under-earned our allowable revenue by about \$47 million.

In October 2023, we'll submit our proposal for the expenditure and investment we anticipate for the next four-year regulatory period from 2025 to 2029. This is a significant undertaking as we seek to forecast consumer demands and expectations.

As we know from the effect of Netflix and Fortnite on peak-time bandwidth, it only takes one new application to change consumer behaviour almost overnight.

That's why we've been surveying consumers as part of our proposal development and to help evaluate longer-term opportunities for investment.

Long-term planning about the management of our assets is also a key consideration. We're enhancing our asset management capability and practices to provide a strong focus on network operation and lifecycle management. At the same time, the extreme weather events in early 2023 have given our network planning team some valuable insights into how we could develop our approach to network resilience.

## An opportunity to take fibre further

In December, the Government released its Lifting Connectivity in Aotearoa New Zealand paper, setting out their intent to improve digital connectivity over the next decade. The paper highlights the need to provide enduring solutions that can meet future growth in demand for increased speed and capacity.

A report we commissioned from the New Zealand Institute of Economic Research calculated a \$16.5 billion benefit for rural homes and businesses over the next decade if they had high-capacity broadband. That equates to a \$6,500 annual benefit to households better able to access broader employment opportunities and the ability to use online services for telemedicine, banking and government agencies.

Europe's ambition is gigabit coverage for all households by 2030, with some countries targeting 99% population coverage with fibre. That's probably too high for New Zealand given our challenging topography and generally lower population density, but we believe we could reach at least 90% of Kiwis with fibre under the right regulatory and policy settings. That would require an investment in the order of \$500 million to reach 75,000 premises.

We believe it's time for a broader discussion about the right mix of private and public investment that can achieve the government's goals and close the digital divide for more Kiwis.



A handwritten signature in blue ink, appearing to read 'JB Rousselot'.

**JB Rousselot**  
Chief Executive