



26 August 2024

Steady financial result as Chorus accelerates to an all-fibre future

Key FY24 results

- Increase in fibre connections: by 53,000 to a total of 1,084,000
- Fibre uptake increased to 71.4% addresses, up 2%
- Remaining copper connections: down 35% to 157,000
- Network traffic up almost 8% to 7,974 petabytes
- Operating revenue \$1,010m (FY23: \$980m)
- EBITDA \$700m (FY23: \$672m)
- Net loss after tax \$9m (FY23: net profit \$25m)
- Unimputed final dividend of 28.5 cents per share

Chorus has released a steady financial result for the year ended 30 June 2024, despite the challenging macroeconomic environment. The result was underpinned by Chorus' first normal operating period after the pandemic, workforce and weather challenges of the last few years.

Fibre connections grew by 53,000 and made up 87 per cent of Chorus' fixed lines, with fibre uptake at 71.4 per cent of addresses. Data demand grew almost 8 per cent in the year to 7,974 petabytes and the fibre network carried 94 per cent of this traffic. Average monthly usage for fibre connections grew 6.5 per cent to 623GB through the year, surpassing COVID lockdown levels.

EBITDA was \$700 million for FY24, a 4 per cent increase on FY23 EBITDA of \$672 million. Inflation-linked price changes, together with ongoing growth in the uptake of high-speed fibre plans, lifted revenues by 3 per cent from \$980 million to \$1,010 million.

Operating expenditure of \$310 million was \$2 million higher than FY23 on a reported basis. Tight cost management and favourable weather mostly offset the impact of inflationary cost increases across multiple expense lines.

A net loss after tax of \$9 million was reported compared to a profit of \$25 million in FY23. This was due to a combination of a one-off \$15 million non-cash tax expense following the removal of deductibility of tax depreciation for buildings, an \$11 million increase in depreciation from our accelerated depreciation of copper assets, and higher interest costs.

Copper retirement and growing fibre uptake drives simplification

Chorus CEO Mark Aue said Chorus is making solid progress in its shift to becoming a simpler all-fibre digital infrastructure company.

“We accelerated our programme to retire the copper network and there are fewer than 45,000 copper connections remaining where our fibre is available. This means we’re well on track to retiring copper in our urban fibre areas by the end of 2026.

“We’ve closed more than 1,250 copper broadband cabinets so far and will soon have our first fibre-only suburban exchanges. We’re already seeing the benefits of this shift with electricity usage down by another 3 per cent in FY24 as legacy network equipment is powered down.”

The reduction in electricity usage, together with 87 per cent of renewable generation in the electricity grid, meant Chorus’ Scope 1 and 2 emissions were down 39 per cent against its FY20 base year.

Chorus’ copper footprint will reduce further with the rollout of fibre to another 10,000 premises due to be completed in FY25. The rollout will cover 59 communities and about 25 per cent of addresses have already registered their interest in connecting.

Chorus sets sights on 80% fibre uptake by 2030

The OECD has said the shift to a post-pandemic digital future requires high-quality broadband networks characterised by high speeds, high reliability and low latency. Their reports show an accelerating international shift to fibre networks, with fibre being the dominant fixed network technology.

The European Fibre to the Home Council ranked New Zealand 17th in the world for fibre uptake. Chorus believes higher fibre uptake will unleash even greater potential and enable better futures for Aotearoa.

“We’ve reset our strategy around the objective of being a ‘simplified all-fibre business with 80 per cent uptake by 2030’. Chorus is at an inflection point in its history. With a success story as the great network builder now evolving to be the great network operator, we’re focussed on driving fibre uptake, growing new revenues by leveraging our core network assets more effectively, and retiring our legacy copper network as fast as possible,” said Aue.

Chorus lifted fibre uptake from 69.3 per cent to 71.4 per cent of addresses in the year, with its entry level 50 megabits per second plan carving out a new market niche for low data users. Demand for the low-cost plan grew by 31,000 connections, driven by increased retailer marketing and cost-of-living pressures.

Uptake of gigabit and multi-gigabit plans also grew, up from 24 per cent of connections to 25 per cent of residential customers. Aue said almost 17 per cent of Chorus connections used more than 1,000 gigabytes of data in July and global network operators expect data demand to keep growing.

“The global shift to fibre gives us confidence in our technological and competitive advantage. While download speed has been a focus in the past, customers are increasingly valuing quality, consistency and reliability of service. Fibre outperforms across all of these qualities which sets it apart from other alternatives, so we’ll be doing more to help educate customers about these differences,” Aue added.

As part of enabling fibre uptake for all New Zealanders, digital equity continues to underpin Chorus’ social sustainability efforts. Chorus supported community initiatives such as funding 588 nationwide hubs for non-profit, Digital Seniors, and funding the Hāpori Connect programme that saw 100 graduates in FY24. Chorus’ longstanding relationship with the Ministry of Education resulted in subsidising internet connections for approximately 2,800 students.

Copper regulatory regime no longer fit for purpose

The Commerce Commission is scheduled to review the possible deregulation of copper services in non-fibre areas by the end of 2025. Its recent Telecommunications Monitoring Report notes that just 37 per cent of rural customers were paying for a copper broadband connection in June 2023. Chorus’ share of rural connections has declined further in FY24 and is now estimated to be below 30 per cent when voice connections are accounted for. The report noted 97 per cent of copper connections in non-fibre areas have coverage from a mobile wireless or alternative wireless provider. Satellite coverage would take that to 100 per cent coverage – further backing the case for deregulation of copper services.

“Emerging technologies that can better meet the needs of rural New Zealanders compared to copper are developing rapidly. This is being recognised by customers who are making the switch in significant numbers. We need to avoid letting legacy regulations, designed around a lack of alternatives and urban cross subsidies, hold New Zealand back from the improved economic, social, health and educational opportunities that better connectivity can deliver,” Aue said.

Final dividend and capital management review

Chorus has confirmed it will pay an unimputed final dividend of 28.5 cents per share in October 2024 bringing total dividends to 47.5 cents per share in FY24. The dividend reinvestment plan remains suspended.

Chorus’ capital management review, announced in February, has resulted in a change to its planned dividend payout range. This has increased from the prior 60 per cent to 80 per cent range to a new range of 70 per cent to 90 per cent of net operating free cash flows, after

sustaining capex. The change reflects the greater clarity Chorus has for cash flows through the next four-year regulatory period as fibre investment tapers.

Chorus' intention is to provide shareholders with a sustainable dividend that grows at the rate of inflation. This will ensure an appropriate return to shareholders on the significant investment made in Chorus' network since the beginning of the UFB rollout in 2011.

FY25 guidance

FY25 guidance is subject to no material adverse changes in circumstances or outlook.

- **EBITDA:** \$700 million to \$720 million
- **Gross capital expenditure:** \$400 million to \$440 million
- **Sustaining capital expenditure** \$200 million to \$220 million
- **Dividend:** 57.5 cents per share, unimputed

ENDS

Chorus Chief Executive Mark Aue and Acting Chief Financial Officer Katrina Smidt will discuss the FY24 result at a briefing from **10.00 am** on **Monday, 26 August 2024** (NZST). The webcast will be available at www.chorus.co.nz/webcast.

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