

HY22 RESULT

21 February 2022

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Agenda

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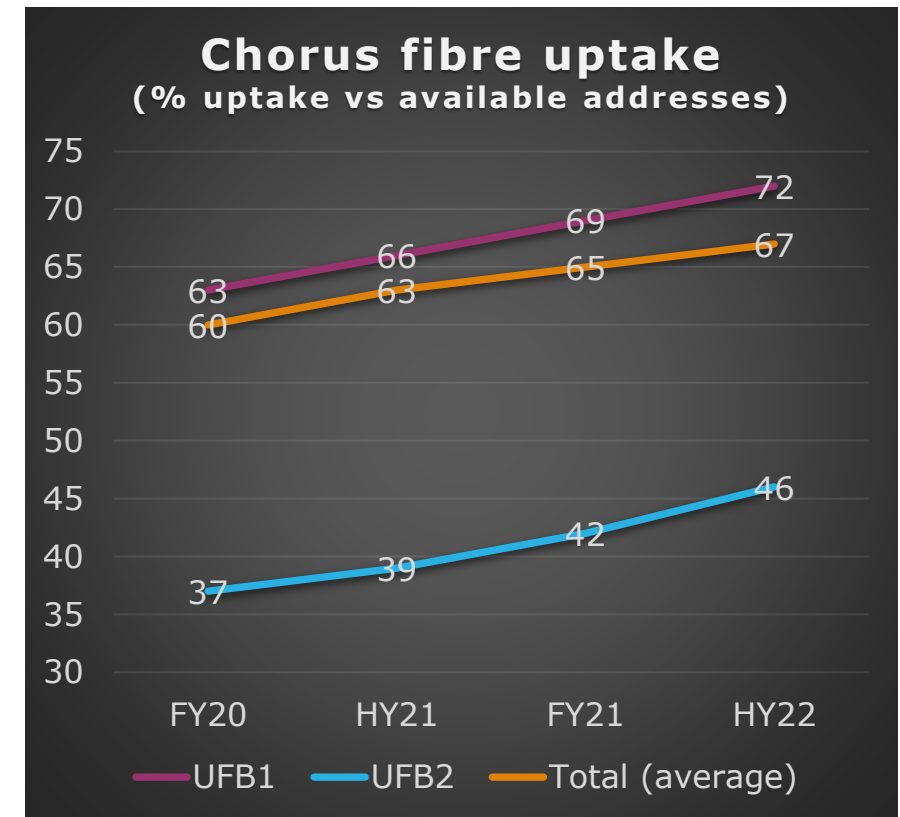
HY22 overview



On track for 1 million fibre connections by end 2022

Fibre uptake keeps growing

- > **Reached 918,000 fibre connections (GPON + P2P)**
 - fibre broadband connections up 47k in H1, despite COVID 19 constraints on installation activity
 - COVID lockdowns underlined the essential nature of reliable broadband, helping drive consumer migration from copper to fibre and upgrades to 1Gbps plans
- > **Fibre uptake increased from 65% to 67% within the completed UFB rollout footprint**
 - **881,000** connections (including business premium) out of 1,308,000 customers able to connect
 - rollout 97% complete, ~30,000 premises left to pass by December 2022

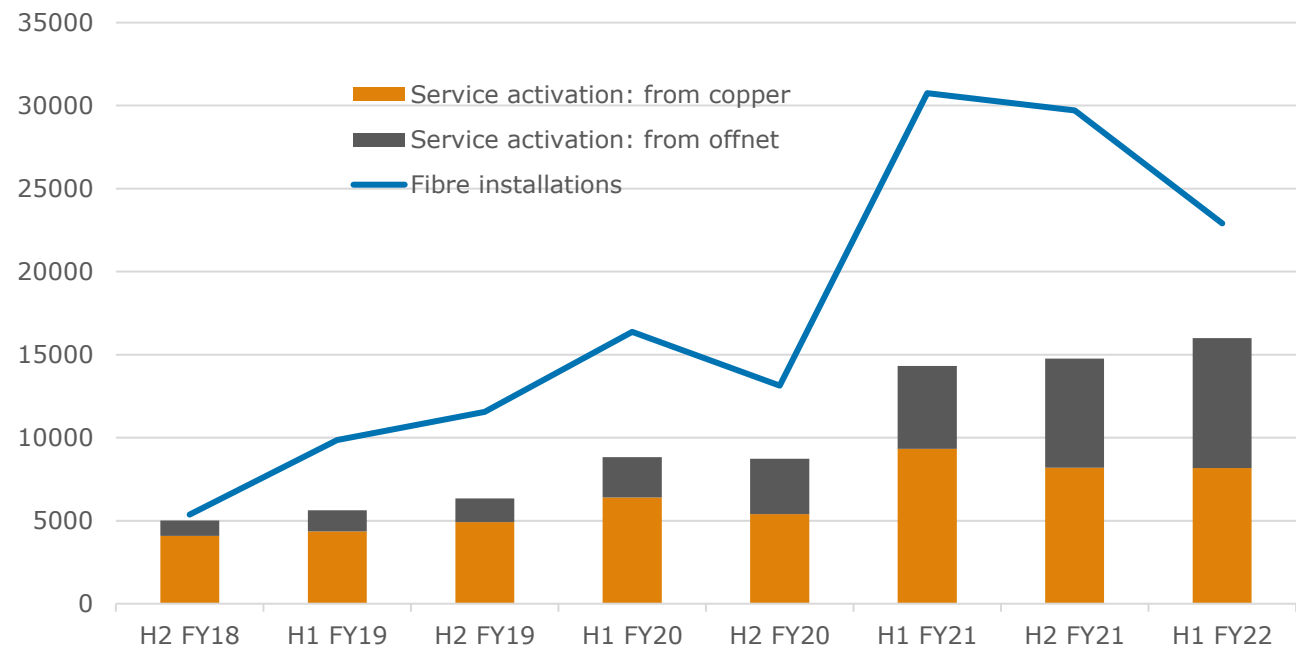


Growing fibre activations from offnet

Despite COVID slowing managed installation activity

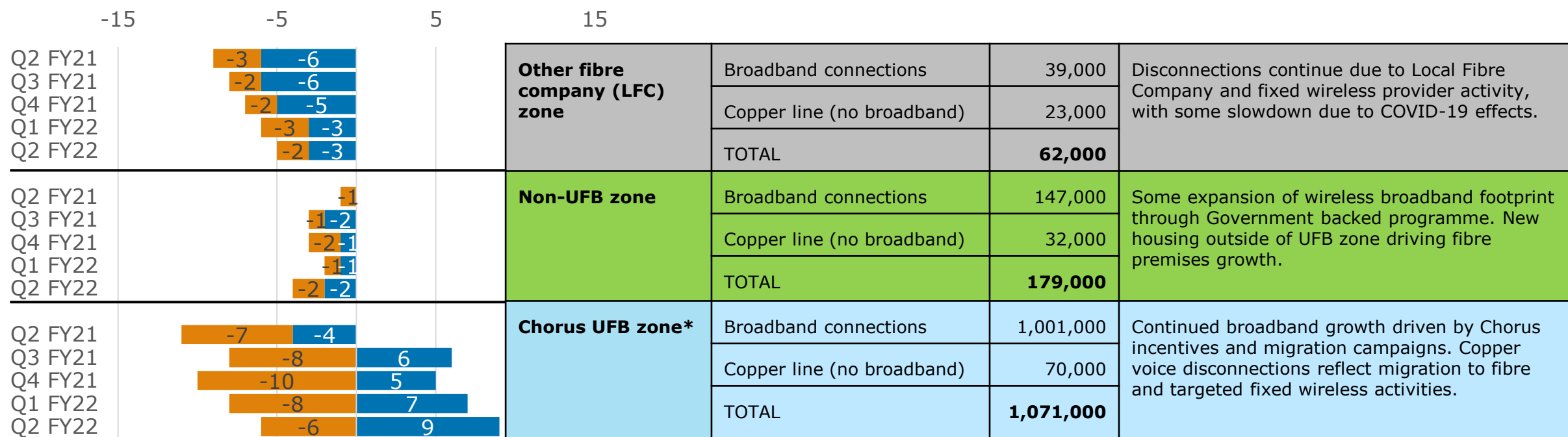
- ~23k managed installations completed in H1 vs 30k in H2 FY21 as COVID restrictions affected door knocking activity
- activations continued to grow, reaching 16k in H1
- 49% of programme generated activations came from offnet addresses vs 45% in H2 FY21

Managed migration: installations vs activations



Connection changes by Zone (indicative as at 31 December)

Quarterly change ('000s) by zone**



- Broadband connections
- Copper (no broadband) connections

* Includes planned Chorus UFB1, 2 and 2+ coverage

**Excludes 10k partly subsidised education connections and 13k fibre premium and data services (copper) connections

Fibre upgrade propels NZ towards global Top 10

600,000 100Mbps plans flawlessly migrated to 300Mbps

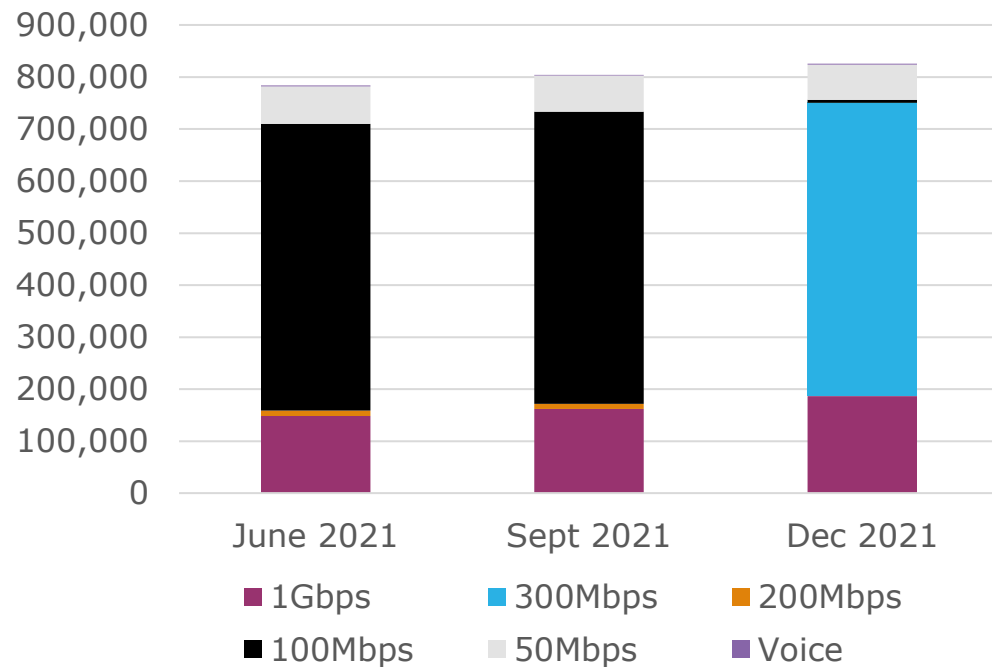


#	Country	Mbps
1	- Singapore	192.17
2	- Chile	187.50
3	- Thailand	175.93
4	- Hong Kong (SAR)	168.66
5	+2 Monaco	165.47
6	-1 Denmark	156.04
7	-1 China	153.33
8	- United States	136.53
9	- Spain	130.86
10	+1 Macau (SAR)	126.42
11	+11 New Zealand	121.91

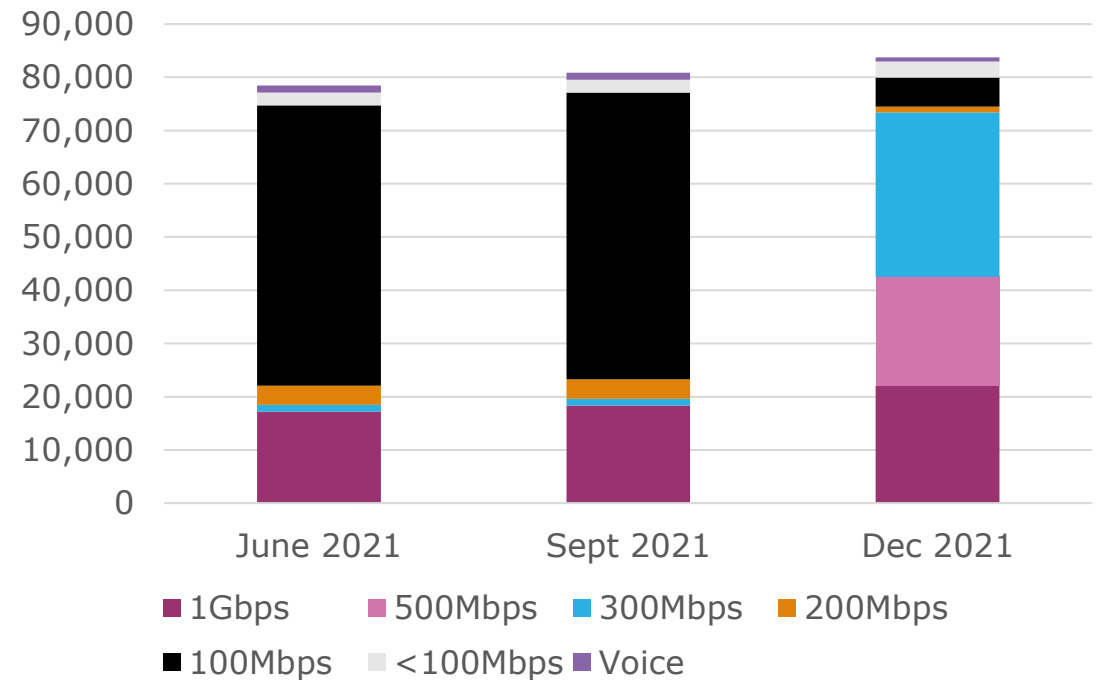
1 Gigabit plans now 23% of mass market

More than half a million customers upgraded to 300Mbps plans in December

Residential



Business



Financial performance

David Collins, Chief Financial Officer

Income statement

	H1 FY22 unaudited \$m	H2 FY21 unaudited restated \$m	H1 FY21 unaudited restated \$m
Operating revenue	483	477	478
Operating expenses	(136)	(148)	(150)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	347	329	328
Depreciation and amortisation	(215)	(217)	(210)
Earnings before interest and income tax	132	112	118
Net interest expense	(71)	(75)	(77)
Net earnings before income tax	61	37	41
Income tax expense	(19)	(13)	(14)
Net earnings	42	24	27

> prior periods restated for changed treatment of roadworks revenue

> cost base trending down and one-off benefits

> weighted average interest rate on debt reduced from 4.0% to 3.7% vs H1 FY21

Restatements and underlying EBITDA

	H1 FY22 unaudited reported \$m	H2 FY21 statutory results \$m	Adjustment \$m	H2 FY21 unaudited restated \$m	H1 FY21 statutory results \$m	Adjustment \$m	H1 FY21 unaudited restated \$m
Field services products	35	31	+3	34	31	+5	36
Total operating revenue	483	474	+3	477	473	+5	478
EBITDA	347	326	+3	329	323	+5	328
Holidays Act provision	(9)						
Lease change	(3)						
Legal settlement	(3)						
UNDERLYING EBITDA	332			329			328

Revenue

	H1 FY22 unaudited \$m	H2 FY21 unaudited restated \$m	H1 FY21 unaudited restated \$m
Fibre broadband (GPON)	267	249	228
Fibre premium (P2P)	33	34	34
Copper based broadband	80	93	110
Copper based voice	27	32	36
Data services copper	3	4	5
Field services	35	34	36
Value added network services	13	15	15
Infrastructure	15	15	12
Other	10	1	2
Total	483	477	478

> growing fibre uptake and ARPU: \$50.65 end of HY22 vs \$49.87 end of FY21

} copper revenues declining as customers migrate to Chorus fibre or competing fibre/wireless networks. CPI increase of 4.93% applied to some services from mid December.

> changed accounting treatment for roadworks revenue

> \$3m property disposal; \$3m legal settlement; \$3m change in lease contract

see p30 for regulated fibre revenue by category

Expenses

	H1 FY22 unaudited \$m	H2 FY21 unaudited \$m	H1 FY21 unaudited \$m
Labour	28	36	38
Network maintenance	28	29	34
IT	23	23	25
Other network costs	15	16	13
Rent, rates and property maintenance	14	12	12
Electricity	8	11	7
Provisioning	1	1	1
Insurance	2	2	2
Consultants	3	5	2
Regulatory levies	4	4	4
Other	10	9	12
Total	136	148	150

- > release of \$9m provision for holiday pay, partially offset by \$2m COVID impact on capitalisation of labour
- > fault volumes reducing, assisted by COVID lockdowns

HY22 gross capex: \$263 million

Sustaining capex of \$70m (see p32 for summary)

Fibre capex	H1 FY22 \$m	H2 FY21 \$m	H1 FY21 \$m	
UFB communal	47	61	86	
Fibre installations & layer 2	103	129	146	> 64,000 installations (UFB1:42,000; UFB2:22,000)
Fibre products & systems	7	6	8	
Other fibre & growth	43	50	41	> West Coast fibre rollout \$11m
Fibre sustain	5	5	6	> previously included in Other fibre & growth
Customer retention costs	19	16	13	> fibre incentive campaigns increased
Subtotal	224	267	300	

- **Average cost per UFB1 premises connected: \$1,043*** vs \$1,025 - \$1,175 guidance
- **Average cost per UFB2 premises connected: \$1,193*** vs \$1,200 - \$1,350 guidance

* excludes layer 2 and includes standard installations, some non-standard single dwellings and service desk costs

Capex: Copper and Common

Copper capex	H1 FY22 \$m	H2 FY21 \$m	H1 FY21 \$m
Network sustain	13	15	14
Copper connections	1	0	1
Copper layer 2	1	2	2
Customer retention costs	3	5	6
Subtotal	18	22	23

> continuing to trend down as connections reduce

Common capex	H1 FY22 \$m	H2 FY21 \$m	H1 FY21 \$m
Information technology	16	24	22
Building & engineering services	5	6	8
Subtotal	21	30	30

> planned building projects delayed by COVID impacts

FY22 guidance update

EBITDA: increased to \$665m to \$685m
(previously \$640m to \$660m)

- guidance lifted to reflect accounting changes and one-off benefits in H1
- subject to no material changes in circumstances or outlook
- does not include specific allowance for additional Omicron impact in H2

GROSS CAPEX: reduced to \$520m to \$560m
(previously \$550m to \$590m)

- fibre installations & layer 2 capex reduced to **\$200m to \$220m** (previously \$230m to \$250m)
 - based on mass market 125,000–145,000 fibre installations (unchanged – at lower end of range) and 5,000 to 6,000 backbone builds (reduced), including service desk costs
 - average cost per UFB2 premises connected guidance reduced to \$1,150 - \$1,300 (previously \$1,200 - \$1,350)

Net debt/EBITDA

	As at 31 Dec 2021 \$m
Borrowings	2,369
+ PV of CIP debt securities (senior)	207
+ Net leases payable	<u>191</u>
Sub total	2,767
- Cash	84
Total net debt	2,683
Net debt/EBITDA*	4.03x

*Based on S&P and bank covenant methodologies

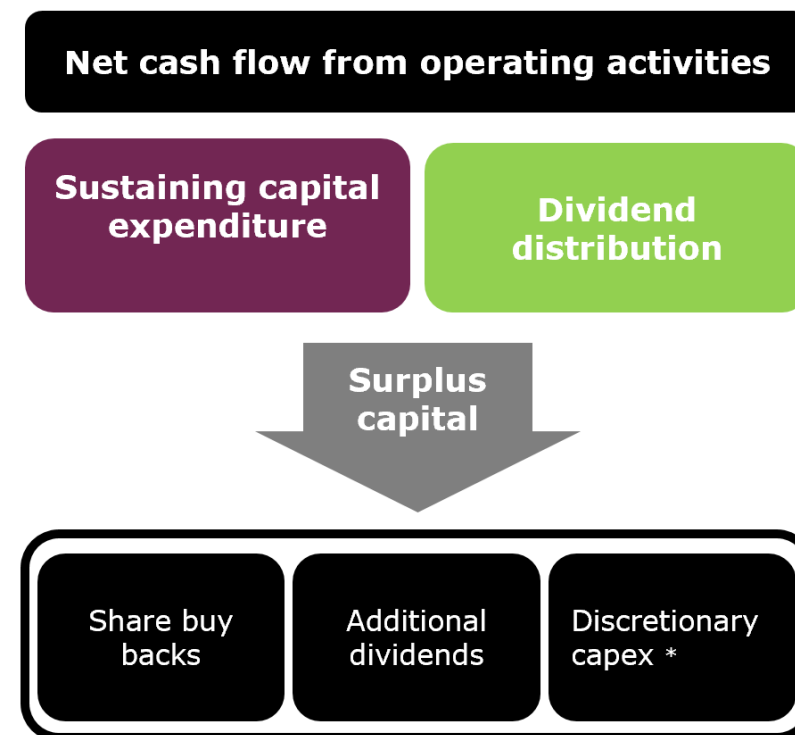
- > ND/EBITDA reduced from 4.24x (FY21) to 4.03x
 - leases reduced from \$264m (FY21) due to change in third party lease arrangements
 - ND/EBITDA calculation excludes release of \$9m holiday pay provision

- > ratings agency thresholds now reflect new regulatory framework:
 - **Moody's** increased from 4.2x to **5.25x**
 - **S&P** increased from 4.25x to **5.0x**

- > the Board considers that a 'BBB' credit rating or equivalent is appropriate for a company such as Chorus
 - intention that in normal circumstances the ratio of net debt to EBITDA will not materially exceed 4.75x
 - intention to increase financial covenants to align with new ratings thresholds – currently require senior debt ratio to be no greater than **4.75x**

Return of \$150m capital via share buyback

- > As per our capital allocation framework (February 2020), surplus capital is allocated based on maximising shareholder value, with discretionary capex only pursued where:
 - greater shareholder value is created compared to share buybacks and/or additional dividends; and
 - regulatory incentives are appropriate (e.g. regulatory WACC vs Chorus WACC)
- > We consider it prudent to utilise our new credit thresholds to return \$150 million to shareholders via an on-market share buyback:
 - tax efficient and will boost future earnings per share and imputation credit reserves
 - buyback will be via NZX and ASX
 - Board reserves option to suspend the buyback if more accretive opportunities for shareholder value are identified



*Examples include fibre footprint expansion, greenfield connections & customer retention spend

Accelerated transition to FCF dividend policy

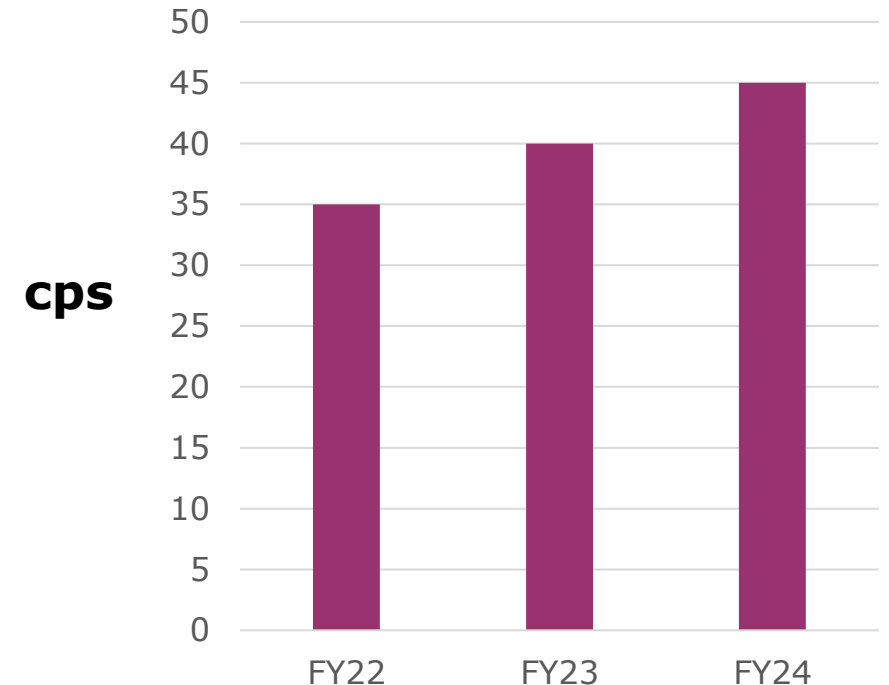
> FY22 dividend guidance increased from 26cps to 35cps*

- interim dividend of 14cps, fully imputed, with supplementary dividend of 2.47cps payable to non-resident shareholders
 - **record date:** 15 March 2022
 - **payment date:** 12 April 2022
 - **Dividend Reinvestment Plan** (no discount) open to NZ/Australian resident shareholders

> providing shareholders with dividend predictability, stability and sustainable growth

- credit ratings changes enable acceleration of transition period
- intention to pay out 60% to 80% of free cash flow from FY24
- free cash flow = net cash flows from operating activities minus sustaining capex
- dividend guidance for first regulatory period: a minimum of 40cps* in FY23 and a minimum of 45cps* in FY24
- dividends unimputed in short to medium term

Dividend guidance



* subject to no material adverse changes in circumstances or outlook

Regulatory outlook

- > **Maximum allowable revenue (MAR) in first regulatory period (RP1) not expected to constrain business plan**
- > **expect MAR for second period (RP2) to reflect:**
 - future risk-free rate – currently 1.96%
 - inclusion of tax building block from ~FY27 once tax loss is used up
 - ~\$250m (current value) of existing shared assets that should be eligible to enter the RAB over time
 - 2025 repayment of Crown financing (regulator only allows ~2% return on funded assets)
- > **we estimate 51% of HY22 opex would qualify as regulated fibre opex vs 64% of HY22 total revenue** – see p30
 - cost allocations will need to be addressed in RP2, or reflected in policy framework for copper Telecommunications Service Obligations

WACC parameter	RP1 ¹ WACC (1 July 2021)	ID ² WACC (1 Feb 2022)
Risk-free rate	0.51%	1.96%
Average debt premium	1.70%	1.62%
Cost of debt	2.54%	3.91%
Cost of equity	5.62%	6.66%
Mid-point vanilla WACC	4.72%	5.86%
Mid-point post-tax WACC	4.52%	5.54%

Source: Commerce Commission

1. RP1: Regulatory Period 1 from 2022-2024

2. ID: Information Disclosure. Latest calculated WACC is used for reporting purposes only.

Boosting New Zealand broadband

JB Rousselot, Chief Executive Officer

COVID continues to reinforce value of fibre

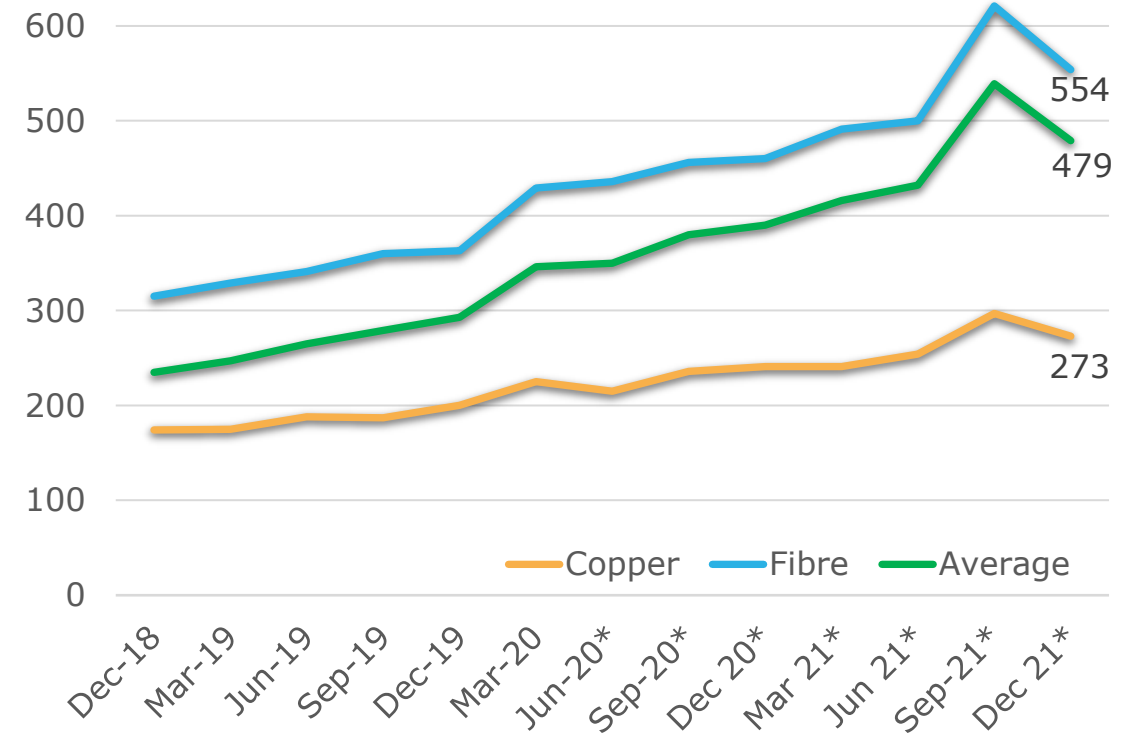
H1 lockdowns underlined value of unlimited data, peak time speed, upload and latency

- average data usage continues to grow
- uptake of streaming services accelerated
- working from home requires reliable broadband

How will Omicron shape H2?

- working from home more embedded
- continuing to see broadband growth and solid demand for 1Gbps
- Chorus continues to provide subsidised connections for 9k student homes
- expect door knocking activity to remain constrained
- unclear what effect Omicron will have on field force capacity and demand

Monthly average data usage (gigabytes) per connection on our network*

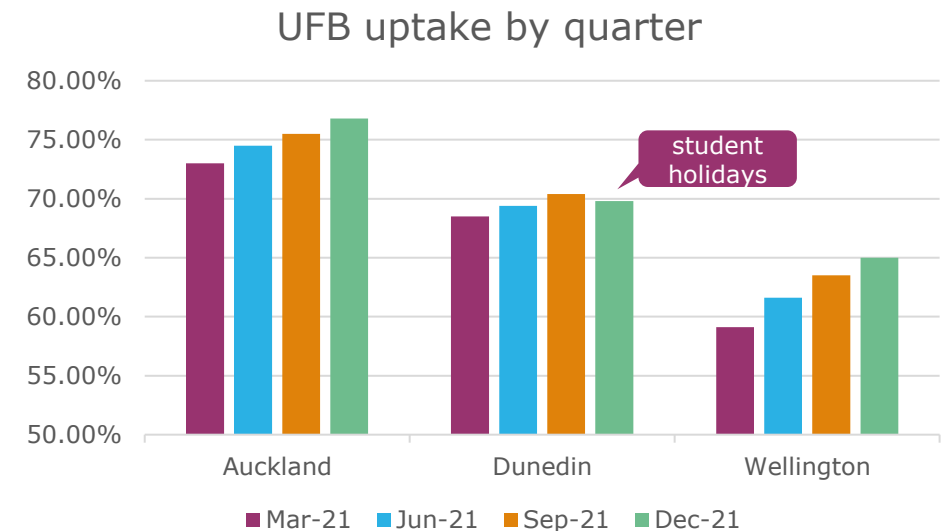


* includes upstream traffic from June 2020 onwards

Still room to grow fibre share

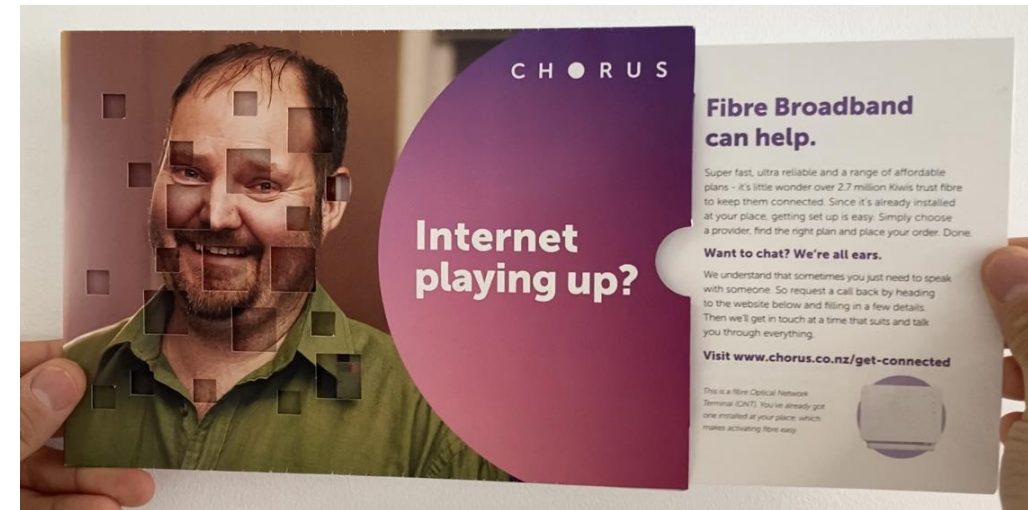
Market dynamics are positive for continued growth

- new entrant energy and pay TV bundlers promoting fibre to their large existing customer bases
- incumbent retailers responding with enhanced offers
- strong greenfields demand adding to future fibre footprint
- ~145,000 inactive fibre sockets (ONTs) ready to switch on
- steady growth in large UFB centres over last 12 months
 - Auckland, Wellington and Dunedin cover >70% of UFB1 homes and businesses able to connect
 - Dunedin typically sees seasonal drop in Dec quarter with university holidays
 - pleasing growth in Wellington given HFC network competition



FY22 STRATEGIC FOCUS: Win in core fibre business

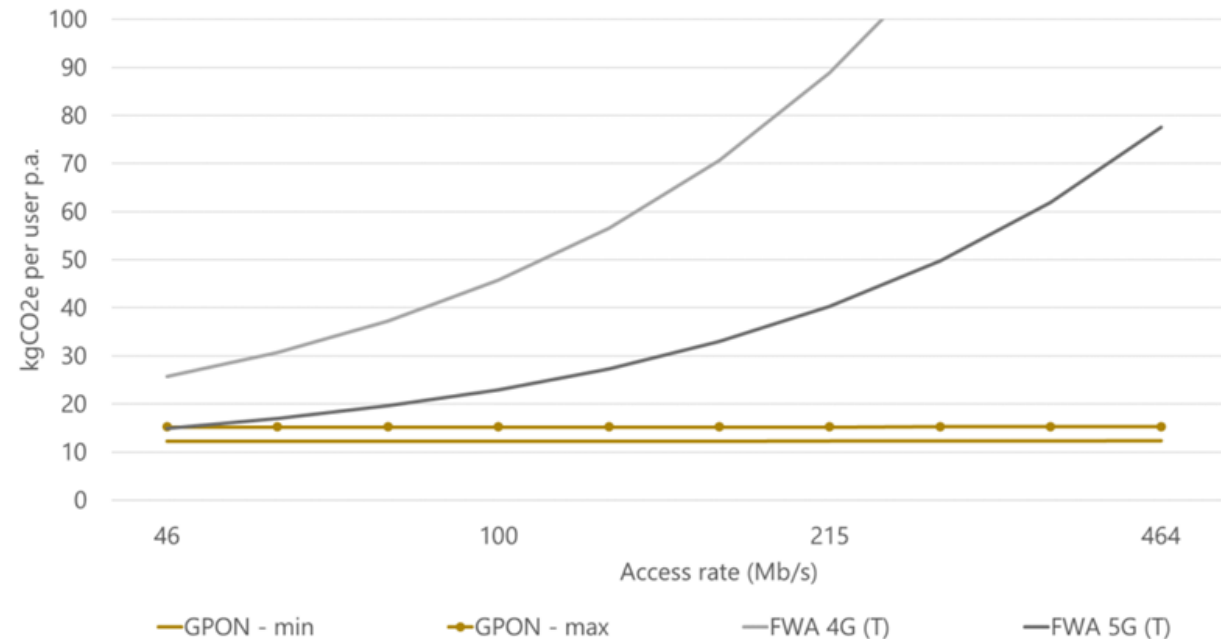
- > **fibre proposition enhanced**
 - 300Mbps upgrade completed
 - launching new entry level plan: 50/10Mbps, \$38 wholesale with retail price cap of \$60 incl GST
- > **continuing to refine campaign activity**
 - campaign to promote 300Mbps awareness
 - upweighting direct marketing activity due to COVID
 - Chorus online channel for direct installation requests
- > **Commerce Commission driven marketing code should ensure consumers are better informed and equipped to choose what is right for them**
 - some retailers already publishing clearer performance information for alternative technologies
 - Commission proposed express consent required for change in telco service and 4 months' notice for copper service withdrawal by retailers



FY22 STRATEGIC FOCUS: Develop long term future of the business

- > **new serco contracts a major milestone**
 - consolidation from 3 to 2 companies to deliver field force sustainability, ongoing simplification and enhancement of customer experience
 - contract costs in line with business plan and incorporate our worker welfare requirements
- > **building an adaptive organisation**
 - cross-functional teams used to deliver priority projects (e.g. fibre upgrades, regulatory readiness)
 - new Auckland premises
- > **research confirms fibre's emissions benefits**
 - fibre's carbon emissions profile stays consistent as broadband speeds increase, while emissions increase for other broadband technologies
 - at 300Mbps, per-user emissions of 5G fixed wireless are about four to five times higher than those of fibre GPON

Chart: Emissions in Fibre (GPON) and Fixed Wireless Access (FWA) 4G/5G networks for average access rates between 50 and 500Mbps



Note: Sapere Research was commissioned by New Zealand fibre network companies including Chorus. It examined the emissions during the access network use and includes the shipping and disposal of equipment, such as optical network terminals and Wi-Fi routers but not the activity in building copper, fibre, HFC or the mobile networks. Real-world network data was used to assess the emissions impact of fibre and VDSL while a mix of actual and theoretical data was used for other technologies.

FY22 STRATEGIC FOCUS: Optimise non-fibre assets

- > **copper withdrawal trials slowed by COVID lockdowns**
 - first 28 cabinets on track for shut down in March with 1/3 already vacant and only 30 customers remaining to switch services
 - withdrawal notices issued across 490 cabinets and targeting ~1,000 by end of 2022
- > **programme to reduce network footprint**
 - 9 property/lease sites exited (FY21: 36 sites)
 - 13 properties moving to subdivision phase
 - ongoing reduction in third party exchanges
- > **reviewing non-UFB zone in light of regulatory outcomes on fibre**
 - TSO needs to be revised given Chorus' inability to cross-subsidise urban and rural
 - additional investment very challenging on current regulatory settings



FY22 STRATEGIC FOCUS: Grow new revenues

- > **business portfolio changes**
 - new 500/500Mbps plans tailored to businesses focussed on performance and enhanced service levels
 - small business fibre continues to grow
 - 43% of entry level business plans taking 1Gbps
- > **lifting our focus on premium services**
 - mobile and direct fibre access numbers growing, helping offset legacy service reductions
 - new data centre backhaul service generating good interest from established data centre operators
 - *Edge Centre* activity slowed by COVID; plans in train for another exchange site in Auckland
- > **renewed focus on growth opportunities outside the regulatory framework**



Questions?



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Appendix A: Additional financial information

H1 FY21 revenues: FFLAS vs non-FFLAS

- > **indicative FFLAS revenue of \$311m or 64% of HY22 revenue**
 - FFLAS total excludes estimated \$16m allocation of fibre-related capital contributions to be netted off fibre RAB assets

- > **indicative FFLAS opex of \$70m or 51% of HY22 opex**
 - FFLAS total includes pass through costs

Note

- amounts are indicative only and subject to change as transitional RAB values and cost allocations are finalised

	Non-regulated FFLAS \$m	Regulated FFLAS \$m	H1 FY22 \$m
Fibre broadband (GPON)	2	265	267
Fibre premium (P2P)	6	27	33
Copper based broadband	80	0	80
Copper based voice	27	0	27
Data services copper	3	0	3
Field services	26	9	35
Value added network services	10	3	13
Infrastructure	8	7	15
Other	10	0	10
Total	172	311	483

Reactive maintenance: Chorus network

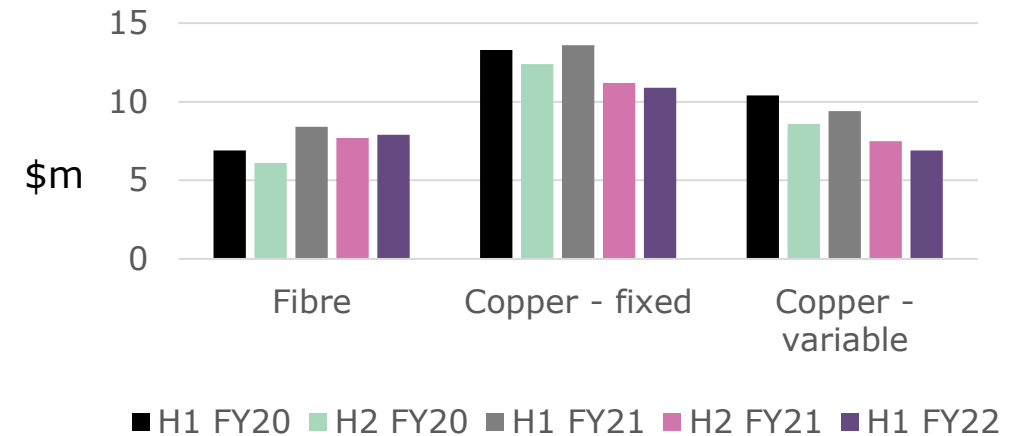
Key drivers for \$26m spend

- copper fault volumes continued to reduce as customers migrate to fibre and COVID-19 restrictions limited community activity during H1 FY22
- long run annual saving from full copper to fibre migration in Chorus UFB areas estimated at ~\$10m p.a for fixed fault costs

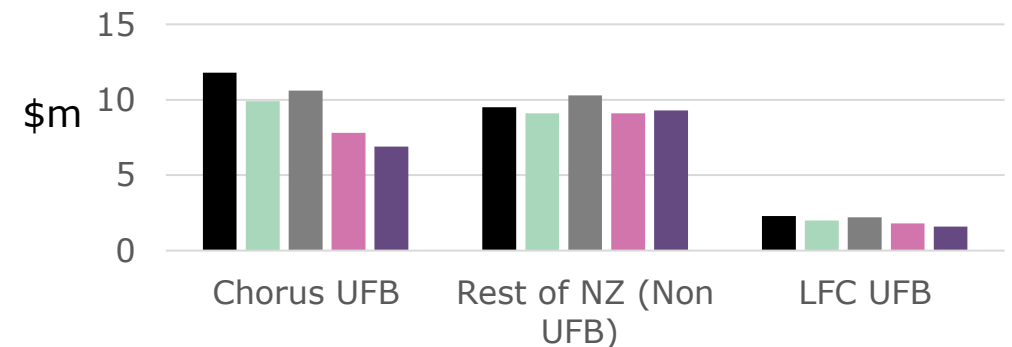
Note:

- reactive maintenance excludes spend on proactive maintenance and customer networks (i.e. premises wiring, no fault found, cancellations)
- 'fixed' faults: occur in parts of the network that affect multiple customers (e.g. cable between exchange and cabinet)
- 'variable' faults: only affect one customer (e.g. cable on customer property)

Reactive spend by type



Copper - reactive spend by area



Sustaining vs non-sustaining capex

- > \$70m of H1 FY22 capex was sustaining vs \$193m non-sustaining
- > Fibre sustaining capex is expected to increase over time as the asset ages

Non-sustaining capex	H1 FY22 \$m	H1 FY21 \$m
UFB communal	47	86
Fibre installations	91	129
Greenfield growth	31	23
Footprint expansion (West Coast)	11	14
Customer retention (incentives)	13	8
Subtotal	193	260

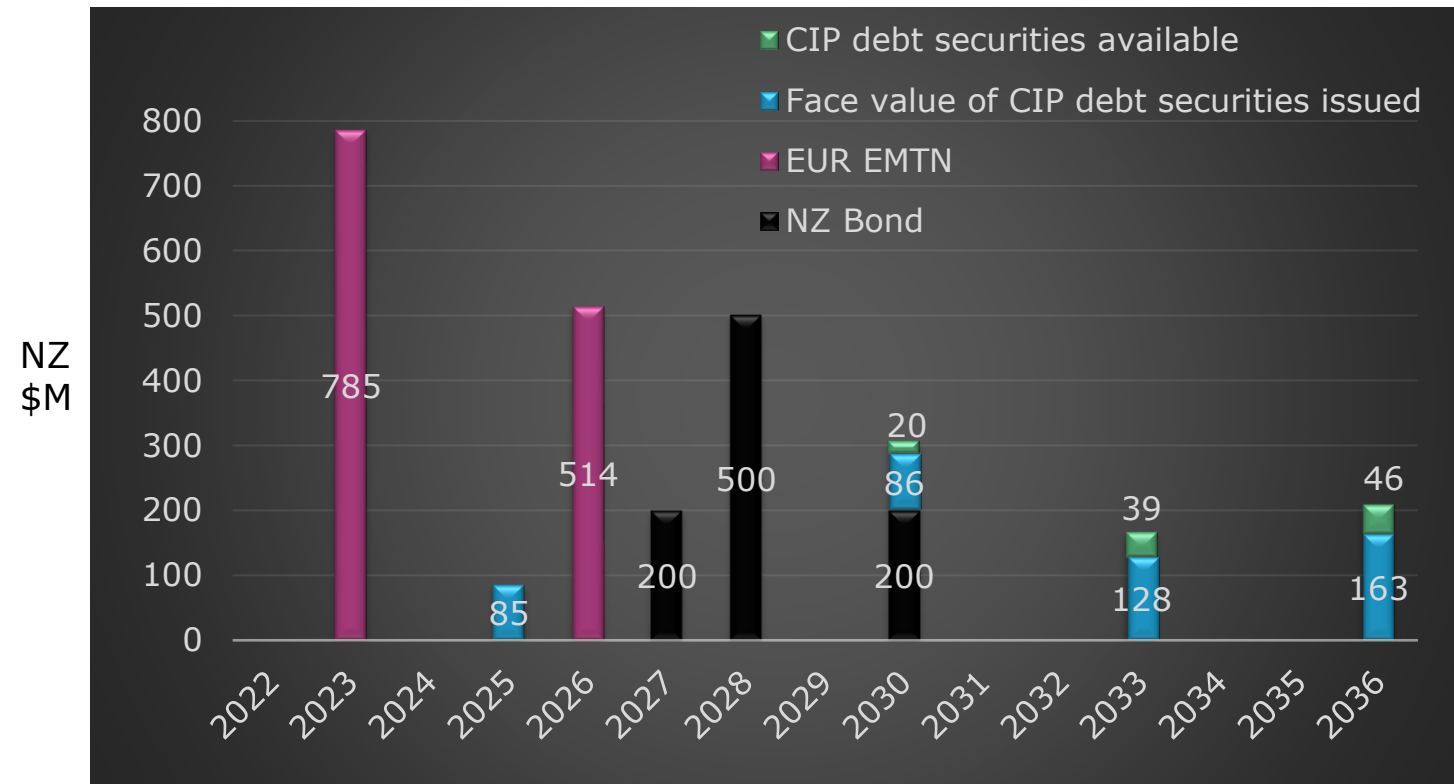
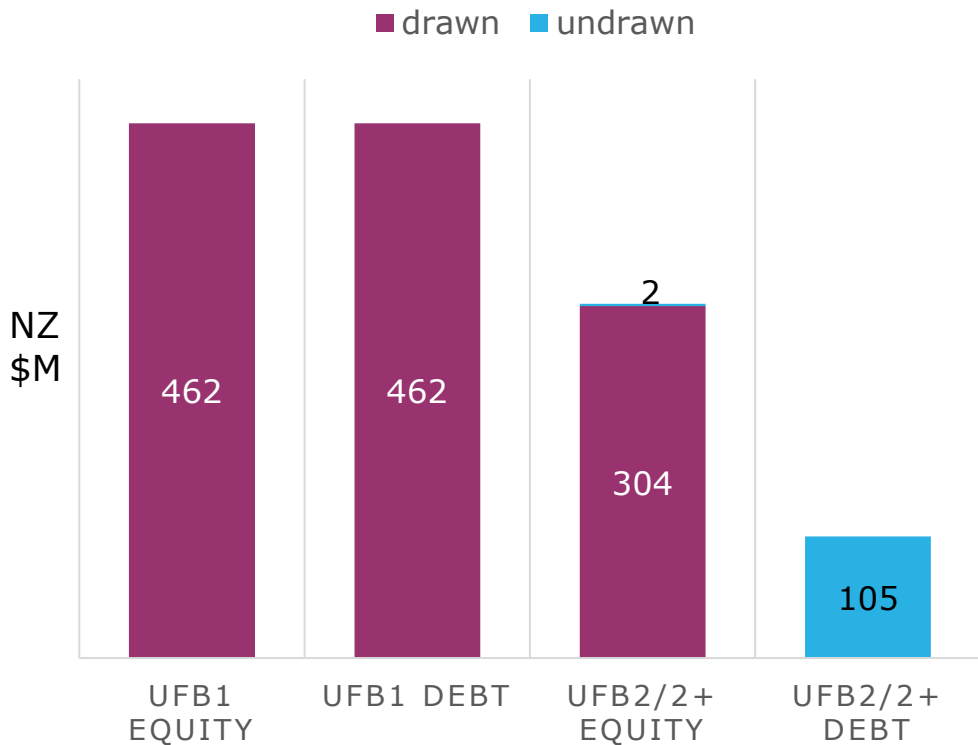
Fibre capex: sustaining	H1 FY22 \$m	H1 FY21 \$m
Layer 2	12	17
Fibre products & systems	4	8
Fibre sustain	5	6
Other fibre	4	4
Customer retention costs*	6	5
Subtotal	31	40
Copper capex: sustaining		
Network sustain	13	14
Copper connections	0	1
Copper layer 2	1	2
Customer retention costs*	4	6
Subtotal	18	23
Common capex: sustaining		
Information technology	16	23
Building & engineering services	5	7
Subtotal	21	30

*Relates to provisioning, systems and service desk costs

Crown financing and debt profile

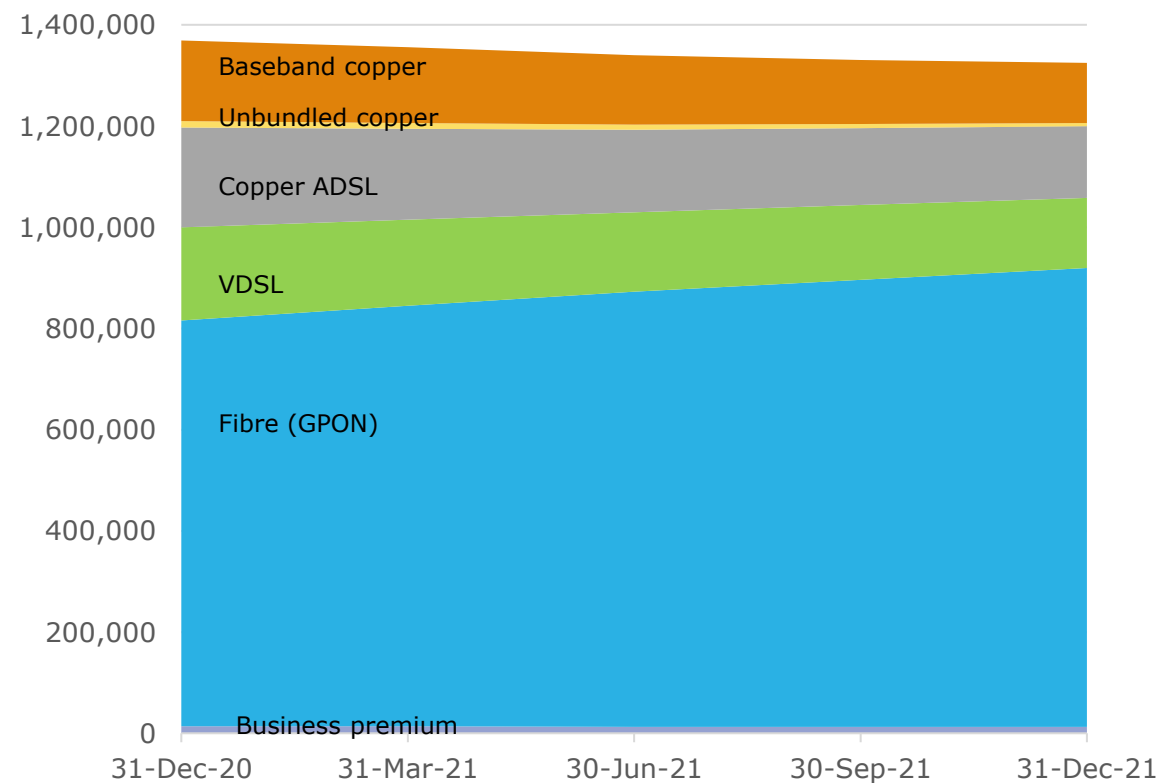
- > up to \$1.33 billion CIP financing available by 2023 (57:43 equity/debt)
- > \$1,228m drawn at 31 Dec 2021

- > At 31 Dec, debt of \$2,369m comprised:
 - Long term bank facilities of \$350m (\$170m drawn)
 - NZ bonds: \$400m and \$500m
 - Euro Medium Term Notes \$1,299m (NZ\$ equivalent at hedged rates)



Appendix B: Chorus connections data

	31 Dec 2020	31 March 2021	30 June 2021	30 Sept 2021	31 Dec 2021
Unbundled copper (no broadband)	13,000	11,000	10,000	8,000	6,000
Baseband copper (no broadband)	159,000	150,000	137,000	127,000	119,000
Copper ADSL (includes naked)	197,000	180,000	163,000	152,000	142,000
VDSL (includes naked)	184,000	170,000	157,000	148,000	138,000
Fibre broadband (GPON)	802,000	831,000	860,000	883,000	907,000
Data services (copper)	3,000	3,000	2,000	2,000	2,000
Fibre premium (P2P)	11,000	11,000	11,000	11,000	11,000
Total connections	1,369,000	1,356,000	1,340,000	1,331,000	1,325,000



> **1,187,000 broadband connections comprises:**

- 907,000 fibre (GPON) connections
- 280,000 VDSL/ADSL (copper) connections

Note: 10,000 partly subsidised education connections are excluded from this data