



Nasdaq Virtual Investor Conference Presentation

21 March 2018



NZX and ASX Ticker: CNU

ADR-Ticker: CHRYY (Ratio: 5 ORD = 1 ADR)

<http://www.chorus.co.nz/investor-centre>

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NEW ZEALAND

- > **Land mass of 268,000 square kilometres**
 - 1,600 kilometres long; 400 kilometres wide
- > **NZ population approximately 4.79 million**
 - ~87% live in urban areas
 - 100,000 record population growth in FY17
 - half of population growth in 15-39 age group
- > **Market orientated economy**
 - real economic growth, as measured by changes in Gross Domestic Product, has increased annually between 2% to 4% since 1993.
 - official cash rate 1.75%
 - 1USD = 1.37NZD



AN OVERVIEW OF CHORUS



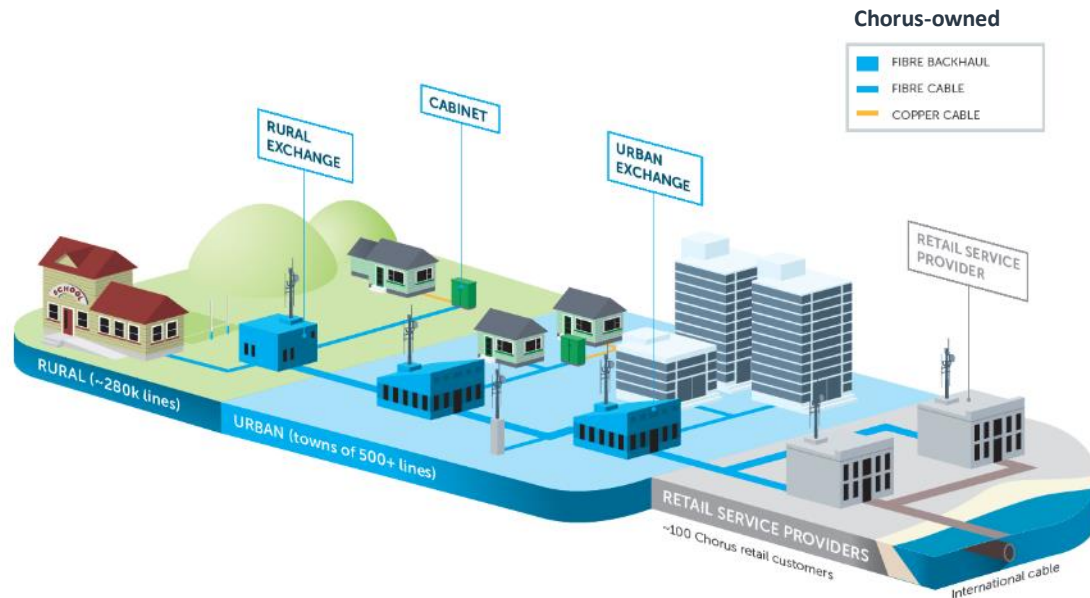
- > **New Zealand's largest fixed line communications infrastructure business**
 - established in Dec 2011 following demerger from Telecom NZ
 - listed on NZX and ASX: CNU
 - ADR ticker: CHRYY
 - ~NZ\$1.7 billion market capitalisation (at 9 March 2018)
 - S&P "BBB" stable; Moody's "Baa2" stable

- > **A nationwide copper and growing fibre network**
 - ~1.56m connections, including ~1.18m broadband
 - halfway through 11-year fibre to the premises rollout
 - streaming video services driving significant data consumption
 - average NZ household consumed 187GB in Jan 2018

- > **~1,000 employees, 80%+ engagement since 2012**
 - supported by ~4,000 contractors and subcontractors
 - first NZ employer to win supreme award in Aon Hewitt Best Employers awards

THE CHORUS NETWORK

- > We operate a nationwide wholesale access network of fibre optic and copper cables connecting homes and businesses
 - cables typically connect back to our local telephone exchanges, often via broadband cabinets
 - our fibre also provides backhaul to many mobile network sites/towers and retail service provider networks



Common network assets	Our copper network	Our fibre network
▪ ~600 local exchanges ▪ ~11,000 cabinets ▪ ~280,000 poles ▪ ~30,000km duct network	▪ ~130,000km copper ▪ FTTN broadband footprint to ~90% of lines ▪ VDSL broadband to ~80% of lines ▪ vectoring upgrade outside our fibre areas	▪ ~46,000km fibre ▪ FTTP available to ~1.36m customers by Dec 22 ▪ point-to-point fibre in CBD areas ▪ fibre to multiple mobile provider cellsites

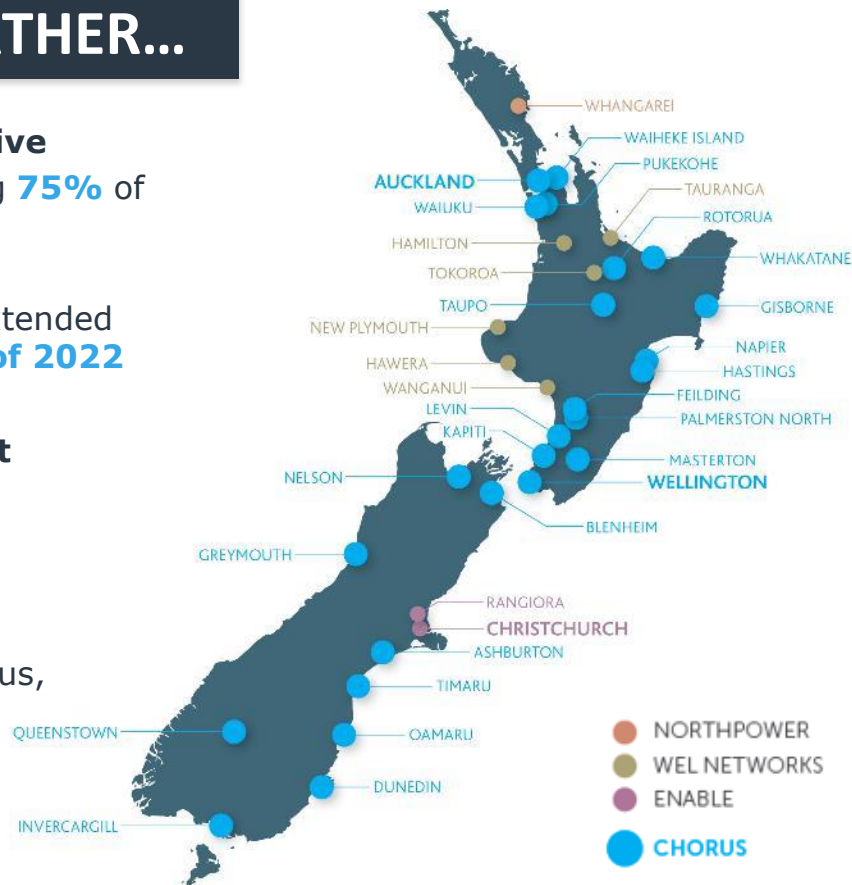
NEW ZEALAND IS TAKING FIBRE FURTHER...

> Ultra-fast broadband (UFB): a Government objective

- original objective (UFB1): fibre to premises covering **75%** of population by 2020
- subsequent agreements (UFB2 and UFB2+) have extended coverage goal to **87% of population by the end of 2022**

> Chorus is a cornerstone partner in the fibre rollout

- requirement that Chorus split from Telecom NZ to participate: demerger in December 2011
- Crown partnerships with four fibre companies: Chorus, Enable, Northpower, Ultrafast Fibre (WEL Networks)
- Chorus was awarded ~75% of UFB rollout



UFB ROLLOUT STAGES

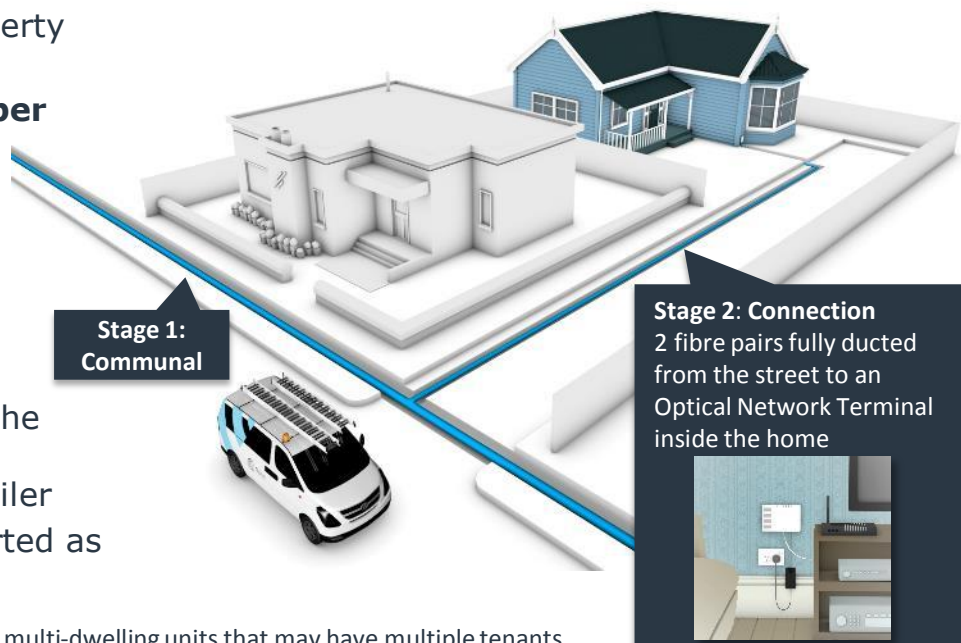
> The fibre rollout currently occurs in two stages

▪ Stage 1: communal network deployment

- the fibre network is built along the street to enable future connections from each property boundary
- the cost of this work is reported as **cost per premises* passed** (CPPP)
- Government funding is received for premises passed

▪ Stage 2: connection from boundary to premises

- the connection to the home is built from the street to the premises when a request is received from the customer, via their retailer
- this is fully funded by Chorus and is reported as **cost per premises connected** (CPPC)



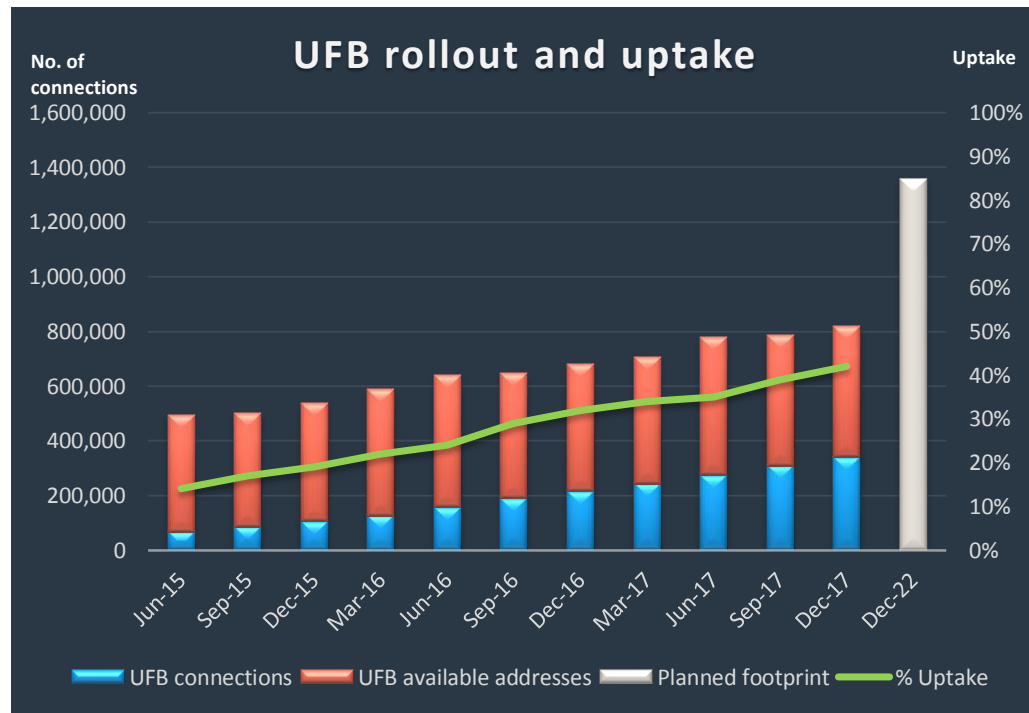
* A “premises” for the purposes of UFB contracts includes office buildings or multi-dwelling units that may have multiple tenants

FIBRE UPTAKE HAS EXCEEDED EXPECTATIONS

> 42% uptake at 31 Dec (FY17: 35%)

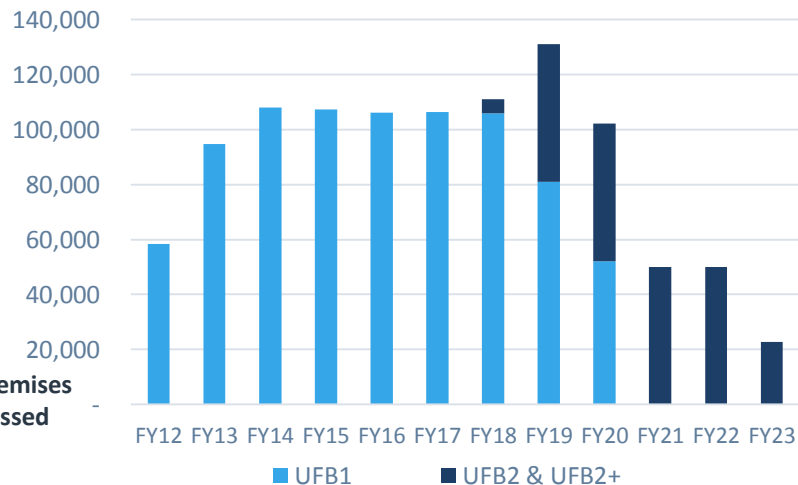
- **343,000** connections
- **821,000** customers able to connect
- **613,000** premises passed

Premises to pass by Dec 2022	~1,054,000*
Customers able to connect	~1.36 million
Estimated communal capex to pass premises	\$2.26 to 2.37 billion
Crown funding (57:43 equity/debt)	up to \$1.33 billion



ON TIME AND ON BUDGET

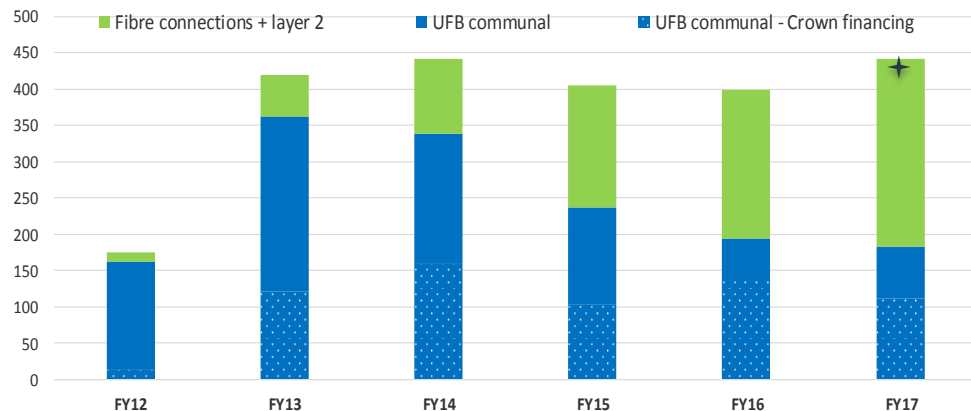
Chorus rollout schedule – indicative only*



* UFB1 build ends Dec 2019 and UFB2 build ends Dec 2022.

Total fibre capex: communal vs connections

\$NZm

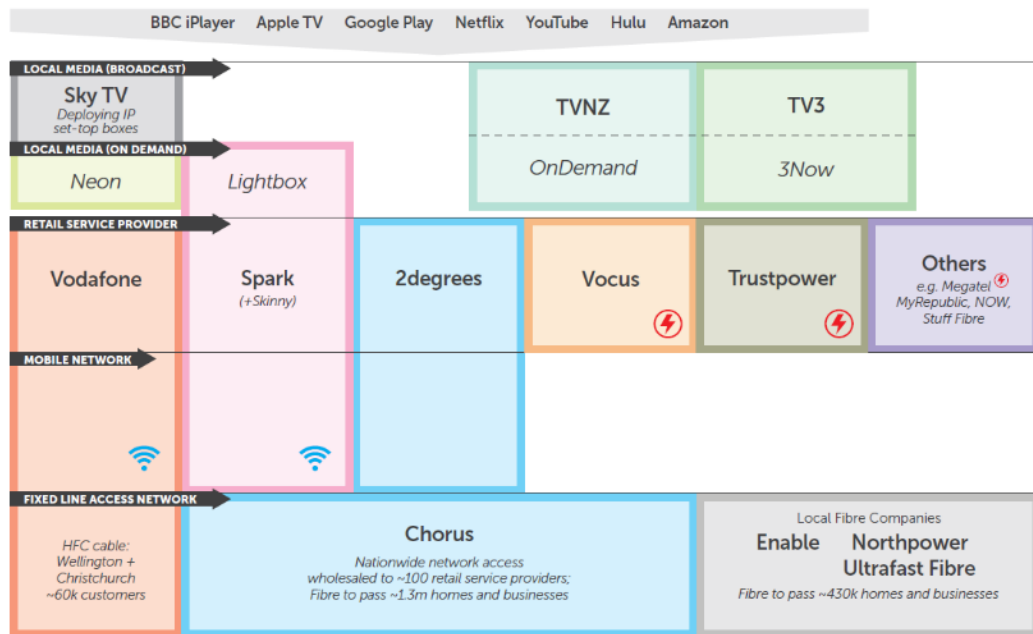


- > \$640m received as Crown financing to 30 June 2017
- > communal capex has reduced as build transitioned to less costly suburban areas
- > connection capex subject to demand and connection type

✦ Includes capitalised service desk costs

New Zealand's broadband market

MARKET DYNAMICS



> Strong retail competition

- 100Mbps fibre as entry level plan
- bundled content (e.g. Netflix, Sky TV) and/or electricity (e.g. Trustpower, Vocus, Contact)
- differentiation based on unlimited data and product giveaways (e.g. smart TV, Netflix)

> Our network competes with:

- Vodafone's HFC network in Christchurch, Wellington and Kapiti
- local fibre companies
- mobile and fixed wireless networks
- other fibre networks typically focused on the backhaul and business markets



Key



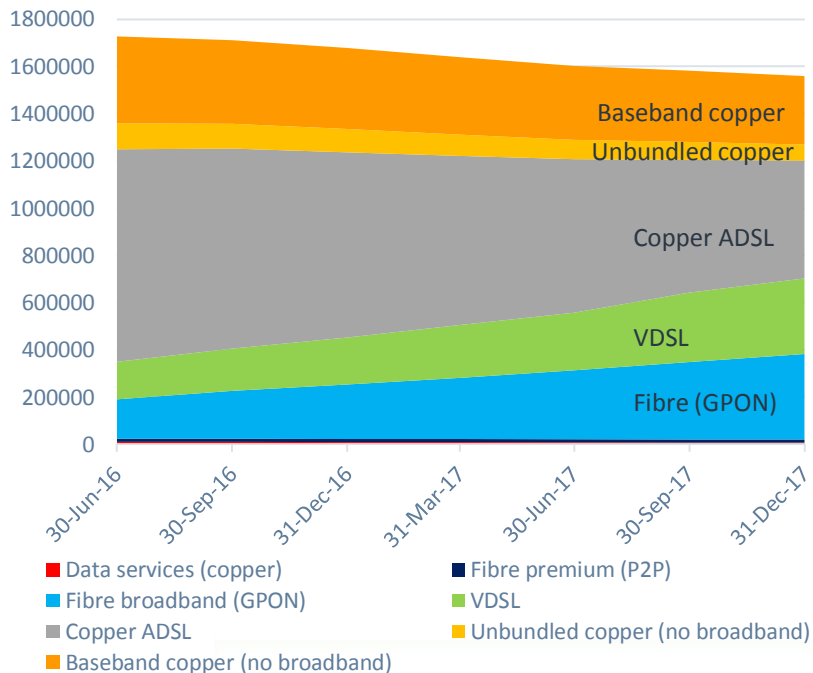
Power + Broadband



Wireless Broadband

PROMOTING BETTER BROADBAND

- > **Total connections reduced by 43,000 in HY18 to 1,559,000** (FY17: -125k)
 - local fibre companies gaining share as expected; loss to wireless connections moderating
 - broadband connections largely stable



> active wholesaler approach achieving results

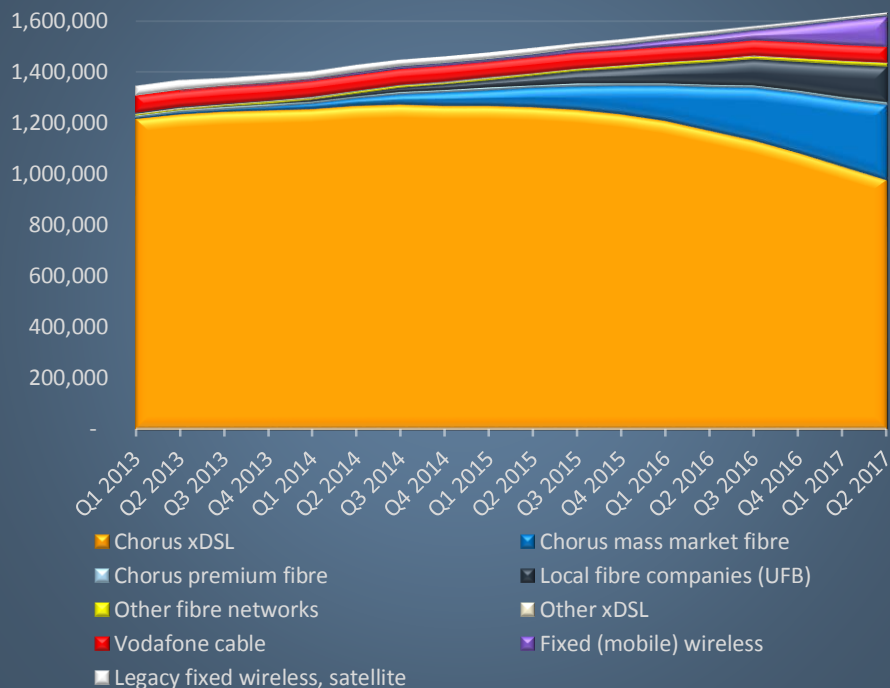
- Our *Ask for better* campaign continues to raise awareness of VDSL and fibre availability
- incentives for retailers linked to volume targets and winback of offnet connections
- vectoring VDSL investment in other fibre company and rural areas



BROADBAND MARKET OVERVIEW

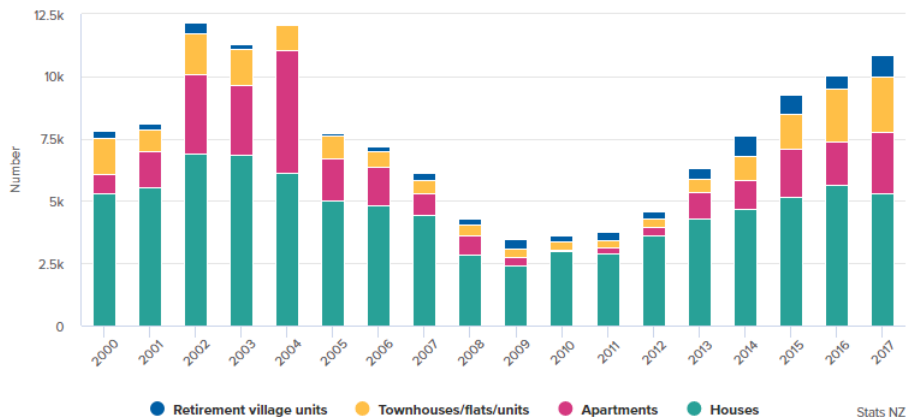
- > Demand for broadband continues to grow, helped by continued premises/population growth and strong retail competition

IDC – Broadband market share by technology



- Auckland city is projected to account for over half of NZ's expected population growth to 2040 with 400,000 new homes.

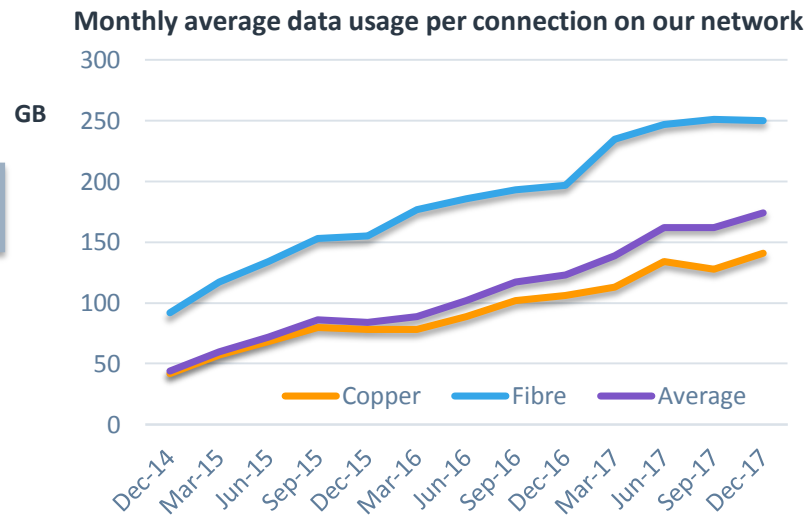
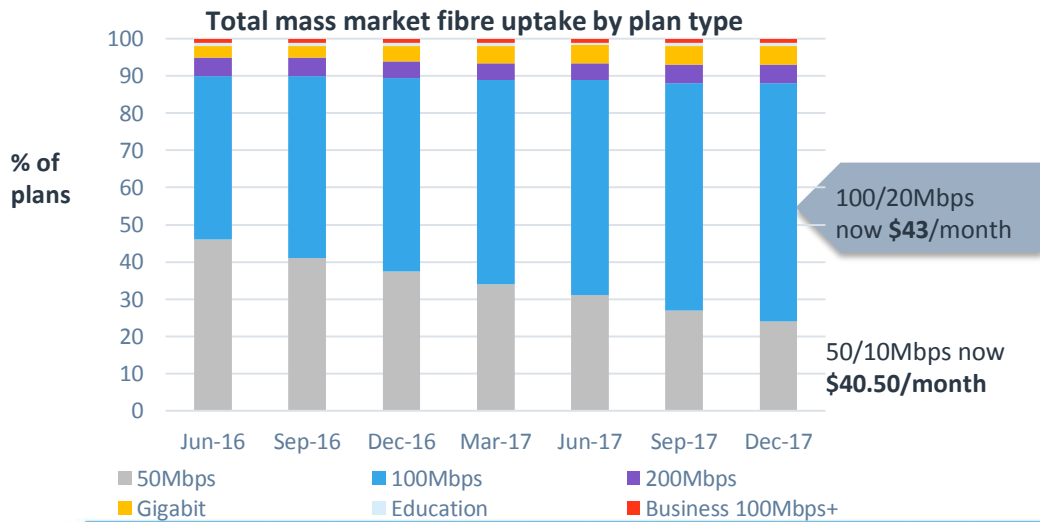
New homes consented, Auckland region, year ended December



DATA DEMAND GROWS AS CUSTOMERS SHIFT TO BETTER

- > **76%** of mass market fibre plans now $\geq 100\text{Mbps}$ (FY17:69%)
 - 64% of mass market fibre connections on 100Mbps
 - less than $\frac{1}{4}$ of fibre connections on entry level 50Mbps
 - 20,000 connections on gigabit plans

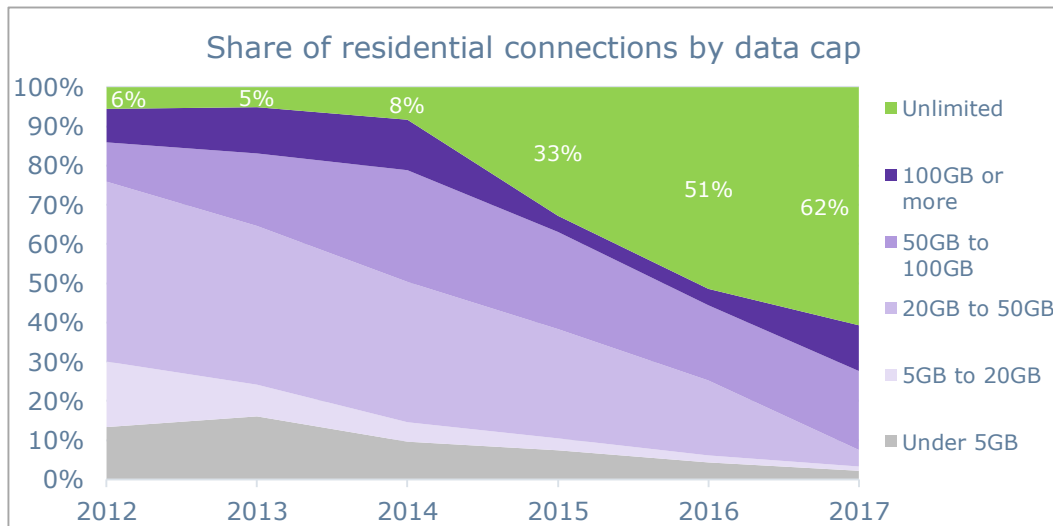
- > monthly average data usage per connection on our network **174GB** (Dec) up from 162GB in June
 - 250GB on fibre
 - 141GB on copper



STREAMING & UNLIMITED DATA

> Streaming video is becoming mainstream

- 1.2 million Kiwis (434k households) now access Netflix; TVNZ On Demand has 1.8m subscribers
- ~50% of Sky TV set-top boxes are now internet capable
- ~62% households on unlimited data plans



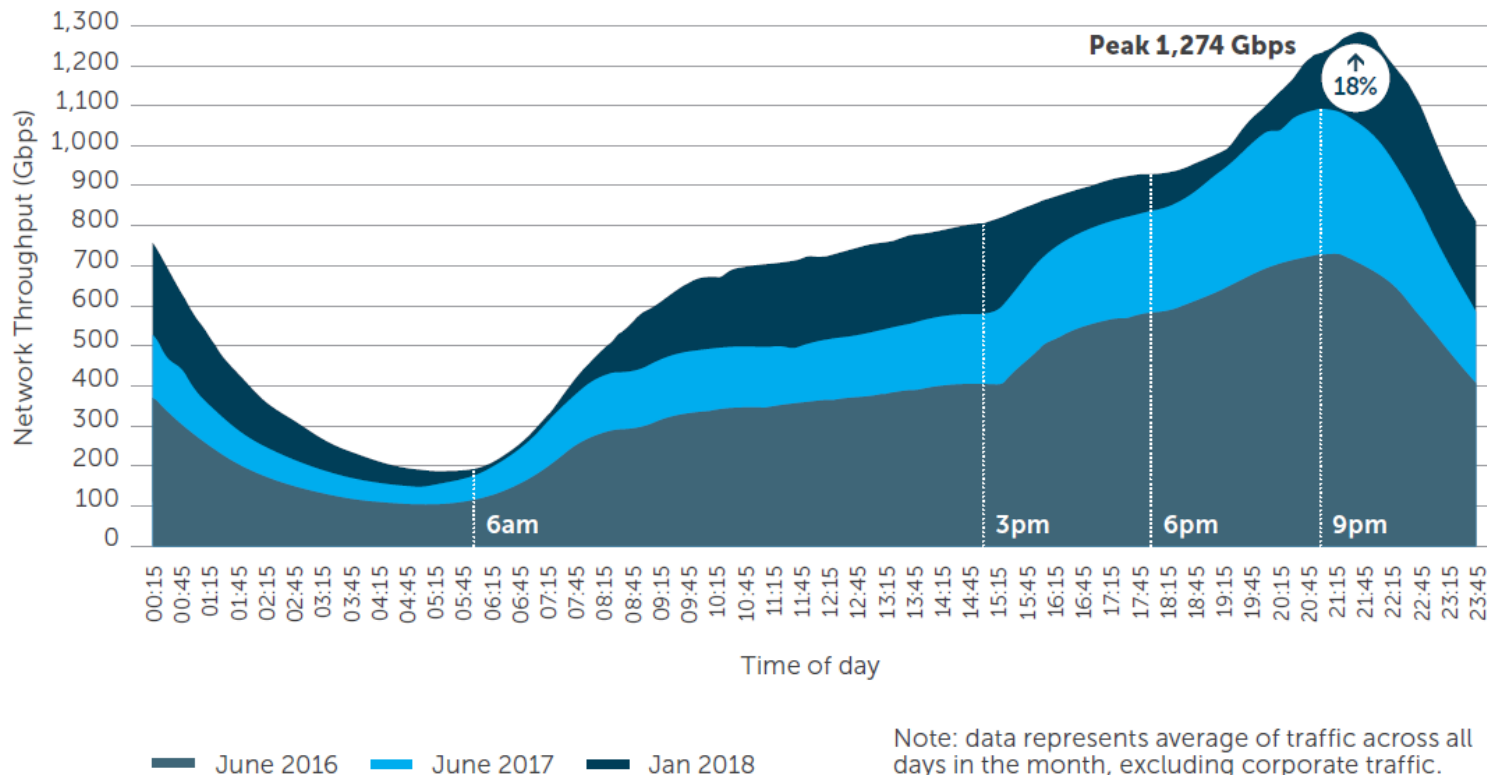
Source: Statistics NZ ISP Survey June 2017



- HD TV uses **3GB** per hour
- 4K TV uses **7GB** per hour

PEAK TIME CAPACITY IS KEY

Chorus network traffic by time of day



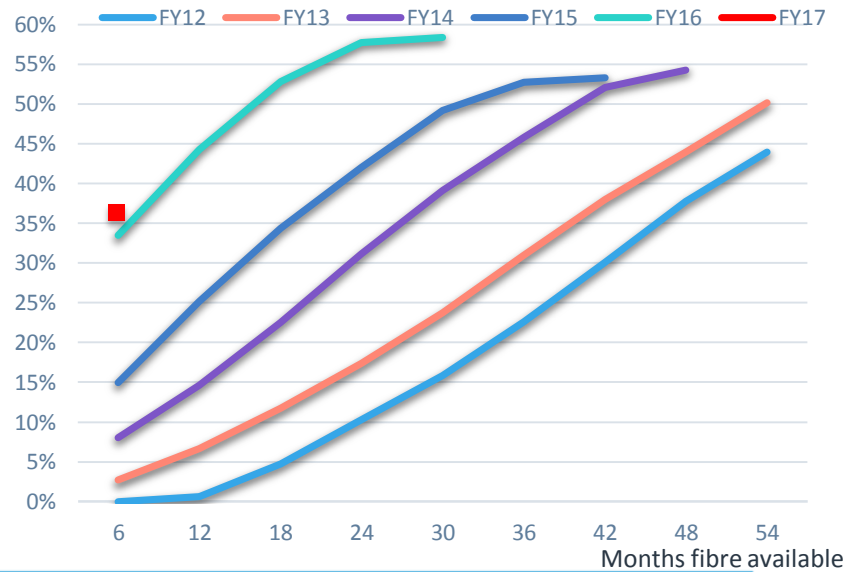
Other areas of focus

TRANSFORMING CUSTOMER EXPERIENCE & COST

- > **We're reshaping Chorus to lift customer experience and reduce cost**
 - emphasis on end-to-end customer experience to simplify systems and processes
 - trialling new fibre migration methods with the aim of reducing customer effort to <1 day



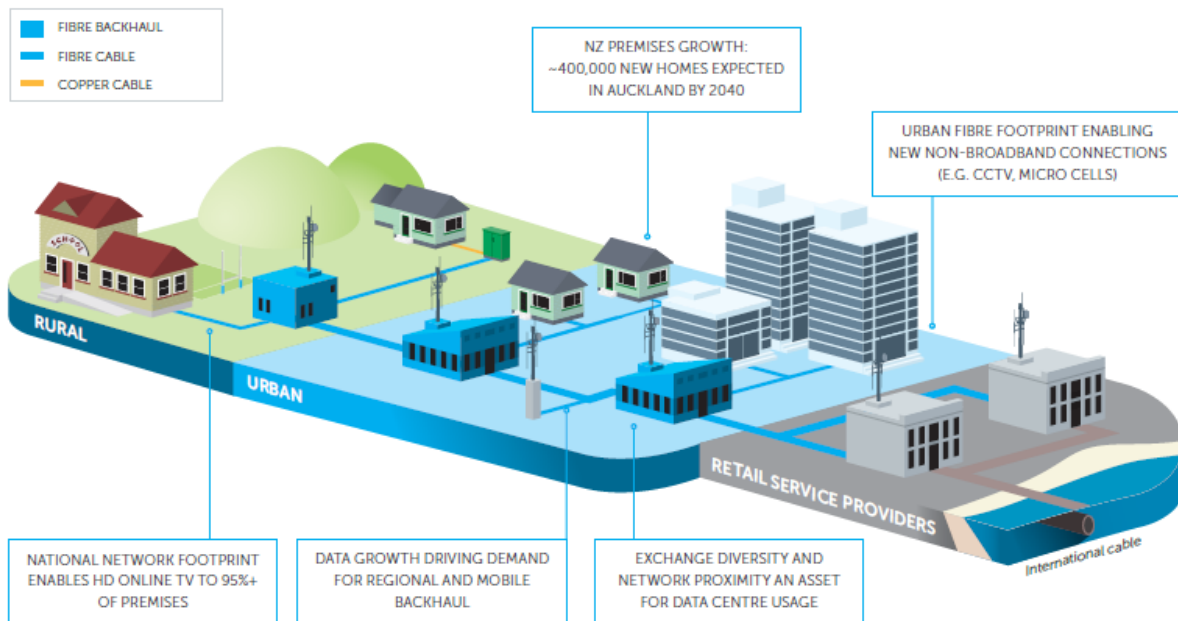
*First time fibre orders received over time
(as a % of capable addresses by rollout year)*



FUTURE OPPORTUNITIES

> Identifying new open access business opportunities

- fixed line and 5G: we see a complementary future
- strong demand for trial data centre; more sites planned
- emerging demand for smart locations (non-building access points)
- fibre and our existing assets (exchanges, cabinets, poles) opening up new possibilities
 - school community wi-fi trial with Network for Learning
 - LoRaWAN *Internet of Things* trial with Vianet
 - potential support for TV delivery



TRANSITION TO A REGULATED UTILITY MODEL

> New regulatory framework bill introduced to Parliament 8 August 2017 proposed:

Fibre – post 2020 utility framework

- Regulated asset base (RAB) to be set by Commerce Commission:
 - depreciated historical cost for pre 2011 assets
 - depreciated actual cost for post 2011 assets and
 - increased by unrecovered losses incurred pre 2020
 - no retrospective efficiency review
- Revenue cap with commercial geographically averaged pricing except for:
 - two anchor products (voice only + entry level broadband – 100/20Mbps fibre) at 2019 prices + CPI
 - similar price cap for direct fibre access
 - after 2023 the Commission can review the revenue cap model, as well as the anchor products subject to specified conditions & statutory criteria

Copper – post 2020 legacy framework

WHERE FIBRE IS AVAILABLE:

- Copper network to be deregulated and Telecommunications Service Obligation (TSO) removed
- Chorus can withdraw copper service, subject to minimum consumer protection requirements

WHERE FIBRE IS NOT AVAILABLE:

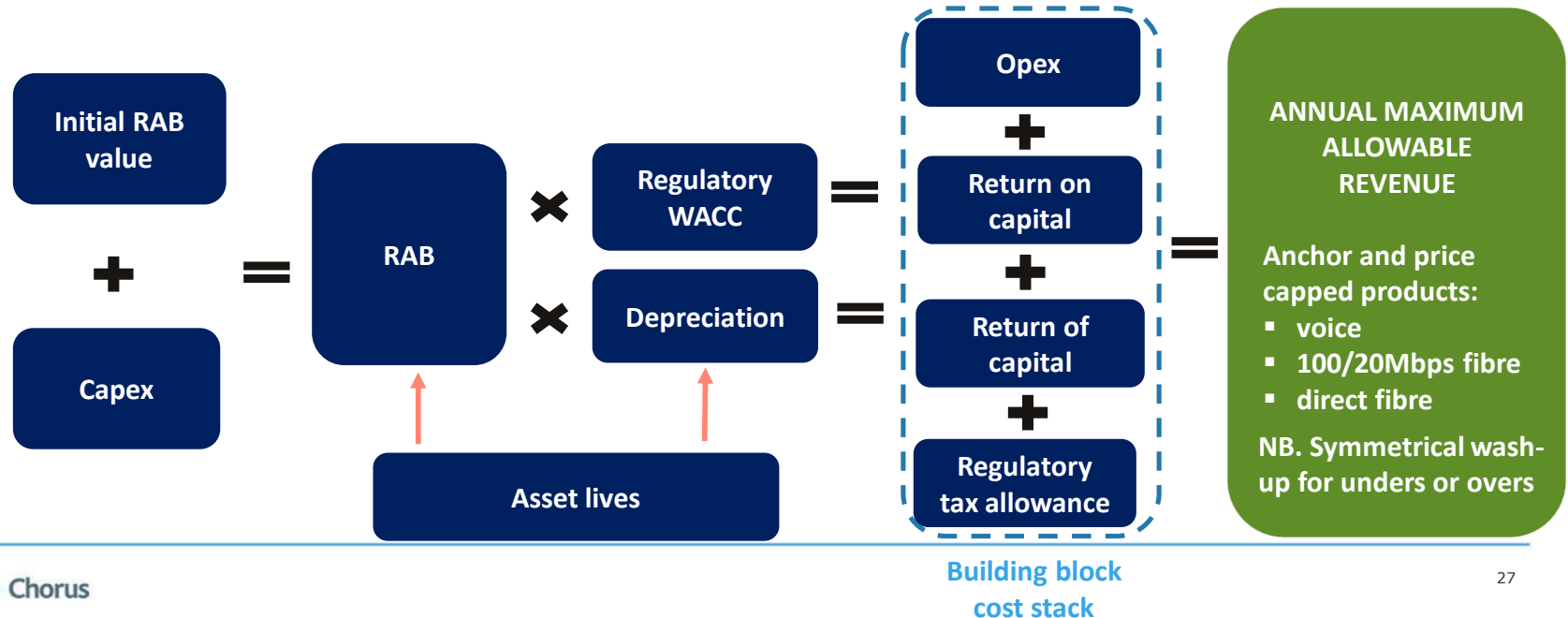
- Copper remains regulated and TSO applies
- Copper pricing capped at 2019 levels with CPI adjustments
- Commission required to review pricing framework no later than 2025

~13% of population

Next steps: legislative process, then the Commerce Commission will consult and set input methodologies.

REGULATED ASSET BASE

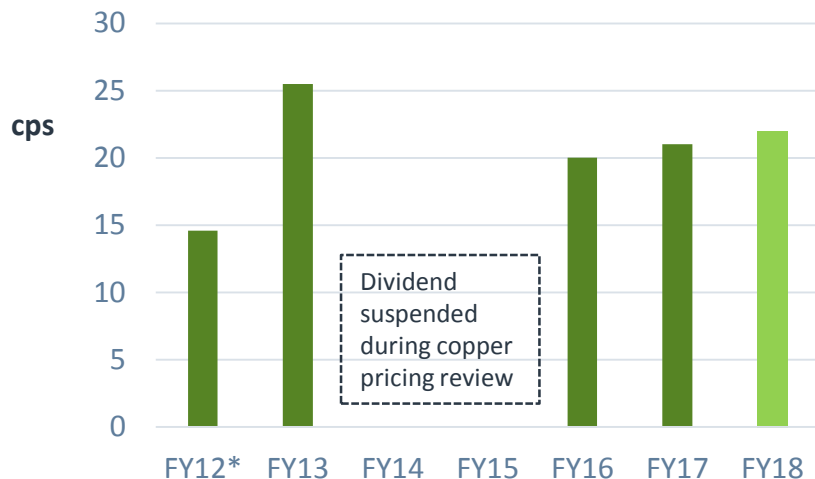
- > Building block model is used for other NZ industries including electricity and gas networks, and airports.



Financial Highlights

CAPITAL MANAGEMENT

Chorus dividend profile



FY12*: prorated for the post demerger period of seven months

During the UFB build programme to 2020, the Board expects to be able to provide shareholders with modest dividend growth from a base of 20cps per annum, subject to no material adverse changes in circumstances or outlook.

- > The Chorus Board considers that a 'BBB' credit rating or equivalent credit rating is appropriate for a company such as Chorus. It intends to maintain capital management and financial policies consistent with these credit ratings.
 - FY18 dividend guidance of **22cps**, subject to no material adverse changes in circumstances or outlook.
 - interim dividend of **9 cps**, fully imputed with supplementary dividend of 1.6cps payable to non-resident shareholders
 - **record date**: 20 March 2018
 - A Dividend Reinvestment Plan has been available to NZ and Australian resident shareholders with a 3% discount to prevailing market price.
 - The FY17 final dividend was underwritten with 54% DRP uptake.

INCOME STATEMENT

	H1 FY18 \$m	H2 FY17 (adjusted) \$m	H1 FY17 (adjusted) \$m
Operating revenue	499	519	529
Operating expenses	(170)	(170)	(168)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	329	349	361
Depreciation and amortisation	(192)	(185)	(174)
Earnings before interest and income tax	137	164	187
Net interest expense	(70)	(77)	(79)
Net earnings before income tax	67	88	109
Income tax expense	(20)	(25)	(31)
Net earnings for the year	47	62	77

Note: H1 and H2 FY17 have been adjusted to show the illustrative impact if NZ IFRS 15 and NZ IFRS 16 had applied in FY17.

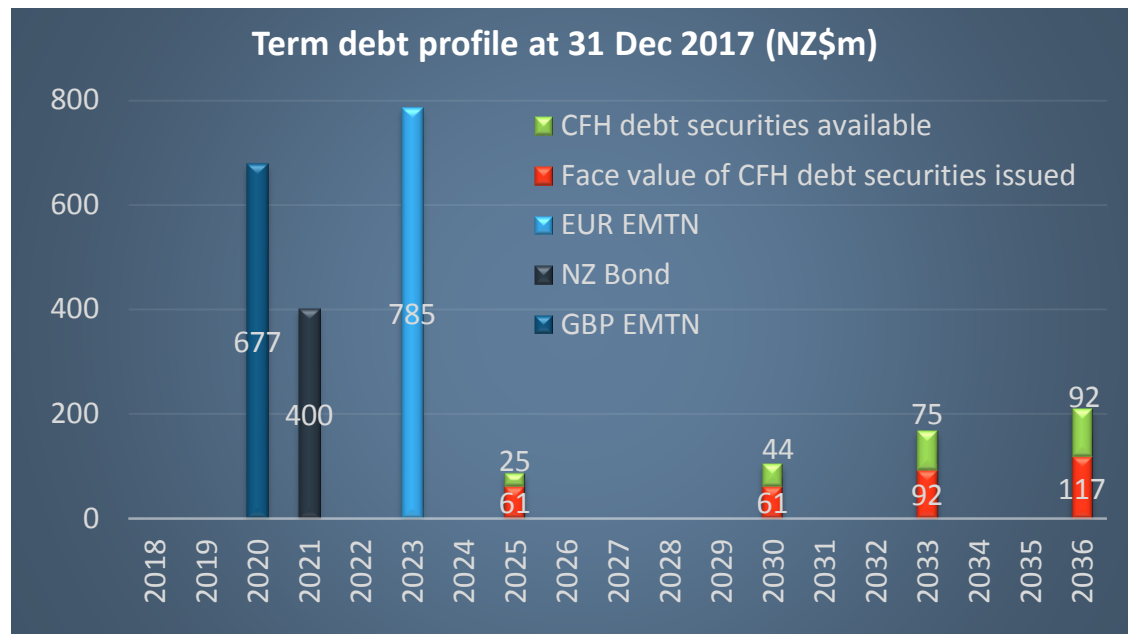
> D&A increasing post IFRS adoption

> ineffectiveness has not been removed from H1 and H2 FY17 to reflect NZ IFRS 9 changes

DEBT

- > At 31 Dec, borrowing of \$1,932m comprised:
 - Long term bank facilities \$70m
 - NZ bond \$400m
 - Euro Medium Term Notes \$1,462m (NZ\$ equivalent at hedged rates)

- > Net Debt/EBITDA was 3.41 times at 31 Dec
 - Financial covenants require senior debt ratio to be no greater than **4.75 times**



KEY CHORUS HIGHLIGHTS



Leading provider of fixed line communications infrastructure in N.Z. with significant network build experience



Cornerstone partner in the Government's Ultra-Fast Broadband initiative, with UFB capex supported by Government financing



Broadband emerging as 4th utility, supported by growing bandwidth demand and streaming video trends



Majority of revenues regulated or contracted to the Crown to 2020, with an expected shift to a building block regulatory framework thereafter



Highly competitive retail broadband market driving fibre uptake, supported by population/premises growth



Commitment to maintaining a BBB credit rating (S&P, or equivalent)



Experienced management team with proven ability in rolling out and operating fixed line communications networks

FURTHER INFORMATION

- > Investor Relations website: <http://www.chorus.co.nz/investor-centre>
- > Annual and interim reports and presentations: <https://company.chorus.co.nz/financial-results>
- > Corporate Governance Statement: <https://company.chorus.co.nz/file/80250/Corporate-Governance-Statement.pdf>
- > **Contact:** Brett Jackson, Chorus IR Manager brett.Jackson@chorus.co.nz

FINANCIAL CALENDAR

- > Half year result: 26 February 2018
- > Q3 connections update: early April 2018
- > Q4 connections update: early June 2018
- > FY18 result: 27 August 2018
- > Annual Shareholders' Meeting: 1 November 2018