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Chorus Limited
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Wellington
New Zealand

Email: company.secretary@chorus.co.nz

STOCK EXCHANGE ANNOUNCEMENT

9 November 2020

Chorus considers retail bond offer and provides an investor presentation

Chorus is considering making an offer, subject to market conditions, of up to NZ$200,000,000 (with the ability to accept oversubscriptions at Chorus' discretion) of unsecured, unsubordinated, fixed rate bonds (**Bonds**) to New Zealand retail and institutional investors and certain overseas institutional investors.

The offer may comprise two Series of Bonds, which are expected to have terms of seven years and/or ten years. The proceeds of any offer will be used to refinance Chorus' NZ$400m bond maturing in May 2021.

A copy of the investor presentation in relation to the intended offer is attached.

The offer is expected to open, subject to market conditions, the week beginning 16 November 2020 and full details will be available then.

Chorus has appointed ANZ Bank New Zealand Limited (**ANZ**) as Arranger and ANZ, Craigs Investment Partners Limited, Forsyth Barr Limited and Westpac Banking Corporation (ABN 33 007 457 141) (acting through its New Zealand branch) as Joint Lead Managers in relation to the Bond offer.

Investors can register their interest in the offer by contacting a Joint Lead Manager as detailed below, or their financial adviser. Indications of interest will not constitute an obligation or commitment of any kind.

No money is currently being sought and applications for the Bonds cannot currently be made. If Chorus offers the Bonds, the offer will be made in accordance with the Financial Markets Conduct Act 2013 as an offer of debt securities of the same class as existing quoted debt securities. The Bonds are expected to be quoted on the NZX Debt Market.

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Joint Lead Managers



0800 269 476



0800 226 263



0800 367 227



0800 942 822

Authorised by:

David Collins
Chief Financial Officer

ENDS

For further information:

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Chorus Limited - Debt Investor Presentation

November 2020

DEBT INVESTOR PRESENTATION

CHORUS

Important notice

Chorus Limited (**Chorus**) is considering making an offer of fixed rate bonds (**Bonds**) in reliance upon the exclusion set out in clause 19 of schedule 1 of the Financial Markets Conduct Act 2013 (**FMCA**).

No money is currently being sought and no Bonds can be applied for or acquired until the offer opens and the investor has received a copy of the offer documents in relation to the Bonds. If Chorus offers the Bonds, the offer will be made in accordance with the FMCA as an offer of debt securities of the same class as existing quoted debt securities. The Bonds are expected to be quoted on the NZX Debt Market.

Except for the interest rate and maturity date, the Bonds will have identical rights, privileges, limitations and conditions as:

- Chorus' bonds maturing on 6 May 2021, which have a fixed interest rate of 4.12% per annum and are currently quoted on the NZX Debt Market under the ticker code CNU010; and
- Chorus' bonds maturing on 6 December 2028, which have a fixed interest rate until 6 December 2023 of 4.35% per annum (and will then re-set until the maturity date) and are currently quoted on the NZX Debt Market under the ticker code CNU020;

(together the **Existing Bonds**).

Chorus is subject to a disclosure obligation that requires it to notify certain material information to NZX Limited (**NZX**) for the purpose of that information being made available to participants in the market and that information can be found by visiting www.nzx.com/companies/CNU.

The Existing Bonds are the only debt securities of Chorus that are currently quoted and in the same class as the Bonds.

Investors should look to the market price of the Existing Bonds referred to above to find out how the market assesses the returns and risk premium for those bonds.

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Disclaimer

This presentation:

- Includes forward-looking statements. These statements are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond Chorus' control, and which may cause actual results to differ materially from those contained in this presentation.
- Includes statements relating to past performance which should not be regarded as reliable indicators of future performance.
- Is current at the date of this presentation, unless otherwise stated. Except as required by law or the NZX and ASX listing rules, Chorus is not under any obligation to update this presentation, whether as a result of new information, future events or otherwise.
- Should be read in conjunction with Chorus' audited consolidated financial statements for the year to 30 June 2020 and NZX and ASX market releases.
- Includes non-GAAP financial measures including "EBITDA". These measures do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. They should not be used in substitution for, or isolation of, Chorus' audited consolidated financial statements. Chorus monitors EBITDA as a key performance indicator and believes it assists investors in assessing the performance of the core operations of Chorus' business. Refer to Chorus' FY20 results investor presentation for further detail relating to EBITDA measures.
- Has been prepared with due care and attention. However, Chorus and its directors and employees accept no liability for any errors or omissions.
- Contains information from third parties Chorus believes reliable. However, no representations or warranties (express or implied) are made as to the accuracy or completeness of such information.
- This presentation does not constitute investment advice or a securities recommendation and has not taken into account any particular investor's investment objectives or other circumstances. Investors are encouraged to make an independent assessment of Chorus.
- Note that references made to $ within this presentation refer to New Zealand dollars (NZD).
- To the extent permitted by law, the Joint Lead Managers and their respective related bodies corporate, officers, employees, agents, advisers, contractors and members: (a) disclaim any and all liability relating to this information, including, without limitation, any express or implied representation for statements and conclusions contained in and omissions from this presentation; and (b) accept no liability (whether in negligence or otherwise) for any loss, damage, costs or expenses of any nature which may be suffered or incurred by any person relying on any information or statement contained herein or otherwise arising in connection with any such information or statement. The recipient should not rely upon the contents of this presentation but should make its own assessment and evaluation, undertake an investigation and enquire and seek advice to enable it to make any decision concerning its own risks.

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Presenters



David Collins
Chief Financial Officer

David joined Chorus in December 2018 after 9 years with Aurizon, Australia's largest rail freight operator.

David is responsible for ensuring Chorus' strong financial performance and creating a stable and sustainable business. This includes building relationships with shareholders, debt holders, and the wider investment community.



Andrew Hopkinson
Treasurer

Andrew joined Chorus after 17 years with Telecom where he held a number of roles in finance, before being appointed Treasurer in 2005.

Andrew worked on the debt management aspects of the Telecom / Chorus demerger.

Prior to joining Telecom, Andrew worked at the Reserve Bank of New Zealand in the financial markets group.



Brett Jackson
IR Manager

Brett has run Chorus' investor relations programme since the demerger from Telecom in late 2011.

Brett joined Chorus when it was first established as an operationally separate business unit within Telecom in 2008 and was involved in marketing communications, industry consultation and network bid projects.

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2. Introducing Chorus
3. Business overview
4. Financial highlights
5. Appendices



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Key Bond Terms

Bond issue objectives: Refinance NZ$400m May 2021 Bond and general corporate purposes

Issuer	Chorus Limited		
Description	Unsecured, unsubordinated, fixed rate bonds. The Trust Deed contains a negative pledge which ensures no security interest can be given, except in limited circumstances (refer to the Trust Deed for further detail)		
Credit rating	**Rating Agency**	**Issuer Credit Rating**	**Expected Issue Credit Rating**
	S&P Global Ratings	BBB (Stable)	BBB
	Moody's	Baa2 (Stable)	Baa2
Offer Amount	Up to NZ$200 million of Bonds with the ability to accept oversubscriptions at Chorus' discretion across two Series of Bonds. The minimum Issue Amount in each series is NZ$100 million. Chorus may choose not to proceed with the offer or a particular Series of Bonds.		
Tenor	7 year	10 year	
Offer Open Date	The offer is expected to open, subject to market conditions, the week beginning 16 November 2020		
Listing	Bonds are expected to be listed on the NZX Debt Market		
Brokerage	Brokerage of 0.50% and firm fee 0.25%		
Interest Rate Step-Up	If a Downgrade Event exists on the first day of an Interest Period, the interest payable on the Interest Payment Date will be the applicable Interest Rate plus the Step-up Margin. Downgrade Event means the credit rating of the Bonds (or if the bonds are not rated) is BB+ or below on the S&P credit rating scale (or the equivalent). The Step-up Margin is 1.00 per cent per annum.		
Joint Lead Managers	ANZ, Craigs Investment Partners, Forsyth Barr and Westpac Banking Corporation		

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Introducing Chorus

New Zealand's largest fixed line communications infrastructure business



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Key Credit Highlights

- New Zealand's largest fixed line communications infrastructure company
- Building and operating 75% of NZ's planned fibre to the premises footprint
- Fibre partnership with NZ Government: pre-committed, low cost, long-term funding
- Regulated utility framework to underpin financial profile from 2022
- Strong demand for fibre broadband, and population/premises growth
- Strong operating cash flows and financial performance
- Financial flexibility via $550m bank facility, multi-currency EMTN and NZ dollar retail bond programmes
- Proven commitment to maintaining a BBB credit rating (S&P or equivalent)

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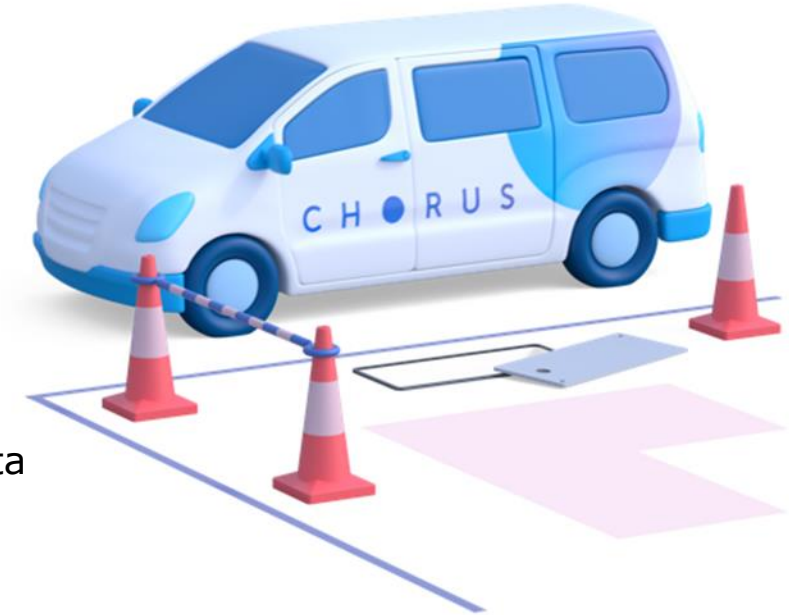
An Overview Of Chorus

New Zealand's largest fixed line communications infrastructure business

- Established in December 2011 following demerger from Telecom NZ
- ~870 employees, supported by service company contractors and subcontractors
- Listed on NZX and ASX: CNU
- ~$3.7 billion market capitalisation (as at 31/10/20)

A nationwide copper and growing fibre network

- Wholesale network operator with ~100 retailer customers
- ~1.4m connections, including ~1.2m broadband
- 90% of way through 11-year fibre to premises rollout
- 62% fibre uptake, well ahead of initial rollout target of 20% by 2020
- Streaming video services and working from home driving significant data consumption



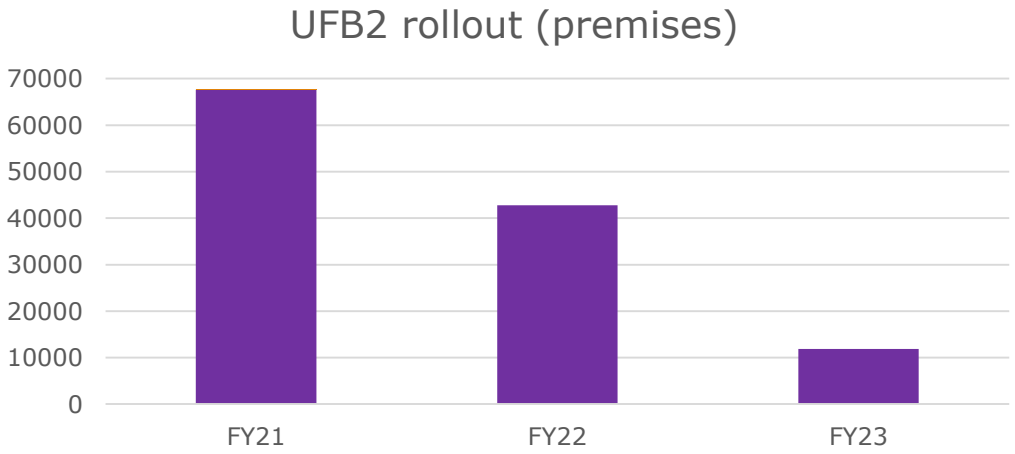
Agency	Rating	Outlook
S&P	BBB	Stable
Moody's	Baa2	Stable

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The Ultra-fast Broadband Initiative

- **Ultra-fast broadband (UFB): a Government objective**
  - Original objective (UFB1): fibre to premises covering 75% of population by 2020
  - Subsequent agreements (UFB2 and UFB2+) extended coverage goal to **87% of population by the end of 2022**
  - Chorus was awarded ~75% of the fibre rollout. The remaining 25% includes government partnerships with three other fibre companies: Enable, Northpower, Ultrafast Fibre

UFB rollout rapidly nearing completion

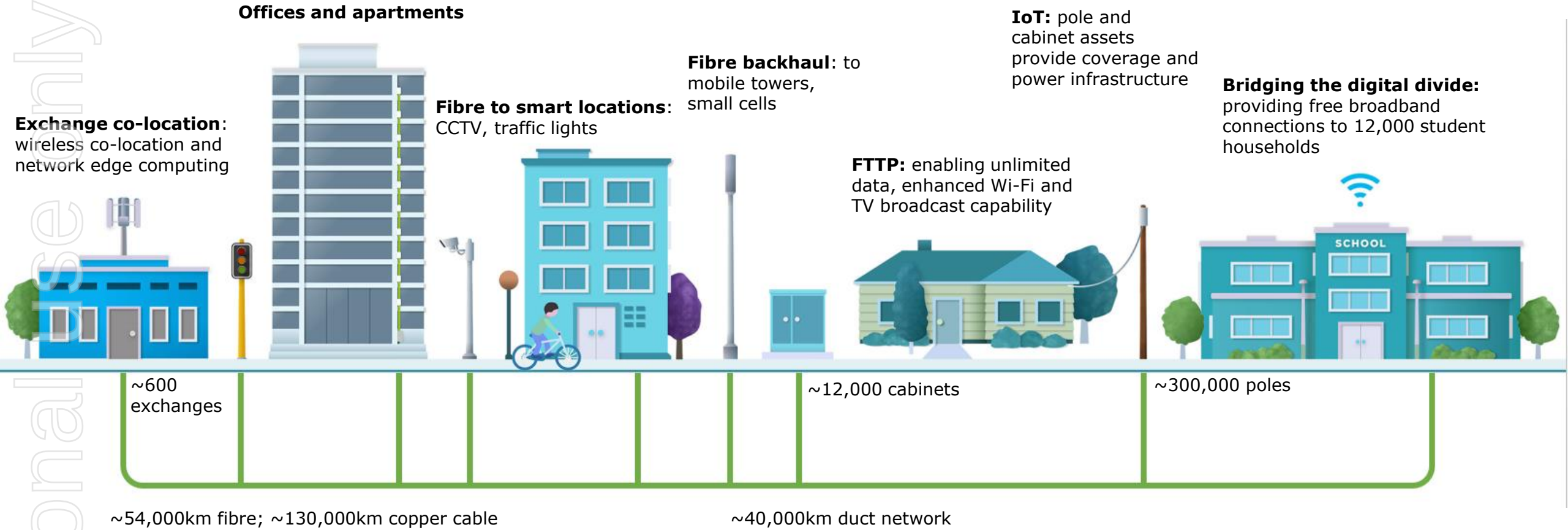




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Our Network Infrastructure

Fibre to pass ~1.36m end customers by end 2022



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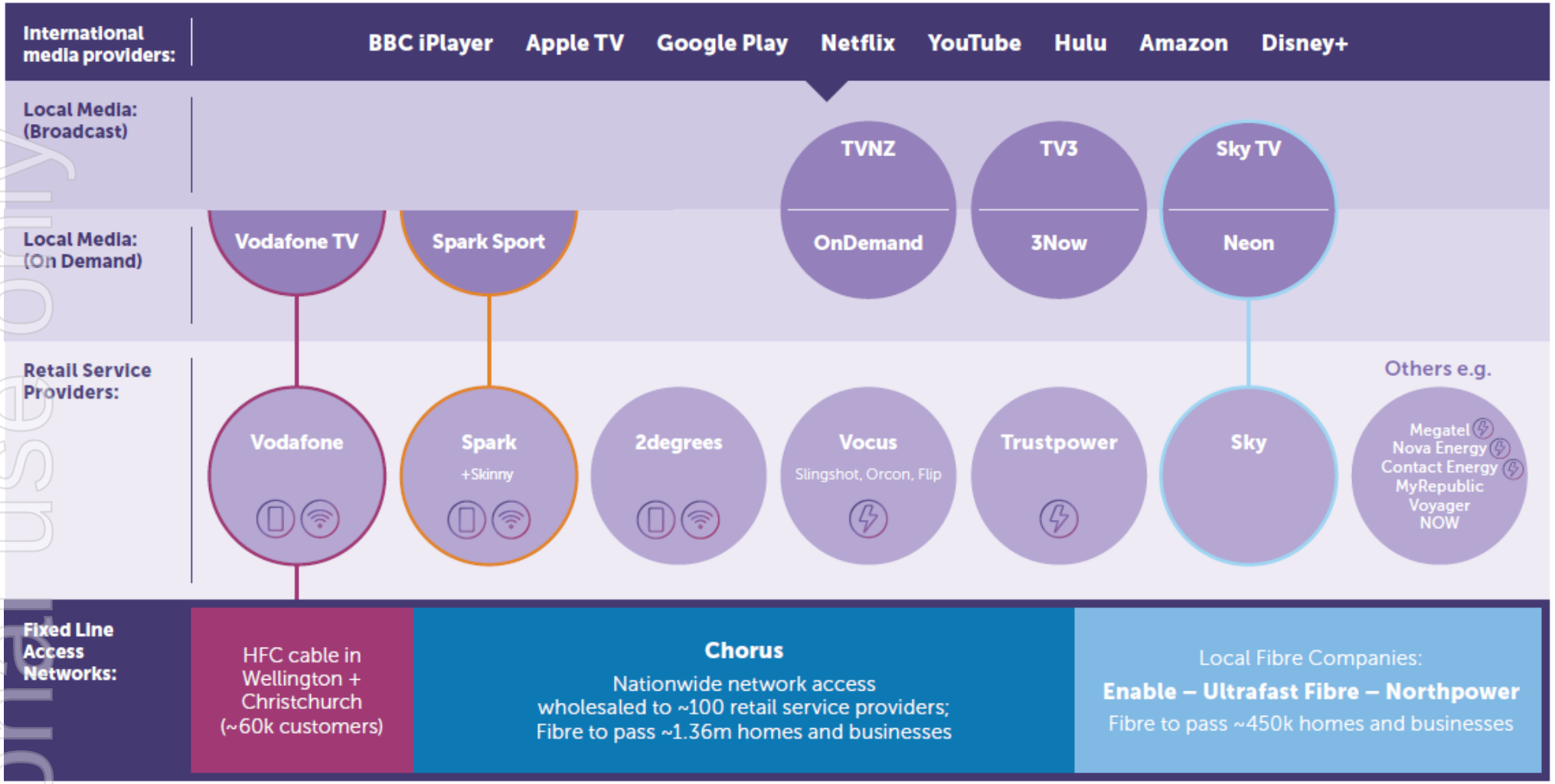
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Business Overview

Chorus' role within the New Zealand fixed line market



An Open Access Wholesale Network



Mobile network

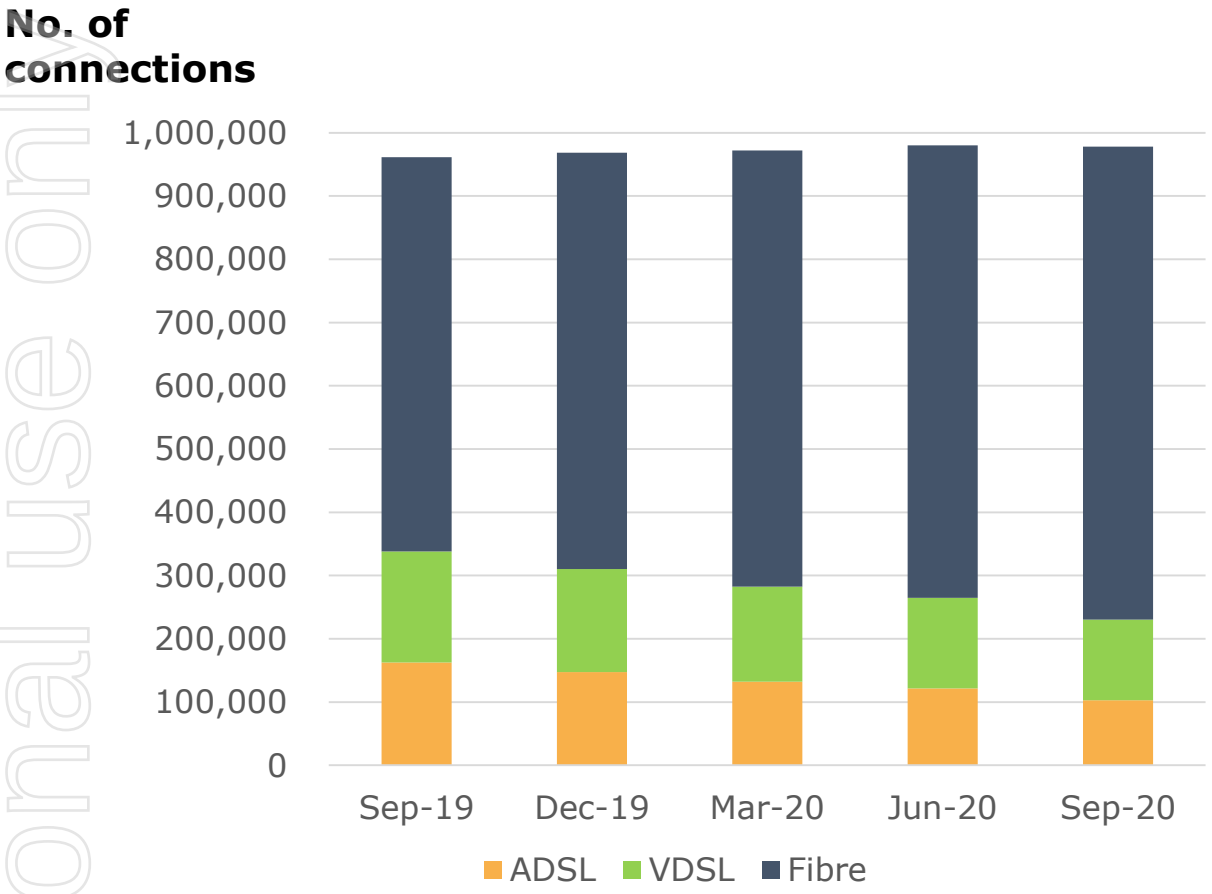
Wireless Broadband

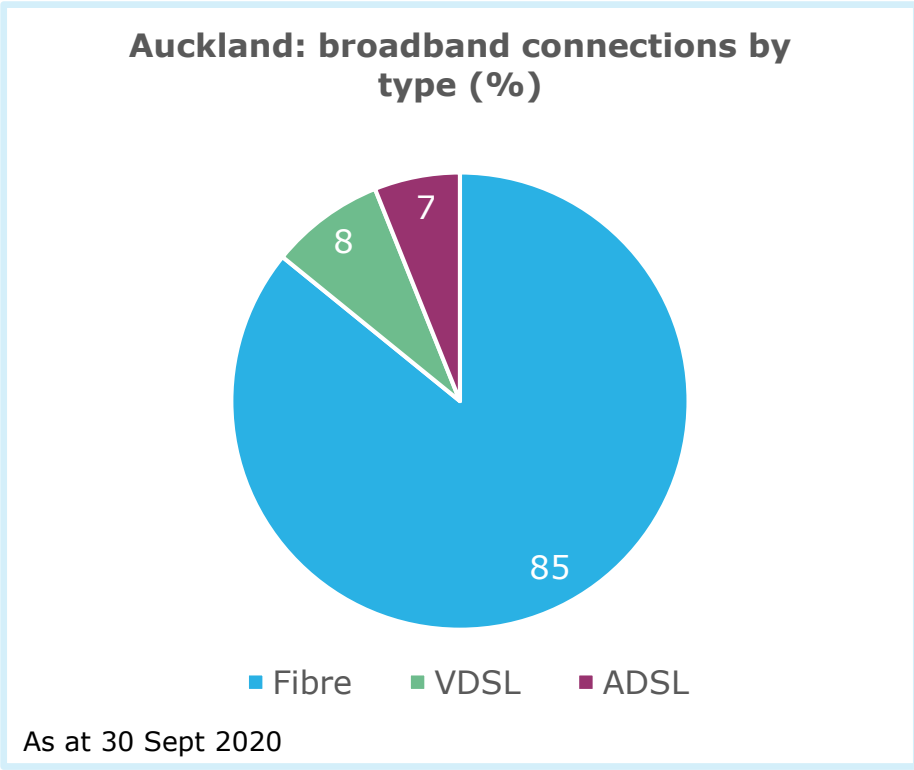
Power + Broadband

Note: Fibre to the premises will cover ~87% of NZ population by the end of 2022

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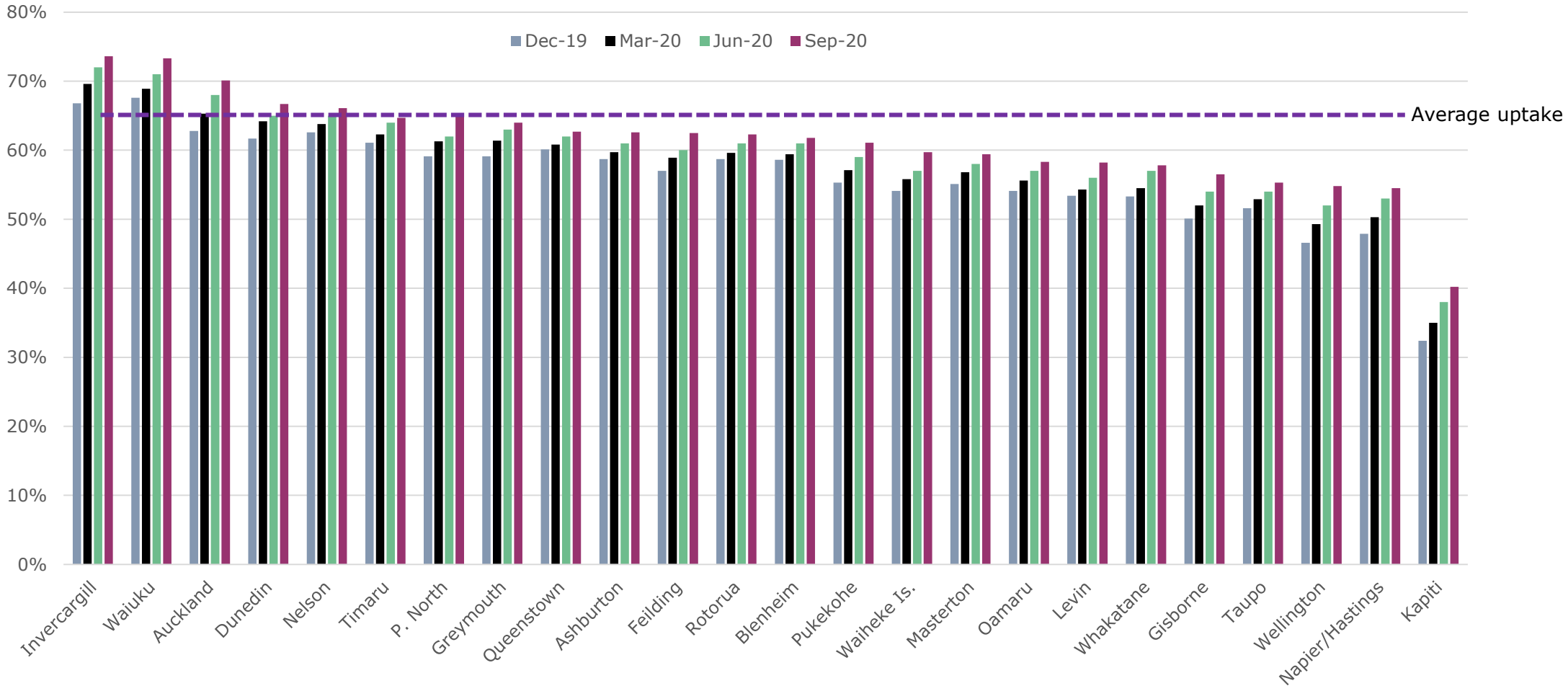
Fibre now 76% of Chorus broadband connections in planned UFB zone





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UFB1 uptake: 65%



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Making New Zealand better

We take a long term view of our network infrastructure investments and our people take pride in delivering an asset for New Zealand's ongoing social and economic betterment. Chorus is included in the Dow Jones Sustainability Australia Index.

Environment

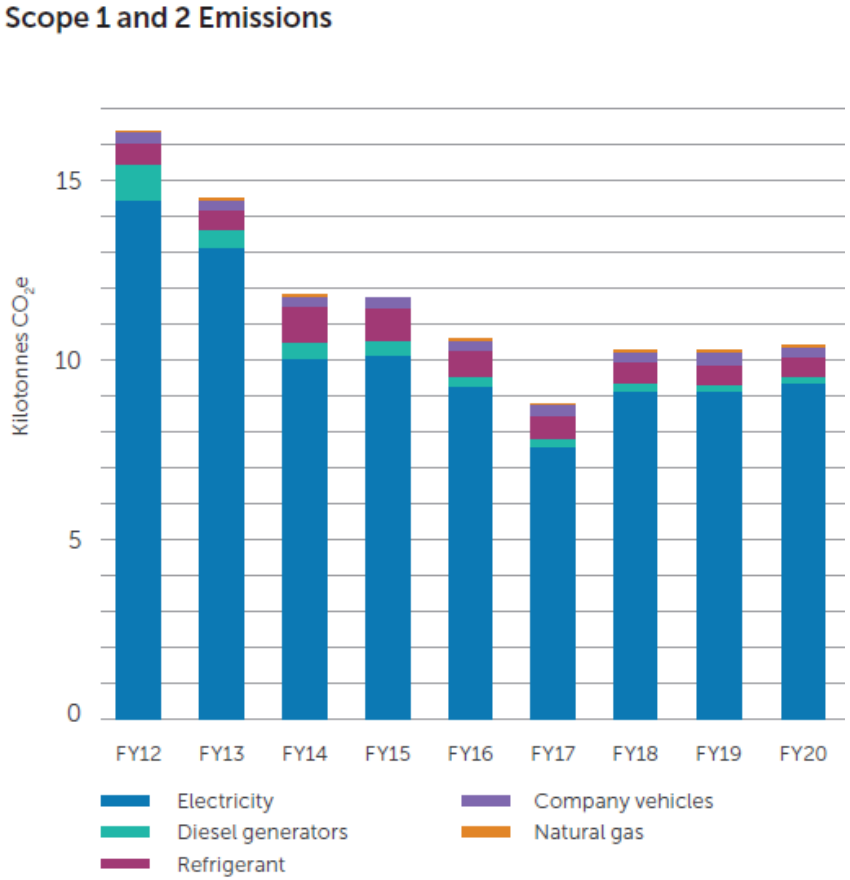
- Target of 80% reduction in scope 1 and 2 emissions, from our FY12 base year, by 2030. Achieved 37% reduction against target in FY20.
- B- rating from CDP for FY19 reporting.
- Extensive waste minimisation: 195 tonnes of waste ducting and 37 tonnes metal network components recycled in FY20.

Social

- FTTH estimated (2012) to contribute $32 billion in economic benefits to NZ over 20 years. Social benefits estimated (2017) at $2 billion annually.
- Winner of Broadband World Forum's *Broadband delivering social impact award 2018* for rural broadband rollout.
- Employee engagement 8.5 out of 10 in June 2020 (7.6 in FY19).

Governance

- Director gender ratio of 43% women, 57% men at 31 October 2020.
- Target of 40:40:20 (male:female:any/either) gender ratio achieved for Chorus' people leader community in FY20. Largest gender pay gap by career level is 4.1%. Objective to achieve 0% gender career level pay gap.
- Minimum Shareholding Policy for directors and executives introduced in 2019.
- Total Recordable Injury Frequency Rate decreased from 2.67 to 2.43 in FY20 with an overall reduction in injuries requiring medical treatment.

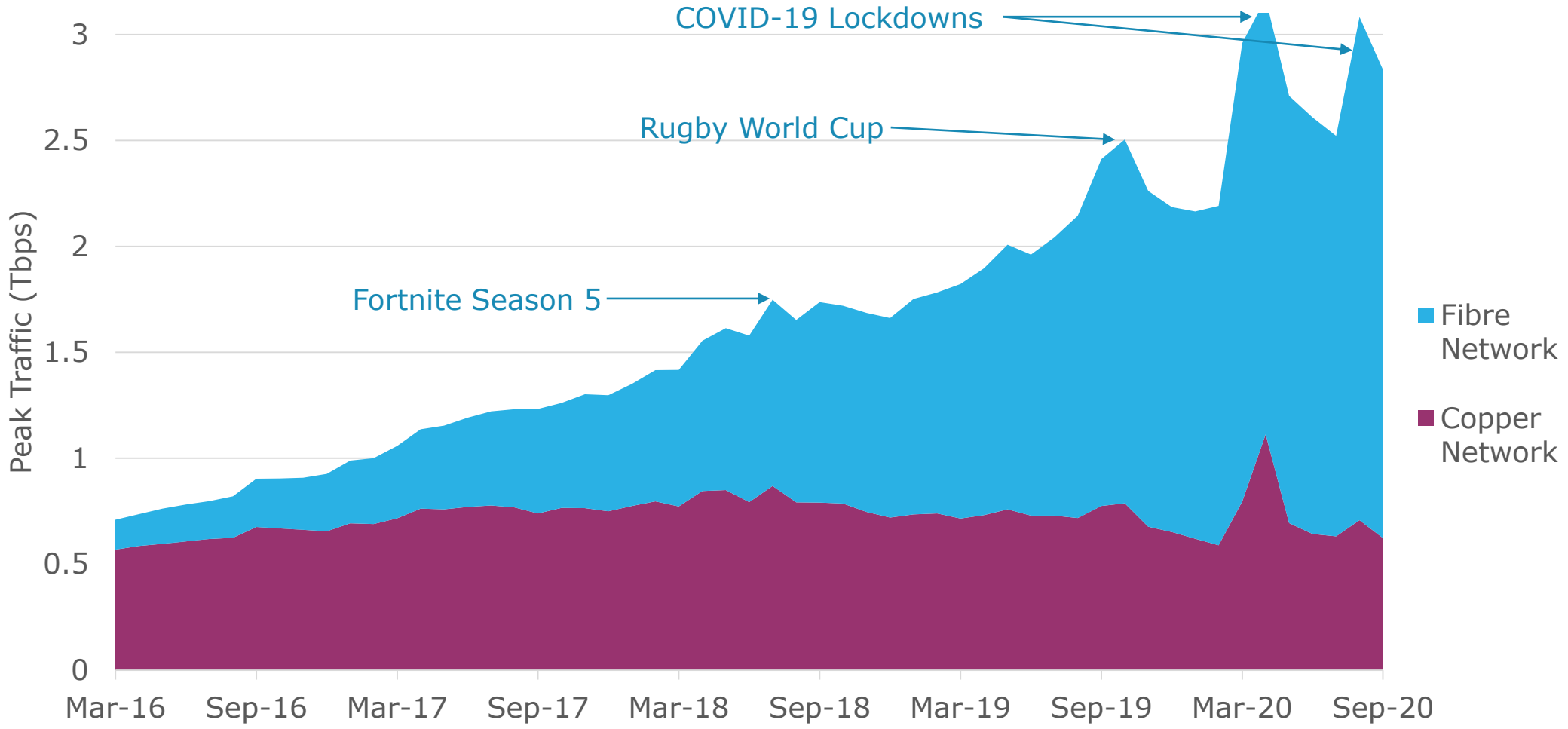


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Broadband: the 4th utility

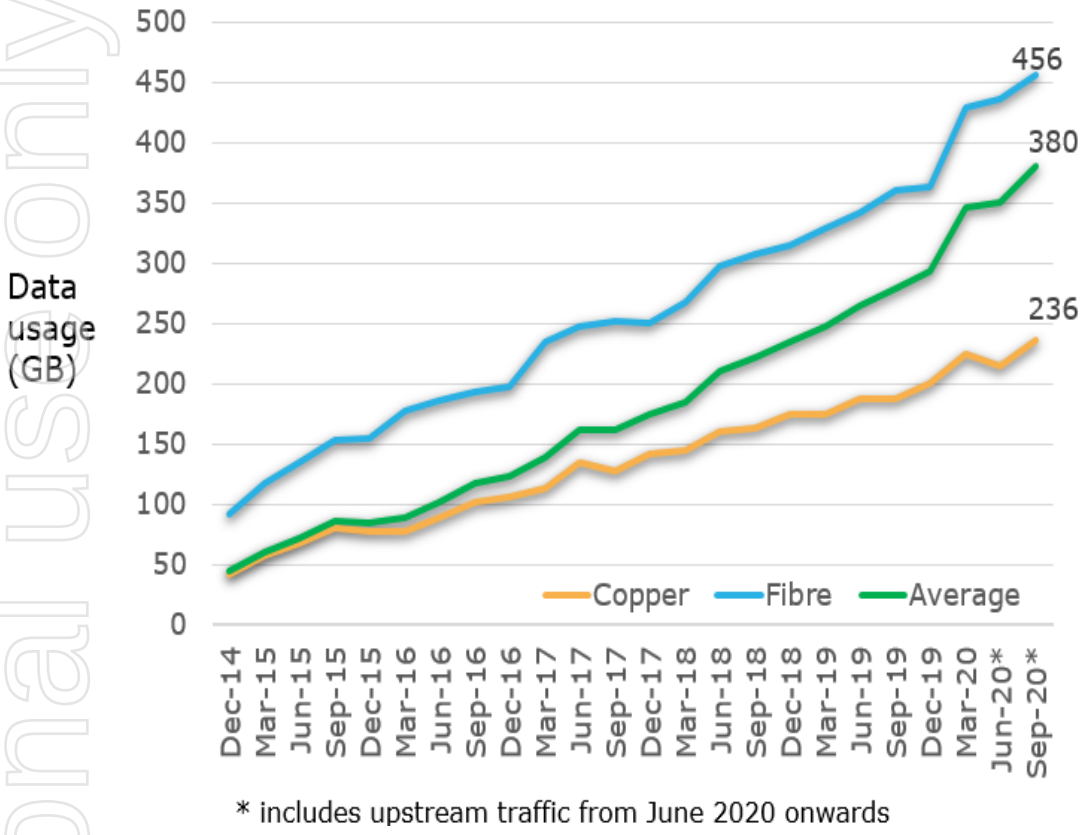
A new world of data demand



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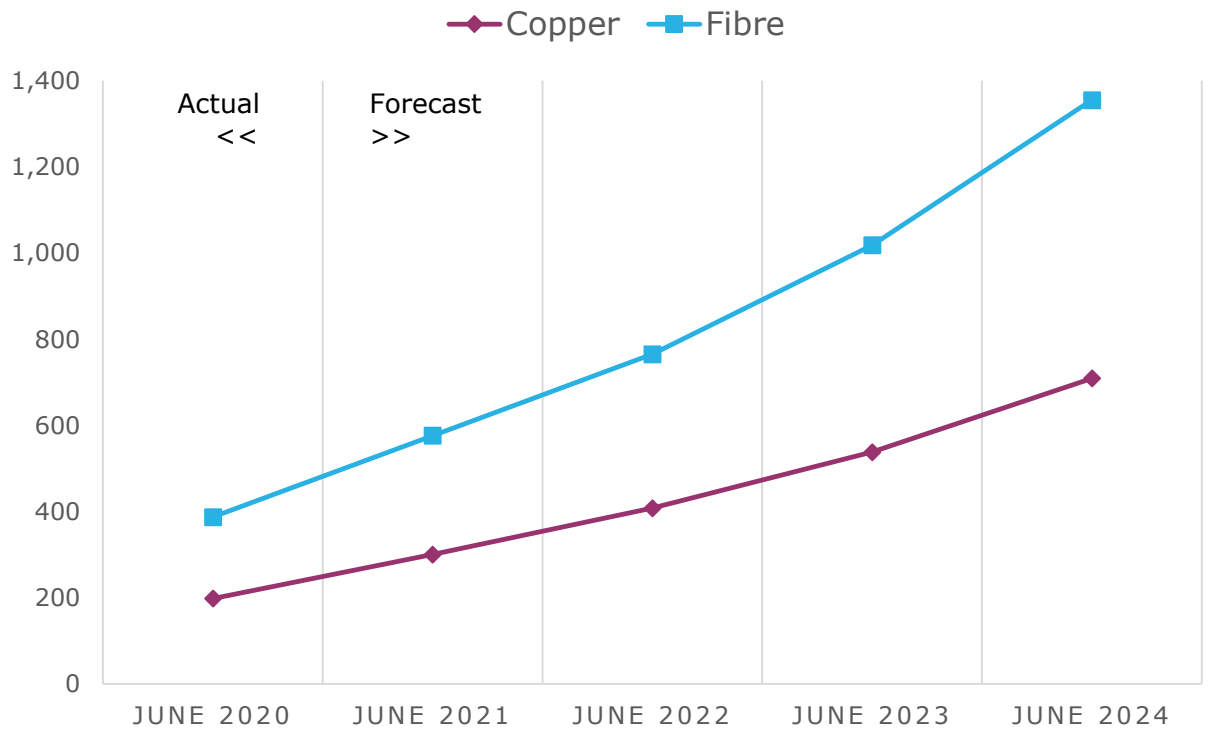
Forecasting 1,000 Gigabytes per month by 2023…

Monthly average data usage per connection on our network



* includes upstream traffic from June 2020 onwards

Chorus Forecast: Average Monthly Broadband Usage

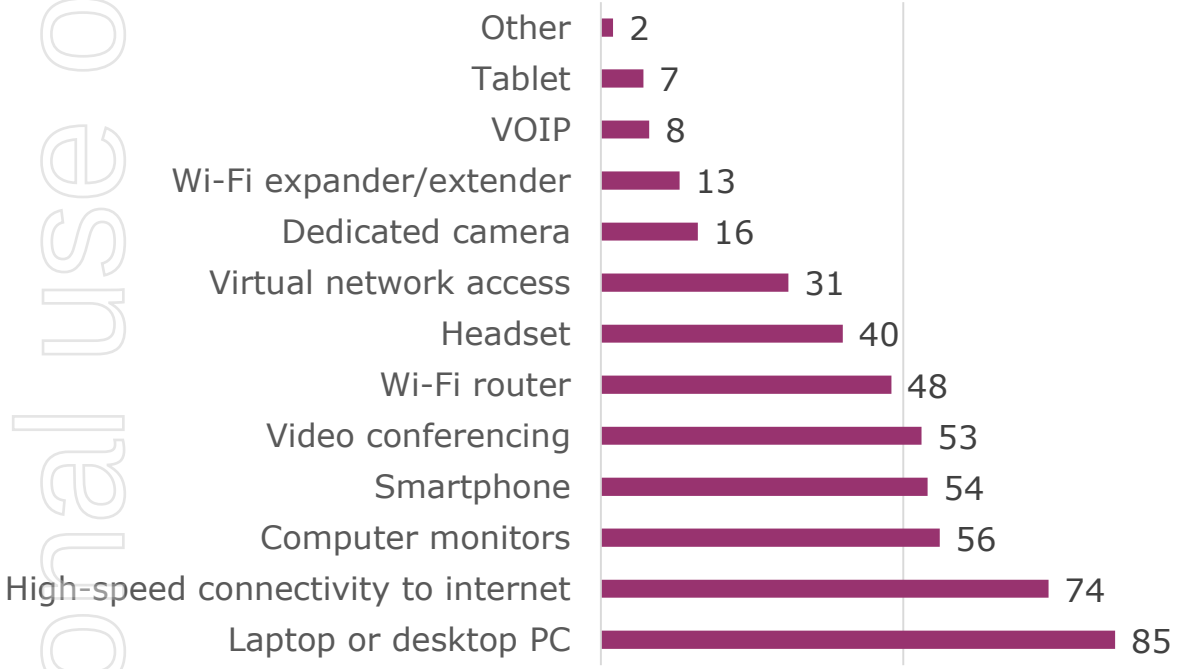


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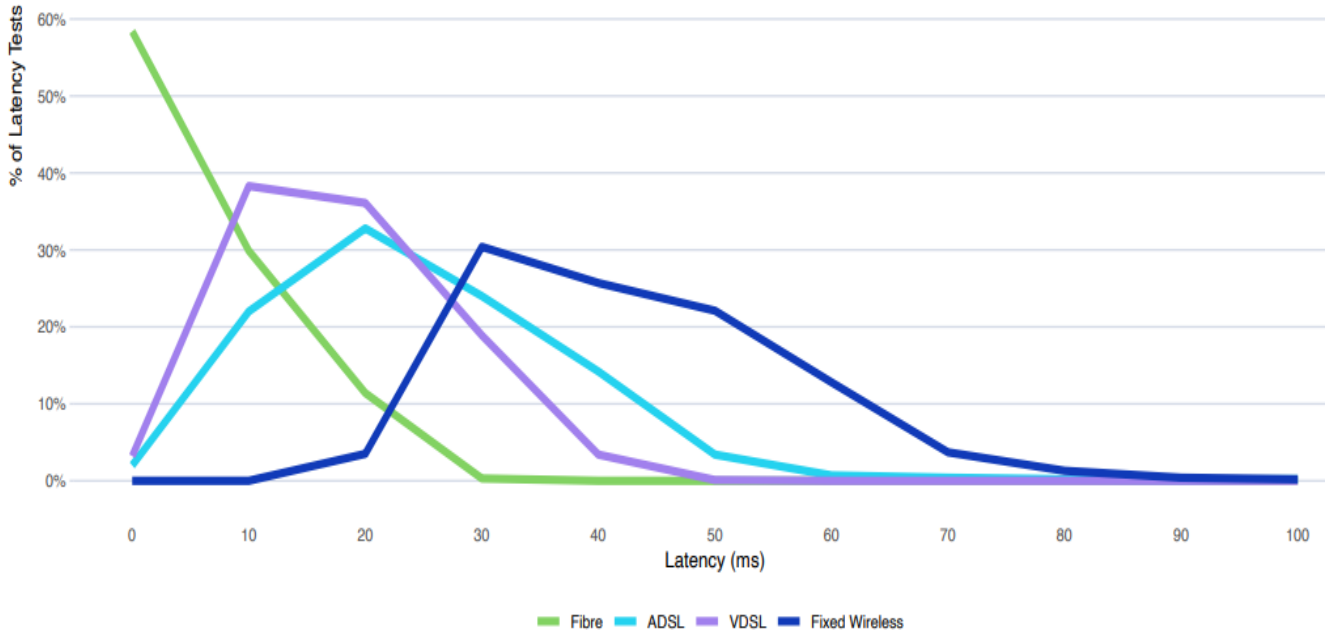
The shift to remote working

Reliable broadband becomes a necessity

Which of the following workplace technologies do you consider as 'must have' when working from home or remotely in general?



> Commerce Commission report (May 2020) noted reliability of fixed line services through lockdown vs fixed wireless (average download speeds decreased by around 25% and 96% of latency tests were above 30ms)

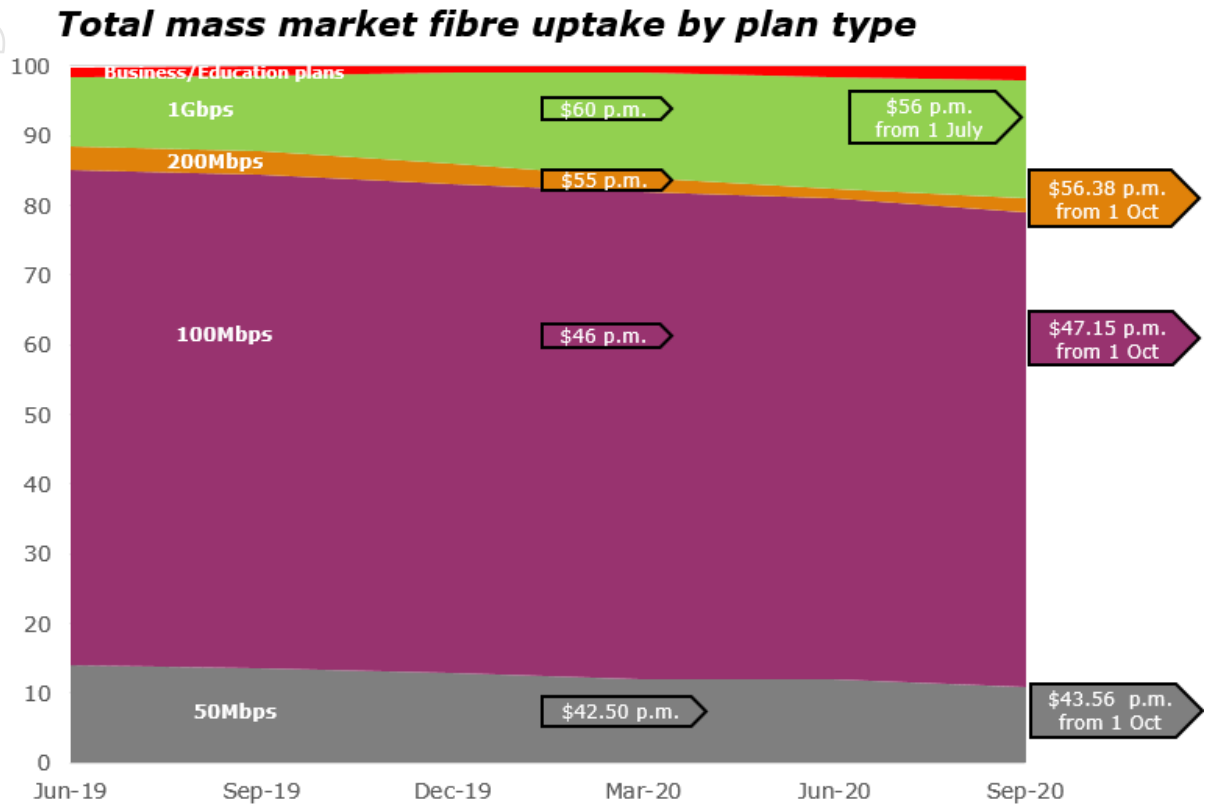


Source: *Measuring Broadband New Zealand*, Winter Report, August 2020

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Active wholesaler campaigns driving ARPU growth

Total mass market fibre uptake by plan type

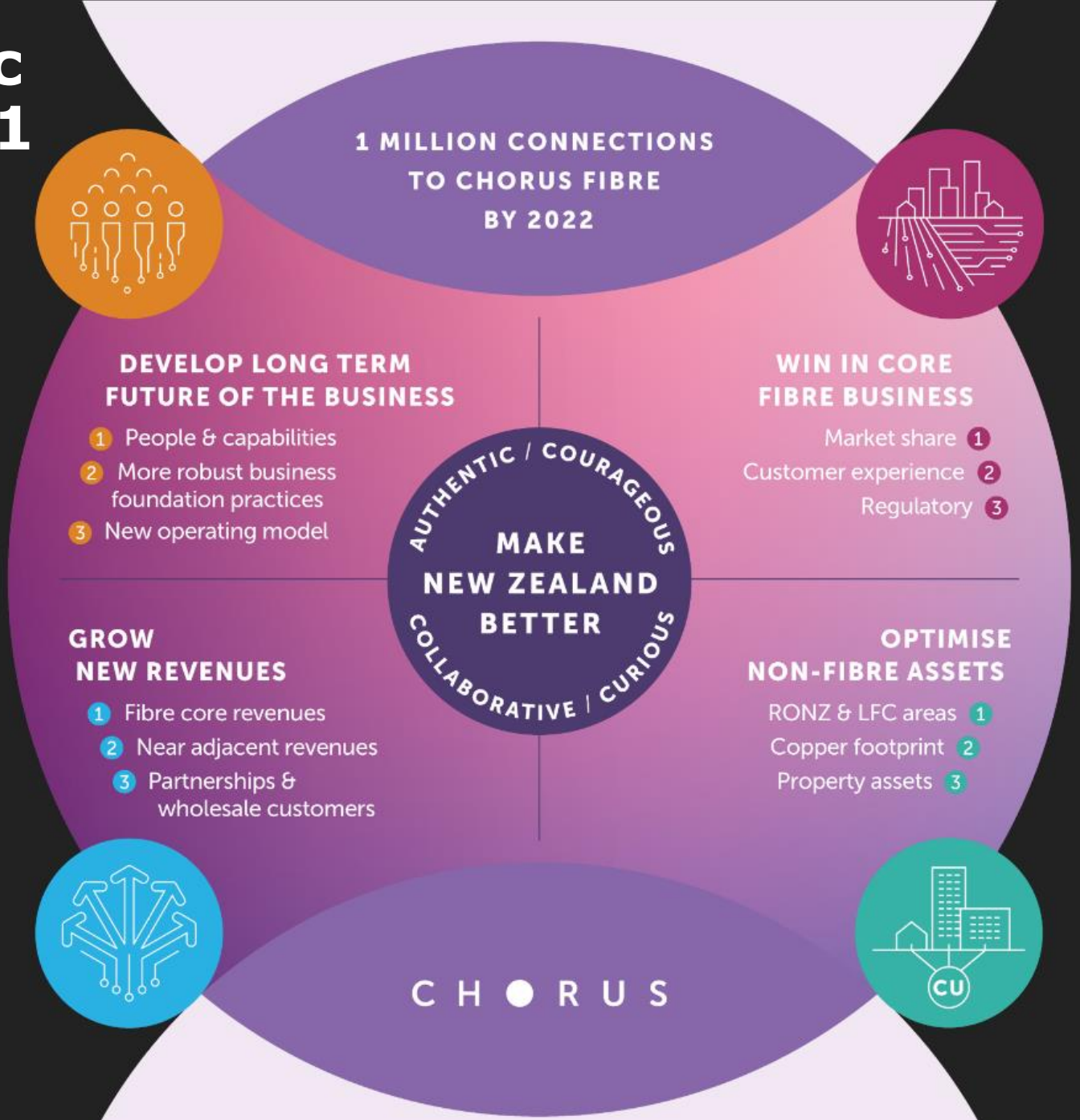


33,000 mass market fibre connections added in Q1 2020

- 1Gbps connections grew from 115k to 128k (i.e. 40% of 33k increase in total fibre connections in Q1 2020)
- 1Gbps demand represents ~20% of new fibre connection orders in recent weeks
- Small business connections grew from 3k to 4k
- UFB prices capped to 2022 with annual CPI adjustment
- New Hyperfibre products 2 & 4 Gbps services launched early 2020

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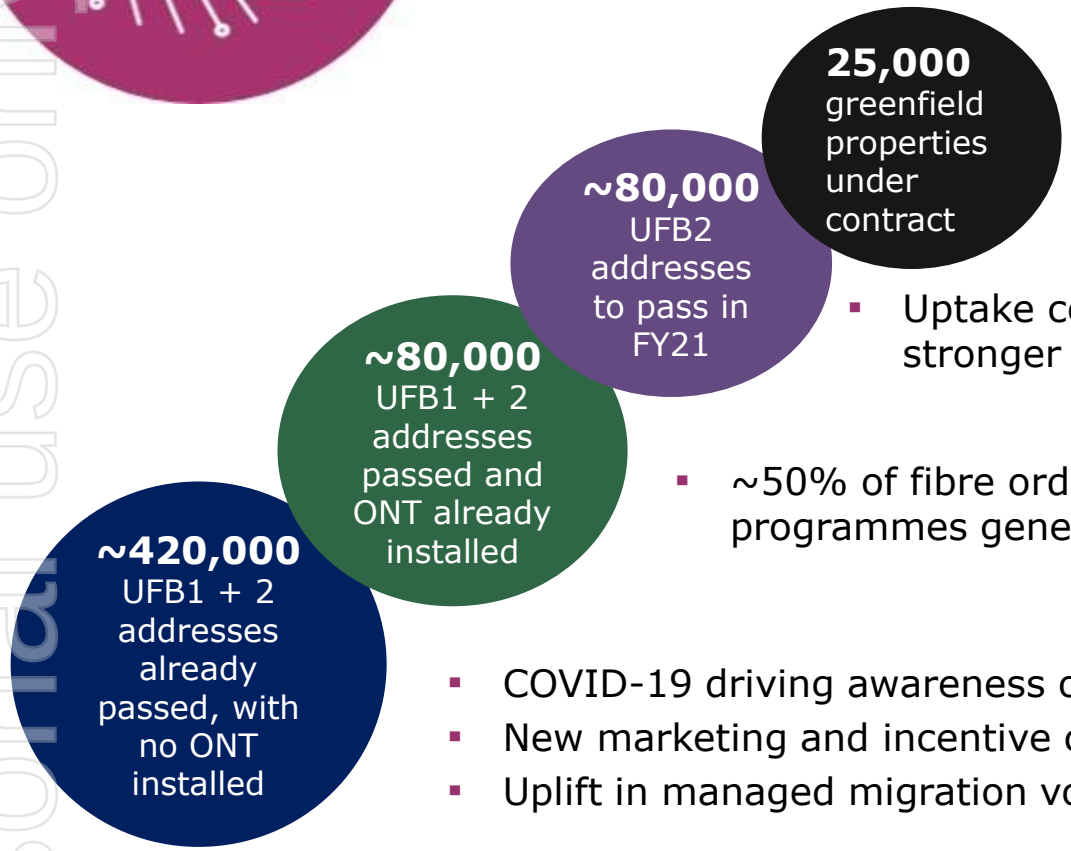
Our strategic focus in FY21



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Winning in our core fibre business

We're lifting our connections intensity in FY21



- Growth strongest in Auckland, good demand outside UFB zone
- Uptake continues to track at ~30% within 6 months of network build; stronger in some UFB2 areas (e.g. Whatawhata 80%)
- ~50% of fibre orders are now from intact addresses as our migration/incentive programmes generate new uptake and consumers move premises

- COVID-19 driving awareness of fibre reliability and capacity
- New marketing and incentive campaigns launching
- Uplift in managed migration volumes

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Regulatory Framework

Legislation passed in November 2018

87% of population where fibre will be available by end of 2022 →

Fibre access network – in Chorus UFB areas

- Revenue cap determined by Commission based on regulated asset base (RAB) and regulatory rate of return (WACC)
- Accumulated unrecovered returns on investment between 2011 and 2022 capitalised into initial RAB and recoverable in future prices
- Contracted price caps on fibre products to continue until 2022, with annual inflation adjustment. Price caps then only apply to specified 'anchor services'; fibre voice service, entry level fibre broadband service and direct fibre access services
- Unbundled fibre (commercial price) available in UFB1 areas from 2020 and UFB2 areas from 2026
- Three years after new regime commences, the Commission can review the revenue cap model and anchor products, subject to specified conditions and statutory criteria

Copper – 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 being developed by the Commission and due in December 2020

Remaining 13% of population →

Copper – where fibre is <u>not</u> 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 31 December 2025

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Overview of current RAB implementation

On 13 October and 3 November 2020, the Commerce Commission released its final Input Methodology determinations, following extensive submissions from Chorus and investors.

The determinations establish the rules that will apply to how the Maximum Allowable Revenue (MAR) will be derived.

Chorus will continue to work with the Commission through the next stage of the process where the MAR for the 3 year period from 1 January 2022 will be set.

These decisions, referred to as 'price-quality' decisions are expected in the 2nd half of 2021.

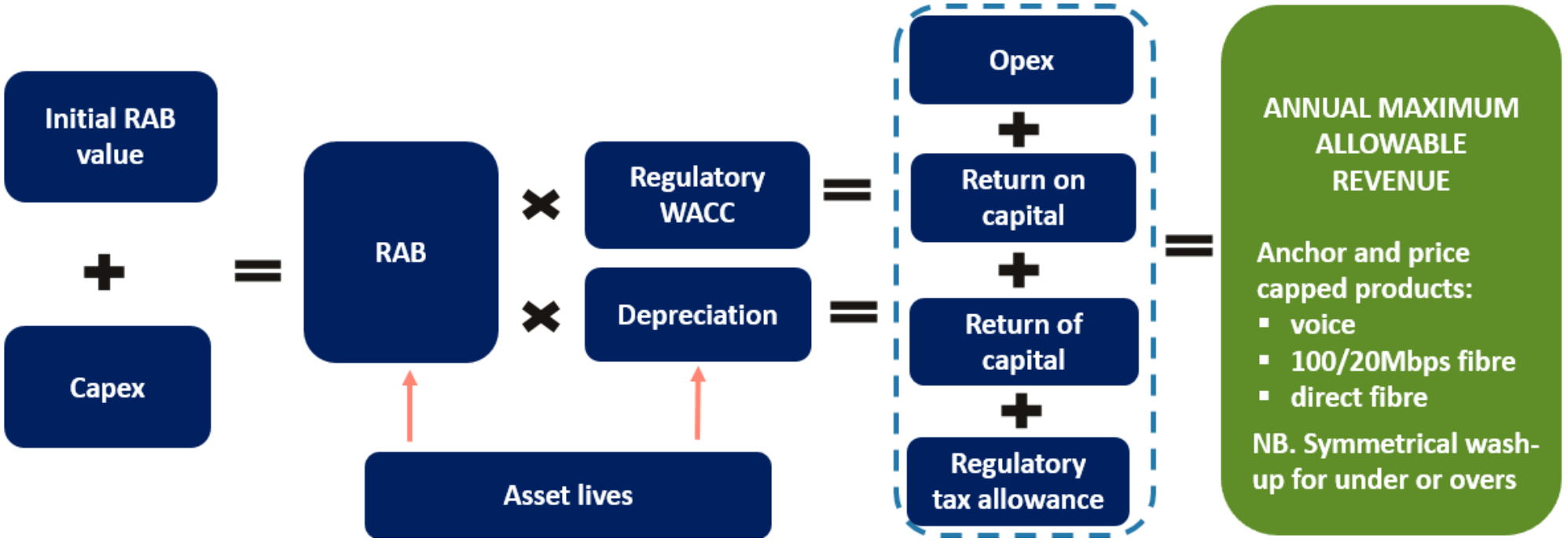
Phase	Timing	Scope
Initiation	Q4 2020 to Q1 2021	Process and approach paper
		Submissions on process and approach
		Chorus PQ information request and prososal
		Chorus PQ expenditure proposal
		Submissions on PQ expenditure proposal
		Workshop on quality of service
Draft decisions	Q2 2021	ID draft decision
		Chorus transitional PQ initial RAB draft decision
		PQ draft decision
		Submissions on all draft decisions
		Cross-submissions on all draft decisions
Final decisions	Q3 to Q4 2021	PQ WACC determination
		Final decision on Chorus expenditure
		Final PQ decision
		Final ID decision
Post-final implementation	2022	Disclosure of the initial RABs
		Determination of the financial loss asset

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Regulated Asset Base implementation

- Commerce Commission will determine the starting value of the RAB, regulatory WACC, cost allocations, expenditure allowances and maximum allowable revenue

Illustrative Only



Building block cost stack

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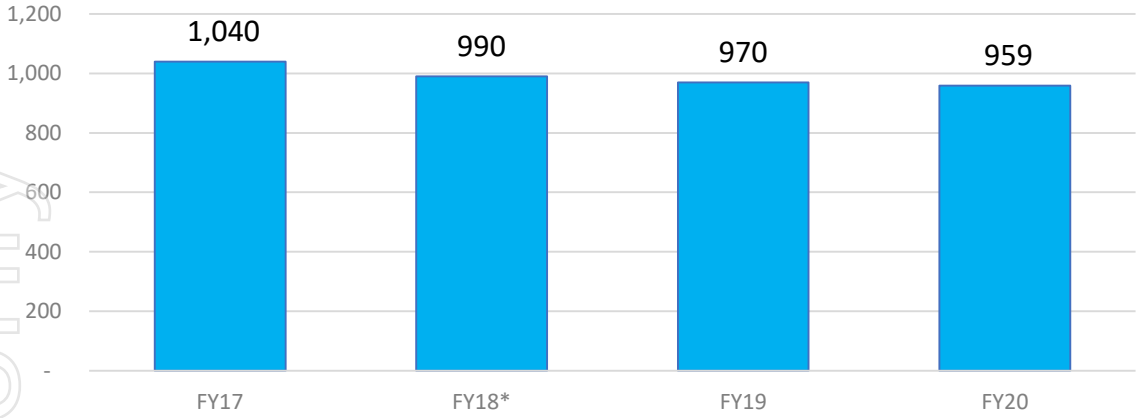
FINANCIAL HIGHLIGHTS

Financial overview and capital management

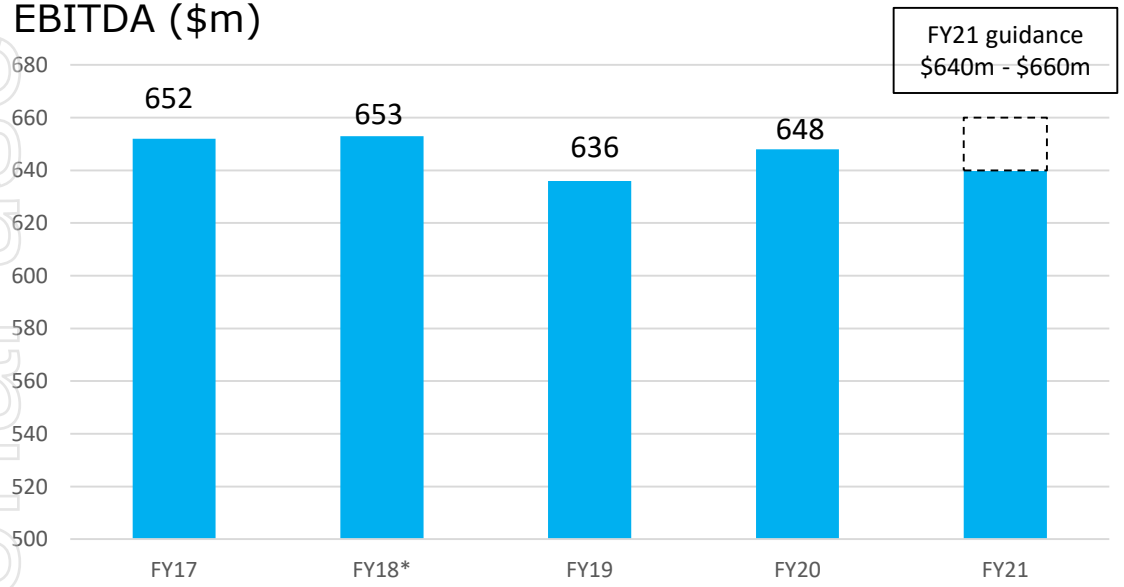


Financial snapshot

Revenue ($m)



EBITDA ($m)



* New accounting standards IFRS 9, 15 and 16 were adopted from FY18

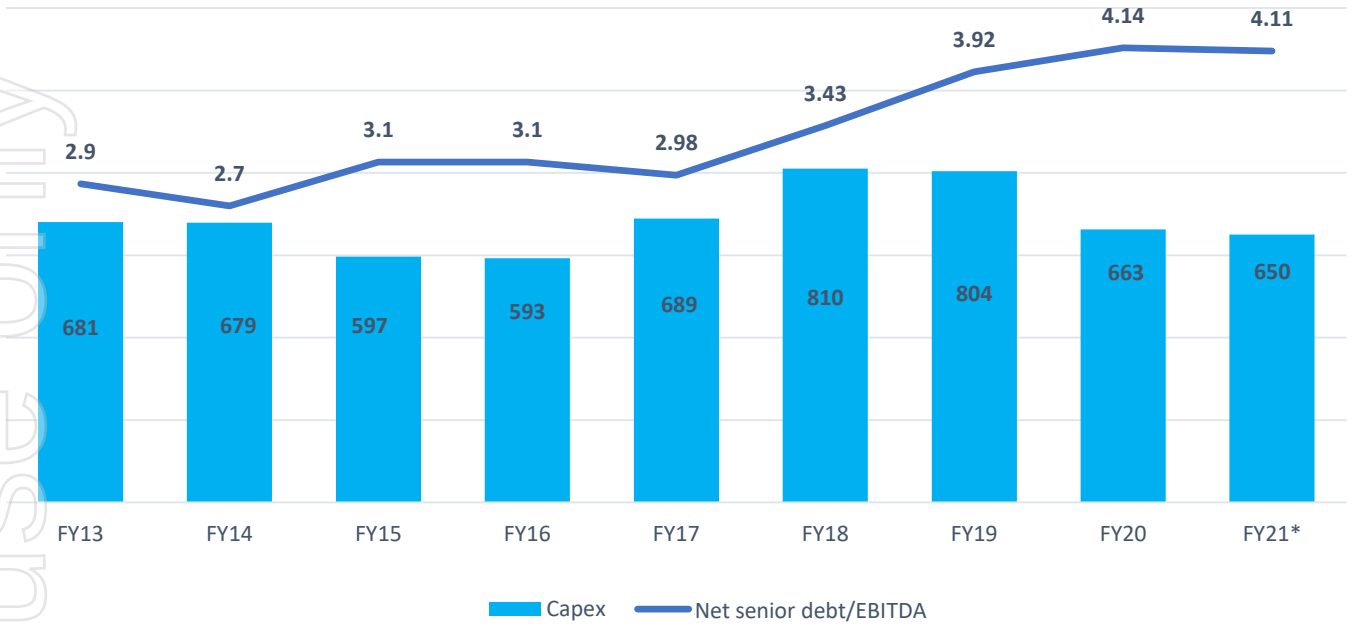
- Revenue has reduced due to:
  - copper line loss in areas where Chorus is not building the fibre network
  - fixed wireless competition
- Revenue loss partially offset by:
  - strong fibre uptake
  - customers moving to higher priced plans (e.g. 1Gbps, enhanced business plans)

- Expect continued Fibre ARPU growth
- Ongoing focus on cost reduction

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We've passed our capex peak

Capex & Leverage



* Mid guidance

Key Financial ratios:

- Bank covenant - Net Senior Debt/EBITDA 4.75x
- Credit rating downdriver - Net Senior Debt/EBITDA on a sustained basis
  - > 4.25x (S&P)
  - > 4.20x (Moody's)

- Capex peaked in FY18 & FY19, leverage peaked in FY20
- UFB1 completed in November 2019
- UFB2 scheduled to complete in CY22
- Leverage will reduce in line with lower capex/growing free cash flow in future years
- FY21 gross capex guidance:
  - $630-670m
- FY21 EBITDA guidance:
  - $640-660m

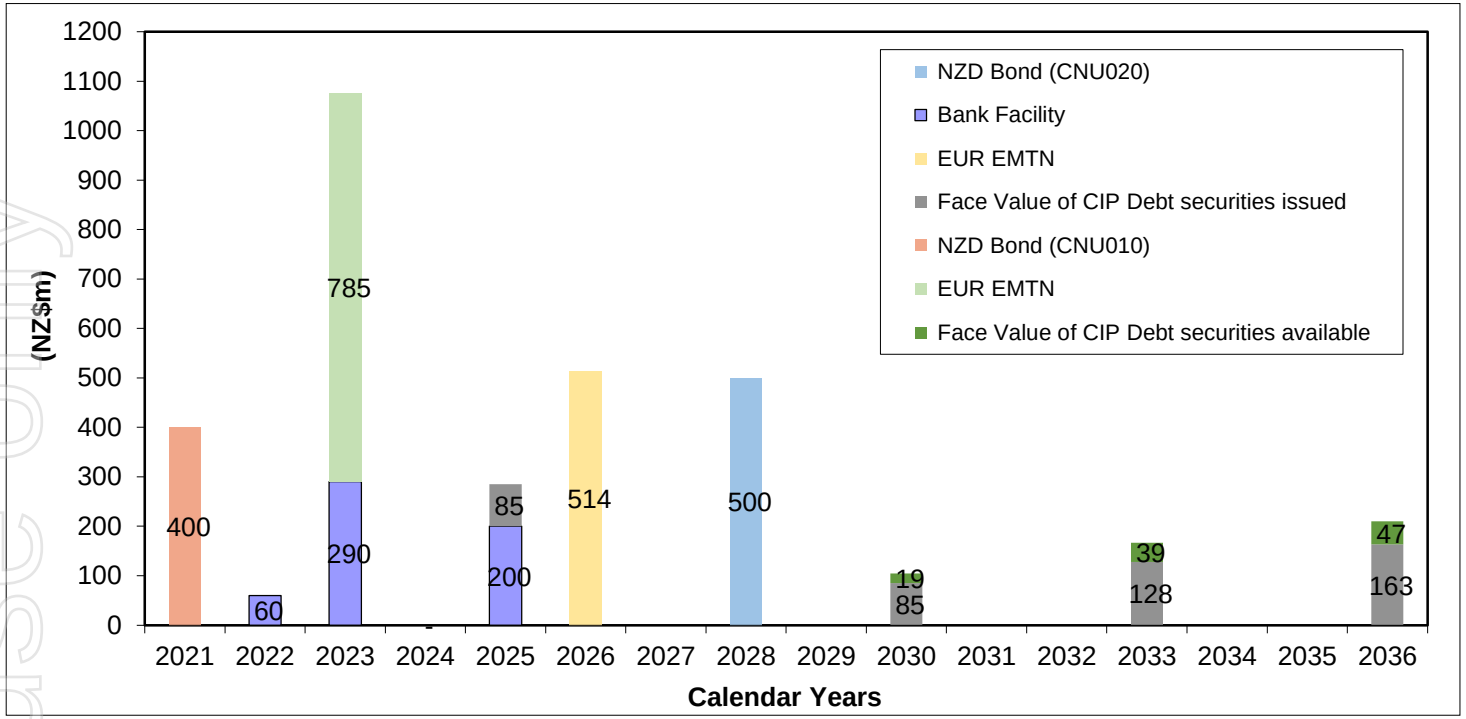
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Capital management

- Chorus Limited is rated **BBB (stable)** by S&P and **Baa2 (stable)** by Moody's
- The Chorus Board considers that a **'BBB' credit rating or equivalent is appropriate for a company such as Chorus**. We maintain capital management and financial policies consistent with these ratings
- Chorus maintains **ready access to ample liquidity** across cash balances and availability under its bank facilities, as well as remaining capacity under the arrangement with Crown Infrastructure Partners (CIP) with respect to UFB fibre rollout capex
  - Chorus can issue debt securities to CIP up to a total face value of $567m. These securities are non – interest bearing, repayable in tranches between 2025 and 2036, and rank equally with all other unsecured, unsubordinated creditors of Chorus
  - Chorus can issue equity securities to CIP up to a total face value of $767m, which pay no dividends until 2025 – at which point dividends are phased in between 2025 and 2036, and are deferrable (optional and mandatory) on a non-cumulative basis
  - To date $1,089m of securities have been issued to the Crown, leaving $245m of crown funding available
- Chorus' bank facility covenants require its net senior debt to EBITDA ratio to be **no greater than 4.75 times**

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Debt and Liquidity



Crown Financing ($m) at 31 October 2020		Drawn	Available	Total
Face Value CIP Debt Securities	UFB1 UFB2/2+	462 -	- 105	462 105
Face Value CIP Equity Securities	UFB1 UFB2/2+	462 165	- 140	462 305
Total Crown Financing		**1,089**	**245**	**1,334**

As at 31 Oct 2020, borrowings of $2,343m comprised of:

$145m	Drawn from bank facilities
$400m	NZD bond due May 2021
$784m	equivalent at hedged rates EUR500m due October 2023
$514m	equivalent at hedged rates EUR300m due December 2026
$500m	NZD bond due December 2028
$2,343m	**Total gross debt**

Bank Facilities
$ 60m May 2022
$290m April 2023
$200m April 2025
$550m

- Purpose of proposed offer is to refinance the NZ$400m May 2021 Bond
- No plans to issue further NZD bonds in 2021

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Thank you