



Annual Report 2022

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C H ● R U S

FY22 results overview

Fibre connections¹



Broadband connections¹



Fixed line connections¹



EBITDA²



Net profit after tax



Dividend



Employee engagement score⁴



Customer satisfaction



¹ Excludes partly subsidised education connections provided as part of Chorus' COVID-19 response.

² 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 performance of the core operations of our business.

³ Previously reported FY21 EBITDA and net profit after tax have been restated to reflect an ongoing change in accounting treatment of field services revenue for roadworks. Refer to page 34 of the 2022 Annual Report for the detailed accounting adjustments.

⁴ Based on the average response to four key engagement questions.

Dear investors

Our network and our people proved resilient in another operationally challenging year. Data demand and fibre uptake continued to grow, underpinning a solid financial performance. With the fibre rollout programme drawing to a close, Chorus returned to earning more than it is investing in the network for the first time in a decade.

Our objective heading into FY22 was to keep unlocking the potential of fibre by continuing to connect more people and technology to our network. COVID continued to make that difficult with lengthy lockdowns, followed by the ongoing effects of illness on our workforce and consumer activity.

Despite this, we added another 88,000 fibre connections and fibre uptake grew from 65% to 69% of addresses within our Ultra-Fast Broadband (UFB) fibre footprint. With direct contact with householders curtailed, we pivoted from suburban fibre installation campaigns to promoting activation of pre-installed fibre sockets. This helped win back a growing number of connections and kept us on track to reach one million fibre connections by the end of December.

Our 11-year public-private partnership with the Government is fast approaching its conclusion. Just 17,000 or so homes and businesses remain to have fibre built past them and this will be done by the end of December. During the year we were pleased to complete another project, largely funded by the Government's Provincial Growth Fund, to extend fibre backhaul along 250 kilometres of the South Island's West Coast. This has opened up fibre and mobile network connectivity for remote but key communities like Haast, as well as strengthening the resilience of the regional network.

Increased consumer reliance on broadband for working, streaming and learning continued to drive demand for reliable high-capacity broadband. The number of 1 gigabit per second (Gbps) connections increased to 23% of our consumer fibre connections, up from 19% last year. In December, we gave more than 600,000 homes and businesses a speed boost. Residential consumers on our most popular 100 megabit per second (Mbps) plans were able to upgrade to 300Mbps at no additional wholesale charge. We're also starting to see momentum in the number of consumers taking our next generation Hyperfibre services of 2, 4 and 8Gbps. Together, these developments are catapulting Aotearoa New Zealand up global fixed line broadband rankings.

Fibre's operational electricity needs and associated carbon emissions are lower than other broadband technologies, particularly at higher data speeds. This enabled us to support a 23% increase in data traffic with only a small uplift in total network electricity usage during the year. Total traffic across our network rose the equivalent of 1.3 billion gigabytes, to 7,140 petabytes, while monthly average household data usage for fibre consumers grew from 500GB to 567GB.

1 Currently subject to a Commerce Commission finalisation process.

In our planned fibre areas broadband connections grew by 27,000. This helped us to grow total fibre and copper broadband connections nationally by 9,000 to 1,189,000. This total excludes the 9,000 school student households we continue to support with partly subsidised broadband connections as part of a Ministry of Education COVID response. We ended the year with 1,304,000 fixed line connections, down 36,000 lines compared with a reduction of 75,000 lines in FY21. Predictably, most of this reduction was again in areas where our copper network competes with alternative fibre networks.

1 January 2022 marked our transition to a utility-style regulatory framework for fibre, replacing the contractual framework with government that had applied through the fibre rollout. After many years of discussion and implementation we now have clarity on the parameters that will shape our investment choices. These include the starting regulated asset base of \$5.4 billion¹ and our maximum allowable revenue for the next three years, which includes some allowance for inflation.

The new framework also brings a regulatory focus on quality of service and customer satisfaction. Customer experience has been a priority we've worked to embed within our organisation for many years. In FY22 this included implementing a new fibre fault restoration measure and continuing to work on improving the fibre connection experience for homes with an existing or 'intact' fibre socket. While we achieved a strong result on the first measure at 8.2 out of 10, there's plenty more to do to lift the intact experience from 7.3 out of 10.

Our employees spent much of the year working from home because of COVID restrictions and its flow-on effects. They continue to embrace flexible working with our current policy that they can work up to three days a week at home. Given this and our desire to create a more adaptive organisation, we've moved to a hot-desking model and reduced our office footprint both in Auckland and Wellington. Even in the context of a challenging year and continual change, our employee engagement score remained consistent at 8.5 out of ten and our net promoter score increased from 62 to 64.

Continued strong growth in demand for fibre broadband delivered underlying revenue of \$959 million, up from restated \$955 million in FY21². Careful cost management partly mitigated inflationary and COVID pressures to achieve underlying operating expenses of \$299 million, up \$1 million from FY21. This produced underlying FY22 EBITDA of \$660 million, up \$3 million from restated FY21 EBITDA of \$657 million².

A further \$6 million of revenue from our network optimisation programme and a legal settlement, together with the release of a \$9 million holiday pay provision, achieved reported EBITDA of \$675 million. Net profit after tax was \$64 million compared to a restated total of \$51 million in FY21.²

2 Previously reported FY21 results have been restated due to an ongoing change in the accounting treatment of field services revenue for roadworks. Refer to page 34 for the detailed accounting adjustments.

COVID constraints on fibre installations and general network investment programmes saw our initial FY22 guidance of \$550 million to \$590 million capital expenditure lowered several times through the year. Final spend was \$492 million. This means we returned to positive free cash flow, earning more than we're investing in the network, for the first time since the beginning of the fibre rollout in FY12. Consequently, our borrowings at the end of FY22 were lower than expected at 4.08 times net debt to EBITDA and well within our business tolerance level of 4.75 times.

Our move to positive free cash flow enables us to increase dividend payments to shareholders. We'll pay a final unimputed dividend of 21 cents per share on 11 October 2022, bringing total dividends for FY22 to 35 cents per share. For FY23 we're increasing dividend guidance from a minimum of 40 cents per share to 42.5 cents per share. FY24 guidance has increased to a minimum of 47.5 cents per share.

We intend to continue with our share buyback programme of up to \$150 million, with about 25% of the programme already completed by 30 June 2022.

This report is dated 22 August 2022 and is signed on behalf of the Board of Chorus Limited.



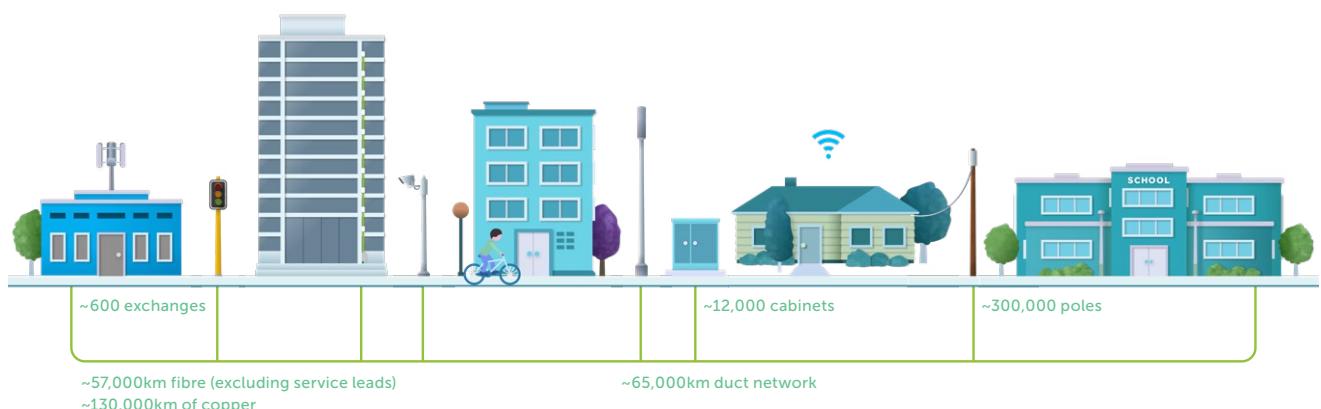
Patrick Strange
Chair



Mark Cross
Chair Audit & Risk Management Committee

Figure 1:

Our network infrastructure



We're a wholesale only, fixed line telecommunications network operator. Our network infrastructure enables 100 retail service providers to connect homes and businesses nationwide.



At 30 June 2022 we had 1,304,000 fixed line connections on our network (voice only: 103,000; broadband: 1,189,000; other: 12,000). Our network carried 7,140 petabytes of data in FY22, up from 5,823 petabytes in FY21.



We have about 800 permanent and fixed term employees and 120 independent contractors for our core operations. Our main corporate office locations are in Auckland, Hamilton, Wellington and Christchurch. Thousands of service company workers and subcontractors undertake activity on our behalf.



80% of our broadband connections are on fibre, enabling rapid growth in broadband speeds and data demand. Most connections are on 300Mbps plans, and almost a quarter on 1Gbps plans. Hyperfibre services of 2, 4 and 8Gbps are also available.



Gigabit broadband and our fibre backhaul is underpinning the development of sustainable communities through connections to devices and other network connectivity.



A 2021 study confirmed the carbon emissions profile of our fibre network stays low regardless of speed, suggesting that fibre will continue to be energy efficient as data demand grows¹.

1. <https://company chorus co nz file download download public/2314>

Delivering on our strategy in FY22

1.1 Winning in our core fibre business

We finished FY22 with 959,000 active fibre connections nationwide, up from 871,000 the year before. About 919,000 of these connections are within our planned ultra fast broadband footprint. The UFB1 and 2 projects have now made fibre available to 1.32 million homes and businesses.

Across the UFB1 area, where deployment work was completed in late 2019, fibre uptake grew from 69% to 74% of homes and businesses. Uptake in Aotearoa's largest city, Auckland, rose from 75% to 79%. In the Wellington region, where we have had historically lower market share due to the presence of an existing cable network, we saw uptake increase by another 6% to 68%.

In the smaller UFB2 communities, uptake grew from 42% to 50%, even with the rollout passing another 42,000 homes and businesses during the year.

We continued to undertake a range of in-market activity to promote uptake of fibre services. This active wholesaler approach is important because the three mobile network operators have their own commercial incentives to promote their mobile and fixed wireless network services, rather than fibre, to their incumbent customers.

The Commerce Commission's independent broadband monitoring, performed by SamKnows, continues to show that nothing beats a fibre connection when it comes to reliable, uncongested and unlimited broadband. At peak times, 4G fixed wireless delivers average download speeds of 27.5Mbps compared to 40.1Mbps for VDSL copper broadband and 309.1Mbps for fibre 300 plans.³

The report also shows the difference in latency between broadband technologies when a connection is heavily utilised. This illustrates the lag or buffering consumers

may experience, particularly when using multiple devices simultaneously or applications like video conferencing (see Figure 3). Our 1Gbps plans, defined as Fibre Max by the Commission, perform the best with the lowest latency. Given these findings, it is unsurprising that we saw uptake of 1Gbps connections on our network keep growing strongly over the year from 19% to 23% of mass market fibre connections.

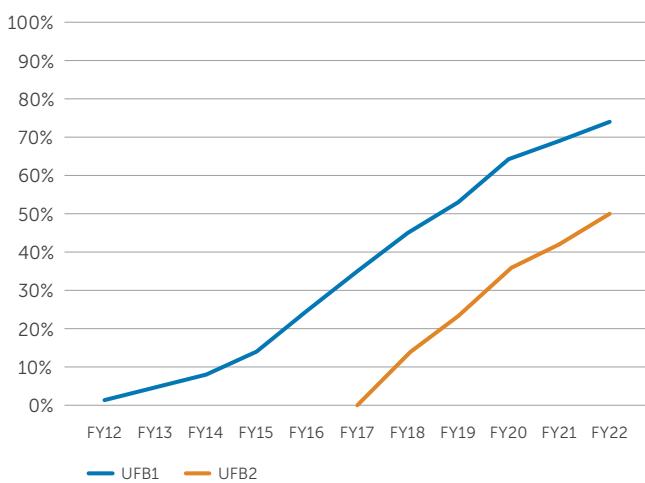
Fibre has huge potential for further advances in speed and bandwidth. We've already achieved speeds not even contemplated a decade ago with our new Hyperfibre services. In FY22, by simply changing the electronics on the end of a fibre cable to use different colours of light, we demonstrated how 25Gbps is possible on a fibre strand simultaneously carrying separate 8Gbps and 1Gbps connections.

Our in-market activity included mainstream advertising and campaigns focussed on encouraging homeowners to activate pre-installed fibre sockets. The latter activity is increasingly important as we issue more notices under our copper withdrawal programme. It also helped us continue to drive fibre growth while in-home installation activity was curtailed by COVID restrictions. About 43,000 addresses received an installation through our door knocking and direct marketing efforts, down from 61,000 last year. However, connections generated through our migration programme installations grew from 30,000 in FY21 to 32,000 in FY22.

Another important tool is incentives for retailers to migrate 'late adopters' from copper to fibre. In April 2022, for example, we introduced a \$75 credit for each eligible connection migrated on to our new Home Fibre Starter plan. The plan provides 50Mbps download speeds and is wholesaled at a reduced rate of \$38 if retailers sell it at, or below, a retail price cap of \$60.

Figure 2:

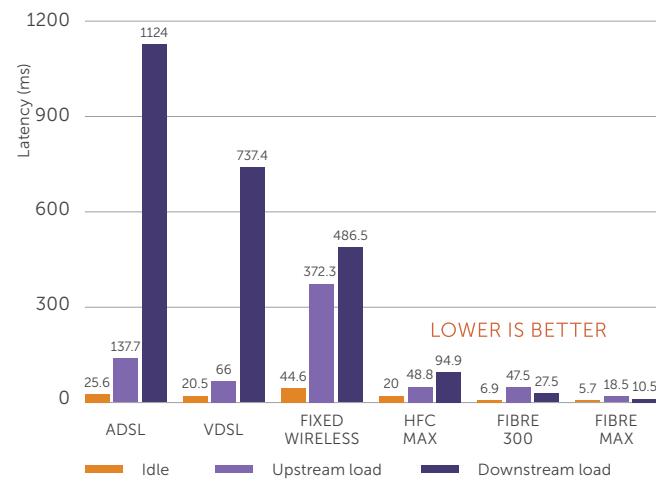
Fibre uptake – UFB rollout



3 Measuring Broadband New Zealand, Autumn Report, June 2022, Figure 1.

Figure 3:

Average latency under load to test servers by plan



Source: Commerce Commission data, Measuring Broadband New Zealand, Autumn Report, June 2022, Figure 10. Averages of monthly household averages.

We completed our largest-ever performance upgrade for fibre consumers in December 2021. Working closely with broadband retailers we migrated residential consumers on our most popular 100Mbps plan to 300Mbps download. This was at no additional wholesale cost to the consumer. In recognition of the increased importance of upload speed for remote working and cloud-based applications we increased the upload capability from 20Mbps to 100Mbps. Kiwi businesses also benefited with 'Business Evolve' 100/100Mbps plans and 'Small Business Fibre' 100/100Mbps plans moving to download and upload speeds of 300/300Mbps and 500/500Mbps, respectively.

With more than 600,000 homes and businesses receiving broadband speed increases through our fibre boost, Aotearoa catapulted from 22nd place to 11th on the Ookla Global Speed Test Index in December.

Another significant development was the Commission's request that retailers improve their broadband marketing. This is something we had advocated for because of the consumer confusion we'd seen about the status of the copper network and the broadband choices available to them. The New Zealand Telecommunications Forum adopted the Commission's recommendations and developed two industry codes that require retailers to:

- obtain express consent from consumers for a change in their telco service
- provide at least four months' notice where a copper service is being withdrawn (note: Chorus is required to provide six months' notice)
- give clear, accurate and up-to-date information about service performance measures, with reporting of actual likely peak time broadband speed of their broadband service

We believe this will help ensure a more level playing field for network competition and improve outcomes for consumers. We've adopted relevant elements of the code in our own marketing.

Customer satisfaction with fibre fault restoration was a new focus area for the year. We were pleased to lift the score from 8.1 in June 2021 to a rolling three-month average of 8.2 by March, just above our 8.1 target. We achieved this strong result by working closely with individual retailers to develop tailored improvement plans. Technician performance is an important contributor to the score and technicians continued to be rated very highly. The length of time taken to resolve the fault is another key driver.

The last quarter saw satisfaction rates drop back slightly to 7.9. We had expected some effect from changes in our service company contracts, but this has been compounded by a combination of factors including weather events, technician illness and broader workforce constraints. We're working closely with service companies to return performance to previous levels.

Our other area of focus was the connection experience of consumers seeking to activate a fibre service in premises where a fibre socket is already installed or 'intact'. Satisfaction scores remained consistent with FY21, averaging 7.5 for the first half of the year, before slipping to 7.3. This was below our target of 7.7 despite a number of initiatives to better support retailers and consumers. These included texting consumers with set-up information prior to their connection date and creating a specific handling process for complex scenarios.

An initiative to enable a new connection to be ordered while an existing connection remains active at the same address is expected to drive further performance improvements when it is fully adopted by retailers.

1.2 Growing new revenues

A significant part of our focus in FY22 was the simplification of our business product portfolio. We reduced more than 400 historical product variants down to a core portfolio of just 13 to better reflect current retailer focus and consumer demand. This has reduced unnecessary complexity and will drive system efficiencies.

In parallel with this programme of work, we continued to sharpen our product proposition for business customers. As part of our fibre boost initiative in December, noted above, we increased the upload speeds on business plans so that they were the same as the download capability. This shift to a symmetrical product recognises the different needs of businesses, particularly for upload capacity, as reliance on data and cloud-based activity grows. These changes helped grow business fibre connections by 12% in FY22 and we estimate approximately three-quarters of the business market, excluding small/home offices, have moved to fibre.

COVID slowed our plan to expand our EdgeCentre offering to another Auckland exchange. During the year there were public announcements by several operators about planned data centre developments. These and the international trends we see continue to reinforce our view that our exchange space can play a role in supporting the growing shift in cloud computing services to network edges. The peering and data centre backhaul products we launched in FY21 are also supporting these developments.

An exciting new product to come out of our innovation programme uses our fibre network to help electricity line companies identify the geographic impact of power outages. Called PowerSense, the service collects 'last-gasp' signals from fibre terminals in customer premises to identify when a home or business loses electricity in near real-time. This can give the local lines company better visibility of outages and support faster restoration.

Figure 4:

Summary of key market trends

Our market drivers	What we're focussed on
Large vertically integrated retailers are encouraging customers to use their own fixed wireless, cable and legacy fibre networks to reduce their wholesale network costs.	We're an active wholesaler, promoting our extensive broadband footprint through advertising, retailer campaigns and our own door knocking initiatives. Our network supports about 100 retailers, including new entrants from the electricity and pay TV sectors. COVID-19 has accelerated consumer demand for high capacity and low latency connections.
Competing fibre companies have overbuilt our existing copper network with fibre as part of the Government's UFB programme.	We're optimising our business in these competing areas and maximising our broadband share in other areas experiencing premises growth, particularly Auckland.
Traditional voice only connections are declining with changing demographics and wireless service options.	Broadband penetration is growing, but at a slower rate due to the market effects of COVID-19 (e.g. negative migration). We're commercialising new potential revenue streams identified by our innovation programme, such as data centres and smart city connectivity.
Technology keeps evolving, with 5G potentially enhancing the capability of mobile/wireless technologies as a fixed line alternative for low data users.	Fibre is recognised as providing highly reliable broadband, particularly at peak usage times. About 23% of our fibre consumers are on 1Gbps services and we've launched <i>Hyperfibre</i> products up to 8Gbps. We're forecasting average monthly data usage of 1,000GB by 2025. We see 5G as complementary technology likely to require more cellsites needing fibre backhaul.

1.3 Optimising our non-fibre assets

We have a number of programmes underway to ensure we're optimising our non-fibre assets as more consumers migrate to fibre.

We realised significant savings in FY22 from our ongoing efforts to rationalise our legacy network equipment in Spark exchanges. We also gained \$3 million following our exit from another 14 properties and surplus leases, with subdivision plans now well advanced for more properties.

Our copper withdrawal team progressed from small scale trials in FY21, with about 1,100 addresses notified across 129 cabinets, to approximately 10,100 addresses notified across 580 cabinets by the end of FY22. We deactivated services at 84 cabinets after COVID delayed withdrawal activity in some areas. We'll continue to focus on cabinets and cables where customer numbers are low and maintenance costs are high. Addresses where fibre has already been installed but isn't yet activated will also become more of a priority.

With fibre only available to about 87% of the population, our copper network continues to connect a large customer base across much of rural Aotearoa. We recognise the importance of this network for remote communities and are committed to fulfilling our service obligations. We also keep looking for ways to improve rural broadband coverage, but this typically requires government support to make it economically feasible.

During FY22, government funding through the Provincial Growth Fund did help us complete the rollout of 250 kilometres of fibre backhaul along a remote area of the South Island's West Coast. This enabled fibre and mobile services to very small communities like Haast, as well as providing a new diverse route to help maintain services to the West Coast in future extreme weather events. In FY23 we're partnering with government again to extend VDSL coverage to 32 rural broadband cabinets.

Recent market developments and regulatory settings have made it less economic for us to invest in rural network upgrades. For example, we're required to provide our copper and fibre services at urban prices to even the most remote customers, while fixed wireless providers subsidised by government can charge higher rural prices and are only covering the easier to serve customers. As demand for these wireless and low earth orbit satellite services shows, rural customers are prepared to pay for decent broadband. What might be achieved if fibre could compete on a level playing field?

1.4 Developing the long-term future of the business

With the introduction of a new regulatory regime and a more operational phase in Chorus' evolution, we've taken the opportunity to put renewed emphasis on the kind of organisation we want to be to thrive into the future.

We continued to drive adaptive practices and the use of cross-functional teams to help deliver some of our strategic goals in FY22. This gave our people the opportunity to develop new skills and collaborate more widely. The shift to hot-desking across our Wellington and Auckland offices is helping embed these benefits and builds on the flexible work practices our people have embraced in response to COVID.

We made progress towards our target of a 40:40:20⁴ gender ratio with 38% women and 62% men in people leadership roles at year end. That was up from 36% women in FY21. We achieved our goal of a career level pay gap no greater than -2% in eight of our nine career levels. In six of the nine career levels, on average females are paid higher than males. We were also pleased to see our Māori and Pasifika employee population increase from 5% to 8%, but we acknowledge they continue to be under-represented.

Thriving people is part of our broader sustainability strategy that includes a focus on ensuring a thriving environment and working to champion digital futures. Our 2022 Sustainability Report puts a spotlight on our efforts to reduce our carbon footprint with a new Science Based Target of a 62% reduction in our Scope 1 and 2 emissions by 2030, from 2020 levels.

To help achieve this we've prepared our first Emissions Reduction Plan. Electricity makes up more than 90% of our Scope 1 and 2 emissions and we're targeting a 25% reduction in electricity consumption by 2030, from 2020 levels. This is possible because fibre broadband requires less powered

4 40% men, 40% women and 20% of any/either gender.

equipment than other technologies. Sapere Research Group⁵ found that an entry-level fibre plan, operating at 50Mbps, is up to 41 per cent more efficient than copper VDSL broadband and up to 56 per cent more efficient than 4G fixed wireless.

The low carbon emissions profile of fibre stays consistent as speeds increase while the emissions for alternative technologies increase with speed. For higher speed plans, around 300Mbps, fibre is up to 29 per cent more efficient than Hybrid Fibre Coaxial, and up to 77 per cent more efficient than 5G fixed wireless.

In April we moved to new service company agreements for the build, maintenance and connection to our copper and fibre network. With the fibre rollout coming to an end and new fibre installation volumes expected to slow, we worked closely with our service companies beforehand to co-design a new framework that appropriately balances customer experience, cost and industry sustainability. The worker welfare requirements of our supplier code of practice were also an important feature.

Ultimately, this process saw us consolidate the number of service companies from three to two, with Downer and UCG the successful bidders. The Downer contract is for three years for all services. UCG's contract is for seven years for all services in Auckland, Northland and the Waikato and three years for fibre connect elsewhere in the country.

The agreements provide a platform for the ongoing simplification of our business and enhancement of customers' experience as they connect to the network or have faults repaired. To underpin this, we've begun implementing a single IT gateway we use to process activity between us and the service companies. This will help us move off multiple legacy systems and enable us to provide retailers and consumers with improved information.

5 See our sustainability webpage at company.chorus.co.nz/sustainability for the full Sapere Research Group report

Figure 5:

Our sustainability strategic pillars

Our focus on Sustainability is guided by Kaitiakitanga (environmental guardianship) and Manaakitanga (acts of giving and caring for). Sustainability is at the very heart of Chorus.

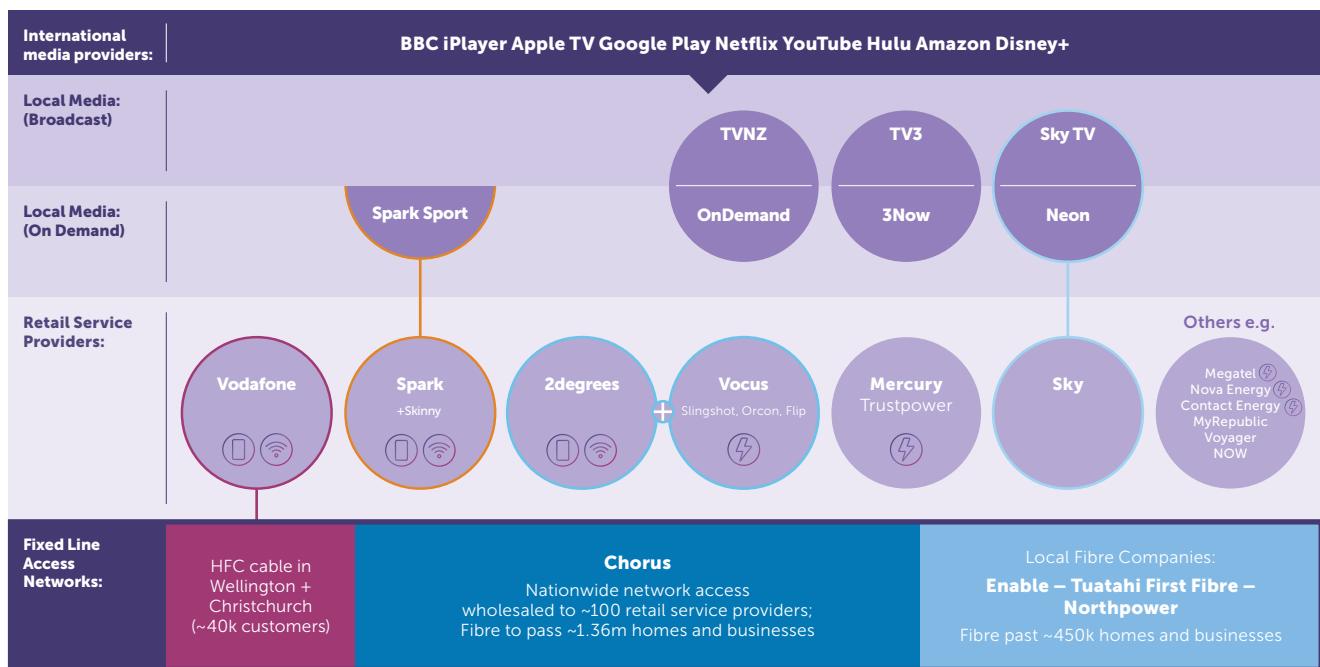


The New Zealand market

Figure 6:

The New Zealand fixed line market

Rationalisation, new entrants and new business models are disrupting the New Zealand market.



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

COVID-19 slowed overall growth of Aotearoa's broadband market, increasing competitive intensity between the 100 or so broadband retailers. FY22 has featured retailer consolidation and new entrant retailers continuing to grow market share. This reflects the way our open access network fosters competition, enabling all retailers to offer services on an equivalent basis.

2.1 Bundling of complementary services

Retailers bundling electricity or pay TV with broadband services continued to gain a growing share of fibre uptake from traditional telcos.

Contact Energy has gained 71,000 broadband customers since entering the market in 2017, representing about 16% of its electricity customer connections. In June 2022, Mercury Energy became the latest power retailer to bundle broadband. This follows their acquisition of Trustpower, already the fifth largest electricity and broadband retailer. With almost 600,000 electricity customers, Mercury's scale is expected to drive more broadband bundling momentum.

Vocus New Zealand has been offering electricity to its telco customers for some time and recently broadened its offer to include insurance services. The convergence between

electricity and broadband is also becoming a feature in Australia with Telstra, the national telecommunications incumbent, adopting a strategic goal of becoming a top five energy retailer by 2025.

Sky TV entered the broadband market in FY21 and has a three-year target of achieving 3% to 5% market share. While their initial bundling focus is on their more than half a million Sky Box customers, they also report more than 400,000 streaming customers.

2.2 Mobile networks and fixed wireless

FY22 has also seen significant developments in the ownership of traditional telcos.

The third mobile network operator, 2degrees, merged with broadband retailer Vocus NZ. This makes the combined entity, operating as 2degrees, the third largest telco behind Spark and Vodafone.

International tower ownership trends also reached Aotearoa with Spark announcing in July 2022 that it intends to sell a 70% interest in its tower unit to Ontario Teachers' Pension Plan Board. The deal covers 1,263 towers with a build commitment of 670 sites over the next 10 years. Vodafone announced shortly after that it intends to sell an 80% interest in its 1,484 towers to Infrared Capital Partners and Northleaf Capital Partners with plans to add 390 more sites over the next decade.

The funds released by tower deals may assist mobile network operators with the very large investment needed to fund spectrum, equipment and sites for any wider rollout of 5G services. To date, the availability of 5G varies widely between each network operator and tends to be limited to main centres.

The Commission reported there were 276,000 customers on fixed wireless in 2020/21, representing about 15% of all internet connections. Fixed wireless uptake is subject to competition with fibre and copper services promoted by a wide range of retailers, as well as between the fixed wireless providers themselves.

2.3 Data demand

Data traffic on our network during the evening period is marching ever upwards, driven by consumer adoption of online streaming services and gaming, and by the proliferation of internet users and devices within a home. A new record for peak time traffic of 4.2 terabits per second (Tbps) was set in March when a Fortnite gaming update was released. Average peak time traffic grew by 18% during the year to 3.3 terabits per second (see Figure 7).

We saw the lockdowns and other public restrictions in late 2021 ramp up average data usage on fibre to record highs of more than 600GB per month. Average monthly data usage grew by 18% through FY22 from 432GB to 508GB. Fibre consumers were using an average of 567GB a month in June 2022, up from 500GB in June last year (see Figure 8). Copper data usage is reducing as copper connections reduce, although average monthly data usage for copper consumers still grew from 254GB to 282GB during the year.

Average monthly data usage per customer remains on track to reach our previous forecast of 1,000GB by 2025. Looking further out, we estimate usage will exceed more than 4,000GB per month by 2033, with peak throughput on our network reaching 28Tbps. These forecasts are consistent with the projected increases of other international broadband network operators.

Figure 7:

Average daily internet usage across the Chorus network 2018 – 2022

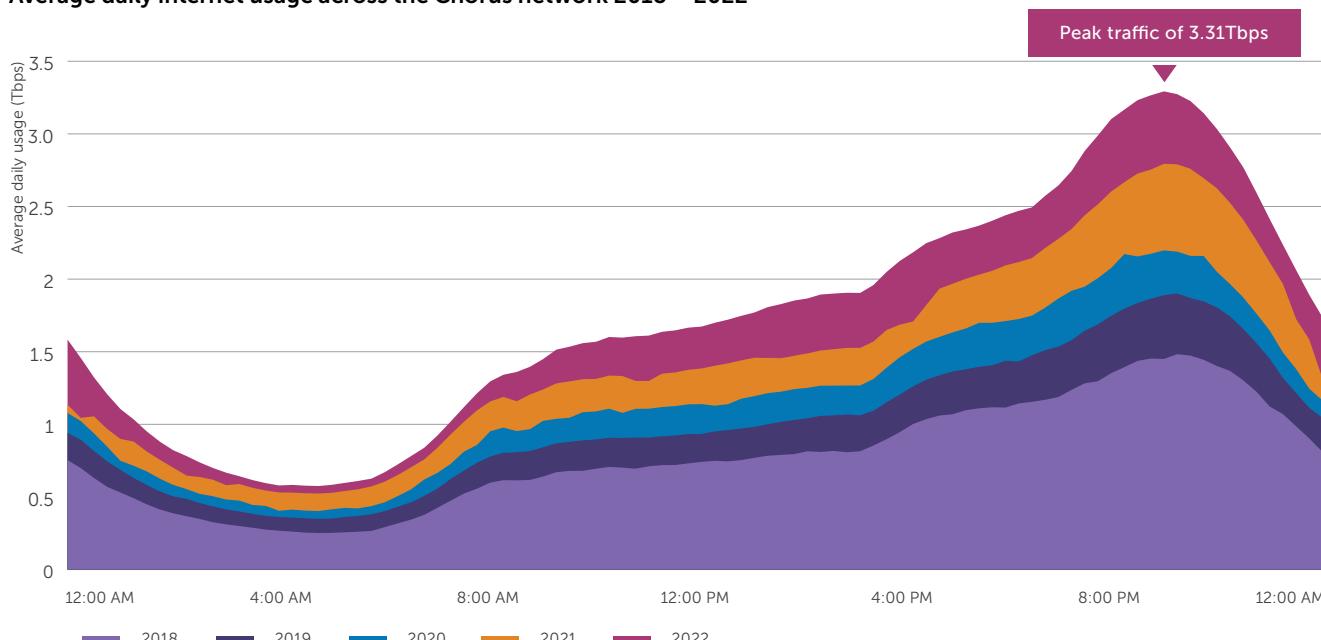
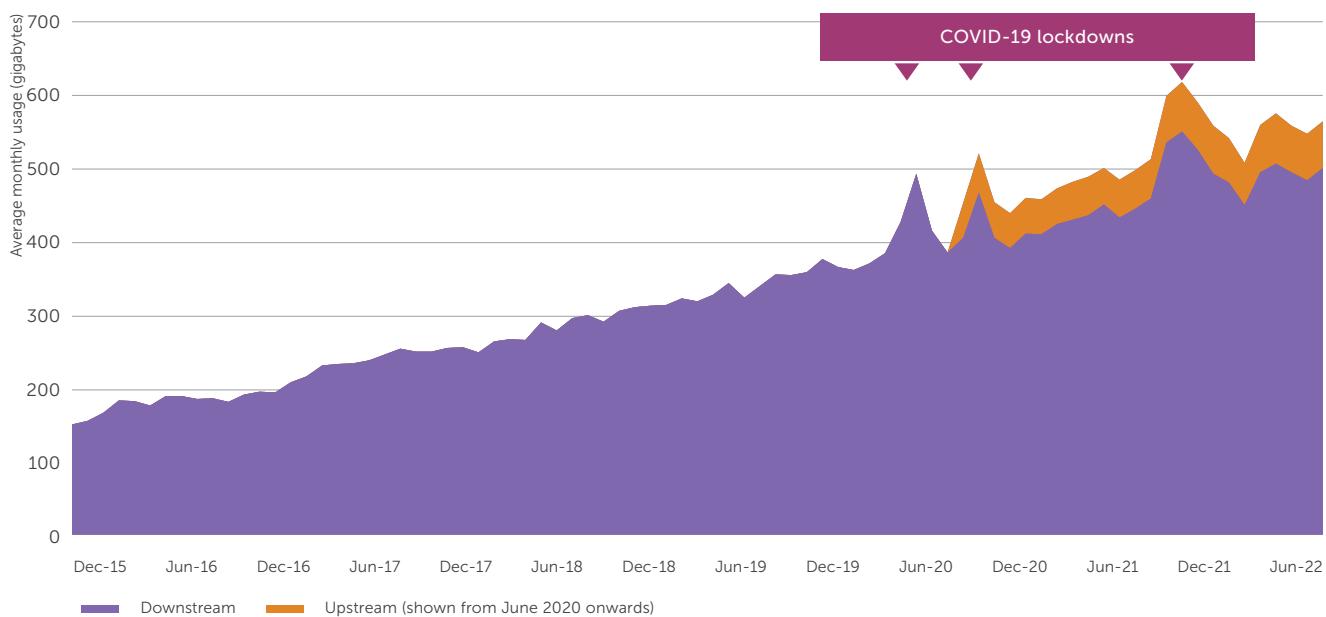


Figure 8:

Average monthly usage per connection on our fibre network



4K content is expected to be a significant driver of data growth, although it isn't yet widely available to New Zealand consumers. YouTube provides some 4K content and Disney Plus is one of the few streaming services to provide 4K programming at no additional charge to its subscription fee. Live sports streaming in 4K quality has driven significant data growth overseas, but it isn't currently offered for local sports streaming services. However, Sky TV is now trialling a new 4K capable set-top box that will enable internet delivered on-demand content so it may address this in the future.

Xbox has launched cloud gaming that does away with the need for a console to store games and we expect streaming services like this will keep driving data usage higher. Global technology providers are now developing and launching metaverse applications that will incorporate immersive technologies such as augmented and virtual reality devices. These developments will generate bandwidth demand that is an order of magnitude higher again than what we see today.

2.4 The growing role of Wi-Fi

Wi-Fi has long been a hotbed for innovation and is how most consumers experience fibre broadband. Mobile devices also offload most of their data traffic via Wi-Fi. To fully realise the benefits of a fibre network, and to achieve uninterrupted access to new and future services that will rely on high-speed internet to function, in-home Wi-Fi capability needs to match the demand.

COVID has underlined the importance of Wi-Fi with lockdowns and remote working meaning more simultaneous demand on home Wi-Fi networks. We and retailers are, therefore, increasingly focussed on helping consumers

address poor performing Wi-Fi. For retailers this has involved including in-home Wi-Fi solutions, like Wi-Fi 6 capable mesh devices, in their offers.

At the same time, the government's radio spectrum management body has been consulting on the potential use of 6GHz spectrum for Wi-Fi. This unlicensed spectrum could enable new Wi-Fi 6E capable devices to be used, effectively doubling the bandwidth available compared to the existing 2.4GHz and 5GHz bands. Consumers would then have a better chance of achieving peak speeds of 2Gbps through less interference.

We support the decision to make the lower 6 GHz band (5925 – 6245 MHz) available for wireless local area network (WLAN) use. However, we also see potential consumer benefit in making the upper 6 GHz band available for indoor WLAN use in future, subject to managing the potential impacts on incumbent users.

Releasing the entire 6GHz band, like leading tech countries the USA and South Korea have done, could have far reaching benefits. For example, Wi-Fi 6E devices could provide an alternative to 5G mobile access in enterprise and other private environments where cost-effective capacity and support for a large number of devices is important.

Regulatory environment

We operate our wholesale only network within the regulatory framework established by the Telecommunications Act. We're also subject to the requirements of four open access deeds of undertaking for copper, fibre and Rural Broadband Initiative services that focus on the provision of services on a non-discriminatory basis. This regime operates alongside the revised utility model that applies to Chorus' fibre fixed line access services from 1 January 2022.

3.1 New regulated utility model for fibre

From 1 January 2022 our fibre investment is regulated according to a utility style building block model. This model is used to regulate monopoly utility businesses, such as electricity lines and gas networks. It is intended to support private sector investment to meet network upgrades and increasing consumer demands, by giving ongoing incentives to innovate, invest and improve efficiency for the long-term benefit of consumers.

To implement the new framework the Commerce Commission established the Fibre Input Methodologies and the Price-Quality Determination for the first regulatory period for fibre (2022-2024). These establish the key elements of the new fibre regime that determine the revenues we can earn from our regulated fibre network, including:

- a starting regulated asset base of \$5.42 billion, comprising a core RAB of \$4.03 billion and a financial loss asset of \$1.39 billion.⁶
- a mid-point vanilla WACC of 4.72% and a post-tax WACC of 4.52% for the first regulatory period from 2022 to 2024.
- maximum allowable revenue (MAR) that ranges from \$690.2 million to \$789.5 million (nominal) per year over 2022 to 2024. The MAR for 2023 and 2024 will be updated for the latest inflation forecasts with a wash-up against actual inflation included in the following regulatory period MAR.

On 31 March 2022 we submitted our first price-path compliance statement. This forecasts our regulated fibre revenue for the 2022 calendar year will be approximately \$657 million, which is below the Commission's MAR. Where our actual revenues fall below the MAR the difference will be added to the MAR for the next regulatory period.

⁶ Currently subject to a Commerce Commission finalisation process.

Figure 9:

New regulatory framework from January 2022

Areas where fibre is available (~87% of population)	Areas where fibre is not available (~13% of population)
<p>Regulated asset base for fibre access services with revenue cap set by the Commerce Commission</p> <ul style="list-style-type: none"> • first regulatory period 2022-2024 • price caps on 'anchor' or declared services • unbundled fibre available in UFB1 areas • Commission can review the revenue cap model (subject to statutory criteria) from 2025. <p>• Chorus can choose to withdraw copper service with six months' notice to consumers</p>	<p>Areas where fibre is not available (~13% of population)</p> <ul style="list-style-type: none"> • Telecommunications Service Obligation applies to residential addresses existing in 2001 • copper pricing subject to annual inflation adjustment • Commission required to review copper regulatory settings no later than 2025

3.2 Quality requirements for fibre services

The Commission has set three quality standards we are required to meet:

- Two standards measuring availability of the network in 23 geographic regions, based on downtime in the Layer 1 (physical) and Layer 2 (electronic) parts of the fibre network.
- One standard based on national port utilisation each month to ensure sufficient network capacity to meet demand.

In addition to the quality standards there are a number of measures that Chorus is required to report on through an information disclosure regime. These include provisioning, ordering, switching, faults, availability, performance and customer satisfaction.

3.3 Commercial services for fibre unbundling

Our fibre network enables unbundled fibre services by providing a second fibre to each premises. This means retailers can choose to use our passive infrastructure – fibre optic cables, ducts, and poles – and their own broadband electronics, to deliver services to customers. Unbundled services are not required to be made available in UFB2 areas until 2026.

Our layer 1 fibre access service (PONFAS) includes a monthly access charge of about \$28 to cover access to the fibre between the premises and the splitter, as well as \$200 per month to access the feeder fibre from each splitter to a central network point. Pricing reflects the significant passive infrastructure costs of our rollout investment, with layer 2 broadband electronics representing a very small component.

The Commission has developed guidance on fibre equivalence and non-discrimination obligations for PONFAS. It is currently conducting a compliance assessment of our non-price terms.

3.4 Copper Withdrawal Code and Telecommunications Service Obligation

The telecommunications legislative framework provides for the deregulation of copper services in areas where fibre is available. This enables us to withdraw copper services once consumer protection requirements are met, as set out under the Commission's Copper Withdrawal Code. This includes providing affected consumers with at least six months' notice of our intention to withdraw copper services. By the end of FY22 we had provided notice to approximately 10,100 customers and we supported a range of consumer groups with information about the copper withdrawal programme.

Copper services remain regulated in areas where fibre is not available, with copper prices annually adjusted for inflation. In these areas, the Commission is required to review the copper pricing framework no later than 2025.

Under the Telecommunications Service Obligation (TSO), we are required to maintain telephone services to residential premises that were connected to our copper network in December 2001. Our obligation at the network level is shared with Spark (formerly Telecom NZ) as the provider of the voice service layer. The TSO Deed recognises that additional funding may be sought for commercially non-viable customers.

Outlook

With the core elements of our regulatory framework now settled and the finish line for our fibre rollout in sight, we're shifting focus to a more operational future. Connecting Aotearoa so that we can all live, learn, work and play is our refreshed organisational purpose. Achieving this means continuing to grow uptake of our network so its socio-economic benefits help power the country's digital future.

By the end of 2022 we'll have brought fibre to the last community under our public-private partnership with the Government and we expect to have reached our target of one million fibre connections. That still leaves just under 30% of homes and businesses that have yet to choose fibre within our fibre footprint.

Auckland, with about a third of the national population, has shown that more than 80% uptake is achievable. To keep driving uptake we need to keep refining our fibre value proposition and continue making the customer experience as seamless as possible for our retailers and consumers. This isn't simple when we don't have the direct relationship with consumers, but our retail service provider survey shows the improvements we've made over FY22 are heading in the right direction. Our new service company structure is an opportunity to simplify and enhance our operations further.

In the short term, COVID will continue to cast a shadow over our business and the wider economy. Although our pipeline of new housing developments remains strong given historical housing shortages, population growth has slowed with net migration trending to negative. We're seeing inflationary pressures, particularly in our direct labour costs and through our service companies. We're also conscious of the pressure on consumers, so we've chosen not to apply the full inflationary increases we're permitted across all products from October. On our most popular 300Mbps service we're holding the increase at 5.5% while our 1Gbps service will only increase 3.6% after no price changes for several years.

At the same time, we're reducing the pricing of our multi-gigabit Hyperfibre services. Of the almost 1,000 Hyperfibre connections to date, more than three-quarters are residential consumers. This points to the continued consumer appetite for better broadband. Schools have also begun to adopt Hyperfibre services so they can provide enhanced bandwidth and reliability across multiple users as more student learning moves online.

Our confidence in fibre's future proof capability keeps growing. International investment in fibre is surging and in 2021 fibre became the most prevalent broadband technology in the OECD, with New Zealand ranked eighth for fibre uptake. Like here, multi-gigabit fibre services are emerging in overseas markets. There's no doubt that future consumer applications, whether cloud-based gaming or virtual reality in the metaverse, are going to drive demand for higher speeds and consistency. When these propositions develop mass market followings, the network demands will be substantial. Fibre is easily scalable for that demand and our 25Gbps trial demonstrated a clear roadmap for even better capability.

While COVID-19 has accelerated digital adoption, we need to work hard to ensure this doesn't widen the socio-economic digital divide and reinforce the multiple barriers to digital inclusion. We're committed to achieving true digital equity through understanding, collaboration, and effort so that no one gets left behind. During the pandemic we've focussed our support on student connections, digital skills uplift for seniors and helping the charitable sector embrace digital. These initiatives are continuing into FY23 and we're holding pricing flat on our low-cost Home Fibre Starter service.

As broadband capacity and reliability needs grow, so too will the digital divide between rural and urban Aotearoa. There's a growing body of evidence that broadband penetration needs a high-quality broadband connection to maximise the socio-economic benefits. Fibre offers a path to reliable high-capacity broadband that doesn't need recurring government funding top-ups and supports national carbon emissions reduction goals. That's why other countries are extending fibre as far as they can.

We believe that rather than kicking the can down the road with piecemeal solutions, pragmatic policy settings are available to enable us to reach 90% of Kiwis with fibre. That three percent increase represents 65,000 customers located relatively close to rural centres. Perhaps we can go even further.

In urban areas, growing fibre uptake means we're moving from trialling the withdrawal of copper services to a more production-like process. Of the approximately 2,500 copper broadband cabinets in our fibre areas, a quarter have now been notified for withdrawal because they have few remaining connections. The electricity savings from cabinet shutdowns will become a growing contributor to our carbon reduction goals. Our new emissions reduction plan forecasts a 25% electricity reduction by 2030, assisted by the potential expansion of solar generation on our exchanges.

Embedding sustainability in our business strategy has included a close look at our future organisational needs. Like many businesses, recruiting and retaining people is increasingly challenging. We're continuing to evolve to be a more adaptive, diverse and inclusive organisation as we transition from a focus on building to operating the fibre network. This includes working on developing the capability needed to thrive in our new regulatory and dynamic market environment.

We know that competition will keep growing as mobile network operators seek to recover their 5G investments. With more than 90% of fibre connections now on 300Mbps plans or higher, we believe we're providing consumers with the best broadband technology. We'll keep developing our role as an active wholesaler and explore new and potentially innovative ways to leverage our fibre network and our network infrastructure. Our new PowerSense product is a good example of this approach.

At the next annual meeting in late October, the Board will farewell chair Patrick Strange who has been with us since 2015. Mark Cross, currently chair of the Audit and Risk Management Committee, will be our new Board chair. As a director since 2016, Mark has a strong understanding of our role as an essential infrastructure provider and the balance needed to encourage ongoing investment that delivers future consumer benefits and value to shareholders.

With our return to positive free cash flow, we're now in a position where we can make choices about discretionary investment. This may include close adjacent opportunities that offer better returns than the regulatory WACC. Whatever opportunities arise, at our core we'll remain a regulated utility focussed on providing shareholders with stable returns.

To learn more about our focus on sustainability, please see our Sustainability Report 2022 at: www.chorus.co.nz/reports

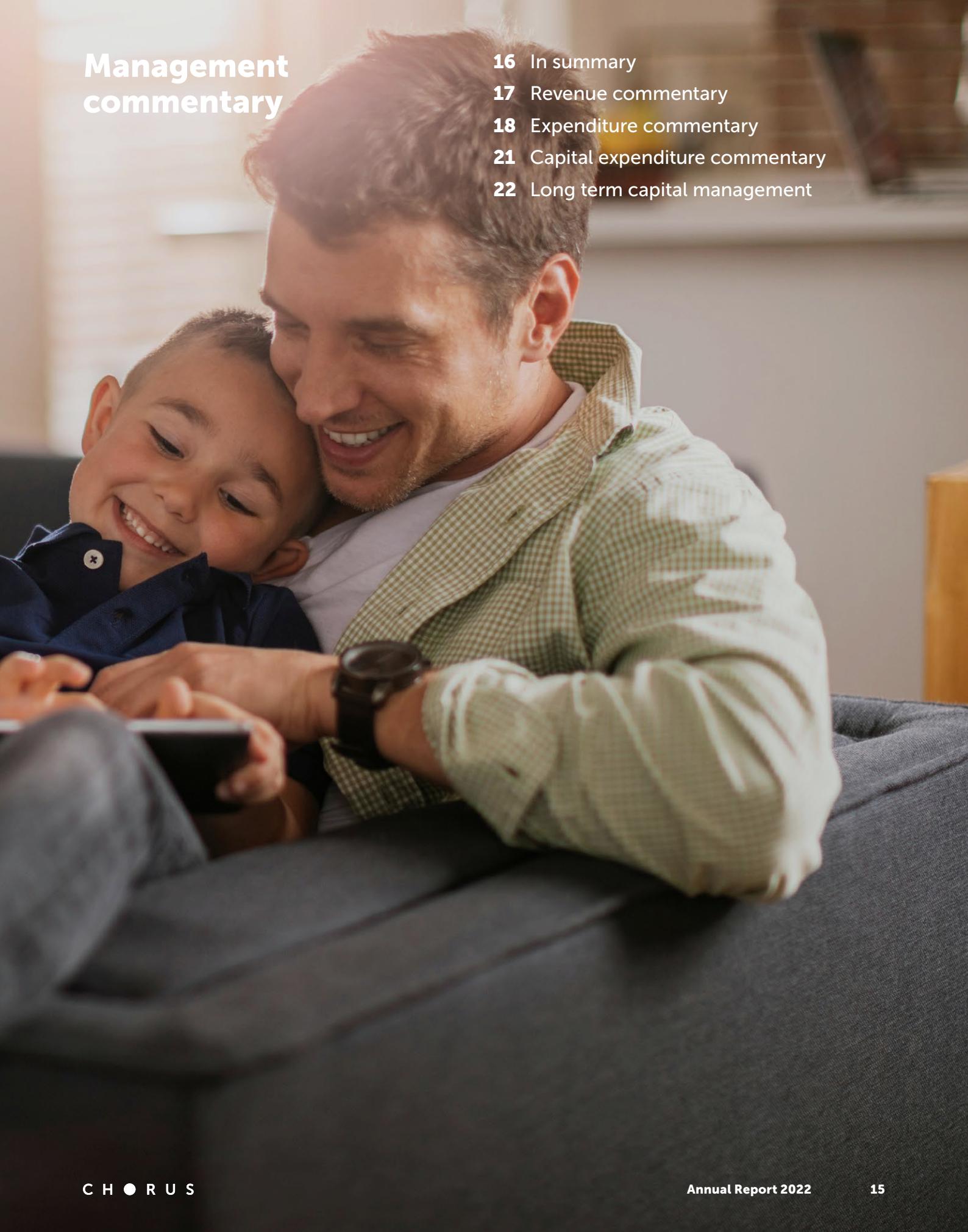
Our strategic focus





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Management commentary

	2022 \$M	2021 RESTATED \$M
Operating revenue	965	955
Operating expenses	(290)	(298)
Earnings before interest, income tax, depreciation and amortisation	675	657
Depreciation and amortisation	(427)	(427)
Earnings before interest and income tax	248	230
Net finance expense	(142)	(152)
Net earnings before income tax	106	78
Income tax expense	(42)	(27)
Net earnings for the year	64	51

In summary

We report earnings before interest, income tax, depreciation and amortisation (EBITDA) of \$675 million for the year ended 30 June 2022 (FY22), an increase of \$18 million from restated FY21 EBITDA of \$657 million.¹ When one-off operating revenue and expense gains are excluded, underlying EBITDA in FY22 was \$660 million.²

Net profit after tax was \$64 million compared to a restated total of \$51 million in FY21.¹

Careful management of maintenance costs and the release of a \$9 million holiday pay provision helped mitigate inflationary pressures and COVID-19 impacts during the year. Operating expenses reduced by \$8 million from \$298 million in FY21. Revenues increased by \$10 million to \$965 million largely due to gains from our network optimisation programme.

COVID-19 constraints on fibre installations and general network investment programmes saw our initial FY22 guidance of \$550 million to \$590 million capital expenditure lowered several times through the year. Final spend was \$492 million, with the winding down of the fibre rollout and lower fibre installation spend the main contributors to the decrease from \$672 million in FY21.

Depreciation and amortisation expenses were flat year on year while interest costs reduced due to the full year effect of refinancing of debt at lower interest rates in FY21.

We will pay a final unimputed dividend of 21 cents per share on 11 October 2022. The dividend reinvestment plan will be available with no discount.

	Connections 2022	Connections 2021	Connections 2020
Fibre broadband (GPON)	949,000	860,000	740,000
Fibre premium (P2P)	10,000	11,000	11,000
Copper VDSL	118,000	157,000	221,000
Copper ADSL	122,000	163,000	245,000
Data services over copper	2,000	2,000	4,000
Unbundled copper	1,000	10,000	15,000
Baseband copper	102,000	137,000	179,000
Total fixed line connections³	1,304,000	1,340,000	1,415,000

¹ Previously reported FY21 results have been restated due to an ongoing change in the accounting treatment of field services revenue for roadworks. Refer to page 34 for the detailed accounting adjustments.

² Underlying EBITDA of \$660 million represents a reduction of \$15 million for one-off operating revenue and expense gains recognised during the period. Refer to page 12 of the FY22 investor presentation for the detailed reconciliation to EBITDA.

³ Excludes education connections partly subsidised as part of Chorus' COVID-19 response.

Revenue commentary

	2022 \$M	2021 RESTATED \$M
Fibre broadband (GPON)	548	477
Copper based broadband	153	203
Field services products	71	70
Fibre premium (P2P)	66	68
Copper based voice	52	68
Value added network services	27	30
Infrastructure	30	27
Data services over copper	6	9
Other	12	3
Total revenue	965	955

Revenue overview

Chorus' product portfolio encompasses a broad range of wholesale broadband, data and voice services across a mix of regulated and commercial products. Revenues of \$965 million increased by \$10 million from restated FY21 revenues of \$955 million.¹ This increase reflected gains from our network optimisation programme and continued strong growth in fibre broadband revenue.

In our planned fibre areas broadband connections grew by 27,000, helping grow broadband connections nationally by 9,000 to 1,189,000. We ended the year with 1,304,000 fixed line connections, down 36,000 lines compared with a reduction of 75,000 lines in FY21. Most of this reduction continues to be in areas where our copper network competes with alternative fibre networks.

Fibre broadband (GPON)

Fibre broadband revenues continue to grow as customers migrate to our expanding fibre network and broadband penetration increases. Fibre broadband connections grew by 89,000 to 949,000, with about 68% of connections on 300 Mbps plans. Average fibre monthly revenue per user grew from \$49.87 to \$50.67 in FY22. This was driven by an inflation related price increase to some services in October 2021 and uptake of the higher value 1 Gbps service growing from 19% to 23% through the year.

Copper based broadband

Copper based broadband revenue continues to decline with 80,000 connections migrating from our ADSL and VDSL broadband services to either our fibre network or alternative fibre and wireless networks.

Field services products

Field services revenue increased by \$1 million relative to a restated \$70 million in FY21. This was due to increased new property revenues, offset by a reduction in chargeable maintenance and installation activity.

Fibre premium (P2P)

Fibre premium (point to point) revenues decreased slightly in FY22 as customers continued to migrate from high value legacy connections. This trend is slowing as legacy connections diminish and demand grows for Direct Fibre Access Service, mobile access and other backhaul connections.

Copper based voice

Copper based voice revenues continue to decline as customers migrate to either a fibre based connection on our network, or to alternative fibre and wireless networks. These copper connections declined by 35,000 lines in FY22 compared with 42,000 in FY21. Unbundled copper connections declined by 9,000 lines and are no longer material.

Value added network services

Value added network services revenue was lower in FY22 due to a one-off historic dispute resolution recognised in FY21. The main driver for this revenue is national data transport services which provide network connectivity across legacy backhaul and aggregation handover links.

Infrastructure

Infrastructure revenues increased \$3 million to \$30 million in FY22 reflecting a change in lease treatment for retailers' use of Chorus' buildings.

Data services over copper

Data services over copper connections continue to decline as retailers transition business customers from legacy services to cheaper fibre based services, either on our fibre network, or on alternative local and CBD fibre networks.

Other

Other income included a \$3 million gain from the disposal of surplus property and one-off benefits from a \$3 million legal settlement and \$3 million from a change in lease contract.

Expenditure commentary

Operating expenses

	2022 \$M	2021 \$M
Labour	64	74
Network maintenance	59	63
Information technology	50	48
Other network costs	29	29
Electricity	17	18
Rent and rates	14	12
Property maintenance	14	12
Advertising	11	13
Regulatory levies	9	8
Consultants	8	7
Insurance	4	4
Provisioning	1	2
Other	10	8
Total operating expenses	290	298

Total operating expenses of \$290 million in FY22 reduced by \$8 million compared to \$298 million in FY21. In addition to our ongoing focus on reducing discretionary costs, COVID-19 restrictions in the first half of FY22 affected some expense lines, and we released a labour expense provision.

Labour

Labour of \$64 million reduced by \$10 million in FY22 from \$74 million in FY21. A one-off benefit of \$9 million was recognised in FY22 after a judicial ruling on the interpretation of the Holidays Act.

At 30 June 2022, we had 799 permanent and fixed term employees representing a 2% decrease from 817 employees at 30 June 2021. We capitalise the labour costs and the associated overheads in relation to the UFB build and connect activity. As the UFB rollout ends, we expect to capitalise a lower proportion of labour costs.

Network maintenance

Network maintenance costs reduced by \$4 million from FY21. Overall fault volumes continued to reduce as more customers connect to the newer fibre network and total connections declined. FY22 was also impacted by COVID-19 restrictions on activity which reduced faults.

Information technology

Information technology costs were up \$2 million compared to FY22, largely due to inflationary pressures.

Other network costs

Other network costs are variable year to year and include a range of costs associated with service partner contracts, fibre access from third parties, roadworks and other network relocation projects, fibre order cancellations, network spares, and network and property optimisation costs.

Electricity

Electricity costs reduced due to lower electricity prices in FY22 relative to FY21. Electricity consumption increased over FY21 as a result of one-off metering washups as we transitioned to a new supplier. Chorus hedges approximately 70% of its consumption with hedge contracts entered into up to 24 months in advance.

Rent and rates

Rent and rates costs relate to the operation of our network estate including exchanges, radio sites and roadside cabinets. These costs include rates that are levied on network assets both above and below ground. Costs increased by \$2m from FY21 due to inflationary increases from councils and increasing rateable values from our network build.

Property maintenance

Property maintenance costs have increased by \$2 million relative to FY21. FY22 costs includes higher levels of network property maintenance and around \$1 million of one-off "make good" costs relating to corporate office changes (including relocation in Auckland and rationalisation in Wellington).

Advertising

Advertising costs were \$2 million lower than FY21 due to reduced brand activity in the year.

Regulatory levies

Regulatory levies increased by \$1 million compared to FY21 due to the levy for the Commerce Commission's implementation of the new fibre regulatory framework.

Depreciation and amortisation

	2022 \$M	2021 RESTATED \$M	Estimated useful life (years)	Weighted average useful life (years)
Depreciation				
Fibre cables	122	114	20–30	20
Ducts, poles and manholes	61	58	20–50	50
Copper cables	61	63	10–30	22
Cabinets	22	30	5–20	18
Property	19	18	5–50	25
Network electronics	62	62	2–25	10
Right of use assets	15	15	10–50	28
Less: Crown funding	(27)	(27)		
Total depreciation	335	333		
Amortisation				
Software	62	60	2–10	4
Customer retention	30	34	1–4	4
Total amortisation	92	94		
Depreciation and amortisation	427	427		

The weighted average useful life represents the useful life in each category weighted by the net book value of the assets.

During FY22, \$492 million of expenditure on network assets and software was capitalised. The 'UFB communal' and 'Fibre connections and fibre layer 2' included in 'fibre' capital expenditure was largely capitalised against the network assets categories of fibre cables (34%) and ducts, poles and manholes (40%). The average depreciation rate for UFB communal infrastructure spend is based on an estimated life of 41 years, reflecting the very high proportion of long life assets being constructed.

With the commencement of Chorus' copper withdrawal programme, Chorus has revised the depreciation profile for copper cables in areas where fibre is available. Depreciation of copper cables will be accelerated from FY23 so that those in UFB2 areas will be fully depreciated by June 2025, and those in local fibre company areas are fully depreciated by June 2026.

Consultants

Consultant costs increased by \$1 million from FY21. This reflects the timing of external advice required to support both the implementation of the new regulatory framework from January 2022 and our transition to an adaptive organisation.

Other

Other costs include general expenditure such as telecommunications, travel, training and legal fees. Other costs appeared to increase in FY22 because FY21 benefitted from an adjustment to a doubtful debt provision.

Software and other intangibles largely consist of the software components of billing, provisioning and operational systems, including spend on Spark owned systems.

Chorus expects that incremental costs incurred in acquiring new contracts with new and existing customers are recoverable. These costs are capitalised as customer retention assets and amortised against revenue or within amortisation expense, depending on their nature. In the period to 30 June 2022, \$30 million was recognised to amortisation expense.

Our depreciation profile is expected to continue to change, reflecting the greater mix of longer dated UFB assets being built. The offset of Crown funding against depreciation will continue to amortise as a credit to the associated depreciation expense accordingly.

Finance income and expense

(Income)/expense	2022 \$M	2021 \$M
Finance income	–	(1)
Finance expense		
Interest on syndicated bank facility	6	5
Interest on Euro Medium Term Notes (EMTN)	51	47
Interest on fixed rate NZD bonds	32	43
Other interest expense	23	30
Capitalised interest	(2)	(2)
Interest costs	110	123
Ineffective portion of changes in fair value of cash flow hedges	(7)	(4)
Total finance expenses excluding securities (notional) interest	103	119
CIP securities (notional) interest	39	34
Total finance expense	142	153

Finance expense is lower in FY22 due to the lower cost of NZD Bonds refinanced in December 2020.

Interest costs decreased by \$13 million year on year with the weighted effective interest rate on debt reducing to 3.77% from 4.16% in FY21.

Other interest expense includes lease interest of \$15 million (FY21: \$20 million) and amortisation arising from the difference between fair value and proceeds realised from interest rate swap resets of \$7 million (FY21: \$7 million). Notional interest on Crown Infrastructure Partners (CIP) securities also increased as Crown funding continued to grow.

At a minimum, we aim to maintain 50% of our debt obligations at a fixed rate of interest. We have fully hedged the foreign exchange exposure on the EMTNs with cross currency interest rate swaps. A portion of the floating interest on the cross currency interest rate swaps has been hedged using interest rate swap instruments.

Ineffectiveness

As at 30 June 2022 Chorus held all interest swaps in designated hedging relationships. These relationships are designated as either cash flow hedges, or fair value hedges.

Provided that the cash flow hedges remain effective, any future gains or losses will be processed through the hedge reserve in the statement of changes in equity. Effective fair value hedges will be offset within the finance expense. Minor differences in the hedged values will flow to finance expense in the income statement over the life of the derivatives as ineffectiveness. Minor differences in the credit valuation portion may also flow to the finance expense. Neither the direction, nor the rate of the impact on the income statement can be predicted as it is influenced by external market factors.

Ineffectiveness largely consists of the cumulative change in fair value of three interest rate swaps, designated as cash flow hedges that were restructured in prior years. Two of these restructured interest rate swaps have a combined face value of \$500 million and relate to the 10 year resettable NZD bond issued in 2018. The other restructured interest rate swap has a face value of \$200 million and relates to the EUR 300m EMTN bond. In FY22, ineffectiveness was credit \$7 million (FY21: credit \$4 million) across all hedge relationships.

Taxation

The FY22 effective tax rate is 39% (FY21: 35%). The increase reflects confirmation of the appropriate tax treatment for funding received for the relocation of communications network. When excluding the prior period adjustment, the effective tax rate for FY22 is 34%. The effective tax rate is higher than the statutory tax rate of 28% due to permanent differences between tax and accounting arising from the tax treatment of the CIP securities and Crown funding for the Rural Broadband Initiative (RBI).

The accounting interest and depreciation credit recognised in the profit and loss in relation to CIP securities are non-taxable as confirmed via binding rulings issued by Inland Revenue. RBI assets were funded by non-taxable government grants. The accounting amortisation of RBI government grants and RBI accounting depreciation recognised in the profit and loss are non-taxable and tax depreciation is not claimed.

Capital expenditure commentary

	2022 \$M	2021 \$M
Fibre	403	567
Copper	38	45
Common	51	60
Gross capital expenditure	492	672

Gross capital expenditure for FY22 was \$492 million. This was \$180 million less than FY21 capital expenditure spend. Fibre spend decreased due to lower installation volumes and lower UFB communal expenditure as we approach the end of the rollout. Copper related expenditure reduced by 16% on

FY21 because copper network demand continues to reduce. Crown funding of \$41 million was recognised for the UFB rollout and \$16 million for the West Coast fibre project.

Fibre capital expenditure

	2022 \$M	2021 \$M
UFB communal	77	147
Fibre installations and fibre layer 2 ⁴	195	275
Fibre products and systems	12	14
Other fibre and growth	79	91
Network sustain	13	11
Customer retention costs	27	29
Total fibre capital expenditure	403	567

UFB communal network spend was \$77 million in FY22, down from \$147 million in FY21. The UFB rollout is now 98% complete.

Fibre installations and layer 2 expenditure was \$195 million. 117,000 fibre installations were completed nationwide, including 41,000 for UFB2 customers. \$30 million was invested in 'backbone' network to enable the connection of multiple customers located along rights of way and multi dwelling units.

The average cost per premises connected (CPPC) in UFB1 areas was \$1,015⁵, which was just under the FY22 guidance range of \$1,025 to \$1,175. The CPPC in UFB2 areas was \$1,187⁵, which was in the lower half of the revised FY22 guidance range of \$1,150 to \$1,300.

Other fibre and growth decreased \$12 million compared to FY21, mainly due to \$17 million lower expenditure on the West Coast fibre rollout. The West Coast fibre project is primarily government funded and is expected to be completed in FY23.

Network sustain refers to capital expenditure where the fibre network has been upgraded or network elements such as poles, cabinets and cables are replaced. This is typically where network replacement is deemed more cost effective than reactive maintenance, or network is being relocated for reasons such as roadworks.

Customer retention costs decreased by \$2 million from FY21 due to decreased market activity.

⁴ Layer 2 equipment, such as gigabit capable passive optical network ports, is installed ahead of demand as the UFB footprint expands.

⁵ Excluding layer 2 and backbone costs for multi dwelling units and rights of way and including standard installations and some non standard single dwellings and service desk costs.

Copper capital expenditure

	2022 \$M	2021 \$M
Network sustain	27	29
Copper connections	1	1
Copper layer 2	3	4
Customer retention costs	7	11
Total copper capital expenditure	38	45

Copper capital expenditure decreased by \$7 million from FY21 reflecting lower spend as customer numbers on our copper network reduce. Less investment in layer 2 capacity and customer retention was needed as more customers migrate to fibre.

Common capital expenditure

	2022 \$M	2021 \$M
Information technology	31	46
Building and engineering services	20	14
Total common capital expenditure	51	60

Information technology spend decreased by \$15 million in FY22 after completion of large lifecycle system developments and shifting to an agile delivery approach in FY21. Building and engineering services increased by \$6 million and includes expenditure related to corporate office relocation.

Long term capital management

We will pay a final unimputed dividend of 21.0 cents per share on 11 October 2022 to all shareholders registered at 5.00pm 13 September 2022. The shares will be quoted on an ex dividend basis from 12 September 2022. As the dividend is unimputed, there will be no supplementary dividend payable to shareholders outside of New Zealand.

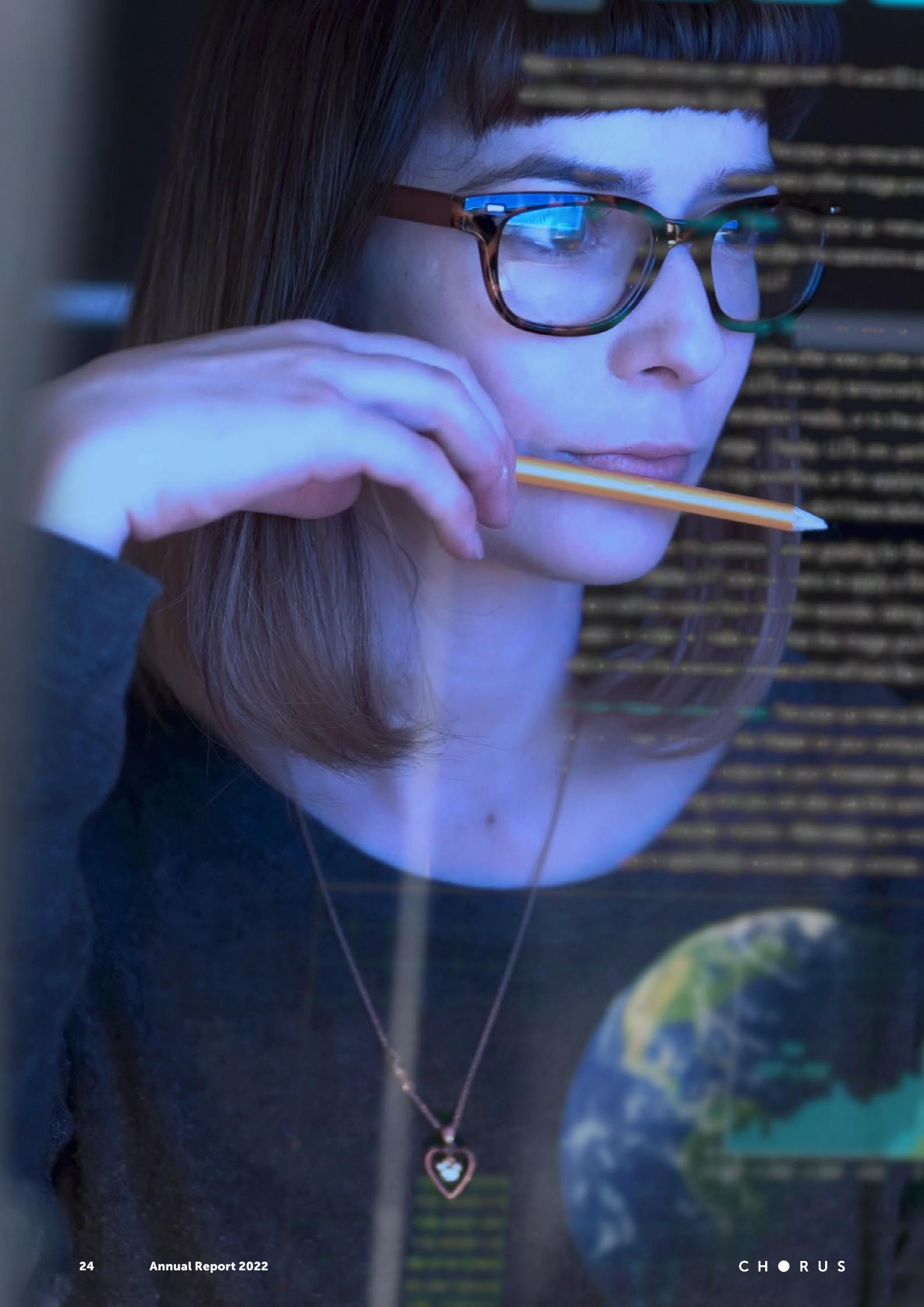
The dividend reinvestment plan will remain in place for the final dividend, with no discount applied. Shareholders who have previously elected to participate in the dividend reinvestment plan do not need to take any further action. For those shareholders who wish to participate, election notices to participate must be received by 5.00pm (NZ time) on 14 September 2022.

Our move to positive free cash flow enables us to increase dividend payments to shareholders.

Dividend guidance for FY23 has been set at 42.5 cents per share, subject to no material adverse changes in circumstance or outlook. The FY23 dividend will be unimputed.

The Board considers that a 'BBB' 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. It is Chorus' intention that in normal circumstances the ratio of net debt to EBITDA will not materially exceed 4.75 times.

At 30 June 2022, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.



Consolidated financial statements

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Independent auditor's report



To the shareholders of Chorus Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Chorus Limited (the 'company') and its subsidiaries (the 'Group') on pages 29 to 61:

- i. present fairly in all material respects the Group's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2022;
- the consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided regulatory and other assurance services to the Group. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Emphasis of Matter – prior period restatement

We draw attention to the prior period restatement note in the consolidated financial statements, which describes the adjustments that have been made to the consolidated financial statements in relation to funding towards the cost of relocation of communications equipment.

Our conclusion on the consolidated financial statements is not modified in respect of this matter.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$8.5 million determined with reference to a benchmark of Group revenue. We chose the benchmark because, in our view, this is a key measure of the Group's performance.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the company and group financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Recoverability of assets	<p>Capitalisation and the carrying value of assets are a key audit matter due to the significance of assets to the Group's consolidated statement of financial position, and due to the judgement involved in determining the carrying value of the assets, principally:</p> <ul style="list-style-type: none"> – decision to capitalise or expense costs relating to the network. This depends on whether the expenditure is to enhance the network (capitalise) or to maintain the current operating capability of the network (expense); – estimation of the stage of completion of assets under construction; – estimation of the useful life of the asset once the costs are capitalised; – obsolescence and impairment risk; and – uncertainty of the impact of ongoing technological change, transitioning to a new regulated model, movement towards a fibre future and RSP/LFC behaviour. <p>Our audit procedures included:</p> <ul style="list-style-type: none"> – examining that the controls to recognise capital projects in the fixed asset register and the approval of the asset life annual review are effective. – assessing the nature of costs incurred in capital projects by checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria. – evaluating a sample of assets under construction in which no costs had been incurred in the final six months of the financial reporting period. We challenged the status of those assets under construction to determine whether they remained appropriately capitalised. – assessing, on a sample basis, whether the accruals recorded for assets under construction were calculated in accordance with the progress of construction and the arrangements with external suppliers. – assessing the useful economic lives of the assets, by comparing to our knowledge of the business and its operations and industry benchmarks.
Chorus funding	<p>Refer to Notes 4, 6, 7 and 19 to the Financial Statements.</p> <p>At 30 June 2022, Chorus had external borrowings of \$2,322 million (30 June 2021: \$2,373 million), Crown funding of \$936 million (30 June 2021: \$906 million), CIP securities of \$613 million (30 June 2021: \$545 million) and net derivative financial assets of \$19 million (30 June 2021: net derivative financial liabilities of \$32 million). The CIP securities, cross-currency and interest rate derivatives are a key audit matter due to their significance to the Group's consolidated statement of financial position and the complexity and judgement involved in determining the appropriate valuation and accounting treatment for the CIP securities and cross-currency and interest rate derivatives.</p> <p>Our audit procedures to assess the valuation and accounting treatment for the Group's interest rate derivatives and CIP securities included:</p> <ul style="list-style-type: none"> – our financial instrument specialists re-valuing all interest rate derivatives using valuation models and inputs independent from those utilised by management. – evaluating the hedge effectiveness of the interest rate derivatives hedging the EUR denominated Euro Medium Term Notes, the NZD Bond 2028 and the NZD Bond 2030. In all instances, our financial instrument specialists assessed the effectiveness of these hedges by independently modelling the future changes in the value of these instruments to assess whether the underlying derivatives were effective. – assessing the accounting treatment of the CIP securities. We read the underlying loan agreement and analysed the various features of the loan agreement to determine whether the CIP securities were a debt or equity instrument. – evaluating the valuation of the CIP securities. Our valuation specialists assessed the methodology used by management for determining the amounts allocated to debt and government grant. – assessing the inputs used in the valuation of the CIP securities. On a sample basis we compared interest rates and credit spreads to independent sources of information to determine an acceptable range of valuation inputs.
Revenue recognition	<p>Refer to Note 9 to the Financial Statements.</p> <p>Revenue recognition and collectability is considered to be a key audit matter due to the complexity of the revenue recognition accounting standards, involving key judgements and estimates, particularly surrounding:</p> <ul style="list-style-type: none"> – customer incentives and retention assets; – unearned revenue; and – assessment of performance obligations around non-connection based revenues. <p>Our audit procedures included:</p> <ul style="list-style-type: none"> – testing of revenue related key financial controls. – performing cut-off testing over revenue by reconciling cash payments received after balance date against the accounts receivable balances at year-end to ensure these receipts have been recognised in the correct financial period. – independently confirming the accuracy of a sample of outstanding debtor balances with Chorus customers. – agreeing a sample of revenue adjustments recorded during the year to authorised credit notes. – assessing whether customer contract costs are appropriately capitalised and subsequently amortised over the expected life of the relationship with the customer. – agreeing a sample of unearned revenue balances recorded at year-end to invoices

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the Annual Report.

Other information includes the Chorus's operating, marketing and regulatory overviews, management commentary and disclosures relating to corporate governance and statutory information. Our opinion on the company and Group financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the company and group financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the company and group financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Gates.

For and on behalf of



KPMG
Wellington
22 August 2022

Consolidated income statement

For the year ended 30 June 2022

	Notes	2022 \$M	2021 RESTATED \$M
Operating revenue	9	965	955
Operating expenses	10	(290)	(298)
Earnings before interest, income tax, depreciation and amortisation		675	657
Depreciation	1,7	(335)	(333)
Amortisation	2,3	(92)	(94)
Earnings before interest and income tax		248	230
Finance income		–	1
Finance expense	4	(142)	(153)
Net earnings before income tax		106	78
Income tax expense	14	(42)	(27)
Net earnings for the year		64	51
Earnings per share			
Basic earnings per share (dollars)	17	0.14	0.11
Diluted earnings per share (dollars)	17	0.11	0.09

Consolidated statement of comprehensive income

For the year ended 30 June 2022

	Note	2022 \$M	2021 RESTATED \$M
Net earnings for the year		64	51
Other comprehensive income			
Items that will be reclassified subsequently to Income statement when specific conditions are met net of tax			
Movements in effective cash flow hedges	19	96	62
Amortisation of de-designated cash flow hedges transferred to Income statement	19	5	5
Movement in cost of hedging reserve	19	10	(7)
Other comprehensive income net of tax		111	60
Total comprehensive income for the year net of tax		175	111

The accompanying notes are an integral part of these consolidated financial statements.

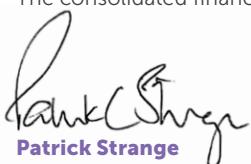
Consolidated statement of financial position

As at 30 June 2022

	Notes	2022 \$M	2021 RESTATED \$M
Current assets			
Cash and call deposits	15	88	53
Trade and other receivables	11	125	122
Income tax receivable		27	23
Derivative financial instruments	19	9	4
Total current assets		249	202
Non-current assets			
Derivative financial instruments	19	120	71
Trade and other receivables	11	1	2
Deferred tax asset	14	–	93
Customer retention assets	3	59	59
Software and other intangible assets	2	152	164
Network assets	1	5,265	5,269
Total non-current assets		5,597	5,658
Total assets		5,846	5,860
Current liabilities			
Trade and other payables	12	264	278
Income tax payable		–	13
Lease payable	5	13	10
Derivative financial instruments	19	–	1
Debt	4	190	140
Total current liabilities excluding Crown funding		467	442
Crown funding	7	27	25
Total current liabilities		494	467
Non-current liabilities			
Trade and other payables	12	16	11
Deferred tax liability	14	369	374
Derivative financial instruments	19	110	106
Lease payable	5	174	254
Debt	4	2,132	2,233
Total non-current liabilities excluding CIP and Crown funding		2,801	2,978
Crown Infrastructure Partners (CIP) securities	6	613	545
Crown funding	7	909	881
Total non-current liabilities		4,323	4,404
Total liabilities		4,817	4,871
Equity			
Share capital	16	682	689
Reserves	19	60	(51)
Retained earnings		287	351
Total equity		1,029	989
Total liabilities and equity		5,846	5,860

The accompanying notes are an integral part of these consolidated financial statements.

The consolidated financial statements are approved and signed on behalf of the Board.


Patrick Strange
Chair

Authorised for issue on 22 August 2022


Mark Cross
Chair, Audit and Risk Management Committee

Consolidated statement of changes in equity

For the year ended 30 June 2022

	Notes	Share capital \$M	Retained earnings \$M	Hedging-related reserves \$M	Total \$M
Balance at 1 July 2020 (RESTATEDED)		666	409	(111)	964
Comprehensive income					
Net earnings for the year		–	51	–	51
Other comprehensive income					
Movement in cash flow hedge reserve	19	–	–	62	62
Amortisation of de-designated cash flow hedges transferred to Income statement	19	–	–	5	5
Movement in cost of hedging reserve	19	–	–	(7)	(7)
Total comprehensive income		–	51	60	111
Contributions by and (distributions to) owners:					
Dividends	16	–	(109)	–	(109)
Supplementary dividends		–	(12)	–	(12)
Tax credit on supplementary dividends		–	12	–	12
Dividend reinvestment plan	16	23	–	–	23
Total transactions with owners		23	(109)	–	(86)
Balance at 30 June 2021 (RESTATEDED)		689	351	(51)	989
Comprehensive income					
Net earnings for the year		–	64	–	64
Other comprehensive income					
Movement in cash flow hedge reserve	19	–	–	96	96
Amortisation of de-designated cash flow hedges transferred to Income statement	19	–	–	5	5
Movement in cost of hedging reserve	19	–	–	10	10
Total comprehensive income		–	64	111	175
Contributions by and (distributions to) owners:					
Dividends	16	–	(128)	–	(128)
Supplementary dividends		–	(14)	–	(14)
Tax credit on supplementary dividends		–	14	–	14
Dividend reinvestment plan	16	31	–	–	31
Share buy-back	16	(38)	–	–	(38)
Total transactions with owners		(7)	(128)	–	(135)
Balance at 30 June 2022		682	287	60	1,029

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2022

	Notes	2022 \$M	2021 RESTATED \$M
Cash flows from operating activities			
<i>Cash was provided from/(applied to):</i>			
Receipts from customers		977	982
Interest received		–	1
Payment to suppliers and employees		(295)	(322)
Taxation paid		(14)	(1)
Interest paid		(98)	(116)
Net cash flows provided from operating activities		570	544
Cash flows applied to investing activities			
<i>Cash was provided from/(applied to):</i>			
Purchase of network and intangible assets		(518)	(647)
Disposal of network and intangible assets		3	–
Capitalised interest paid		(2)	(2)
Net cash flows applied to investing activities		(517)	(649)
Cash flows from financing activities			
<i>Cash was provided from/(applied to):</i>			
Payment of lease liabilities		(14)	(8)
Crown funding (including CIP securities)		81	147
Proceeds from debt		50	510
Repayment of debt		–	(400)
Repurchase of shares		(38)	–
Dividends paid		(97)	(86)
Net cash flows provided from/(applied to) financing activities		(18)	163
Net cash flows		35	58
Cash at the beginning of the year		53	(5)
Cash at the end of the year	15	88	53

Reconciliation of net earnings to net cash flows from operating activities

	Notes	2022 \$M	2021 RESTATED \$M
Net earnings for the year		64	51
<i>Adjustment for:</i>			
Depreciation of network assets	1	362	360
Amortisation of Crown funding	7	(27)	(27)
Amortisation of software and other intangible assets	2	62	60
Amortisation of customer retention assets	3	34	38
Deferred income tax	14	45	24
Ineffective portion of changes in fair value of cash flow hedges	4	(7)	(4)
Amortisation of non-cash finance expenses		10	11
CIP securities (notional) interest	4	39	34
Other		5	(18)
		579	529
<i>Change in current assets and liabilities:</i>			
(Increase) / decrease in trade and other receivables	11	(2)	17
Increase / (decrease) in operating trade payables	12	10	(6)
Increase in income tax receivable		(4)	(3)
Increase / (decrease) in income tax payable		(13)	7
		(9)	15
Net cash flows from operating activities		570	544

The accompanying notes are an integral part of these consolidated financial statements.

Reconciliation of movements of liabilities and equity to net cash flows from financing activities

	Debt \$M	Crown funding \$M	CIP securities \$M	Lease payable \$M	Share capital \$M	Retained earnings \$M
Balance at 1 July 2020 (RESTATED)	2,322	836	461	263	666	409
Movements from financing cash flows						
Payment of lease liabilities	–	–	–	(8)	–	–
Proceeds from debt	510	97	50	–	–	–
Repayment of debt	(400)	–	–	–	–	–
Dividends paid	–	–	–	–	–	(86)
Total changes from financing cash flows	110	97	50	(8)	–	(86)
Other cash flows						
Interest paid on leases	–	–	–	(20)	–	–
Non-cash movements						
Movements in fair value (including foreign exchange rates)	(59)	–	–	–	–	–
Transaction costs and amortisation related to financing	–	(27)	34	–	–	–
Dividend reinvestment plan	–	–	–	–	23	(23)
Lease movements	–	–	–	29	–	–
Net earnings for the year ended 30 June 2021	–	–	–	–	–	51
Balance at 30 June 2021 (RESTATED)	2,373	906	545	264	689	351
Movements from cash flows						
Payment of lease liabilities	–	–	–	(14)	–	–
Proceeds from debt	50	54	27	–	–	–
Repurchase of shares	–	–	–	–	(38)	–
Dividends paid	–	–	–	–	–	(97)
Total changes from financing cash flows	50	54	27	(14)	(38)	(97)
Other cash flows						
Interest paid on leases	–	–	–	(15)	–	–
Non-cash movements						
Movements in fair value (including foreign exchange rates)	(105)	–	–	–	–	–
Transaction costs and amortisation related to financing	4	(27)	39	–	–	–
Accruals	–	3	2	–	–	–
Dividend reinvestment plan	–	–	–	–	31	(31)
Lease movements	–	–	–	(48)	–	–
Net earnings for the year ended 30 June 2022	–	–	–	–	–	64
Balance at 30 June 2022	2,322	936	613	187	682	287

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Reporting entity and statutory base

Chorus includes Chorus Limited together with its subsidiaries.

Chorus is New Zealand's largest fixed line communications infrastructure business. It maintains and builds a network predominantly made up of fibre and copper cables, local telephone exchanges and cabinets.

Chorus Limited is a profit-oriented company registered in New Zealand under the Companies Act 1993 and is a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Chorus Limited was established as a standalone, publicly listed entity on 1 December 2011, upon its demerger from Spark New Zealand Limited (Spark, previously Telecom Corporation of New Zealand Limited). The demerger was a condition of an agreement with Crown Infrastructure Partners Limited (previously Crown Fibre Holdings) to enable Chorus Limited to provide the majority of the Crown's Ultra-Fast Broadband (UFB). Chorus Limited is listed and its ordinary shares are quoted on the NZX main board equity security market (NZX Main Board) and on the Australian Stock Exchange (ASX) and has bonds quoted on the NZX and ASX debt markets. American Depository Shares, each representing five ordinary shares (and evidenced by American Depository Receipts), are not listed but are traded on the over-the-counter market in the United States.

These consolidated financial statements ("financial statements") have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and Part 7 of the Financial Markets Conduct Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and with International Financial Reporting Standards.

These financial statements are expressed in New Zealand dollars. All financial information has been rounded to the nearest million, unless otherwise stated.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of financial instruments as identified in the specific accounting policies below and the accompanying notes.

The Directors have considered the impact of the COVID-19 pandemic on these financial statements and note no material impact to the going concern basis on which they are prepared.

Accounting policies and standards

Accounting policies that summarise the measurement basis used which are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted and methods of computation have been applied consistently throughout the periods presented in these consolidated financial statements.

Reclassification and re-statement of comparatives

Where management have reclassified items in the financial statements, the related comparative disclosures have been adjusted to provide a like-for-like comparison.

Prior period restatement – Crown funding

Adjustments have been made to the financial statements in relation to funding towards the cost of relocation of communications equipment. This funding has historically been recognised as a liability within Crown funding and then recognised in earnings as a reduction to depreciation expense on a systematic basis over the useful life of the asset the funding was used to construct, which is consistent with the treatment of other Crown funding such as RBI. Upon review of funding streams and the accounting treatment of these streams during the period, Chorus have identified that the purpose of the funding is not for the construction of an asset, and therefore should be recognised upon completion of relocation.

While there has not been a material error in net earnings in any one year, the prior period has been restated to reflect the appropriate accounting treatment.

Classification of interest paid on leases and revenue in advance within the statement of cash flows

During the period interest paid on leases and revenue in advance charged were reclassified within the statement of cash flows. The changes provide more reliable and relevant information and better reflect the nature of the cash flows. There has been no impact on net cash flows.

The impact of the restatement and reclassifications the prior periods is as follows:

Year ended 30 June 2021

	YEAR ENDED 30 JUNE 2021 \$M	RESTATEMENT INCREASE/ (DECREASE) \$M	RECLASSIFICATION INCREASE/ (DECREASE) \$M	YEAR ENDED 30 JUNE 2021 RESTATED \$M
Consolidated income statement				
Operating revenue	947	8	–	955
Earnings before interest, income tax, depreciation and amortisation	649	8	–	657
Depreciation	(331)	(2)	–	(333)
Income tax expense	(25)	(2)	–	(27)
Net earnings for the year	47	4	–	51
Basic earnings per share	0.11			0.11
Diluted earnings per share	0.08			0.09
Consolidated statement of financial position				
Crown funding	955	(49)	–	906
Income tax payable	5	8	–	13
Retained earnings	310	41	–	351
Consolidated statement of cash flows				
Cash received from customers	954	8	20	982
Payments to suppliers and employees	(302)	–	(20)	(322)
Interest paid	(96)	–	(20)	(116)
Payment of lease liabilities	(28)	–	20	(8)
Crown funding (including CIP securities)	155	(8)	–	147

Interest Rate Benchmark Reform

Interbank offered rates ("IBORs") play an important role in global financial markets. Market developments relating to the reliability and robustness of some interest rate benchmarks has resulted in the global regulatory community initiating various programmes to develop alternative benchmarks (risk free rates) within certain jurisdictions. These reforms have led to uncertainty about the long-term viability of some interest rate benchmarks beyond 1 January 2022 under Interest Rate Benchmark Reform – Phase 2.

Chorus' hedging activities expose it to EURIBOR. EURIBOR is not subject to cessation following reform in 2019, however industry guidance suggests it will remain appropriate only in the medium term. As such, although there is no immediate impact of the reform to Chorus, developments will continue to be monitored to ensure any changes to EURIBOR are appropriately considered.

Accounting estimates and judgements

In preparing the financial statements, management has made estimates and assumptions about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated and are based on experience and other factors, including macro-economic and market factors, and expectations of future events that may have an impact on Chorus. All judgements, estimates, and assumptions are believed to be reasonable based on the most current set of circumstances available to Chorus. The principal areas of judgement in preparing these financial statements are set out below.

Network assets (note 1)

Assessing the carrying value of network assets for impairment considerations which includes assessing the appropriateness of useful life and residual value estimates of network assets, the physical condition of the asset, technological advances, regulation and expected disposal proceeds from the future sale of the asset.

Customer retention assets (note 3)

Assessing the carrying value of customer retention assets for impairment considerations which includes assessing the appropriateness of useful life, contract terms, revenue and customer connections data.

Leases (note 5)

A significant portion of lease contracts contain options for extension, which in turn require management to apply judgement in assessing if these extensions are likely to be exercised.

Crown Infrastructure Partners (CIP) securities (note 6)

Determining the fair value of the CIP securities requires assumptions on expected future cash flows and discount rates based on future long dated swap curves.

Financial risk management (note 19 and 20)

Accounting judgements have been made in determining hedge designation and the fair value of derivatives and borrowings. The fair value of derivatives and borrowing are determined based on valuation models that use forward-looking estimates and market observable data, to the extent that it is available.

Non-GAAP measures

Chorus use non-GAAP measures that are not prepared in accordance with NZ IFRS. Chorus believes these non-GAAP measures provide useful information to users of the financial statements to assist in understanding the financial performance of Chorus. These measures are also used internally to evaluate the performance of Chorus and monitored for compliance against debt covenants.

These measures should not be viewed in isolation or as a substitute for measures reported in accordance with NZ IFRS as they are not uniformly defined or utilised by all companies in New Zealand or the telecommunications industry.

Earnings before interest and income tax (EBIT) and earnings before interest, income tax, depreciation and amortisation (EBITDA)

Chorus calculate EBIT by adding back finance expense and income tax to, and subtracting finance income from, net earnings. EBITDA adds back depreciation and amortisation expense to EBIT. A reconciliation of EBIT and EBITDA is provided below and based on amounts taken from, and consistent with, those presented in the financial statements.

Year ended 30 June	2022 \$M	2021 (RESTATED) \$M
Net earnings for the year reported under NZ IFRS	64	51
Add back: income tax expense	42	27
Add back: finance expense	142	153
Subtract: finance income	–	(1)
EBIT	248	230
Add back: depreciation	335	333
Add back: amortisation	92	94
EBITDA	675	657

Note 1 – Network assets

In the Consolidated statement of financial position, network assets are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of additions to network assets and work in progress constructed by Chorus includes the cost of all materials used in construction, direct labour costs specifically associated with construction, interest costs that are attributable to the asset, resource management consent costs and attributable overheads.

Repairs and maintenance costs are recognised in the Consolidated income statement as incurred. If the useful life of the asset is extended or the asset is enhanced then the associated costs are capitalised.

Estimating useful lives and residual values of network assets

The determination of the appropriate useful life for a particular asset requires management to make judgements about, amongst other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of Chorus ceasing to use the asset in business operations.

Where an item of network assets comprises major components having different useful lives, the components are accounted for as separate items of network assets.

Where the remaining useful lives or recoverable values have diminished due to technological, regulatory or market condition changes, depreciation is accelerated. The assets' residual values, useful lives, and methods of depreciation are reviewed annually and adjusted prospectively, if appropriate.

Depreciation is charged on a straight-line basis to write down the cost of network assets to their estimated residual value over their estimated useful life.

Estimated useful lives are as follows:

Fibre cables	20-30 years
Ducts, manholes, and poles	20-50 years
Copper cables	10-30 years
Cabinets	5-20 years
Property	5-50 years
Network electronics	2-25 years
Right of use assets	10-50 years
Other	2-10 years

Other network assets include motor vehicles, test instruments and tools and plant.

An item of network assets and any significant part is derecognised upon disposal or when no future economic benefits are expected from its use. Where network assets are disposed of, the profit or loss recognised in the Consolidated income statement is calculated as the difference between the sale price and the carrying value of the asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Land and work in progress are not depreciated. Work in progress is reviewed on a regular basis to ensure that costs represent future assets.

30 June 2022	Fibre cables \$M	Ducts, manholes, and poles \$M	Copper cables \$M	Cabinets \$M	Property \$M	Network electronics \$M	Right of use assets \$M	Other \$M	Work in progress \$M	Total \$M
Cost										
Balance at 1 July 2021	2,497	2,965	2,415	715	458	1,872	301	5	179	11,407
Additions	166	195	9	16	17	50	7	–	181	641
Disposals	–	–	–	–	(1)	(160)	(10)	–	–	(171)
Transfers from work in progress	–	–	–	–	–	–	–	–	(219)	(219)
Relinquishments and modifications	–	–	–	–	–	–	(64)	–	–	(64)
Balance at 30 June 2022	2,663	3,160	2,424	731	474	1,762	234	5	141	11,594
Accumulated depreciation										
Balance at 1 July 2021	(842)	(717)	(2,111)	(503)	(289)	(1,593)	(79)	(4)	–	(6,138)
Depreciation	(122)	(61)	(61)	(22)	(19)	(62)	(15)	–	–	(362)
Disposals	–	–	–	–	1	160	10	–	–	171
Balance at 30 June 2022	(964)	(778)	(2,172)	(525)	(307)	(1,495)	(84)	(4)	–	(6,329)
Net carrying amount	1,699	2,382	252	206	167	267	150	1	141	5,265

30 June 2021	Fibre cables \$M	Ducts, manholes, and poles \$M	Copper cables \$M	Cabinets \$M	Property \$M	Network electronics \$M	Right of use assets \$M	Other \$M	Work in progress \$M	Total \$M
Cost										
Balance at 1 July 2020	2,276	2,754	2,409	693	435	1,811	292	5	166	10,841
Additions	222	211	6	22	28	67	11	1	265	833
Disposals	(1)	–	–	–	(5)	(6)	(2)	(1)	–	(15)
Transfers from work in progress	–	–	–	–	–	–	–	–	(252)	(252)
Balance at 30 June 2021	2,497	2,965	2,415	715	458	1,872	301	5	179	11,407
Accumulated depreciation										
Balance at 1 July 2020	(729)	(659)	(2,048)	(473)	(275)	(1,537)	(64)	(4)	–	(5,789)
Depreciation	(114)	(58)	(63)	(30)	(18)	(62)	(15)	–	–	(360)
Disposals	1	–	–	–	4	6	–	–	–	11
Balance at 30 June 2021	(842)	(717)	(2,111)	(503)	(289)	(1,593)	(79)	(4)	–	(6,138)
Net carrying amount	1,655	2,248	304	212	169	279	222	1	179	5,269

There are no restrictions on Chorus' network assets or any network assets pledged as securities for liabilities.

At 30 June 2022 the contractual commitments for acquisition and construction of the network assets was \$79 million (30 June 2021: \$119 million).

Note 1 – Network assets (cont.)

Crown funding

Chorus receives funding from the Crown to finance the capital expenditure associated with the development of the UFB network and other services. Where funding is used to construct assets, it is offset against depreciation over the life of the assets constructed.

Refer to note 7 for information on Crown funding.

Impairment

The carrying amounts of non-financial assets including network assets, software and other intangibles and customer retention assets are reviewed at the end of each reporting period for any indicators of impairment.

If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised in earnings whenever the carrying amount of an asset exceeds its estimated recoverable amount. Should the conditions that gave rise to the impairment loss no longer exist, and the assets are no longer considered to be impaired, a reversal of an impairment loss would be recognised immediately in earnings. In the period to 30 June 2022, there was no impairment in relation to the costs capitalised (30 June 2021: no impairment).

The recoverable amount is the greater of an asset's value in use and fair value less costs to sell. Chorus' assets do not generate independent cash flows and are therefore assessed from a single cash-generating unit perspective. In assessing the recoverable amount, the estimates of future cash flows are discounted to their net present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the business.

Right of use assets

	Fibre cables \$M	Ducts, manholes, and poles \$M	Property \$M	Total \$M
Balance 1 July 2020	9	42	177	228
Additions	–	9	2	11
Relinquishments	–	–	(2)	(2)
Depreciation	(1)	(4)	(10)	(15)
Balance at 30 June 2021	8	47	167	222
Additions	–	5	2	7
Relinquishments and modifications	–	–	(64)	(64)
Depreciation	(1)	(4)	(10)	(15)
Balance at 30 June 2022	7	48	95	150

Property exchanges

Chorus has leased exchange space and commercial co-location space owned by Spark which is subject to lease arrangements (included within right of use assets). Chorus in turn leases exchange space and commercial co-location space owned by Chorus to Spark under an operating lease arrangement.

Capitalised interest

Finance costs are capitalised on qualifying items of network assets and software assets at an annualised rate of 4.00% (30 June 2021: 4.25%). Interest is capitalised over the period required to complete the assets and prepare them for their intended use. In the current year finance costs totalling \$2 million (30 June 2021: \$2 million) have been capitalised against network assets and software assets.

Right of use assets

A right of use asset is recognised on commencement of a lease. The right of use asset is initially measured at cost, which is made up of the initial lease liability amount adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight-line method until the assumed end of the lease term. The right of use asset is periodically adjusted for certain remeasurements of the lease liability.

Movements in right of use assets for the period are presented below:

During the period modifications were recognised to the arrangement where Chorus is the lessee which resulted in a reduction in the right of use asset associated with the lease. Refer to note 5 for further information.

Note 2 – Software and other intangible assets

Software and other intangible assets are initially measured at cost. The direct costs associated with the development of network and business software for internal use are capitalised where project success is probable and the capitalisation criteria is met. Following initial recognition, software and other intangible assets are stated at cost less accumulated amortisation and impairment losses. Software and other intangible assets with a finite life are amortised from the date the asset is ready for use on a straight-line basis over its estimated useful life which is as follows:

Software	2-10 years
Other intangibles	6-35 years

Other intangibles mainly consist of land easements.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated.

30 June 2022	Software \$M	Other intangibles \$M	Work in progress \$M	Total \$M
Cost				
Balance at 1 July 2021	873	6	22	901
Additions	55	–	50	105
Disposals	(10)	–	–	(10)
Transfers from work in progress	–	–	(55)	(55)
Balance at 30 June 2022	918	6	17	941
Accumulated amortisation				
Balance at 1 July 2021	(736)	(1)	–	(737)
Amortisation	(62)	–	–	(62)
Disposals	10	–	–	10
Balance at 30 June 2022	(788)	(1)	–	(789)
Net carrying amount	130	5	17	152

30 June 2021	Software \$M	Other intangibles \$M	Work in progress \$M	Total \$M
Cost				
Balance at 1 July 2020	788	6	42	836
Additions	85	–	65	150
Transfers from work in progress	–	–	(85)	(85)
Balance at 30 June 2021	873	6	22	901
Accumulated amortisation				
Balance at 1 July 2020	(676)	(1)	–	(677)
Amortisation	(60)	–	–	(60)
Balance at 30 June 2021	(736)	(1)	–	(737)
Net carrying amount	137	5	22	164

There are no restrictions on software and other intangible assets, or any intangible assets pledged as securities for liabilities.

At 30 June 2022 the contractual commitment for acquisition of software and other intangible assets was \$2 million (30 June 2021: \$4 million).

Note 3 – Customer retention assets

Customer retention costs are incremental costs incurred in acquiring new contracts with new and existing customers that Chorus expects are recoverable and are capitalised as customer retention assets. These represent various costs including commissions and incentives for customers to connect to the fibre network. Following initial recognition, customer retention assets are stated at cost less accumulated amortisation and impairment losses. Customer retention assets have a finite life and are amortised from the month that costs are capitalised on a straight-line basis over the average connection life which is as follows:

New connections and migrations	1-4 years
Customer incentives	1 year

Customer retention assets are amortised to the Consolidated income statement, either as amortisation expense or against operating revenue, based on the nature of the specific costs capitalised.

	New connections and migrations \$M	Customer incentives \$M	Total \$M
Balance at 1 July 2020 (net carrying amount)	54	2	56
Additions	37	4	41
Amortisation to amortisation expense	(34)	–	(34)
Amortisation to operating revenue	–	(4)	(4)
Balance at 30 June 2021 (net carrying amount)	57	2	59
Additions	31	3	34
Amortisation to amortisation expense	(30)	–	(30)
Amortisation to operating revenue	–	(4)	(4)
Balance at 30 June 2022 (net carrying amount)	58	1	59

Note 4 – Debt

Debt is classified as non-current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

Debt is initially measured at fair value, less any transaction costs that are directly attributable to the issue of the instruments. Debt is subsequently measured at amortised cost using the effective interest method. Some borrowings are designated in

fair value hedge relationships, which means that any change in market interest and foreign exchange rates result in a change in the fair value adjustment on that debt.

The weighted effective interest rate on debt including the effect of derivative financial instruments and facility fees was 3.77% (30 June 2021: 4.16%).

	Due date	2022 \$M	2021 \$M
Syndicated bank facilities	Jul 2022	190	140
Euro medium term notes EUR	Oct 2023	828	858
Euro medium term notes EUR	Dec 2026	464	511
Fixed rate NZD Bonds	Dec 2027	200	200
Fixed rate NZD Bonds	Dec 2028	500	500
Fixed rate NZD Bonds	Dec 2030	154	182
Less: facility fees		(14)	(18)
Total Debt		2,322	2,373
Current		190	140
Non-current		2,132	2,233

Syndicated bank facilities

As at 30 June 2022 Chorus had a \$350 million committed syndicated facility on market standard terms and conditions (30 June 2021: \$350 million). The facility is held with banks that are rated A to AA-, based on Standard & Poor's ratings. As at 30 June 2022, \$190 million of this facility was drawn down (30 June 2021: \$140 million).

Note 4 – Debt (cont.)

Euro Medium Term Note (EMTN)

	Face value	Interest rate	2022 \$M	2021 \$M
EUR 500 million		1.13%	828	858
EUR 300 million		0.88%	464	511

Chorus holds cross currency interest rate swaps to hedge the foreign currency exposure to the EMTN. The cross currency interest rate swaps entitle Chorus to receive EUR principal and EUR fixed coupon payments for NZD principal and NZD floating interest payments. The EUR cross currency interest rate swaps (notional amount EUR 800 million) are partially hedged for the NZD interest payments using interest rate swaps.

The EUR 500 EMTN cross currency interest rate swaps (notional amount EUR 500 million) are partially hedged for the NZD interest payments using interest rate swaps. The EUR 300 cross currency interest rate swaps (notional amount EUR 300 million) are fully hedged for the NZD interest payments using interest rates swaps.

The following table reconciles EMTN at hedged rates to EMTN carrying value based on spot rates as reported under NZ IFRS. EMTN at hedged rates is a non-GAAP measure and is not defined by NZ IFRS:

	2022 EUR 300 \$M	2021 EUR 300 \$M	2022 EUR 500 \$M	2021 EUR 500 \$M
EMTN (at carrying value)	464	511	828	858
Impact of fair value hedge	40	(2)	11	(9)
Impact of hedged rates used	10	5	(54)	(64)
EMTN at hedged rates (non-GAAP measure)	514	514	785	785

The fair value of EMTNs is calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date and is determined using Level 2 of the fair value hierarchy as described in Note 20. At balance date the fair value of the EURO 500 million EMTN was \$837 million

(30 June 2021: \$878 million) compared to a carrying value of \$828 million (30 June 2021: \$858 million) and the fair value of the EUR 300 million EMTN is \$461 million (30 June 2021: \$526 million) compared to a carrying value of \$464 million (30 June 2021: \$511 million).

Fixed rate NZD bonds

	Due date	Interest rate	2022 \$M	2021 \$M
Fixed rate NZD Bonds	Dec 2027	1.98%	200	200
Fixed rate NZD Bonds	Dec 2028	4.35%	500	500
Fixed rate NZD Bonds	Dec 2030	2.51%	154	182
Total fixed rate NZD Bonds			854	882

The fixed rate on the 2030 NZD Bonds has been swapped to a floating rate using interest rate swaps, creating a fair value hedge which has a fair value of \$154 million at balance date (notional amount \$200 million). This hedging relationship was entered to comply with the Chorus Treasury Policy which does not allow for greater than 70% of term debt to be subject to fixed interest rates beyond a three year time period.

At 30 June 2022, Chorus had \$900 million of unsecured, unsubordinated debt securities (30 June 2021: \$900 million).

Note 4 – Debt (cont.)

Schedule of maturities

	2022 \$M	2021 \$M
Current	190	140
Due one to two years	828	–
Due two to three years	–	858
Due three to four years	–	–
Due four to five years	464	–
Due over five years	854	1,393
Total due	2,336	2,391
Less: facility fees	(14)	(18)
	2,322	2,373

No debt has been secured against assets, however there are financial covenants and event of default triggers as defined in the various debt agreements. During the current year Chorus complied with the requirements set out in its financing agreements (30 June 2021: complied).

Refer to note 20 for information on financial risk management.

Finance expense

	2022 \$M	2021 \$M
Interest on syndicated bank facility	6	5
Interest on EMTN	51	47
Interest on fixed rate NZD bonds	32	43
Ineffective portion of changes in fair value of cash flow hedges	(7)	(4)
Other interest expense	23	30
Capitalised interest	(2)	(2)
Total finance expense excluding CIP securities (notional) interest	103	119
CIP securities (notional) interest	39	34
Total finance expense	142	153

Other interest expense includes \$15 million lease interest expense (30 June 2021: \$20 million) and \$7 million of amortisation arising from the difference between fair value and proceeds realised from the swaps reset (30 June 2021: \$7 million).

Note 5 – Leases

Chorus is a lessee of certain network assets under lease arrangements. For all leases Chorus recognises assets and liabilities in the Consolidated statement of financial position, except those determined to be short-term or low value. On inception of a new lease, the lease payable is measured at

the present value of the remaining lease payments, discounted at Chorus' incremental borrowing rate at that date. Lease costs are recognised through interest expense over the life of the lease. The corresponding right of use asset incurs depreciation over the estimated useful life of the asset.

Chorus' discounted cash flows by category are summarised below:

	2022 \$M	2021 \$M
Fibre cables	11	14
Ducts, manholes and poles	51	49
Property	125	201
Total lease payable	187	264
Current	13	10
Non-current	174	254

Extension options

Most leases contain extension options exercisable by Chorus up to one year before the end of the non-cancellable contract period. Where practicable, Chorus seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by Chorus and not by the lessors. Chorus assesses at lease commencement whether it is reasonably certain the extension options will be exercised, and where it is reasonably certain, the extension period has been included in the lease liability calculation. Chorus reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Chorus has a lease arrangement with Spark for exchange and commercial co-location spaces which was renewed during the period. As part of the renewal, a number of co-location spaces have been identified which Chorus intend to exit over a 10-year period. Judgement has been applied by Chorus in determining the likely timing of exit of these spaces which is subsequently reflected in the lease liability and corresponding right of use assets.

The amounts recognised in the Consolidated income statement and the Consolidated statement of cash flows relating to leases are summarised below:

	2022 \$M	2021 \$M
<i>Amounts recognised in Consolidated income statement:</i>		
Interest on lease payable	15	20
<i>Amounts recognised in Consolidated statement of cash flows:</i>		
Principal payments	(14)	(8)
Lease interest	(15)	(20)

Note 6 – Crown Infrastructure Partners (CIP) securities

Chorus receives Crown funding to finance construction costs associated with the development of the UFB network. Funding is received for every premises passed and certified by CIP.

Funding has been received over two phases. Phase one of the build (UFB1) was completed in December 2019 with a total of \$924 million of funding received. Phase two (UFB2 and UFB2+) is ongoing, with total committed funding available expected to be \$411 million, and is expected to be completed in December 2022.

In return for funding under both phases, CIP debt securities and CIP equity securities are issued. Under UFB1 CIP warrants were also issued. Under the UFB2 and UFB2+ arrangement, Chorus can elect the mix of securities to be issued up to a maximum of \$306 million of equity securities. This maximum was reached during the year ended 30 June 2022.

The CIP debt and equity securities are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. The fair value is derived by discounting the equity securities and debt securities per premises passed by the effective rate based on market rates. The difference between funding received and the fair value of the securities is recognised as Crown funding. Over time, the CIP debt and equity securities increase to face value and the Crown funding is released against depreciation and reduces to nil.

CIP debt securities

CIP debt securities are unsecured, non-interest bearing and carry no voting rights at meetings of holders of Chorus ordinary shares. Chorus is required to redeem the CIP debt securities in tranches from 2025 by repaying the face value to the holder.

The principal amount of CIP debt securities consists of a senior portion and a subordinated portion. The senior portion ranks equally with all other unsecured, unsubordinated creditors of Chorus, and has the benefit of any negative pledge covenant that may be contained in any of Chorus' debt arrangements. The subordinated portion ranks below all other Chorus indebtedness but above ordinary shares of Chorus. The initial value of the senior portion is the present value of the sum repayable on the CIP debt securities, and the initial subordinated portion will be the difference between the issue price of the CIP debt security and the value of the senior portion.

CIP equity securities

CIP equity securities are a class of non-interest bearing security that carry no right to vote at meetings of holders of Chorus ordinary shares but entitle the holder to a preferential right to repayment on liquidation and additional rights that relate to Chorus' performance under its construction contract with CIP.

For UFB1 equity securities, dividends will become payable on a portion of the CIP equity securities from 2025 onwards, with the portion of CIP equity securities that attract dividends increasing over time. For UFB2 and UFB2+ equity securities, dividends will become payable from 2030.

CIP equity securities can be redeemed by Chorus at any time by payment of the issue price or issue of new ordinary shares (at a 5% discount to the 20-day volume weighted average price) to the holder. In limited circumstances CIP equity securities may be converted by the holder into voting preference or ordinary shares.

The CIP equity securities are required to be disclosed as a liability until the liability component of the compound instrument expires.

CIP warrants

Under UFB1 Chorus issued warrants to CIP for nil consideration along with each tranche of CIP equity securities. Each CIP warrant gives CIP the right, on a specified exercise date, to purchase at a set strike price a Chorus share to be issued by Chorus. The strike price for a CIP warrant is based on a total shareholder return of 16% per annum on Chorus shares over the period December 2011 to June 2036.

At 30 June 2022, Chorus had issued a total 15,138,187 warrants which had a fair value and carrying value that approximated zero (30 June 2021: 14,678,063 warrants issued). The number of fibre connections made by 30 June 2022 impacts the number of warrants that could be exercised.

At 30 June 2022, the component parts of CIP debt and equity instruments, including notional interest, were:

	2022			2021		
	CIP debt securities \$M	CIP equity securities \$M	Total CIP securities \$M	CIP debt securities \$M	CIP equity securities \$M	Total CIP securities \$M
Fair value on initial recognition						
Balance at 1 July	176	234	410	176	184	360
Additional securities recognised at fair value	13	16	29	–	50	50
Balance at 30 June	189	250	439	176	234	410
Accumulated notional interest						
Balance at 1 July	63	72	135	49	52	101
Notional interest	15	24	39	14	20	34
Balance at 30 June	78	96	174	63	72	135
Total CIP securities	267	346	613	239	306	545

Note 6 – Crown Infrastructure Partners (CIP) securities (cont.)

The fair value of CIP debt securities at balance date was \$260 million (30 June 2021: \$296 million) compared to a carrying value of \$267 million (30 June 2021: \$239 million). The fair value of CIP equity securities at balance date was \$333 million (30 June 2021: \$357 million) compared to a carrying value of \$346 million (30 June 2021: \$306 million). The fair value has been calculated using discount rates from market rates at balance date and is a level 2 valuation of the fair value hierarchy as described in note 20.

Key assumptions in calculations on initial recognition

On initial recognition, discount rates between 5.71% and 7.31% were used for the CIP debt securities (30 June 2021: no debt securities issued), while discount rates between 6.26% and 7.80% were used for the CIP equity securities (30 June 2021: 5.18% to 6.67%) to discount the expected cash flows, based on the NZ swap curve. The swap rates were adjusted for Chorus specific credit spreads (based on market observed credit spreads for debt issued with similar credit ratings and tenure). The discount rate on the CIP equity securities is capped at Chorus' estimated cost of (ordinary) equity.

Note 7 – Crown funding

Crown funding is recognised at fair value where there is reasonable assurance that the funding is receivable and all attached conditions will be complied with. Crown funding is then recognised in earnings as a reduction to depreciation expense on a systematic basis over the useful life of the asset the funding was used to construct.

	2022					2021 RESTATED				
	UFB \$M	WCSNB \$M	RBI \$M	Other \$M	Total \$M	UFB \$M	WCSNB \$M	RBI \$M	Other \$M	Total \$M
Fair value on initial recognition										
Balance at 1 July	780	24	242	16	1,062	707	–	242	16	965
Additional funding recognised at fair value	41	16	–	–	57	73	24	–	–	97
Balance at 30 June	821	40	242	16	1,119	780	24	242	16	1,062
Accumulated amortisation of funding										
Balance at 1 July	(92)	–	(54)	(10)	(156)	(74)	–	(46)	(9)	(129)
Amortisation	(20)	–	(7)	–	(27)	(18)	–	(8)	(1)	(27)
Balance at 30 June	(112)	–	(61)	(10)	(183)	(92)	–	(54)	(10)	(156)
Total Crown funding	709	40	181	6	936	688	24	188	6	906
Current					27					25
Non-current					909					881

Prior period restatement

Refer to page 34 for further understanding of the prior period restatement of Crown funding. The total restatement of \$49m reduced the current Crown funding balance by \$2 million and the non-current balance by \$47 million.

Ultra-Fast Broadband (UFB)

Chorus receives Crown funding to finance construction costs associated with the development of the UFB network. During the period Chorus has recognised funding for 37,000 premises where the premises were passed and tested by CIP under UFB 2 and UFB 2+ (30 June 2021: 67,000). This brings the total number of premises passed and tested by CIP at 30 June 2022 to approximately 1,014,000 (30 June 2021: 977,000).

Continued recognition of the full amount of the Crown funding is contingent on certain material performance targets being met by Chorus. The most significant of these material performance targets relate to compliance with certain specifications under user acceptance testing by CIP. Performance targets to date have been met.

West Coast Southland Network Build (WCSNB)

Chorus receives Crown funding to finance capital expenditure associated with the development of the West Coast Southland Network. One dollar of funding can be claimed for each dollar of allowable costs incurred by Chorus, up to a maximum funding limit agreed with CIP. Under phases 1 and 2 of the agreement, approximately \$46 million of funding is expected to be received.

Other

Chorus has received funding in the past towards school lead-ins and extending the network coverage to rural areas.

Note 8 – Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses and for which operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

Chorus' Chief Executive Officer (CEO) has been identified as the chief operating decision maker for the purpose of segmental reporting.

Chorus has determined that it operates in one segment providing nationwide fixed line communications infrastructure.

The determination is based on the reports reviewed by the CEO in assessing performance, allocating resources and making strategic decisions.

All of Chorus' operations are provided in New Zealand, therefore no geographic information is provided.

Three Chorus customers met the reporting threshold of 10 percent of Chorus' operating revenue in the year to 30 June 2022.

The total revenue for the year ended 30 June 2022 from these customers was \$354 million (30 June 2021: \$372 million), \$171 million (30 June 2021: \$178 million) and \$116 million (30 June 2021: \$120 million).

Note 9 – Operating revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Chorus recognises revenue when it transfers control of a product or service to a customer and cash collection is considered probable. Revenue is presented net of rebates and incentives.

Chorus services provided to customers	Nature, performance obligation and timing of revenue
Fibre and copper connections	Providing access to the Chorus fixed lines network to enable connections to the internet. Chorus recognises revenue as it provides this service to its customers at a point in time. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue is deferred in respect of the portion of fixed monthly charges that have been billed in advance.
Value added network services	Providing enhanced access to the Chorus fixed line network to enable internet access, through backhaul and handover link services to connect across wider areas and to higher quality levels. Recognition is the same as described for fibre and copper connections above.
Infrastructure	Providing physical storage and site-sharing rental services for co-location of third party or shared assets. This is billed and recognised on a monthly basis, based on a point in time.
Field services products	Providing services in the field to protect, strengthen, and increase the available network – for example, installation services, wiring and consultation services. This is billed and recognised as the service is provided over time. Revenue from installation of connections is recognised upon completion of the connection.

Revenue by service

	2022 \$M	2021 RESTATED \$M
Fibre broadband (GPON)	548	477
Copper based broadband	153	203
Field services products	71	70
Fibre premium (P2P)	66	68
Copper based voice	52	68
Infrastructure	30	27
Value added network services	27	30
Data services over copper	6	9
Other	12	3
Total operating revenue	965	955

Note 9 – Operating revenue (cont.)

Amounts collected on behalf of third parties

Revenue is exclusive of amounts collected on behalf of third parties, which totaled \$26 million in the year (30 June 2021: \$41 million). Any amounts collected but not yet passed to the third party are recognised within trade and other payables.

Note 10 – Operating expenses

	2022 \$M	2021 \$M
Labour	64	74
Network maintenance	59	63
Information technology	50	48
Other network costs	29	29
Electricity	17	18
Rent and rates	14	12
Property maintenance	14	12
Advertising	11	13
Regulatory levies	9	8
Consultants	8	7
Insurance	4	4
Provisioning	1	2
Other	10	8
Total operating expenses	290	298

Labour

Labour of \$64 million (30 June 2021: \$74 million) represents employee costs which are not capitalised. Additionally, a one-off benefit of \$9 million was released to labour following a judicial ruling on an interpretation of the Holidays Act in the period.

Pension contributions

Included in labour costs are payments to the New Zealand Government Superannuation Fund of \$275,000 (30 June 2021: \$299,000) and contributions to KiwiSaver of \$2.9 million (30 June 2021: \$3.0 million). At 30 June 2022 there were 11 employees in New Zealand Government Superannuation Fund (30 June 2021: 11 employees) and 724 employees in KiwiSaver (30 June 2021: 740 employees). Chorus has no other obligations to provide pension benefits in respect of employees.

Charitable and political donations

Other costs include charitable donations of \$138,000 towards digital inclusion, environmental, health and social initiatives (30 June 2021: \$223,000 towards digital inclusion and health initiatives). Chorus does not make any political donations (30 June 2021: nil).

Auditor remuneration

Fees paid to auditors are included within other expenses. Fees paid in relation to the audit as well as other services provided during the period were:

	2022 \$000s	2021 \$000s
Audit and review of statutory financial statements	589	552
Regulatory audit and assurance work	209	459
Other assurance services ¹	30	–
Other services ²	–	10
Total other services	239	469
Total fees paid to the auditor	828	1,021

¹ Other assurance services relate to EMTN refresh comfort letters (30 June 2021: no other assurance services provided).

² No other services were provided were in the current period (30 June 2021: preparation and presentation of hedge accounting training).

Note 11 – Trade and other receivables

Trade and other receivables are initially recognised at the fair value of the amounts to be received, plus transaction costs (if any). They are subsequently measured at amortised cost (using the effective interest method) less impairment losses.

	2022 \$M	2021 \$M
Trade receivables	97	92
Other receivables	17	11
Prepayments	12	21
Trade and other receivables	126	124
Current	125	122
Non-current	1	2

Included within other receivables is \$0.8 million of unbilled revenue (30 June 2021: \$0.8 million).

Trade receivables are non-interest bearing and are generally on terms of 20 working days or less.

Chorus applies the simplified approach in providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. The provision for impairment losses are either individually or collective assessed based on number of days overdue. Chorus takes into account the historical loss

experience and incorporate forward looking information and relevant macroeconomic factors.

Chorus maintains a provision for impairment losses when there is objective evidence of its customers being unable to make required payments and makes provision for doubtful debt where debt is more than 60 days overdue. There have been no significant individual impairment amounts recognised as an expense during the period. Trade receivables are net of allowances for disputed balances with customers.

The ageing profile of trade receivables is as follows:

	2022 \$M	2021 \$M
Not past due	92	86
Past due 1-30 days	5	6
	97	92

Chorus has a concentrated customer base consisting predominantly of a small number of retail service providers. The concentrated customer base heightens the risk that a dispute with a customer, or a customer's failure to pay for services, will have a material adverse effect on the collectability of receivables.

Any disputes arising that may affect the relationship between the parties will be raised by relationship managers and follow a dispute resolution process. Chorus has \$5 million of accounts receivable that are past due but not impaired (30 June 2021: \$6 million). The carrying value of trade and other receivables approximates the fair value. The maximum credit exposure is limited to the carrying value of trade and other receivables.

Note 12 – Trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs (if any). They are subsequently measured at amortised cost using the effective interest method. Trade and other payables are non-interest bearing and are normally settled within 30 day terms. The carrying value of trade and other payables approximates their fair values.

	2022 \$M	2021 \$M
Trade payables	61	68
Operating expense accruals	54	58
Capital expenditure accruals	49	68
Personnel accruals	17	14
Revenue billed in advance	99	81
Trade and other payables	280	289
Current	264	278
Non-current	16	11

Note 13 – Commitments

Network infrastructure project agreement

Chorus is committed to deploying infrastructure for premises in the UFB2 and UFB2+ candidate areas awarded to Chorus, to be built according to annual build milestones and to be completed no later than December 2022. In total it is expected that the communal infrastructure for UFB2 and UFB2+ will pass an estimated 223,000 premises. Chorus has estimated it will cost \$548 to \$568 million to build the communal UFB2 and UFB2+ network by the end of 2022.

West Coast Southland Network Build (WCSNB) agreement

Chorus has signed a contract with CIP to deploy fibre in Milford Sound and on the West Coast of the South Island. Chorus will receive funding from CIP of up to \$46 million in relation to the build. Refer to note 7 for further information.

Capital expenditure

Refer to note 1 and note 2 for details of capital expenditure commitments.

Lease commitments

Refer to note 5 for details of lease commitments.

Note 14 – Taxation

Income tax expense

Income tax expense for the current year comprises current and deferred tax, and is recognised in the Consolidated income statement, except to the extent it relates to items recognised in the Consolidated statement of other comprehensive income or directly in equity. In these cases, income tax expense is recognised in the Consolidated statement of other comprehensive income or directly in equity.

	2022 \$M	2021 RESTATED \$M
Recognised in Consolidated income statement		
Net earnings before tax	106	78
Tax at 28%	30	22
<i>Tax effect of adjustments</i>		
Other non-taxable items	6	5
Adjustments in respect of prior periods	6	–
Tax expense recognised in Consolidated income statement		
<i>Comprising:</i>		
Current tax expense/(benefit)		
– Current year	5	3
– Adjustments in respect of prior periods	(8)	–
Deferred tax expense		
– Adjustments in respect of prior periods	14	–
– Depreciation, provisions, accruals, leases & other	31	24
	42	27
Recognised in other comprehensive income		
Net movement in hedging related reserves	154	83
Tax at 28%	43	23
Tax expense recognised in other comprehensive income		
<i>Comprising:</i>		
Deferred tax expense/(benefit)		
	43	23
	43	23

In addition, Chorus recognised income tax amounts directly in retained earnings as a result of the restatement of the roadworks recognition adjustment. Refer to page 34 for further information.

Note 14 – Taxation (cont.)

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. The amount of the deferred tax is based on the expected manner of realisation of the carrying amount of assets and liabilities, using the tax rates enacted or substantially enacted at reporting year end. A deferred tax asset is recognised only to the extent it is probable it will be utilised.

Chorus Limited and Chorus New Zealand Limited were consolidated on 1 July 2021 for tax purposes, resulting in the consolidation of deferred tax balances and income tax receivable and payable balances within the consolidated balance sheet as at 30 June 2022. This, alongside the movement in the deferred tax assets and liabilities for the period, is presented below.

Deferred tax liability/(asset)

	Changes in fair value of hedging reserves \$M	Finance leases \$M	Total deferred tax asset \$M	Network, software, customer retention and other intangible assets \$M	Other \$M	Total deferred tax liability \$M
Balance at 1 July 2020	(44)	(72)	(116)	338	12	350
Recognised in Income statement	–	–	–	18	6	24
Recognised in other comprehensive income	23	–	23	–	–	–
Balance at 30 June 2021	(21)	(72)	(93)	356	18	374
Balance at 1 July 2021	(21)	(72)	356	18	281	
Prior period adjustment	–	–	–	–	14	14
Recognised in the Income statement	–	22	(1)	10	31	
Recognised in other comprehensive income	43	–	–	–	–	43
Balance at 30 June 2022	22	(50)	355	42	369	

Imputation credits

Chorus has a negative imputation credit account balance of \$4 million as at 30 June 2022 (30 June 2021: positive \$33 million). The account balance was positive as at 31 March 2022 and 31 March 2021.

Note 15 – Cash, call deposits, and cash overdraft

Cash and call deposits are held with bank and financial institution counterparties rated at a minimum of A, based on rating agency Standard & Poor's ratings.

There are no cash or call deposit balances held that are not available for use. Chorus has a \$10 million overdraft facility which is used in normal course of operations.

The carrying values of cash and call deposits approximate their fair values. The maximum credit exposure is limited to the carrying value of cash and call deposits.

Cash and call deposits denominated in foreign currencies are retranslated into New Zealand dollars at the spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the Consolidated income statement.

Cash flow

Cash flows from derivatives in cash flow and fair value hedge relationships are recognised in the Consolidated statement of cash flows in the same category as the hedged item.

For the purposes of the Consolidated statement of cash flows, cash is considered to be cash on hand, in banks and cash equivalents, including bank overdrafts and highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in values.

Note 16 – Equity

Share capital

Movements in Chorus Limited's issued ordinary shares were as follows:

	2022 Number of shares (millions)	2021 Number of shares (millions)
Balance 1 July	447	444
Dividend reinvestment plan	5	3
Share buyback	(5)	–
Balance at 30 June	447	447

Chorus Limited has 446,512,440 fully paid ordinary shares (30 June 2021: 447,024,884). The issued shares have no par value. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of Chorus Limited. Under Chorus Limited's constitution, Crown approval is required if a shareholder wishes to have a holding of 10% or more of Chorus Limited's ordinary shares, or if a shareholder who is not a New Zealand national wishes to have a holding of 49.9% or more of ordinary shares.

Chorus Limited issues securities to CIP based on the number of premises passed. CIP securities are a class of security that carry no right to vote at meetings of holders of Chorus Limited ordinary shares but carry a preference on liquidation. Refer to note 6 for additional information on CIP securities.

Should Chorus Limited return capital to shareholders, any return of capital that arose on demerger may be taxable as Chorus Limited had zero available subscribed capital on demerger.

Dividends

On 12 October 2021 and 12 April 2022, fully imputed dividends of 14.5 cents per share and 14 cents per share respectively were paid to shareholders. These two dividend payments totalled \$128 million (30 June 2021: 24.5 cents, \$109 million).

Eligible shareholders (those resident in New Zealand or Australia) can choose to have Chorus Limited reinvest all or part of their dividends in additional Chorus Limited shares. 4,687,851 shares with a total value of \$31 million (30 June 2021: 2,533,324 shares, \$23 million) were issued in lieu of dividends.

Share buyback

In February 2022, Chorus commenced an on-market share buyback programme. The programme will purchase up to \$150 million of shares and may run up to 12 months with shares being acquired through the NZX and ASX. As at 30 June 2022, 5,200,295 shares had been repurchased from the market or a total of \$38 million. The buyback does not give rise to a tax liability.

Long-term performance share scheme

Chorus operates a long-term performance share scheme for selected key management personnel. Under the legacy option plan, selected key management personnel were issued shares. This was superseded by a new long-term performance share scheme in July 2019 under which key senior management are issued share-rights instead of issuing shares.

The new scheme is equity settled and treated as an option plan for accounting purposes. Each tranche of each grant is valued separately. The absolute performance hurdle is valued using Monte Carlo simulations.

The final grant issued under the legacy share scheme vested on 27 August 2021, with the absolute performance hurdle of actual total shareholder return equaling or being greater than 10.35% per annum compounding met.

In August 2021, Chorus issued a tranche of share rights under the new scheme. The shares have a vesting date of 27 August 2024 and an expiry date of 27 August 2025. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equaling or being greater than 6.2% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve-month period. A total of 168,727 share rights were issued in the tranche.

The combined option cost for the year ended 30 June 2022 of \$546,000 has been recognised in the Consolidated income statement (30 June 2021: \$399,000).

Reserves

Refer to note 19 for information on the cash flow hedge reserve and cost of hedging reserve.

Note 17 – Earnings per share

The calculation of basic earnings per share at 30 June 2022 is based on the net earnings for the year of \$64 million (30 June 2021: \$51 million), and a weighted average number of ordinary shares outstanding during the period of 448 million (30 June 2021: 446 million), calculated as follows:

	2022	RESTATED
Basic earnings per share		
Net earnings attributable to ordinary shareholders (\$ millions)	64	51
Denominator – weighted average number of ordinary shares (millions)	448	446
Basic earnings per share (dollars)	0.14	0.11
Diluted earnings per share		
Net earnings attributable to ordinary shareholders (\$ millions)	64	51
Weighted average number of ordinary shares (millions)	448	446
Ordinary shares required to settle CIP equity securities (millions)	114	121
Ordinary shares required to settle CIP warrants (millions)	15	15
Denominator – diluted weighted average number of shares (millions)	577	582
Diluted earnings per share (dollars)	0.11	0.09

The number of ordinary shares that would have been required to settle all CIP equity securities and CIP warrants on issue at 30 June has been used for the purposes of the diluted earnings per share calculation.

Note 18 – Related parties

Subsidiaries

The financial statements include Chorus Limited and its subsidiaries as listed below:

Name of entity	Location	2022 ownership	2021 ownership
Chorus New Zealand Limited	New Zealand	100%	100%
Chorus LTI Trustee Limited	New Zealand	100%	100%

All day-to-day operations of the business occur within Chorus New Zealand Limited including the building and maintenance of the network, sales and marketing, and the supporting corporate function. Chorus LTI Trustee Limited is the trustee entity for the legacy LTI scheme and is expected to be wound up in the coming financial period following the vesting of the final grant issue under the scheme.

Transactions with related parties

Key management personnel are defined as those persons having authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, and include the Directors, the Chief Executive, and his direct reports. Certain key management personnel have interests in a number of companies that Chorus has transactions within the normal course of business.

Key management personnel compensation

	2022 \$000s	2021 \$000s
Short term employee benefits	6,738	7,785
Termination benefits	–	595
Share based payments	527	468
	7,265	8,848

This table includes gross remuneration of \$1.1 million paid to Directors (30 June 2021: \$1.1 million) and \$6.2 million paid to key management personnel for the year (30 June 2021: \$7.7 million).

Refer to note 16 for details of long-term incentives.

Note 19 – Derivatives and hedge accounting

Chorus uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates, interest rates and the spot price of electricity. The use of hedging instruments is governed by the Treasury Policy approved by the Board. Derivatives are held at fair value with an adjustment made for credit risk in accordance with NZ IFRS 9: Financial Instruments. The derivatives are considered Level 2 investments as defined in Note 20.

Treatment of any fair value gains or losses depends on whether the derivative is designated as a hedging instrument. If the derivative is not designated as a hedging instrument, the remeasurement gain or loss is recognised immediately in the Consolidated income statement.

Hedge accounting

Chorus designates derivatives held for hedging as either:

- Cash flow hedges (of highly probable forecast transactions); or
- Fair value hedges (of the fair value of recognised assets or liabilities or firm commitments).

At inception each hedge relationship is formalised in hedge documentation.

Derivatives in hedge relationships are designated based on a 1:1 hedge ratio. In these hedge relationships ineffectiveness is generally driven by the effect of the credit risk on the fair value of the derivatives, which is not reflected in the change in the fair value of the hedged item attributable to changes in foreign exchange and interest rates. Ineffectiveness is also recognised in relation to the restructured interest rate swaps – refer below for further information.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. On discontinuation, any cumulative gain or loss previously recognised in Other comprehensive income is recognised in the Consolidated income statement either at the same time as the forecast transaction, or immediately if the transaction is no longer expected to occur.

Cash flow hedges

Under a cash flow hedge, the effective portion of gains or losses from remeasuring the fair value of the hedging instrument is recognised in Other comprehensive income and accumulated in the cash flow hedge reserve. Accumulated gains or losses are subsequently transferred to the Consolidated income statement when the hedged item affects the Income statement, or when the hedged item is a forecast transaction that is no longer expected to occur. Alternatively, when the hedged item results in a non-financial asset or liability, the accumulated gains and losses are included in the initial measurement of the cost of the asset or liability.

Differences in the hedged values will flow to finance expense in the Consolidated income statement over the life of the derivatives as ineffectiveness. Neither the magnitude or direction of these differences can be predicted as they are influenced by external market factors. In the current year, ineffectiveness was \$7 million across the hedge relationships (30 June 2021: \$4 million) Refer to note 4.

As long as the existing cash flow hedge relationships remain effective, any future gains or losses will be processed through the hedge equity reserves.

A reconciliation of movements in the cash flow hedge reserve is outlined below:

	2022 \$M	2021 \$M
Balance at 1 July	38	105
Changes in cash flow hedges	(133)	(86)
Amortisation of de-designated cash flow hedges transferred to Income statement	(7)	(7)
Tax expense/(benefit)	39	26
Closing balance at 30 June	(63)	38

Fair value hedges

Under a fair value hedge, the hedged item is revalued at fair value in respect of the hedged risk. This revaluation is recognised in the Consolidated income statement to offset the mark-to-market revaluation of the hedging derivative, except for any adjustment on the hedging derivative relating to credit risk.

Once hedging is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the Income statement from that date through to maturity of the hedged item. If the hedged item is derecognised any corresponding fair value hedge adjustment is immediately recognised in the Consolidated income statement.

To hedge the interest rate risk and foreign currency risk on the EUR EMTNs, Chorus uses cross currency interest rate swaps. For hedge accounting purposes, these swaps were aggregated and designated as two cash flow hedges and a fair value hedge. Chorus hedges a portion of the EUR EMTNs for Euro fixed rate interest to Euro floating rate interest via a fair value hedge. In this case, the change in the fair value of the hedged risk is also attributed to the carrying value of the EMTNs (refer to note 4).

Note 19 – Derivatives and hedge accounting (cont.)

Cost of hedging

The cost of hedging reserve captures changes in the fair value of the cost to convert foreign currency to NZD of Chorus' cross currency interest rate swaps on the EUR EMTNs.

A reconciliation of movements in the cost of hedging reserve is outlined below:

	2022 \$M	2021 \$M
Balance at 1 July	13	6
Change in currency basis spreads (when excluded from the designation)	(14)	10
Tax (benefit)/expense	4	(3)
Closing balance at 30 June	3	13

Derivatives

Interest rate swaps

As at 30 June 2022 Chorus holds all interest rate swaps in designated hedging relationships.

All interest rate swaps which are designated as cash flow hedges are held in effective hedging relationships and their unrealised gains or losses are recognised in the cash flow hedge reserve.

Chorus has also entered into two interest rate swaps which are designated as fair value hedges. They have a combined face value of \$200 million and were entered in conjunction with the 10 year NZD bonds issued on 2 December 2020, with the intention of swapping the interest exposure from a fixed to a floating rate.

Restructured interest rate swaps

Three interest rate swaps have been restructured: two in December 2018 and one in February 2020.

The two December 2018 restructured interest rate swaps have a combined face value of \$500 million and were reset in conjunction with the resettable NZD fixed rate bond issued in December 2018 to hedge interest rate exposure from December 2023. As part of the restructure the original hedge relationship was discontinued and on termination there was a net present value of \$14 million recognised in the cash flow hedge reserve. This amount was held in the cash flow hedge reserve as the hedged item still exists and is amortised over the original hedge period. The unamortised balance of the original fair values at 30 June 2022 is \$8 million (30 June 2021: \$11 million).

The interest rate swap restructured in February 2020 had a face value of \$200 million and was reset to be in conjunction with the EUR 300 million EMTN issued in December 2019 to hedge interest rate exposure from April 2020. The original hedge relationship was discontinued and on termination had a net present value of \$27 million. This amount was held in the cash flow hedge reserve as the hedged item still exists and will be amortised over the original hedge period. The unamortised balance of the original fair values at 30 June 2022 was \$17 million (30 June 2021: \$21 million).

Cross-currency interest rate swaps

In conjunction with the EMTN EUR 500 million issued in October 2016 and the EMTN EUR 300 million issued in December 2019, Chorus entered into cross-currency interest rate swaps to hedge the foreign currency and foreign interest rate risks on the EUR EMTNs. Using the cross-currency interest rate swaps, Chorus will pay New Zealand Dollar floating interest rates and receive EUR nominated fixed interest with coupon payments matching the underlying notes. Chorus designated the EMTN and cross-currency interest rate swaps into three-part hedging relationships for each issue:

- a fair value hedge of EUR benchmark interest rates,
- a cash flow hedge of margin, and
- a cash flow hedge of the principal exchange.

Under the cross-currency swaps Chorus will pay and receive the following on maturity:

	Maturity	Principal – receive leg (EUR M)	Principal – pay leg (\$M)
EUR EMTN 500	Oct 2023	500	785
EUR EMTN 300	Dec 2026	300	514

Note 19 – Derivatives and hedge accounting (cont.)

Hedging instruments used (pre-tax):

				Life to date values as at 30 June 2022				Year to date values recognised during the year ended 30 June 2022				
				Carrying amount of the hedging instrument				Hedge effectiveness in reserves		Hedge effectiveness	Hedge ineffectiveness	
	Currency	Maturity years	Average rate	Nominal amount of the hedging instrument \$M	Assets \$M	Liabilities \$M	Change in value used for calculating hedge ineffectiveness \$M	Cost of hedging reserve \$M	Cash flow hedge (OCI) \$M	Cash flow reclassified to the Income statement \$M	Fair value hedge recognised in the Income statement \$M	Recognised in the Income statement \$M
Cash flow hedges												
Interest rate swaps (including -forward starting)	NZD	2-7	1.50%	864	77	–	77	–	65	–	–	–
Restructured interest rate swaps 2018 (forward starting)	NZD	7	4.41%	500	–	(9)	7	–	42	2	–	2
Restructured interest rate swap 2020	NZD	5	3.35%	200	5	–	33	–	20	5	–	5
Forward exchange rate contracts	NZD:USD	1-2	0.7065	6	6	–	6	–	6	–	–	–
Electricity futures	NZD	1-3	NA	NA	4	–	4	–	2	(4)	–	–
Fair value hedges												
Interest rate swaps	NZD	9	Floating	200	–	(45)	(45)	–	–	–	(27)	–
Fair value and cash flow hedges												
Cross currency interest rate swaps	NZD:EUR	2	Floating	785	37	–	42	(5)	(9)	9	(20)	–
Cross currency interest rate swaps	NZD:EUR	5	Floating	514	–	(56)	(56)	–	(4)	6	(42)	–
Total hedged derivatives				3,069	129	(110)	68	(5)	122	18	(89)	7
Current					9	–						
Non-current					120	(110)						

Note 19 – Derivatives and hedge accounting (cont.)

	Life to date values as at 30 June 2021							Year to date values recognised during the year ended 30 June 2021				
	Carrying amount of the hedging instrument							Hedge effectiveness in reserves	Hedge effectiveness	Hedge ineffectiveness		
	Currency	Maturity years	Average rate	Nominal amount of the hedging instrument	Assets \$M	Liabilities \$M	Change in value used for calculating hedge ineffectiveness \$M	Cost of hedging reserve \$M	Cash flow hedge (OCI) \$M	Cash flow reclassified to the Income statement \$M	Fair value hedge recognised in the Income statement \$M	Recognised in the Income statement \$M
Cash flow hedges												
Interest rate swaps (including forward starting)	NZD	3-8	1.50%	864	12	–	12	–	41	–	–	–
Restructured interest rate swaps 2018 (forward starting)	NZD	8	4.41%	500	–	(53)	(37)	–	32	–	–	(2)
Restructured interest rate swap 2020	NZD	6	3.35%	200	–	(20)	8	–	15	–	–	5
Forward exchange rate contracts	NZD:USD	1-2	0.6903	52	–	(1)	(1)	–	(1)	(1)	–	–
Forward exchange rate contracts	NZD:SEK	1-2	5.9298	43	–	–	–	–	–	–	–	–
Electricity futures	NZD	1-3	NA	NA	5	–	6	–	6	(1)	–	–
Fair value hedges												
Interest rate swaps	NZD	10	Floating	200	–	(18)	(18)	–	–	–	(18)	1
Fair value and cash flow hedges												
Cross currency interest rate swaps	NZD:EUR	3	Floating	785	58	–	71	(13)	(20)	21	4	–
Cross currency interest rate swaps	NZD:EUR	6	Floating	514	–	(15)	(10)	(6)	(12)	13	4	–
Total hedged derivatives				3,158	75	(107)	31	(19)	61	32	(10)	4
Current				4	(1)							
Non-current				71	(106)							

All hedging instruments can be found in the derivative finance assets and liabilities within the Consolidated statement of financial position. Items taken to the Consolidated income statement have been recognised in finance expenses (refer note 4).

Credit risk associated with derivative financial instruments is managed by ensuring that transactions are executed with counterparties with high quality credit ratings along with credit exposure limits for different credit classes. The counterparty credit risk is monitored and reviewed by the Board on a regular basis.

Note 20 – Financial risk management

Chorus' activities expose it to a variety of financial risks, including market risk (currency risk, electricity price risk and interest rate risk) credit risk and liquidity risk. Financial risk management for currency and interest rate risk is carried out by the treasury function under policies approved by the Board. Chorus' risk management policy, approved by the Board, provides the basis for overall financial risk management.

Chorus uses derivatives to hedge its financial risk exposures and does not hold or issue derivative financial instruments for trading purposes. The risk associated with these transactions is the cost of replacing these agreements at the current market rates in the event of default by a counterparty.

A summary of the financial risks that impact Chorus, how they arise and how they are managed is presented below:

Nature and exposure to Chorus	How the risk is managed
Market risk	
Electricity price risk Chorus is exposed to electricity price volatility through the purchase of electricity at spot prices.	Chorus has entered into fixed electricity futures contracts to reduce the exposure to electricity spot price movements. These contracts are designated as cash flow hedge relationships. A 10% increase or decrease in the spot price of electricity, with all other variables held constant, would have minimal impact on profit and equity reserves of Chorus.
Currency risk Chorus' exposure to foreign currency fluctuations predominantly arises from foreign currency debt and future commitments to purchase foreign currency denominated assets. The primary objective in managing foreign currency risk is to protect against the risk that Chorus' assets, liabilities and financial performance will fluctuate due to changes in foreign currency exchange rates. Chorus has EUR 800 million foreign currency debt in the form of EMTN.	Chorus enters into forward foreign exchange contracts and cross currency interest rate swaps to manage the foreign exchange exposure. The EUR EMTN has in place cross currency interest rate swaps under which Chorus receives principal and fixed coupon payments in EUR for principal and floating NZD interest payments. The exchange gain or loss resulting from the translation of EMTN denominated in foreign currency to NZD is recognised in the Consolidated income statement. The movement is offset by the translation of the principal value of the related cross-currency interest rate swap. As at 30 June 2022, Chorus did not have any significant unhedged exposure to currency risk (30 June 2021: no significant unhedged exposure to currency risk). A 10% increase or decrease in the exchange rate, with all other variables held constant, would have minimal impact on profit and equity reserves of Chorus.
Interest rate risk Chorus is exposed to interest rate risk arising from the cross-currency interest rate swaps converting the foreign debt into a floating rate NZD obligation as well as loans under the syndicated bank facility which are subject to floating interest rates and the fixed to floating interest rate swaps which hedge the 2030 NZD Bond. Chorus is also exposed to changes in the fair value of the fixed interest 2030 NZD Bond due to fluctuations in the benchmark interest rate.	Where appropriate, Chorus aims to reduce the uncertainty of changes in interest rates by entering into interest rate swaps to fix the effective interest rate to minimise the cost of net debt and manage the impact of interest rate volatility on earnings. The interest rate risk on a portion of the EUR cross currency interest rate swaps has been hedged using interest rate swaps. Refer to note 19 for further information.
Other risks	
Credit risk In the normal course of business, Chorus incurs counterparty credit risk from financial instruments, including cash, trade and other receivables, and derivatives.	Credit risk is managed by entering into contracts with creditworthy financial institutions. Refer to individual notes for additional information on credit risk. Chorus has certain derivative transactions that are subject to bilateral credit support agreements that require Chorus or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2022 no collateral was posted.
Liquidity risk Liquidity risk is the risk that Chorus will encounter difficulty raising liquid funds to meet commitments as they fall due or foregoing investment opportunities, resulting in defaults or excessive debt costs. Prudent liquidity risk management implies maintaining sufficient cash and the ability to meet its financial obligations.	Chorus manages liquidity risk by ensuring sufficient access to committed facilities, continuous cash flow monitoring and maintaining prudent levels of short-term debt maturities.

Interest rate risk

Analysis of Chorus' interest rate repricing is outlined below:

	Within 1 Year \$M	1-2 Years \$M	2-3 Years \$M	3-4 Years \$M	4-5 Years \$M	Greater than 5 years \$M	Total \$M
30 June 2022							
Floating rate							
Debt (after hedging)	635	–	–	–	–	–	635
Fixed rate							
Debt (after hedging)	190	350	–	–	514	700	1,754
CIP securities	–	–	–	140	–	473	613
	825	350	–	140	514	1,173	3,002
30 June 2021							
Floating rate							
Debt (after hedging)	635	–	–	–	–	–	635
Fixed rate							
Debt (after hedging)	140	–	350	–	–	1,214	1,704
CIP securities	–	–	–	–	132	413	545
	775	–	350	–	132	1,627	2,884

Interest rate sensitivity analysis

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	2022 \$M Profit/(loss)	2022 \$M Equity (increase)/ decrease	2021 \$M Profit/(loss)	2021 \$M Equity (increase)/ decrease
100 basis point increase	1	(6)	1	(4)
100 basis point decrease	(1)	7	(1)	5

Credit risk

The maximum exposure to credit risk at the reporting date was as follows:

	Notes	2022 \$M	2021 \$M
Cash and call deposits	15	88	53
Trade and other receivables	11	126	103
Derivative financial instruments	19	129	75
Maximum exposure to credit risk		343	231

Refer to individual notes for additional information on credit risk.

Note 20 – Financial risk management (cont.)

Liquidity risk

Chorus manages liquidity risk by ensuring sufficient access to committed facilities, continuous cash flow monitoring and maintaining prudent levels of short-term debt maturities. At balance date, Chorus had available \$350 million under the syndicated bank facilities (30 June 2021: \$350 million). \$190 million of the facilities have been drawn down as at 30 June 2022 (30 June 2021: \$140 million).

The gross (inflows)/outflows of derivative financial liabilities disclosed in the table below represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out prior to contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement (for example forward exchange contracts).

30 June 2022	Carrying amount \$M	Contractual cashflow \$M	Within 1 Year \$M	1-2 Years \$M	2-3 Years \$M	3-4 Years \$M	4-5 Years \$M	5+ Years \$M
Non-derivative financial liabilities								
Trade and other payables	280	280	264	16	–	–	–	–
Leases (net settled)	187	113	11	10	10	10	9	62
Debt	2,322	2,487	45	1,409	14	14	585	420
CIP securities	613	1,259	–	–	171	–	–	1,088
Derivative financial liabilities								
<i>Interest rate swaps</i>								
Outflows	54	65	6	7	8	9	9	26
<i>Cross currency interest rate swaps:</i>								
Inflows	–	(593)	(4)	(5)	(5)	(5)	(576)	–
Outflows	56	649	28	31	31	30	529	–
<i>Forward exchange contracts:</i>								
Inflows	–	(3)	(3)	–	–	–	–	–
Outflows	–	21	21	–	–	–	–	–
30 June 2021	Carrying amount \$M	Contractual cashflow \$M	Within 1 Year \$M	1-2 Years \$M	2-3 Years \$M	3-4 Years \$M	4-5 Years \$M	5+ Years \$M
Non derivative financial liabilities								
Trade and other payables	289	289	278	11	–	–	–	–
Leases (net settled)	264	429	17	17	17	17	17	344
Debt	2,373	2,707	189	47	896	38	38	1,499
CIP securities	545	545	–	–	–	–	132	413
Derivative financial liabilities								
<i>Interest rate swaps</i>								
Interest rate swaps	79	89	13	10	12	12	10	32
<i>Cross currency interest rate swaps:</i>								
Inflows	58	(1,502)	(14)	(14)	(893)	(5)	(5)	(571)
Outflows	15	1,450	33	40	815	18	20	524
<i>Forward exchange contracts:</i>								
Inflows	1	(84)	(59)	(25)	–	–	–	–
Outflows	–	86	61	25	–	–	–	–

Note 20 – Financial risk management (cont.)

Master netting arrangements

Chorus enters into derivative transactions under the International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the Consolidated statement of financial position, as Chorus does not currently have any legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events

such as a default on the bank loans or other credit events. The potential net impact of this offsetting is shown below. Chorus does not hold, and is not required to post, collateral against its derivative positions.

Net derivatives after applying rights of offset under ISDA agreements are as below:

	Gross amounts of financial instruments in the statement of financial position \$M	Related financial instruments that are not offset \$M	Net amount \$M
30 June 2022			
Financial assets			
Interest rates swaps	77	(45)	32
Cross currency interest rate swaps	37	(37)	–
Restructured interest rate swaps	5	(5)	–
Forward exchange contracts	6	–	6
Electricity futures	4	–	4
	129	(87)	42
Financial liabilities			
Interest rates swaps	(45)	45	–
Cross currency interest rate swaps	(56)	37	(19)
Restructured interest rate swaps	(9)	5	(4)
	(110)	87	(23)

30 June 2021

Financial assets			
Interest rate swaps	12	(12)	–
Electricity futures	5	–	5
Cross currency interest rate swaps	58	(15)	43
	75	(27)	48
Financial liabilities			
Interest rates swaps used for hedging	(18)	12	(6)
Cross currency interest rate swaps	(15)	15	–
Restructured interest rate swaps	(73)	–	(73)
Forward exchange contracts	(1)	–	(1)
	(107)	27	(80)

Fair value

Financial instruments are either carried at amortised cost, less any provision for impairment losses, or fair value. The only significant variances between instruments held at amortised cost and their fair value relate to the EMTN and the 2030 NZD Bond.

For those instruments recognised at fair value in the statement of financial position, fair values are determined as follows:

- Level 1 Fair value is determined using unadjusted quoted prices from an active market for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, a dealer, a broker, an industry group, a pricing service or a regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 Fair value is determined using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets. Where quoted prices are not available, the fair value of financial instruments is valued using models where all significant inputs are observable.
- Level 3 Fair value is determined using significant non-observable inputs. Financial instruments are valued using models where one or more significant inputs are not observable.

Note 20 – Financial risk management (cont.)

All financial instruments held at fair value are Level 2 instruments. Relevant financial assets and financial liabilities and their fair values are detailed in note 19.

Valuation of level 2 derivatives

The fair values of level 2 derivatives are determined using discounted cash flow models. The key inputs in the valuation models are:

Instrument	Valuation input
Cross-currency interest rate swaps	Forward curve for the relevant interest rate and foreign exchange rate
Interest rate swaps	Forward interest rate curve
Electricity swaps	ASX forward price curve
Foreign exchange contracts	Forward foreign exchange rate curves

Hedge accounting

Chorus designates and documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. At hedge inception (and on an ongoing basis), hedges are assessed to establish if they are effective in offsetting changes in fair values or cash flows of hedged items.

Hedges are classified into two primary types: cash flow hedges and fair value hedges. Refer to note 19 for additional information on cash flow and fair value hedge reserves.

Capital risk management

Chorus manages its capital considering shareholders' interests, the value of its assets and credit ratings. The capital Chorus manages consists of cash and debt balances.

The Chorus Board's broader capital management objectives include maintaining an investment grade credit rating with headroom. In the longer term, the Board continues to consider a 'BBB' rating appropriate for a business such as Chorus.

Note 21 – Contingent liabilities

There are no contingent liabilities as at 30 June 2022.

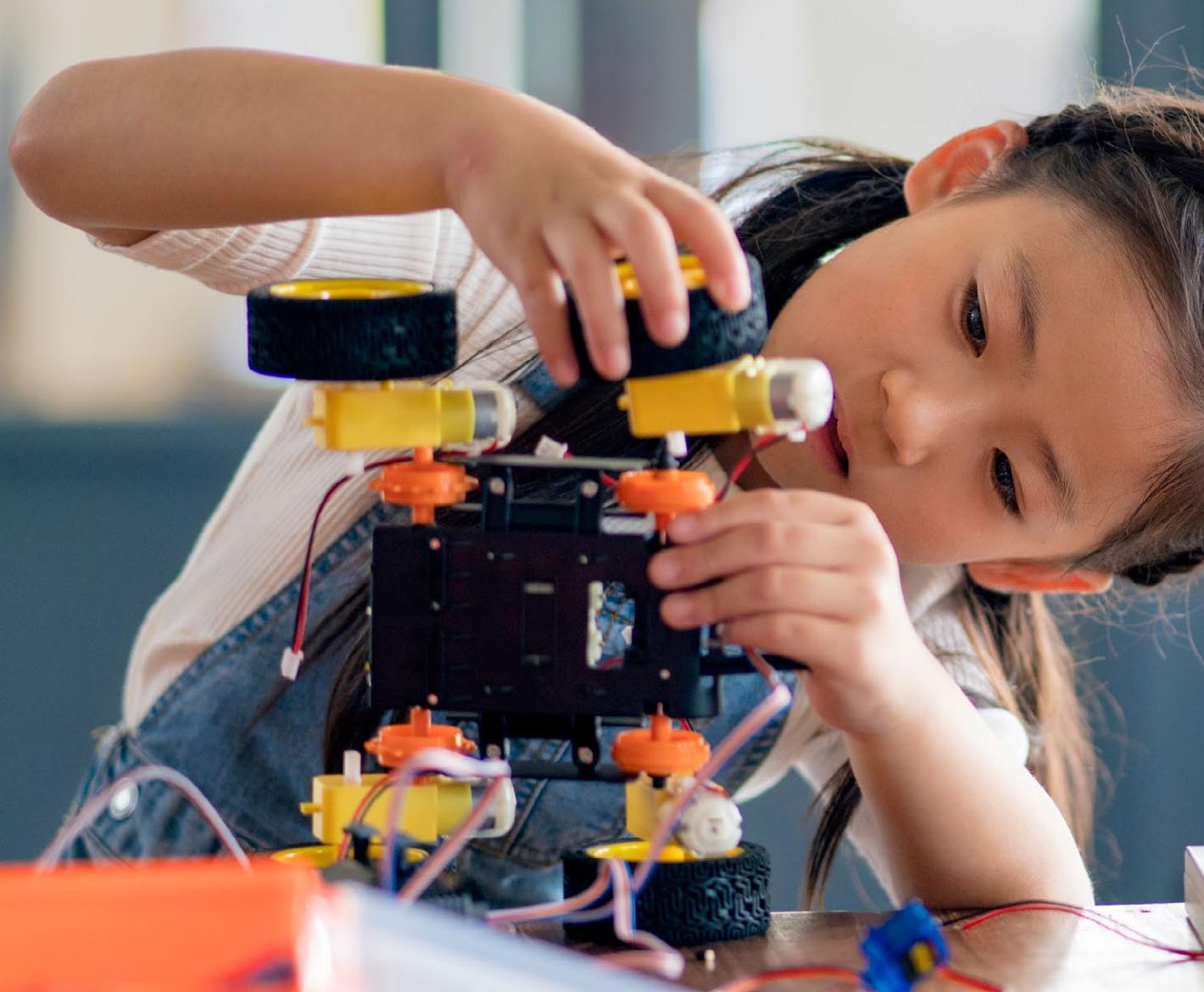
Note 22 – Subsequent events

Dividends

On 22 August 2022 Chorus declared an unimputed dividend of 21.0 cents per share in respect of the year ended 30 June 2022.

CIP securities and Crown funding

There was one call notice issued subsequent to balance date.



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Our Board



Sue Bailey
Graduate Diploma
in Marketing
(with Distinction) from
RMIT University

Director since
31 October 2019
Independent

Sue has over 30 years experience in telecommunications, across fixed telephony, mobile and broadband. She has worked for Telstra, Virgin Mobile and most recently for Optus where she was a member of the executive leadership team.

From 2010 to 2013, Sue was the CEO for Virgin Mobile Australia, a fully owned subsidiary of Optus. Prior to that, she was a Senior Vice President at Virgin Mobile USA where her responsibilities included product marketing, customer lifecycle management and analytics. Sue's career began in Telstra, where she held a range of marketing and product roles. Sue is a director of CareFlight and a member of the Australian Institute of Company Directors.

Sue is on our People, Performance and Culture Committee.



Mark Cross
BBS (Accounting &
Finance), CA

Director since
1 November 2016
Independent

Mark is an experienced director with more than 20 years of international experience in corporate finance and investment banking.

Mark was chair of Milford Asset management (retiring 1 July 2022) and is currently a board member and investment committee chair of Accident Compensation Corporation (ACC) and director of Xero. He is also a former director of Genesis Energy, Z Energy and Argosy Property.

Mark is a member of Chartered Accountants Australia and New Zealand, a chartered member of the Institute of Directors NZ and a member of the Australian Institute of Company Directors.

Mark is chair of our Audit and Risk Management Committee, and on our Nominations and Corporate Governance Committee.

* Mark Cross has been appointed as the new Chair of Chorus following Patrick Strange's resignation. Mark's appointment takes effect from the end of the annual shareholders' meeting in October 2022.



Miriam Dean
CNZM, QC

Director since
27 October 2021
Independent

As a Queen's Counsel and independent director, Miriam has more than 38 years' experience in commercial dispute resolution and 25 years' experience in governance, with a specialty in competition, consumer and regulatory law.

Miriam also has significant experience in the infrastructure and regulatory sectors, most notably as a current director of Ōtākaro Limited (the Crown-owned company responsible for the central city anchor projects following the Canterbury earthquakes), a former director of Crown Infrastructure Partners, a former deputy chair of Auckland Council Investments, and a former deputy chair of the Commerce Commission.

Miriam is currently chair of the Banking Ombudsman Scheme, deputy chair of the Real Estate Institute of New Zealand, and a member of a number of central and local government-related advisory boards.

Miriam is on our People, Performance and Culture Committee.



Murray Jordan
MProp

Director since
1 September 2015
Independent

Murray has extensive experience in the management of highly customer focussed organisations and in navigating extremely complex environments, including as managing director of Foodstuffs North Island, one of New Zealand's largest companies.

Murray has also previously held various general manager positions at Foodstuffs and management roles in the property investment and development sectors. He is a director of Metlifecare, Metcash Limited, Southern Cross Medical Care Society, Southern Cross Healthcare Limited, Stevenson Group, and a Board trustee of Starship Foundation.

Murray is chair of our People, Performance and Culture Committee.

Our Board and management are committed to ensuring our people act ethically, with integrity and in accordance with our policies and values.



Kate Jorgensen
MTF, BBus, CA

Director since 1 July 2020
Independent

Kate has significant governance, strategy, commercial, financial and audit experience and has held a number of senior leadership positions within the telecommunications, infrastructure and construction industries in New Zealand.

Most recently, she was CFO of Vodafone New Zealand. Prior to that, Kate was CFO of KiwiRail, CFO of Fletcher Building's infrastructure division and a senior audit manager for KPMG.

Kate was a former advisory Board member of the New Zealand Sustainable Business Council.

Kate is a member of Chartered Accountants Australia and New Zealand and Chartered Member of the Institute of Directors NZ.

Kate is a member of our Audit and Risk Management Committee.



Jack Matthews
BA Philosophy, College of William and Mary

Director since 1 July 2017
Independent

Jack is an experienced director who has held a number of senior leadership positions within the media, telecommunications and technology industries in Australia and New Zealand.

Jack has extensive telecommunications industry experience having been CEO of TelstraSaturn during the period they deployed their HFC network in New Zealand, as well as a former director of Crown Fibre Holdings, the Crown agency overseeing the rollout of New Zealand's fibre infrastructure network.

Formerly, Jack was CEO of Fairfax Media's Metro Division, CEO of Fairfax Digital and Chief Operating Officer of Jupiter TV (Japan).

Jack is currently a director of Plexure Group and New Zealand Golf Network Limited and a former director of The Network for Learning, APN Outdoor Group and Trilogy International.

Jack is on our Audit and Risk Management Committee.



Patrick Strange
BE (Hons), PhD

Chair*
Director since 6 April 2015
Independent

Patrick has spent 30 years working as a senior executive and director in both private and listed companies, including more than six years as Chief Executive of Transpower where he oversaw Transpower's \$3.8 billion of essential investment in the National Grid.

Patrick is currently chair of Auckland International Airport, and a director of Mercury NZ. Patrick is chair of our Nominations and Corporate Governance Committee.

* Patrick has resigned as a Director and Chair of Chorus effective from the end of Chorus Annual Shareholders' Meeting in October 2022.

Corporate governance framework

This statement outlines the key aspects of our corporate governance framework and was approved by our Board on 19 August 2022.

As a New Zealand company listed on the NZX, our corporate governance policies and practices meet or exceed the standards of that market. We have adopted and fully followed the recommendations set out in the NZX Corporate Governance Code.

Although we have an ASX "foreign exempt" listing status¹ we also continue to take the ASX Corporate Governance Code into account in our governance practices and policies.

Our Board regularly reviews and assesses our governance policies, processes and practices to identify opportunities for enhancement.

Chorus is, for the second year, publishing its sustainability report (Sustainability Report), reflecting our ambition to support New Zealand in its transition to be more sustainable. The Sustainability Report contains information on our sustainability strategy, including our environmental focus, our commitment to strengthening the digital capability in New Zealand, and our commitment to helping our people thrive. New Zealand is also in the process of implementing mandatory climate-related disclosures for many large companies, including Chorus, to take effect from next year. We continue to refine our climate-related risk and reporting framework to help New Zealand meet its international obligations and to provide stakeholders with meaningful climate-related information.

Our corporate governance practices are outlined on the following pages, in our Sustainability Report and available at www.chorus.co.nz/governance.

Key corporate governance documents are also available at www.chorus.co.nz/governance.

Our Board's role

Our Board is appointed by shareholders and has overall responsibility for strategy, culture, health and safety, governance and performance.

Board membership

Our Board's skills, experience and composition support effective governance and decision making, positioning it to add value.

Supported by the Nominations and Corporate Governance Committee (NCGC) our Board regularly assesses its composition utilising a skills matrix and annual evaluation processes. Training is provided or recruitment undertaken if new or additional skills or experience is required. This ensures diversity of thought, skills and expertise and that our Board remains aligned with our strategic direction.

Our constitution provides for a minimum of five and a maximum of 12 directors.

As at 30 June 2022 we had seven directors all of whom are independent directors. We have four male directors and three female directors. Our CEO is not a director on our Board.

Directors are not appointed for specified terms. However, the NZX listing rules compulsorily require that no director term exceeds three years, requiring all directors to stand again for re-election before their third anniversary. Due to Chorus' succession planning, Chorus has at least one director standing for re-election each year. Patrick Strange and Murray Jordan both stood for re-election in 2021, while Miriam Dean stood for election as a new director.

We recognise that women and ethnic minorities are still under-represented in the leadership of New Zealand businesses and our Board remains actively conscious of this in its succession planning. More information on our approach to diversity is set out on page 80 and in our Sustainability Report, available at www.company.chorus.co.nz/sustainability.

¹ An ASX foreign exempt listing is based on the principle of substituted compliance. This means our primary obligation is to comply with the NZX listing rules (as our home exchange). As a result we do not need to follow or report against compliance with the ASX Corporate Governance Code.

Summary¹ of our Board's roles and responsibilities:

Culture	<ul style="list-style-type: none"> • Leading culture "from the top" so our culture is consistent with our values
Strategy & performance	<ul style="list-style-type: none"> • Engaging in ongoing strategy development in partnership with the executive team • Overseeing capital allocation • Overseeing the regulatory strategy as we transition to a new regulatory regime • Overseeing investments in non-regulated businesses • Approving, and reviewing performance against, our strategy and business plans (including capital expenditure and operating budgets)
Financial oversight & reporting	<ul style="list-style-type: none"> • Overseeing our accounting and reporting systems and, where appropriate, approving our financial and other external reporting • Overseeing and monitoring the performance of internal and external auditors • Overseeing our control and accountability systems • Overseeing long term capital management (balance sheet and dividends) • Setting, monitoring and reviewing our internal audit plan
Risk management	<ul style="list-style-type: none"> • Adopting and reviewing Chorus' risk management framework, including setting the risk appetite • Regularly reviewing principal risk reporting and mitigations
Health & safety	<ul style="list-style-type: none"> • Setting the strategy, culture and expectations in relation to health and safety
Board composition & performance	<ul style="list-style-type: none"> • Reviewing and evaluating Board, Board committee and individual director performance • Appointing new directors and members to Board committees
Governance	<ul style="list-style-type: none"> • Overseeing corporate governance, including reviewing key governance documents • Carrying out the functions specifically reserved to our Board and its committees under Board approved policies and committee charters • Monitoring compliance with our continuous disclosure obligations
People	<ul style="list-style-type: none"> • Reviewing and approving remuneration and people strategies, structures and policies • Appointing and removing our CEO, CFO, Chief Corporate Officer & General Counsel • Assessing the measurable objectives set for, and progress towards achieving, our diversity and inclusiveness goals
Significant transactions	<ul style="list-style-type: none"> • Approving major capital expenditure and business activities outside the limits delegated to management

¹ Summary primarily drawn from the Board Charter but also from other supporting governance documents.

Figure 10:

Director tenure

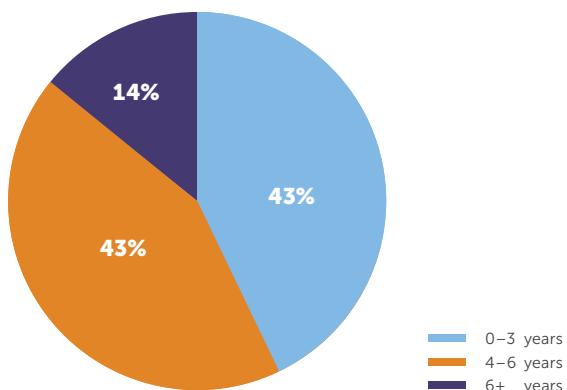
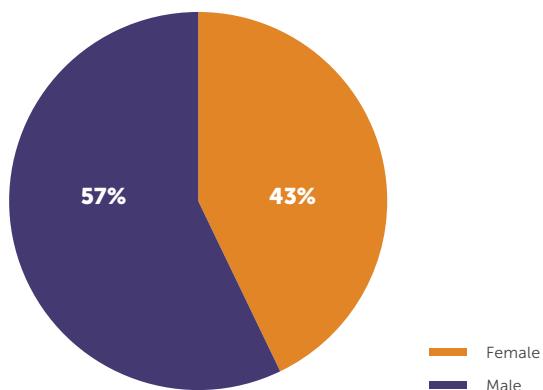


Figure 11:

Board gender diversity



Director	Appointed	Last elected at ASM
Miriam Dean	2021	2021
Murray Jordan	2015	2021
Patrick Strange	2015	2021
Mark Cross	2016	2019
Jack Matthews	2017	2020
Sue Bailey	2019	2019
Kate Jorgensen	2020	2020

Mark Cross and Sue Bailey are retiring by rotation and standing for re-election at our 2022 Annual Shareholders' Meeting (ASM). Patrick Strange will step down from the Board at this year's ASM.

Our Board has determined that collectively its directors have a broad range of managerial, financial, accounting and industry skills and experience in the key areas set out on the following page.

A summary of current directors skills, experience and qualifications is set out on our website at www.chorus.co.nz/governance.

As the Chorus business evolves, so too does the Board. Chorus' beginnings were focussed on infrastructure build and project management. With the success of the build, we are increasingly focussed on connecting customers and their experience as well as future connectivity and non-regulated revenue opportunities. The Board considers it is important to balance both specialist expertise and the ongoing need for strong general commercial expertise.

The following table reflects the strengths of the current Board based on a mix of key skills and experiences that are currently relevant for Chorus.

Skill/experience	Description	Combined Board
Capital markets and investment	Experience in, and understanding of, capital markets, market regulation, capital investment and the investor experience	
Communications connectivity and technology	Understanding, expertise and/or experience in communications connectivity, adopting new technologies, leveraging and implementing technologies	
Governance – financial, audit, legal, listed company	Experience with, and a commitment to, high corporate governance standards including in listed companies Understanding financial business drivers, and/or experience implementing or overseeing financial accounting, external reporting and internal financial controls	
Physical infrastructure and operations including contracting, safety and risk	Experience in leading, and/or understanding of, physical infrastructure operations, including contracting Commitment and experience in management of workplace safety Experience anticipating and identifying key risks and monitoring the effectiveness of risk management frameworks and controls	
Governance – executive experience in large businesses	Executive experience in leading large businesses, developing and implementing strategy and strategic objectives, assessing business plans and driving execution	
Infrastructure regulation	Understanding the current and developing regulatory environment, complexities and actual and potential impacts Expertise identifying and managing legal, regulatory, public policy and corporate affairs issues	
Customer experience	Experience in customer-led transformation, customer focus (at both a retailer and consumer level) and/or customer centric organisations	

■ Substantial experience ■ Moderate experience ■ Some experience

Appointment

Our Board may appoint additional directors to our Board or to fill a casual vacancy. Any director appointed by the Board is required to stand for election at the next ASM.

The independence, qualifications, skills and experience needed for the future and those of existing Board members are reviewed before appointing new directors. External advisors are also engaged to identify potential candidates.

To be eligible for selection, candidates must demonstrate appropriate qualities and satisfy our Board they will commit the time needed to be fully effective in their role.

Appropriate checks are undertaken before a candidate is appointed or recommended for election as a director, including as to the person's character, experience, education, criminal record and bankruptcy history.

Shareholders may also nominate candidates for appointment to our Board. In addition, under the agreements entered into with CIP relating to our UFB programme, CIP is entitled to nominate one person as an independent director, however CIP have never exercised this entitlement. Should this occur, our Board must consider this nomination in good faith, but the appointment (and removal) of any such person as a director is to be made by shareholders in the same way as other directors.

We have written agreements with each non-executive director setting out the terms of their appointment, including obligations and responsibilities, compliance with our policies (including code of ethics and securities trading) and ongoing professional development.

No person who is an 'associated person' of a telecommunications services provider in New Zealand may be appointed or hold office as a director.

Minimum shareholding policy

Chorus' Minimum Shareholding Policy sets the expectation on directors to hold, at a minimum, shares equal in value to one year's director base fee (after tax). If not held at their date of appointment (or the commencement date of the policy), the policy expects directors to accumulate this holding over the first three years from the relevant date.

Director induction and professional development

Our director induction programme ensures new directors are appropriately introduced to management and our business, provides directors with relevant industry knowledge and familiarises them with key governance documents and key stakeholders.

Our directors are expected to continue ongoing professional development to ensure they maintain appropriate expertise to effectively perform their duties.

We hold dedicated Board education sessions covering a range of topical matters, both technical and cultural.

Visits to our operations, briefings from key management, industry experts and key advisers, together with educational and stakeholder visits, are also arranged for our Board.

Review and evaluation of Board performance

Our Board uses performance and evaluation processes overseen by our NCGC. As part of this process our chair meets with directors individually to discuss performance.

Our Board also formally engages in annual reviews of our Board chair, and chairs of our standing Board committees.

In addition to Board performance reviews, our Board takes a future focussed approach to future Board capability, composition and the potential contribution of each existing director.

Independent advice

A director may, with our chair's prior approval, obtain independent professional advice (including legal advice) and request the attendance of advisers at Board and Board committee meetings.

Independence

All our directors are independent directors.

For a director to be considered independent our Board must affirmatively determine he or she does not have a disqualifying relationship as set out in our Board charter. These disqualifying relationships reflect those set out in the NZX listing rules and NZX and ASX corporate governance codes.

Our Board has not set financial materiality thresholds for determining independence but considers materiality in the context of each relationship and from the perspective of the parties to that relationship.

Delegation of authority

Our Board has overall responsibility for strategy, culture, health and safety, governance and performance.

Implementation of our Board approved strategy, business plan and governance frameworks, and responsibility for developing our culture and health and safety practices, is delegated by the Board to management through the CEO.

As such our CEO (with the support of his executive team) is responsible for Chorus' day-to-day management, operations and leadership, reporting to the Board on key performance, management and operational matters.

Our CEO sub-delegates authority to his executive team and they sub-delegate their authority to other Chorus employees within specified financial and non-financial limits.

Formal policies and procedures govern the parameters and operation of these delegations.

Three standing Board committees and one ad-hoc sub-committee also assist our Board in carrying out its responsibilities. Some Board responsibilities, powers and authorities are delegated to those committees.

Board committees

Board committees assist our Board by focusing on specific responsibilities in greater detail than is possible for the Board as a whole. Each standing Board committee and the ad-hoc sub-committee has a Board approved charter and chair. Committee members are appointed by our Board.

Other committees may be established and specific responsibilities, powers and authorities delegated to those committees and/or to particular directors.



Audit and Risk Management Committee (ARMC)

Role	Our ARMC assists our Board in overseeing our risk and financial management, accounting, audit and financial reporting
Members	Mark Cross (chair), Jack Matthews, Kate Jorgensen
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> Overseeing the quality and integrity of external financial reporting, financial management, internal controls and accounting policy and practice Regularly reviewing principal risk reporting Recommending to our Board the appointment, and if necessary removal, of the external auditor Assessing the adequacy of the external audit and independence of the external auditor Reviewing and monitoring the internal audit plan and reporting Overseeing the independence and objectivity of the internal audit function Reviewing compliance with applicable laws, regulations and standards

People, Performance and Culture Committee (PPCC)

Role	Our PPCC assists our Board in overseeing people, culture and related policies and strategies
Members	Murray Jordan (chair), Miriam Dean, Sue Bailey
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> Reviewing people and remuneration strategies, structures and policies Approving annual remuneration increase guides and budgets Reviewing candidates for, and the performance and remuneration of, our CEO Approving, on the recommendation of our CEO, the appointment of our CEO's executive direct reports (except our CFO and Chief Corporate Officer & General Counsel whose appointment is approved by our Board) Reviewing our CEO's performance and his evaluation of his executive direct reports Developing and annually reviewing and assessing diversity and inclusion and its reporting Overseeing recruitment, retention and termination policies and procedures for senior management Making recommendations (including proposing amendments) to our Board with respect to senior executive (including CEO) incentive remuneration plans Annually reviewing non-executive director remuneration

Nominations and Corporate Governance Committee (NCGC)

Role	Our NCGC assists our Board in overseeing and promoting continuous improvement of corporate governance at Chorus
Members	Patrick Strange (chair), Kate Jorgensen, Mark Cross
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> Identifying and recommending suitable candidates for appointment to our Board and Board committees Reviewing the size, independence, qualifications, skills, experience and composition of our Board Developing, reviewing and making recommendations to our Board on corporate governance principles Establishing, developing and overseeing a process for the annual review and evaluation of Board, Board committee, and individual director performance Developing and reviewing Board succession planning (including for the Board chair) Monitoring compliance with our codes of ethics and managing breaches of the Director Code of Ethics Reviewing and overseeing director induction and ongoing professional development

Ad-hoc Regulatory Sub-Committee

Role	Our Regulatory Sub-Committee assists the Board in overseeing Chorus' regulatory strategies and meeting Director certification obligations required by Chorus' regulators from time to time
Members	Patrick Strange (chair), Kate Jorgensen, Mark Cross, Miriam Dean, Jack Matthews, Sue Bailey, Murray Jordan
Independence	All committee members are independent directors
Responsibilities	<ul style="list-style-type: none"> Oversee strategy for Chorus as it relates to Chorus' general regulatory settings and environment both inside and outside of the Price Quality and Information Disclosure (PQID) regulatory regime Oversee strategy for Chorus as it transitions to the PQID regulatory regime (which took effect from 1 January 2022) including the business transformation required to operate effectively under PQID Oversee a regulation evolution strategy to support changing commercial circumstances including regulatory settings outside of Chorus' PQID requirements Provide certifications to accompany mandatory reporting to the regulator, consider regulatory risk management, and review any decisions or findings of the regulator regarding the regulatory regime

Board chair

Our chair is elected by the Board and must be a non-executive, independent director.

The chair's responsibilities include:

- Leading the Board;
- Setting the agenda for Board meetings in consultation with the CEO;
- Facilitating the effective contribution of all directors; and
- Promoting constructive relationships between directors and management.

The chair's other commitments must not hinder his or her effective performance in the role.

Board and Board committee meeting attendance in the year ended 30 June 2022

	Regular Board meetings	Other Board meetings ¹	ARMC	PPCC	NCGC	Regulatory Sub-Committee
Total number of meetings held	7	4	4	4	2	3
Patrick Strange ²	7	4			2	3
Pru Flacks	2 ³			1	1	
Mark Cross	7	4	4		2	3
Miriam Dean	5 ⁴	4		3		3
Murray Jordan	7	4		4		3
Jack Matthews	7	4	4			3
Sue Bailey	7	4		4		3
Kate Jorgensen	7	4	4		1	3

JB Rousselot is not a director, but has attended 100% of all Board meetings.

Notes:

- Includes dedicated Board education, and strategy and business planning, meetings. Directors also have health and safety site visits each year.
- Patrick Strange, as Board chair, attends all Board committee meetings. As he is not a formal member of the ARMC or PPCC, that attendance is not noted in the table.
- Pru Flacks retired from the Board effective 27 October 2021.
- Miriam Dean was elected to the Board effective 27 October 2021.

Managing risk

Like all businesses, we are exposed to a range of risks. Our risk management activities aim to ensure we identify, prioritise and manage key risks so we can execute our strategies and achieve our goals.

Risk management

No business can thrive without taking on risk. Effective risk management is about informed risk taking and appropriate and active management of risks.

We seek to understand and respond to our current and future business environment, and to actively seek and robustly evaluate opportunities and initiatives which protect and achieve our business strategies. We strive to understand, meet and appropriately balance stakeholders' expectations to deliver value to shareholders and a sustainable environment for Chorus in the long term.

Our Board

Our Board is ultimately responsible for risk management governance:

- Annually setting risk appetite and tolerances and determining principal risks;
- Participating in discussions concerning elements of risk including emerging and unforeseen risks;
- Approving and regularly reviewing our Managing Risk Policy and supporting framework;
- Promoting a culture of proactively managing risk; and
- Through our ARMC, providing risk oversight and monitoring.

Risk appetite

Our risk appetite sets our tolerable levels of risk. It forms a dynamic link between strategy, target setting and risk management and sets boundaries for day-to-day decision making and reporting.

The risk and control environment



Risk management processes

Our Managing Risk Policy sets out how we manage our risks, including by:

- Having a single risk management framework;
- Providing the CEO and executive team with discretion to manage risk within the guidance provided in our framework;
- Balancing the level of control implemented to mitigate identified risks with our commitment to comply with external regulation and governance requirements and Chorus' value and growth aspirations; and
- Meeting good practice standards for risk management processes and related governance.

Principal risks

Principal risks are owned by relevant executives. This promotes integration into operations and executives planning and a culture of proactive risk management. Notwithstanding individual ownership, our CEO and executive hold collective responsibility for considering how risk and events interrelate and for managing our overall risk profile.

Principal risks are reported to our ARMC quarterly and, if necessary, also by exception. Principal Risk owners support the regular reporting from the Head of Risk, Internal Audit & Compliance by providing updates on the risks they own. Our ARMC reports to our Board.

Principal risks are assessed with each responsible executive and collectively with the executive team before being reported to the ARMC. This allows for constructive challenge and debate. Underlying risk assessment and monitoring practices are undertaken by each principal risk owner with assistance from our Risk, Internal Audit & Compliance team.

Our Board also receives management and other internal and external reporting over risk positions and our risk management operation (including from internal audit plans approved by the ARMC) through our overall governance framework.

Principal risks are our key risks to the achievement of our strategy. These are assessed on a risk profile identifying likelihood of occurrence and potential severity of impact. Current principal risk categories are identified via a comprehensive enterprise risk management framework encompassing financial and non-financial risks.

They include anticipating and responding to:

- Health, safety and wellbeing risks: Working to keep safe the people we owe duties to.
- Commercial and financial sustainability risks: Maintaining appropriate capital management and credit settings.
- Core services risks: Core service availability and network resilience.
- People and skills risks: Ensuring Chorus attains and retains employees with the capabilities to achieve its strategic objectives.
- Legal, regulatory and contractual risks: Working within the regulatory and legal environment.
- Stakeholder and customer confidence / reputation risks: Attaining and retaining a positive reputation with key stakeholders and customers.
- Innovation risks: Identify and pursue innovation and opportunities that will enhance Chorus.

Our risk management framework has also been applied to our climate change risks (see our Sustainability Report).

In addition to Principal Risks, the Chorus Board or ARMC regularly receive updates on, and discuss with the Executive:

- Unforeseen risks which are 'black swan' events which have not been otherwise identified through normal risk processes;
- Emerging risks which are risks that are known to some degree but are not likely to materialise or have an impact in the near term;
- Business unit risks which are risks to the achievement of functional area strategies. The risks are managed at the business unit level and reported to the ARMC if out of risk tolerance level.

Internal audit

We operate a co-sourced internal audit model with our Head of Risk, Internal Audit & Compliance and her team supported by external advisors PricewaterhouseCoopers to provide additional resource and specialist expertise as required.

The responsibilities of our internal audit function include:

- Assisting our ARMC and Board in their assessment of internal controls and risk management;
- Developing an internal audit plan for review and approval by the ARMC each year;
- Executing the plan and reporting progress against it, significant changes, results and issues identified; and

- Escalating issues as appropriate (including to our ARMC and/or Board chairs).

Our executive team and ARMC monitor key outstanding internal audit issues and recommendations as part of regular reporting and review, including the timeliness of resolution.

Our ARMC has direct and unrestricted access to our internal audit function, including meeting them without management.

Our Head of Risk, Internal Audit & Compliance has a management reporting line to our Chief Corporate Officer & General Counsel and a direct reporting line to our ARMC, attending every ARMC meeting.

Our ARMC reviews the remuneration and incentive arrangements of our Head of Risk, Internal Audit & Compliance and our Risk & Assurance Manager each year.

External auditor

Our Board and ARMC monitor the ongoing independence and quality of our external auditor (KPMG). Our ARMC also meets with our external auditor without management present at least once per year.

Our ARMC charter and External Auditor Independence Policy amongst other things:

- Prohibit the provision of certain non-audit services by our external auditor;
- Require ARMC approval of all audit and permitted non-audit services;
- Require our client services partner and lead/engagement partner to be rotated every five years (with a five year cooling off period) and other audit partners to be rotated every seven years (with a two year cooling off period);
- Require our ARMC to review our external auditor's fees half yearly (including the ratio of fees for audit vs. non-audit services); and
- Impose restrictions on the employment of former external audit personnel.

The non-audit services undertaken by our external auditor KPMG in the year to 30 June 2022 are set out in note 10 of the financial statements in this report. Those services were provided in accordance with our ARMC charter and External Auditor Independence Policy and did not affect KPMG's independence, including because:

- They were approved only where we were satisfied the services would not compromise KPMG's independence; and
- They did not involve KPMG acting in a managerial or decision-making capacity.

KPMG confirm their independence via independence declarations every six months.

Our external auditors attend our ASM each year.

Acting ethically

Codes of ethics

Directors and employees are expected to act honestly and with high standards of personal integrity. Codes of ethics for our directors and employees set the expected minimum standards for professional conduct. These codes facilitate behaviours and decisions that are consistent with our values, business goals and legal and policy obligations, including in respect of:

- Conflicts of interest;
- Gifts and personal benefits;
- Anti-bribery and corruption;
- Use of corporate property, opportunities and information;
- Confidentiality;
- Compliance with laws and policies; and
- Reporting unethical behaviour.

We have communicated our codes of ethics and provided annual training to our directors and employees. Our people are also encouraged to report any unethical behaviour, including quarterly reporting of any potential conflicts.

This process is subject to internal audit. All reported breaches are investigated.

Trading in Chorus securities

All trading in Chorus securities by directors and employees must be in accordance with our Securities Trading Policy. That policy prohibits trading in Chorus securities while in possession of inside information and requires, amongst other things:

- Directors to notify, and obtain consent from, the chair (or in the chair's case, the ARMC chair) before trading; and
- Employees identified as potentially coming across market sensitive information in the course of their employment ("restricted persons"), to obtain consent from our Chief Corporate Officer & General Counsel (or in our Chief Corporate Officer & General Counsel's case, our Board chair) before trading.

Trading in Chorus shares or NZX listed bonds by directors is disclosed to our Board, the NZX and ASX. Trading by "senior managers" is disclosed to the NZX.

Market disclosures

We are committed to providing timely, factual and accurate information to the market consistent with our legal and regulatory obligations.

We have a Board approved Disclosure Policy and a CEO approved Market Disclosure Policy setting out our disclosure practices and processes in more detail.

Our disclosure policies are designed to ensure:

- Roles of directors, executives and employees are clearly set out.
- Appropriate reporting and escalation mechanisms are established.
- There are robust and documented confidentiality protocols in place where appropriate.
- Only authorised spokespersons comment publicly, within the bounds of information which is either already publicly known or non-material.

Our approach to tax

We take our tax obligations seriously and work closely with Inland Revenue to ensure we meet our tax obligations.

We obtain external advice and Inland Revenue's views (through informal correspondence, determinations or rulings) in respect of unusual or material transactions.

As we operate only in New Zealand all our tax is paid in New Zealand at the prevailing corporate tax rate (currently 28%). We have paid all taxes we owe and all tax compliance obligations are up to date.

Shareholder engagement

We are committed to fostering constructive and open relationships with shareholders:

- Communicating effectively with them;
- Giving ready access to balanced and understandable information;
- Making it easy for shareholders to participate in general meetings; and
- Maintaining an up to date website providing information about our business.

Our investor relations programme is designed to further facilitate two-way communication with shareholders, provide them and other market participants with an understanding of our business, governance and performance and an opportunity to express their views. As part of this programme we enable investors and other interested parties to ask questions and obtain information. We meet with investors and analysts and undertake formal investor presentations. Our annual and half year results presentations are made available to all investors via webcast.

Until 2020 Chorus has held annual meetings in a main centre and webcast to enable shareholders to view and hear proceedings online.

Due to concerns about the uncertain COVID-19 environment and the potential health risks for our shareholders, we chose to hold the 2020 and 2021 ASMs as virtual meetings. Voting and the asking of questions was facilitated electronically. At the time of this Annual Report, the Board has indicated that the 2022 ASM is likely to be a hybrid meeting.

We enable shareholders to vote by proxy ahead of meetings without having to physically attend or participate in those meetings and adopt the one share one vote principle, conducting voting at shareholder meetings by poll.

We consider that shareholders should be entitled to vote on decisions which would change the essential nature of our business.

Shareholders are also able to ask questions of, and express their views in respect of, our Board, management and auditors (including via appointed proxies) at and before annual meetings.

We encourage shareholders to communicate with us and our share registrar electronically, including by providing email communication channels and online contact details and instructions on our website.

Remuneration and performance

Our remuneration model

Our remuneration model is designed to enable the achievement of our strategy, whilst ensuring that remuneration outcomes are aligned with employee and shareholder interests.

Remuneration is governed through the Board and assisted by the PPCC. The PPCC supports the Board to fulfil their remuneration obligation by overseeing our remunerating strategy and policy.

Our remuneration policy is designed around six guiding principles:

Figure 14:

Our remuneration policy is designed around six guiding principles:

Remuneration principles	What does this mean?
1 Fair to all – employees and shareholders, sharing in the success of Chorus.	= Commitment to pay equity and alignment with our shareholders' expectations.
2 Supports a Performance focussed culture.	= Rewards aligned with performance.
3 Valued by our people.	= We have a diverse workforce and aim to provide an appropriate suite of rewards that provide value, now and in the future.
4 Simple to understand and administrate.	= Simplicity promotes understanding, clarity and perceptions of fairness.
5 Market – aligned with our competitors.	= We ensure we are not over or underpaying our people through robust market analysis that guides our decisions on remuneration.
6 Point of difference – how we know it is Chorus.	= Supports Chorus' strategy, values, purpose and employee value proposition.

There were no material changes to Chorus' remuneration strategy or policy in FY22.

The CEO and members of the executive leadership team have the potential to earn a long term incentive (LTI) and short term incentive (STI). Both STI and LTI are deemed at risk because the outcome is determined by performance against a combination of pre-determined financial and non-financial objectives.

Fixed remuneration

Fixed remuneration (not at risk) consists of base salary and other benefits including KiwiSaver. Fixed remuneration is adjusted each year based on data from independent remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current position when compared to the market.

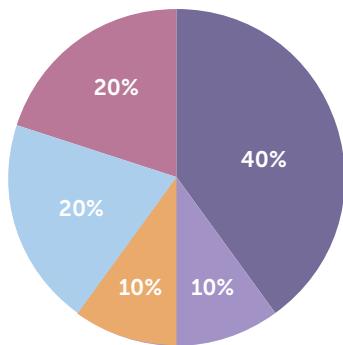
Short term incentive

Senior employees were invited to participate in the FY22 STI scheme. The FY22 STIs are at risk component payments, that are set as a percentage of fixed remuneration, from 15% to 30% based on the complexity of the role (the CEO's STI is a higher percentage of fixed remuneration as set out later in this report). STI payments are determined following a review of company and individual performance and paid out at a multiplier of between 0x and 1.25x for the CEO and executive leadership team, and between 0x and 1.4x for all other employees.

Company performance goals are set and reviewed annually by our Board to align with shareholder value. A strong emphasis on the customer experience continued to be a feature for the FY22 STI measures.

Figure 15

FY22 STI Goals



Measures	% of target achieved
EBITDA: gateway hurdle of \$618.5m EBITDA. Year end target aligned with objective of modest EBITDA growth.	Exceeded target
Customer experience – fibre fault restoration: measured by consumers' scores (target of 8.1 over three months to March)	Exceeded target
Customer experience – intact fibre connection: measured by consumers' scores (target of 7.7 over three months to 30 June)	Did not meet target
Total Fibre connections: based on total connection target of 967,000 at year end.	Did not meet target
Strategy Regulation Future Chorus: qualitative assessment by Board based on long-term business initiatives including the transition to the new regulatory regime and implementation of a new operating model (including new field services agreement).	Exceeded target

The Board has agreed the FY23 STI scheme will have similar focus areas and weightings as the FY22 scheme. However, with fibre uptake now at almost 70% and installations expected to slow, fibre connections will be replaced by a revenue growth target.

Fundamental to the Chorus STI structure is a gateway goal. The philosophy of the gateway goal is to provide a preliminary threshold of financial success and affordability, before any other measures can be considered for potential STI payments. If the gateway goal is not achieved, then no STI is payable.

Individual performance goals for all employees are tailored to their role, with 70% of the goals based on what they achieve and 30% based on how they perform their role. The STI component is based on performance against both key financial and non-financial measures and the STI bonus is at the ultimate discretion of the Board. Some of the non-financial measures include targets associated with health and safety, overall team engagement scores (including both D&I and Health and Wellbeing scores), and gender balance and mix of teams.

As an example of how the STI is calculated, an employee with fixed remuneration of \$100,000 and an STI element of 15% may receive between \$0 and \$29,400 depending on the level of company performance (0 to 1.4x multiplier) multiplied by their individual performance (0 to 1.4x multiplier).

Long term incentives

We offer an executive LTI share scheme to reward and retain key executives. The LTIs are an at risk payment designed to align the interests of executives and shareholders and encourage longer term decision making.

The LTI is described in more detail in Note 16 of the financial statements on page 51.

To further align executive interests with those of shareholders, a minimum shareholding policy was introduced in 2019. The policy prohibits executives from selling shares received under the new LTI, unless the executive holds the equivalent of at least 25% of their after tax base remuneration in Chorus shares (or 33% for the CEO).

The Board commissioned an independent review to consider Chorus' current LTI scheme following the implementation of the new regulatory framework. The independent review considered the approach taken by other regulated utilities and confirmed that the structure of the current scheme remains fit for purpose with our remuneration policy. The LTI scheme is an absolute rather than a relative return based scheme. To reflect the regulated WACC set for Chorus' fibre assets, a blended total shareholder return rate has been adopted. This incorporates a weighted cost of equity calculation, proportional to the regulated versus non-regulated components of the business and based on relative enterprise value. A 0.75% stretch percentage is added to the weighted cost of equity calculation to determine the three-year performance hurdle.

Chief Executive Officer employment agreement and remuneration

JB Rousselot's employment agreement reflects standard conditions that are appropriate for a senior executive of a listed New Zealand company. The employment agreement may be terminated by:

- either he or Chorus giving six months' notice in writing;
- Chorus without notice in the case of serious misconduct, serious breach (including substantial non-performance) or other cause justifying summary dismissal; or
- Chorus immediately, if the Board forms the view that substantial incompatibility and/or irreconcilable differences have developed with him, or the Board otherwise wishes to terminate his employment when he is not at fault (including a redundancy situation or medical incapacity).

Our CEO continues to have a significant portion of his remuneration linked to performance and at risk. Total remuneration for our CEO continues to be determined using a range of external factors, including advice from external remuneration specialists and is annually reviewed by the PPCC and Board.

CEO remuneration for FY21 and FY22 was:

		Fixed remuneration	Pay for performance	LTI	Total remuneration
J B Rousselot	FY22	1,275,000	1,147,500	—	2,442,500
J B Rousselot	FY21	1,250,000	768,750	—	2,018,750

Other benefits paid to JB Rousselot: FY22 Chorus KS Contrib JB Rousselot: \$61,355; FY21 Chorus KS Contrib JB Rousselot: \$58,845

Five year summary of CEO remuneration:

CEO		Total remuneration	% STI awarded against maximum	% LTI awarded against maximum	% LTI replacement awarded against maximum	Span of LTI performance period
J B Rousselot	FY22	\$2,442,500	67%	—	—	—
	FY21	\$2,018,750	47% ¹	—	—	—
	FY20 ²	\$1,425,253	66%	—	—	—
Kate McKenzie	FY20 ³	\$588,325	—	—	—	—
	FY19	\$2,068,560	53%	—	—	—
	FY18	\$2,219,475	65%	—	—	—
Mark Ratcliffe	FY18	—	—	89%	—	FY15 – FY18

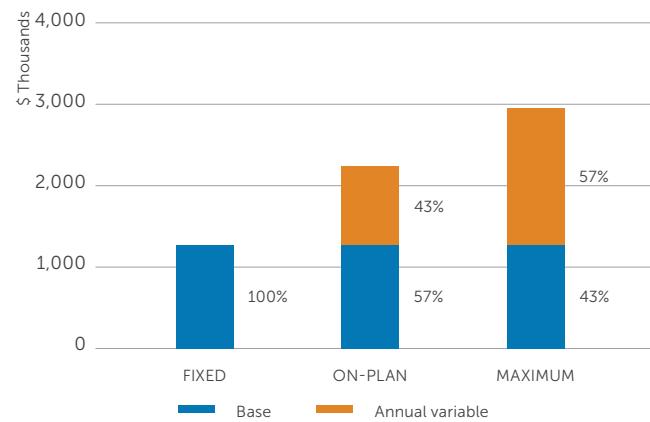
¹ Corrected from previously reported number.

² Pro-rated from start date of 20 November 2019.

³ Pro-rated to end date of 20 December 2019.

CEO remuneration performance and pay

The scenario chart below demonstrates the elements of the CEO remuneration design in the year ended 30 June 2022.



The chart does not include any income from the LTI scheme. The CEO has received three grants under the LTI scheme (\$319,829 in 2019, \$412,500 in 2020 and \$420,750 in 2021) that are yet to vest. Those LTI grants are subject to the performance measures outlined overleaf. The first grant (2019) is not due to vest until August 2022.

The table below outlines the CEO's STI and LTI schemes for the performance period ending 30 June 2022¹:

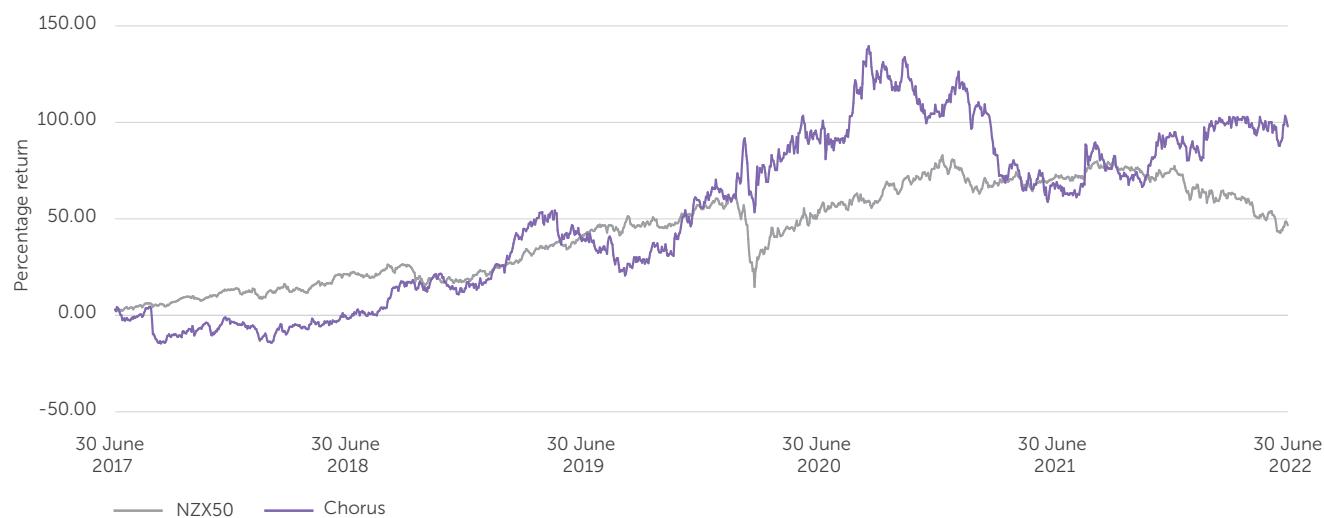
	Description	Performance measures	Percentage achieved
STI	Set at 75% of base remuneration. Based on key financial and non-financial performance measures.	<ul style="list-style-type: none"> Company performance – see FY22 STI Goals on page 77 for weightings. Individual performance – based on business fundamentals (both financial and non-financial), connections, customer experience and strategic initiatives including D&I. 	67%
LTI – 2019	Three-year grant made November 2019, equivalent to 33% of base remuneration.	<ul style="list-style-type: none"> Chorus TSR performance over grant period must exceed 10.35% on an annualised basis, compounding. 	Assessed August 2022 with possible retesting ³ up to August 2023.
LTI – 2020	Three-year grant made August 2020, equivalent to 33% of base remuneration.	<ul style="list-style-type: none"> Chorus TSR performance over grant period must exceed 9.65% on an annualised basis, compounding. 	Assessed August 2023 with possible retesting ³ up to August 2024.
LTI – 2021	Three-year grant made August 2021, equivalent to 33% of base remuneration.	<ul style="list-style-type: none"> Chorus TSR performance over grant period must exceed 6.2%² on an annualised basis, compounding. 	Assessed August 2024 with possible retesting ³ up to August 2025.

1 The STI payments for FY22 will be paid in FY23.

2 A blended rate which incorporates a weighted cost of equity calculation proportional to the regulated versus non regulated components of the business, based on relative Enterprise Value has been used. A 0.75% stretch percentage is added to determine the three-year performance hurdle.

3 If the performance hurdles are not met by the initial vesting date, they are assessed monthly for a period of 12 months (noting the hurdle continues to increase).

Total Shareholder Return (TSR) performance



The graph above shows Chorus' TSR performance against the NZX50 between 30 June 2017 and 30 June 2022.

Executive shareholding

For the year ended 30 June 2022, Chorus executives held shares in Chorus as shown in the table below.

Executive	Current Holdings ¹	Shares Eligible to Vest ²
Andrew Carroll	90,740	29,310
David Collins	–	26,143
Ed Hyde	16,137	23,616
Elaine Campbell	14,930	21,470
Ewen Powell	76,914	20,292
JB Rousselot	–	67,324
Shaun Philp	26,933	19,030
Total	225,654	207,185

1 As at 30 June 2022.

2 If the 2019 LTI hurdles are met, the share rights will be converted to shares in Q2 FY23.

Median Pay Gap

The median pay gap represents the number of times greater the CEO remuneration is to an employee paid at the median of all Chorus employees. At 30 June 2022 the CEO's base salary at \$1,275,000 (on an annualised basis) was 11.3 times that of the median employee at \$113,000.

The CEO's total remuneration on an annualised basis and including STI was 19.7 times the total remuneration of the median employee including STI at \$113,000.

Diversity

Our goal of diverse leadership consists of three focus areas; gender balance, ethnic mix and pay equity. Our overall target is a 40:40:20 gender ratio in our people leader community. Our progress against that target has improved with 38% women and 62% men in people leadership roles as at 30 June 2022, compared to 36% women and 64% men in June 2021. Our Māori and Pasifika employee population has increased from 5% to 8%, but continues to be under-represented when compared to the New Zealand population.

Diverse leadership remains a priority that we continue to work towards and a refreshed Diversity, Equity and Inclusion

strategy will be implemented in August 2022. We had four male and three female directors at 30 June 2022 (30 June 2021: four male and three female directors). Our executive (officers or senior managers) comprising our CEO and his leadership team had six males and one female at 30 June 2022 (30 June 2021: six males and one female).

Based on its annual review of our progress against our measurable diversity metrics and objectives, our Board has asked for greater progress towards achieving our Diversity, Equity and Inclusion (DEI) goals. They acknowledge that our new DEI strategy, due to be delivered in August 2022, with refreshed objectives will go a long way to helping us achieve that ambition.

Pay equity

We continue to monitor and report on remuneration outcomes by gender to ensure pay equity at Chorus.

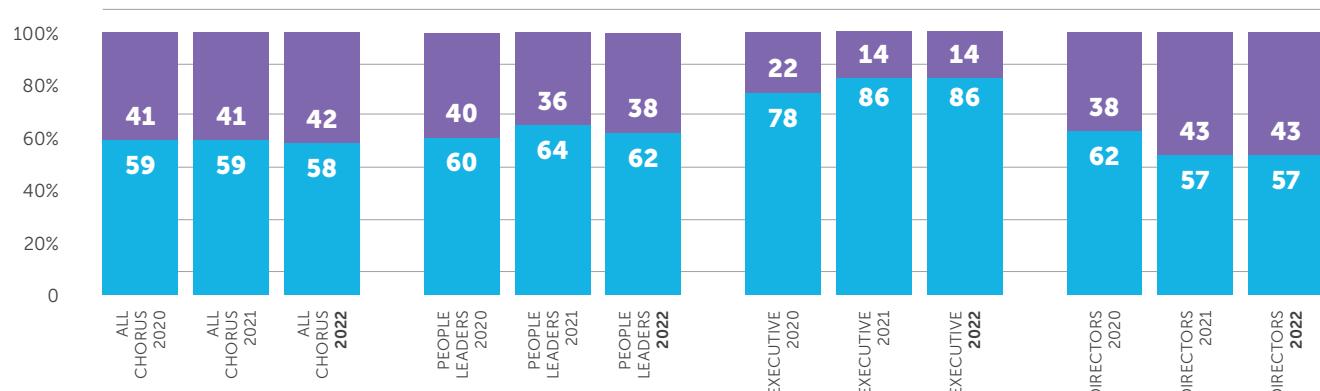
As a part of the annual remuneration review process, we conducted gender pay equity analysis for like positions. This analysis identified that there are no indications of gender bias across similar positions.

At Chorus, the gender pay gap is calculated and reported on via two different methods. The first is at a total company level, comparing the median hourly rate for women to the median hourly rate of men – irrespective of role. By this measure, as of 30 April 2022, the median, gender pay gap was an aggregate total of -19.1%, compared to -20.5% in the same period last year. This gap primarily reflects women making up a larger proportion of our junior roles. Addressing this structural role gap requires a longer-term shift in which roles we attract women into and a continued focus on ensuring more women move into leadership roles.

The second method is by career level, comparing the median hourly rate for women to the median hourly rate for men, across each of Chorus' nine career levels (salary bands). By career level our target is to have a pay gap no greater than -2%. Significant improvements have been made and Chorus has achieved our target in eight of the nine career levels. In six of the nine career levels, on average females are paid higher than males.

Figure 16

Gender by role three year review



As part of our ongoing commitment to eradicate gender pay gap, Chorus supported a March 2022 initiative, led by the organisation "Mind The Gap", calling for Aotearoa companies to register details of public pay gap reporting. Chorus' work and advocacy for reducing gender pay gaps also featured in Global Women's gender pay gap campaign.

We've committed to report our ethnicity pay gap publicly once a standard, consistent methodology is determined in New Zealand.

Managing Performance

Our performance management approach is based on fostering and rewarding valuable business outcomes.

Our people have performance and development plans which are regularly reviewed with their people leaders.

Performance plans are developed to connect our people with our strategy, their functional plans and the connection with their individual roles. Performance plans include outcome based objectives, behavioural measures aligned with our values and an individual development plan.

Formal performance reviews were undertaken for all our people during the year. As part of this, people leaders sought feedback and participated in peer review and moderation sessions, resulting in an overall performance rating and remuneration recommendations determining an individual's total pay (fixed remuneration and variable).

A similar process is undertaken each year for our executive team, with our CEO making recommendations to our PPCC for executive team members, and our PPCC leading the performance review of our CEO, making recommendations to our Board. These processes are consistent with those set out in our PPCC charter and allow our Board to provide input into individual performance outcomes, total reward approvals (fixed and variable) and development plans. These processes were all undertaken in the year ended 30 June 2022.

Employee remuneration range during the year ended 30 June 2022

The table below shows the number of employees and former employees who received remuneration and other benefits in excess of \$100,000 during the year ended 30 June 2022. This includes STI and LTI paid during FY22, as well as other benefits such as insurance and a broadband concession.

During the year, certain employees received contributions towards membership of the Marram Trust (a community healthcare and holiday accommodation provider), received contributions toward their Government Superannuation Fund (a legacy benefit provided to a small number of employees) and, if a member, received contributions of 3% of gross earnings towards their KiwiSaver accounts. These amounts are not included in these remuneration figures. Any benefits received by employees that do not have an attributable value are also excluded.

The remuneration paid to, and other benefits received by, JB Rousselot in his capacity as CEO are detailed on pages 78 to 81, and are excluded from the table below.

The current Living Wage is \$22.75 per hour. Chorus does not have any permanent employee earning less than the current living wage.

Remuneration range \$ (Gross)	Number of employees in the year ended 30 June 2022
Actual Payment	REM + LTI + insurance + concession
830,001 to 840,000	1
660,001 to 670,000	1
650,001 to 660,000	1
630,001 to 640,000	1
570,001 to 580,000	1
560,001 to 570,000	1
370,001 to 380,000	1
360,001 to 370,000	1
340,001 to 350,000	2
330,001 to 340,000	1
320,001 to 330,000	5
310,001 to 320,000	1
300,001 to 310,000	2
280,001 to 290,000	4
270,001 to 280,000	4
260,001 to 270,000	5
250,001 to 260,000	1
240,001 to 250,000	5
230,001 to 240,000	2
220,001 to 230,000	10
210,001 to 220,000	13
200,001 to 210,000	19
190,001 to 200,000	19
180,001 to 190,000	19
170,001 to 180,000	15
160,001 to 170,000	24
150,001 to 160,000	38
140,001 to 150,000	42
130,001 to 140,000	48
120,001 to 130,000	58
110,001 to 120,000	64
100,000 to 110,000	60
Grand Total	469

Director remuneration

Fee structure

Total remuneration available to directors (in their capacity as such) in the year ended 30 June 2022 was fixed at our 2019 annual shareholders' meeting at \$1,169,042.

Annual fee structure	Year ended 30 June 2022 \$	Year ended 30 June 2021 \$
Board fees:		
Board chair		
Board chair	223,650	223,650
Non-executive director	114,000	114,000
Board committee fees:		
Audit and Risk Management Committee		
Chair	32,600	32,600
Member	16,300	16,300
People, Performance and Culture Committee		
Chair	22,900	22,900
Member	11,750	11,750
Nominations and Corporate Governance Committee		
Chair	—	—
Member	8,880	8,880
Regulatory Sub-Committee		
Chair	—	—
Member	2,400	—

Notes:

- The Board chair receives Board chair fees only. Other directors receive committee fees in addition to their Board fees. A fee of \$16,720 is available for the chair of the NCGC as part of the fee structure, but is not currently payable as the Board chair is also NCGC chair.
- Directors do not participate in a bonus or profit-sharing plan, do not receive compensation in share options, and do not have superannuation or any other scheme entitlements or retirement benefits.
- Directors are paid \$2,400 per meeting of the Regulatory Sub-Committee. The Regulatory Sub-Committee meets on an ad-hoc basis.
- Directors may be paid an additional daily rate of \$2,400 for additional work as determined and approved by our chair and where the payment is within the total fee pool available. There were no such fees paid in the year to 30 June 2022. There was also no increase in director and committee base fees in the year to 30 June 2022.

Fees paid to Directors (in their capacity as such) in the year ended 30 June 2022

Director	Total fees \$	Board fees	ARMC	PPCC	NCGC	Regulatory Sub-Committee
Patrick Strange	223,650	223,650	—	—	—	—
Murray Jordan	144,100	114,000	—	22,900	—	7,200
Prue Flacks	43,402	36,751	—	3,788	2,863	—
Mark Cross	162,680	114,000	32,600	—	8,880	7,200
Jack Matthews	137,500	114,000	16,300	—	—	7,200
Sue Bailey	132,950	114,000	—	11,750	—	7,200
Kate Jorgensen	143,527	114,000	16,300	—	6,027	7,200
Miriam Dean	92,555	77,379	—	7,976	—	7,200
	1,080,364	907,780	65,200	46,414	17,770	43,200

Notes:

- Amounts are gross and exclude GST (where applicable).
- Prue Flacks retired as a director effective 27 October 2021.
- Directors did not receive any fees or other benefits for additional work during the year ended 30 June 2022.
- Directors are entitled to be reimbursed for travel and incidental expenses incurred in performance of their duties in addition to the above fees.
- The total fee pool available to directors is \$1,169,042.

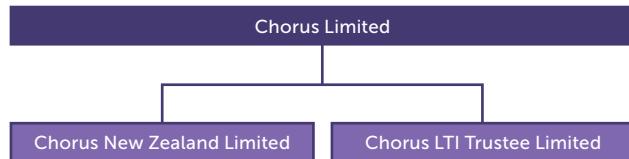
Fee structure from 1 July 2022

Our PPCC reviews non-executive director remuneration annually based on criteria developed by that committee. Based on that committee's recommendation the Board has determined not to change Board fees for the year from 1 July 2022.

Disclosures

Group structure

As at 30 June 2022, Chorus Limited has two wholly owned subsidiaries: Chorus New Zealand Limited (CNZL) and Chorus LTI Trustee Limited (CLTL).



Chorus Limited is the entity listed on the NZX and ASX¹. It is also the borrowing entity under the group's main financing arrangements and the entity which has partnered with the Crown for the UFB build.

CNZL undertakes (and is the contracting entity for) Chorus' operating activities and is the guarantor of Chorus Limited's borrowing. CNZL also employs all Chorus people. CNZL has its own constitution but its Board is the same as the Chorus Limited Board.

CLTL was incorporated in December 2014 as trustee for our long term incentive plan. The trust for that LTI scheme was wound up during the 2022 financial year as Chorus has transitioned to a new LTI scheme. CLTL was removed from the Companies Office register on 21 July 2022.

Disclosures in respect of CNZL and CLTL are set out in the "Subsidiaries" section on page 93.

Indemnities and insurance

Chorus indemnifies directors under our constitution for liabilities and costs they may incur for their acts or omissions as directors (including costs and expenses of defending actions for actual or alleged liability) to the maximum extent permitted by law. We have also entered into deeds of indemnity with each director under which:

- Chorus indemnifies the director for liabilities incurred in their capacity as a director and as officers of other Chorus companies.
- Directors are permitted to access company records while directors and after they cease to hold office (subject to certain conditions).

Deeds of indemnity have also been entered into on similar terms with certain senior employees for liabilities and costs they may incur for their acts or omissions as employees, directors of subsidiaries or as directors of non-Chorus companies in which Chorus holds interests.

We have a directors' and officers' liability insurance policy in place covering directors and senior employees for liability arising from their acts or omissions in their capacity as directors or employees on commercial terms. The policy does not cover dishonest, fraudulent, malicious or wilful acts or omissions.

Director change

Prue Flacks resigned as director effective 27 October 2021. Miriam Dean was appointed as a director at the 2021 ASM on 27 October 2021.

Notes:

1 Chorus Limited is no longer listed on Luxembourg stock exchange following repayments of our GBP 260 million bonds in April, 2020

Director interests and trading

As at 30 June 2022, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.059% of shares as follows:

Current Directors

Interest as at 30 June 2022			Transactions during the reporting period			
Director	Shares	Interest	Number of shares	Nature of transaction	Consideration	Date
Patrick Strange	51,000	Beneficial owner as beneficiary of Three Kings Trust	–	–	–	–
Mark Cross	30,156	Beneficial owner as beneficiary of Alpha Investment Trust; power to exercise voting rights and acquire/dispose of financial products as director of trustee.	596	Acquisition of shares on reinvestment of dividends under Chorus' dividend reinvestment plan	\$3,915.72	12 October 2021
			526	Reinvestment Plan	\$3,859.20	12 April 2022
Murray Jordan	121,767	Registered holder and beneficial owner of ordinary shares as trustee and beneficiary of Endeavour Trust	2,408	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$15,820.56	12 October 2021
			2,124	Reinvestment Plan	\$15,583.57	12 April 2022
Jack Matthews	19,521	Registered holder and beneficial owner	7,500	On market acquisition	\$50,850.00	27 August 2021
			386	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	\$2,536.02	12 October 2021
			340	Reinvestment Plan	\$2,494.54	12 April 2022
Sue Bailey	30,000	Registered holder and beneficial owner	5,000	On market acquisition	\$38,190.36	23 February 2022
Kate Jorgensen	12,975	Registered holder and beneficial owner	6,738	On market acquisition	\$43,438.57	12 October 2021

As at 30 June 2022, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.092% of Chorus' NZX bonds maturing December 2028 as follows:

Director	Interest as at 30 June 2022		Transactions during the reporting period				
	Bonds	Interest	Number of bonds	Nature of transaction	Consideration	Date	
Patrick Strange	340,000	Beneficial owner as beneficiary of Three Kings Trust	–	–	–	–	–
Murray Jordan	100,000	Registered holder and beneficial owner as trustee and beneficiary of Endeavour Trust	–	–	–	–	–
Miriam Dean	20,000	Registered holder and beneficial owner as trustee and beneficiary of the Miriam Dean Trust	–	–	–	–	–

Changes in Director interests

Mark Cross	Became a board member of ACC and Chair of the ACC Investment Committee ¹ . Retired as director of Z Energy Limited and Z Energy 2015 Limited. ²
Prue Flacks	Retired as director of Chorus Limited, Chorus New Zealand Limited and Chorus LTI Trustee Limited. ³
Murray Jordan	Retired as a director of Sky City Entertainment Group Limited ⁴ . Retired as a director of Chorus LTI Trustee Limited. ⁵
Jack Matthews	Retired as a director of Mediaworks Finance Limited, Mediaworks Holdings Limited, Mediaworks Investments Limited, Mediaworks Kiwi Radio Limited, Mediaworks Outdoor Limited, Mediaworks Outdoor Holdings Limited, Mediaworks Radio Limited, Mediaworks TV Limited and MW NZ Bureau Limited. ⁶
Sue Bailey	Retired as a director for Chorus LTI Trustee Limited. ⁷
Miriam Dean	Director of Banking Ombudsman Scheme Limited, Ōtakaro Limited, REINZ Limited ⁸ and appointed to Gas Rulings Panel. ⁹
Patrick Strange	None
Kate Jorgensen	None

Notes:

1 From 1 January 2022.

2 From 10 May 2022.

3 From 27 October 2021.

4 From 26 August 2021.

5 From 21 July 2022.

6 From 13 August 2021.

7 From 21 July 2022.

8 From 28 October 2021.

9 From 20 May 2022.

Director restrictions

No person who is an 'associated person' of a telecommunications services provider in New Zealand may be appointed or hold office as a director. NZX has granted a waiver to allow this restriction to be included in our constitution.

Securities and security holders

Ordinary shares

Chorus Limited's shares are quoted on the NZX and on the ASX and trade under the 'CNU' ticker. There were 446,512,440 ordinary shares on issue at 30 June 2022. Each share confers on its holder the right to attend and vote at a shareholder meeting (including the right to cast one vote on a poll on any resolution).

Constitutional ownership restrictions

As part of the establishment of Chorus we inherited an obligation to obtain Crown approval prior to any person:

- Having a relevant interest in 10% or more of our shares; or
- Other than a New Zealand national, having a relevant interest in more than 49.9% of our shares.

On each request the Crown has provided approval, currently:

- L1 Capital Pty Ltd can hold a relevant interest in up to 15% of our shares.

- AMP Capital Holdings Limited can hold a relevant interest in up to 15% of our shares.

If our Board or the Crown determines there are reasonable grounds for believing a person has a relevant interest in our shares in excess of the ownership restrictions, our Board may, after following certain procedures, prohibit the exercise of voting rights (in which case the voting rights vest in our chair) and may force the sale of shares. Our Board may also decline to register a transfer of shares if it reasonably believes the transfer would breach the ownership restrictions.

NZX has granted waivers allowing our constitution to include the power of forfeiture, the restrictions on transferability of shares and our Board's power to prohibit the exercise of voting rights relating to these ownership restrictions. ASX has also granted a waiver in respect of the refusal to register a transfer of shares which is or may be in breach of the ownership restrictions.

Takeovers protocol

We have established a takeovers protocol setting out the procedure to be followed if there is a takeover offer, including managing communications between insiders and the bidder and engagement of an independent adviser. The protocol includes the option of establishing an independent takeover committee, and the likely composition and implementation of that committee.

Shareholder distribution as at 30 June 2022

Holding	Number of holders	% of holders	Total number of shares held	% of shares issued
1 to 999	10,693	51.82%	4,389,203	0.98%
1,000 to 4,999	6,598	31.97%	15,442,842	3.46%
5,000 to 9,999	1,886	9.14%	12,536,393	2.81%
10,000 to 99,999	1,390	6.74%	28,720,189	6.43%
100,000 and over	69	0.33%	385,423,813	86.32%
Total	20,636	100%	446,512,440	100%

Substantial holders

We have received substantial product holder notices from shareholders as follows:

	Notices received as at 30 June 2022 ¹	
	Number of ordinary shares held	% of shares on issue
L1 Capital Pty Ltd	36,464,794	8.16%
UniSuper Limited	28,785,874	6.45%
Mitsubishi UFJ Financial Group, Inc	22,331,319	5.00%

1. Notices received as at 30 June 2022.

Twenty largest shareholders as at 30 June 2022

Rank	Holder name	Holding	%
1	JP Morgan Nominees Australia Limited	33,406,043	7.48
2	HSBC Custody Nominees (Australia) Limited	32,035,407	7.17
3	Citicorp Nominees Pty Limited	32,026,374	7.17
4	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	31,306,447	7.01
5	Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>*	29,075,075	6.51
6	HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90>*	20,370,396	4.56
7	HSBC Nominees (New Zealand) Limited A/C State Street – NZCSD <HKBN45>*	17,059,429	3.82
8	JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct – NZCSD <CHAM24>*	14,321,811	3.21
9	Accident Compensation Corporation – NZCSD <ACCI40>*	13,275,479	2.97
10	BNP Paribas Nominees (NZ) Limited – NZCSD <BPSS40>*	13,250,484	2.97
11	National Nominees Limited	11,826,046	2.65
12	HSBC Custody Nominees (Australia) Limited <GSCO ECA A/C>	11,765,951	2.64
13	Forsyth Barr Custodians Limited <1-Custody>	9,707,608	2.17
14	ANZ Wholesale Australasian Share Fund – NZCSD <PNAS90>*	8,334,861	1.87
15	JBWere (NZ) Nominees Limited <NZ Resident A/C>	8,097,702	1.81
16	New Zealand Depository Nominee Limited <A/C 1 Cash Account>	7,931,986	1.78
17	Custodial Services Limited <A/C 4>	6,346,674	1.42
18	BNP Paribas Noms Pty Ltd <DRP>	6,090,197	1.36
19	Generate Kiwisaver Public Trust Nominees Limited <NZCSD> <NZPT44>*	5,853,455	1.31
20	HSBC Custody Nominees (Australia) Limited <GSI EDA A/C>	5,375,262	1.20

* Held through New Zealand Central Securities Depository Limited (NZCSD). NZCSD provides a custodial service that allows electronic trading of securities by its members. As at 30 June 2022, 150,163,268 Chorus ordinary shares (or 33.63% of the ordinary shares on issue) were held through NZCSD.

Twenty largest bondholders (December 2027) as at 30 June 2022

Rank	Holder name	Holding	%
1	Custodial Services Limited <A/C 4>	54,429,000	27.21
2	BNP Paribas Nominees (NZ) Limited – NZCSD <BPSS40>*	30,453,000	15.23
3	FNZ Custodians Limited	22,869,000	11.43
4	Forsyth Barr Custodians Limited <1-CUSTODY>	18,452,000	9.23
5	Mint Nominees Limited – NZCSD <NPZ440>*	9,500,000	4.75
6	HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90*>	8,600,000	4.30
7	PIN Twenty Limited <Kintyre A/C>	7,000,000	3.50
8	National Nominees Limited – NZCSD <NNLZ90>*	5,000,000	2.50
9	ANZ Fixed Interest Fund – NZCSD <PNLI90>*	4,500,000	2.25
9	NZPT Custodians (Grosvenor) Limited – NZCSD <NZPG40>*	4,500,000	2.25
11	Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>*	3,150,000	1.58
12	ANZ Wholesale NZ Fixed Interest Fund – NZCSD*	2,999,000	1.50
13	FNZ Custodians Limited <DTA Non Resident A/C>	2,903,000	1.45
14	Risk Reinsurance Limited	2,865,000	1.43
15	Investment Custodial Services Limited <A/C C>	2,255,000	1.13
16	TEA Custodians Limited Client Property Trust Account – NZCSD <TEAC40>*	2,250,000	1.13
17	JBWere (NZ) Nominees Limited <NZ Resident A/C>	2,232,000	1.12
18	Forsyth Barr Custodians Limited <Account 1 E>	1,212,000	0.61
19	BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>*	900,000	0.45
20	Forsyth Barr Custodians Limited <A/C 1 NRLAIL>	813,000	0.41

Twenty largest bondholders (December 2028) as at 30 June 2022

Rank	Holder name	Holding	%
1	Custodial Services Limited <A/C 4>	94,945,000	18.99
2	Forsyth Barr Custodians Limited <1-CUSTODY>	70,828,000	14.17
3	JBWere (NZ) Nominees Limited <NZ RESIDENT A/C>	43,977,000	8.80
4	ANZ Wholesale NZ Fixed Interest Fund – NZCSD*	39,268,000	7.85
5	Hobson Wealth Custodian Limited <Resident Cash Account>	34,204,000	6.84
6	HSBC Nominees (New Zealand) Limited O/A Euroclear Bank – NZCSD <HKBN95>*	30,279,000	6.06
7	FNZ Custodians Limited	24,021,000	4.80
8	BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>*	20,527,000	4.11
9	JBWere (NZ) Nominees Limited <RES INST A/C>	15,000,000	3.00
10	Generate Kiwisaver Public Trust Nominees Limited <NZCSD> <NZPT44>*	6,809,000	1.36
11	Forsyth Barr Custodians Limited <Account 1 E>	6,763,000	1.35
12	TEA Custodians Limited Client Property Trust Account – NZCSD <TEAC40>*	4,739,000	0.95
13	JBWere (NZ) Nominees Limited <44625 A/C>	4,600,000	0.92
14	HSBC Nominees (New Zealand) Limited A/C State Street – NZCSD <HKBN45>*	4,250,000	0.85
15	JBWere (NZ) Nominees Limited <44626 A/C>	4,000,000	0.80
16	ANZ Custodial Services New Zealand Limited – NZCSD <PBNK90>*	3,779,000	0.76
17	ANZ Fixed Interest Fund – NZCSD <PNLI90>*	3,735,000	0.75
18	RGTKMT Investments Limited	3,000,000	0.60
19	Mint Nominees Limited – NZCSD <NPZ440>*	2,977,000	0.60
20	Investment Custodial Services Limited <A/C C>	2,740,000	0.55

* Held through New Zealand Central Securities Depository Limited (NZCSD).

Twenty largest bondholders (December 2030) as at 30 June 2022

Rank	Holder name	Holding	%
1	Accident Compensation Corporation – NZCSD <ACCI40>*	100,500,000	50.25
2	ANZ Fixed Interest Fund – NZCSD <PNLI90>*	23,513,000	11.76
3	Custodial Services Limited <A/C 4>	14,934,000	7.47
4	ANZ Bank New Zealand Limited – NZCSD <NBNZ40>*	10,601,000	5.30
5	Queen Street Nominees ACF Pie Funds – NZCSD*	7,000,000	3.50
6	BNP Paribas Nominees (NZ) Limited – NZCSD <COGN40>*	6,230,000	3.12
7	HSBC Nominees (New Zealand) Limited O/A Euroclear Bank – NZCSD <HKBN95>*	5,000,000	2.50
8	HSBC Nominees (New Zealand) Limited – NZCSD <HKBN90>*	4,690,000	2.35
9	Forsyth Barr Custodians Limited <1-CUSTODY>	4,501,000	2.25
10	FNZ Custodians Limited	4,001,000	2.00
11	ANZ Wholesale NZ Fixed Interest Fund – NZCSD*	3,735,000	1.87
12	Citibank Nominees (New Zealand) Limited – NZCSD <CNOM90>*	2,500,000	1.25
13	Forsyth Barr Custodians Limited <Account 1 E>	1,138,000	0.57
14	Hobson Wealth Custodian Limited <Resident Cash Account>	935,000	0.47
15	Investment Custodial Services Limited <A/C C>	890,000	0.45
16	Mint Nominees Limited – NZCSD <NPZ440>*	800,000	0.40
17	JBWere (NZ) Nominees Limited <NZ Resident A/C>	483,000	0.24
18	Forsyth Barr Custodians Limited <A/C 1 NRLAIL>	380,000	0.19
19	Marianne Mathilde Marie Stoessel	360,000	0.18
20	Westpac Banking Corporate NZ Financial Markets Group – NZCSD <WPAC40>	295,000	0.15

* Held through New Zealand Central Securities Depository Limited (NZCSD).

Debt listings

Chorus Limited has the following bonds on issue:

- \$200 million bonds traded on the NZX debt market (the NZDX) maturing December 2027;
- \$500 million bonds traded on the NZX debt market maturing December 2028
- \$200 million bonds traded on the NZX debt market maturing December 2030;

- EUR 500 million EMTNs traded on the ASX maturing October 2023; and
- EUR 300 million EMTNs traded on the ASX, maturing December 2026.

American depository receipts

American Depository Shares, each representing five shares and evidenced by American Depository Receipts, are not listed but are traded on the over-the-counter market in the United States under the ticker 'CHRYY' with Bank of New York Mellon as depositary bank. As at 30 June 2022 Chorus had 965,000 ADRs on issue.

NZX bondholder distribution as at 30 June 2022

December 2027 maturity

Holding	Number of holders	% of holders	Total number of bonds held	% of bonds issued
5,000 to 9,999	15	7.57%	92,000	0.05%
10,000 to 99,999	138	69.7%	3,775,000	1.89%
100,000 and over	45	22.73%	196,133,000	98.06%
Total	198	100%	200,000,000	100%

December 2028 maturity

Holding	Number of holders	% of holders	Total number of bonds held	% of bonds issued
5,000 to 9,999	82	6.41%	500,000	0.1%
10,000 to 99,999	1058	82.72%	31,662,000	6.33%
100,000 and over	139	10.87%	467,838,000	93.57%
Total	1279	100%	500,000,000	100%

December 2030 maturity

Holding	Number of holders	% of holders	Total number of bonds held	% of bonds issued
5,000 to 9,999	23	9.54%	152,000	0.08%
10,000 to 99,999	195	80.92%	5,177,000	2.59%
100,000 and over	23	9.54%	194,671,000	97.33%
Total	241	100%	200,000,000	100%

Unquoted securities

Crown Infrastructure Partners (CIP) Securities

The terms of issue for the CIP1 and CIP2 securities are set out in the subscription agreements between Chorus Limited and CIP.

These terms are summarised in note 6 of our consolidated financial statements and on our website at www.chorus.co.nz/reports.

Security	Number issued in the year ended 30 June 2022	Total on issue at 30 June 2022	Holder	Percentage held
CIP1 equity securities	–	462,052,071	CIP	100%
CIP1 debt securities	–	462,052,071	CIP	100%
CIP1 equity warrants	460,124	15,138,187	CIP	100%
CIP2 equity securities	41,659,726	306,423,177	CIP	100%
CIP2 debt securities	23,635,013	23,635,013	CIP	100%

Other disclosures

New NZX listing rules

NZX updated its listing rules from 17 June 2022.

NZX waivers

On 28 March 2019 Chorus applied for the continuation of existing and still required waivers and rulings. On 3 April 2020 a waiver from NZX listing rule 2.3.2, 4.1.1, 4.1.2, 4.2.1, 4.14, 6.6.1, 8.1.5 and a ruling from NZX on listing rule 4.9.1 were granted.

A summary of all waivers relied on by Chorus in the 12 months ending 30 June 2022 is available on our website at www.chorus.co.nz/investor-info.

Non-standard designation

NZX has attached a 'non-standard' designation to Chorus Limited because of the ownership restrictions in our constitution (described above).

ASX disclosures

Chorus Limited and its subsidiaries are incorporated in New Zealand.

Chorus Limited is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial shareholdings and takeovers).

Our constitution contains limitations on the acquisition of securities, as described above.

For the purposes of ASX listing rule 1.15.3 Chorus Limited continues to comply with the NZX listing rules.

Registration as a foreign company

Chorus Limited has registered with the Australian Securities and Investments Commission as a foreign company and has been issued an Australian Registered Body Number (ARBN) of 152 485 848.

Net tangible assets per security

As at 30 June 2022, consolidated net tangible assets per share was \$1.54 (30 June 2021: \$1.55).

Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS.

Revenue from ordinary activities and net profit

In the year ended 30 June 2022:

- Revenue from ordinary activities increased 1% to \$965 million (30 June 2021: \$955 million); and
- Profit from ordinary activities after tax, and net profit, attributable to shareholders increased 25% to \$64 million (30 June 2021: \$51 million)

Subsidiaries

Chorus New Zealand Limited (CNZL)

Directors as at 30 June 2022: Patrick Strange, Mark Cross, Miriam Dean, Murray Jordan, Jack Matthews, Sue Bailey, Kate Jorgensen.

Prue Flacks resigned as a director from CNZL during the year to 30 June 2022.

Current CNZL directors are also Chorus Limited directors and do not receive any remuneration in their capacity as CNZL directors.

Chorus LTI Trustee Limited (CLTL)

Directors as at 30 June 2022: Murray Jordan and Sue Bailey.

Current and former directors of CLTL did not receive any remuneration in their capacity as directors of CLTL. CLTL was removed (following application by Chorus) from the Companies Office register on 21 July 2022.

Other subsidiaries

Chorus Limited has no other subsidiaries.

Glossary

Backbone network	Fibre cabling and other shared network elements required either in the common areas of multi-dwelling units to connect individual apartments/offices, or to serve premises located along rights of way.	Gigabit	The equivalent of 1 billion bits. Gigabit Ethernet provides data transfer rates of about 1 gigabit per second.
Backhaul	The portion of the network that links local exchanges to other exchanges or retail service provider networks.	GPON	Gigabit Passive Optical Network.
Baseband	A technology neutral voice input service that can be bundled with a broadband product or provided on a standalone basis.	IT	Information Technology.
Board	Chorus Limited's Board of Directors.	Layer 2	The data link layer, including broadband electronics, within the Open Systems Interconnection model. Layer 1 is the physical cables and co-location space.
Building block model	A methodology used for regulating monopoly utilities. Under BBM a regulated supplier's allowed revenue is equal to the sum of the underlying components or 'building blocks', consisting of the return on capital, depreciation, operating expenditure and various other components such as tax.	Mbps	Megabits per second – a measure of the average rate of data transfer.
Chorus	Chorus Limited and subsidiaries.	NZ IFRS	International Financial Reporting Standards – the rules that the financial statements have to be prepared by.
CIP	Crown Infrastructure Partners, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.	P2P	Where two parties or devices are connected point-to-point via fibre.
Commission	Commerce Commission – the independent Crown entity whose responsibilities include overseeing the regulation of the telecommunications sector.	Petabyte	One million gigabytes (GB), which is a measure of data volume.
Constitution	Chorus Limited's Constitution.	RAB	Regulatory Asset Base refers to the value of total investment by a regulated utility in the assets which will generate revenues over time.
Direct fibre access	Also known as 'dark' fibre, a fibre service that provides a point to point fibre connection and can be used to deliver backhaul connections to mobile sites.	RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas between 2011 and 2016.
Director	A director of Chorus Limited.	Share	Means an ordinary share in Chorus.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.	TSO	Telecommunications Services Obligation – a universal service obligation under which Chorus must maintain certain coverage and service on the copper network.
EMTN	European Medium Term Notes.	TSR	Total shareholder return.
FY	Financial year – twelve months ended 30 June. e.g. FY22 is from 1 July 2021 to 30 June 2022.	UFB	Ultra-Fast Broadband refers to the Government programme to build a fibre to the premises network. UFB1 refers to the original phase of the rollout to 75% of New Zealanders. UFB2 and UFB2+ were subsequent phases announced in 2017.
Gbps	Gigabits per second. A measure of the average rate of data transfer.	VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides a better broadband connection than ADSL.

Disclaimer

This annual report:

- May contain 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 expressed in the statements contained in this annual report.
- Includes statements relating to past performance. These should not be regarded as reliable indicators of future performance.
- Is current at its release date. Except as required by law or the NZX and ASX listing rules, Chorus is not under any obligation to update this annual report or the information in it at any time, whether as a result of new information, future events or otherwise.
- Contains non-GAAP financial measures, including EBITDA. These measures may differ from similarly titled measures used by other companies because they are not defined by GAAP. Although Chorus considers those measures provide useful information they should not be used in substitution for, or isolation of, Chorus' audited financial statements.
- May contain information from third parties Chorus believes reliable. However, no representations or warranties are made as to the accuracy or completeness of such information.
- Should be read in the wider context of material previously published by Chorus and released through the NZX and ASX.
- Does not constitute investment advice or an offer or invitation to purchase Chorus securities.



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