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30 October 2013

CHORUS' ANNUAL SHAREHOLDERS MEETING

Please find attached the following prepared announcements which will be delivered at Chorus' annual shareholders meeting to be held in Wellington at 2pm today:

- Chairman's address;
- CEO's address; and
- Presentation slides.

Copies of these announcements will be available on Chorus' website later today.

The Annual Meeting will also be webcast live on the investor section of Chorus' website www.chorus.co.nz/investor-centre.

This document will also be released to the New Zealand Stock Exchange.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Vanessa Oakley".

Vanessa Oakley
General Counsel & Company Secretary
Chorus Limited



Chorus Limited Annual Meeting

30 October 2013

Introduction and Chairman's address

SLIDE: WELCOME

Good afternoon shareholders and guests, welcome to Chorus' second Annual Meeting. My name is Sue Sheldon and I am the Chairman of Chorus.

Before we begin let me point out that, **in the event of an emergency** you should use the exit at the back of the room and follow the signs out of the main building doors. Toilets are located in the shareholder registration and refreshments area just outside this room.

I declare the meeting open.

SLIDE: AGENDA

On the presentation behind me you will see our agenda for this afternoon.

It is a simple agenda but it remains heavily overshadowed by an increasingly obsolete regulatory regime. Mark Ratcliffe our CEO has spent so much time on it this year that I'm going to cover the topic today, so he gets to talk about the things he actually wishes he could spend more time on, such as the rollout and benefits of fibre. Then we will go through the resolutions and any questions that shareholders have for us.

SLIDE: YOUR DIRECTORS

Although some of you may be familiar with our Directors, I will briefly ask each Director to stand so we can ensure our shareholders know who you are.

From my right:

- Mark Ratcliffe
- Anne Urlwin

- Keith Turner

From my left:

- Clayton Wakefield
- Prue Flacks
- Jon Hartley

SLIDE: CHORUS EXECUTIVE TEAM

I also want to acknowledge those in the Chorus Executive Team who are with us here today. Please also stand and greet our shareholders as you are introduced.

To my right is:

- Chief Financial Officer, **Andrew Carroll**; and

To my left is:

- General Counsel & Company Secretary, **Vanessa Oakley**.

In the front row are the other Chorus Executive team members:

- **Victoria Crone**, General Manager for Sales and Marketing;
- **Ewen Powell**, Chief Technology Officer;
- **Deborah Sinclair**; Acting General Manager for Human Resources;
- **Nick Woodward**, General Manager for Customer Service;
- **Ed Beattie**, General Manager for iBuild; and
- **Irene Lovejoy**, Executive Assistant.

Directors and the Executive team will be around after today's proceedings and look forward to the opportunity to talk with and get to know our shareholders a little better.

Now on to the formalities.

SLIDE: FORMALITIES

The General Counsel & Company Secretary has confirmed that the notice of meeting has been sent to shareholders and others who are entitled to receive it.

Chorus' constitution requires a quorum of two or more shareholders. As you can see, this requirement has been met.

Proxies have been appointed for the purposes of this meeting in respect of approximately 192 million shares. This represents approximately 48% of the

total number of shares and I'd like to thank shareholders for their level of participation in today's meeting.

I intend that all voting at today's meeting be by way of poll. I and my co-directors hold undirected proxies for between approximately 790,000 and 900,000 shares across the resolutions, and we intend to vote them all in favour of resolutions 1, 2 and 3.

SLIDE: 2013 ANNUAL REPORT

Chorus is a simple business, building a network that will deliver significant long term economic benefits for New Zealand



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This is Chorus' second Annual Meeting, and the financial year ended 30 June was Chorus' first full year of operation as a standalone company.

At the completion of the year, we can reflect on a good operational performance, but significant headwinds remain and I will outline those shortly.

First, I would like to acknowledge a solid operational performance from the Chorus team.

The company's operational financial results were in line with expectations, enabling your board to declare dividends totalling 25.5c per share.

Our key infrastructure upgrade programmes, Ultra Fast Broadband and the Rural Broadband Initiative, are going well.

Achieving these targets represents a job very well done, as we should not forget that we are around 20% of the way through one of the largest nationwide civil engineering projects ever undertaken in New Zealand.

During the year we updated guidance on the capital costs of the Ultra Fast Broadband rollout, increasing from a range of \$1.4b to \$1.6b to \$1.7b to \$1.9b.

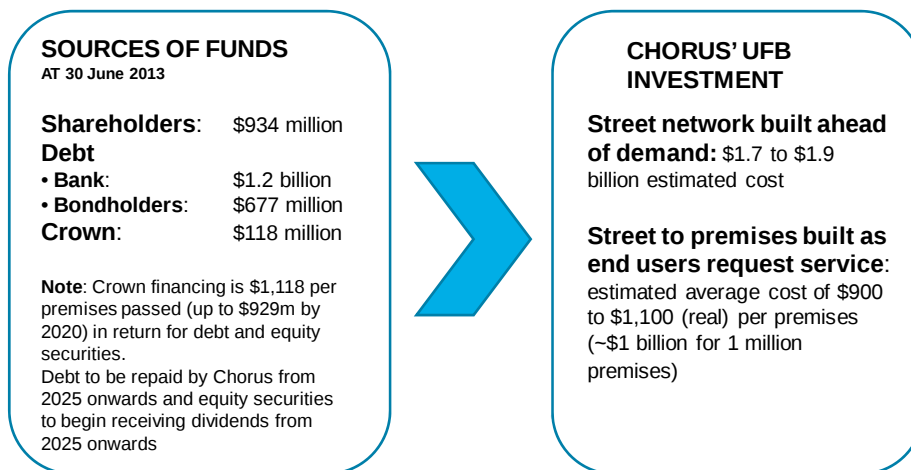
Obviously this was disappointing and the team is working hard to establish ways to lower the capital costs.

We are now over a fifth of the way through the Ultra Fast Broadband build and we are getting more certainty about our view of the costs, so the capital guidance given in February remains in place.

SLIDE: A PUBLIC PRIVATE PARTNERSHIP

A public-private partnership

- > The UFB rollout is being funded via Chorus' balance sheet



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It is important that everyone understands just how large and important a job this is, not only for Chorus, but also for our country.

We are undertaking a once in many generations upgrade of our national communications infrastructure. It is an upgrade that will catapult New Zealand to the forefront of global telecommunications.

And it is an upgrade made possible by the Crown entering into a public private partnership to leverage Chorus' balance sheet to fund the upgrade.

Like any business, it is our revenues and the funding we receive from lenders and shareholders that underpins this kind of investment.

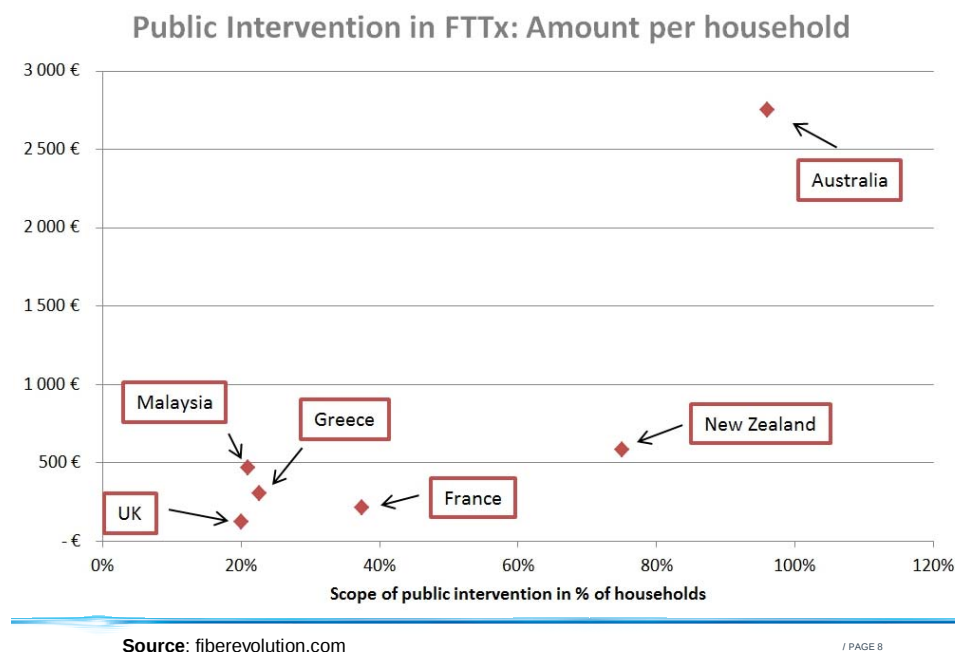
For a nation that has always been defined by its remoteness, Ultra Fast Broadband can fundamentally redefine New Zealand's place in the world.

It can change how our children learn, giving them access to an entire world of new learning experiences.

It can utterly change our economy and give us access to global markets that have always been way out of reach.

It can keep our best and brightest in New Zealand, because they have all the opportunities in the world right here at home.

SLIDE: PUBLIC INTERVENTION IN FTTx



When you look at this slide, New Zealand appears to have got a very good deal in entering into a public-private partnership with Chorus. We are taking fibre further, for less taxpayer funding than other countries. For Chorus, this is around \$3 billion of private funding compared to estimates of \$43 billion of public money in Australia. And, we are providing attractive entry level fibre prices.

We only have to look across the ditch to see how other countries are struggling to deliver what we are getting on with.

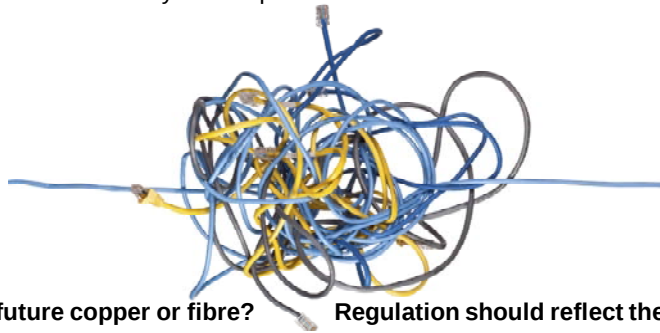
If the policy changes in Australia, as it seems likely to do with a new Government in power, they will revert to a network design called fibre to the node, rather than all the way to the home. They will aim to have this built by 2020.

You may be interested to learn that here in New Zealand we completed that 500 million dollar upgrade a couple of years ago. So by 2020 Australia may have what we already enjoy today.

SLIDE: A REGULATORY TANGLE

A regulatory tangle

- > Existing framework not designed for structural separation
- > Clear signposts for fibre not followed
- > Commission now stuck applying copper-centric regime
- > Benchmarking flawed and subject to drawn out TSLRIC reviews
- > TSLRIC never yet completed in NZ and abandoned in Australia



Is the future copper or fibre?

Regulation should reflect the answer

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New Zealand is world leading with its structurally separated open access model delivering generational fibre infrastructure and services. Yet two years on everyone is in a tangle centred on the legacy copper services and the legacy regulatory regime. We cannot be complacent about policy framework conditions if we want to have a vibrant industry and digital economy as part of New Zealand's future.

The right regulatory environment is essential to support such a bold vision and such a huge investment in our country's capability.

And it is a huge investment.

Yes the Crown is financing part of the upgrade, but it is looking for a return on that investment.

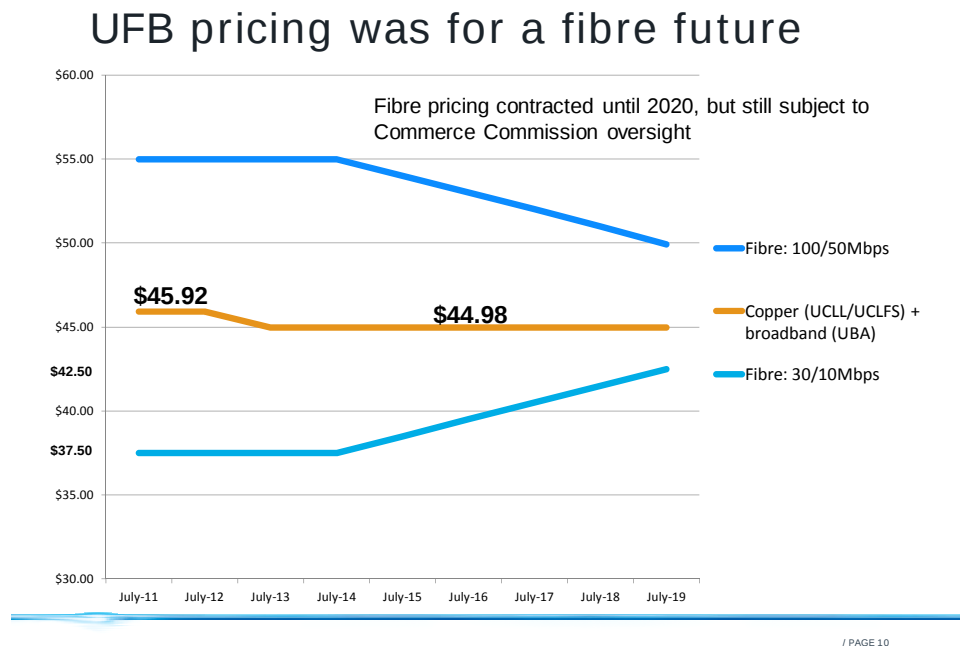
But it is you, our shareholders, who are funding the majority of this investment in New Zealand's future.

Roughly, for every dollar of financing received from the Crown, Chorus' shareholders are investing two and the expectation is that we will ultimately repay the Crown's financing.

And we are investing willingly, and with excitement for the future.

Because we know not only is it the right thing for Chorus, and the telecommunications industry, but it is so important for New Zealand's future too.

SLIDE: UFB PRICING WAS FOR A FIBRE FUTURE



In that context, I find it difficult to understand why we are staring at another regulatory decision that has the potential to undermine the business case of the Crown's cornerstone partner in such a critical initiative.

Regulatory decisions since demerger – first the benchmarking review of the copper line or UCLL price, and now the benchmarking of the UBA price, have thrown huge doubt not just on Chorus' revenues but also on the migration to fibre.

Fibre pricing was contracted with the Crown so as to be attractive relative to copper pricing. As you can see on the slide, the current combined copper pricing of \$44.98 per month for a copper line with broadband, sits clearly in the middle of pricing for the entry level fibre plans. This balance has already tilted because the Commission's first pricing decision in December, cut copper pricing from \$45.92 to \$44.98. That decision alone had a \$20 million EBITDA impact per annum.

The regulatory risk Chorus faces stems from an old set of regulation set up to solve a different set of problems, in a completely different industry structure. And it is not working.

While there were changes made in the regulatory framework in 2011 to essentially “maintain the status quo” in service provision, notwithstanding the demerger of Chorus, there has been no “spring clean” to reflect the bold policy decision to move to a new world class infrastructure. And this was reflected in the fact that two reviews were scheduled to occur.

What the policy makers intended at the time of demerger is not what has played out in practice, bringing greater uncertainty for the industry and for Chorus than anyone could have predicted. The Government has acknowledged this and has rightly opened the scheduled reviews to look at the situation. It is essential that there is realignment with the Government’s policy.

And more importantly, that there is certainty – something many in the industry sought before demerger – so the generational changes in the industry can be the point of focus.

SLIDE: REAL ISSUE IS COHERENCY AND A FAIR RETURN

Real issue is coherency and a fair return

- > Chorus needs to earn a fair return on its assets to maintain its investment in fibre.
- > Other utilities have Commerce Commission regimes that recognise this.
- > The current telecommunications regime does not, because it is focused on a bygone era of vertical integration.
- > There is a clear need for change.



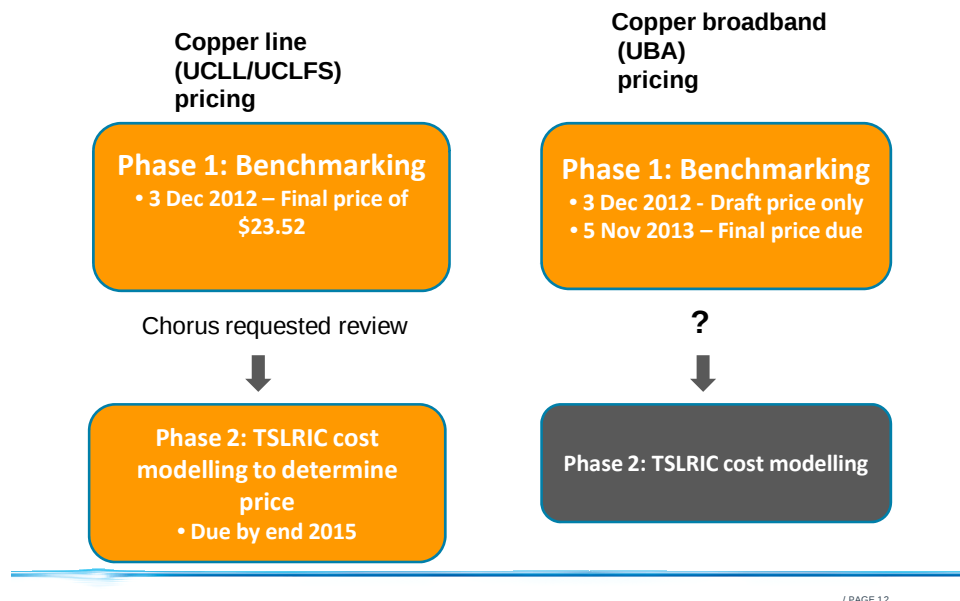
Because the regime is driving piecemeal pricing assessments of individual services, what is missing from the regime and the debate is a fair return overall for investors and a business taking on the risk of generational investment. Other utilities have regulation that considers this all important question.

Absent realignment and stability being brought about through the Government’s review, on 5 November we are expecting the Commerce Commission’s final

benchmarked price on another key regulated product – copper broadband, or UBA.

SLIDE: COMMISSION PRICING PROCESSES

Commission pricing processes



Chorus is dependent on two things:

- Strong operating cash flows from its existing business;
- And the ability to borrow very significant sums from the debt market to fund the business as it invests in fibre.

Any impact on EBITDA affects both of these.

When the draft benchmarked UBA price was issued in December last year it suggested a \$150 - \$160 million EBITDA impact per annum. As we said at the time, if the draft price was confirmed it may require Chorus to fundamentally review its capital structure, dividend policy and business plan.

This real financial world seems far removed from the abstract exercise the Commerce Commission is required to undertake, to find other countries to compare ourselves with. For the draft UBA price it found only Sweden and Denmark.

That draft price was like having a property valuer tell you your house is worth less than what you paid for it, because they've looked at prices in Denmark and Sweden.

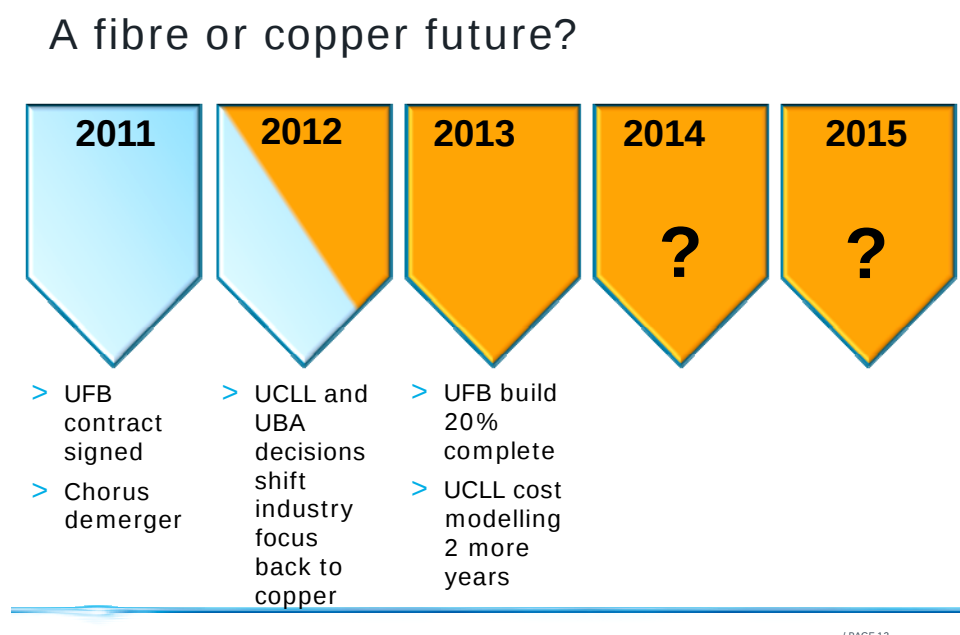
Even the Commission had acknowledged previously that two countries does not make for a robust regulatory decision.

And there is seemingly little regard for how that pricing either supports or undermines the transition to the new fibre infrastructure.

Benchmarking is not used in Australia, the UK, nor anywhere in Asia or the USA, where we may typically compare ourselves.

While some have sought to ignore the Commission's strong caveats on its draft decision as preliminary, unusual and draft, it is important to be clear that benchmarking is not reliable. And the inherent risks in getting it wrong are stark. All the more so in an environment of structural separation and a once in a generation fibre investment.

SLIDE: A FIBRE OR COPPER FUTURE?



Continuing with the current regime means everyone remains in a regulatory vortex for another two years – so what was intended to be transitional adjustments to accommodate demerger within a year, will take around four years – as the Minister of Communications has acknowledged. That also assumes no litigation follows, which could drag this out even longer. This is not what Chorus wants, and I am sure it is not what you as shareholders want.

The copper line service is in a second final pricing process and scheduled by the Commerce Commission to be completed at the end of 2015. This process involves a detailed and costly regulatory economic cost modelling.

The Commerce Commission has never completed this process before, and it is an approach that has been abandoned in Australia. The copper broadband price is also expected to go into this second lengthy phase of cost modelling, unless there is a legislative change to the framework .

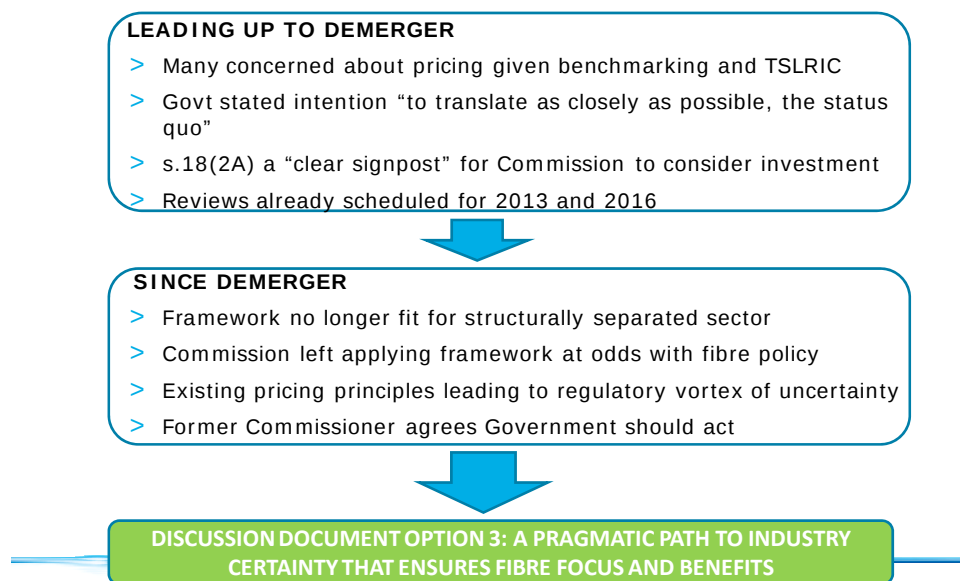
This is not our preferred course, but absent a policy realignment to bring certainty and stability, this is what the framework permits to deal with the vagaries of benchmarking.

At no stage has it been credibly suggested that Chorus is earning excessive returns. Analysts who know our industry understand this and have pointed it out in their research.

At Chorus we take great pride in getting on with the job with little fuss, and delivering. We are delivering, like clockwork, on our commitments. And the copper tangle is a distraction for everyone.

SLIDE: IT IS THE GOVERNMENT'S ROLE TO ACT

It is Government's role to act



In parallel to the Commerce Commission processes, the Government – as policy maker – announced its intention to review the situation in February. In August the Government issued a discussion document proposing options to address the clear deficiencies with the current regulatory framework. The Minister for Communications and Information Technology said this was "to provide clarity and certainty during a period when large investments are being made in a once-in-a-many-generation upgrade of our telecommunications infrastructure that will

deliver significant benefits for New Zealanders well into the future". And we agree.

Chorus believes this goes to the heart of the challenges the review tackles. This is not about over-ruling the Commission. The Government writes and enacts the legislation applied by the Commission, so has every right to address inconsistency with policy objectives that will benefit New Zealand as a whole.

We cannot have frameworks that do not support the policy outcomes intended – the design and the implementation needs to support the outcome.

Even the former Telecommunications Commissioner, Dr Ross Patterson, who oversaw the implementation of the previous regulatory regime, agrees that the Government should intervene and set the prices in legislation until 2020.

It is important to remember that the copper prices in place were set by the regulator before demerger. If the Commission simply stopped its reviews (which it believes it can't do) and pricing remained stable, there would be no changes for end users (or retail customers) and no change in the ability of retail service providers (Chorus' customers) to compete evenly. It would also mean fibre pricing remained attractive, as intended.

There is a vast range of evidence that supports today's aggregate copper price (that is the copper broadband price that was \$45.92 at demerger and is already reduced to \$44.98). There is no evidence, other than a troubled benchmarking approach, that supports a lower price. Evidence pointing towards today's prices as reflecting a reasonable view of costs includes information already prepared under the regulatory framework – for accounting separation - as well as the sense check of the real dollars we are paying to build the UFB network.

The Government's discussion document raises the possibility of considering the reallocation of prices between copper line and copper broadband services. We agree that it is important to get this right – within today's aggregate pricing of \$44.98. We believe the copper line pricing is too low and that a more cost reflective approach will increase this price. Dr Patterson, the former Telecommunications Commissioner, has publicly said he thinks the same.

Ultimately, the Government suggestion of replacing benchmarking with more accurate proxies, such as the cost of the UFB rollout, is the most logical path for the transitional period to 2020. Rather than leave industry participants in reviews for several years chasing the same answer, the Government should set these prices in legislation now until 2020.

This will give certainty to everyone as the UFB build continues and supports the intended policy. It is also the simplest approach to untangling the current framework.

And let's be clear, there is no guarantee that retail service providers would pass any price reductions on to end users, particularly while there is uncertainty. Especially if pricing reviews continue until the end of 2015.

Back at the time of Chorus' demerger, retail service providers and others were concerned about pricing certainty because of the vagaries of benchmarking and cost modelling under the legislation. It's notable that there was no debate on significant price reductions – and in fact one Retail Service Provider was concerned that the prices could increase. Even user group TUANZ recognised then that actual costs should be considered - not those in overseas countries.

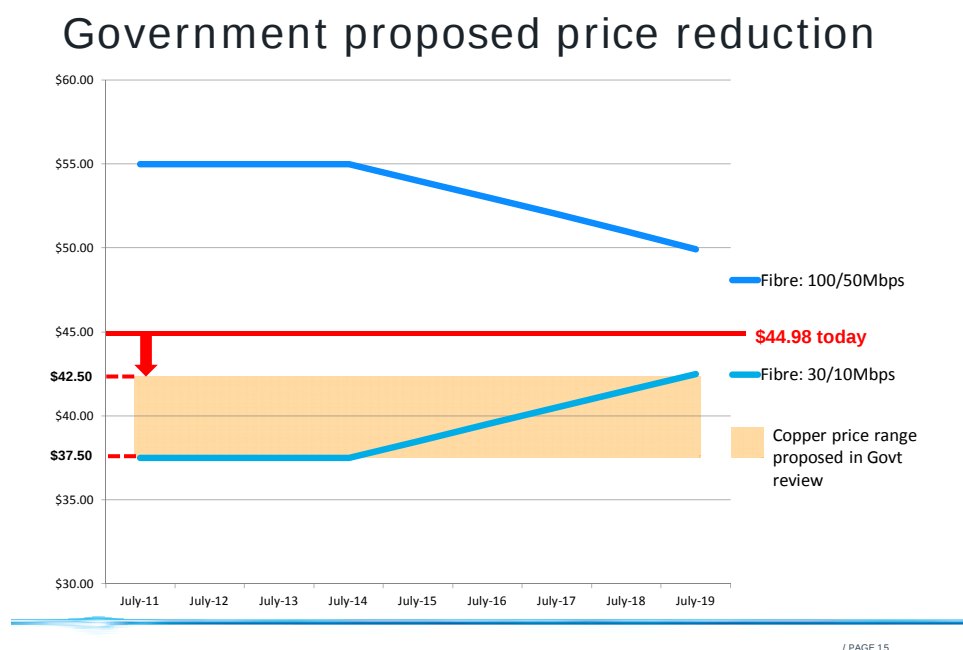
The “clear signpost” in the legislation for the Commission to take account of significant investment has proved problematic.

Reviews were scheduled because the Government recognised that the existing framework would be increasingly out of date.

So the Government is right as policy maker to step in and ensure that the regulatory settings are fit for purpose to deliver the intended policy outcomes for New Zealand. It is taking a principled approach to try to balance the interests of all parties. And it is a more timely and responsible approach than allowing two more years of debate on copper pricing with the further potential for litigation after that.

It will also leave a sensible timeframe for a principled second phase of policy development to ensure a predictable and clear regulatory regime post 2020.

SLIDE: GOVERNMENT PROPOSED PRICE REDUCTION



The Government has proposed a price reduction for Chorus – with a range of price outcomes from \$42.50 to \$37.50 - which could have an annualised EBITDA impact in the range of \$20m to \$100m.

If Government does not act the consequences for UFB and network investment generally, including the Crown's other UFB partners, are potentially significant. It's about all industry participants and whether we are all heading in the same direction or not.

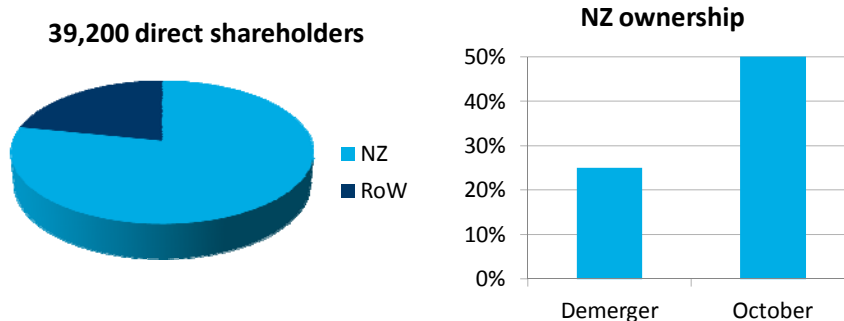
Our investors, nationally and internationally, are looking on aghast at the risks being placed on investors in what should actually be a simple business undertaking a major civil project. We are a small country with limited amounts of capital. We have been told some are now thinking more broadly about risk to investing in any infrastructure in New Zealand. To attract investment we must be able to offer a reasonable prospect of a reasonable return. This is particularly the case with very large scale infrastructure investments with long payback periods.

Investors now attach a regulatory risk premium to Chorus and this has implications for our cost of capital. We do not have the luxury of being able to have bad regulation that undermines investment and leaves our country hamstrung. Yet, the application of the regulatory framework to date has left investors telling us that New Zealand telecommunications is basically un-investable.

It's a nonsensical situation and the sooner it is resolved for all of us, the sooner we can get on with delivering what really matters for our country. The Government's proposal to essentially use proxies that are more robust than benchmarking – something the Commission cannot do - makes absolute sense. The alternative is another two years of theoretical modelling that we believe will end up with an answer that today's copper prices are not out of step with the costs of networks in New Zealand. And as I've already said earlier, there is ample other evidence to support that.

SLIDE: A NEW ZEALAND BUSINESS

A New Zealand business



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In conclusion, there have been many good things to recognise in the last 12 months.

The team is firmly established, working well and the operational performance is good.

The industry is adapting quickly to a world leading industry structure.

Chorus is regularly meeting its targets for one of the largest civil engineering projects in New Zealand's history.

More than 30,000 kiwis now hold a direct share of Chorus, with many more invested through Kiwisaver. New Zealand ownership of Chorus has also increased markedly since demerger, with approximately 50% of the company owned by New Zealanders. This compares favourably to other large New Zealand companies.

Chorus now employs close to 800 people directly, with over 4000 people working on Chorus' behalf through our service company partners.

And they are all getting on with the job of delivering better broadband right across New Zealand.

Yet at this time of unparalleled investment we face enormous levels of uncertainty that risk undermining all the progress to date.

We will provide more detail on the financial impact and the impact on our business once the final UBA price is released on 5 November, and will be watching closely to see how the Government responds.

UFB is bold and focused on our future and we must have certainty for everyone now to support the transition to the upgraded network over coming years.

Certainty now is the only outcome that will realise the benefits intended for New Zealand from the public private partnerships bringing fibre to homes, businesses and schools. That will in turn provide the foundation for future investment beyond UFB.

And with that, I'll ask Mark to give his view on what was achieved in the twelve months to 30 June 2013.

ENDS.

For further information:

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Chorus Limited Annual Meeting

30 October 2013

CEO's address

SLIDE: CHORUS CEO

Thank you Sue. Good afternoon everyone and thank you for taking the time to attend today.

The 12 months through to 30 June were the first full year of operation for Chorus since we became an entirely independent business. I think we have quite a story to tell, and I will use my time to share that story with you today:

- I'll reflect for a moment on how far we have come in that time.
- I'll give you a sense of the company Chorus has grown to be today and our performance over the last 12 months.
- I will then talk through some of the key elements of our strategy for the future.

SLIDE: DRIVING IN A NEW DIRECTION



It is worth reiterating that Chorus is pretty much unique in the world. Several countries have looked at fully separating the incumbent telecommunications company, but only here in New Zealand have we taken the plunge.

We had no blueprint to follow. There was no example of best practice to leverage or a strategy that we knew was likely to work with a bit of tweaking for New Zealand.

The fact is, we are the trailblazers and the global telecommunications industry is watching to see if the industry structure we have put in place here is the right one.

Some quick facts about Chorus:

Chorus owns and operates most of the fixed line telecommunications infrastructure across New Zealand.

We are open access, which means we sell our products to everyone at the same price and with the same technical characteristics.

We are wholesale only – which means we do not sell any services directly to homes, businesses or schools. End customers do not get a phone bill with a Chorus logo on it.

We sell our products to Retail Service Providers such as Telecom, Vodafone, Orcon and CallPlus, who then take those wholesale inputs and add their own bits and pieces before selling them to their customers.

So our customers are actually the other telecommunications and internet companies who buy access to our infrastructure. We have about 100 customers in total – some huge like Telecom and Vodafone, and some who employ just a few people.

We are in the privileged position of being able to know all of our customers individually.

But when something goes wrong, or when an end user wants a new service, it's a Chorus van that rolls up and works at the home or business.

As Sue mentioned earlier, we are also undertaking one of the largest civil engineering projects in New Zealand's history in partnership with the Government.

Across much of New Zealand we are replacing the copper wires that currently connect our homes, businesses and other facilities, with state of the art fibre optic cables. This is once in a generation project that requires us to lay about 17,000km of fibre down 44,000 streets, across 24 towns and cities across the country. And it is set to run through to 2019.

At the same time we are also delivering significant upgrades to our infrastructure for rural New Zealand too. About 3,000km of fibre is being laid under the Rural Broadband Initiative.

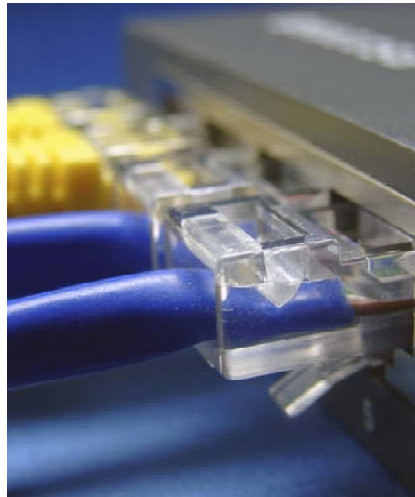
Any one of these things – establishing a whole new company, being pivotal to a fundamental restructure of the telecommunications industry, and delivering one of the largest civil engineering projects in our country's history - would typically keep any business fully-occupied.

We have all of these going on together. So how are we doing?

SLIDE: STRUCTURAL SEPARATION HAS DELIVERED

Structural separation has delivered...

- A **wholesale only Chorus** with focus on market leadership
- **Open access** removed industry concerns about vertically integrated discrimination
- **Contracted UFB products**, including re-price of Chorus' existing business fibre network
- A **doubling of Chorus' workforce**
- New Zealand's **UFB rollout ahead of target** and Australia
- **Re-pricing of VDSL**; available to ~60% of lines



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It is almost two years since Chorus transformed from being a business unit of Telecom New Zealand, to being a major listed company in our own right. In that time we have nearly doubled our staff numbers as we gathered together the people with the skills and capabilities that we need as a fully-independent company.

We are building the systems and processes necessary to stand on our own two feet And we have a big year ahead as we move beyond some of the legacy systems we still rely on Telecom to provide.

We have built our own culture, based strongly around good values. It is a source of enormous pride for me that Chorus has twice been recognised as one of a handful of best employers in Australasia.

We have delivered, consistently, on our commitments to the Crown. We are slightly ahead of schedule for both of our major infrastructure programmes.

SLIDE: UFB ROLLOUT IS 20 % COMPLETE

UFB rollout is 20% complete

- > Build underway in 20 of Chorus' 24 areas
- > Massive increase in productivity: 111,000 premises passed in FY13
- > Benefitting regional NZ...
 - Timaru 70% complete
 - Taupo 52% complete
- > At 30 September: build complete for **171,500 premises**, with **226,000 end users within reach**



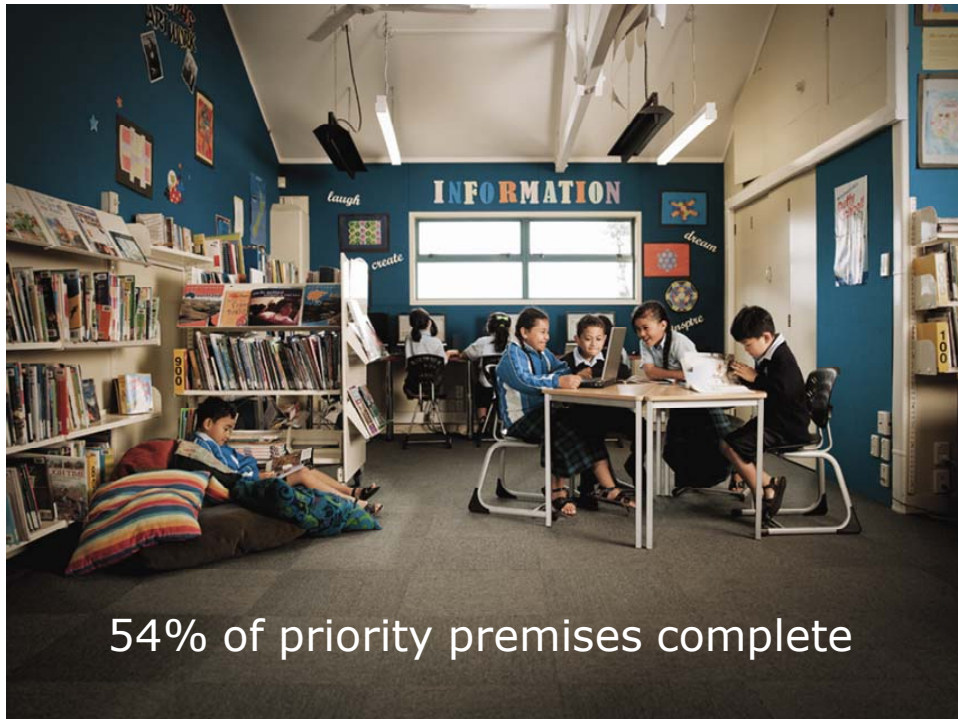
FY13 was a significant year for the rollout with build underway in 20 of Chorus' 24 areas and a massive increase in productivity. We passed 111,000 premises during the year and will now maintain that momentum through to the end of the build period.

And that momentum is spread right across the country. For example, at 30 June Timaru was already 70% complete and Taupo 52%. This is not a rollout restricted to downtown Wellington or Auckland.

The strength of that momentum is evident from latest reports which suggest NZ's UFB rollout has now surpassed Australia's own NBN rollout. This is despite Australia starting much earlier.

Given that we already lead Australia in terms of the quality of our copper network, we may be about to surge ahead even further if they now scale back on their plans.

SLIDE: 54 % OF PRIORITY PREMISES COMPLETE



At 30 September we were more than 50% of the way to our goal of passing all priority premises by 2015. These priority premises are the schools, hospitals and businesses that will provide New Zealanders with the greatest socio-economic benefits from UFB.

The economic benefits alone have been estimated at \$33 billion over 20 years and the sooner we complete the UFB build to priority premises, the sooner these benefits will follow.

SLIDE: RURAL BROADBAND INITIATIVE

A photograph of a man standing in a grassy field with a white barn in the background. The text 'Rural Broadband Initiative' is overlaid at the top.

Rural Broadband Initiative

- > Halfway through rollout of fibre to rural areas: 2,150km fibre laid; 779 schools complete
- > 51,200 lines within reach of better broadband and 37% growth in uptake
- > Crown contributing about \$236m, mostly via industry levy
- > Chorus funding 15 to 20% of annual rollout cost

And we are not standing idle in rural New Zealand either. With more than 2,000 km of fibre laid for the Rural Broadband Initiative at 30 June, we had enabled better broadband for 51,200 end users and 779 schools. This rollout is also helping extend the reach of wireless broadband and mobile phone coverage to areas where fixed line network would be prohibitively expensive.

While the Crown is contributing about \$236 million to this rollout, mostly via an industry levy, Chorus is directly funding 15 to 20% of the annual rollout cost.

SLIDE: FY13 FINANCIAL SUMMARY

FY13 financial summary

	12 months to 30 June 2013 \$m	2014 guidance
Operating revenue	1,057	
Operating expenses	(394)	
EBITDA	663	Flat to low single digit percentage decline, relative to normalised FY13 EBITDA
EBIT	344	
<u>Net earnings</u>	<u>\$171</u>	
Capex	\$681	\$660-\$690m
Dividend	Gross \$100 paid \$70 (DRP of \$30)	FY14 dividend guidance unchanged. Board continuing to monitor regulatory developments
Net interest expense	\$108	
Borrowings	\$1,872	

Source: Chorus FY13 results presentation and Annual report

/ PAGE 23

We delivered a good operational performance, in the last financial year. For FY13 we reported a positive operating result with net earnings of \$171 million and EBITDA of \$663 million.

It is difficult to compare this twelve month result with our previously reported period of seven months, but it would suggest a modest 1% increase in EBITDA compared to normalised annualised FY12 EBITDA.

The result is underpinned by revenue of \$1,057 million, derived largely from our 1.8 million fixed line connections and 1.1 million broadband connections.

Operating expenses were up by about 7% compared to the prior period as Chorus continued to grow to cater for our project work and the provisioning work we do for our customers. The weather also had a larger impact on our network in FY13.

About 65% of our revenue was spent on capex in FY13. 85% of that capex is on fibre-related projects including UFB and the Rural Broadband Initiative.

The catch is that while we are partnering with the Crown to invest in fibre ahead of demand, 80% of our revenues today come from copper-based products – either copper line access or copper-based broadband.

And we have about \$1.8 billion in borrowings – a large amount but not unusual for a utility-like company.

SLIDE: CHORUS PAYS ITS CONTRACTORS



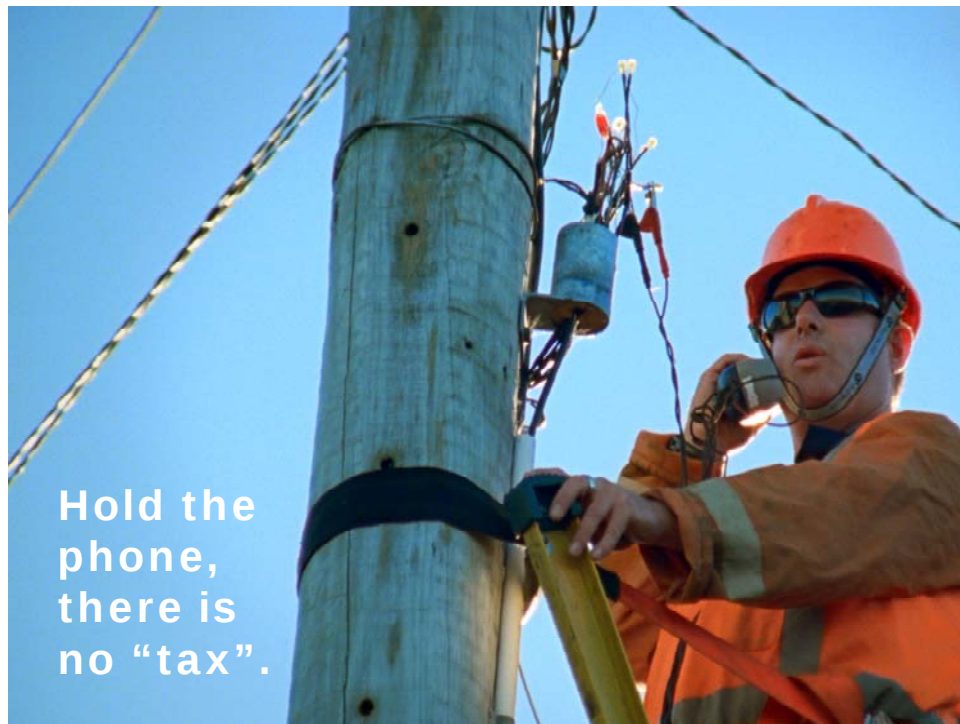
While we are looking back over the recent months I would also like to take this opportunity to address some of the issues that have bubbled up in recent times.

Last month there was some media coverage that Transfield, one of our field services partners, delayed paying its sub-contractors. I want to reiterate that this is absolutely nothing to do with anything Chorus has done.

We pay our bills, on time and in full. Transfield were fully paid by Chorus at all times.

Not paying sub-contractors for the work they have done in good faith is absolutely unacceptable, and we have made our views very clear to Transfield on this. They have indicated that they are confident there will not be a repeat and we will be watching closely.

SLIDE: HOLD THE PHONE, THERE IS NO “TAX”



Sue has been through the regulatory environment, so I won't add much more to that.

But I would like to touch on the recent publicity about the copper pricing debate. Chorus has also been the subject of a political campaign that suggests that we are due to get some sort of windfall, or are getting an unfair regulatory deal.

To put it politely, the truth is being stretched to breaking point here. There is no tax on end users.

It is worth noting that with the averaging of urban and non-urban prices since demerger, rural prices have decreased to the point where they are in effect now subsidised by urban lines. Not the other way around.

Investors would actually contend that the only tax has been the degree to which regulatory decisions have so far removed hundreds of millions of dollars in value from Chorus.

In direct contrast to being a windfall, under virtually every scenario the amount we can charge for access to our copper network will go down. The very best possible outcome for Chorus is our revenues might stay where they are today.

The only debate to be had is about the level of revenues that enable Chorus to reinvest in our national infrastructure, both for UFB and in rural areas. Every \$1 reduction in EBITDA has a much greater impact on our funding capacity during the UFB build.

And if you cut the price of copper services then of course you will see a slower migration to the new fibre optic infrastructure we are building.

Putting Chorus aside for a moment, the economic cost to our country of having two sets of infrastructure running side by side and then undermining one of the key levers for transition to the new one makes this even more short sighted.

SLIDE: WE WILL SUPPORT OUR CUSTOMERS...



Whilst we have made positive steps forward in the service experiences that RSPs and end customers enjoy, in both our legacy copper business and on next generation fibre services, we are not yet performing at the level we aspire to.

In particular we intend to raise our game on those services that are more complex and on all things fibre. We do need some legislative changes to assist in the case of Rights of Way and Multi Dwelling Units as well as timely support from Local Councils in granting consents.

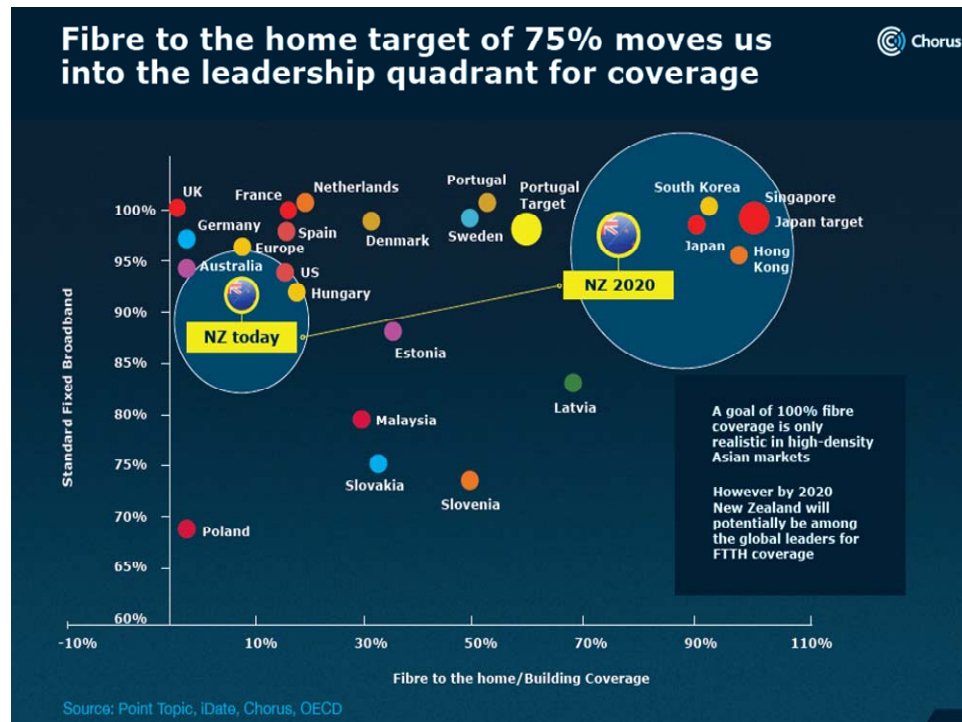
At Chorus, we prefer to play the longer game, and build consistently and confidently into the future. As part of that, it has become clear to us over the last 18 months that New Zealanders expect us to take more of a leadership role.

We own and operate strategically critical infrastructure that underpins our entire industry and much of the New Zealand economy.

We are building the majority of a world class infrastructure that has the potential to transform New Zealand, economically and socially.

And we now better understand that we have a duty to take more of a leadership role in helping New Zealand get the most of this multi-billion dollar investment. Over the last couple of weeks you may have seen us take a few steps towards telling that story.

SLIDE: FIBRE TO THE HOME TARGET (BENCHMARKING)



We have published some international benchmarks that show that once our fibre build is complete, New Zealand will genuinely enjoy some of the highest quality infrastructure available.

Our aim is for New Zealand to be a top 10 broadband country for quality, availability, experience and economic utilisation.

The truth is that we actually have pretty good infrastructure here already, but that isn't translating into a great experience for users and as a nation we're not using it to make our country richer.

The first step is to get as many people as possible onto the best broadband available, which so many of us are not.

We will be reporting on the progress of these measures regularly.

Last week we also proposed a whole new set of fibre products that can enable the Retail Service Providers to offer even faster speeds and better value to their customers.

We need to work through a consultation process with the industry, but we

expect that by 1 January we will be able to make 100mb/s effectively the entry level fibre product.

By way of comparison, a good standard copper broadband connection sits around 10mb/s, so we are talking 10 times faster.

We are also introducing new 200mb/s products which we think will be very appealing to businesses and other heavy broadband users. This means that, as fibre becomes increasingly available, New Zealanders will enjoy some of the very best broadband in the world.

SLIDE: GIGATOWN



But we want to do even more, and shortly I'm going to let a video tell you about a sponsorship initiative Chorus has just launched. It's called Gigatown. It's a competition to power up one town with the fastest broadband in the entire Southern Hemisphere. 1 Gigabit broadband.

We're doing this because we believe it will truly demonstrate the transformative power of ultra-fast broadband. This "gigatown" will be the equal of any town or city anywhere in the world. And I can say that the reaction from the town and cities where we are building fibre has already been amazingly rewarding. I urge you to get onto gigatown.co.nz and get involved.

But the greatest opportunity of all is that we have a chance to deliver that kind of transformation across all of New Zealand. Fast broadband has been shown to transform entire communities.

We can make New Zealand the country that our children never want to leave because every opportunity they could ever want is right here. As New Zealanders, we just need to take that opportunity with both hands.

As investors in Chorus, you are not only investing in what we hope will be a strong, reliable business for years to come, you are investing in a company that does things in the right way and has a critical role in building our country's future.

Thank you for your investment, and your time today. I'd like to leave you with a view of the potential of fibre... [video]

ENDS.

For further information:

Brett Jackson
Investor Relations Manager
Phone: +64 4 498 9271
Mobile: +64 (27) 488 7808
Email: brett.jackson@chorus.co.nz

Chorus Annual Meeting 2013

30 October, Wellington



Agenda

- > Chairman's introduction, Sue Sheldon
- > CEO address, Mark Ratcliffe
- > Resolutions
- > Shareholder discussion and questions
- > Afternoon tea

Your directors



Sue Sheldon



Anne Urlwin



Clayton Wakefield



Jonathan Hartley



Keith Turner



Mark Ratcliffe



Prue Flacks

Chorus Executive team



Ed Beattie
GM iBuild



Andrew Carroll
Chief Financial Officer



Victoria Crone
GM Sales & Marketing



Vanessa Oakley
General Counsel & Company
Secretary



Ewen Powell
Chief Technology Officer



Mark Ratcliffe
Chief Executive Officer



Deborah Sinclair
Acting GM Human Resources



Nick Woodward
GM Customer Service



Irene Lovejoy
Executive Assistant*

*Note: The Executive Assistant is not an officer of the company

Formalities

- > Notice of meeting
- > Quorum
- > Proxies

Notice of Annual Meeting 2013



Notice is hereby given that the 2013 annual meeting of shareholders (Annual Meeting) of Chorus Limited (Chorus) will be held

Where

The Amora Hotel
170 Wakefield Street
Wellington
New Zealand

When

Wednesday
30 October 2013
Commencing at 2:00pm
(New Zealand time)

You are encouraged to read this Notice (including the Explanatory Notes and Procedural Notes) and the instructions on the Proxy/Voting Form carefully.

Important dates

All times are given in New Zealand time unless otherwise specified.

28 October 2013, 2:00pm

Latest time for receipt of Proxy Forms

29 October 2013, 5:00pm

Record date for voting entitlements for the Annual Meeting

30 October 2013, 2:00pm
Annual Meeting

Business

Shareholders will be asked to consider and, if thought appropriate, to pass the following ordinary resolutions:

Election of Directors

1. That Ms Sue Sheldon be elected as a director of Chorus.
2. That Mr Clayton Wakefield be elected as a director of Chorus.

Biographical details of each director offering themselves for election are set out in Explanatory Note 1.

Auditor Fees and Expenses

3. That the Board be authorised to fix the fees and expenses of KPMG as auditor for the ensuing year.

See Explanatory Note 2.

By order of the Board

Vanessa Oakley
General Counsel & Company Secretary
27 September 2013

Chorus is a simple business, building a network that will deliver significant long term economic benefits for New Zealand



A public-private partnership

> The UFB rollout is being funded via Chorus' balance sheet

SOURCES OF FUNDS

AT 30 June 2013

Shareholders: \$934 million

Debt

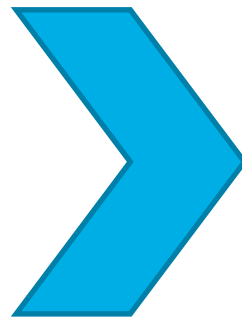
• **Bank:** \$1.2 billion

• **Bondholders:** \$677 million

Crown: \$118 million

Note: Crown financing is \$1,118 per premises passed (up to \$929m by 2020) in return for debt and equity securities.

Debt to be repaid by Chorus from 2025 onwards and equity securities to begin receiving dividends from 2025 onwards

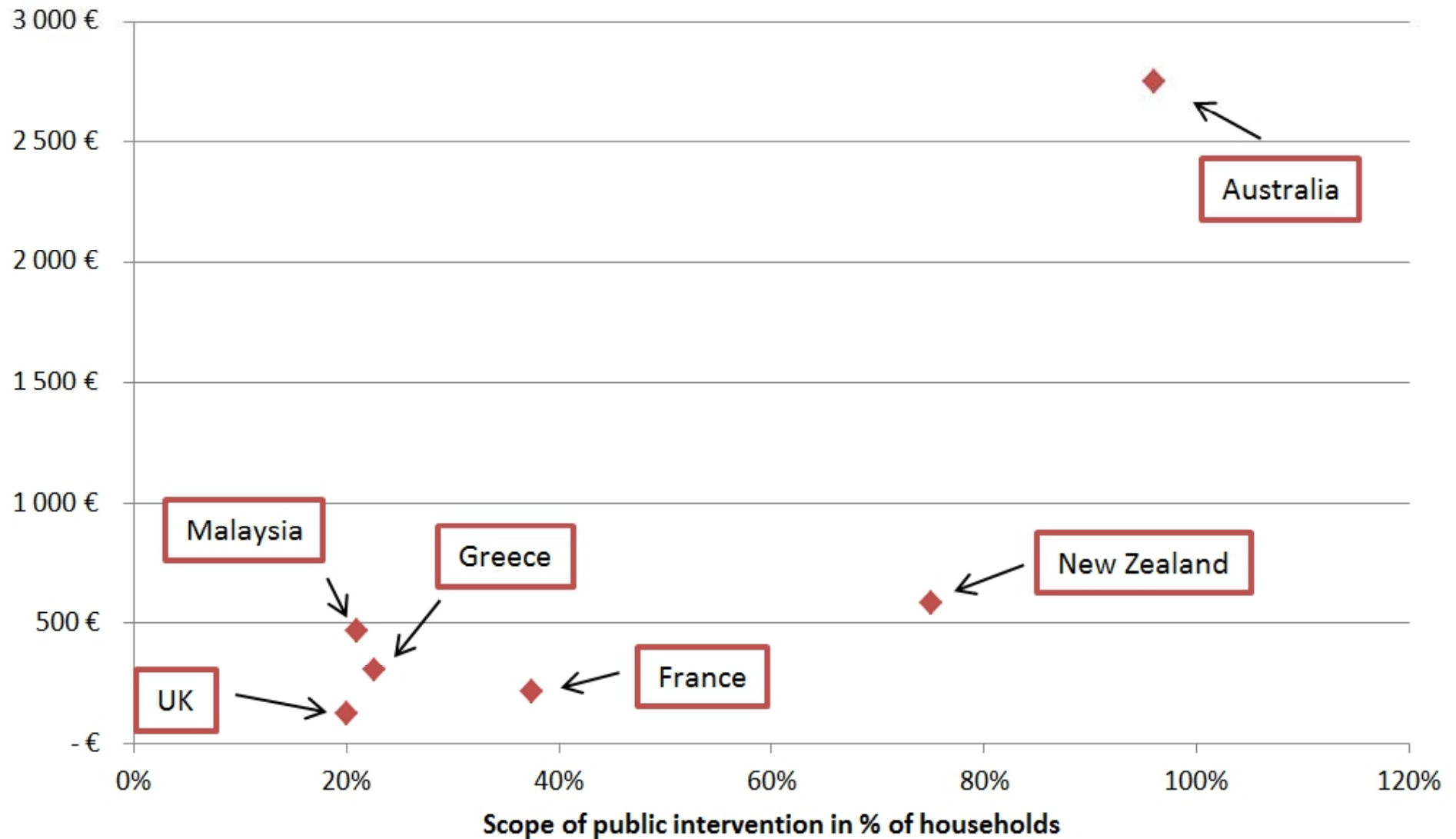


CHORUS' UFB INVESTMENT

Street network built ahead of demand: \$1.7 to \$1.9 billion estimated cost

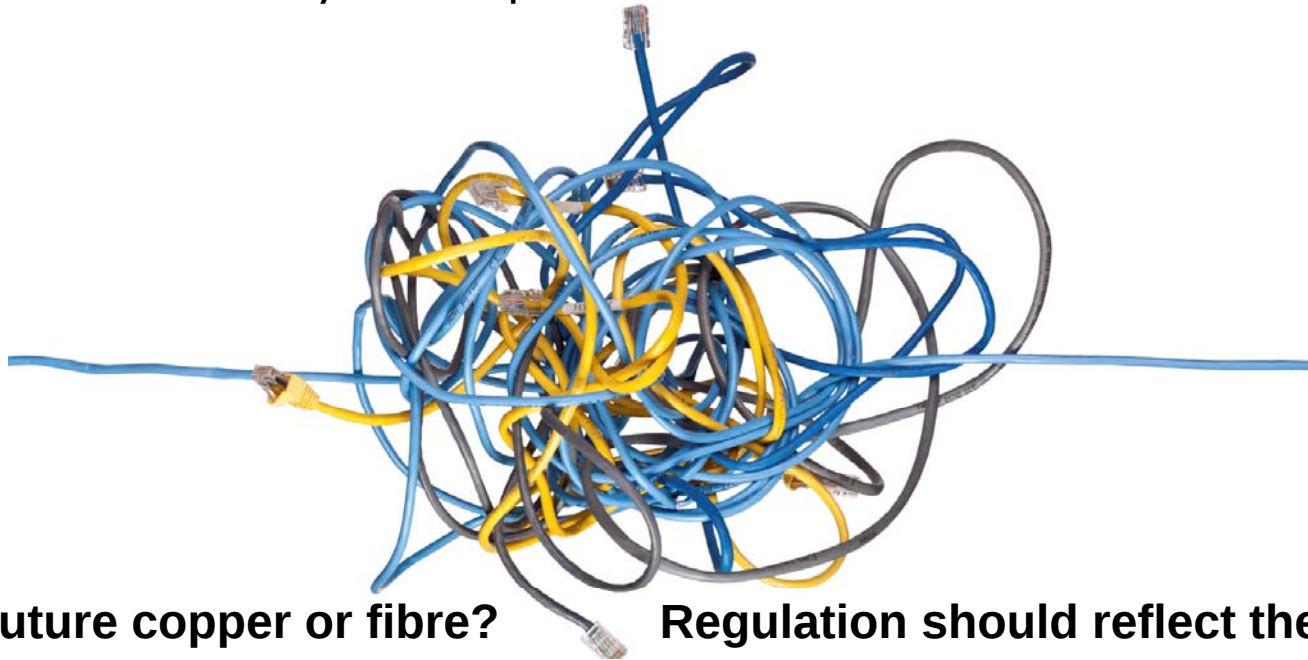
Street to premises built as end users request service: estimated average cost of \$900 to \$1,100 (real) per premises (~\$1 billion for 1 million premises)

Public Intervention in FTTx: Amount per household



A regulatory tangle

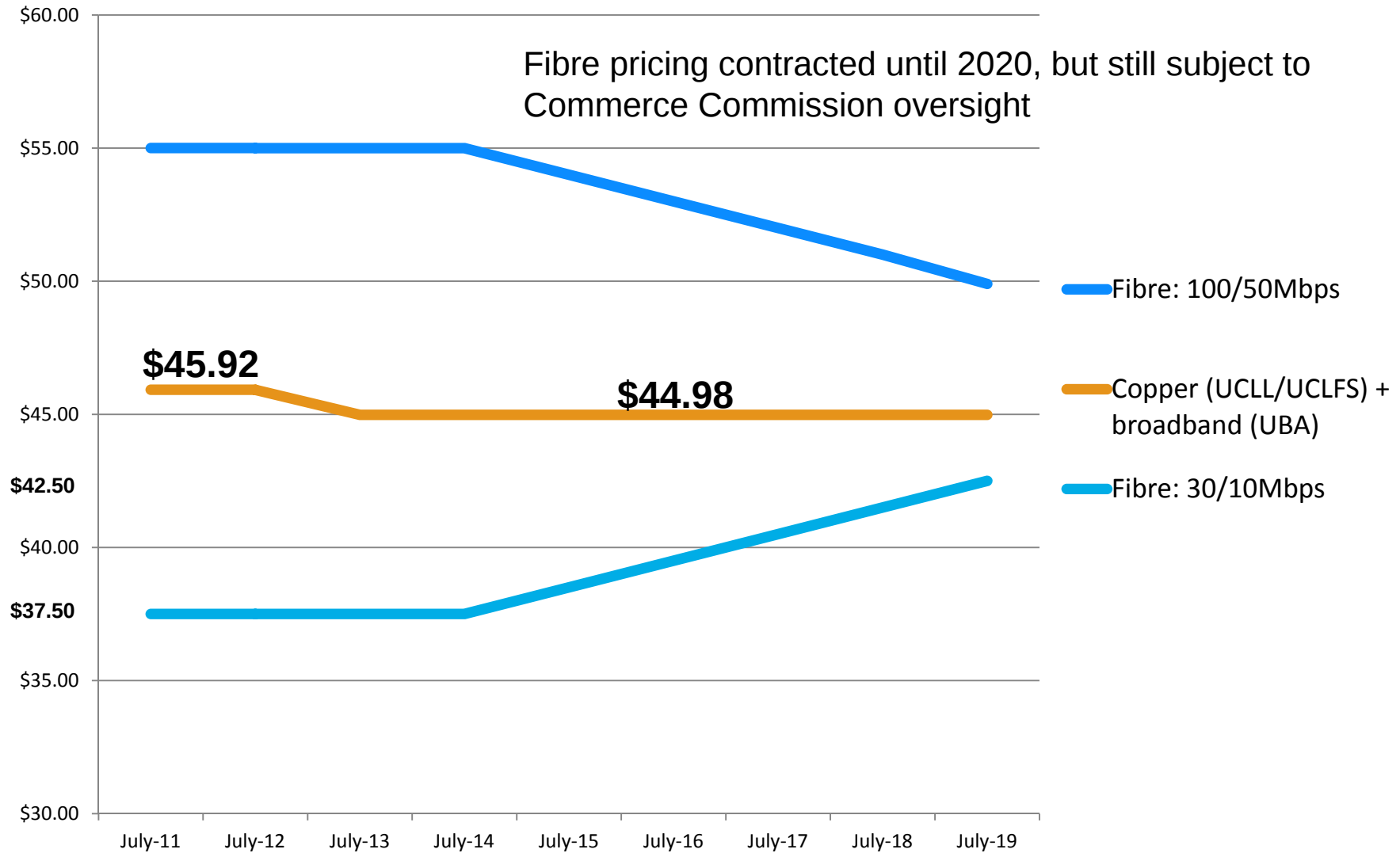
- > Existing framework not designed for structural separation
- > Clear signposts for fibre not followed
- > Commission now stuck applying copper-centric regime
- > Benchmarking flawed and subject to drawn out TSLRIC reviews
- > TSLRIC never yet completed in NZ and abandoned in Australia



Is the future copper or fibre?

Regulation should reflect the answer

UFB pricing was for a fibre future



Real issue is coherency and a fair return

- > Chorus needs to earn a fair return on its assets to maintain its investment in fibre.
- > Other utilities have Commerce Commission regimes that recognise this.
- > The current telecommunications regime does not, because it is focused on a bygone era of vertical integration.
- > There is a clear need for change.



Commission pricing processes

Copper line (UCLL/UCLFS) pricing

Phase 1: Benchmarking

- 3 Dec 2012 – Final price of \$23.52

Chorus requested review



Phase 2: TSLRIC cost modelling to determine price

- Due by end 2015

Copper broadband (UBA) pricing

Phase 1: Benchmarking

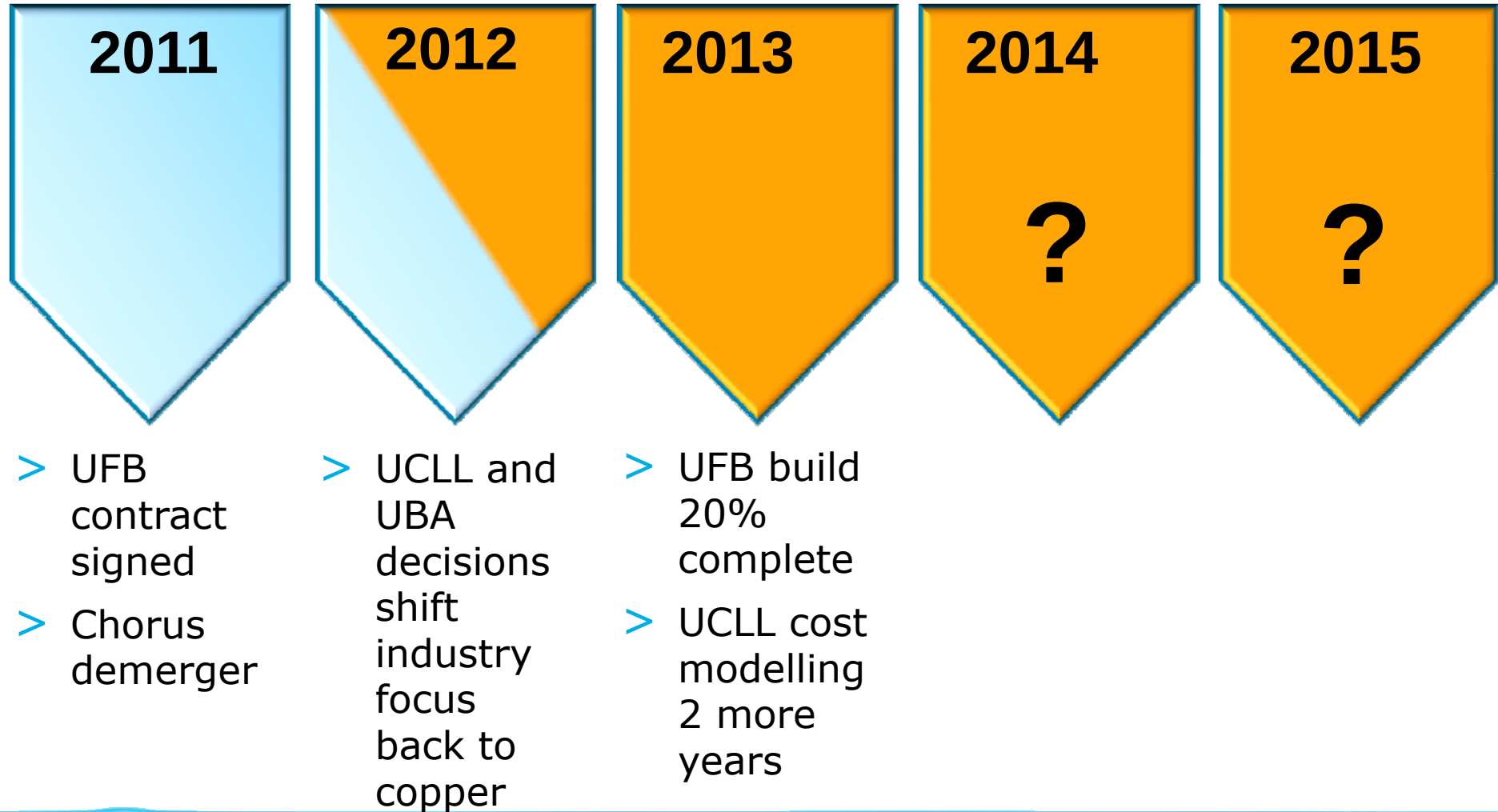
- 3 Dec 2012 - Draft price only
- 5 Nov 2013 – Final price due

?



Phase 2: TSLRIC cost modelling

A fibre or copper future?



It is Government's role to act

LEADING UP TO DEMERGER

- > Many concerned about pricing given benchmarking and TSLRIC
- > Govt stated intention "to translate as closely as possible, the status quo"
- > s.18(2A) a "clear signpost" for Commission to consider investment
- > Reviews already scheduled for 2013 and 2016



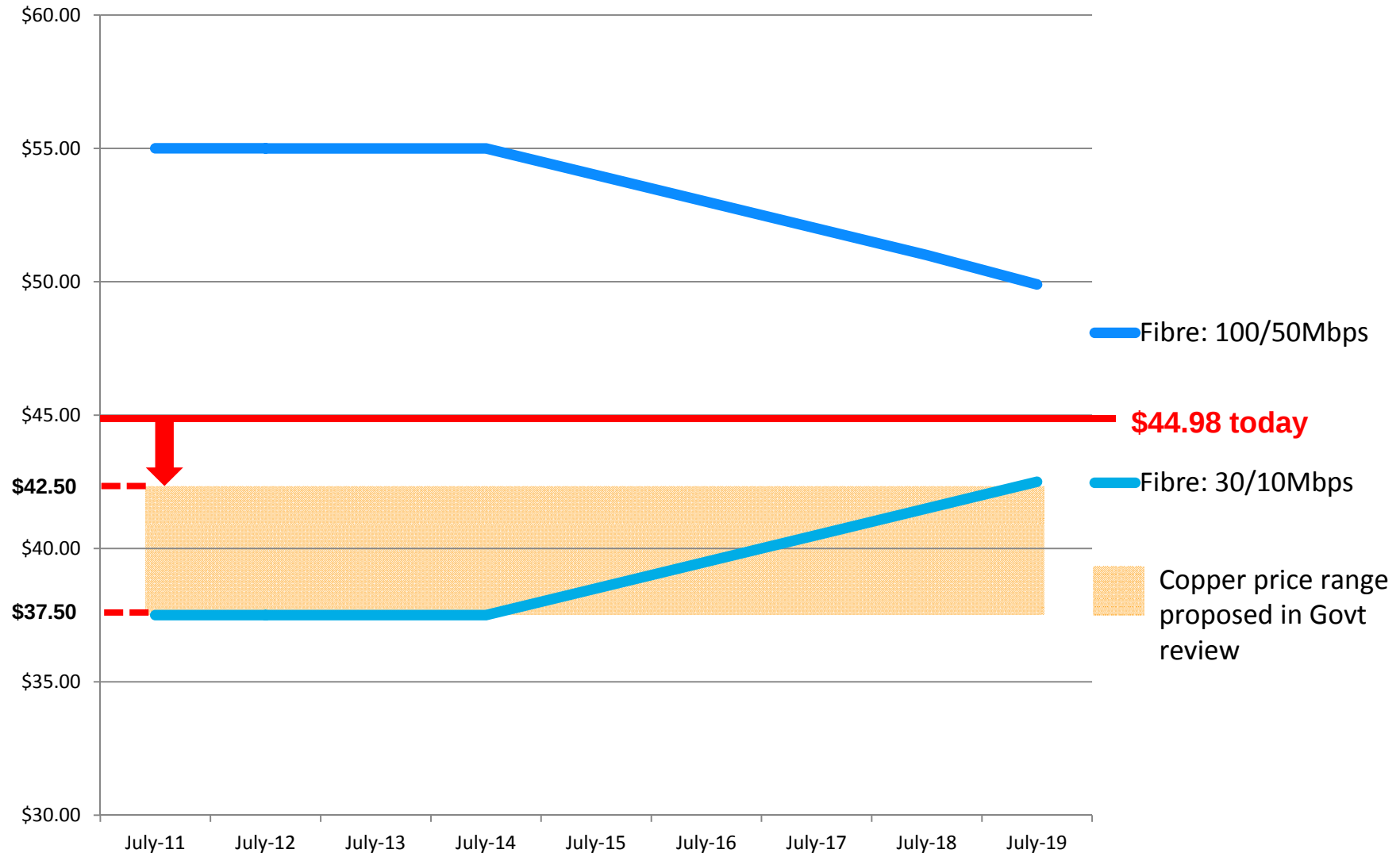
SINCE DEMERGER

- > Framework no longer fit for structurally separated sector
- > Commission left applying framework at odds with fibre policy
- > Existing pricing principles leading to regulatory vortex of uncertainty
- > Former Commissioner agrees Government should act



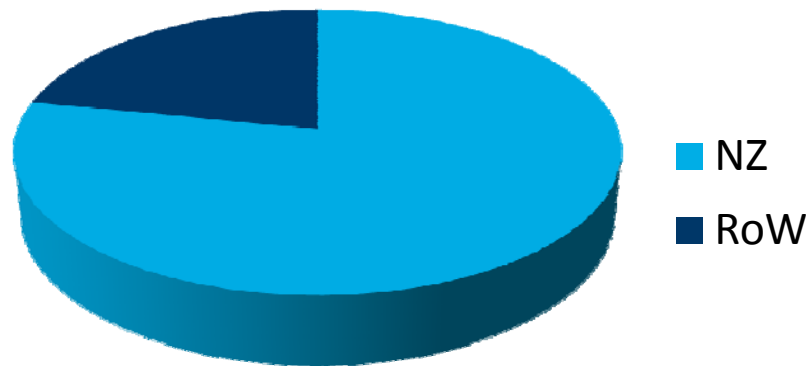
**DISCUSSION DOCUMENT OPTION 3: A PRAGMATIC PATH TO INDUSTRY
CERTAINTY THAT ENSURES FIBRE FOCUS AND BENEFITS**

Government proposed price reduction

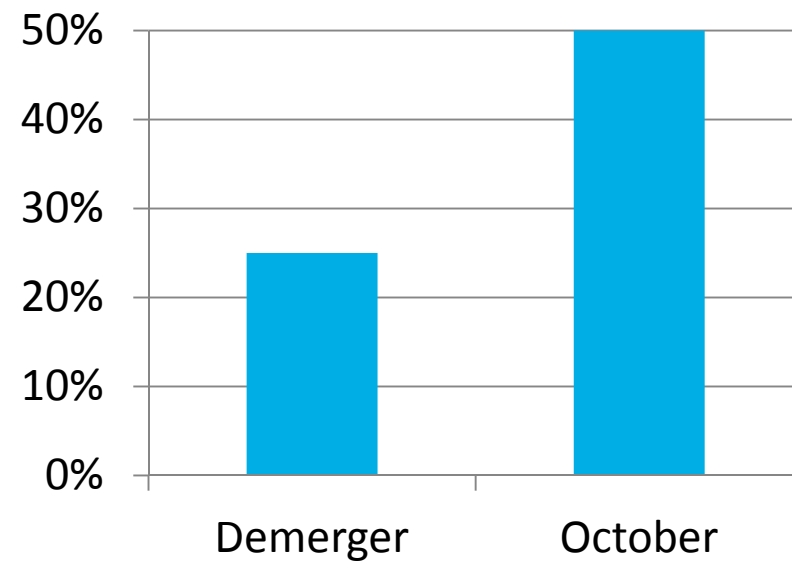


A New Zealand business

39,200 direct shareholders



NZ ownership



An aerial photograph of a city harbor at sunset. The city skyline is visible in the background, with numerous high-rise buildings. The harbor is filled with water, and a large marina with many sailboats is in the middle ground. In the foreground, there are residential buildings and a green hillside. The sun is low on the horizon, casting a warm glow over the scene.

Mark Ratcliffe

Chorus CEO

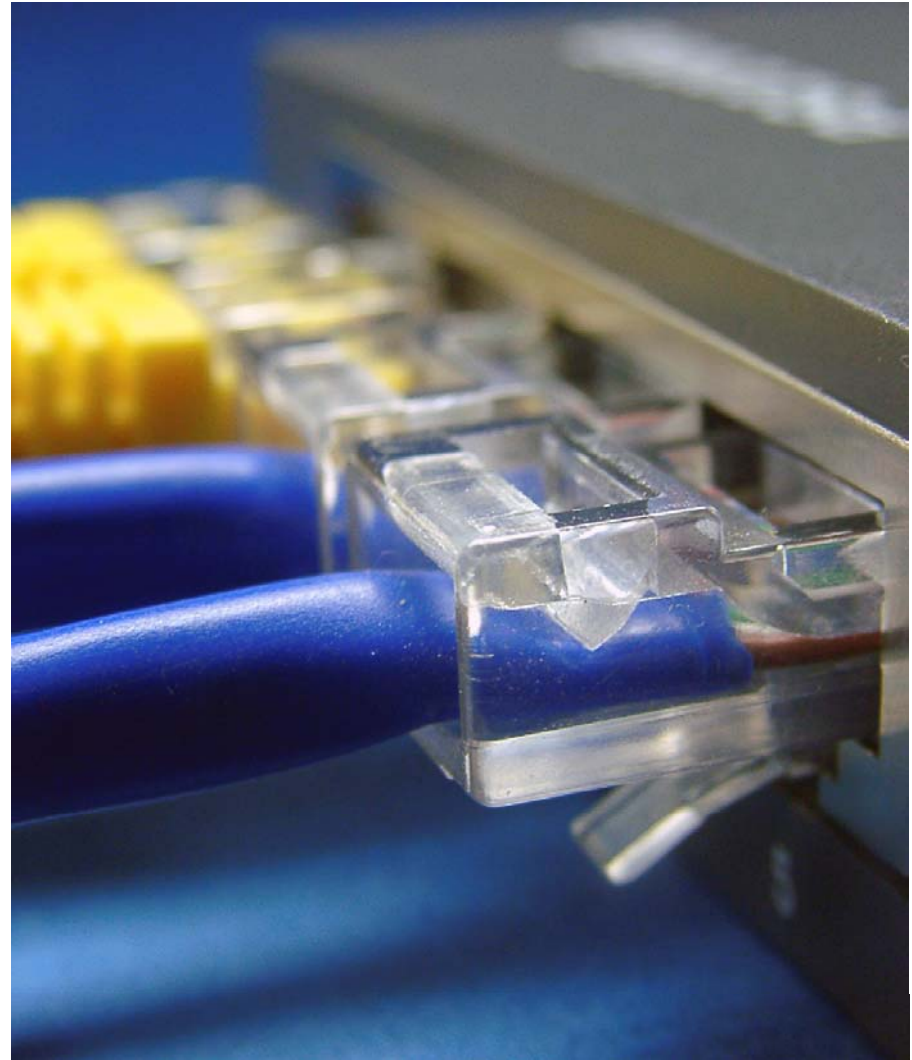


Driving in a new direction



Structural separation has delivered...

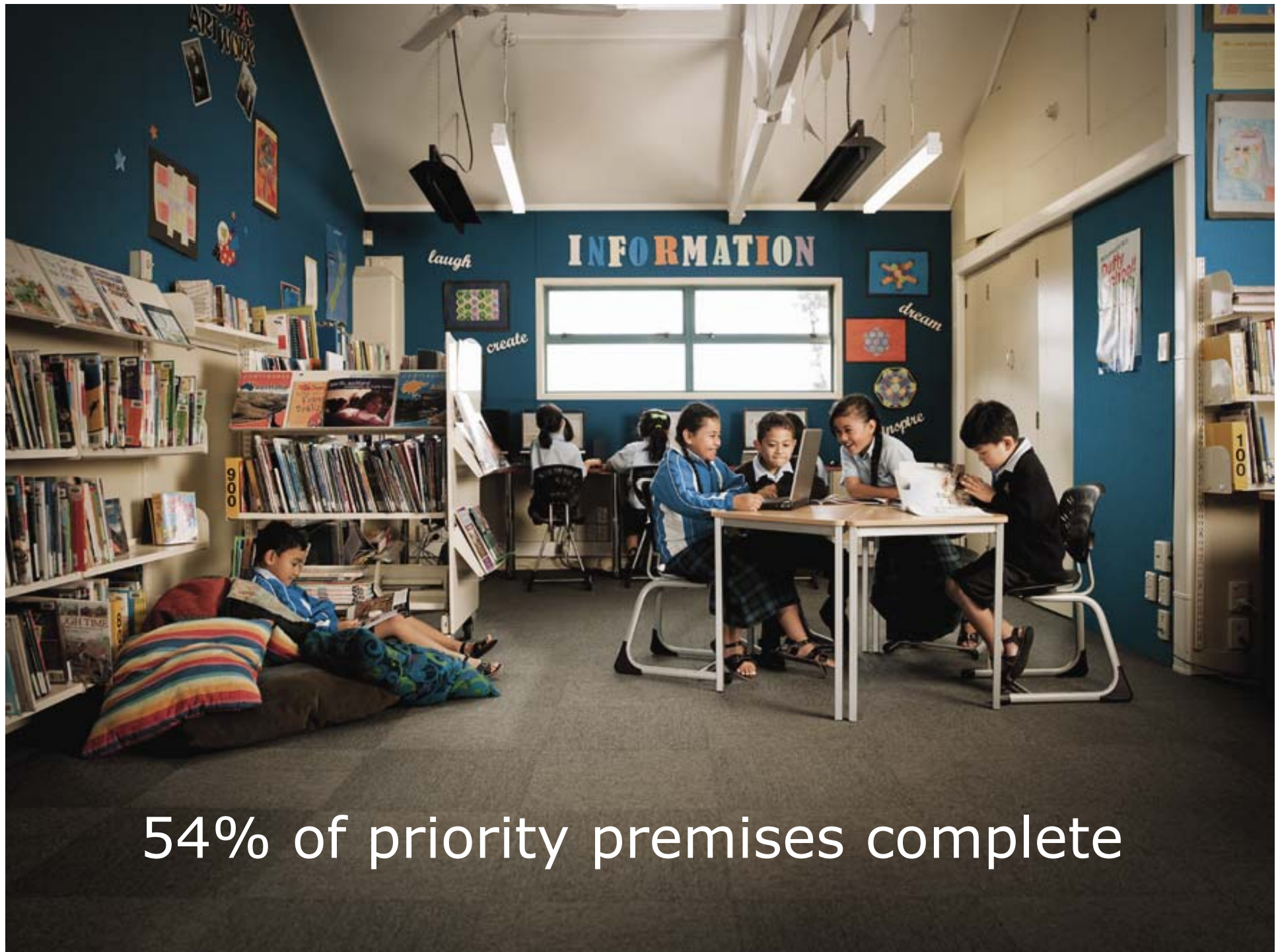
- A **wholesale only Chorus** with focus on market leadership
- **Open access** removed industry concerns about vertically integrated discrimination
- **Contracted UFB products**, including re-price of Chorus' existing business fibre network
- A **doubling of Chorus' workforce**
- New Zealand's **UFB rollout ahead of target** and Australia
- **Re-pricing of VDSL**; available to ~60% of lines



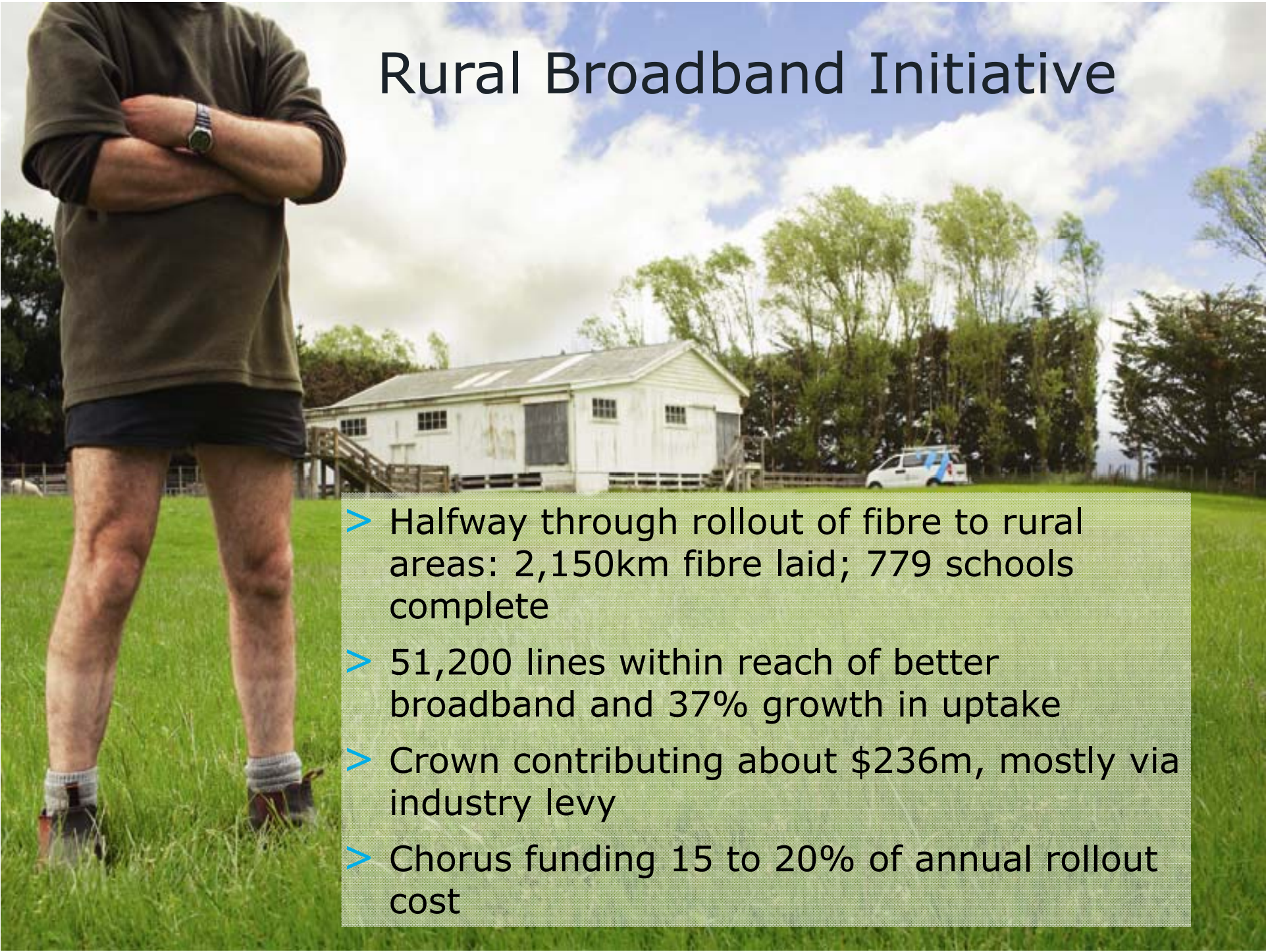
UFB rollout is 20% complete

- > Build underway in 20 of Chorus' 24 areas
- > Massive increase in productivity: 111,000 premises passed in FY13
- > Benefitting regional NZ...
 - Timaru 70% complete
 - Taupo 52% complete
- > At 30 September: build complete for **171,500 premises**, with **226,000 end users within reach**





54% of priority premises complete

A man in a green long-sleeved shirt and black shorts stands with his arms crossed in a grassy field. In the background, there is a white barn, a white van, and a line of trees under a blue sky with white clouds.

Rural Broadband Initiative

- > Halfway through rollout of fibre to rural areas: 2,150km fibre laid; 779 schools complete
- > 51,200 lines within reach of better broadband and 37% growth in uptake
- > Crown contributing about \$236m, mostly via industry levy
- > Chorus funding 15 to 20% of annual rollout cost

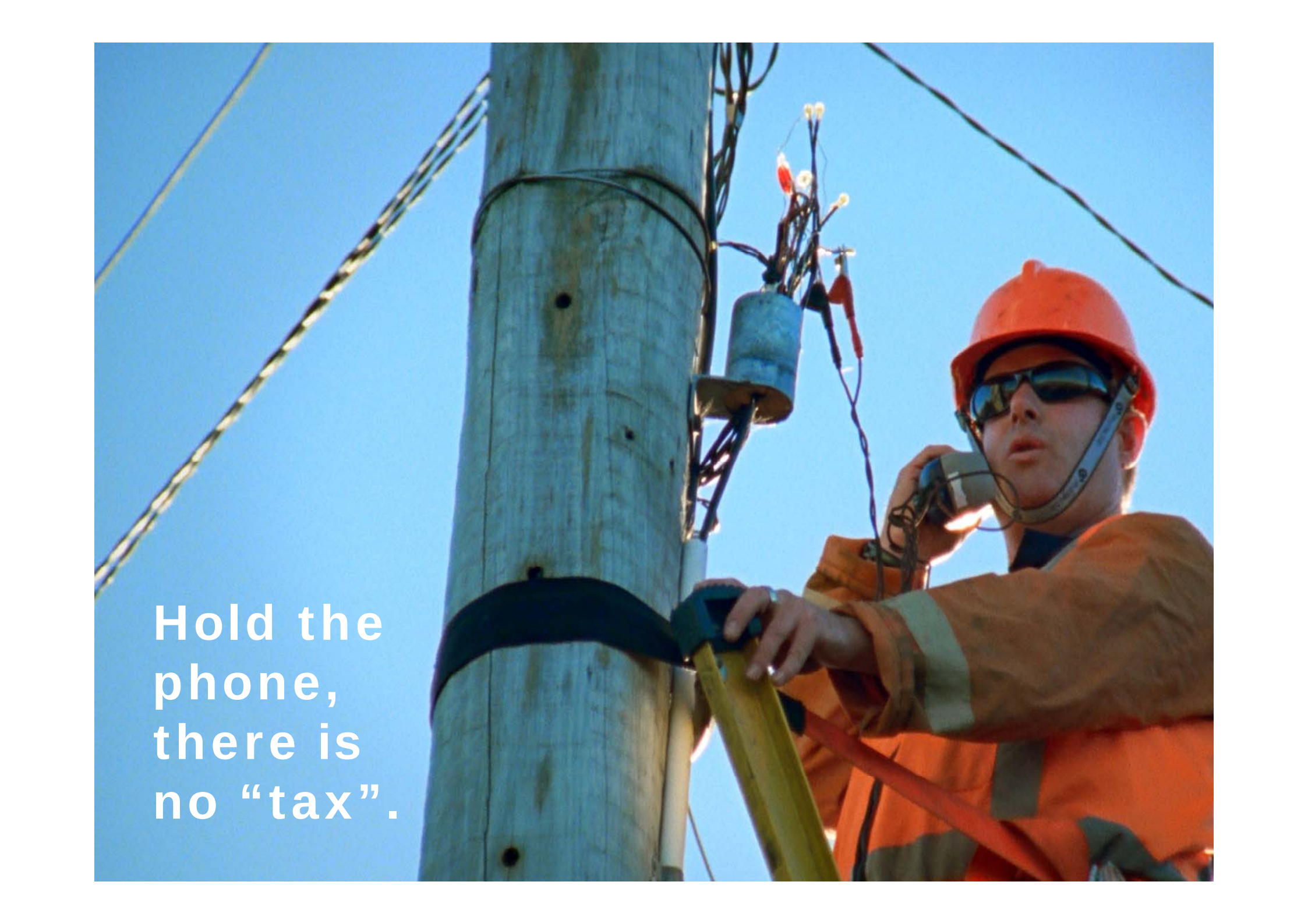
FY13 financial summary

	12 months to 30 June 2013 \$m	2014 guidance
Operating revenue	1,057	
Operating expenses	(394)	
EBITDA	663	Flat to low single digit percentage decline, relative to normalised FY13 EBITDA
EBIT	344	
<u>Net earnings</u>	<u>\$171</u>	
Capex	\$681	\$660-\$690m
Dividend	Gross \$100 paid \$70 (DRP of \$30)	FY14 dividend guidance unchanged. Board continuing to monitor regulatory developments
Net interest expense	\$108	
Borrowings	\$1,872	

Source: Chorus FY13 results presentation and Annual report



Chorus pays its
contractors



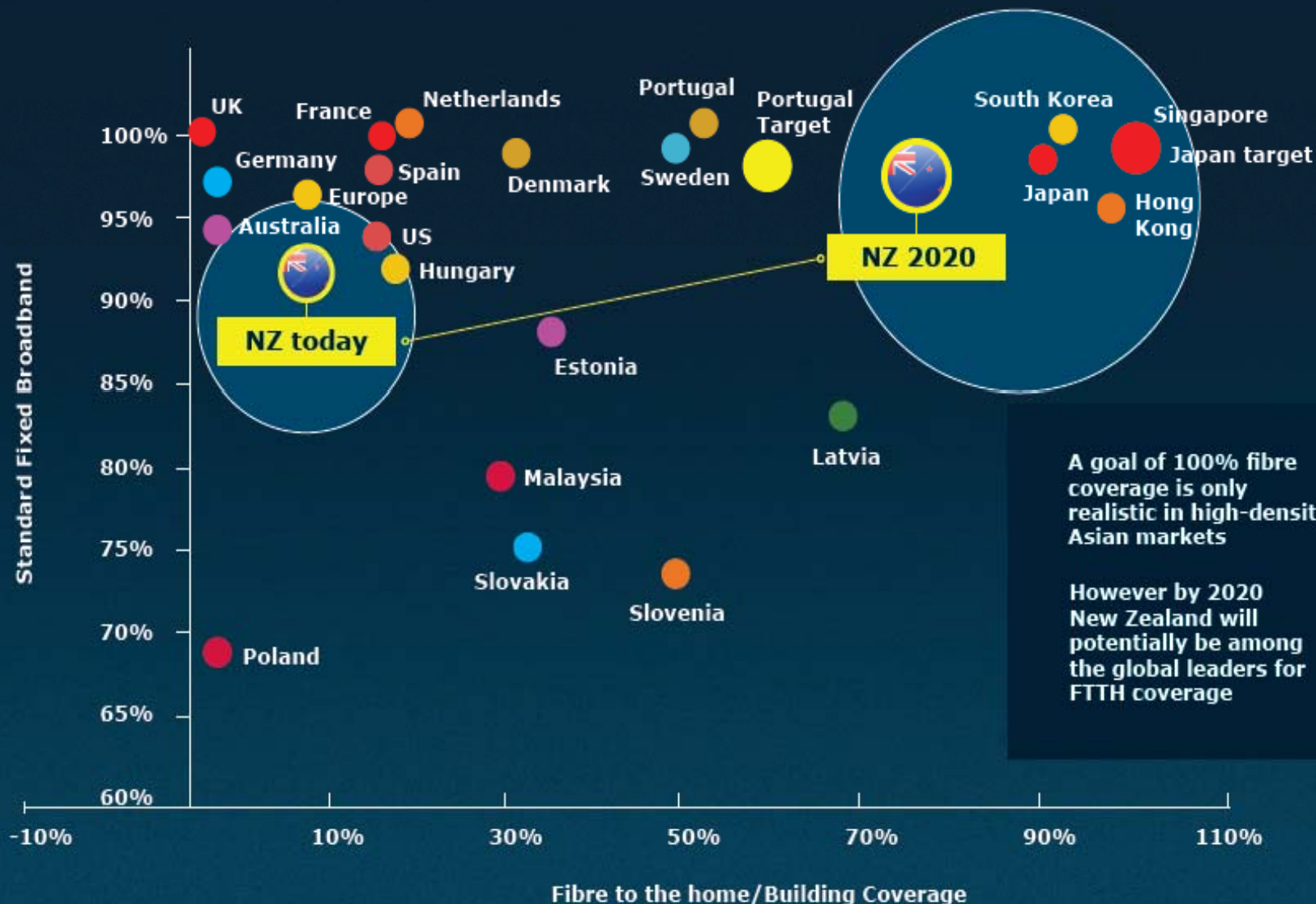
Hold the
phone,
there is
no “tax”.



STRATEGY: We will support our customers and stakeholders by growing connections and leading New Zealand to fibre

**YOUR IMAGINATION
+ OUR NETWORK
= ENDLESS POSSIBILITIES**

Fibre to the home target of 75% moves us into the leadership quadrant for coverage





Gigatown. Where will it be?

Resolutions



Ordinary business: Resolution 1

- > That Ms Sue Sheldon be elected as a director of Chorus.

Ordinary business: Resolution 2

- > That Mr Clayton Wakefield be elected as a director of Chorus.

Ordinary business: Resolution 3

- > That the Board be authorised to fix the fees and expenses of KPMG as auditor for the ensuing year.

Shareholder discussion and questions



Disclaimer

Forward-Looking Statements

- > This presentation may contain forward-looking statements regarding future events and the future financial performance of Chorus, including forward looking statements regarding industry trends, strategies, capital expenditure, the construction of the UFB network, credit ratings and future financial and operational performance. These forward-looking statements are not guarantees or predictions of future performance, and 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 presentation. No representation, warranty or undertaking, express or implied, is made as to the fairness, accuracy or completeness of the information contained, referred to or reflected in this presentation, or any information provided orally or in writing in connection with it. Please read this presentation in the wider context of material previously published by Chorus and released through the NZX and ASX.
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- > None of the information contained in this presentation constitutes an offer of, or a proposal or an invitation to make an offer of, any security (and, in particular, does not constitute an offer of securities in the United States of America or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act of 1933, as amended)). Distribution of this presentation (including an electronic copy) may be restricted by law and, if you come into possession of it, you should observe any such restrictions. These materials are provided for information purposes only.

Investment Advice

- > This presentation does not constitute investment advice or a securities recommendation and has not taken into account any particular investor's investment objectives or other circumstances. Investors are encouraged to make an independent assessment of Chorus.



Thank you for attending

Chorus AGM

30 October 2013

