Chorus
Half Year Report

For the six months ended 31 December 2016

Chorus

Half year result overview

FIXED LINE CONNECTIONS			BROADBAND CONNECTIONS			UFB ROLLOUT	
1,678,000	↓ 3%	1,727,000	1,214,000	↓ 1%	1,226,000	61%	57%
HY17		FY16	HY17		FY16	HY17	FY16

NET PROFIT AFTER TAX		EBITDA[1]		ADJUSTED[2] EBITDA	
$66m	$33m	$335m	$275m	$335m	$344m[2]
HY17	HY16	HY17	HY16	HY17	HY16

Contents

1 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 the business.

2 Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed. Refer to Appendix A of the H1 FY17 investor presentation for the detailed calculation.

Chorus Board and Management overview

MARK RATCLIFFE
Managing Director and Chief Executive Officer

PATRICK STRANGE
Chairman

Dear Shareholders

The six month period to 31 December 2016 was a particularly busy time for the company, with our ongoing focus on delivering better outcomes for customers highlighted by:

- fibre connection times improving significantly from an average lead time of 17 days to 10 days
- reaching an agreement with Crown Fibre Holdings (CFH) to continue to provide free non-standard residential connections for the rest of the Ultra-Fast Broadband (UFB) rollout
- extending the availability of 1 gigabit (1,000 Megabits per second) fibre services across our UFB footprint
- completing an investment programme to upgrade nearly 100 rural broadband cabinets
- increasing our efforts to help retailers transition more copper broadband customers to the faster VDSL speeds already available to many at no additional wholesale cost
- announcing that the entry level 30Mbps fibre service for new and existing customers would be upgraded to 50Mbps to mark our fifth birthday
- concluding our agreement with the Government, as announced in January 2017, to extend the rollout of UFB to approximately 200,000 more customers by the end of 2024.

Net profit after tax for the six months ended 31 December 2016 (HY17) was $66 million compared to $33 million for the same period in the prior year, mostly due to the effect of regulated copper price changes from 16 December 2015, a changed capitalisation approach impacting labour and IT costs and careful management across expense lines. Revenues were $529 million and earnings before interest, tax, depreciation and amortisation (EBITDA) were $335 million.

Revenue was down slightly by 2% compared to adjusted[3] revenue of $538 million for the six months to 31 December 2015, as the number of connections across our network declined, largely reflecting local fibre companies continuing to gain more market share in their UFB network areas. Line loss during the period was also influenced by a marketing push by vertically integrated retailers seeking to convert their customer base to their own wireless broadband networks and the usual seasonal effect of summer holidays as tertiary students, for example, disconnect broadband services.

The reduction in total connections was partially offset by growth in demand for regional backhaul and premium business fibre services, together with ongoing growth in new dwellings in some centres. Expenses were flat compared to adjusted[3] expenses for the 31 December 2015 period due to lower provisioning costs, a changed capitalisation approach impacting labour and IT costs and careful management across other expense lines. The net effect was a slight decrease in EBITDA relative to adjusted[3] EBITDA of $344 million for that same period.

The continuing financial and regulatory stability afforded by the conclusion of the copper regulatory process in December 2015 enabled us to continue extending our debt profile. We concluded our first ever international bond issue, with strong demand for our EUR500 million notes.

The return to a period of 'business as usual' also saw Mark Ratcliffe announce his intention to step down after a distinguished term as our founding chief executive. In December we announced that Kate McKenzie, a former senior Telstra executive, will lead the company from 2017.

1. Operating update

In December we announced we'd completed a $5 million programme to upgrade nearly 100 rural broadband cabinets with fibre optic cable and VDSL broadband capability. This investment improved the broadband experience significantly for about 7,000 existing customers and increased the connection capacity at each cabinet for future growth.

In urban areas, about 681,000 customers are now within reach of our UFB network and we're 61% of the way through the UFB rollout. Uptake rose to 32% by the end of December 2016, up from 24% at the end of June, with 216,000 connections in our UFB deployed footprint. Deployment work was completed in three more areas during the period: Queenstown, Whakatane and Waiheke Island.

An increase in the number of fibre field crews from 524 to 611 over the six month period, enabled us to complete 67,000 new fibre connections nationwide, up from 55,000 connections in the six months to June 2016. Moreover, the national weighted average lead time for a fibre connection reduced from 17 working days in June to 10 days in December. This was driven by the combination of new field crews and increased productivity after we extended Visionstream's responsibility for fibre installations to around 80% of our UFB areas. In Auckland, the average lead time for a fibre connection reduced from 15 days in June to five days in December.

Customers also benefitted from our announcement in October that we'd concluded an agreement with CFH to continue to provide free non-standard (i.e. exceeding the standard

3 To reflect the revised regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed.

distances contemplated in our original UFB contract) residential fibre installations through to the end of 2019. We took the pragmatic approach that a building block model, as proposed in the Government's pending regulatory review, is likely to include the cost of residential non-standard installations and allow a regulated return on this investment. In the event that this hasn't occurred by the end of 2020, or not all of our actual UFB non-standard installation costs are included in a regulated asset base, the dates on which we must redeem or provide dividends on CFH debt and equity securities will be postponed. At a maximum, this would contribute approximately $60 million of value towards costs incurred from 2017 to the end of 2019.

Figure 1: Chorus UFB uptake by Area – December 2016

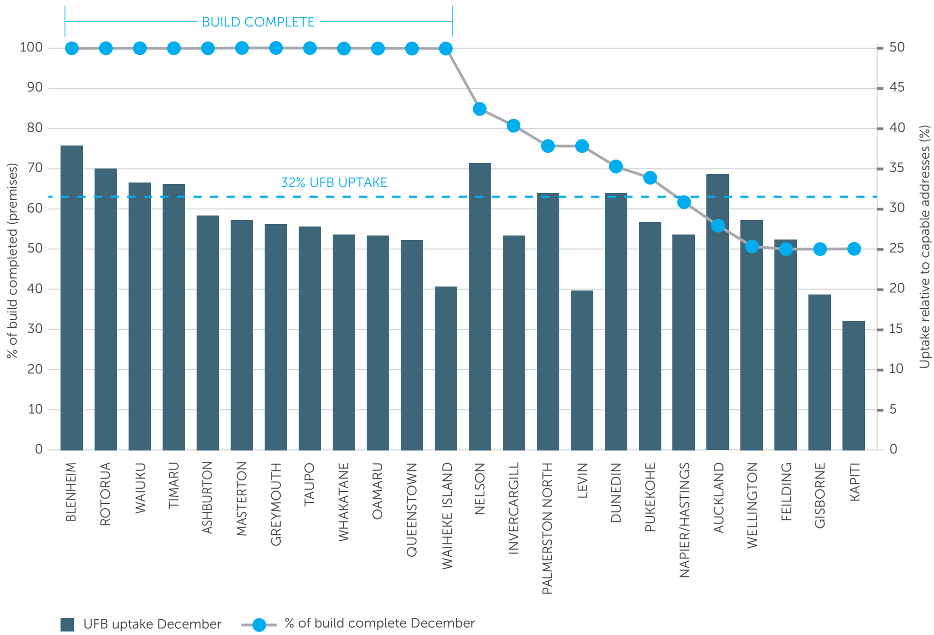

Chart shows consumer uptake as a proportion of UFB capable addresses (i.e. network is commissioned for service)

2. Operating results

2.1 Operating revenue

Revenues of $529 million were slightly down compared to adjusted revenue of $538 million for the six months to 31 December 2015. Total fixed line connections reduced by 49,000 lines to 1,678,000 in the six months to 31 December 2016. Broadband connections reduced by 12,000 to 1,214,000. The revenue impact of falling copper line connections was partially offset by the migration of some connections to our other fixed line products, particularly fibre, and growth in field services revenue. All other revenue lines remained largely flat.

Copper

At 31 December 2016, there were approximately 1,109,000 baseband copper lines, a decrease of 112,000 lines from 30 June 2016. The number of unbundled lines (including sub-loop unbundled lines) declined by 10% to 99,000.

Uptake of VDSL broadband continued to grow, up from 159,000 at 30 June 2016 to 199,000 by 31 December 2016 as we encouraged retailers to promote the availability of our expanded VDSL footprint to customers. While we do not charge retailers more for a faster VDSL service, many had been reluctant to upgrade their customers from standard ADSL broadband due to modem costs. We therefore began providing an $80 contribution (over 12 months) to this cost outside of Chorus UFB areas and waiving transfer charges. From 1 January 2017 this contribution was increased to $100 (over six months).

'Data service over copper' connections continued to decline as retailers transitioned customers to cheaper inputs. Baseband IP connections grew slightly.

Fibre

Nationwide fibre connections increased by more than a third in the first half, from 180,000 to 244,000 lines. We had approximately 216,000 fibre connections within the areas where we had deployed UFB communal network at 31 December 2016, up from 156,000 connections at 30 June 2016. Customers continued to favour higher speed fibre plans over the entry level 30Mbps plan, with 84% of connections during the period opting for 100Mbps or greater. By 31 December 2016 approximately 62% of mass market fibre connections were on plans of 100Mbps or greater, up from 54% at the start of the period.

From October, one gigabit per second (1Gbps) residential and small-medium business fibre broadband services were made available across our entire UFB footprint. This followed on from our launch of the service in Dunedin in early 2015 when they won our Gigatown competition. At 31 December we had about 8,500 1Gbps customers across the wider UFB network.

To mark our fifth birthday as a standalone company, in December we announced that we would replace the entry level 30Mbps fibre service with a 50Mbps service at no extra wholesale charge. This is to ensure fibre is better differentiated from our VDSL copper broadband service which has average peak speeds of about 50Mbps.

Premium business fibre connections remained stable at 13,000 connections. Increased demand for High Speed Network Service and Direct Fibre connections was partially offset by declines in Bandwidth Fibre.

Chorus summary connection facts

	CONNECTIONS 31 DEC 2016	CONNECTIONS 30 JUNE 2016	CONNECTIONS 31 DEC 2015
Total fixed line connections	**1,678,000**	**1,727,000**	**1,761,000**
Baseband copper	1,109,000	1,221,000	1,320,000
UCLL	98,000	108,000	116,000
SLU/SLES	1,000	2,000	3,000
Naked Copper (UBA / VDSL)	207,000	197,000	180,000
Baseband IP	10,000	9,000	6,000
Data services over copper	9,000	10,000	11,000
Fibre (mass market + premium business)	244,000	180,000	125,000
Total broadband connections	**1,214,000**	**1,226,000**	**1,223,000**
Copper UBA (includes naked UBA)	784,000	900,000	972,000
VDSL (includes naked VDSL)	199,000	159,000	139,000
Fibre (mass market)	231,000	167,000	112,000

Value added network services

Revenue for this category increased as retailers expanded their backhaul requirements, particularly on regional transport links.

Infrastructure

Revenue for providing access to our network assets (e.g. renting exchange space, providing power) increased slightly as retailers expanded their network requirements.

Field services

Field services revenue increased relative to adjusted revenue as third party demand for technician maintenance and provisioning services grew, as well as greenfields and subdivision related work.

2.2 Operating expenses

Expenses of $194 million for the six months to 31 December 2016 were flat compared to adjusted expenses for the six months to 31 December 2015 due to lower provisioning costs, the impact of the capitalisation of certain service desk costs ($7.2 million labour costs, $3.4 million IT costs) and careful management across other expense lines.

Labour costs

Labour costs of $38 million represent staff costs that are not capitalised. At 31 December 2016 we had 963 permanent and fixed term employees, up from 944 employees at 30 June 2016. A further 14 people were employed in the customer services area, reflecting growth in fibre volumes and the continued focus on improving the customer experience, with a significant proportion of their costs being capitalised. An additional seven people joined the information technology team to continue to develop the systems and processes across the organisation. The number of people throughout the remainder of the business has remained relatively stable.

Provisioning costs

Provisioning costs are incurred where we provide new or changed service to our customers. The total provisioning cost is driven by the volume of orders, the type of work required to fulfil them such as technician labour, material and overhead costs. Field provisioning costs have declined as fibre uptake increased and fewer truck rolls were required for copper services. The average cost per truck roll decreased as we simplified provisioning processes and customers ordered less connections requiring premises visits. In addition, outsourcing costs were incurred for a trial installation support service to manage the customer ordering experience.

Network maintenance costs

Network maintenance costs were stable compared to HY16 with a slight increase in overall fault volumes being offset by a lower average cost per fault. The increase in faults was driven by a combination of increasing faults in non-Chorus network (i.e. faults in retailer and customer equipment or wiring, which is chargeable to the retailer), higher fibre faults in line with increased fibre connections and a slight increase in our copper network faults. The cost per fault reduced because of a higher proportion of lower cost non-Chorus network faults and ongoing compliance programmes.

Information Technology

We have mitigated inflationary cost growth and are seeing cost reductions from new IT support contracts from recent investments. In addition, the costs associated with supporting the provisioning process have been more clearly defined and included in the capital cost of new connections.

2.3 Depreciation and amortisation

Depreciation has continued to increase slightly, reflecting the capitalisation of UFB assets and the very long lives of these assets. The amortisation of Crown funding against these assets is increasing and offsetting the increase in depreciation.

2.4 Finance expenses

Interest on debt (EMTN, fixed rate NZD bonds and syndicated bank facilities) has decreased in the current period, reflecting the move to cheaper funding. For accounting purposes, the ineffective portion of the EMTN (GBP) hedge relationship resulted in a non-cash credit of $1 million to finance expense in HY17.

Also included in finance expense is $6 million of non-cash costs relating to a $250 million interest rate swap which is not currently in a hedging relationship for accounting purposes and $6 million of non-cash costs relating to the change in fair value of the EMTN (EUR) hedge. The ongoing direction and rate of impact on the income statements cannot be predicted for either of these two items.

2.5 Capital expenditure

Gross capital expenditure for the six months to 31 December 2016 was $302 million. This included $91 million for the rollout of the UFB communal network, with a further 31,000 premises passed. The average cost per premises passed in the period was $1,623, within FY17 guidance of $1,550 to $1,650.

Fibre connections and layer 2 spend was $134 million, reflecting the ongoing strength of fibre demand both within our UFB rollout areas and beyond. We built new fibre connections to 67,000 customers nationwide in the six month period. The average cost per premises connected for standard residential premises and some non-standard single dwelling unit connections was $1,141 excluding the long run average cost of layer 2 equipment. This cost now also includes $159 of capitalised labour and IT costs relating to certain fibre provisioning service desk costs that were previously expensed.

In October we announced that we expect to track at the top end of the total UFB programme view for the average cost to connect standard residential premises of $900 to $1,100 in 2011 dollars. This reflects higher mobilisation costs in a time of relatively full employment and higher than expected fibre uptake. We expect to be able to hold average connection costs per unit flat in nominal terms across the term of this contract rather than secure further economies in connection costs. This range has now been updated to $1,050 to $1,250 in 2011 dollars to include the capitalisation of certain labour and IT costs.

As noted above, we agreed with CFH that we would continue to fund non-standard residential connections on the basis that these costs are likely to be recognised in the future regulatory framework. In the event that this hasn't occurred by 31 December 2020, or not all of our actual UFB non-standard installation costs are included in the asset base, the dates on which we must redeem or provide dividends on the CFH debt and equity securities will be postponed. At a maximum, postponement would contribute approximately $60 million of value towards non-standard installation costs incurred from 2017 to the end of 2019.

Copper capital expenditure was $24 million for the period. This was in line with the same period in FY16 and included $5 million invested in rural cabinet upgrades. Demand for infill copper connections continues to reduce as fibre becomes more widely available.

3. Dividends, equity and capital management

We will pay an interim dividend of 8.5 cents per share on 4 April 2017 to all holders registered at 5:00pm 21 March 2017. The dividends paid will be fully imputed, at a ratio of 28/72, in line with the corporate income tax rate. A supplementary dividend of 1.5 cents per share will be payable to shareholders who are not resident in New Zealand.

The dividend reinvestment plan will apply for the interim dividend at a discount rate of 3%. 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 22 March 2017.

A final dividend of 12.5 cents per share will be declared in August 2017, subject to no material adverse changes in circumstances or outlook.

The Board considers that a 'BBB' or equivalent credit rating is appropriate for a company like Chorus. It intends to maintain capital management policies and financial policies consistent with these credit ratings. At 31 December 2016 we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investor Services.

In October we completed another significant step in extending the duration of our debt portfolio with a EUR500 million notes issue under our Euro Medium Term Note (EMTN) programme. This was our first international bond issue since demerger and followed our $400 million domestic bond issue in May 2016. The Euro notes have been fully swapped to NZD785 million and the net proceeds have been used to repay Chorus' existing bank facilities and for other general corporate purposes.

4. Regulatory update

4.1 Government review of 2020 regulatory framework

The Government issued an options paper in July 2016 that continued to propose and prefer a building block model as the most appropriate regulatory framework for our copper and fibre access services from 2020. We and some of our investors, as well as various industry members, made submissions on the Discussion Document.

On 10 February 2017 the Government released a further Discussion Document which sets out final views on the approach to Chorus fibre services, and new proposals for copper services for feedback. The Government has departed from the previous combined copper and fibre regulated asset base proposal. The key changes are:

- The final decision is that Chorus fibre will be regulated under a traditional utility style building block model framework. The initial valuation of the Chorus fibre network will be determined by the Commerce Commission (the Commission) based on unrecovered historic costs. For an initial period until 2023, Chorus will be regulated under a revenue cap with anchor products. The price of the initial voice and broadband anchor product (100/20Mbps) will be set based on 2019 prices, adjusted for inflation. The form of control can be reviewed by the Commission from 2024, subject to approval by the Minister. Unbundling is required with prices set commercially until 2024, when the Commission can investigate whether or not prices should be set on a cost-oriented basis.

- The proposal is that copper will be de-regulated and the Telecommunications Service Obligation (TSO) will be removed where UFB or other fibre is available.
- In other copper areas, prices will be set at 2019 prices with no inflation adjustment and the TSO will remain in place.

The proposal to treat copper and fibre separately in the regulatory framework raises some additional complexity for regulatory implementation, such as cost allocation, that we will need to consider carefully. If legislation is passed in 2017 in line with previous Government statements, it will need to be implemented by the Commission in time for 2020.

4.2 Other regulatory matters

In November 2016 the Commission announced its draft decision in its review of the non-price terms of the Unbundled Bitstream Access (UBA) standard terms determination. The Commission has proposed that we be required to maintain congestion free links on our Ethernet network and that it will regulate the pricing of 10GigE and multiple 1GigE handovers. These proposals are largely consistent with our current practices. A final decision is expected in March.

In December 2016 the Commission determined that we were liable for $11 million of the $50 million Telecommunications Development Levy for the financial year ending 30 June 2016. The levy is based on annual revenues.

5. Outlook

5.1 Change in leadership

Having skilfully navigated through the establishment of Chorus and some tumultuous years, Mark steps down knowing the fibre rollout is going well, the company is in a strong position and it has been recognised as one of the best employers in Australasia for five consecutive years. The Board offers him their best wishes and thanks for a job well done.

We're very pleased that Kate McKenzie has agreed to now lead Chorus. She is one of the most highly rated telecommunications executives in the region and was most recently Telstra's Chief Operations Officer, responsible for Telstra's field services, IT and network architecture and operations. Prior to that, she was Group Managing Director, Innovation, Products and Marketing. Other previous roles at Telstra include Group Managing Director, Wholesale, and Group Managing Director, Regulatory, Public Policy and Communications. Before joining Telstra, Kate was Director-General of the Department of Commerce in New South Wales. She has experience in the development and implementation of competition policy, energy reform, privatisation and a range of complex Commonwealth/State negotiations.

5.2 UFB2 – taking fibre further

We have underlined our belief in fibre's long term future by announcing in January 2017 that we had reached an agreement with the Government to extend the UFB rollout to a further 169 areas, from Taipa–Mangonui in Northland to Bluff in Southland. This will make fibre broadband available to approximately 200,000 more homes and businesses beyond the 1.1 million customers in Chorus' existing UFB rollout areas. Fibre will future-proof these communities for the anticipated continued growth in data consumption and help increase jobs, income and investment in regional New Zealand. We expect work to commence in July 2017 and finish by December 2024 and we'll endeavour to make recent earthquake hit areas in the South Island a priority.

We believe it is in the long term interests of shareholders to take fibre further because fibre has clearly become the preferred broadband product of choice for customers. Uptake in the areas we completed in the first year of the rollout has surpassed 40% and orders received in our FY16 build areas have already reached 35% of possible demand within 18 months. Crown Fibre Holdings is providing up to $291.3 million in additional funding to help make the business case for us to extend fibre to these new areas sooner than would have otherwise occurred and on terms similar to the existing UFB rollout. The Government has contracted with other local fibre companies to extend fibre to about 33,000 premises and will provide $16 million in funding.

We estimate the cost of our additional UFB communal network will be $370 million to $410 million. In addition to the communal network, the cost to connect each of the 203,000 potential customers within this footprint is estimated to average $1,650 to $1,850 (in 2017 dollars and including layer 2, service desk costs, backbone costs for MDUs and rights of way with 10 or fewer premises).

5.3 Customer focus continues

Our focus on improving the fibre installation experience for customers will continue, along with greater emphasis on promoting customer awareness of our network availability and services, particularly VDSL broadband in areas where we haven't yet deployed fibre. This is in response to some apparent customer confusion about our copper network availability and performance relative to wireless broadband options. While wireless broadband may be a viable option for some low data users in poor broadband coverage zones, we're confident that our fixed line network offers solid reliability and consistent performance both for voice and broadband. The latter is particularly apparent during peak broadband usage hours and we note that a wireless broadband retailer has recently branched out from its core mobile offering to promote an unlimited data service on the fixed line network.

We are supporting retailers leveraging our network to deliver better broadband to customers. Bandwidth demand is increasing rapidly and we are investing in a congestion free network as well as simplifying the ways retailers interconnect with our systems and network. The proposed merger between Vodafone and Sky TV, which the Commission is due to decide on in late February, may lift bandwidth consumption further again if it leads to more content delivery online.

We may see more network competition emerge in rural areas with the Government seeking tenders in April for $150 million in grants to extend rural broadband coverage and provide coverage of mobile black spots. We expect to submit a proposal that builds on our experience in delivering the Government's first Rural Broadband Initiative rollout, but will need to consider aspects of the Government's 10 February regulatory announcement which raises questions around incentives for ongoing investment in the high cost rural areas currently served by copper. We look forward to engaging further on this, to ensure that customer needs are met, along with consideration of whether investors can earn a fair return.

PATRICK STRANGE
Chairman

MARK RATCLIFFE
Managing Director and Chief Executive Officer

20 February 2017

Half Year Report

Financial Statements

For the six months ended 31 December 2016

Condensed consolidated **income statement**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

(DOLLARS IN MILLIONS)	NOTE	SIX MONTHS ENDED 31 DEC 2016 UNAUDITED $M	SIX MONTHS ENDED 31 DEC 2015 UNAUDITED $M	YEAR ENDED 30 JUNE 2016 AUDITED $M
Basic copper		237	230	489
Enhanced copper		127	115	242
Fibre		91	61	133
Value added network services		18	17	35
Infrastructure		11	10	20
Field services		42	43	83
Other		3	3	6
Total operating revenue		**529**	**479**	**1,008**
Labour costs		(38)	(38)	(78)
Provisioning		(24)	(31)	(60)
Network maintenance		(42)	(42)	(89)
Other network costs		(15)	(17)	(34)
Information technology costs		(30)	(33)	(65)
Rent and rates		(8)	(8)	(16)
Property maintenance		(5)	(5)	(12)
Electricity		(7)	(7)	(14)
Insurance		(2)	(2)	(3)
Consultants		(1)	(1)	(4)
Regulatory levies		(7)	(6)	(13)
Other		(15)	(14)	(26)
Total operating expenses		**(194)**	**(204)**	**(414)**
Earnings before interest, income tax, depreciation and amortisation		**335**	**275**	**594**
Depreciation		(132)	(129)	(263)
Amortisation		(32)	(32)	(64)
Earnings before interest and income tax		**171**	**114**	**267**
Finance income		6	4	7
Finance expense	8	(84)	(71)	(147)
Net earnings before income tax		**93**	**47**	**127**
Income tax expense		(27)	(14)	(36)
Net earnings for the period		**66**	**33**	**91**
Earnings per share				
Basic earnings per share (dollars)		**0.17**	**0.08**	**0.23**
Diluted earnings per share (dollars)		**0.14**	**0.07**	**0.19**

Condensed consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2016 UNAUDITED $M	SIX MONTHS ENDED 31 DEC 2015 UNAUDITED $M	YEAR ENDED 30 JUNE 2016 AUDITED $M
Net earnings for the period	**66**	**33**	**91**
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss when specific conditions are met			
Ineffective portion of changes in fair value of cash flow hedges	(1)	1	7
Effective portion of changes in fair value of cash flow hedges	9	(9)	(29)
Amortisation of de-designated cash flow hedges transferred to income statement	(1)	(1)	(1)
Other comprehensive income net of tax	**7**	**(9)**	**(23)**
Total comprehensive income for the period net of tax	**73**	**24**	**68**

Condensed consolidated **statement of financial position**

AS AT 31 DECEMBER 2016

(DOLLARS IN MILLIONS)	NOTES	31 DEC 2016 UNAUDITED $M	31 DEC 2015 UNAUDITED $M	30 JUNE 2016 AUDITED $M
Current assets				
Cash and call deposits		155	78	102
Income tax receivable		-	-	3
Trade and other receivables		173	184	158
Derivative financial instruments		-	-	1
Finance lease receivable		4	3	4
Total current assets		**332**	**265**	**268**
Non-current assets				
Derivative financial instruments		-	7	-
Trade and other receivables		10	11	10
Software and other intangibles	2	143	149	160
Network assets	1	3,811	3,500	3,656
Total non-current assets		**3,964**	**3,667**	**3,826**
Total assets		**4,296**	**3,932**	**4,094**
Current liabilities				
Trade and other payables		345	321	347
Income tax payable		7	9	-
Derivative financial instruments		58	29	24
Debt	3	-	465	-
Total current liabilities excluding Crown funding		**410**	**824**	**371**
Current portion of Crown funding	5	18	14	17
Total current liabilities		**428**	**838**	**388**
Non-current liabilities				
Derivative financial instruments		214	90	191
Finance lease payable		150	131	136
Debt	3	1,597	1,172	1,540
Deferred tax payable		194	198	194
Total non-current liabilities excluding CFH and Crown funding		**2,155**	**1,591**	**2,061**
CFH securities	4	165	118	152
Crown funding	5	629	542	622
Total non-current liabilities		**2,949**	**2,251**	**2,835**
Total liabilities		**3,377**	**3,089**	**3,223**
Equity				
Share capital		504	465	481
Reserves		(19)	(12)	(26)
Retained earnings		434	390	416
Total equity		**919**	**843**	**871**
Total liabilities and equity		**4,296**	**3,932**	**4,094**

Condensed consolidated **statement of changes in equity**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

(DOLLARS IN MILLIONS)	SHARE CAPITAL $M	RETAINED EARNINGS $M	CASH FLOW HEDGE RESERVE $M	TOTAL $M
Balance at 1 July 2015	**465**	**357**	**(3)**	**819**
Comprehensive income				
Net earnings for the year	-	91	-	91
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	7	7
Effective portion of changes in fair value of cash flow hedges	-	-	(29)	(29)
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	**-**	**91**	**(23)**	**68**
Contributions by and (distributions to) owners:				
Dividends	-	(32)	-	(32)
Supplementary dividends	-	3	-	3
Tax credit on supplementary dividends	-	(3)	-	(3)
Dividend reinvestment plan	17	-	-	17
Employee share plan	(1)	-	-	(1)
Total transactions with owners	**16**	**(32)**	**-**	**(16)**
Balance at 30 June 2016 (AUDITED)	**481**	**416**	**(26)**	**871**
Comprehensive income				
Net earnings for the period	-	66	-	66
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	(1)	(1)
Effective portion of changes in fair value of cash flow hedges	-	-	9	9
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	**-**	**66**	**7**	**73**
Contributions by and (distributions to) owners:				
Dividends	-	(48)	-	(48)
Supplementary dividends	-	5	-	5
Tax credit on supplementary dividends	-	(5)	-	(5)
Dividend reinvestment plan	23	-	-	23
Total transactions with owners	**23**	**(48)**	**-**	**(25)**
Balance at 31 December 2016 (UNAUDITED)	**504**	**434**	**(19)**	**919**

(DOLLARS IN MILLIONS)	SHARE CAPITAL $M	RETAINED EARNINGS $M	CASH FLOW HEDGE RESERVE $M	TOTAL $M
Balance at 1 July 2015	**465**	**357**	**(3)**	**819**
Comprehensive income				
Net earnings for the period	-	33	-	33
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	1	1
Effective portion of changes in fair value of cash flow hedges	-	-	(9)	(9)
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	**-**	**33**	**(9)**	**24**
Balance at 31 December 2015 (UNAUDITED)	**465**	**390**	**(12)**	**843**

Condensed consolidated **statement of cash flows**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2016 UNAUDITED $M	SIX MONTHS ENDED 31 DEC 2015 UNAUDITED $M	YEAR ENDED 30 JUNE 2016 AUDITED $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers	548	474	1,003
Finance income	4	2	3
Payment to suppliers and employees	(226)	(216)	(404)
Taxation paid	(20)	(15)	(47)
Interest paid	(56)	(62)	(120)
Net cash flows from operating activities	**250**	**183**	**435**
Cash flows applied to investing activities			
Cash was provided from/(applied to):			
Purchase of network assets and software and intangible assets	(307)	(258)	(569)
Capitalised interest paid	(2)	(3)	(5)
Net cash flows applied to investing activities	**(309)**	**(261)**	**(574)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net proceeds from finance leases	2	2	5
Crown funding (including CFH securities)	20	59	179
Proceeds from debt	780	67	585
Repayment of debt	(665)	(52)	(593)
Dividends paid	(25)	-	(15)
Net cash flows from financing activities	**112**	**76**	**161**
Net cash flow	**53**	**(2)**	**22**
Cash at the beginning of the period	102	80	80
Cash at the end of the period	**155**	**78**	**102**

Notes to the **financial statements**

Reporting entity and statutory base

Chorus includes Chorus Limited together with its subsidiaries as at and for the six months ended 31 December 2016.

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

Chorus Limited is a profit-oriented company registered in New Zealand under the Companies Act 1993 and a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013.

The condensed consolidated interim financial statements have been prepared in accordance with the New Zealand equivalent to International Accounting Standard No. 34: "Interim Financial Reporting" and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). These financial statements are prepared in New Zealand dollars. These condensed interim financial statements do not include all of the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of Chorus as at and for the year ended 30 June 2016.

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 disclosed in the notes to the consolidated financial statements for the year ended 30 June 2016 and described in note 8 to these condensed consolidated interim financial statements.

Accounting policies and standards

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2016.

The condensed consolidated interim financial statements for the six months ended 31 December 2016, and comparative information for six months ended 31 December 2015 are unaudited. The comparative information for the year ended 30 June 2016 is audited. No comparative balances have been reclassified from the prior period's presentation.

Accounting estimates and judgements

In preparing the condensed consolidated interim 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.

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying Chorus' accounting policies and the key source of uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2016.

Note 1 – Network assets

(DOLLARS IN MILLIONS)	31 DEC 2016 UNAUDITED $M	31 DEC 2015 UNAUDITED $M	30 JUNE 2016 AUDITED $M
Cost			
Opening balance	8,342	7,815	7,815
Additions	287	232	528
Other	10	(2)	-
Disposals	(1)	(1)	(1)
Closing balance	8,638	8,044	8,342
Accumulated depreciation			
Opening balance	(4,686)	(4,409)	(4,409)
Depreciation	(143)	(136)	(278)
Other	2	-	-
Disposals	-	1	1
Closing balance	(4,827)	(4,544)	(4,686)
Net carrying amount	**3,811**	**3,500**	**3,656**

Other – Property exchanges

Chorus has leased exchange space and commercial co-location space owned by Spark which is subject to finance lease arrangements. Chorus in turn leases exchange space and commercial co-location space owned by Chorus to Spark under a finance lease arrangement.

For sites that it does not own, Chorus recognises its share of the assets based on occupancy percentage, as well as a liability for the future payments due. For sites that it does own, Chorus derecognises the share of the asset used by Spark, as well as recognising a receivable for the future receipts due.

The Other cost and accumulated depreciation movement in half year 2017 of $12 million (30 June 2016: nil; 31 December 2015: nil) relates to a reassessment of the extent of Spark's use of Chorus owned sites and Chorus's use of Spark's sites. It also represents the estimated impact over the lease term for a contractual price increase in relation to these sites.

Capital commitments

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

At 31 December 2016 the contractual commitment for acquisition of network assets was $321 million (30 June 2016: $341 million; 31 December 2015: $428 million).

Depreciation

The Crown funding released against depreciation for the six months ended 31 December 2016 was $11 million (30 June 2016: $15 million; 31 December 2015: $7 million).

Note 2 – Software and other intangibles

(DOLLARS IN MILLIONS)	31 DEC 2016 UNAUDITED $M	31 DEC 2015 UNAUDITED $M	30 JUNE 2016 AUDITED $M
Cost			
Opening balance	634	569	569
Additions	15	22	65
Closing balance	649	591	634
Accumulated amortisation			
Opening balance	(474)	(410)	(410)
Amortisation	(32)	(32)	(64)
Closing balance	(506)	(442)	(474)
Net carrying amount	**143**	**149**	**160**

Capital commitments

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

At 31 December 2016 the contractual commitment for acquisition of software and other intangible assets was $29 million (30 June 2016: $6 million; 31 December 2015: $8 million).

Note 3 – Debt

(DOLLARS IN MILLIONS)	31 DEC 2016 UNAUDITED $M	31 DEC 2015 UNAUDITED $M	30 JUNE 2016 AUDITED $M
Euro medium term notes GBP – Apr 2020	461	561	485
Euro medium term notes EUR – Oct 2023	751	-	-
Fixed rate NZD Bonds – May 2021	400	-	400
Syndicated bank facility A	-	450	-
Syndicated bank facility B	-	365	415
Syndicated bank facility C – May 2019	-	250	250
Short term debt facility	-	15	-
Less: facility fees	(15)	(4)	(10)
	1,597	**1,637**	**1,540**
Current	**-**	**465**	**-**
Non-current	**1,597**	**1,172**	**1,540**

On 18 October 2016 Chorus issued EUR 500 million of Euro Medium Term Notes at a fixed rate of 1.125%. They will mature in October 2023 and have been swapped back to $785 million using cross currency interest rate swaps (see note 8).

In November 2016 syndicated facility B was repaid and cancelled. Facility C was repaid and remains available for future operating activities until May 2019. As at 31 December 2016 Chorus had $250 million committed syndicated bank facilities on market standard terms and conditions (30 June 2016: $925 million; 31 December 2015: $1,500 million). The amount of undrawn syndicated bank facility that is available for future operating activities at 31 December 2016 is $250 million (30 June 2016: $260 million; 31 December 2015: $435 million).

The Euro Medium Term Note debt of GBP 260 million as at 31 December 2016 has been swapped back to $677 million (30 June 2016: $677 million; 31 December 2015: $677 million), using cross currency interest rate swaps (see note 8).

Note 4 – CFH securities

(DOLLARS IN MILLIONS)	31 DEC 2016 UNAUDITED $M	31 DEC 2015 UNAUDITED $M	30 JUNE 2016 AUDITED $M
Fair value on initial recognition			
Opening balance	132	97	97
Additional securities recognised at fair value	7	6	35
Closing balance	139	103	132
Accumulated notional interest			
Opening balance	20	10	10
Notional interest	6	5	10
Closing balance	26	15	20
Total CFH securities	**165**	**118**	**152**

Note 5 – Crown funding

(DOLLARS IN MILLIONS)	31 DEC 2016 UNAUDITED $M	31 DEC 2015 UNAUDITED $M	30 JUNE 2016 AUDITED $M
Fair value on initial recognition			
Opening balance	679	548	548
Additional funding recognised at fair value	19	40	131
Closing balance	698	588	679
Accumulated amortisation of funding			
Opening balance	(40)	(25)	(25)
Amortisation	(11)	(7)	(15)
Closing balance	(51)	(32)	(40)
Total Crown funding	**647**	**556**	**639**
Current	**18**	**14**	**17**
Non-current	**629**	**542**	**622**

Ultra-Fast Broadband

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. During the period Chorus has recognised funding for 19,784 premises passed (30 June 2016: 121,253; 31 December 2015: 16,124) where user acceptance testing was complete at 31 December 2016. This brings the total number of fully completed and paid for premises passed at 31 December 2016 to approximately 494,000 (30 June 2016: 474,000; 31 December 2015: 378,000).

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 the number of premises passed by fibre optic cables by key dates and compliance with certain specifications under user acceptance testing by Crown Fibre Holdings. Performance targets to date have been met.

Note 6 – Segmental reporting

Chorus has determined that it operates in one segment providing nationwide fixed line access network infrastructure. The determination is based on the reports reviewed by the Chief Executive Officer in assessing performance, allocating resources and making strategic decisions.

Note 7 – Equity

Dividends

On 7 October 2016 a fully imputed final dividend of 12 cents per share, $48 million, was paid to shareholders (30 June 2016: 8 cents per share, $32 million; 31 December 2015: no dividends were paid).

Net tangible assets per security

Net tangible assets per security for the period 31 December 2016 was $1.91 (30 June 2016: $1.77; 31 December 2015: $1.73).

Long-term performance share scheme

Chorus operates a long-term performance share scheme for selected key management personnel.

The August 2015 issue featured two grants. The shares relating to the first grant have a vesting date of two years from 30 June 2015 (2 year grant), and the shares relating to the second grant have a vesting date of three years from 30 June 2015 (3 year grant). Each grant is made up of two tranches, the first with a relative performance hurdle (Chorus' actual Total Shareholder Return (TSR) compared to other members of the NZX50) and the second with an absolute performance hurdle (Chorus' actual TSR being greater than 10.8% per annum compounding).

The August 2016 issue consisted of one three year grant. The shares have a vesting date of 22 September 2019 and an expiry date of 22 September 2020. The grant has an absolute performance hurdle (Chorus' actual Total Shareholder Return (TSR) equalling or being greater than 9.8% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period (noting that the TSR continues to increase through this period).

The combined option cost for the period ended 31 December 2016 of $131,000 has been recognised in the income statement (30 June 2016: $218,000; 31 December 2015: nil).

Note 8 – Derivative financial instruments

Finance expense includes any non-cash ineffectiveness arising from the Euro Medium Term Notes (EMTN) hedge relationship. Following the close out of the interest rate swaps relating to the EMTN (GBP) the hedge relationship was reset in December 2013 with a fair value of $49 million. The balance at 31 December 2016 is $22 million (30 June 2016: $21 million; 31 December 2015: $28 million). As long as the hedge remains effective any future gains or losses will be processed through the hedge reserve, however the ineffectiveness will flow to interest expense in the income statement at some time over the life of the derivatives. It will be a non-cash charge. Neither the direction, nor the rate of the impact on the income statement can be predicted. For the six months to 31 December 2016 a credit of $1 million ineffectiveness was recognised within finance expense in the income statement (30 June 2016: $9 million; 31 December 2015: $2 million).

In November 2016, Chorus repaid the Syndicated Bank Facility and the associated Interest Rate Swaps expired. One Interest Rate Swap (IRS) has been maintained and is not in a designated hedging relationship. The fair value remeasurement non-cash gains or losses on this IRS are recognised immediately in finance expense in the income statement. For the period to 31 December 2016 $6 million was recognised in finance expense (30 June 2016: nil; 31 December 2015: nil).

In conjunction with the EMTN (EUR) 500 million issued on 18 October 2016, Chorus entered into Cross Currency Interest Rate Swaps to hedge the foreign currency and foreign interest rate risks on the EMTN (EUR). These swaps have an aggregate principal of EUR 500 million and NZD 785 million. Chorus will pay New Zealand Dollar floating interest rates and receive EUR denominated fixed interest which match the underlying notes. For the period to 31 December 2016, $6 million of non-cash charges relating to the change in fair value of this hedge relationship was recognised in finance expense.

Note 9 – Related party transactions

The gross remuneration of directors and key management personnel during the period was $4.5 million (30 June 2016: $8.3 million; 31 December 2015: $4.1 million).

The Company has loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2016 of $1.6 million (30 June 2016: $1.2 million; 31 December 2015: $1.2 million) as outlined in the long-term performance share scheme section of note 7. All loans outstanding are interest-free limited recourse loans.

Note 10 – Post balance date events

Dividends

On 20 February 2017 Chorus declared an interim dividend in respect of the six month period ending 31 December 2016. The total amount of the dividend is $38.2 million, which represents a fully imputed dividend of 8.5 cents per ordinary share.

CFH Securities and Crown funding

Chorus issued a call notice on 27 January 2017 to CFH with an aggregate issue price of $7.9 million and 245,242 warrants. Part of this funding ($5.0 million, 4,434 premises) has been accrued in the financial statements at 31 December 2016 representing the portion of the call notice where user acceptance testing was complete.

Ultra-Fast Broadband extension (UFB2)

On 26 January 2017 Chorus announced that the UFB rollout would be extended to a further 169 areas, making fibre available to approximately 200,000 more homes and businesses. The second phase of the UFB rollout is expected to commence in July 2017 and finish by December 2024.

Auditors' review report

To the shareholders of Chorus Limited

We have completed a review of the condensed consolidated financial statements of Chorus Limited and its subsidiaries ("the Group") on pages 13 to 26 which comprise the statement of financial position as at 31 December 2016, the income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders of Chorus Limited as a body. Our review work has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in the independent review 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 Group's shareholders as a body, for our review work, this report or any of the opinions we have formed.

Directors' responsibilities

The directors of Chorus Limited are responsible for the preparation of condensed consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation of the condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the condensed consolidated financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting. As the auditor of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of condensed consolidated financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Our firm has also provided regulatory audit services and sponsorship services to the Group. These matters have not impaired our independence as auditors of the Group. The firm has no other relationship with, or interest in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the six month period ended on that date, in accordance with NZ IAS 34 Interim Financial Reporting.

KPMG

Wellington, 20 February 2017

Glossary

Backhaul	Is the portion of the network that links local exchanges to other exchanges or retail service provider networks.
Bandwidth fibre	A fibre service that provides dedicated bandwidth (up to 10Gbps download speed) between customers and their retail service provider's equipment in the local exchange.
Baseband IP	Used by retail service providers to provide a copper voice service from their exchange equipment via Chorus equipment in cabinets or exchanges.
Building block model	Refers to 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.
CFH	Crown Fibre Holdings Limited, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.
Chorus	Chorus Limited and subsidiaries.
Commission	Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.
Direct fibre	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.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.
EMTN	European Medium Term Note.
FY	Financial year – twelve months ended 30 June. e.g. FY16 is from 1 July 2015 to 30 June 2016.
Gigabit	The equivalent of 1 billion bits. Gigabit Ethernet provides data transfer rates of about 1 gigabit per second.
Gbps	Gigabits per second. A measure of the average rate of data transfer.
HSNS	High Speed Network Service – a high speed Layer 2 service with dedicated bandwidth on either copper or fibre.

IFRS	International Financial Reporting Standards – the rules that the financial statements have to be prepared by.
Mbps	Megabits per second – a measure of the average rate of data transfer.
Naked copper	Broadband only connections, where the customer does not also take an analogue voice service.
RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas between 2011 and 2016.
Share	Means an ordinary share in Chorus.
SLES	Sub Loop Extension Service – enables retail service providers to connect a sub loop UCLL line from a cabinet to the exchange.
SLU	Sub Loop Unbundling – where retail service providers use the regulated copper line service available between the premises and cabinet.
TSO	Telecommunications Services Obligation – a universal service obligation under which Chorus must maintain certain coverage and service on the copper network.
UBA	Unbundled Bitstream Access – regulated service that enables retail service providers to use Chorus equipment to deliver broadband to customers.
UCLL	Unbundled Copper Local Loop – a regulated service enabling retail service providers to offer voice and broadband services on copper lines using their own electronic equipment in the exchange.
UFB	Ultra-Fast Broadband – refers to the Government programme to build a fibre to the premises network to about 85% of New Zealanders by the end of 2024.
VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides data transmission up to about 100Mbps downstream and 50Mbps upstream.

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