

Chorus

Half Year Report

For the six months ended 31 December 2015



Half year result overview

Net profit
after tax

\$33m

Fixed line
connections

1,761,000

Earnings before interest,
income tax, depreciation
and amortisation

\$275m

UFB
programme

48%

Complete

Highlights

The Commerce Commission's final copper pricing determinations were a significant improvement on earlier benchmark and draft review pricing. This allows us to begin paying dividends to shareholders and managing for longer term shareholder value.

Ultra-fast Broadband (UFB) build is now complete for 48% of planned premises, including seven towns, and the Rural Broadband Initiative (RBI) rollout is almost complete. These programmes have now brought better broadband within reach of about 646,000 consumers nationwide.

Demand for fibre continues to increase and more than 112,000 mass market consumers have now been connected to fibre services. Growing numbers are opting for a 100Mbps service or better.

Challenges

With high volumes of fibre orders, some consumers face wait times as we increase our fibre connection workforce to meet demand. We are incurring additional operating costs as we take on greater industry responsibility to improve the fibre ordering and connection experience for consumers.

Total fixed line connections have begun declining, partly reflecting the growing competition from other UFB networks.

In the absence of clarity on a post 2020 regulatory framework, long term investment to extend the fibre network remains challenging.

*EBITDA is a non-GAAP profit measure calculated as reported profit for the period before net finance expense, tax, depreciation and amortisation. Chorus monitors this as a key performance indicator and believes it assists investors in assessing the performance of the core operations of the business.

Chorus Board and Management overview



MARK RATCLIFFE
Managing Director and Chief Executive Officer



PATRICK STRANGE
Chairman

Dear Shareholders

As expected, our financial result was down sharply on the prior period because of lower regulated copper prices set by international benchmarking and charged from 1 December 2014. Net profit after tax for the six months ended 31 December 2015 (HY16) was \$33 million compared to \$64 million for the same period in the prior year. Revenues were \$479 million and earnings before interest, tax, depreciation and amortisation (EBITDA) were \$275 million.

The final aggregate copper pricing determined by the Commerce Commission (the Commission)

on 15 December 2015 was an improvement on the prior draft decisions and aligns closely to entry level fibre pricing by 2020. However, the revised regulatory pricing only became effective on 16 December 2015.

The improved pricing outlook, combined with the removal of overhanging regulatory uncertainty, helped the Chorus share price reach a new record high immediately following the Commission's pricing determination. This underlines the degree to which regulatory uncertainty has weighed on the company since mid-2012.

Contents

Regulatory update	02	Outlook	09
Operating update	03	Financial statements	11
Operating results	05	Glossary	24
Dividends, equity and capital management	08		

1. Regulatory update

1.1 Final Pricing Principle (FPP) determination

Throughout the regulatory pricing review process we consistently said that international benchmark comparisons used by the Commission significantly undervalued the true cost of network investment in New Zealand. This was reinforced by our extensive analysis and actual experience of network costs through the UFB and RBI rollouts.

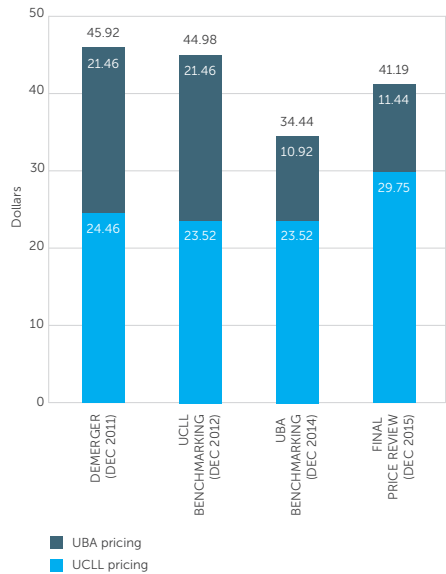
On 15 December 2015 the Commission announced aggregate copper pricing that starts at \$41.19 and reaches \$42.35 in 2020. The Commission noted that while other parties had argued that pricing at this level may appear higher relative to some European countries, *“...customers in New Zealand tend to be more spread out and so it costs more to provide the infrastructure to reach them.”*

The prices are still below the \$45.92 aggregate price that applied in 2011 at demerger. This appears to be a function of the Commission’s continued use of trenching costs well below our actual costs, particularly in costly urban areas, and the exclusion of portions of our existing network footprint. The weighted average cost of capital also declined substantively due to methodology changes and process delays coinciding with reductions in market risk free rates. Figure 1 (opposite) shows the volatility in regulated copper pricing outcomes as the regulatory process evolved.

The Commission’s final determinations are an improvement on the initial benchmark pricing. When combined with a reduction of about 25% on transaction charges we incur for service company activity, our EBITDA is currently around \$50 million per annum below the equivalent level at demerger.

The deadline for any party to lodge an appeal passed on 3 February 2016 with no appeals made. We elected not to appeal the decision, despite disagreeing with some key elements, such as the lack of backdating. While we were aware that some investors felt there may have been merit in further testing aspects of the determination in court, we believed the best long-term value for shareholders would be achieved by removing any ongoing legal uncertainty. Had we appealed on the issue of backdating, for example, other parties would likely have responded by challenging the final pricing itself, resulting in more months and perhaps even years of uncertainty.

Figure 1: Combined copper pricing December 2011 – December 2015



1.2 Government review of telecommunications regulatory framework

On 8 September 2015, the Government released a discussion document on the next stage of its telecommunications regulatory framework review. It stated that:

“A predictable, proportionate and flexible regulatory framework for communications will enable competition, innovation, investment, and growth across the economy which ultimately is better for consumers.”

The discussion document acknowledged that structural separation means wholesale-only fixed line providers including Chorus appear more like electricity lines businesses, which are subject to “utility-style” regulation.

The document’s “preliminary view” was that a building block model (BBM) is the most appropriate pricing methodology for regulating UFB services because:

“BBM will promote the legitimate commercial interests of access providers and access seekers and should provide a suitable basis for robust retail competition over the UFB network. BBM will limit the ability of UFB suppliers to generate excess profits, while also providing the stability and incentives needed to encourage efficient investment post-2020.”

Chorus and other industry participants provided submissions on the discussion document in late October. The general tenor of submissions was that there is substantial support for changing and improving the current regulatory framework. Submissions also included feedback on issues such as consumer migration from copper to fibre networks and the possible unbundling of fibre after 2020. The Government has not yet announced details on the next phase of the review.

We continue to advocate for an improved and coherent regulatory environment that drives growth and innovation by enabling ongoing investment in upgraded infrastructure, along with encouraging innovative retail services for New Zealanders.

1.3 Other regulatory matters

In December 2015 the Commission determined that Chorus was liable for \$11.1 million of the \$50 million Telecommunications Development Levy for the financial year ending 30 June 2015. The levy is based on annual revenues.

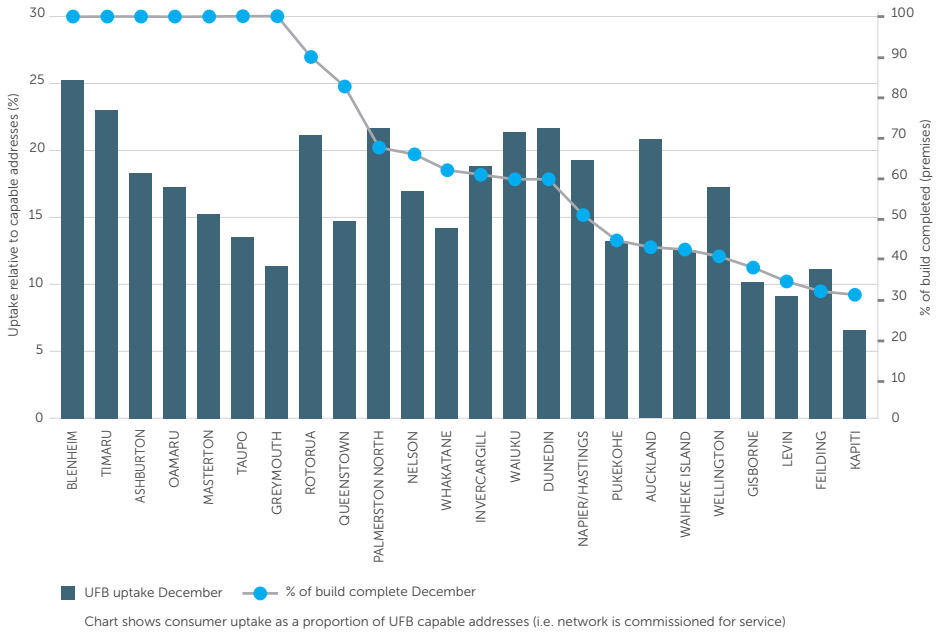
The Commission announced the start of a review of the non-price terms of the Unbundled Bitstream Access (UBA) standard terms determination in April 2015. It is uncertain how the Commission intends to proceed from a timing or substance perspective, particularly in light of the recent conclusion of the pricing process related to this service.

2. Operating update

We are almost halfway through the UFB rollout and continue to activate our planned network areas on schedule. Build work had been finished for about 400,000 premises across our UFB areas at 31 December, meaning approximately 539,000 consumers could connect to our ultra-fast broadband. Seven of our 24 rollout areas have been completed, with Greymouth and Masterton finished since 30 June 2015. Fibre has passed all schools within our rollout areas.

The RBI rollout will be completed within the next six months and we have already exceeded a contractual target, with the upgrade or extension of fixed line broadband coverage completed for about 107,000 consumers. Uptake within this footprint is strong at about 85%.

Figure 2: Regional fibre uptake vs build; UFB uptake by Candidate Area at 31 December 2015

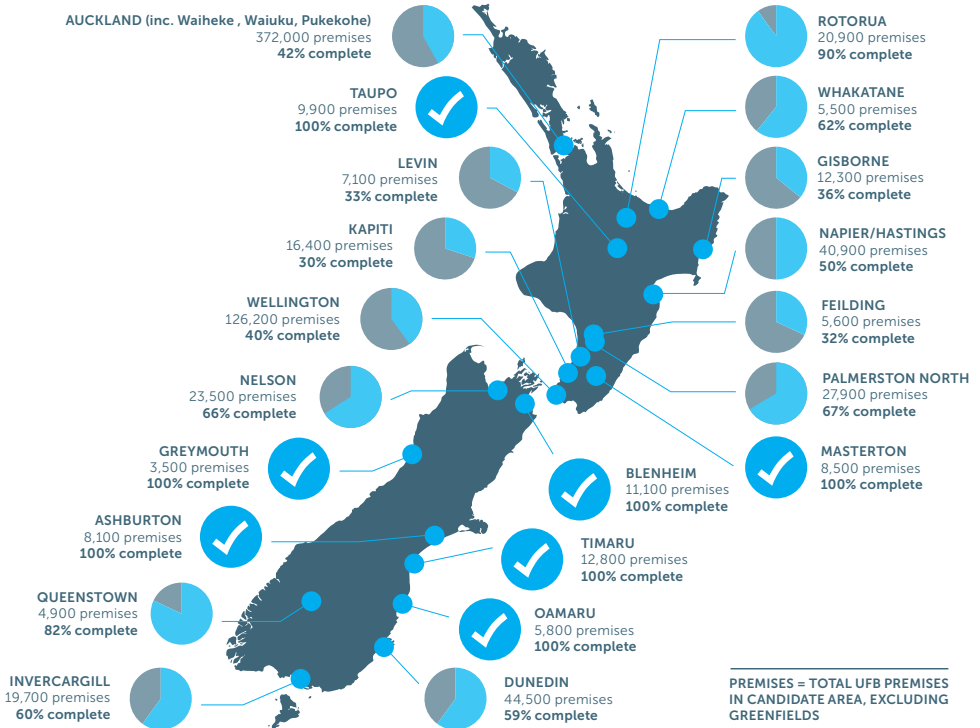


Together, our UFB and RBI network upgrades had brought better broadband within reach of about 646,000 consumers by 31 December and given New Zealand’s broadband capability a substantial boost. The average broadband connection speed across our network is 23Mbps compared to 10Mbps in 2011. Recent changes to the frequencies used to transmit copper-based Very High Speed Digital Subscriber Line (VDSL) broadband have seen average peak speeds on VDSL rise from 35Mbps to 50Mbps.

Demand for fibre has increased strongly, ahead of industry forecasts and the connection workforce we initially had available. This level of demand combined with the multiple points of interaction between our service company partners, retail service providers and ourselves has resulted in an unacceptable level of service for some consumers.

Consistently meeting fibre demand and delivering a high quality connection experience for consumers is our number one operational

Figure 3: Progress by Chorus UFB Area as at 31 December 2015



priority. During the six month period we began making changes in the end-to-end process in collaboration with our industry partners. These changes included increasing the number of fibre crews, taking greater ownership of fibre forecasting and establishing a new contact centre to confirm appointments and ensure consumers have the full picture of what to expect during a connection. We also launched a higher level of service for business connections.

As a result of the progress made, we built about 8,000 new fibre connections nationwide in November, compared to about 6,000 in September. This meant the median time to connect for single dwelling units and multi-dwelling units reduced, and cancellation rates dropped significantly, although they are not yet at a satisfactory level. As Figure 2 shows, uptake is highest in Blenheim at 25% and continues to vary widely from area to area. Uptake across all of our areas is 19%.

3. Operating results

3.1 Capital expenditure

Gross capital expenditure for the six months to 31 December 2015 was \$254 million.

UFB communal network deployment continued on schedule with build completed for a further 32,000 premises during the period. The cost of the deployment of UFB communal network for the period was \$87 million. The average cost of the premises passed (CPPP) in the period was \$1,643. This was below our guidance of an average cost of \$1,700 to \$1,770 for FY16, but only represents approximately a third of the premises scheduled to be built this financial year.

UFB connections and layer 2 spend was \$90 million, driven by growing demand for fibre and the ongoing expansion of our fibre network footprint.

Connection processes and close co-ordination with retail service providers remain key areas of focus as we continue to establish a sustainable framework for UFB connections, particularly in the context of variable regional demand.

At 31 December, we had about 105,000 connections within the areas where we had built the UFB network. This represents about 10% of the around 1.1 million consumers who will be within our planned UFB footprint by 2020.

The average cost per premises connected (CPPC) for standard residential premises and some non-standard single dwelling unit connections was \$1,002, excluding the long run average cost of layer 2 equipment. This is lower than the expected range of \$1,050 to \$1,250 for FY16 largely due to a favourable mix of deployment methods during the first half of the

financial year. Our 2011 total UFB programme view of an average cost of \$900 – \$1,100 real (circa \$1,000 – \$1,200 in 2015 dollars) average cost to connect standard residential consumer premises, inclusive of the long run average cost of layer 2 equipment, remains unchanged.

Capital expenditure for the RBI rollout was \$16 million with the programme scheduled to be completed by the end of FY16. The total programme cost continues to track towards the lower end of the \$280 – \$295 million range.

3.2 Operating revenue

Revenues were flat compared to revenue for the six months to 30 June 2015. The six months to 31 December 2015 include just two weeks of the Commission's final pricing principle prices (from 16 December). Excluding this, revenues were down around 1% on a like-for-like basis reflecting the decline in fixed line connections over the period.

Fixed line connections

Total fixed line connections decreased by 33,000 connections (from 1,794,000 to 1,761,000).

This was the result of some copper lines being removed by one retail service provider where they were previously retained alongside fibre connections to deliver voice services, lines in non-Chorus UFB areas beginning to shift to alternative network providers and the seasonal variation that historically occurs over the summer holiday period.

At 31 December 2015 there were approximately 1,320,000 baseband copper lines¹, a decrease of 88,000 lines from 30 June 2015. The number of unbundled lines (comprising Unbundled Copper Local Loop (UCLL) and Sub Loop

Chorus summary connection facts

FIXED LINE CONNECTIONS	31 DEC 2015	30 JUNE 2015	31 DEC 2014
Baseband copper	1,320,000	1,408,000	1,435,000
Baseband IP	6,000	not material	not material
UCLL	116,000	123,000	127,000
SLU/SLES	3,000	3,000	4,000
Naked Basic/Enhanced UBA and Naked VDSL	180,000	159,000	136,000
Data services over copper	11,000	13,000	15,000
Fibre (premium business + mass market)	125,000	88,000	65,000
Total fixed line connections	1,761,000	1,794,000	1,782,000
BROADBAND CONNECTIONS			
Basic UBA	74,000	96,000	135,000
Naked Basic UBA	7,000	10,000	10,000
Enhanced UBA	763,000	792,000	792,000
Naked Enhanced UBA	128,000	118,000	103,000
VDSL	94,000	85,000	70,000
Naked VDSL	45,000	31,000	23,000
Fibre (mass market)	112,000	75,000	53,000
Total broadband connections	1,223,000	1,207,000	1,186,000

Unbundling (SLU) lines) declined by 2,000 connections while data service over copper connections reduced by 2,000 lines. These reductions are attributable to the overall reduction in lines for the period, as well as the ongoing migration to alternative fixed line products.

Baseband IP connections, used by retail service providers to deliver a voice over internet protocol service over copper, grew to 6,000 connections as we made the service commercially available across a wider footprint. 'Naked' connections (naked Basic UBA, naked Enhanced UBA and naked VDSL) grew by 21,000 lines.

Fibre connections continued their strong growth with 37,000 connections added nationwide, taking total fibre connections to 125,000 lines.

Within the fibre connections category, premium business fibre connections increased only slightly during the period, remaining at approximately 13,000 connections overall. Demand for backhaul and High Speed Network Service fibre connections grew, but there was some rationalisation within the Direct Fibre Access Service and Bandwidth Fibre categories.

1 For reporting purposes, this total includes instances where UCLFS is combined with UBA connections. From 1 December 2014, the UBA Standard Terms Determination includes the UCLFS component. The price outcome is the same as if these connections were billed for naked UBA and zero for UCLFS/Baseband.

Broadband connections

Total broadband connections increased from 1,207,000 to 1,223,000 for the period. This was primarily driven by the increase in demand for mass market fibre connections. About 112,000 of our total fibre connections were mass market consumers (which includes UFB Bitstream 2 and 3 and education connections). The majority of consumers are on entry level 30Mbps fibre products. However, approximately 41% of our mass market connections are now on speeds of 100Mbps or greater, compared to about 30% at the end of June 2015.

VDSL and Naked VDSL uptake also grew, with a further 23,000 connections added during the period to total 139,000 connections at 31 December 2015.

Demand for most UBA copper broadband services (Basic UBA, naked Basic UBA and Enhanced UBA) declined as consumers migrated to the products above or alternative networks.

Infrastructure

Infrastructure revenue relates to services that provide access to our network assets. For example renting exchange space. To date, this product revenue has been flat as larger customers investing in their own infrastructure has offset increased revenue from smaller customers.

Field services

Field Services revenues have increased as a result of more up front charging being undertaken and the changed charging regime from December 2014, whereby UBA became the primary service and we were able to recover more of the costs of installing services. We are also recovering a greater proportion of costs for greenfields and

infill subdivisions. Partially offsetting this increase are lower transaction charges which came into effect from 16 December 2015. These revenues have a large maintenance component which is weather dependent.

3.3 Operating expenses

Network maintenance costs

Network maintenance costs have reduced due to fewer network faults and a lower average cost per fault. The reduction in network faults was driven by a number of factors including fewer weather events, increasing naked broadband connections leading to lower voice faults, reduced broadband speed related fault calls and a change in mix with copper faults falling and the more expensive fibre faults only slightly increasing. Compliance programmes, less proactive fault activity and short term cost management all reduced the average cost per fault.

Labour costs

Labour costs of \$38 million represent staff costs that are not capitalised. At 31 December 2015 we had 887 permanent and fixed term employees. This was up from 842 employees at 30 June 2015. As indicated at 30 June we are taking on a larger role in the end-to-end process of fibre connections, which has resulted in more people employed to support and improve the consumer experience for fibre deployment. These processes are progressively being automated, but while they are still developing they remain relatively manual and time consuming.

Provisioning costs

Provisioning costs are mainly driven by two factors, the field provisioning truck roll costs and the operational costs to process the orders received from retail service providers. The majority

of these costs relate to copper provisioning truck rolls, with the volume of truck rolls relating to this activity slowly decreasing over time as the fibre connection numbers grow. However, the mix of products being purchased has changed, with complex connections increasing, and a Consumer Price Index increase on the costs charged by service companies has resulted in higher costs for us. In addition, the increased complexity of fibre provisioning and our level of involvement in this process has seen costs increase.

Information Technology

Information technology (IT) costs have remained largely flat reflecting the costs associated with supporting the flexible IT environment we have built. Our delay of Spark systems separation, to preserve cash, continued to result in the duplication of some costs for longer than initially expected. The hardware and licence costs associated with the increased number of employees is affecting IT costs.

3.4 Depreciation and amortisation

Depreciation continues to increase slightly each period, reflecting the capitalisation of the UFB and RBI assets. The very long life of these assets means the increase each period is slight. The amortisation of the Crown funding against depreciation is also increasing slightly and largely offsetting the increase in depreciation.

3.5 Finance expenses

Excluding the impact of the hedge ineffectiveness arising from the European Medium Term Note (EMTN) hedging relationship, finance expense has remained flat reflecting the fixed nature of our debt profile. Hedge ineffectiveness for the period was \$2 million (six months to 31 December 2014: \$7 million; year to 30 June 2015: \$19 million).

4. Dividends, equity and capital management

For FY16, Chorus expects to pay a dividend of 20 cents per share, with an interim dividend of 8 cents per share to be paid in April. A final dividend of 12 cents per share will be declared in August, subject to no material adverse changes in circumstance or outlook. The dividend reinvestment plan will be reactivated for the interim dividend at a discount rate of 3 per cent.

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

Chorus will pay the interim dividend on 5 April 2016 to all shareholders registered at 5.00pm on Tuesday 22 March 2016.

The interim dividend will be fully imputed (at a ratio of 28/72) in line with the corporate income tax rate. A supplementary dividend of 1.41 cents per share will be paid to shareholders who are not resident in New Zealand.

Eligible shareholders will be able to participate in the dividend reinvestment plan for the interim dividend. Election notices to participate in the dividend reinvestment plan must be received by 5.00pm Wednesday 23 March 2016.

The Chorus Board considers that a 'BBB' or equivalent credit rating is appropriate for a company such as Chorus. It intends to maintain capital management policies and financial policies consistent with these credit ratings.

At 31 December 2015, we had a long term credit rating of BBB/stable outlook by Standard & Poor's. Moody's Investors Service has indicated it will review its Baa3 rating for possible upgrade following our half year results announcement.

Chorus has \$450 million of existing bank debt that matures in July 2016. This appears as current liabilities in the financial statements. Following the Commission's final copper pricing determination we are now progressing refinancing options.

5. Outlook

Our number one operational priority is the improvement of the fibre connection process for consumers. We will continue to build on the progress already made, both within Chorus and in collaboration with our industry partners, to process the growing volume of orders as effectively as possible. This includes recruiting more technicians, streamlining processes and Chorus taking on a leading role in the interaction with consumers. There will be no let-up in our focus until we are consistently meeting demand and delivering a high-quality connection experience.

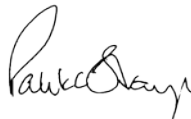
The ongoing growth in broadband demand and associated increases in bandwidth consumption continue to provide us with confidence in the outlook for fixed line networks. We look forward to working with industry and government to develop a regulatory framework that builds on recent experiences to better align and deliver on the interests of consumers and investors.

The conclusion of the copper pricing review process means we can now focus on running the business from a longer term shareholder value perspective, rather than managing for cash. The Government is, for example, seeking to extend the UFB network beyond the current planned footprint to at least another 5% of

New Zealanders. We are interested and willing to participate in this programme if it provides long-term value to shareholders.

Operationally, we will continue to deliver on our existing contractual commitments under the UFB and RBI rollouts. UFB uptake outside of our rollout areas is expected to erode demand for our existing copper network. At the same time, retail service providers will maintain their focus on reducing their input costs from us, whether by taking alternative or lower grade products, or using non-Chorus network inputs and suppliers. Spark, for example, has announced a new wireless broadband offering.

On 15 December 2015 we provided updated FY16 EBITDA guidance of \$580 - \$600 million. This guidance was adjusted for the Commission's final copper pricing and transaction charges, and included the additional cost of activity we are undertaking to improve the end-to-end fibre connection process.



PATRICK STRANGE
Chairman



MARK RATCLIFFE
Managing Director and
Chief Executive Officer

19 February 2016

Half Year Report

Financial Statements

For the six months ended 31 December 2015

Condensed consolidated income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

(DOLLARS IN MILLIONS)	NOTE	SIX MONTHS ENDED 31 DEC 2015 UNAUDITED \$M	SIX MONTHS ENDED 31 DEC 2014 UNAUDITED \$M	YEAR ENDED 30 JUNE 2015 AUDITED \$M
Basic copper		230	252	491
Enhanced copper		115	156	268
Fibre		61	45	98
Value added network services		17	19	36
Infrastructure		10	11	21
Field services		43	40	84
Other		3	4	8
Total operating revenue		479	527	1,006
Labour costs		(38)	(38)	(73)
Provisioning		(31)	(28)	(58)
Network maintenance		(42)	(48)	(91)
Other network costs		(17)	(15)	(34)
Information technology costs		(33)	(31)	(65)
Rent and rates		(8)	(7)	(14)
Property maintenance		(5)	(5)	(11)
Electricity		(7)	(7)	(14)
Insurance		(2)	(2)	(4)
Consultants		(1)	(2)	(3)
Regulatory levies		(6)	(7)	(15)
Other		(14)	(16)	(22)
Total operating expenses		(204)	(206)	(404)
Earnings before interest, income tax, depreciation and amortisation		275	321	602
Depreciation		(129)	(130)	(259)
Amortisation		(32)	(29)	(65)
Earnings before interest and income tax		114	162	278
Finance income		4	5	8
Finance expense	8	(71)	(78)	(159)
Net earnings before income tax		47	89	127
Income tax expense		(14)	(25)	(36)
Net earnings for the period		33	64	91
Earnings per share				
Basic earnings per share (dollars)		0.08	0.16	0.23
Diluted earnings per share (dollars)		0.07	0.14	0.19

Condensed consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2015 UNAUDITED \$M	SIX MONTHS ENDED 31 DEC 2014 UNAUDITED \$M	YEAR ENDED 30 JUNE 2015 AUDITED \$M
Net earnings for the period	33	64	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	5	14
Effective portion of changes in fair value of cash flow hedges	(9)	(1)	(16)
Amortisation of de-designated cash flow hedges transferred to income statement	(1)	(1)	(1)
Other comprehensive income net of tax	(9)	3	(3)
Total comprehensive income for the period net of tax	24	67	88

Condensed consolidated statement of financial position

AS AT 31 DECEMBER 2015

(DOLLARS IN MILLIONS)	NOTES	31 DEC 2015 UNAUDITED \$M	31 DEC 2014 UNAUDITED \$M	30 JUNE 2015 AUDITED \$M
Current assets				
Cash and call deposits		78	103	80
Trade and other receivables		184	195	165
Derivative financial instruments		-	-	3
Finance lease receivable		3	3	3
Total current assets		265	301	251
Non-current assets				
Derivative financial instruments		7	3	14
Trade and other receivables		11	-	11
Software and other intangibles	2	149	213	159
Network assets	1	3,500	3,261	3,406
Total non-current assets		3,667	3,477	3,590
Total assets		3,932	3,778	3,841
Current liabilities				
Trade and other payables		321	348	315
Income tax payable		9	46	12
Derivative financial instruments		29	30	12
Debt	3	465	20	-
Total current liabilities excluding Crown funding		824	444	339
Current portion of Crown funding	5	14	11	13
Total current liabilities		838	455	352
Non-current liabilities				
Income tax payable		-	13	-
Derivative financial instruments		90	94	61
Finance lease payable		131	128	130
Debt	3	1,172	1,577	1,663
Deferred tax payable		198	190	199
Total non-current liabilities excluding CFH and Crown funding		1,591	2,002	2,053
CFH securities	4	118	84	107
Crown funding	5	542	439	510
Total non-current liabilities		2,251	2,525	2,670
Total liabilities		3,089	2,980	3,022
Equity				
Share capital		465	465	465
Reserves		(12)	3	(3)
Retained earnings		390	330	357
Total equity		843	798	819
Total liabilities and equity		3,932	3,778	3,841

Condensed consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

(DOLLARS IN MILLIONS)	SHARE CAPITAL \$M	RETAINED EARNINGS \$M	CASH FLOW HEDGE RESERVE \$M	TOTAL \$M
Balance at 1 July 2014	465	266	-	731
Comprehensive income				
Net earnings for the period	-	91	-	91
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	14	14
Effective portion of changes in fair value of cash flow hedges	-	-	(16)	(16)
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	-	91	(3)	88
Balance at 30 June 2015 (AUDITED)	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

(DOLLARS IN MILLIONS)	SHARE CAPITAL \$M	RETAINED EARNINGS \$M	CASH FLOW HEDGE RESERVE \$M	TOTAL \$M
Balance at 1 July 2014	465	266	-	731
Comprehensive income				
Net earnings for the period	-	64	-	64
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	5	5
Effective portion of changes in fair value of cash flow hedges	-	-	(1)	(1)
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	-	64	3	67
Balance at 31 December 2014 (UNAUDITED)	465	330	3	798

Condensed consolidated statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2015 UNAUDITED \$M	SIX MONTHS ENDED 31 DEC 2014 UNAUDITED \$M	YEAR ENDED 30 JUNE 2015 AUDITED \$M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers	474	537	1,006
Finance income	2	3	4
Payment to suppliers and employees	(216)	(215)	(414)
Taxation paid	(15)	-	(48)
Interest paid	(62)	(64)	(132)
Net cash flows from operating activities	183	261	416
Cash flows applied to investing activities			
Cash was provided from/(applied to):			
Purchase of network assets and software and intangible assets	(258)	(345)	(589)
Sale of network assets and software and intangible assets	-	1	-
Capitalised interest paid	(3)	(2)	(6)
Net cash flows applied to investing activities	(261)	(346)	(595)
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net proceeds from finance leases	2	1	3
Crown funding (including CFH securities)	59	69	155
Proceeds from debt	67	45	63
Repayment of debt	(52)	(103)	(138)
Net cash flows from financing activities	76	12	83
Net cash flow	(2)	(73)	(96)
Cash at the beginning of the period	80	176	176
Cash at the end of the period	78	103	80

Notes to the financial statements

Reporting entity and statutory base

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 presented are those of Chorus Limited (the Company, Parent or the Parent Company) together with its subsidiaries (the Chorus Group, Group or Chorus) as at and for the six months ended 31 December 2015.

Nature of operations

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

Basis of preparation

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, which is Chorus' functional currency. References in these financial statements to '\$', 'NZ\$' and 'NZD' are to New Zealand dollars, references to 'GBP' are to pounds sterling. 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 2015.

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 2015.

The condensed consolidated interim financial statements for the six months ended 31 December 2015, and comparative information for six months ended 31 December 2014 are unaudited. The comparative information for the year ended 30 June 2015 is audited. Comparative balances have been reclassified where appropriate to conform with the current period's presentation.

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 2015 and described in note 8 to these condensed consolidated interim financial statements.

Estimates

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 2015.

Note 1 – Network assets

(DOLLARS IN MILLIONS)	31 DEC 2015 UNAUDITED \$M	31 DEC 2014 UNAUDITED \$M	30 JUNE 2015 AUDITED \$M
Cost			
Opening balance	7,815	7,267	7,267
Additions	232	270	547
Other	(2)	(1)	2
Disposals	(1)	-	(1)
Closing balance	8,044	7,536	7,815
Accumulated depreciation			
Opening balance	(4,409)	(4,139)	(4,139)
Depreciation	(136)	(136)	(271)
Disposals	1	-	1
Closing balance	(4,544)	(4,275)	(4,409)
Net carrying amount	3,500	3,261	3,406

Capital commitments

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

At 31 December 2015 the contractual commitment for acquisition of network assets was \$428 million (30 June 2015: \$448 million; 31 December 2014: \$334 million).

Depreciation

The Crown funding released against depreciation for the six months ended 31 December 2015 was \$7 million (30 June 2015: \$12 million; 31 December 2014: \$6 million).

Note 2 – Software and other intangibles

(DOLLARS IN MILLIONS)	31 DEC 2015 UNAUDITED \$M	31 DEC 2014 UNAUDITED \$M	30 JUNE 2015 AUDITED \$M
Cost			
Opening balance	569	519	519
Additions	22	68	50
Closing balance	591	587	569
Accumulated amortisation			
Opening balance	(410)	(345)	(345)
Amortisation	(32)	(29)	(65)
Closing balance	(442)	(374)	(410)
Net carrying amount	149	213	159

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 2015 the contractual commitment for acquisition of software and other intangible assets was \$8 million (30 June 2015: \$4 million; 31 December 2014: \$6 million).

Note 3 – Debt

(DOLLARS IN MILLIONS)	31 DEC 2015 UNAUDITED \$M	31 DEC 2014 UNAUDITED \$M	30 JUNE 2015 AUDITED \$M
Syndicated bank facility A – Jul 2016	450	450	450
Syndicated bank facility B – Nov 2017	365	365	365
Syndicated bank facility C – May 2019	250	250	250
Euro medium term notes – Apr 2020	561	519	603
Short term debt facility	15	20	-
Less: syndicated loans facility fee	(4)	(7)	(5)
	1,637	1,597	1,663
Current	465	20	-
Non-current	1,172	1,577	1,663

As at 31 December 2015 Chorus had in place \$1,500 million committed syndicated bank facilities on market standard terms and conditions (30 June 2015: \$1,500 million; 31 December 2014: \$1,500 million). The amount of undrawn syndicated bank facility that is available for future operating activities at 31 December 2015 is \$435 million (30 June 2015: \$435 million; 31 December 2014: \$435 million) and syndicated bank facility A (\$450 million) due within twelve months.

As at 31 December 2015 Chorus had \$15 million of short term debt drawn under an uncommitted money market facility (30 June 2015: nil; 31 December 2014: \$20 million).

The European Medium Term Note (EMTN) debt of 260 million GBP as at 31 December 2015 has been hedged at \$677 million (30 June 2015: \$677 million; 31 December 2014: \$677 million).

Note 4 – CFH securities

(DOLLARS IN MILLIONS)	31 DEC 2015 UNAUDITED \$M	31 DEC 2014 UNAUDITED \$M	30 JUNE 2015 AUDITED \$M
Fair value on initial recognition			
Opening balance	97	69	69
Additional securities recognised at fair value	6	7	28
Closing balance	103	76	97
Accumulated notional interest			
Opening balance	10	4	4
Notional interest	5	4	6
Closing balance	15	8	10
Total CFH securities	118	84	107

Note 5 – Crown funding

(DOLLARS IN MILLIONS)	31 DEC 2015 UNAUDITED \$M	31 DEC 2014 UNAUDITED \$M	30 JUNE 2015 AUDITED \$M
Fair value on initial recognition:			
Opening balance	548	441	441
Additional funding recognised at fair value	40	28	107
Closing balance	588	469	548
Accumulated amortisation of funding			
Opening balance	(25)	(13)	(13)
Current year amortisation	(7)	(6)	(12)
Closing balance	(32)	(19)	(25)
Total CFH securities	556	450	523
Current	14	11	13
Non-current	542	439	510

Ultra-fast Broadband

Chorus receives funding from the Crown to finance construction costs associated with the development of the Ultra-fast Broadband (UFB) network. During the period Chorus has recognised funding for 16,124 premises passed (30 June 2015: 92,189; 31 December 2014: 2,302) where user acceptance testing was complete at 31 December 2015. This brings the total number of fully completed and paid for premises passed at 31 December 2015 to approximately 378,000 (30 June 2015: 353,000; 31 December 2014: 263,000).

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

There were no dividends declared or paid by Chorus Limited during the six months ended 31 December 2015 (30 June 2015: nil; 31 December 2014: nil).

Net tangible assets per security

Net tangible assets per security for the period 31 December 2015 was \$1.73 (30 June 2015: \$1.62; 31 December 2014: \$1.48).

Employee share plan

The Group operates a long term incentive for selected key management personnel ("participants") involving the purchase of shares in Chorus Limited. The plan commenced in August 2015 and featured two grants. The shares relating to the first grant have a vesting date of two years from 30 June 2015, and the shares relating to the second grant have a vesting date of three years from 30 June 2015. Each grant is made up of two tranches, the first with a relative performance hurdle (Chorus' actual TSR compared to other members of the NZX50) and the second with an absolute performance hurdle (Chorus' actual TSR compared to Chorus' cost of equity). The Group has provided participants with interest-free limited recourse loans to fund the 446,016 shares issued under the employee share plan (30 June 2015: nil; 31 December 2014: nil).

Note 8 – Derivative financial instruments

Finance expense includes any ineffectiveness arising from the EMTN hedge relationship. Following the close out of the interest rate swaps relating to the EMTN the hedge relationship was reset in December 2013 with a fair value of \$49 million. The balance at 31 December 2015 is \$28 million (30 June 2015: \$30 million; 31 December 2014: \$42 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 2015 ineffectiveness of \$2 million was recognised within finance expense in the income statement (30 June 2015: \$19 million; 31 December 2014: \$7 million).

Note 9 – Related party transactions

The gross remuneration of directors and key management personnel during the period was \$4.1 million (30 June 2015: \$6.7 million; 31 December 2014: \$4.5 million).

The Company has loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2015 of \$1.2 million (30 June 2015: nil; 31 December 2014: nil) as outlined in the employee share plan section of note 7. All loans outstanding are interest-free limited recourse loans.

Note 10 – Post balance date events

Dividends

On 19 February 2016 Chorus declared an interim dividend in respect of the six month period ending 31 December 2015. The total amount of the dividend is \$34.5 million, which represents a fully imputed dividend of 8 cents per ordinary share.

Dividend reinvestment plan

Chorus also re-established the dividend reinvestment plan in February 2016. Eligible shareholders will be able to convert their dividends to shares at a discount of 3%.

CFH Securities and Crown funding

Chorus issued a call notice on 16 February 2016 to CFH with an aggregate issue price of \$12 million and 342,499 warrants. This funding is not recognised in the financial statements at 31 December 2015.

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 12 to 22 which comprise the statement of financial position as at 31 December 2015, 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 other assurance services and tax compliance 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 2015, 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.

A handwritten signature of the KPMG firm, written in blue ink.

Wellington, 19 February 2016

Glossary

Bandwidth fibre access	A fibre service that provides dedicated bandwidth (up to 10Gbps download speed) between a consumer and their retail service provider's equipment in the local exchange.	Mbps	Megabits per second – a measure of the average rate of data transfer.
Baseband IP	Used by retail service providers to provide a copper voice service from their exchange equipment via Chorus equipment in cabinets or exchanges.	Naked broadband/UBA	Broadband only connections, where the consumer does not also take an analogue voice service.
Bitstream 2,3,4	Refers to services defined under the UFB contract. Bitstream 2 and 3 are mass market services (between 30Mbps and 100Mbps downstream speeds). Bitstream 4 is a premium fibre service, which is the equivalent of HSNS fibre for corporate and UFB priority consumers.	RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas by 2016.
CFH	Crown Fibre Holdings Limited, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.	SLES	Sub Loop Extension Service – enables retail service providers to connect a sub loop UCLL line from a cabinet to the exchange.
Chorus	Chorus Limited and subsidiaries.	SLU	Sub Loop Unbundling – where retail service providers use the regulated copper line service available between the premises and cabinet.
Commission	Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.	TSR	Is a measure of the entire return a shareholder would obtain from holding a company's shares over a period of time.
Direct fibre access	Also known as 'dark' fibre, a fibre service that provides a point to point fibre connection and can be used to deliver backhaul connections to mobile sites.	UBA	Unbundled Bitstream Access – regulated service that enables retail service providers to use Chorus equipment to deliver broadband to consumers.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.	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.
FY	Financial year – twelve months ended 30 June. e.g. FY15 is from 1 July 2014 to 30 June 2015.	UFB	Ultra-Fast Broadband – refers to the Government programme to build a fibre to the premises network to 75% of New Zealanders by 2020.
HSNS	High Speed Network Service – a high speed Layer 2 service with dedicated bandwidth on either copper or fibre.	VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides data transmission up to about 50Mbps downstream and 20Mbps upstream.

Board of Directors

Patrick Strange

Independent director, chairman
Director since 6 April 2015

Anne Urlwin

Independent director
Director since 1 December 2011

Clayton Wakefield

Independent director
Director since 1 December 2011

Jon Hartley

Independent director,
deputy chairman
Director since 1 December 2011

Keith Turner

Independent director
Director since 1 December 2011

Mark Ratcliffe

Managing director
Director since 9 December 2011

Murray Jordan

Independent director
Director since 1 September 2015

Prue Flacks

Independent director
Director since 1 December 2011

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