Chorus
Half Year Report

For the six months ended 31 December 2012

Chorus

Half Year Report
Highlights

For the six months to 31 December 2012

NPAT **$84m** Net profit after tax	Fixed line connections **1,793,000**
EBITDA **$331m** Earnings before interest, tax and depreciation	Dividend **10.0** Cents per share

Report from **Chairman Sue Sheldon and CEO Mark Ratcliffe**

MARK RATCLIFFE, CEO

SUE SHELDON, CHAIRMAN

Dear shareholders,

Chorus reports net profit after tax (NPAT) for the six months to 31 December 2012 of $84 million, revenues were $525 million and earnings before interest, tax and depreciation (EBITDA) were $331 million.

While Chorus' overall earnings performance was pleasing, particularly underlying growth in the number of fixed line connections and revenue, we face challenging headwinds in our efforts to build New Zealand's fibre future. These headwinds are in the form of the regulatory framework and the capital costs of our Ultra-Fast Broadband (UFB) deployment.

1. Challenging headwinds

1.1 Regulatory framework

There have been significant developments since we last reported. On 3 December 2012, the Commerce Commission released two decisions.

Unbundled Copper Local Loop (UCLL) pricing

This was a final decision on the price Chorus can charge for its copper line access or UCLL. Although the final $23.52 averaged UCLL price was a significant revision upwards from the ~19% drop in price indicated in the Commission's draft decision of 4 May 2012, it still represents a 3.8% drop in price when Chorus believes it has seen no decrease in network operating costs.

The decision applies from 3 December 2012 to de-averaged (urban and non-urban) UCLL prices and baseband copper (the nationally averaged Unbundled Copper Low Frequency Service (UCLFS)), meaning one month of impact is reflected in this six month result. The price reduction represents an estimated $11-12 million decline in EBITDA for the year to 30 June 2013, or around $20 million reduction in revenue on an annualised EBITDA basis (based on connection numbers at 30 June 2012).

Unbundled Bitstream Access (UBA) pricing

This was a draft decision on copper-based broadband or UBA pricing. The Commission's draft decision suggested a reduction in price from $21.46 to $8.93 per month based on benchmarking of pricing in just two countries – Denmark and Sweden.

Chorus announced at the time that it had very serious concerns about the potential impact of these decisions and that, if the draft UBA decision were to become final, it could reduce annual EBITDA by a further $150-160 million from December 2014, which could in turn require Chorus to fundamentally rethink its business model, capital structure and approach to dividends.

Chorus' response

On 4 February 2013 Chorus made a detailed submission in response to the Commission's draft UBA decision. The submission is available at www.chorus.co.nz/investor-presentations

A key element of Chorus' submission is the view that a clearer, more aligned regulatory environment is required to deliver the right incentives to encourage the transition to our fibre network, and help New Zealand realise the productivity and economic benefits UFB and the Rural Broadband Initiative (RBI) can deliver. It also emphasised that getting the right balance between copper and fibre pricing is critical to fibre investment and uptake.

Chorus has since applied for a 'final pricing principle' review of the Commission's UCLL decision. This entails a detailed economic analysis of Chorus' costs. The process is intended to achieve an outcome that better reflects the true measure of the cost and investment required to deliver better broadband to New Zealand than the Commission's December draft UBA decision suggests.

Government review announced

On 8 February the New Zealand Government announced[1] that it is bringing forward two scheduled reviews to "...focus on the long-term interests of end-users of telecommunications services, taking into account the market structure, technology developments and competitive conditions in the telecommunications industry at the time of the review, including the impact of fibre, copper, wireless, and other telecommunications network investment."

[1] Review to provide certainty to consumers, industry – http://www.beehive.govt.nz/release/review-provide-certainty-consumers-industry

At the same time, the Government said "...the implementation date for the cost-based UBA price set by the Commerce Commission and the deadline for the Commission to complete the UBA review is to be extended to a date no later than 30 November 2015, to allow time to give effect to any changes recommended by the regulatory review. This is to be implemented through legislative change to be made by the end of 2013."

Chorus welcomes the Minister's announcement to bring forward a review of the regulatory framework for telecommunications services. This is a positive step for the industry and for New Zealand, though we have a process to go through before final outcomes are determined. The dates for the review processes are not yet clear. The Commission has indicated its intention to consult with industry on the effect of the Government's announcement on the process for its UBA review.

Chorus is looking forward to transparently engaging with the industry to help shape a new environment where everyone – Government, infrastructure companies, and retail service providers – is incentivised to work to a shared vision where ultimately New Zealanders and New Zealand are the winners.

1.2 UFB deployment

While Chorus has achieved build cost savings in the second year of deployment, the cost of the deployment is tracking at approximately $2,900 per premises passed to the end of December 2012. This is above the average of $2,500 to $2,700 per premises passed which was targeted for FY13. A range of factors have contributed to this result, including:

- Continued rollout progress, but not yet standardised
- Positive gains in most areas being offset by extreme costs in a small group of areas

- Significant variability in regional compliance requirements including consent delays and reinstatement costs
- Cost benefits from initiatives will take more time to materialise.

A steady stream of initiatives continue to be introduced to address these challenges, specifically the high cost of civil work.

Chorus is rigorously pursuing alternative approaches to the rollout that include:

- New service company contracts with targeted cost incentives and shared risk
- Seeking regional consistency in Council requirements and utilities code interpretations
- New deployment techniques, including micro-trenching and aerial deployment where economic
- Reassessing upcoming deployment plans based on known challenges
- Introducing new network technology innovations
- Organisational changes to integrate fibre deployment and connection functions.

The rate of UFB rollout is consistent with expectation at the start of FY13. Build work has been completed for 88,590 premises at 31 December with a further 60,410 premises to be completed to meet our cumulative target of 149,000 premises by 30 June 2013.

2. Operating results

2.1 Operating revenue

Revenues were up around 2.1% compared to the six months to 30 June 2012 (the 'prior period') reflecting pleasing growth in total fixed line connections from 1,776,000 to 1,793,000. Real growth was about 10,000 lines for the period when allowing for approximately 7,000 High Speed Network Service (HSNS) connections over copper previously omitted from the 'data services over copper' category in the 30 June 2012 total for fixed line connections.

Basic copper and enhanced copper

There has been a continued migration from baseband copper connections (a decrease of 26,000 connections for the period) to other fixed line connection products, particularly naked Basic UBA and naked Enhanced UBA connections which increased by 22,000 lines. As noted above, the Commission's final decision on UCLL pricing resulted in baseband copper pricing reducing from $24.46 to $23.52 from 1 December 2012.

UCLL connections increased by 12,000 lines, with a total of 167 exchanges unbundled by retail service providers.

Total broadband connections continue to grow, with an increase of 36,000 connections to 1,076,000. Growth was driven by retail service provider marketing initiatives and the continued expansion of Chorus' fixed broadband coverage through the Rural Broadband Initiative. Recent data from the OECD rated New Zealand number one for broadband penetration growth in fixed (wired) broadband uptake for the period from December 2011 to June 2012[2].

The migration of end users from Basic and naked Basic UBA to Enhanced and naked Enhanced UBA services continued at pace, with Enhanced UBA services now dominant for the first time. While entry level Enhanced UBA services are charged at the same regulated price (currently $21.46) as Basic UBA services, Enhanced UBA uses an Internet Protocol technology platform that offers the potential for superior broadband experience and greater service differentiation.

[2] OECD Broadband and Telecom – broadband portal http://www.oecd.org/sti/broadbandandtelecom/oecdbroadbandportal.htm

VDSL2 based services have been included separately in Chorus' connections data for the first time as some retail service providers have begun marketing the commercial product more widely.

Fibre

Chorus continued to see good growth in demand for fibre connections at a business and network carrier level, albeit from a modest base, with total fibre connections increasing by 50% to 15,000 lines for the six month period. Within this category, HSNS Premium fibre connections (also referred to as Bitstream 4 under the UFB agreement) continued to grow strongly. Direct fibre connections also grew significantly as Chorus provided a growing number of network links for mobile operators.

The number of UFB residential connections also continued to grow as Chorus expanded its UFB coverage footprint. Chorus had 1,400 UFB connections at 31 December, with about 95,000 customers within reach of the network. Residential fibre uptake remains constrained by the limited number of retail service providers in the market. New Zealand's two largest retail service providers, Telecom and Vodafone (also the owner of TelstraClear since 30 October 2012), have not yet begun offering residential UFB services but represent ~80% of the fixed line broadband market.

Chorus summary connection facts

	CONNECTIONS (31 DEC 2012)	CONNECTIONS (30 JUNE 2012)
Total fixed line connections	**1,793,000**	**1,776,000**
Baseband copper	1,559,000	1,585,000
UCLL	109,000	97,000
SLU/SLES	16,000	19,000
Fibre	15,000	10,000
Naked Basic UBA, Enhanced UBA, VDSL2	72,000	50,000
Data services over copper	22,000	15,000
Total broadband	**1,076,000**	**1,040,000**
Basic UBA (with analogue voice service)	474,000	619,000
Naked Basic UBA	9,500	11,000
Enhanced UBA (with analogue voice service)	530,000	371,000
Naked Enhanced UBA	60,500	39,000
VDSL2/Naked VDSL2	2,000	NM

NM = not a meaningful comparison

2.2 Operating expenses

Operating expenditure has increased by around 4.9% compared to the prior period, reflecting ongoing growth in the labour force and provisioning. Areas of significant change include:

Labour costs of $33 million for the period represent staff costs that are not capitalised. At 31 December Chorus had 710 permanent and fixed term employees. This was up from 548 employees at 30 June 2012 and included about 90 customer service employees transitioned from Telecom in late October. Additional people have been employed to support critical programmes such as the UFB rollout and IT systems transition (see also IT commentary in the capital expenditure section below) and growing levels of operational activity such as complex and fibre provisioning work. The majority of costs relating to these additional people in the IT and UFB teams will be capitalised.

Provisioning costs increased relative to the prior operating period, reflecting the mix of products being purchased and retail service provider activity. A large proportion of provisioning costs are recovered from retail service providers as field services revenue.

Network maintenance costs were up compared to the previous period, largely as a result of weather-related faults incurred in winter months.

Both provisioning and network maintenance costs contain an element of service company overhead. In the period to 31 December 2012 this has been accounted for on a straight line basis (in the previous period they were accounted for on an activity basis).

Electricity costs were down compared to the previous period because of lower national electricity prices. Chorus has also begun hedging its electricity requirements to minimise volatility in electricity spot prices. About 50% of Chorus' requirements have been hedged with a rolling three year horizon.

Depreciation and amortisation have decreased slightly compared to the prior period. Depreciation expense has increased reflecting the significant capital expenditure programme, partially offset by a slightly larger release of the government grant. Amortisation of software and other intangible assets is lower reflecting the short lives of this type of asset.

2.3 Capital expenditure

Capital expenditure for the six months to 31 December 2012 was $341 million. About 85% of the spending was fibre-related, with $290 million spent principally on the UFB and RBI programmes.

As noted earlier, UFB deployment costs remain higher than expected and this is reflected in UFB communal expenditure. The nature of the programme means that capital expenditure is incurred from the point when network design begins for a street. The capital expenditure for the six month period therefore includes a significant portion of spending relating to areas that will be completed in the second half of the financial year. In addition, there were $12 million in costs for communal build commenced in the first year of UFB deployment that were invoiced to Chorus after the close of FY12.

The Rural Broadband Initiative continued at pace with 1,300km of fibre laid by 31 December, bringing better broadband within reach of 634 schools and 36,100 lines since the start of the programme in 2012. Some of this work was brought forward from future years of the rollout programme.

Demand for business fibre connections has continued to drive a significant proportion of the $23 million 'other fibre' capital expenditure. There is some variability within this capital expenditure category from period to period depending on the level of demand for fibre build work in subdivision developments (non UFB) and for customer specific projects.

'Copper' capital expenditure was $37 million for the period, with reduced investment on copper layer 2 network following the conclusion of the urban fibre to the node programme.

'Common' capital expenditure was $14 million. IT expenditure reduced when compared with the prior period, although Chorus is about to embark on a significant programme of IT systems development.

Given Chorus' very significant capital commitments in future periods and ongoing regulatory uncertainty, discretionary capital spending is being placed under increased scrutiny to ensure that it provides an appropriate return on investment.

3. Dividends

Chorus will pay a dividend of 10.0 cents per share on 12 April 2013 to all shareholders registered at 5.00pm on Thursday 28 March 2013. The shares will be quoted on an ex-dividend basis from 26 March 2013 on the NZSX and 22 March 2013 on the ASX.

The dividends will be fully imputed (at a ratio of 28/72) in line with the corporate income tax rate. In addition a supplementary dividend of 1.7647 cents per share will be payable to shareholders who are not resident in New Zealand.

Following the 8 February announcement from the Minister of Communications and Information Technology, Chorus considers that it has sufficient near term certainty to announce its FY14 dividend guidance of a fully imputed dividend of 25.5 cents per share on an estimated 40/60 split basis (subject to there being no material adverse change in circumstances, operating outlook or Chorus' guidance for expected total UFB communal build costs of $1.7 to $1.9 billion).

As there is some time before outcomes of the Government's reviews will be clear, Chorus remains unable to provide longer term dividend guidance. The Board currently expects to announce longer term dividend guidance when the outcomes from the Government's reviews have been announced. At that stage, Chorus will also have an updated view of how its capital expenditure programmes are tracking.

3.1 Dividend reinvestment plan

The Board has approved the implementation of a Dividend Reinvestment Plan (the Plan). An offer document for the Plan and details on how to participate will be sent to eligible shareholders prior to the 28 March record date for the April interim dividend payment.

The Plan is intended to increase flexibility for shareholders and provide Chorus with enhanced capital management. Eligible shareholders can choose to have Chorus reinvest all or part of their future dividends in additional Chorus shares. This provides a cost effective and convenient way for shareholders to increase their investment in Chorus:

- There are no charges for participation in the Plan
- Shares purchased via the Plan do not incur brokerage fees
- Dividends are reinvested at a discount to the prevailing market price. The Board has currently set this discount at 3%.

Shareholders are eligible to participate in the Plan if they are resident in New Zealand or Australia. Chorus has elected not to offer participation under the Plan to shareholders whose address is outside New Zealand or Australia. This is because of the costs and requirements involved in ensuring the Plan's compliance with laws of additional jurisdictions. Shareholders who reside outside New Zealand and Australia, and who apply to participate in the Plan, will warrant to Chorus that the offer of the Plan and their participation in it would not breach any laws in their country of residence.

SUE SHELDON
Chairman

MARK RATCLIFFE
CEO and
Managing Director

Half Year Report

Highlights and Challenges

Highlights

Government announced that it is bringing forward reviews of the telecommunications framework	Increase in total fixed line connections to 1,793,000 at 31 December
UFB build progressing steadily with about 95,000 customers within reach; 88,590 premises passed at 31 December	Broadband connections grew by 36,000 over the last six months to 1,076,000

Challenges

Ongoing uncertainty with the regulatory framework Chorus operates in and the framework's alignment with the Government's UFB initiative	Residential fibre uptake growing incrementally and major retail service providers yet to enter the market
The capital costs of the UFB network rollout	Volume of provisioning work generated compared to the overall growth in connections

Condensed consolidated Income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

		GROUP		
(DOLLARS IN MILLIONS)	NOTE	SIX MONTHS ENDED 31 DEC 2012 UNAUDITED NZ$M	ONE MONTH ENDED 31 DEC 2011 UNAUDITED NZ$M	SEVEN MONTHS ENDED 30 JUNE 2012 AUDITED NZ$M
Basic copper		329	59	399
Enhanced copper		94	13	89
Fibre		28	4	28
Value added network services		17	3	18
Infrastructure		9	1	14
Field services		41	7	47
Other		7	1	18
Total operating revenue		**525**	**88**	**613**
Labour costs		(33)	(4)	(31)
Provisioning		(26)	(3)	(23)
Network maintenance		(50)	(8)	(52)
Other network costs		(17)	(3)	(22)
Information technology costs		(24)	(4)	(30)
Rent and rates		(5)	(1)	(6)
Property maintenance		(6)	(1)	(8)
Electricity		(6)	(1)	(11)
Insurance		(2)	-	(3)
Consultants		(3)	(1)	(5)
Other		(22)	(3)	(23)
Total operating expenses		**(194)**	**(29)**	**(214)**
Earnings before interest, income tax, depreciation and amortisation		**331**	**59**	**399**
Depreciation		(128)	(23)	(150)
Amortisation		(32)	(5)	(39)
Earnings before interest and income tax		**171**	**31**	**210**
Finance income	7	3	11	4
Finance expense		(57)	(9)	(72)
Net earnings before income tax		**117**	**33**	**142**
Income tax expense		(33)	(9)	(40)
Net earnings for the period		**84**	**24**	**102**
Earnings per share				
Basic and diluted earnings per share (dollars)		**0.22**	**0.06**	**0.26**

Condensed consolidated
Statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	GROUP		
(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2012 UNAUDITED NZ$M	ONE MONTH ENDED 31 DEC 2011 UNAUDITED NZ$M	SEVEN MONTHS ENDED 30 JUNE 2012 AUDITED NZ$M
Net earnings for the period	**84**	**24**	**102**
Other comprehensive income			
Dividends	(56)	-	-
Effective portion of changes in fair value of cash flow hedges (pre-tax)	-	-	(14)
Tax benefit on cash flow hedge	-	-	4
Other comprehensive income net of tax	**(56)**	**-**	**(10)**
Total comprehensive income for the period net of tax	**28**	**24**	**92**

The financial statements on pages 8 to 19 are approved and signed on behalf of the Board.

SUE SHELDON
Chairman

MARK RATCLIFFE
Chief Executive Officer and Managing Director

Authorised for issue on 25 February 2013.

Condensed consolidated **Statement of financial position**

AS AT 31 DECEMBER 2012

		GROUP		
(DOLLARS IN MILLIONS)	NOTES	31 DEC 2012 UNAUDITED NZ$M	31 DEC 2011 UNAUDITED NZ$M	30 JUNE 2012 AUDITED NZ$M
Current assets				
Cash and call deposits		46	88	140
Trade and other receivables		285	181	198
Finance lease receivable		3	3	3
Total current assets		**334**	**272**	**341**
Non-current assets				
Derivative financial instruments		2	3	2
Software and other intangibles	2	158	151	180
Network assets	1	2,618	2,276	2,411
Total non-current assets		**2,778**	**2,430**	**2,593**
Total assets		**3,112**	**2,702**	**2,934**
Current liabilities				
Trade and other payables		392	178	328
Income tax payable		16	8	14
Total current liabilities excluding Crown funding		**408**	**186**	**342**
Current portion of Crown funding	5	6	2	2
Total current liabilities		**414**	**188**	**344**
Non-current liabilities				
Trade and other payables		7	15	9
Derivative financial instruments		111	73	110
Finance lease payable		122	122	121
Debt	3	1,618	1,664	1,609
Deferred tax payable		164	175	177
Total non-current liabilities excluding CFH and Crown funding		**2,022**	**2,049**	**2,026**
CFH securities	4	11	-	3
Crown funding	5	110	6	34
Total non-current liabilities		**2,143**	**2,055**	**2,063**
Total liabilities		**2,557**	**2,243**	**2,407**
Equity				
Share capital		435	435	435
Reserves		(10)	-	(10)
Retained earnings		130	24	102
Total equity		**555**	**459**	**527**
Total liabilities and equity		**3,112**	**2,702**	**2,934**

Condensed consolidated **Statement of changes in equity**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	GROUP			
(DOLLARS IN MILLIONS)	SHARE CAPITAL NZ$M	RETAINED EARNINGS NZ$M	CASH FLOW HEDGE RESERVE NZ$M	TOTAL NZ$M
Balance at 1 July 2012	**435**	**102**	**(10)**	**527**
Comprehensive income				
Net earnings for the period	-	84	-	**84**
Dividends	-	(56)	-	**(56)**
Other comprehensive income				
Net effective portion of changes in fair value of cash flow hedges	-	-	-	**-**
Total comprehensive income	**-**	**28**	**-**	**28**
Balance at 31 December 2012 (UNAUDITED)	**435**	**130**	**(10)**	**555**

	GROUP			
(DOLLARS IN MILLIONS)	SHARE CAPITAL NZ$M	RETAINED EARNINGS NZ$M	CASH FLOW HEDGE RESERVE NZ$M	TOTAL NZ$M
Balance at 1 December 2011	**435**	**-**	**-**	**435**
Comprehensive income				
Net earnings for the period	-	24	-	**24**
Dividends	-	-	-	**-**
Other comprehensive income				
Net effective portion of changes in fair value of cash flow hedges	-	-	-	**-**
Total comprehensive income	**-**	**24**	**-**	**24**
Balance at 31 December 2011 (UNAUDITED)	**435**	**24**	**-**	**459**

	GROUP			
(DOLLARS IN MILLIONS)	SHARE CAPITAL NZ$M	RETAINED EARNINGS NZ$M	CASH FLOW HEDGE RESERVE NZ$M	TOTAL NZ$M
Balance at 1 December 2011	**435**	**-**	**-**	**435**
Comprehensive income				
Net earnings for the period	-	102	-	**102**
Dividends	-	-	-	**-**
Other comprehensive income				
Net effective portion of changes in fair value of cash flow hedges	-	-	(10)	**(10)**
Total comprehensive income	**-**	**102**	**(10)**	**92**
Balance at 30 June 2012 (AUDITED)	**435**	**102**	**(10)**	**527**

Condensed consolidated **Statement of cash flows**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

	GROUP		
(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2012 UNAUDITED NZ$M	ONE MONTH ENDED 31 DEC 2011 UNAUDITED NZ$M	SEVEN MONTHS ENDED 30 JUNE 2012 AUDITED NZ$M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers	464	5	530
Interest income	3	-	4
Payment to suppliers and employees	(186)	(2)	(147)
Income tax paid	(42)	-	(20)
Interest paid on debt and derivatives	(55)	(2)	(35)
Net cash flows from operating activities	**184**	**1**	**332**
Cash flows applied to investing activities			
Cash was provided from/(applied to):			
Purchase of network assets and software and intangibles	(309)	(5)	(256)
Capitalised interest paid	(3)	-	(3)
Net cash flows applied to investing activities	**(312)**	**(5)**	**(259)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Proceeds from finance lease receivable	3	1	2
Repayment of finance lease payables	(4)	(1)	-
Crown funding (including CFH securities)	81	1	25
Proceeds from debt	60	51	51
Repayment of debt	(50)	-	(51)
Dividends paid	(56)	-	-
Net cash flows from financing activities	**34**	**52**	**27**
Net cash flow	**(94)**	**48**	**100**
Cash at the beginning of the period	140	40	40
Cash at the end of the period	**46**	**88**	**140**

Condensed consolidated **Statement of cash flows**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

Reconciliation of net earnings to net cash flows from operating activities

	GROUP		
(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2012 UNAUDITED NZ$M	ONE MONTH ENDED 31 DEC 2011 UNAUDITED NZ$M	SEVEN MONTHS ENDED 30 JUNE 2012 AUDITED NZ$M
Net earnings for the period	84	24	102
Adjustment for:			
Depreciation charged on network assets	130	23	151
Amortisation of Crown funding	(2)	-	(1)
Amortisation of software and other intangible assets	32	5	39
Other	1	(11)	(4)
	245	**41**	**287**
Change in current assets and liabilities:			
Change in trade and other receivables	(72)	(105)	(101)
Change in trade and other payables	23	57	126
Change in income tax payable	2	8	14
Change in deferred tax payable	(14)	-	6
	(61)	**(40)**	**45**
Net cash flows from operating activities	**184**	**1**	**332**

Notes to the Financial Statements

Reporting entity and statutory base

Chorus Limited is registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993.

The condensed consolidated interim financial statements presented are those of Chorus Limited (the Company, Parent or the Parent Company) together with its subsidiary (the Chorus Group, Group or Chorus) as at and for the six months ended 31 December 2012.

Nature of operations

Chorus is New Zealand's largest fixed communications infrastructure company. 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 NZ IAS 34 interim financial reporting as appropriate for profit-oriented entities. They 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 seven months ended 30 June 2012.

The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation, as the financial statements for the seven months ended 30 June 2012.

The condensed consolidated interim financial statements for the six months ended 31 December 2012, and comparative information for one month ended 31 December 2011, are unaudited. The comparative information for the seven months ended 30 June 2012 is audited. Comparative balances have been reclassified where appropriate to conform with the current year's presentation.

Measurement basis

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 seven months ended 30 June 2012.

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 sources of estimation and uncertainty were the same as those that applied to the consolidated financial statements as at and for the seven months ended 30 June 2012.

Note 1 – Network assets

	GROUP		
(DOLLARS IN MILLIONS)	31 DEC 2012 UNAUDITED NZ$M	31 DEC 2011 UNAUDITED NZ$M	30 JUNE 2012 AUDITED NZ$M
Cost			
Opening balance	6,219	5,943	5,943
Additions	337	19	282
Disposals	-	-	(6)
Closing balance	6,556	5,962	6,219
Accumulated Depreciation			
Opening balance	(3,808)	(3,663)	(3,663)
Depreciation	(130)	(23)	(151)
Disposals	-	-	6
Closing balance	(3,938)	(3,686)	(3,808)
Net carrying amount	**2,618**	**2,276**	**2,411**

Additions

During the six months ended 31 December 2012 Chorus acquired and constructed network assets with a cost of $337 million (30 June 2012:$282 million; 31 December 2011:$19 million).

Capital commitments

As at 31 December 2012 Chorus had entered into contracts to purchase network assets for $32 million (30 June 2012:$23 million; 31 December 2011:$16 million)

Depreciation

The Crown funding released against depreciation for the six months ended 31 December 2012 was $2 million (30 June 2012:$1 million; 31 December 2011:nil)

Note 2 – Software and other intangibles

(DOLLARS IN MILLIONS)	GROUP 31 DEC 2012 UNAUDITED NZ$M	31 DEC 2011 UNAUDITED NZ$M	30 JUNE 2012 AUDITED NZ$M
Cost			
Opening balance	407	343	343
Additions	11	1	64
Disposals	(1)	-	-
Closing balance	417	344	407
Accumulated Amortisation			
Opening balance	(227)	(188)	(188)
Amortisation	(32)	(5)	(39)
Disposals	-	-	-
Closing balance	(259)	(193)	(227)
Net carrying amount	**158**	**151**	**180**

Additions

During the six months ended 31 December 2012 Chorus acquired and developed software and intangibles with a cost of $11 million (30 June 2012:$64 million; 31 December 2011:$1 million)

Note 3 – Debt

(DOLLARS IN MILLIONS)	GROUP 31 DEC 2012 UNAUDITED NZ$M	31 DEC 2011 UNAUDITED NZ$M	30 JUNE 2012 AUDITED NZ$M
Syndicated bank facility – 3 year	675	605	675
Syndicated bank facility – 5 year	440	550	430
Euro medium term notes	511	519	513
Less: syndicated loans facility fee	(8)	(10)	(9)
	1,618	**1,664**	**1,609**
Current	-	-	-
Non-current	**1,618**	**1,664**	**1,609**

Note 3 – Debt, continued

Chorus continue to have in place a NZ$1,350 million syndicated bank facility with tranches of three and five year maturity and foreign currency EMTN debt. During the six month period to 31 December 2012 Chorus repaid $50 million of the syndicated bank facility and subsequently redrew $60 million.

As at 31 December 2012 the undrawn syndicated bank facility that is available for future operating activities is $235 million (30 June 2012:$245 million; 31 December 2011:$195 million).

The EMTN debt of 260 million GBP as at 31 December 2012 has been hedged at NZ$677 million (30 June 2012:NZ$677 million; 31 December 2011:NZ$677 million).

Note 4 – CFH Securities

	GROUP		
(DOLLARS IN MILLIONS)	31 DEC 2012 UNAUDITED NZ$M	31 DEC 2011 UNAUDITED NZ$M	30 JUNE 2012 AUDITED NZ$M
CFH debt securities	7	-	2
CFH equity securities	4	-	1
Total CFH securities	**11**	**-**	**3**

Note 5 – Crown funding

	GROUP		
(DOLLARS IN MILLIONS)	31 DEC 2012 UNAUDITED NZ$M	31 DEC 2011 UNAUDITED NZ$M	30 JUNE 2012 AUDITED NZ$M
Ultra fast broadband	40	-	10
Rural broadband initiative	64	3	18
Other	12	5	8
	116	**8**	**36**
Current	**6**	**2**	**2**
Non-current	**110**	**6**	**34**

During the six months to 31 December 2012, Chorus received $30 million Crown funding from CFH for the ultra fast broadband initiative which equated to 33,729 premises passed in an area unit with user acceptance testing completed. During the six months to 31 December 2012 Chorus recognised $46 million in funding from the Ministry of Business, Innovation and Employment for expenditure relating to the rural broadband initiative.

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 and the Board in assessing performance, allocating resources and making strategic decisions.

Note 7 – Finance income

Finance income for the period ended 31 December 2011 included a gain on cross currency interest rate swaps and interest rate swaps of $11 million. The gain subsequently reversed prior to entering into a hedging relationship on 14 February 2012.

Note 8 – Equity

Dividends

On 27 August 2012 Chorus declared a prorated dividend in respect of the seven months ending 30 June 2012. The total amount of the dividend was $56 million, which represented a fully imputed dividend of 14.6 cents per ordinary share. In addition, a supplementary dividend of 2.5765 cents per ordinary share was paid to shareholders who are not resident in New Zealand.

Note 9 – Derivative financial instruments

In the normal course of business, Chorus is exposed to a variety of financial risks which include the volatility in electricity prices. Chorus has entered into electricity hedges to reduce the exposure to electricity spot price movements. As at 31 December 2012 Chorus had contracts to hedge electricity consumption of 4.6 megawatt per hour with maturity dates ranging from March 2013 to December 2014.

Chorus has elected to apply cash flow hedge accounting to the electricity derivatives. Gains and losses are recognised in the cash flow hedge reserve on electricity derivatives and will be continuously released to the income statement in each period in which the underlying purchase transactions are recognised.

The fair value of the electricity derivative contracts as at 31 December 2012 was immaterial.

Note 10 – Related party transactions

Key management personnel compensation

The gross remuneration of directors and key management personnel during the period was $3.9 million (31 December 2011:$0.52 million; 30 June 2012:$3.65 million).

Note 11 – Post balance date events

Dividends

On 25 February 2013 Chorus declared an interim dividend in respect of the six month period ending 31 December 2012. The total amount of the dividend is $38.5 million, which represented a fully imputed dividend of 10 cents per ordinary share.

Dividend reinvestment plan

Chorus also introduced a dividend reinvestment plan in February 2013. 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 5 February 2013 to CFH with an aggregate issue price of $13 million. The cash received will be allocated as follows: CFH debt securities $2 million, CFH equity securities $1 million and Crown funding $10 million.

KPMG

Auditors' Review Report

To the shareholders of Chorus Limited

We have completed a review of the interim condensed financial statements on pages 8 to 19 in accordance with the Review Engagement Standard RS-1 issued by the External Reporting Board and Review Engagement Standard RG-1 issued by the New Zealand Institute of Chartered Accountants. The financial statements provide information about the past financial performance of Chorus Limited and its subsidiary ("the Group") and its financial position as at 31 December 2012.

Directors' responsibilities

The Directors of Chorus Limited are responsible for the preparation of interim condensed financial statements which give a true and fair view of the financial position of the Group as at 31 December 2012 and the results of its operations for the six month period ended on that date.

Reviewers' responsibilities

It is our responsibility to express an independent opinion on the interim condensed financial statements presented by the Directors and report our opinion to you.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements on pages 8 to 19 do not give a true and fair view of the financial position of the Group as at 31 December 2012 and the results of its operations and cash flows for the six month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting.

Our review was completed on 25 February 2013 and our opinion is expressed as at that date.

KPMG

Wellington

Board of Directors

Sue Sheldon
Chairman, non-executive director

Anne Urlwin
Non-executive director

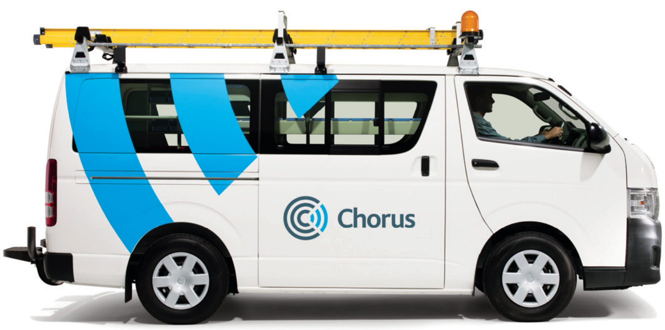
Clayton Wakefield
Non-executive director

Jon Hartley
Non-executive director

Keith Turner
Non-executive director

Prue Flacks
Non-executive director

Mark Ratcliffe
Executive director


Chorus