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## **MEDIA RELEASE**

26 February 2018

### **Chorus half year result**

#### **Tracking to top end of full year EBITDA guidance with implementation of strategic review underway**

- Net profit after tax \$47m (HY17: \$66m)
- EBITDA \$329m (HY17: \$335m)
- FY18 EBITDA guidance reiterated, tracking to top end
- Operating revenue of \$499m (HY17: \$529m)
- Total fixed line connections down 3% to 1,559,000
- Broadband connections stable at 1,181,000
- Interim fully imputed dividend 9 cents per share
- 70,000 new fibre connections and 76,000 new VDSL connections

Chorus has today reported a net profit after tax (NPAT) of \$47m and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$329m for the half year ended 31 December 2017.

Operating revenue for the period was \$499m (HY17: \$529m) and operating expenses were \$170m (HY17: \$194m).

Depreciation and amortisation for the period was \$192m (HY17: \$164m), delivering earnings before interest and tax (EBIT) of \$137m (HY17: \$171m).

#### **Operating performance**

Chorus CEO Kate McKenzie said the company now expected to track towards to the top end of the full year EBITDA guidance range provided.

"While the impact on revenue of lost lines from previous periods was apparent in the financial results this period, it was pleasing that the line loss trend showed signs of abating during the half.

"During the half year we continued our campaign to promote better broadband and this, coupled with an expanded field force, helped drive a strong increase in fibre and VDSL uptake while also slowing connection losses to other networks significantly," said Kate.

"Losing just 5,000 broadband connections over six months, largely as anticipated to other local fibre companies, is a positive outcome.

"Ensuring line loss trends continue to improve will be strongly influenced by the improvements we continue to make in customer experience. For example, we are aiming to consistently deliver one day installs for fibre by the end of next financial year.

"In that context, I was pleased to see average lead times for fibre reduce from 22 days to 14 days during the half year, despite record order volumes.

"Further, despite the pressures in the New Zealand construction industry, we've kept our fibre rollout costs within plan and we're maintaining a tight focus on other costs.

"We will also continue to be an active wholesaler, aiming to stimulate competition amongst retailers in the market," she said.

### **Strategic review**

Chorus is now underway with the implementation of a range of initiatives identified through the strategic review it undertook in the second half of the previous financial year.

The review considered the longer term outlook and opportunities for the business, canvassed Chorus' response to increased network competition, the need for careful management of costs, the potential regulatory requirements under a utility style framework and the need to continue improving the end-to-end experience for customers.

"One of the major initiatives flowing from the strategic review was a new operating model for the company," said Kate. "Wider retailer adoption of automated fibre provisioning, together with other process improvements, has allowed us to review our internal structure, with an expected 10% reduction in headcount now well progressed.

"As such, we anticipate further benefits to labour costs and other cost lines in the second half as we continue to focus on ensuring our cost base is sustainable. We also anticipate that improvements will have a commensurate positive impact on the customer experience," she said.

### **Network investment**

The long term UFB capital expenditure programme remains on track.

During the half year Chorus announced a further agreement with the Crown to extend its UFB rollout by another 54,500 premises. In total this means more than 87% of the population will have fibre available to them by 2022, with Chorus responsible for around 75% of that footprint.

In addition Chorus is continuing to invest in the performance of its copper network. This includes a \$20m programme to deploy VDSL vectoring technology in rural and

other local fibre company areas, which has the potential to improve broadband performance for a further 260,000 premises.

“Chorus is investing around 60% of its revenues in rolling out fibre broadband infrastructure for New Zealand. In that context, certainty for investors is clearly of paramount importance, and we urge the Government to progress the legislation underpinning the sector’s regulatory framework.

“The timeframe that is currently indicated suggests the vast majority of the network will be built before investors are able to gain any certainty about the treatment of their investment, so naturally we will be seeking timely passage through the House and implementation,” she said.

### **FY18 guidance**

EBITDA: \$625 - \$650 million (tracking towards the top end)

Capital expenditure: \$780 - \$820 million (tracking towards the top half)

Dividend: 22 cents per share, subject to no material adverse changes in circumstances or outlook.

### **Further Information**

Copies of Chorus’ half year financial statement for the six months ended 31 December 2017 are included in the attached half year report.

Further information can be found at:

- <https://www.nzx.com/announcements/314708> and
- <https://company.chorus.co.nz/investor-news>

### **ENDS**

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# Chorus

# Half Year Report

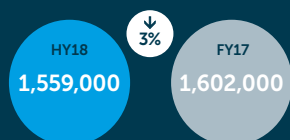
For the six months ended 31 December 2017

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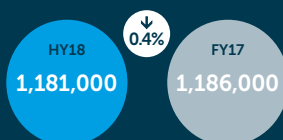


# Half year result overview

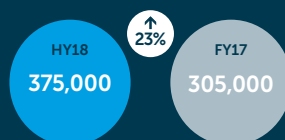
## FIXED LINE CONNECTIONS



## BROADBAND CONNECTIONS



## FIBRE CONNECTIONS



## NET PROFIT AFTER TAX



## EBITDA<sup>1</sup>



## ADJUSTED EBITDA<sup>2</sup>



## DIVIDEND



## Contents

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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 our business.

2 Adjusted to reflect the effect new NZ IFRS accounting standards adopted in HY18 would have had if they had applied in HY17.

# Chorus Board and Management overview



KATE MCKENZIE  
Chief Executive



PATRICK STRANGE  
Chairman

## Dear Investors

Our focus in the first six months of the financial year has been on implementing a range of initiatives originating from the strategic review we talked about in the 2017 Annual Report. That review considered the longer term outlook and opportunities for our business, increased competition from wireless technologies, ongoing careful management of costs, the potential regulatory requirements under a utility style framework and the need to continue improving the end-to-end experience for customers.

We continued our campaign to promote better broadband and this, coupled with an expanded field force, helped drive a strong increase in fibre and VDSL uptake while also slowing connection losses to other networks significantly. Wider retailer adoption of automated fibre provisioning, together with other process improvements, allowed us to review our internal structure and we expect to reduce our internal workforce by

10% from August 2017 levels over the course of FY18. Despite the pressures in the New Zealand construction industry, we've kept our fibre rollout costs within plan and we're maintaining a tight focus on other costs.

We achieved net profit after tax of \$47 million and EBITDA of \$329 million. This was down from EBITDA of \$361 million for same period last year when adjusted to allow for new accounting standards.<sup>1</sup> A fully imputed interim dividend of 9 cents per share will be paid on 17 April 2018 and the dividend reinvestment plan is available for New Zealand and Australian shareholders who register their intention to participate by 5:00pm (NZ time) on 21 March 2018.

## 1. Operating update

An increase in the number of fibre field crews from 615 in June to about 700 in December helped us complete fibre network installations

<sup>1</sup> The adoption of three new accounting standards has affected results for the current period with changes in the treatment of operating leases and capitalisation of some costs which were expensed in HY17.

for a record 77,000 customers, up from about 62,000 in the prior six months. Importantly, from a customer experience perspective, national weighted average lead times reduced from 22 days to 14 days despite the record order volumes. Customer satisfaction remained flat at an average of 7.4 out of 10 across the period. However, our ongoing trials of alternative migration methods, including localised campaigns, both on our own and in conjunction with retailers, showed that customer satisfaction scores of up to 8.6 are achievable.

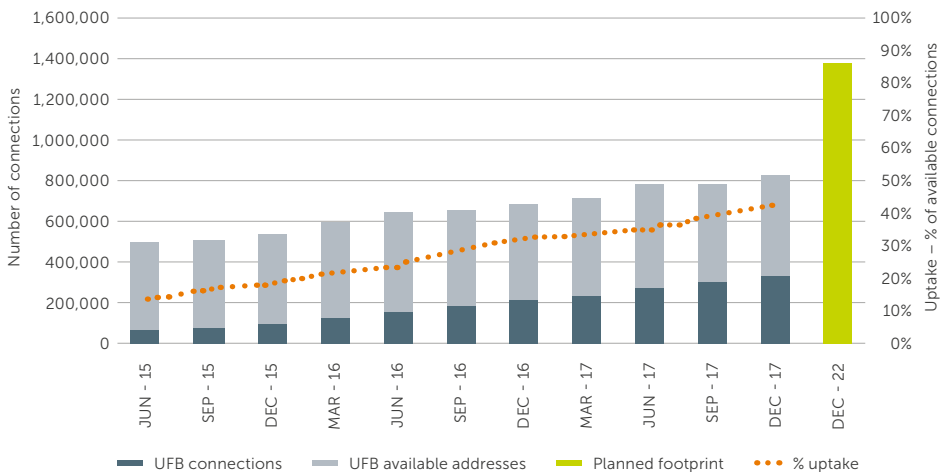
We're pleased that our long-term ultra-fast broadband (UFB) capital expenditure programme remains on track and budget. In August 2017 we announced a further agreement with the Government to extend our UFB rollout to about 54,500 more premises across about 200 towns and rural communities. This is expected to result

in further communal rollout investment of between \$135 million and \$155 million. The Government will provide financing of \$2,000 per premises passed, or up to \$109 million in Crown Infrastructure Partners equity securities, equating to approximately 75% of the expected communal rollout investment. We also agreed to complete our current UFB2 rollout in December 2022, two years earlier than initially planned. When we've finished this work, more than 1.3 million customers will be able to connect to our fibre. That's about three-quarters of the 87% of New Zealanders to be covered by the UFB programme, with the balance provided by other local fibre companies.

Our shift to being a more active wholesaler through our *ask for better* campaign and related efforts to support retailers helped slow line loss significantly, from a decline of 76,000

**Figure 1:**

## UFB rollout and uptake



connections in the six months to 30 June 2017, to 43,000 in the period to 31 December 2017. Total connections reduced from 1,602,000 to 1,559,000 for the period. Within this total, the number of customers taking a broadband service from us reduced by 5,000 connections. As expected, most line loss is occurring in those areas where the other local fibre companies have partnered with the Government under the UFB initiative, followed by those areas where vertically integrated fixed wireless retailers are promoting their networks.

The addition of 68,000 fibre connections in our UFB areas grew our overall fibre uptake from 35% to 42% in our completed rollout areas, even as we built the fibre network past another 40,000 potential customers. That's more than double the 2020 uptake target of 20% included in our original UFB contract with the Government.

We experienced strong growth in VDSL copper-based broadband with 76,000 connections added as some retailers began migrating their existing customers from ADSL to VDSL. This is a great outcome for customers because, as we've noted before, many were unaware a better VDSL service was already widely available and often at no extra cost because we charge the same rate for ADSL and VDSL broadband services. The combination of fibre and VDSL uptake means 58% of our broadband connections are on better broadband, up from 45% at the end of June 2017.

We continued to invest in improving the performance of our copper network for customers. A \$20 million programme to deploy VDSL vectoring technology began in rural and local fibre company areas. This has the potential to improve VDSL broadband performance for up to 260,000 addresses in these areas, including about 37,000 rural addresses where connections could be capable of speeds above 50Mbps.



## 2. Operating results

### 2.1 Operating revenue

Revenues of \$499 million were down compared to revenue of \$529 million for the six months to 31 December 2016. This largely reflects the reduction in total connections over the last year, particularly the reduction in copper based voice and broadband lines as customers migrated to competing fibre and wireless networks. The number of copper-based data services connections also continued to decline as retailers transitioned customers from these legacy services to cheaper fibre services either on our UFB network, or on other local fibre company networks.

These declines in connections revenue were partially offset by the strong growth in fibre broadband (GPON) connections, with revenues

increasing \$36 million relative to the first six months of FY17, and increases in regulated copper pricing applicable in December each year. Fibre revenues have been supported by the uptake of higher speed services. The total number of customers on entry level 50Mbps fibre services has begun to reduce and, by 31 December 2017, 100Mbps fibre services made up about 64% of our GPON fibre connections, up from 52% at 31 December 2016. There were approximately 20,000 customers on gigabit services, including about 10,000 in the Dunedin 'gigatown' area where we are currently providing sponsored pricing at the equivalent of entry level pricing.

Fibre premium (P2P) revenues were up slightly, although the make-up of these revenues continues to change as customers migrate from legacy services to lower cost inputs.

**Figure 2:**

## Chorus connections summary

|                                     | CONNECTIONS<br>31 DEC 2016 | CONNECTIONS<br>30 JUNE 2017 | CONNECTIONS<br>31 DEC 2017 |
|-------------------------------------|----------------------------|-----------------------------|----------------------------|
| Unbundled copper                    | 99,000                     | 82,000                      | 68,000                     |
| Baseband copper                     | 343,000                    | 313,000                     | 290,000                    |
| Fibre broadband (GPON)              | 231,000                    | 292,000                     | 362,000                    |
| Copper VDSL                         | 199,000                    | 244,000                     | 320,000                    |
| Copper ADSL                         | 784,000                    | 650,000                     | 499,000                    |
| Data services (copper)              | 9,000                      | 8,000                       | 7,000                      |
| Fibre premium (P2P)                 | 13,000                     | 13,000                      | 13,000                     |
| <b>Total fixed line connections</b> | <b>1,678,000</b>           | <b>1,602,000</b>            | <b>1,559,000</b>           |

Field services revenue was down \$7 million relative to the same period in FY17. This largely reflects a continued reduction in chargeable copper provisioning work as more customers migrate to fibre services, where first time connections are treated as capital expenditure.

Other revenue categories were flat.

## 2.2 Operating expenses

Expenses of \$170 million for the six months to 31 December 2017 were \$2 million higher than adjusted expenses<sup>2</sup> of \$168 million for the six months to 31 December 2016 reflecting slight increases in labour, IT and consultancy costs. Management has been implementing a series of initiatives in the period that should become evident in financial results in the second half of FY18.

### Labour costs

Labour costs of \$39 million represent staff costs that are not capitalised. At 31 December 2017 we had 971 permanent and fixed term employees, up from 963 employees at 31 December 2016. However, wider retailer adoption of automated fibre provisioning, together with other process improvements, allowed us to review our internal structure and we expect to reduce our internal workforce by 10% from August 2017 levels over the course of FY18. There were one-off restructuring costs of about \$1 million in the period. A review of business support functions is currently underway.

### Network maintenance costs

Network maintenance costs were largely flat compared to the same period in FY17. This was

despite the total number of connections on our network having decreased and reflects a continuing programme of proactive fault management to ensure good quality of service for customers, a period of particularly wet weather, a higher incidence of underground faults leading to a higher average cost per fault than the prior period, and inflation related increases for service company costs.

### Information Technology

IT costs remained flat when NZ IFRS 15 adjustments that applied for the first time in HY18 are excluded. Increasing costs from inflation are being offset by ongoing tight cost control.

### Provisioning costs

Provisioning costs are incurred where we provide new or changed service to our customers. Field provisioning costs have declined as fibre uptake increases and fewer truck rolls are required for copper services. In addition, NZ IFRS 15 provides for the capitalisation of costs associated with customer acquisition and retention which resulted in \$12 million of copper based provisioning costs being capitalised for the period.

## 2.3 Depreciation and amortisation

Depreciation continues to increase slightly, reflecting the net effect of significant new investment and the very long lives of these assets. Capitalisation of costs relating to NZ IFRS 15 and NZ IFRS 16 resulted in \$3 million additional depreciation and \$21 million additional amortisation for the period. The amortisation of Crown funding against these assets continues to increase and partially offset the increase in depreciation.

2 To reflect the effect of the adoption of NZ IFRS 15 and 16 on the prior year.

## 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.

The adoption of NZ IFRS 9 has resulted in accounting hedging relationships more closely matching the economic relationships. This means that much of the ineffectiveness which was previously accounted for through finance expense is now flowing through the hedging reserves, which will reduce the volatility of finance expense.

## 2.5 Capital expenditure

Gross capital expenditure for the six months to 31 December 2017 was \$391 million, an increase of \$89 million above the same period in FY17. This mostly reflected additional UFB deployment work to include UFB2 areas, the growth in fibre connection volumes and \$34 million of costs that are now capitalised following the adoption of NZ IFRS 15. The latter included \$5 million of fibre-related spend and \$29 million of copper-related expenditure.

We invested \$113 million in the rollout of the UFB communal network, with a further 32,000 premises passed at an average cost of \$1,623. The average cost is expected to reduce to within our guidance range of \$1,500 to \$1,600 by the end of FY18 as significantly more premises are completed in the second half.

Fibre connections and layer 2 spend was \$145 million. We built new fibre connections to 77,000 customers nationwide in the six month period. The average cost per premises connected for standard residential premises, including service desk costs and some non-standard single dwelling unit connections, was

\$1,102, excluding the long run average cost of layer 2 equipment. This was in the lower half of the FY18 guidance range of \$1,050 to \$1,200.

Spend on other fibre connections and growth was up by \$8 million on the six months to 31 December 2016 as we began work on UFB2 backhaul and a pole replacement programme in UFB areas, and we saw a continued increase in greenfields work.

Copper capital expenditure was \$64 million for the period, an increase of \$40 million on the prior comparative period, with \$29 million reflecting the accounting changes mentioned above. Network sustain spend increased by \$7 million as a result of more proactive maintenance and roadworks related projects, with the latter undertaken on a cost recovery basis. Copper layer 2 spend was up by \$4 million as we undertook a significant programme of work to enhance copper broadband performance in selected areas through the deployment of VDSL vectoring technology.

Common capex was in line with the same period in FY17.

## 3. Dividends, equity and capital management

We will pay an interim dividend of 9.0 cents per share on 17 April 2018 to all holders registered at 5:00pm 20 March 2018. 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 1.6 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 21 March 2018.

A final dividend of 13.0 cents per share is expected to be declared in August 2018, 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 such as Chorus. It intends to maintain capital management policies and financial policies consistent with these credit ratings. At 31 December 2017, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

## 4. Outlook

### 4.1 Regulatory framework transition and market reviews

A key focus in the next six months and beyond will be the Government's steps towards implementing a utility style regulatory framework for fibre. There has been widespread support to move to a building block regulatory model, as used for electricity and gas networks, through extensive policy development since the Telecommunications Act Review began in 2013. Draft legislation was introduced to Parliament in August 2017 and a parliamentary Select Committee is scheduled to report back on the Bill in late March. When the framework is passed into law, it will be subject to interpretation and implementation by the Commerce Commission.

We support the Bill and have made a submission recommending amendments to help achieve its policy aims, support prompt implementation by 2020 and ensure the new regulatory regime is durable. Some of our key proposals include:

- reducing the maximum transition period to six months from 24 months and ensuring key elements of the new regime such as copper deregulation, the determination of the initial regulated asset base and weighted average cost of capital, are prioritised
- avoiding potential complexity, delay and unnecessary shocks for consumers or investors by providing greater guidance on the treatment of Crown financing under the UFB contracts and the approach to determining financial losses
- incentivising ongoing network innovation and investment by enabling next generation technology neutral services, other than fibre-to-the-premises access, to be included within the regulatory framework and made available to innovative non-telco wholesale customers
- ensuring the regime has flexibility to accommodate future policy decisions and/or modernisation of our Telecommunications Services Obligations affecting the 13% of New Zealanders where fibre is not planned

The Commission is currently consulting industry on the scope of a planned study of the mobile market in New Zealand, to look at the competitive landscape and any emerging competition issues. We consider the relative pricing between mobile and fixed wireless services, the comparatively low penetration of mobile virtual network operators, and the potential for shared open access infrastructure and spectrum to benefit the rollout of 5G networks, are some of the topics worthy of further analysis.

In addition, the Commission announced in January 2018 that it was restarting its study of the backhaul market to explore whether the current regulation for backhaul is fit for purpose.

### 4.2 Customer and cost focus

Our strategic review identified the clear need to continue improving the end-to-end experience for customers, as well as to reduce overall costs. This means we need to develop our build tactics, systems and industry processes in a way that streamlines customer effort. These are not necessarily simple or quick changes, but we expect to start seeing the benefits of our initial programme of work in our end of year results.

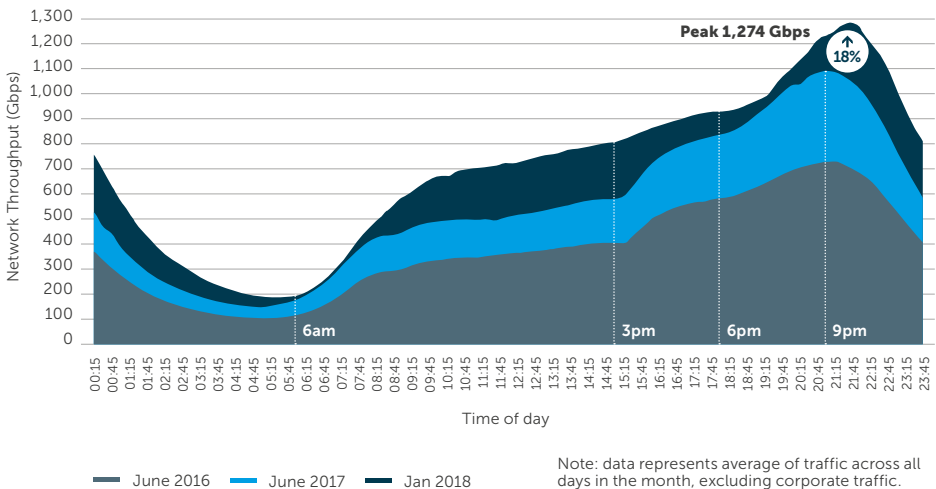
Recent changes to land access legislation provided an opportunity for us to revisit our processes for multi-dwelling and rights of way connections. These types of connections often result in the lowest customer satisfaction results because of the time and complexity involved for both us and customers.

Our goal is to reduce the customer effort involved in the transition to a simple fibre connection to less than a day. We want to achieve this within 18 months and although our initial trials of different migration approaches have shown early promise, there's a long way to go.

The extension and acceleration of our UFB rollout also demands that we consider our longer term cost structure in the context of the likely future regulatory environment and a much reduced copper network footprint. Focused fibre migration activities will make even more economic sense in smaller population centres and should help realise cost benefits earlier through reduced copper maintenance activity.

**Figure 3:**

## Chorus network throughput by time of day (monthly average)



Note: data represents average of traffic across all days in the month, excluding corporate traffic.

### 4.3 Market developments

Industry commentators have highlighted the importance of fixed line networks to connect and power the substantial increase in wireless base stations likely to be needed by 5G networks.

Looking to the future, we began trialling new ways we may be able to use our network to provide new technology solutions for customers. This included a trial with government organisation Network for Learning to extend a low decile school's managed internet service to local homes by using wireless technology mounted on our poles, powered via existing copper cabling and connected by VDSL and fibre backhaul. In December we started a proof of concept trial for a Long Range Wide Area Network to enable Internet of Things services, again using our existing copper network to power a pole-mounted access point that can monitor hard-to-access locations, such as underground wastewater or sewage pumping stations.

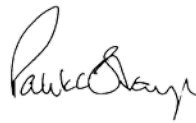
We remain in the midst of a very clear global trend, the thirst for data. Average monthly usage per household on our network was 174 Gigabytes in December compared to about 155 Gigabytes in June. On 10 December 2017 about 1,328 gigabits per second, or the equivalent of about 260,000 HD video streams being watched simultaneously, was used on our network at 9:25pm.

This was a new record for traffic on our network and reflects customers using more data, both as a natural consequence of moving to better broadband services and as smart TVs and other devices make it easier to stream video online.

TVNZ On Demand, for example, reportedly has 1.8 million subscribers and recent Nielsen research suggests Netflix access has grown to about 1.2 million New Zealanders. The ability to access streamed content continues to grow with Vodafone launching a fibre-based TV service in October 2017.

We expect data usage to continue to grow as more smart home devices connect to the internet, enabled by new generation Wi-Fi mesh systems, smart speakers and personal assistants. These trends explain why a growing number of retailers are choosing to only sell unlimited data plans. This includes Contact Energy, the largest electricity retailer to now enter the broadband market. Retail competition has tended to focus on 100Mbps services to date, but there are signs this may be changing with some retailers now promoting gigabit unlimited fibre services for less than \$100 per month.

We look forward to continuing to work with retailers to grow the broadband market and develop new ways in which our network assets can benefit New Zealanders.



PATRICK STRANGE  
Chairman



KATE MCKENZIE  
Chief Executive

26 February 2018

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Half Year Report

# Financial Statements

For the six months ended 31 December 2017

# Condensed consolidated income statement

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| (DOLLARS IN MILLIONS)  | NOTE | SIX MONTHS<br>ENDED<br>31 DEC 2017<br>UNAUDITED<br>\$M | SIX MONTHS<br>ENDED<br>31 DEC 2016<br>UNAUDITED<br>\$M | YEAR<br>ENDED<br>30 JUNE 2017<br>AUDITED<br>\$M |
|--|------|--|--|---|
| Copper based voice   |      | 69   | 83   | 163   |
| Copper based broadband   |      | 219  | 263  | 501   |
| Data services copper   |      | 14   | 17   | 32  |
| Fibre broadband (GPON)   |      | 90   | 54   | 123   |
| Fibre premium (P2P)  |      | 40   | 39   | 79  |
| Value added network services   |      | 17   | 17   | 34  |
| Infrastructure   |      | 12   | 11   | 23  |
| Field services products  |      | 35   | 42   | 76  |
| Other  |      | 3  | 3  | 9   |
| <b>Total operating revenue</b>   |      | <b>499</b>   | <b>529</b>   | <b>1,040</b>                                    |
| Labour costs   |      | (39)   | (38)   | (74)  |
| Provisioning   |      | (4)  | (24)   | (43)  |
| Network maintenance  |      | (43)   | (42)   | (87)  |
| Other network costs  |      | (15)   | (15)   | (27)  |
| Information technology costs   |      | (27)   | (30)   | (60)  |
| Rent and rates   |      | (5)  | (8)  | (17)  |
| Property maintenance   |      | (6)  | (5)  | (13)  |
| Electricity  |      | (8)  | (7)  | (14)  |
| Insurance  |      | (1)  | (2)  | (3)   |
| Consultants  |      | (3)  | (1)  | (10)  |
| Regulatory levies  |      | (7)  | (7)  | (13)  |
| Other  |      | (12)   | (15)   | (27)  |
| <b>Total operating expenses</b>  | 1    | <b>(170)</b>   | <b>(194)</b>   | <b>(388)</b>                                    |
| <b>Earnings before interest, income tax, depreciation and amortisation</b> |      | <b>329</b>   | <b>335</b>   | <b>652</b>                                      |
| Depreciation   | 2    | (139)  | (132)  | (274)   |
| Amortisation   | 3    | (53)   | (32)   | (65)  |
| <b>Earnings before interest and income tax</b>                             |      | <b>137</b>   | <b>171</b>   | <b>313</b>                                      |
| Finance income   |      | 4  | 6  | 10  |
| Finance expense  | 1, 9 | (74)   | (84)   | (164)   |
| <b>Net earnings before income tax</b>                                      |      | <b>67</b>  | <b>93</b>  | <b>159</b>                                      |
| Income tax expense   |      | (20)   | (27)   | (46)  |
| <b>Net earnings for the period</b>   |      | <b>47</b>  | <b>66</b>  | <b>113</b>                                      |
| <b>Earnings per share</b>  |      |  |  |   |
| Basic earnings per share (dollars)   |      | <b>0.12</b>  | <b>0.17</b>  | <b>0.28</b>                                     |
| Diluted earnings per share (dollars)                                       |      | <b>0.10</b>  | <b>0.14</b>  | <b>0.23</b>                                     |



# Condensed consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| (DOLLARS IN MILLIONS)   | NOTE | SIX MONTHS<br>ENDED<br>31 DEC 2017<br>UNAUDITED<br>\$M | SIX MONTHS<br>ENDED<br>31 DEC 2016<br>UNAUDITED<br>\$M | YEAR<br>ENDED<br>30 JUNE 2017<br>AUDITED<br>\$M |
|---|------|--|--|---|
| <b>Net earnings for the period</b>  |      | <b>47</b>  | <b>66</b>  | <b>113</b>                                      |
| <b>Other comprehensive income</b>   |      |  |  |   |
| <b>Items that will be reclassified<br/>subsequently to profit and loss when<br/>specific conditions are met</b> |      |  |  |   |
| Ineffective portion of changes<br>in fair value of cash flow hedges   | 9    | 2  | (1)  | 12  |
| Effective portion of changes<br>in fair value of cash flow hedges   | 9    | -  | 9  | (7)   |
| Amortisation of de-designated cash flow<br>hedges transferred to income statement                               | 9    | (1)  | (1)  | (1)   |
| Movement in cost of hedging reserve   | 9    | 1  | -  | -   |
| <b>Other comprehensive income net of tax</b>  |      | <b>2</b>   | <b>7</b>   | <b>4</b>  |
| <b>Total comprehensive income<br/>for the period net of tax</b>   |      | <b>49</b>  | <b>73</b>  | <b>117</b>                                      |

# Condensed consolidated statement of financial position

AS AT 31 DECEMBER 2017

| (DOLLARS IN MILLIONS)  | NOTES | 31 DEC 2017<br>UNAUDITED<br>\$M | 31 DEC 2016<br>UNAUDITED<br>\$M | 30 JUNE 2017<br>AUDITED<br>\$M |
|--|-------|---------------------------------|---------------------------------|--------------------------------|
| <b>Current assets</b>  |       |                                 |                                 |                                |
| Cash and call deposits   |       | 40                              | 155                             | 170                            |
| Income tax receivable  |       | 11                              | -                               | 1                              |
| Trade and other receivables  |       | 211                             | 173                             | 139                            |
| Derivative financial instruments                                     | 9     | 1                               | -                               | 1                              |
| Finance lease receivable   |       | 5                               | 4                               | 5                              |
| <b>Total current assets</b>  |       | <b>268</b>                      | <b>332</b>                      | <b>316</b>                     |
| <b>Non-current assets</b>  |       |                                 |                                 |                                |
| Derivative financial instruments                                     | 9     | 32                              | -                               | -                              |
| Trade and other receivables  |       | 7                               | 10                              | 7                              |
| Software and other intangibles                                       | 3     | 185                             | 143                             | 142                            |
| Network assets   | 2     | 4,195                           | 3,811                           | 3,973                          |
| <b>Total non-current assets</b>                                      |       | <b>4,419</b>                    | <b>3,964</b>                    | <b>4,122</b>                   |
| <b>Total assets</b>  |       | <b>4,687</b>                    | <b>4,296</b>                    | <b>4,438</b>                   |
| <b>Current liabilities</b>   |       |                                 |                                 |                                |
| Trade and other payables   |       | 341                             | 345                             | 346                            |
| Income tax payable   |       | -                               | 7                               | -                              |
| Finance lease payable  | 1     | 10                              | -                               | -                              |
| Derivative financial instruments                                     | 9     | 1                               | 58                              | 46                             |
| <b>Total current liabilities excluding Crown funding</b>             |       | <b>352</b>                      | <b>410</b>                      | <b>392</b>                     |
| Current portion of Crown funding                                     | 6     | 20                              | 18                              | 19                             |
| <b>Total current liabilities</b>                                     |       | <b>372</b>                      | <b>428</b>                      | <b>411</b>                     |
| <b>Non-current liabilities</b>                                       |       |                                 |                                 |                                |
| Derivative financial instruments                                     | 9     | 203                             | 214                             | 231                            |
| Finance lease payable  | 1     | 200                             | 150                             | 159                            |
| Debt   | 4     | 1,781                           | 1,597                           | 1,609                          |
| Deferred tax payable   |       | 215                             | 194                             | 202                            |
| <b>Total non-current liabilities excluding CIP and Crown funding</b> |       | <b>2,399</b>                    | <b>2,155</b>                    | <b>2,201</b>                   |
| Crown Infrastructure Partners (CIP) securities                       | 5     | 219                             | 165                             | 203                            |
| Crown funding  | 6     | 684                             | 629                             | 679                            |
| <b>Total non-current liabilities</b>                                 |       | <b>3,302</b>                    | <b>2,949</b>                    | <b>3,083</b>                   |
| <b>Total liabilities</b>   |       | <b>3,674</b>                    | <b>3,377</b>                    | <b>3,494</b>                   |
| <b>Equity</b>  |       |                                 |                                 |                                |
| Share capital  |       | 571                             | 504                             | 520                            |
| Reserves   |       | (27)                            | (19)                            | (22)                           |
| Retained earnings  |       | 469                             | 434                             | 446                            |
| <b>Total equity</b>  |       | <b>1,013</b>                    | <b>919</b>                      | <b>944</b>                     |
| <b>Total liabilities and equity</b>                                  |       | <b>4,687</b>                    | <b>4,296</b>                    | <b>4,438</b>                   |

## Condensed consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| (DOLLARS IN MILLIONS)  | NOTE | SHARE<br>CAPITAL<br>\$M | RETAINED<br>EARNINGS<br>\$M | HEDGING<br>RELATED<br>RESERVES<br>\$M | TOTAL<br>\$M |
|--|------|-------------------------|-----------------------------|---------------------------------------|--------------|
| <b>Balance at 30 June 2017 (AUDITED)</b>                                       |      | <b>520</b>              | <b>446</b>                  | <b>(22)</b>                           | <b>944</b>   |
| Impact of adopting NZ IFRS 9 at 1 July 2017                                    | 1    | -                       | 7                           | (7)                                   | -            |
| Impact of adopting NZ IFRS 15 at 1 July 2017                                   | 1    | -                       | 20                          | -                                     | 20           |
| <b>Balance at 1 July 2017</b>  |      | <b>520</b>              | <b>473</b>                  | <b>(29)</b>                           | <b>964</b>   |
| <b>Comprehensive income</b>  |      |                         |                             |                                       |              |
| Net earnings for the period  |      | -                       | 47                          | -                                     | 47           |
| <b>Other comprehensive income</b>  |      |                         |                             |                                       |              |
| Ineffective portion of changes in fair value of cash flow hedges               |      | -                       | -                           | 2                                     | 2            |
| Amortisation of de-designated cash flow hedges transferred to income statement |      | -                       | -                           | (1)                                   | (1)          |
| Movement in cost of hedging reserve  |      | -                       | -                           | 1                                     | 1            |
| <b>Total comprehensive income</b>  |      | <b>-</b>                | <b>47</b>                   | <b>2</b>                              | <b>49</b>    |
| <b>Contributions by and (distributions to) owners:</b>                         |      |                         |                             |                                       |              |
| Dividends  |      | -                       | (51)                        | -                                     | (51)         |
| Supplementary dividends  |      | -                       | 6                           | -                                     | 6            |
| Tax credit on supplementary dividends  |      | -                       | (6)                         | -                                     | (6)          |
| Dividend reinvestment plan   |      | 28                      | -                           | -                                     | 28           |
| Issue of new shares  |      | 23                      | -                           | -                                     | 23           |
| <b>Total transactions with owners</b>  |      | <b>51</b>               | <b>(51)</b>                 | <b>-</b>                              | <b>-</b>     |
| <b>Balance at 31 December 2017 (UNAUDITED)</b>                                 |      | <b>571</b>              | <b>469</b>                  | <b>(27)</b>                           | <b>1,013</b> |

| (DOLLARS IN MILLIONS)  | SHARE<br>CAPITAL<br>\$M | RETAINED<br>EARNINGS<br>\$M | HEDGING<br>RELATED<br>RESERVES<br>\$M | TOTAL<br>\$M |
|--|-------------------------|-----------------------------|---------------------------------------|--------------|
| <b>Balance at 30 June 2016 (AUDITED)</b>                                       | <b>481</b>              | <b>416</b>                  | <b>(26)</b>                           | <b>871</b>   |
| <b>Comprehensive income</b>  |                         |                             |                                       |              |
| Net earnings for the period  | -                       | 66                          | -                                     | 66           |
| <b>Other comprehensive income</b>  |                         |                             |                                       |              |
| 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)          |
| <b>Total comprehensive income</b>  | <b>-</b>                | <b>66</b>                   | <b>7</b>                              | <b>73</b>    |
| <b>Contributions by and (distributions to) owners:</b>                         |                         |                             |                                       |              |
| Dividends  | -                       | (48)                        | -                                     | (48)         |
| Supplementary dividends  | -                       | 5                           | -                                     | 5            |
| Tax credit on supplementary dividends  | -                       | (5)                         | -                                     | (5)          |
| Dividend reinvestment plan   | 23                      | -                           | -                                     | 23           |
| <b>Total transactions with owners</b>  | <b>23</b>               | <b>(48)</b>                 | <b>-</b>                              | <b>(25)</b>  |
| <b>Balance at 31 December 2016 (UNAUDITED)</b>                                 | <b>504</b>              | <b>434</b>                  | <b>(19)</b>                           | <b>919</b>   |
| <b>Balance at 1 July 2016</b>  | <b>481</b>              | <b>416</b>                  | <b>(26)</b>                           | <b>871</b>   |
| <b>Comprehensive income</b>  |                         |                             |                                       |              |
| Net earnings for the period  | -                       | 113                         | -                                     | 113          |
| <b>Other comprehensive income</b>  |                         |                             |                                       |              |
| Ineffective portion of changes in fair value of cash flow hedges               | -                       | -                           | 12                                    | 12           |
| Effective portion of changes in fair value of cash flow hedges                 | -                       | -                           | (7)                                   | (7)          |
| Amortisation of de-designated cash flow hedges transferred to income statement | -                       | -                           | (1)                                   | (1)          |
| <b>Total comprehensive income</b>  | <b>-</b>                | <b>113</b>                  | <b>4</b>                              | <b>117</b>   |
| <b>Contributions by and (distributions to) owners:</b>                         |                         |                             |                                       |              |
| Dividends  | -                       | (83)                        | -                                     | (83)         |
| Supplementary dividends  | -                       | 9                           | -                                     | 9            |
| Tax credit on supplementary dividends  | -                       | (9)                         | -                                     | (9)          |
| Dividend reinvestment plan   | 40                      | -                           | -                                     | 40           |
| Employee share plan  | (1)                     | -                           | -                                     | (1)          |
| <b>Total transactions with owners</b>  | <b>39</b>               | <b>(83)</b>                 | <b>-</b>                              | <b>(44)</b>  |
| <b>Balance at 30 June 2017 (AUDITED)</b>                                       | <b>520</b>              | <b>446</b>                  | <b>(22)</b>                           | <b>944</b>   |

# Condensed consolidated statement of cash flows

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

| (DOLLARS IN MILLIONS)   | SIX MONTHS<br>ENDED<br>31 DEC 2017<br>UNAUDITED<br>\$M | SIX MONTHS<br>ENDED<br>31 DEC 2016<br>UNAUDITED<br>\$M | YEAR<br>ENDED<br>30 JUNE 2017<br>AUDITED<br>\$M |
|---|--|--|---|
| <b>Cash flows from operating activities</b>                   |  |  |   |
| Cash was provided from/(applied to):                          |  |  |   |
| Cash received from customers                                  | 448  | 548  | 1,070   |
| Finance income  | 2  | 4  | 6   |
| Payment to suppliers and employees                            | (204)  | (226)  | (397)   |
| Taxation paid   | (25)   | (20)   | (38)  |
| Interest paid   | (63)   | (56)   | (117)   |
| <b>Net cash flows from operating activities</b>               | <b>158</b>   | <b>250</b>   | <b>524</b>                                      |
| <b>Cash flows applied to investing activities</b>             |  |  |   |
| Cash was provided from/(applied to):                          |  |  |   |
| Purchase of network assets and software and intangible assets | (384)  | (307)  | (638)   |
| Capitalised interest paid                                     | (1)  | (2)  | (4)   |
| <b>Net cash flows applied to investing activities</b>         | <b>(385)</b>   | <b>(309)</b>   | <b>(642)</b>                                    |
| <b>Cash flows from financing activities</b>                   |  |  |   |
| Cash was provided from/(applied to):                          |  |  |   |
| Net proceeds from finance leases                              | 2  | 2  | 3   |
| Crown funding (including CIP securities)                      | 25   | 20   | 117   |
| Issuance of share capital                                     | 23   | -  | -   |
| Proceeds from debt  | 70   | 780  | 785   |
| Repayment of debt   | -  | (665)  | (675)   |
| Dividends paid  | (23)   | (25)   | (44)  |
| <b>Net cash flows from financing activities</b>               | <b>97</b>  | <b>112</b>   | <b>186</b>                                      |
| <b>Net cash flow</b>  | <b>(130)</b>   | <b>53</b>  | <b>68</b>                                       |
| Cash at the beginning of the period                           | 170  | 102  | 102   |
| <b>Cash at the end of the period</b>                          | <b>40</b>  | <b>155</b>   | <b>170</b>                                      |

# 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 2017.

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 consolidated 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 2017.

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 2017 and described in note 9 to these condensed consolidated interim financial statements.

## Accounting policies and standards

The accounting policies adopted and methods of computation have been applied consistently throughout the periods presented in these condensed consolidated interim financial statements, except for the three new accounting standards applied only in the six month period ended 31 December 2017.

A number of new accounting standards, NZ IFRS 9: "Financial Instruments", NZ IFRS 15: "Revenue from Contracts with Customers" and NZ IFRS 16: "Leases" have been issued. Chorus has elected to early adopt these standards from 1 July 2017. Further information is detailed below and comparative information is presented in note 1.

### NZ IFRS 9 Financial Instruments

Chorus has early adopted NZ IFRS 9 with a date of initial application of 1 July 2017. As a result, Chorus has changed its accounting policy for certain financial instruments. Chorus has elected to apply NZ IFRS 9 on a retrospective basis, however elected not to restate comparative information. This means NZ IFRS 9 is applied retrospectively, however the valuation of impacted financial instruments is reflected in opening equity on initial application date, as opposed to previous accounting periods.

NZ IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. The only material impact on Chorus of adopting this standard is in relation to hedge accounting, where new rules more closely align hedge accounting with Chorus' risk management activities, with the result being less reported volatility

in the income statement. Changes in the fair value of the cost to convert foreign currency to NZD of Chorus' cross currency interest rate swaps are now separately accounted for as a cost of hedging and recognised within a new reserve within equity (cost of hedging reserve).

This accounting treatment was not possible under the previous accounting rules, where such changes in fair value were recognised within the income statement.

### **NZ IFRS 15 Revenue from Contracts with Customers**

Chorus has early adopted NZ IFRS 15 with a date of initial application of 1 July 2017. As a result, Chorus has changed its accounting policy for revenue recognition and certain customer costs as detailed below.

Chorus has applied NZ IFRS 15 using the cumulative effect method (by recognising the cumulative effect of initially applying NZ IFRS 15 as an adjustment to the opening balance of equity at 1 July 2017). Comparative information has not been restated and continues to be reported under NZ IAS 18. The details of this change are set out below.

#### **Customer retention costs**

Chorus previously recognised costs when acquiring or retaining customers as expenses when they were incurred. Under NZ IFRS 15, Chorus capitalises these as costs of obtaining a contract, including customer incentives, when they are incremental and, if they are expected to be recovered, it amortises them consistently with the pattern of revenue for the related contract.

### **NZ IFRS 16 Leases**

Chorus has early adopted NZ IFRS 16 with a date of initial application of 1 July 2017. As a result, Chorus has changed its accounting policy for lease contracts as described below.

Chorus applied NZ IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2017.

#### **As a lessee**

As a lessee, Chorus previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to Chorus. Under NZ IFRS 16, Chorus recognises right of use assets and lease liabilities on balance sheet for most leases.

##### **i) Leases classified as operating leases under NZ IAS 17**

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at Chorus' incremental borrowing rate as at 1 July 2017.

Right of use assets were measured at an amount equal to the lease liability, Chorus applied this approach to all leases. The right of use asset is subsequently depreciated using the straight line method over the shorter of the estimated useful lives of the right of use asset or the remaining estimated lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property and equipment.

Chorus presents right of use assets in Network Assets (note 2) and finance lease liabilities

separately on the face of the statement of financial position.

Chorus used the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics; and
- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term.

ii) Leases previously classified as finance leases under NZ IAS 17

For leases that were classified as finance leases under NZ IAS 17, the carrying amount of the right of use asset and the lease liability at 1 July 2017 are determined at the lease asset and lease liability under NZ IAS 17 immediately before that date.

#### **As a lessor**

Chorus is not required to make any adjustments on transition to NZ IFRS 16 for leases in which it acts as a lessor.

#### **Reclassification and re-statement of comparatives**

The condensed consolidated interim financial statements for the six months ended 31 December 2017, and comparative information for six months ended 31 December 2016 are unaudited. The presentation of information for the year ended 30 June 2017 is audited.

Management have reclassified the revenue streams from prior periods in order to simplify reporting and align with the products and services of Chorus, to provide greater transparency and accuracy to readers. This exercise was completed to recognise the evolving nature of the industry from being copper to fibre based. This is consistent with internal management reporting provided to senior management and the Board.

#### **Crown Fibre Holdings renamed**

In September 2017 the New Zealand Government repurposed Crown Fibre Holdings and changed the name to Crown Infrastructure Partners (CIP). The repurpose will have no material impact on Chorus' relationship.

#### **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 2017, except for those associated with the adoption of the three new accounting standards described above and in note 1.



## Note 1 – Comparative information for transition to new NZ IFRS standards

To provide further information and increased transparency, adjusted comparative totals are disclosed below.

### NZ IFRS 9 Financial Instruments

On transition to NZ IFRS 9, Chorus recognised a cost of hedging reserve within equity of \$6 million (net of tax) and an adjustment to the cash flow hedge reserve of \$1 million (net of tax). Opening retained earnings was also adjusted accordingly. Had NZ IFRS 9 applied to the comparative periods presented, \$5 million (pre tax) for the period ended 31 December 2016 (30 June 2017: \$10 million) of hedge ineffectiveness (recorded within finance expense) would have gone to the cost of hedging reserve (within equity).

### NZ IFRS 15 Revenue from Contracts with Customers

On transition to NZ IFRS 15, Chorus recognised an additional \$27 million of customer retention assets (included within 'software and other intangibles') relating to open contracts on transition date. This was adjusted for tax and booked directly to retained earnings. These costs, including additional costs incurred and capitalised post-transition date, are amortised over the life of the contract, which management have assessed as three years in tenure.

The following table summarises the impact of adopting NZ IFRS 15 on Chorus' condensed consolidated interim financial statements for the period ended 31 December 2017.

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | SIX MONTHS ENDED 31 DEC 2017 |                                  |   |
|--|------------------------------|----------------------------------|---|
|  | AS REPORTED<br>\$M           | NZ IFRS 15<br>ADJUSTMENTS<br>\$M | BALANCES<br>WITHOUT<br>ADOPTION OF<br>NZ IFRS 15<br>\$M |
| Retained earnings (net of tax) – 1 July 2017 | 473                          | (20)                             | 453   |
| Customer retention costs – 1 July 2017       | 27                           | (27)                             | -   |
| Customer retention costs – 31 December 2017  | 40                           | (40)                             | -   |
| Deferred tax – 31 December 2017              | 215                          | (11)                             | 204   |
| <b>CONSOLIDATED INCOME STATEMENT</b>         |                              |                                  |   |
| Amortisation – 31 December 2017              | (53)                         | 21                               | (32)  |
| Operating expenses – 31 December 2017        | (170)                        | (34)                             | (204)   |

Had NZ IFRS 15 applied to comparative periods presented, operating expenses would have decreased by \$23 million for the period ended 31 December 2016 (30 June 2017: \$42 million), with a corresponding increase to 'software and other intangibles', and an associated increase in amortisation over time.

## NZ IFRS 16 Leases

On transition to NZ IFRS 16, Chorus recognised \$200 million of right of use assets and lease liabilities. There was no difference to recognise in retained earnings. Included in this was right of use assets previously relating to finance leases under NZ IAS 17 of \$151 million.

When measuring lease liabilities, Chorus discounted lease payments using its incremental borrowing rates at 1 July 2017. The weighted average rate applied is 6.06%. Interest expense recognised on lease liabilities for the period (recognised in finance expense) was \$1 million.

Had NZ IFRS 16 applied to comparative periods presented, the depreciation charge would have increased by \$3 million for the period ended 31 December 2016 (30 June 2017: \$6 million), and finance expense would have increased by \$1 million for the period ended 31 December 2016 (30 June 2017: \$3 million). Offsetting these increases would have been a corresponding decrease in rent and rates of \$4 million for the period ended 31 December 2016 (30 June 2017: \$8 million).

## Note 2 – Network assets

| (DOLLARS IN MILLIONS)                          | 31 DEC 2017<br>UNAUDITED<br>\$M | 31 DEC 2016<br>UNAUDITED<br>\$M | 30 JUNE 2017<br>AUDITED<br>\$M |
|--|---------------------------------|---------------------------------|--------------------------------|
| <b>Cost</b>                                    |                                 |                                 |                                |
| Opening balance                                | 8,891                           | 8,342                           | 8,342                          |
| NZ IFRS 16 opening balance adjustment (note 1) | 49                              | -                               | -                              |
| Additions                                      | 323                             | 287                             | 592                            |
| Other  | -                               | 10                              | 15                             |
| Disposals                                      | (17)                            | (1)                             | (58)                           |
| Closing balance                                | 9,246                           | 8,638                           | 8,891                          |
| <b>Accumulated depreciation</b>                |                                 |                                 |                                |
| Opening balance                                | (4,918)                         | (4,686)                         | (4,686)                        |
| Depreciation                                   | (150)                           | (143)                           | (295)                          |
| Other  | -                               | 2                               | 56                             |
| Disposals                                      | 17                              | -                               | 7                              |
| Closing balance                                | (5,051)                         | (4,827)                         | (4,918)                        |
| <b>Net carrying amount</b>                     | <b>4,195</b>                    | <b>3,811</b>                    | <b>3,973</b>                   |

Network assets comprise owned and leased assets.

| (DOLLARS IN MILLIONS) | 31 DEC 2017<br>UNAUDITED<br>\$M |
|-----------------------|---------------------------------|
| Network assets owned  | 4,001                           |
| Right of use assets   | 194                             |
| Net carrying amount   | <b>4,195</b>                    |

### Right of use assets

| (DOLLARS IN MILLIONS)       | DUCTS AND<br>MANHOLES<br>\$M | PROPERTY<br>\$M | TOTAL<br>\$M |
|-----------------------------|------------------------------|-----------------|--------------|
| Balance 1 July 2017         | 21                           | 179             | 200          |
| Depreciation charge         | (1)                          | (5)             | (6)          |
| Balance at 31 December 2017 | <b>20</b>                    | <b>174</b>      | <b>194</b>   |

Additions to right of use assets during the period to 31 December 2017 were nil.

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

### Other – property exchanges

Chorus has leased exchange space and commercial co-location space owned by Spark which is subject to finance lease arrangements (included within right of use assets). Chorus in turn leases exchange space and commercial co-location space owned by Chorus to Spark under 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 the six months to 31 December 2017 is nil (31 December 2016: \$12 million; 30 June 2017: \$7 million) as no reassessment of the extent of Spark's use of Chorus owned sites and Chorus' use of Spark's sites has occurred within the period.

### Additions

Additions also includes the net movement within capital work in progress in the period.

### Capital commitments

At 31 December 2017 the contractual commitment for acquisition of network assets was \$529 million (31 December 2016: \$321 million; 30 June 2017: \$507 million).

### Depreciation

The Crown funding released against depreciation for the six months ended 31 December 2017 was \$11 million (31 December 2016: \$11 million; 30 June 2017: \$21 million).

### Note 3 – Software and other intangibles

| (DOLLARS IN MILLIONS)                          | 31 DEC 2017<br>UNAUDITED<br>\$M | 31 DEC 2016<br>UNAUDITED<br>\$M | 30 JUNE 2017<br>AUDITED<br>\$M |
|--|---------------------------------|---------------------------------|--------------------------------|
| <b>Cost</b>                                    |                                 |                                 |                                |
| Opening balance                                | 681                             | 634                             | 634                            |
| NZ IFRS 15 opening balance adjustment (note 1) | 27                              | -                               | -                              |
| Additions                                      | 69                              | 15                              | 47                             |
| Closing balance                                | 777                             | 649                             | 681                            |
| <b>Accumulated amortisation</b>                |                                 |                                 |                                |
| Opening balance                                | (539)                           | (474)                           | (474)                          |
| Amortisation                                   | (53)                            | (32)                            | (65)                           |
| Closing balance                                | (592)                           | (506)                           | (539)                          |
| <b>Net carrying amount</b>                     | <b>185</b>                      | <b>143</b>                      | <b>142</b>                     |

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

#### Customer retention costs

Management expects that incremental costs incurred in acquiring or retaining customers are recoverable. Chorus has therefore capitalised these as customer retention assets, \$40 million at 31 December 2017. In the comparative period such costs were recognised as operating expenses when incurred. Capitalised customer retention assets are amortised over the life of the contract (estimated to be three years) when related revenues are recognised. In the period to 31 December 2017, the amount of amortisation was \$21 million and there was no impairment in relation to the costs capitalised.

#### Capital commitments

At 31 December 2017 the contractual commitment for acquisition of software and other intangible assets was \$12 million (31 December 2016: \$29 million; 30 June 2017: \$13 million).

## Note 4 – Debt

| (DOLLARS IN MILLIONS)                 | 31 DEC 2017<br>UNAUDITED<br>\$M | 31 DEC 2016<br>UNAUDITED<br>\$M | 30 JUNE 2017<br>AUDITED<br>\$M |
|---------------------------------------|---------------------------------|---------------------------------|--------------------------------|
| Syndicated bank facility C – May 2020 | 70                              | -                               | -                              |
| Euro medium term notes GBP – Apr 2020 | 495                             | 461                             | 462                            |
| Euro medium term notes EUR – Oct 2023 | 829                             | 751                             | 762                            |
| Fixed rate NZD Bonds – May 2021       | 400                             | 400                             | 400                            |
| Less: facility fees                   | (13)                            | (15)                            | (15)                           |
|                                       | <b>1,781</b>                    | <b>1,597</b>                    | <b>1,609</b>                   |
| <b>Current</b>                        | -                               | -                               | -                              |
| <b>Non-current</b>                    | <b>1,781</b>                    | <b>1,597</b>                    | <b>1,609</b>                   |

As at 31 December 2017 Chorus had \$350 million committed syndicated facilities on market standard terms and conditions (31 December 2016: \$250 million; 30 June 2017: \$350 million). The amount undrawn of the syndicated bank facility that is available for future operating activities is \$280 million (31 December 2016: \$250 million; 30 June 2017: \$350 million). The syndicated bank facility is held with bank and institutional counterparties rated - A to AAA, based on rating agency Standard & Poor's ratings.

The Euro Medium Term Note debt of GBP 260 million has been swapped to \$677 million (31 December 2016: \$677 million; 30 June 2017: \$677 million), and the Euro Medium Term Note debt of EUR 500 million has been swapped to \$785 million (31 December 2016: \$785 million; 30 June 2017: \$785 million), both using cross currency interest rate swaps (see note 9).

## Note 5 – CIP securities

| (DOLLARS IN MILLIONS)                          | 31 DEC 2017<br>UNAUDITED<br>\$M | 31 DEC 2016<br>UNAUDITED<br>\$M | 30 JUNE 2017<br>AUDITED<br>\$M |
|--|---------------------------------|---------------------------------|--------------------------------|
| <b>Fair value on initial recognition</b>       |                                 |                                 |                                |
| Opening balance                                | 170                             | 132                             | 132                            |
| Additional securities recognised at fair value | 8                               | 7                               | 38                             |
| Closing balance                                | 178                             | 139                             | 170                            |
| <b>Accumulated notional interest</b>           |                                 |                                 |                                |
| Opening balance                                | 33                              | 20                              | 20                             |
| Notional interest                              | 8                               | 6                               | 13                             |
| Closing balance                                | 41                              | 26                              | 33                             |
| <b>Total CIP securities</b>                    | <b>219</b>                      | <b>165</b>                      | <b>203</b>                     |

## Note 6 – Crown funding

| (DOLLARS IN MILLIONS)                       | 31 DEC 2017<br>UNAUDITED<br>\$M | 31 DEC 2016<br>UNAUDITED<br>\$M | 30 JUNE 2017<br>AUDITED<br>\$M |
|---|---------------------------------|---------------------------------|--------------------------------|
| <b>Fair value on initial recognition</b>    |                                 |                                 |                                |
| Opening balance                             | 759                             | 679                             | 679                            |
| Additional funding recognised at fair value | 17                              | 19                              | 80                             |
| Closing balance                             | 776                             | 698                             | 759                            |
| <b>Accumulated amortisation</b>             |                                 |                                 |                                |
| Opening balance                             | (61)                            | (40)                            | (40)                           |
| Amortisation                                | (11)                            | (11)                            | (21)                           |
| Closing balance                             | (72)                            | (51)                            | (61)                           |
| <b>Total Crown funding</b>                  | <b>704</b>                      | <b>647</b>                      | <b>698</b>                     |
| <b>Current</b>                              | <b>20</b>                       | <b>18</b>                       | <b>19</b>                      |
| <b>Non-current</b>                          | <b>684</b>                      | <b>629</b>                      | <b>679</b>                     |

### 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 21,655 premises passed (31 December 2016: 19,784; 30 June 2017: 98,884) where user acceptance testing was complete at 31 December 2017. This brings the total number of fully completed and paid for premises passed at 31 December 2017 to approximately 594,000 (31 December 2016: 494,000; 30 June 2017: 573,000).

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

## Note 7 – 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 8 – Equity

### Dividends

On 10 October 2017 a fully imputed final dividend of 12.5 cents per share, \$51 million, was paid to shareholders (31 December 2016: 12 cents per share, \$48 million; 30 June 2017: 20.5 cents per share, \$83 million). There was an issue of 13,692,543 new shares under a Dividend Reinvestment plan offered to shareholders, which was underwritten to the value of \$51 million.

### Net tangible assets per security

Net tangible assets per security for the period to 31 December 2017 was \$1.95 (31 December 2016: \$1.91; 30 June 2017: \$1.95).

### 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 vested on 30 June 2017 (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). The three year grant is made up of two tranches, the first with a relative performance hurdle (Chorus' actual total shareholder return compared to other members of the NZX50) and the second with an absolute performance hurdle (Chorus' actual total shareholder return 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 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 total shareholder return continues to increase through this period).

The August 2017 issue consisted of one three year grant. The shares have a vesting date of 8 September 2020 and an expiry date of 8 September 2021. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.6% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period (noting that the total shareholder return continues to increase through this period).

The combined option cost for the period ended 31 December 2017 of \$158,000 has been recognised in the income statement (31 December 2016: \$131,000; 30 June 2017: \$312,000).

### Note 9 – Derivative financial instruments

Finance expense includes any unrealised ineffectiveness arising from the Euro Medium Term Notes (EMTN) hedge relationship. Following the close out of the cross currency interest rate swaps and interest rate swaps relating to the EMTN (GBP) the hedge relationship was reset in December 2013 with a fair value of \$49 million. The unamortised balance of this original fair value at 31 December 2017 is \$12 million (31 December 2016: \$22 million; 30 June 2017: \$15 million). As long as the hedge remains effective any future gains or losses will be processed through the hedge reserve, however the initial fair value will flow to finance expense in the income statement at some time over the life of the derivatives as ineffectiveness. Neither the direction, nor the rate of the impact on the income statement can be predicted. Due to the complex nature of this instrument, practical expedients as introduced by NZ IFRS 9 have not been applied for the EMTN (GBP), thus the designation remains unchanged. For the six months to 31 December 2017 a debit of \$3 million ineffectiveness was recognised within finance expense in the income statement (31 December 2016: \$1 million credit; 30 June 2017: \$6 million debit).

In November 2016, Chorus repaid the Syndicated Bank Facility and the associated interest rate swaps expired, except one that has been maintained and is not in a designated hedging relationship. The fair value re-measurement of unrealised gains or losses on the interest rate swaps that are not held in a hedging relationship are recognised immediately in finance expense in the income statement. For the period to 31 December 2017 \$1 million credit was recognised in finance expense (31 December 2016: \$6 million; 30 June 2017: \$6 million). In addition to this, forward dated interest rate swaps have been entered into during the reporting period. These are all held in effective hedging relationships and their unrealised gains or losses are recognised in the cash flow hedge reserve.

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 on the receive leg and NZD 785 million on the pay leg. Using the cross currency interest rate swap, Chorus will pay New Zealand Dollar floating interest rates and receive EUR nominated fixed interest with coupon payments matching the underlying notes. Chorus designated the EMTN and cross currency interest rate swaps into three part-hedging relationships; a fair value hedge of EUR benchmark interest rates, a cash flow hedge of margin and a cash flow hedge on the principal exchange. For the period to 31 December 2017, there were no unrealised losses recognised in finance expense (31 December 2016: \$1 million; 30 June 2017: \$1 million). The cost of hedging (the fair value of the change in currency basis spread) was recognised in the cost of hedging reserve in the Statement of Changes in Equity (refer note 1).

## Note 10 – Related party transactions

The gross remuneration of directors and key management personnel during the period was \$6.5 million (31 December 2016: \$4.5 million; 30 June 2017: \$7.8 million).

The Company has loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2017 of \$1.6 million (31 December 2016: \$1.6 million; 30 June 2017: \$1.6 million) as outlined in the long-term performance share scheme section of note 8. All loans outstanding are interest-free limited recourse loans.

## Note 11 – Post balance date events

### Dividends

On 26 February 2018 Chorus declared an interim dividend in respect of the six month period ending 31 December 2017. The total amount of the dividend is \$38.2 million, which represents a fully imputed dividend of 9.0 cents per ordinary share.

### CIP Securities and Crown funding

There were three call notices issued since December 2017 to CIP in respect to premises which had not completed user acceptance testing before 31 December 2017. The first call on 17 January was for 1,303 premises, the second call on 25 January for 2,553 premises and the third call on 19 February was for 13,918 premises, with a total aggregate issue price of \$19.9 million. There was no accrual in the financial statements.



# Auditors' review report



## To the shareholders of Chorus Limited

Report on the condensed consolidated interim financial statements

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Chorus Limited and its subsidiaries ("the Group") on pages 11 to 27 do not:

- i. present fairly in all material respects the Group's financial position as at 31 December 2017 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying condensed consolidated interim financial statements which comprise:

- the condensed consolidated statement of financial position as at 31 December 2017;
- the condensed consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

### Basis for conclusion

A review of condensed consolidated interim financial statements in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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.

Our firm has also provided other services to the Group in relation to regulatory audit services, tax compliance services and other assurance services. The Group sponsor an award at the KPMG Innovation Council. These matters have not impaired our independence as reviewer of the Group. The firm has no other relationship with, or interest in, the Group.

### Use of this Independent Review Report

This report is made solely to the shareholders as a body.

Our review work has been undertaken so that we might state to the 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 shareholders as a body for our review work, this report, or any of the opinions we have formed.

### Responsibilities of the Directors for the condensed consolidated interim financial statements

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

- the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of condensed consolidated interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the review of the condensed consolidated interim financial statements

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

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 these condensed consolidated interim financial statements.

This description forms part of our Independent Review Report.

KPMG, Wellington, 26 February 2018

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# Glossary

|                             |  |
|-----------------------------|--|
| <b>Backhaul</b>             | The portion of the network that links local exchanges to other exchanges or retail service provider networks.  |
| <b>Building block model</b> | 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. |
| <b>CIP</b>                  | Crown Infrastructure Partners, formerly Crown Fibre Holdings Limited, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.   |
| <b>Commission</b>           | Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.  |
| <b>Direct fibre</b>         | 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.   |
| <b>FY</b>                   | Financial year – twelve months ended 30 June. e.g. FY18 is from 1 July 2017 to 30 June 2018.   |
| <b>Gigabit</b>              | The equivalent of 1 billion bits. Gigabit Ethernet provides data transfer rates of about 1 gigabit per second.   |
| <b>Gbps</b>                 | Gigabits per second. A measure of the average rate of data transfer.   |
| <b>GPON</b>                 | Gigabit Passive Optical Network.   |
| <b>HY</b>                   | Half year – six months ended 31 December. e.g. HY18 is from 1 July 2017 to 31 December 2017.   |
| <b>Layer 2</b>              | The data link layer, including broadband electronics, within the Open Systems Interconnection model. Layer 1 is physical cables and co-location space.   |
| <b>Mbps</b>                 | Megabits per second – a measure of the average rate of data transfer.  |
| <b>NZ IFRS</b>              | International Financial Reporting Standards – the rules that the financial statements have to be prepared by.  |
| <b>P2P</b>                  | Where two parties, or devices, are connected point-to-point via fibre.   |
| <b>UFB</b>                  | Ultra-Fast Broadband – refers to the Government programme to build a fibre to the premises network to about 87% of New Zealanders by the end of 2022.  |
| <b>VDSL</b>                 | Very High Speed Digital Subscriber Line – a copper-based technology that provides a better broadband connection than ADSL.   |

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