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MEDIA RELEASE

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Chorus interim FY17 result: Increasing focus on helping Kiwis switch to better broadband

- Net profit after tax \$66m
- EBITDA* \$335m
- Updates to EBITDA and capex guidance
- Interim dividend of 8.5cps
- Total fixed lines decreased by 49,000; broadband connections decreased by 12,000

Chorus today reported net profit after tax (NPAT) for the six months ended 31 December 2016 of \$66 million (HY16 \$33 million). Earnings before interest, tax, depreciation and amortisation (EBITDA) were \$335 million (HY16 \$275m). The increases in net profit and EBITDA were mostly due to the effect of regulated copper price changes, a changed capitalisation approach and careful management across expense lines.

Operating revenues were \$529 million and operating expenses were \$194 million.

Chorus chief executive Mark Ratcliffe said the six month period was a particularly busy time due to Chorus' ongoing focus on delivering better broadband for customers.

"Fibre has well and truly hit its tipping point in becoming the broadband product of choice for customers. Between July and December we built 67,000 new fibre connections nationwide, up from 55,000 in the six months prior, and the average time customers wait for a fibre connection reduced from 17 days to 10 days.

"With one in three broadband customers now having moved to fibre or a high-speed service like VDSL, we believe it's time for us to do more to raise New Zealanders' awareness of the better broadband choices that exist today.

"It's our intention to bolster the support we offer retailers in migrating customers to our fibre network where it's available, or to VDSL as a fibre-ready transition step in other areas. We're also looking at accelerating our fibre rollout plans in some suburbs", he said.

Operating update

Chorus continues to invest heavily in enabling better broadband for New Zealanders with \$302 million of capital expenditure during the six month period. In December, a \$5 million programme to upgrade nearly 100 rural broadband cabinets with fibre optic cable and VDSL broadband capability was completed. This investment improved the broadband experience significantly for about 7,000 mostly rural customers.

In urban areas, around 681,000 customers are now within reach of Chorus' UFB network and the company is 61% of the way through its UFB build programme. UFB build work was completed in Queenstown, Whakatane and Waiheke Island during the period. Uptake in Chorus UFB areas increased from 24% at the end of June to 32% by the end of December.

The improvement in fibre connection wait times was driven by the combination of new field crews, up from 524 to 611, and increased productivity after an extension of Visionstream's responsibility for fibre installations to around 80% of Chorus' UFB areas. In Auckland, the average lead time for a fibre connection reduced from 15 days in June to five days in December.

In January, Chorus announced that it had reached an agreement with the Government to extend the UFB roll-out to a further 169 areas. This will make fibre broadband available to approximately 200,000 more homes and businesses beyond the 1.1 million customers in Chorus' existing UFB1 areas. Chorus has today reached an initial agreement with Broadspectrum to design and build the communal network for 145,000 UFB2 premises. A separate design process is being trialled for the remaining 24,000 premises which will be tendered later.

Today is Mark Ratcliffe's last as chief executive of Chorus and a Chorus director. Kate McKenzie, a former senior Telstra executive, will take up the role as CEO and has been appointed a Chorus director from today.

Fixed line performance

The number of connections across Chorus' network continued to decline with total fixed line connections decreasing by 49,000 to 1,678,000, while broadband connections decreased by 12,000 to 1,214,000. Largely this reflected local fibre companies continuing to gain market share in their UFB areas, as well as a marketing push from vertically integrated retailers seeking to convert their customer base to their own wireless broadband networks and the seasonal effect of summer holidays, as tertiary students typically disconnect broadband services.

"While wireless broadband may be a viable option for some low data users in poor broadband coverage zones, we're confident that our fixed line network offers the rock solid reliability and consistent performance that is needed for both broadband and voice services.

"We continue to invest in our copper network and, on average, a customer with a copper broadband connection is likely to only experience a fault on our part of the network roughly once every five years. Even then the downtime is typically less than a day," he said.

Dividend

An interim dividend of 8.5 cents per share will be paid on 4 April 2017 to all shareholders registered at 5pm on 21 March 2017. The Dividend Reinvestment Plan will apply for the interim dividend at a discount rate of 3 per cent. Applications to participate must be received by 5pm (NZ time) on 22 March 2017.

Guidance update

Chorus has updated its guidance to reflect competitive initiatives planned in the next six months and its changed capitalisation approach.

FY17 EBITDA guidance was increased to a new range of \$645 to \$665 million, from \$625 to \$645 million previously.

FY17 Capex guidance was increased to a new range of \$640 to \$680 million, from \$610 to \$650 million previously.

FY17 fibre connections and layer 2 capex was increased to a new range of \$270 to \$300 million, from \$250 to \$280 million previously.

The previous guidance ranges for FY17, UFB1 and UFB2 average cost per premises connected have been increased by \$150 to reflect the changed approach in capitalisation.

**EBITDA is a non-GAAP profit measure which provides comparable period on period information.*

Further information

Copies of Chorus' half year financial statements for the six months ended 31 December 2016 are included in the attached half year report.

Further information can be found at:

- <https://www.nzx.com/companies/CNU/announcements/297022>; and
- <https://www.chorus.co.nz/investor-news>.

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