Half Year Result

For the six months ended 31 December 2018

CHORUS

Half year result overview

Fixed line connections

HY19	FY18
1,486,000	1,526,000

Broadband connections

HY19	FY18
1,186,000	1,187,000

Fibre connections

HY19	FY18
529,000	445,000

Dividend

HY19	HY18
9.5cps	9cps

EBITDA[1]

HY19	HY18
$318m	$329m

Net profit after tax

HY19	HY18
$30m	$47m

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.

Management commentary

We report earnings before interest, income tax, depreciation and amortisation (EBITDA) of $318 million for the six months ending 31 December 2018 (HY19). This was a decrease of $11 million on the same six months in FY18 (HY18), largely reflecting the revenue impact of declining copper connection numbers. This, and an increase in finance expenses due to a new $500 million bond issue in December, resulted in a net earnings decrease by $17 million between HY18 and HY19. Our EBITDA guidance for the full year remains $625 million to $645 million.

Operating revenue

Revenues of $489 million were down $10 million compared to HY18. This was largely a consequence of copper-based voice and broadband customers migrating to alternative fibre and wireless networks. Revenue from premium connections, comprising data services (copper) and fibre premium connections, also continued to decline as retailers transitioned customers from legacy services to our lower cost ultra-fast broadband (UFB) services, or to alternative fibre networks.

These declines in connections were mostly offset by strong ongoing growth in mass market fibre broadband connections, with HY19 fibre broadband revenues increasing $46 million relative to HY18. Average revenue per user has also improved as the proportion of customers taking fibre services above the entry level 50 megabits per second (Mbps) service grew to 73%, up from 64% at the end of HY18.

Approximately 44,000 customers were on 1 gigabit per second (Gbps) services, up from 20,000 customers at the end of HY18, including about 13,000 customers in the Dunedin 'Gigatown' area where pricing is sponsored at the 50Mbps level until July 2019.

Field services revenue was up $4 million from HY18 driven by higher activity related to chargeable network relocation activity, which is also reflected in the increase in other network costs.

Other revenue categories were largely flat period over period.

	CONNECTIONS 31 DECEMBER 2018	CONNECTIONS 30 JUNE 2018	CONNECTIONS 31 DECEMBER 2017
Fibre broadband (GPON)[2]	517,000	433,000	362,000
Fibre premium (P2P)[3]	12,000	12,000	13,000
Copper VDSL	295,000	321,000	320,000
Copper ADSL	374,000	433,000	499,000
Data services over copper	5,000	6,000	7,000
Unbundled copper	39,000	53,000	68,000
Baseband copper	244,000	268,000	290,000
Total fixed line connections	**1,486,000**	**1,526,000**	**1,559,000**

Expenses

Expenditure remained flat from HY18 at $171 million. This reflects a continued tight focus on cost, with reduced network maintenance expenses offset by increases in other network costs, rent and rates.

Labour

Labour costs of $37 million represent staff costs that are not capitalised. Staff numbers have continued to reduce and we had 914 permanent and fixed term employees at 31 December 2018, down from 971 employees at 31 December 2017. This 6% reduction in our internal workforce was the main contributor to reduced labour costs across the two periods, offset partially by CPI-related increases.

Network maintenance

Network maintenance costs reduced by $5 million compared to the same period in FY18, largely as a consequence of fewer network faults and truck rolls. The main contributors to this outcome were:

- this period featured fewer extreme weather events than the particularly wet weather we noted in the first half of FY18.
- retailers are using our new Application Programming Interface tools to better identify which faults don't require Chorus truck rolls.
- underlying fault levels are reducing as our customer base reduces and a greater proportion migrate to the newer fibre network.

While the volume of truck rolls reduced, the average cost per fault increased. This is because the mix of faults shifted from lower cost work at customer premises, which may be recovered as Field Services revenue, to higher cost faults within our fibre and copper street network.

2 GPON: Gigabit Passive Optical Network
3 P2P: Where two parties or devices are connected point-to-point via fibre.

Other network

Other network costs increased by $3 million compared to HY18. This reflected an increase in third party requests for network relocation activity that cannot be capitalised, although it may be recovered as Field Services revenue. Other network costs also include costs associated with service partner contracts, engineering services, fibre access from third parties, warehousing, fibre order cancellations and network spares.

Rent and rates

Rent and rates increased by $2 million, compared to HY18, because the UFB rollout results in higher council rateable values for our network infrastructure.

Depreciation and amortisation

Depreciation continues to increase as a consequence of our ongoing programme of significant investment in long life network assets for the UFB rollout. This is partially offset by the increasing amortisation of Crown funding against these assets.

Amortisation of customer retention assets has slowed as capitalised provisioning activity has reduced and the useful life of these assets increased, from three to four years, to reflect the increasing proportion of fibre customers.

Finance expense

Interest on debt (European Medium Term Notes, fixed rate NZD bonds and syndicated bank facilities) has increased in the current period due to the issuance of a new NZD $500 million domestic bond. Notional interest on Crown Infrastructure Partners (CIP) securities has also increased in line with the increase in Crown funding. There was a one-off $2 million expense for restructuring of forward dated interest rate swaps.

Capital expenditure

Gross capital expenditure for HY19 was $395 million, up slightly from $391 million in HY18. The proportion invested in fibre has grown from 77% to 84% between the two periods. This reflects more premises being passed in HY19 as the UFB2 and 2+ rollout ramps up and the UFB1 rollout reaches its peak, the continued growth in fibre installation volumes, and reduced copper investment following the conclusion of our VDSL upgrade programme.

We invested $119 million in the UFB rollout during the period, with $78 million spent in UFB1 areas and $41 million spent on the UFB2 and 2+ rollout. A total of 38,000 premises were passed, up from 32,000 premises in HY18. This included 13,000 UFB2/2+ premises.

The average cost per premises passed for UFB1 premises was $1,662. This is expected to reduce to within our guidance range of $1,500-$1,600 by the end of FY19, as significantly more premises are completed in the second half.

Fibre connections and layer 2 spend was $161 million, driven largely by the cost to connect fibre to 95,000 homes and businesses (UFB1 90,000; UFB2 5,000). This was up significantly from 77,000 homes and businesses in HY18. The average cost per premises connected in UFB1 areas during the period was $1,038. This was in the lower half of the FY19 guidance range of $1,000 to $1,150 (for a standard residential connection, excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs).

Spend on other fibre connections and growth was $36 million, up from $28 million in HY18 as demand for connections to new housing subdivisions grew and our pole replacement programme continued in UFB areas.

Copper capital expenditure reduced from $64 million in HY18 to $39 million in the current period. Customer retention costs reduced by $17 million as uptake of copper broadband reduced and retailer campaigns focused more on fibre customer acquisition. Copper layer 2 spend reduced by $10 million following the conclusion of our programme to deploy VDSL vectoring technology outside our UFB areas.

Dividends, equity and capital management

We will pay an interim dividend of 9.5 cents per share on 16 April 2019 to all holders registered at 5:00pm 19 March 2019. 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 1.68 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 20 March 2019.

A final dividend of 13.5 cents per share is expected to be declared in August 2019, subject to no material adverse changes in circumstances or outlook. During the UFB build programme to 2020, the Board expects to be able to provide shareholders with modest dividend growth from a base of 20 cents per share paid for FY16.

On 6 December 2018 Chorus issued $500 million ten-year unsecured, unsubordinated, fixed rate bonds. The interest rate for the first five years has been set at 4.35% per annum. The funds raised will be used for general corporate purposes including paying down Chorus' existing bank facility and partially funding repayment of its GBP Euro Medium Term Notes in April 2020.

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 2018, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

Financial statements

Condensed consolidated income statement

For the six months ended 31 December 2018

(Dollars in millions)	Notes	SIX MONTHS ENDED 31 DECEMBER 2018 UNAUDITED $M	SIX MONTHS ENDED 31 DECEMBER 2017 UNAUDITED $M	YEAR ENDED 30 JUNE 2018 AUDITED $M
Fibre broadband (GPON)		136	90	198
Fibre premium (P2P)		37	40	78
Copper based broadband		181	219	421
Copper based voice		56	69	133
Data services copper		10	14	27
Value added network services		16	17	33
Infrastructure		12	12	23
Field services products		39	35	70
Other		2	3	7
Total operating revenue		**489**	**499**	**990**
Labour		(37)	(39)	(73)
Provisioning		(3)	(4)	(6)
Network maintenance		(38)	(43)	(87)
Other network		(18)	(15)	(34)
Information technology		(26)	(27)	(54)
Rent and rates		(7)	(5)	(9)
Property maintenance		(6)	(6)	(15)
Electricity		(9)	(8)	(15)
Insurance		(2)	(1)	(3)
Consultants		(4)	(3)	(5)
Regulatory levies		(8)	(7)	(13)
Other		(13)	(12)	(23)
Total operating expenses		**(171)**	**(170)**	**(337)**
Earnings before interest, income tax, depreciation and amortisation		**318**	**329**	**653**
Depreciation	1	(150)	(139)	(283)
Amortisation	2	(46)	(53)	(104)
Earnings before interest and income tax		**122**	**137**	**266**
Finance income		4	4	7
Finance expense		(83)	(74)	(151)
Net earnings before income tax		**43**	**67**	**122**
Income tax expense		(13)	(20)	(37)
Net earnings for the period		**30**	**47**	**85**
Earnings per share				
Basic earnings per share (dollars)		**0.07**	**0.12**	**0.20**
Diluted earnings per share (dollars)		**0.05**	**0.10**	**0.16**

Condensed consolidated statement of comprehensive income

For the six months ended 31 December 2018

(Dollars in millions)	Note	SIX MONTHS ENDED 31 DECEMBER 2018 UNAUDITED $M	SIX MONTHS ENDED 31 DECEMBER 2017 UNAUDITED $M	YEAR ENDED 30 JUNE 2018 AUDITED $M
Net earnings for the period		**30**	**47**	**85**
Other comprehensive income				
Items that will be reclassified subsequently to the income statement when specific conditions are met				
Movements in effective cash flow hedges	8	(14)	2	(3)
Amortisation of de-designated cash flow hedges transferred to income statement	8	(1)	(1)	(1)
Movement in cost of hedging reserve	8	(1)	1	(3)
Other comprehensive income net of tax		**(16)**	**2**	**(7)**
Total comprehensive income for the period net of tax		**14**	**49**	**78**

Condensed consolidated statement of financial position

As at 31 December 2018

(Dollars in millions)	Notes	31 DECEMBER 2018 UNAUDITED $M	31 DECEMBER 2017 UNAUDITED $M	30 JUNE 2018 AUDITED $M
Current assets				
Cash and call deposits		281	40	50
Income tax receivable		12	11	12
Trade and other receivables		214	211	154
Derivative financial instruments	8	4	1	3
Finance lease receivable		5	5	5
Total current assets		**516**	**268**	**224**
Non-current assets				
Derivative financial instruments	8	43	32	74
Trade and other receivables		5	7	7
Software and other intangibles	2	181	185	182
Network assets	1	4,634	4,195	4,439
Total non-current assets		**4,863**	**4,419**	**4,702**
Total assets		**5,379**	**4,687**	**4,926**
Current liabilities				
Trade and other payables		359	341	370
Lease payable		6	10	6
Derivative financial instruments	8	18	1	19
Total current liabilities excluding Crown funding		**383**	**352**	**395**
Current portion of Crown funding	5	23	20	21
Total current liabilities		**406**	**372**	**416**
Non-current liabilities				
Derivative financial instruments	8	222	203	210
Lease payable		237	200	237
Debt	3	2,224	1,781	1,807
Deferred tax payable		225	215	224
Total non-current liabilities excluding CIP and Crown funding		**2,908**	**2,399**	**2,478**
Crown Infrastructure Partners (CIP) securities	4	299	219	273
Crown funding	5	756	684	737
Total non-current liabilities		**3,963**	**3,302**	**3,488**
Total liabilities		**4,369**	**3,674**	**3,904**
Equity				
Share capital		620	571	590
Reserves		(52)	(27)	(36)
Retained earnings		442	469	468
Total equity		**1,010**	**1,013**	**1,022**
Total liabilities and equity		**5,379**	**4,687**	**4,926**

The financial statements are approved and signed on behalf of the Board.

Patrick Strange
Chair

Kate McKenzie
Chief Executive Officer and Managing Director

Authorised for issue on 25 February 2019

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2018

(Dollars in millions)	Note	Share capital $M	Retained earnings $M	Hedging-related reserves $M	Total $M
Balance at 1 July 2017		**520**	**473**	**(29)**	**964**
Comprehensive income					
Net earnings for the period		–	85	–	**85**
Other comprehensive income					
Changes in cash flow hedge reserve		–	–	(3)	**(3)**
Amortisation of de-designated cash flow hedges transferred to income statement		–	–	(1)	**(1)**
Movement in cost of hedging reserve		–	–	(3)	**(3)**
Total comprehensive income		**–**	**85**	**(7)**	**78**
Contributions by and (distributions to) owners:					
Dividends	7	–	(90)	–	(90)
Supplementary dividends		–	(10)	–	(10)
Tax credit on supplementary dividends		–	10	–	10
Dividend reinvestment plan		47	–	–	47
Issue of new shares		23	–	–	23
Total transactions with owners		**70**	**(90)**	**–**	**(20)**
Balance at 30 June 2018 (AUDITED)		**590**	**468**	**(36)**	**1,022**
Comprehensive income					
Net earnings for the period		–	30	–	**30**
Other comprehensive income					
Changes in cash flow hedge reserve		–	–	(14)	**(14)**
Amortisation of de-designated cash flow hedges transferred to income statement		–	–	(1)	**(1)**
Movement in cost of hedging reserve		–	–	(1)	**(1)**
Total comprehensive income		**–**	**30**	**(16)**	**14**
Contributions by and (distributions to) owners:					
Dividends	7	–	(56)	–	(56)
Supplementary dividends		–	(7)	–	(7)
Tax credit on supplementary dividends		–	7	–	7
Dividend reinvestment plan		30	–	–	30
Total transactions with owners		**30**	**(56)**	**–**	**(26)**
Balance at 31 December 2018 (UNAUDITED)		**620**	**442**	**(52)**	**1,010**

Condensed consolidated statement of changes in equity (continued)

For the six months ended 31 December 2018

(Dollars in millions)	Note	Share capital $M	Retained earnings $M	Hedging-related reserves $M	Total $M
Balance at 1 July 2017		**520**	**473**	**(29)**	**964**
Comprehensive income					
Net earnings for the period		–	47	–	47
Other comprehensive income					
Changes in cash flow hedge reserve		–	–	2	2
Amortisation of de-designated cash flow hedges transferred to income statement		–	–	(1)	(1)
Movement in cost of hedging reserve		–	–	1	1
Total comprehensive income		**–**	**47**	**2**	**49**
Contributions by and (distributions to) owners:					
Dividends	7	–	(51)	–	(51)
Supplementary dividends		–	(6)	–	(6)
Tax credit on supplementary dividends		–	6	–	6
Dividend reinvestment plan		28	–	–	28
Issue of new shares		23	–	–	23
Total transactions with owners		**51**	**(51)**	**–**	**–**
Balance at 31 December 2017 (UNAUDITED)		**571**	**469**	**(27)**	**1,013**

Condensed consolidated statement of cash flows

For the six months ended 31 December 2018

(Dollars in millions)	SIX MONTHS ENDED 31 DECEMBER 2018 UNAUDITED $M	SIX MONTHS ENDED 31 DECEMBER 2017 UNAUDITED $M	YEAR ENDED 30 JUNE 2018 AUDITED $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers	447	448	1,002
Finance income	–	2	3
Payment to suppliers and employees	(209)	(204)	(350)
Taxation paid	(7)	(25)	(30)
Interest paid	(55)	(56)	(117)
Net cash flows from operating activities	**176**	**165**	**508**
Cash flows applied to investing activities			
Cash was provided from/(applied to):			
Purchase of network and intangible assets	(401)	(384)	(766)
Capitalised interest paid	(2)	(1)	(4)
Net cash flows applied to investing activities	**(403)**	**(385)**	**(770)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net (outflow)/inflow from leases	(5)	(5)	(15)
Crown funding (including CIP securities)	49	25	117
Issuance of share capital	–	23	23
Proceeds from debt	500	70	70
Repayment of debt	(60)	–	(10)
Dividends paid	(26)	(23)	(43)
Net cash flows from financing activities	**458**	**90**	**142**
Net cash flow	**231**	**(130)**	**(120)**
Cash and call deposits at the beginning of the period	50	170	170
Cash and call deposits at the end of the period	**281**	**40**	**50**

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 2018.

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

Chorus Limited is a profit-orientated 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 (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 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 2018.

These financial statements are expressed in New Zealand dollars. All financial information has been rounded to the nearest million, unless otherwise stated.

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 2018 and described in note 8 to these financial statements.

Accounting policies and standards

The accounting policies adopted and methods of computation have been applied consistently throughout the periods presented in these financial statements.

The financial statements for the six months ended 31 December 2018 and comparative information for the six months ended 31 December 2017 are unaudited. The comparative information for the year ended 30 June 2018 is audited.

Reclassification and re-statement of comparatives

Where management have reclassified items in the financial statements, the related comparative disclosures have been adjusted to provide a like-for-like comparison.

Accounting estimates and judgements

In preparing the 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 financial statements, the significant judgements made by management in applying Chorus' accounting policies were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

Note 1 – Network assets

(Dollars in millions)	31 DECEMBER 2018 UNAUDITED $M	31 DECEMBER 2017 UNAUDITED $M	30 JUNE 2018 AUDITED $M
Cost			
Opening balance	9,626	8,940	8,940
Additions	353	323	721
Other	4	–	7
Disposals	(18)	(17)	(42)
Closing balance	9,965	9,246	9,626
Accumulated depreciation			
Opening balance	(5,187)	(4,918)	(4,918)
Depreciation	(162)	(150)	(305)
Other	–	–	(2)
Disposals	18	17	38
Closing balance	(5,331)	(5,051)	(5,187)
Net carrying amount	**4,634**	**4,195**	**4,439**

Depreciation

The Crown funding amortisation that was released against depreciation for the six months ended 31 December 2018 was $12 million (31 December 2017: $11 million; 30 June 2018: $22 million). See note 5.

Additions

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

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 related to property exchanges in the six months to 31 December 2018 is nil (31 December 2017: nil; 30 June 2018: $5 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.

Capital commitments

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

At 31 December 2018 the contractual commitment for acquisition of network assets was $395 million (31 December 2017: $529 million; 30 June 2018: $448 million), mainly relating to UFB build activity.

Right of use assets

Network assets comprise of owned and right of use (leased) assets. The value of right of use assets at 31 December 2018 was $222 million (31 December 2017: $200 million; 30 June 2018: $226 million).

(Dollars in millions)	Fibre cables	Ducts, manholes and poles	Property	Total
Balance at 1 July 2017	6	21	179	206
Additions (net of relinquishments)	3	7	23	33
Depreciation charge	–	(2)	(11)	(13)
Balance at 30 June 2018	**9**	**26**	**191**	**226**
Additions (net of relinquishments)	–	2	–	2
Depreciation charge	–	(1)	(5)	(6)
Balance at 31 December 2018	**9**	**27**	**186**	**222**
Balance 1 July 2017	6	21	179	206
Depreciation charge	–	(1)	(5)	(6)
Balance at 31 December 2017	**6**	**20**	**174**	**200**

Additions to right of use assets during the period to 31 December 2018 were largely CPI adjustments to ducts, manholes and poles leases, and additions to pole leases related to the UFB build activity.

Note 2 – Software and other intangibles

(Dollars in millions)	31 DECEMBER 2018 UNAUDITED $M	31 DECEMBER 2017 UNAUDITED $M	30 JUNE 2018 AUDITED $M
Cost			
Opening balance	824	708	719
Additions	45	69	117
Disposals	(10)	–	(12)
Closing balance	859	777	824
Accumulated depreciation			
Opening balance	(642)	(539)	(550)
Amortisation	(46)	(53)	(104)
Disposals	10	–	12
Closing balance	(678)	(592)	(642)
Net carrying amount	**181**	**185**	**182**

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

Capital commitments

At 31 December 2018, the contractual commitment for acquisition of software and other intangible assets was $12 million (31 December 2017: $12 million; 30 June 2018: $11 million).

Note 3 – Debt

(Dollars in millions)	31 DECEMBER 2018 UNAUDITED $M	31 DECEMBER 2017 UNAUDITED $M	30 JUNE 2018 AUDITED $M
Syndicated bank facility – May 2020	–	70	60
Euro medium term notes GBP – Apr 2020	493	495	507
Euro medium term notes EUR – Oct 2023	848	829	852
Fixed rate NZD Bonds – May 2021	400	400	400
Fixed rate NZD Bonds – December 2028	500	–	–
Less: facility fees	(17)	(13)	(12)
	2,224	**1,781**	**1,807**
Current	**–**	**–**	**–**
Non-current	**2,224**	**1,781**	**1,807**

On 6 December 2018 Chorus issued a $500 million bond at a fixed interest rate for five years of 4.35%. The bond will mature in December 2028, with a rate reset in December 2023. The exposure of the floating rate at reset date has been hedged using interest rate swaps (see note 8).

As at 31 December 2018 Chorus had $350 million committed syndicated facilities on market standard terms and conditions (31 December 2017: $350 million; 30 June 2018: $350 million). The amount undrawn of the syndicated bank facility that is available for future operating activities is $350 million (31 December 2017: $280 million; 30 June 2018: $290 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 a hedged rate of $677 million (31 December 2017: $677 million; 30 June 2018: $677 million), and the Euro Medium Term Note debt of EUR 500 million has been swapped to a hedged rate of $785 million (31 December 2017: $785 million; 30 June 2018: $785 million), both using cross currency interest rate swaps (see note 8).

Note 4 – CIP securities

(Dollars in millions)	31 DECEMBER 2018 UNAUDITED $M	31 DECEMBER 2017 UNAUDITED $M	30 JUNE 2018 AUDITED $M
Fair value on initial recognition			
Opening balance	223	170	170
Additional securities recognised at fair value	15	8	53
Closing balance	238	178	223
Accumulated notional interest			
Opening balance	50	33	33
Notional interest	11	8	17
Closing balance	61	41	50
Total CIP securities	**299**	**219**	**273**

Note 5 – Crown funding

(Dollars in millions)	31 DECEMBER 2018 UNAUDITED $M	31 DECEMBER 2017 UNAUDITED $M	30 JUNE 2018 AUDITED $M
Fair value on initial recognition			
Opening balance	841	759	759
Additional funding recognised at fair value	33	17	82
Closing balance	874	776	841
Accumulated amortisation			
Opening balance	(83)	(61)	(61)
Amortisation	(12)	(11)	(22)
Closing balance	(95)	(72)	(83)
Total Crown funding	**779**	**704**	**758**
Current	**23**	**20**	**21**
Non-current	**756**	**684**	**737**

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 30,461 premises passed; 14,353 UFB1 and 16,108 UFB2 (31 December 2017: UFB1 21,655, UFB2 nil; 30 June 2018: UFB1 112,124, UFB2 1,953) where the premises were passed and tested by CIP at 31 December 2018. This brings the total number of premises passed and tested by CIP at 31 December 2018 to approximately 715,000 (31 December 2017: 594,000; 30 June 2018: 685,000).

Total CIP funding including accruals for UFB build as at 31 December 2018 is $812 million (31 December 2017: $664 million, 30 June 2018: $771 million).

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 CIP. Performance targets to date have been met.

Note 6 – Segmental reporting

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

Note 7 – Equity

Dividends

On 9 October 2018 a fully imputed final dividend of 13 cents per share, $56 million, was paid to shareholders (31 December 2017: 12.5 cents per share, $51 million; 30 June 2018: 21.5 cents per share, $90 million). There was an issue of 6,433,813 shares under the Dividend Reinvestment plan offered to shareholders.

Net tangible assets per security

Net tangible assets per security for the period 31 December 2018 was $1.79 (31 December 2017: $1.95; 30 June 2018: $1.78).

Long-term performance share scheme

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

In August 2016 Chorus issued 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.

In August 2017 Chorus issued 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.

In August 2018 Chorus issued one three year grant. The shares have a vesting date of 27 August 2021 and an expiry date of 27 February 2022. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.4% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following six month period.

The combined option cost for the period ended 31 December 2018 of $141,000 has been recognised in the income statement (31 December 2017: $158,000; 30 June 2018: $268,000).

Note 8 – 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 2018 is $6 million (31 December 2017: $12 million; 30 June 2018: $8 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 available in NZ IFRS 9 have been applied for the EMTN (GBP), so the designation remains unchanged. For the six months to 31 December 2018, a debit of $2 million ineffectiveness was recognised within finance expense in the income statement (31 December 2017: $3 million; 30 June 2018: $7 million).

In conjunction with the EMTN (EUR) 500 million issued in 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 of the principal exchange. For the period to 31 December 2018, there were no unrealised losses recognised in finance expense (31 December 2017: nil; 30 June 2018: $2 million credit). The cost of hedging (the fair value of the change in currency basis spread) recognised in the cost of hedging reserve, for the period to 31 December 2018 was $1 million credit (31 December 2017: $1 million debit; 30 June 2018: $3 million credit).

Chorus maintains one interest rate swap that is not designated for accounting purposes in a hedging relationship. The fair value re-measurement of unrealised gains or losses on 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 2018, $2 million credit was recognised in finance expense (31 December 2017: $1 million; 30 June 2018: $3 million).

Chorus have entered into forward dated interest rate swaps which are all held in effective hedging relationships and their unrealised gains or losses are recognised in the cash flow hedge reserve. Two forward dated interest rate swaps with a combined face value of $500 million were restructured during the period in conjunction with the resettable fixed rate bond issued on 6 December 2018, to hedge interest rate exposure from December 2023. This restructure incurred a one off cost during the period of $2 million, recognised in finance expense.

Note 9 – Related party transactions

The gross remuneration of directors and key management personnel during the period was $8.1 million (31 December 2017: $6.5 million; 30 June 2018: $10.4 million).

The Company has loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2018 of $1.5 million (31 December 2017: $1.6 million; 30 June 2018: $1.6 million) relating to Chorus long term performance share scheme outlined in note 7. All loans outstanding are interest-free limited recourse loans.

Note 10 – Post balance date events

Dividends

On 25 February 2019 Chorus declared an interim dividend in respect of the six month period ending 31 December 2018. The total amount of the dividend is $41.4 million, which represents a fully imputed dividend of 9.5 cents per ordinary share.

CIP securities and Crown funding

There was one call notice issued on 18 January 2019 to CIP in respect to 2,955 premises (UFB2) with a total aggregate issue price of $5 million. These premises had been passed and tested by CIP before 31 December 2018 so were accrued for in these financial statements. A further 6,025 premises (UFB1) were passed and tested by CIP by 31 December 2018 for which $7 million was also accrued for in these financial statements.

Independent review report

KPMG

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 4 to 15 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2018 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 2018;

— 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 to the condensed consolidated interim financial statements, and other explanatory information.

Basis for opinion

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, technical accounting training and other assurance services. 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 inaccordance with NZ IAS 34 Interim Financial Reporting;

— implementing necessary internal control to enable the preparation of condensed consolidated interim financial statements that is 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 condensed consolidated interim financial statements

Our responsibility is to express a conclusion on the 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 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

KPMG
Wellington
25 February 2019