Half Year Results

For the six months ended 31 December 2020

CHORUS

Half year result overview

Fixed line connections[1]

HY21	FY20
1,369,000	1,415,000

Broadband connections[1]

HY21	FY20
1,183,000	1,206,000

Fibre connections[1]

HY21	FY20
813,000	751,000

Dividend

HY21	HY20
10.5cps	10cps

EBITDA[2]

HY21	HY20
$323m	$332m

Net profit after tax

HY21	HY20
$24m	$31m

1 Excludes free education connections provided as part of Chorus' COVID-19 response.
2 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.

HY21 Management commentary

We report earnings before interest, income tax, depreciation, and amortisation (EBITDA) of $323 million for the six months ending 31 December 2020 (HY21). This was a decrease of $9 million on the same six months in FY20 (HY20), largely reflecting the continued migration of customers on legacy copper services to alternative networks, particularly in non-Chorus fibre network areas. In addition, our COVID-19 response constrained HY21 revenues and HY20 revenues included the benefit of a one-off legal settlement. Expenses reduced slightly with ongoing tight control of discretionary expenditure helping offset cost inflation. Net earnings decreased by $7 million compared to HY20. Depreciation and amortisation expenses continued to increase as our network asset base grew, while interest costs reduced significantly with the repayment of the GBP EMTN in April 2020. Guidance for FY21 EBITDA is maintained at $640 million to $660 million.

Operating revenue

Revenues of $473 million were down $10 million compared to HY20. HY20 included about $3 million in other revenues from favourable legal settlements.

Our COVID-19 response constrained revenues by approximately $3 million because we chose to delay the implementation of annual CPI increases on fibre broadband services from July until October. Reductions in pricing for gigabit services, however, were implemented in July. We also extended our provision of approximately 11,000 free broadband connections, for students identified by the government as lacking broadband services, through to March 2021 given the ongoing effects of COVID-19.

Broadband revenues continued to grow as more consumers transition from copper to fibre services and almost 90% of consumers are opting for plans above the entry level 50 megabit per second service. This saw average fibre monthly revenue per user grow from $48.42 to $49.66 between FY20 and HY21.

Mass market broadband connections fell from 1,206,000 to 1,183,000 across the same period. This reflected ongoing competition from alternative fibre and wireless networks, as well as the impact of COVID-19 border restrictions on net migration in HY21. Strong population growth had previously provided a positive tailwind to help offset connection losses to other networks.

Connection revenues across legacy fibre premium and copper voice and data services also continued to decline as consumers migrate to alternative services. Total connections on our network reduced by 63,000 between the two periods.

	CONNECTIONS 31 DECEMBER 2020[5]	CONNECTIONS 31 DECEMBER 2019	CONNECTIONS 30 JUNE 2020[5]
Fibre broadband (GPON)[3]	802,000	681,000	740,000
Fibre premium (P2P)[4]	11,000	12,000	11,000
Copper VDSL	184,000	242,000	221,000
Copper ADSL	197,000	283,000	245,000
Data services over copper	3,000	4,000	4,000
Unbundled copper	13,000	18,000	15,000
Baseband copper	159,000	192,000	179,000
Total fixed line connections	**1,369,000**	**1,432,000**	**1,415,000**

Expenses

Total operating expenses were $150 million in HY21, a $1 million reduction from HY20. This was achieved through a continued focus on reducing discretionary costs across the business.

Labour

Labour costs of $38 million represent staff costs that are not capitalised and is in line with the HY20 result. We had 871 permanent and fixed term employees at the end of HY21, up slightly from 862 employees at the end of HY20.

A recruitment freeze is in place for non-critical roles, as we review the changing needs of our organisational structure given our transition from being a fibre network builder to a more operational focus.

3 GPON: Gigabit Passive Optical Network
4 P2P: Where two parties or devices are connected point-to-point via fibre.
5 This table excludes free education connections provided as part of Chorus' COVID-19 response with the Ministry of Education.

Network maintenance

Network maintenance costs were flat compared to HY20. Overall fault volumes continued to reduce as total customer connections reduced and a greater proportion of customers connected to the newer fibre network. HY21 was characterised by more weather-related network events than the favourably dry conditions of HY20. These events, together with third party network damage, increased the average cost per fault.

Information technology

Information technology costs were up $2 million compared to HY20, largely due to the decommissioning of legacy copper network equipment within Spark exchange sites.

Consultants

Consultant costs decreased by $3 million in HY21 compared to HY20. This reflects the timing of external advice required to support the implementation of the new regulatory framework from January 2022.

Depreciation and amortisation

Depreciation continues to increase because of our investment in long life network assets for the Ultra-fast Broadband (UFB) rollout since 2011. This is partially offset by the increasing amortisation of Crown funding against these assets.

Finance income and expenses

Finance income is lower for HY21 because HY20 included interest income from the funds held on term deposit in preparation for the GBP EMTN to be repaid in April 2020.

Overall interest expense decreased by $18 million due to the repayment of the GBP EMTN in April 2020 and the weighted average effective interest rate moving from 5.2% to 4% in the period. This decrease was partially offset by increased interest on fixed rate NZD bonds in comparison to HY20 due to the issue of new NZD bonds of $400 million in December 2020. Also, interest on the EUR EMTN increased by $6 million due to a full six months of interest being incurred on the EUR EMTN 2026 bond issued in December 2019, compared to HY20 when only one month had been incurred. Notional interest on Crown Infrastructure Partners (CIP) securities increased as Crown funding continued to grow.

Capital expenditure

Gross capital expenditure for HY21 was $353 million, down from $357 million in HY20. Fibre remained the dominant category of spend at 85%, with the UFB rollout now 92% complete. Copper related expenditure continues to trend downwards.

We invested $86 million in the UFB2 rollout during the period. This was up from $74 million UFB2 rollout spend in HY20.

Fibre connections and layer 2 spend was $146 million, driven largely by the cost to install fibre to 90,000 homes and businesses (UFB1 70,000; UFB2 20,000). This was down from 99,000 connections in HY20. The average cost per premises connected during HY21 was $1,062[6] in UFB1 areas and $1,226[6] in UFB2 areas.

Spend on other fibre connections and growth was $47 million, up from $28 million in HY20. This increase was largely due to the West Coast fibre rollout which commenced during HY21 and is a mostly government funded three-year project.

Fibre customer retention costs increased by $3 million reflecting a continued focus on fibre product incentives.

Copper capital expenditure reduced from $29 million in HY20 to $23 million in the current period.

Spend on copper customer retention costs was $6 million, down from $10 million in HY20 due to the declining uptake of copper broadband.

Common capital expenditure was up slightly from HY20 due to lifecycle upgrades for IT infrastructure.

Dividends, equity and capital management

Chorus will pay an interim dividend of 10.5 cents per share on 13 April 2021 to all holders registered at 5:00pm 16 March 2021. 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 1.85 cents per share will be payable to shareholders who are not resident in New Zealand.

The dividend reinvestment plan will be available for the interim dividend, with a 2 percent discount applied. Participation in the dividend reinvestment plan will be based on election notices received by the share registrar by 5:00pm (NZ time) on 17 March 2021. Shareholders who previously elected to participate in the dividend reinvestment plan, but no longer wish to do so, will need to update their election by this time.

A final dividend of 14.5 cents per share is expected to be declared in August 2021, subject to no material adverse changes in circumstances or outlook.

On 2 December 2020 Chorus issued $200 million seven-year and $200 million ten-year unsecured, unsubordinated, fixed rate NZD retail bonds . The funds raised will be used for general corporate purposes including the repayment of the $400 million NZD retail bond in May 2021.

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 2020, Chorus had a long-term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

6 For a standard residential connection, excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs.

Financial statements

Condensed consolidated income statement

For the six months ended 31 December 2020

(Dollars in millions)	Notes	SIX MONTHS ENDED 31 DECEMBER 2020 UNAUDITED $M	SIX MONTHS ENDED 31 DECEMBER 2019 UNAUDITED $M	YEAR ENDED 30 JUNE 2020 AUDITED $M
Fibre broadband (GPON)		228	187	393
Fibre premium (P2P)		34	36	73
Copper based broadband		110	144	271
Copper based voice		36	42	82
Data services copper		5	8	16
Field services products		31	33	65
Value added network services		15	16	29
Infrastructure		12	12	24
Other		2	5	6
Total operating revenue		**473**	**483**	**959**
Labour		(38)	(39)	(80)
Network maintenance		(34)	(34)	(64)
Other network		(13)	(12)	(29)
Information technology		(25)	(23)	(47)
Rent and rates		(6)	(6)	(13)
Property maintenance		(6)	(5)	(12)
Electricity		(7)	(8)	(15)
Provisioning		(1)	(2)	(5)
Insurance		(2)	(2)	(3)
Consultants		(2)	(5)	(9)
Regulatory levies		(4)	(4)	(7)
Other		(12)	(11)	(27)
Total operating expenses		**(150)**	**(151)**	**(311)**
Earnings before interest, income tax, depreciation and amortisation		**323**	**332**	**648**
Depreciation	1	(164)	(155)	(319)
Amortisation	2	(45)	(43)	(83)
Earnings before interest and income tax		**114**	**134**	**246**
Finance income		-	7	12
Finance expense		(77)	(95)	(185)
Net earnings before income tax		**37**	**46**	**73**
Income tax expense		(13)	(15)	(21)
Net earnings for the period		**24**	**31**	**52**

Earnings per share

Basic earnings per share (dollars)		**0.05**	**0.07**	**0.12**
Diluted earnings per share (dollars)		**0.04**	**0.06**	**0.10**

The accompanying notes are an integral part of these financial statements.

Condensed consolidated statement of comprehensive income

For the six months ended 31 December 2020

(Dollars in millions)	Note	SIX MONTHS ENDED 31 DECEMBER 2020 UNAUDITED $M	SIX MONTHS ENDED 31 DECEMBER 2019 UNAUDITED $M	YEAR ENDED 30 JUNE 2020 AUDITED $M
Net earnings for the period		**24**	**31**	**52**
Other comprehensive income				
Items that will be reclassified subsequently to the income statement when specific conditions are met				
Movements in effective cash flow hedges	9	17	4	(28)
Amortisation of de-designated cash flow hedges transferred to income statement	9	-	(1)	(3)
Movement in cost of hedging reserve	9	(10)	(1)	3
Other comprehensive income net of tax		**7**	**2**	**(28)**
Total comprehensive income for the period net of tax		**31**	**33**	**24**

The accompanying notes are an integral part of these financial statements.

Condensed consolidated statement of financial position

As at 31 December 2020

(Dollars in millions)	Notes	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Current assets				
Cash and call deposits		268	678	-
Income tax receivable		25	16	20
Trade and other receivables		139	192	140
Derivative financial instruments	9	2	2	2
Finance lease receivable		-	6	3
Total current assets		**434**	**894**	**165**
Non-current assets				
Derivative financial instruments	9	66	37	93
Trade and other receivables		2	2	1
Deferred tax receivable		114	102	116
Customer retention assets	3	55	59	56
Software and other intangibles	2	166	134	159
Network assets	1	5,186	4,976	5,052
Total non-current assets		**5,589**	**5,310**	**5,477**
Total assets		**6,023**	**6,204**	**5,642**
Current liabilities				
Cash overdraft		-	-	5
Trade and other payables		263	323	279
Income tax payable		3	4	-
Lease payable		10	8	9
Derivative financial instruments	9	3	169	-
Debt	4	400	512	430
Total current liabilities excluding Crown funding		**679**	**1,016**	**723**
Current portion of Crown funding	6	26	26	26
Total current liabilities		**705**	**1,042**	**749**
Non-current liabilities				
Trade and other payables		5	-	3
Deferred tax payable		359	340	350
Derivative financial instruments		146	122	148
Lease payable		261	253	257
Debt	4	2,256	2,214	1,892
Total non-current liabilities excluding CIP and Crown funding		**3,027**	**2,929**	**2,650**
Crown Infrastructure Partners (CIP) securities	5	495	422	461
Crown funding	6	877	836	855
Total non-current liabilities		**4,399**	**4,187**	**3,966**
Total liabilities		**5,104**	**5,229**	**4,715**
Equity				
Share capital		689	660	666
Reserves		(104)	(81)	(111)
Retained earnings		334	396	372
Total equity		**919**	**975**	**927**
Total liabilities and equity		**6,023**	**6,204**	**5,642**

The accompanying notes are an integral part of these financial statements.
The financial statements are approved and signed on behalf of the Board.

Patrick Strange
Chair

Mark Cross
Chair, Audit and Risk Management Committee

Authorised for issue on 22 February 2021

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2020

(Dollars in millions)	Note	Share capital $M	Retained earnings $M	Hedging-related reserves $M	Total $M
Balance at 1 July 2019		**638**	**424**	**(83)**	**979**
Comprehensive income					
Net earnings for the year		-	52	-	52
Other comprehensive income					
Movement in cash flow hedge reserve		-	-	(28)	(28)
Amortisation of de-designated cash flow hedges transferred to income statement		-	-	(3)	(3)
Movement in cost of hedging reserve		-	-	3	3
Total comprehensive income		**-**	**52**	**(28)**	**24**
Contributions by and (distributions to) owners:					
Dividends	8	-	(104)	-	(104)
Supplementary dividends		-	(12)	-	(12)
Tax credit on supplementary dividends		-	12	-	12
Dividend reinvestment plan		28	-	-	28
Total transactions with owners		**28**	**(104)**	**-**	**(76)**
Balance at 30 June 2020 (AUDITED)		**666**	**372**	**(111)**	**927**
Comprehensive income					
Net earnings for the period		-	24	-	**24**
Other comprehensive income					
Changes in cash flow hedge reserve		-	-	17	**17**
Movement in cost of hedging reserve		-	-	(10)	**(10)**
Total comprehensive income		**-**	**24**	**7**	**31**
Contributions by and (distributions to) owners:					
Dividends	8	-	(62)	-	(62)
Supplementary dividends		-	(7)	-	(7)
Tax credit on supplementary dividends		-	7	-	7
Dividend reinvestment plan		23	-	-	23
Total transactions with owners		**23**	**(62)**	**-**	**(39)**
Balance at 31 December 2020 (UNAUDITED)		**689**	**334**	**(104)**	**919**

The accompanying notes are an integral part of these financial statements.

Condensed consolidated statement of changes in equity (continued)

For the six months ended 31 December 2020

(Dollars in millions)	Note	Share capital $M	Retained earnings $M	Hedging-related reserves $M	Total $M
Balance at 1 July 2019		**638**	**424**	**(83)**	**979**
Comprehensive income					
Net earnings for the period		-	31	-	31
Other comprehensive income					
Movement in cash flow hedge reserve		-	-	4	4
Amortisation of de-designated cash flow hedges transferred to income statement		-	-	(1)	(1)
Movement in cost of hedging reserve		-	-	(1)	(1)
Total comprehensive income		**-**	**31**	**2**	**33**
Contributions by and (distributions to) owners:					
Dividends	8	-	(59)	-	(59)
Supplementary dividends		-	(7)	-	(7)
Tax credit on supplementary dividends		-	7	-	7
Dividend reinvestment plan		22	-	-	22
Total transactions with owners		**22**	**(59)**	**-**	**(37)**
Balance at 31 December 2019 (UNAUDITED)		**660**	**396**	**(81)**	**975**

The accompanying notes are an integral part of these financial statements.

Condensed consolidated statement of cash flows

For the six months ended 31 December 2020

(Dollars in millions)	SIX MONTHS ENDED 31 DECEMBER 2020 UNAUDITED $M	SIX MONTHS ENDED 31 DECEMBER 2019 UNAUDITED $M	YEAR ENDED 30 JUNE 2020 AUDITED $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers	478	466	940
Finance income	-	-	12
Payment to suppliers and employees	(171)	(183)	(329)
Taxation paid	(7)	(7)	(12)
Interest paid	(49)	(63)	(137)
Net cash flows from operating activities	**251**	**213**	**474**
Cash flows applied to investing activities			
Cash was applied to:			
Purchase of network and intangible assets	(345)	(372)	(679)
Capitalised interest paid	(1)	(2)	(3)
Net cash flows applied to investing activities	**(346)**	**(374)**	**(682)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net outflow from leases	(14)	(10)	(23)
Crown funding (including CIP securities)	51	99	162
Proceeds from debt	400	514	544
Repayment of debt	(30)	-	(677)
Dividends paid	(39)	(37)	(76)
Net cash flows from / (applied to) financing activities	**368**	**566**	**(70)**
Net cash flow	**273**	**405**	**(278)**
Cash at the beginning of the period	(5)	273	273
Cash at the end of the period	**268**	**678**	**(5)**

The accompanying notes are an integral part of these financial statements.

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 2020.

Chorus is New Zealand's largest fixed line communications infrastructure business. It builds and operates 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 2020.

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 2020 and described in note 9 to these financial statements.

Chorus business operations and its interim financial statements are not materially impacted by seasonality.

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 2020 and comparative information for the six months ended 31 December 2019 are unaudited. The comparative information for the year ended 30 June 2020 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 have 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 2020.

Note 1 – Network assets

(Dollars in millions)	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Cost			
Opening balance	10,841	10,290	10,290
Additions	314	322	571
Disposals	(7)	(1)	(25)
Other	-	-	5
Closing balance	**11,148**	**10,611**	10,841
Accumulated depreciation			
Opening balance	(5,789)	(5,467)	(5,467)
Depreciation	(178)	(169)	(346)
Disposals	5	1	24
Closing balance	**(5,962)**	(5,635)	(5,789)
Net carrying amount	**5,186**	**4,976**	**5,052**

Depreciation

The Crown funding amortisation that was released against depreciation for the six months ended 31 December 2020 was $14 million (31 December 2019: $14 million; 30 June 2020: $27 million). This brings total depreciation to $164 million (31 December 2019: $155 million; 30 June 2020: $319 million). See note 6 for more information on Crown funding.

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).

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.

Additions

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

Capital commitments

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

At 31 December 2020 the contractual commitment for acquisition of network assets was $172 million (31 December 2019: $223 million; 30 June 2020: $196 million), mainly relating to Ultra-Fast Broadband (UFB) build activity.

Right of use assets

Network assets comprise of owned and right of use (leased) assets.

(Dollars in millions)	Fibre cables $M	Ducts, manholes and poles $M	Property $M	Total $M
Balance 1 July 2019	9	34	182	225
Additions	-	10	7	17
Depreciation charge	-	(2)	(12)	(14)
Balance at 30 June 2020	**9**	**42**	**177**	**228**
Additions	-	5	6	11
Relinquishments	-	-	(1)	(1)
Depreciation charge	-	(2)	(6)	(8)
Balance at 31 December 2020	**9**	**45**	**176**	**230**
Balance 1 July 2019	9	34	182	225
Additions (net of relinquishments)	-	9	-	9
Depreciation charge	-	(3)	(3)	(6)
Balance at 31 December 2019	**9**	**40**	**179**	**228**

Additions to right of use assets during the period to 31 December 2020 were largely CPI adjustments to property, and ducts, manholes and poles leases, and additions to pole leases related to UFB build activity.

Note 2 – Software and other intangibles

(Dollars in millions)	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Cost			
Opening balance	836	781	781
Additions	35	22	71
Disposals	-	-	(16)
Closing balance	**871**	**803**	**836**
Accumulated amortisation			
Opening balance	(677)	(644)	(644)
Amortisation	(28)	(25)	(49)
Disposals	-	-	16
Closing balance	**(705)**	**(669)**	**(677)**
Net carrying amount	**166**	**134**	**159**

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

Amortisation

	Note	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Amortisation charged on software and intangible assets		28	25	49
Amortisation expense charged on customer retention assets	3	17	18	34
Total amortisation		**45**	**43**	**83**

Additions

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

Capital commitments

At 31 December 2020, the contractual commitment for acquisition of software and other intangible assets was $8 million (31 December 2019: $9 million; 30 June 2020: $8 million), mainly relating to network capability enhancement activity.

Note 3 – Customer retention assets

(Dollars in millions)	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Cost			
Opening balance	185	150	150
Additions	18	19	35
Closing balance	**203**	**169**	**185**
Accumulated amortisation			
Opening balance	(129)	(89)	(89)
Amortisation	(19)	(21)	(40)
Closing balance	**(148)**	**(110)**	**(129)**
Net carrying amount	**55**	**59**	**56**

Customer retention assets are made up of $53 million of new connections and migrations (31 December 2019: $55 million; 30 June 2020 $54 million) and $2 million in customer incentives (31 December 2019: $4 million; 30 June 2020: $2 million).

Note 3 – Customer retention assets - cont

Amortisation of customer retention assets

Customer retention assets are amortised to the income statement, either as amortisation expense or operating revenue, based on the nature of the specific costs capitalised.

	Note	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Amortised to amortisation expense	2	17	18	34
Amortised to operating revenue		2	3	6
Total Customer retention assets amortisation		**19**	**21**	**40**

Note 4 – Debt

(Dollars in millions)	Due Date	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Syndicated bank facilities	Sep 2020	-	-	30
Euro medium term notes GBP	Apr 2020	-	512	-
Euro medium term notes EUR	Oct 2023	862	840	883
Euro medium term notes EUR	Dec 2026	518	489	527
Fixed rate NZD Bonds	May 2021	400	400	400
Fixed rate NZD Bonds	Dec 2027	200	-	-
Fixed rate NZD Bonds	Dec 2028	500	500	500
Fixed rate NZD Bonds	Dec 2030	196	-	-
Less: facility fees		(20)	(15)	(18)
Total debt		**2,656**	**2,726**	**2,322**
Current		**400**	**512**	**430**
Non-current		**2,256**	**2,214**	**1,892**

On 2 December 2020 Chorus issued $400 million NZD bonds in two tranches, at fixed interest rates for 7 years and 10 years of 1.98% and 2.51% respectively. The bonds will mature in December 2027 and December 2030. The fixed rate on the 2030 tranche has been swapped to a floating rate using interest rate swaps (see note 9). As a result of the fair value hedge, at 31 December 2020, this tranche was recognised at fair value of $196 million. This hedging relationship was entered to comply with Chorus Treasury policy which does not allow for greater than 70% of term debt to be subject to fixed interest rates beyond a 3 year time period.

As at 31 December 2020 Chorus had a $350 million committed syndicated facility on standard market terms and conditions (31 December 2019: $550 million; 30 June 2020: $550 million).

In December 2020 Chorus terminated a $200 million committed syndicated facility. The remaining $350 million facility is comprised of a $60 million tranche that expires in May 2022 and $290 million that expires in April 2023. The facility is held with banks that are rated A- to AA-, based on Standard & Poor's ratings.

The Euro Medium Term Note debt of EUR 500 million has been swapped to a hedged rate of $785 million (31 December 2019: $785 million; 30 June 2020: $785 million) and EUR 300 million has been swapped to a hedged rate of $514 million (31 December 2019: $514 million; 30 June 2020: $514 million), both using cross currency interest rate swaps (see note 9). The Euro Medium Term Note debt of GBP 260 million was repaid in April 2020.

Note 5 – Crown Infrastructure Partners (CIP) securities

(Dollars in millions)	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Fair value on initial recognition			
Opening balance	360	283	283
Additional securities recognised at fair value	17	53	77
Closing balance	**377**	**336**	**360**
Accumulated notional interest			
Opening balance	101	72	72
Notional interest	17	14	29
Closing balance	**118**	**86**	**101**
Total CIP securities	**495**	**422**	**461**

Note 6 – Crown funding

Funding from the Crown is recognised at fair value where there is reasonable assurance that the funding is receivable and all attached conditions will be complied with.

Crown funding is then recognised in earnings as a reduction to depreciation expense on a systematic basis over the useful life of the asset the funding was used to construct.

(Dollars in millions)	31 DECEMBER 2020 UNAUDITED $M	31 DECEMBER 2019 UNAUDITED $M	30 JUNE 2020 AUDITED $M
Fair value on initial recognition			
Opening balance	1,016	930	930
Additional funding recognised at fair value	36	54	86
Closing balance	**1,052**	**984**	**1,016**
Accumulated amortisation			
Opening balance	(135)	(108)	(108)
Amortisation	(14)	(14)	(27)
Closing balance	**(149)**	**(122)**	**(135)**
Total Crown funding	**903**	**862**	**881**
Current	**26**	**26**	**26**
Non-current	**877**	**836**	**855**

Ultra-Fast Broadband (UFB)

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. During the six months to 31 December 2020 Chorus recognised funding for 23,630 premises passed (UFB2) where the premises were passed and tested by CIP (31 December 2019: 81,433; 30 June 2020: 112,438).

This brings the total number of premises passed and tested by CIP at 31 December 2020 to approximately 934,000 (31 December 2019: 879,000; 30 June 2020: 910,000).

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 CIP. Performance targets to date have been met.

Note 7 – Segmental reporting

Chorus has determined that it operates in one segment providing nationwide fixed line communications infrastructure.

The determination is based on the reports reviewed by the CEO in assessing performance, allocating resources and making strategic decisions.

Note 8 – Equity

Dividends

On 12 October 2020 a fully imputed final dividend of 14 cents per share, $62 million, was paid to shareholders (31 December 2019: 13.5 cents per share, $59 million; 30 June 2020: 23.5 cents per share, $104 million). There was an issue of 2,533,324 shares under the Dividend Reinvestment plan offered to shareholders.

Net tangible assets per security

Net tangible assets per security for the period 31 December 2020 was $1.41 (31 December 2019: $1.67; 30 June 2020: $1.39).

Long-term performance share scheme

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

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 shares are held by a nominee (Chorus LTI Trustee Limited) on behalf of the participants, until after the shares vest when the nominee is directed to transfer or sell the shares. If the shares do not vest, they may be held or sold by the nominee. The shares carry the same rights as all other shares.

The Chorus Board of Directors (Board) approved a different long-term performance share scheme for key senior management from 1 July 2019, based on issuing share-rights instead of issuing shares. The existing grants will continue until their vesting date.

In August 2019, Chorus issued a tranche of share rights under the new scheme. The shares have a vesting date of 30 August 2022 and an expiry date of 30 August 2023. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.35% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period.

In August 2020, Chorus issued a new tranche of share rights. The shares have a vesting date of 28 August 2023 and an expiry date of 28 August 2024. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 9.65% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period.

The combined option cost for the six months to 31 December 2020 of $191,000 has been recognised in the Income statement (31 December 2019: $197,000; 30 June 2020: $392,000).

Note 9 – Derivative financial instruments

Finance expense includes any unrealised ineffectiveness arising from the hedge accounting relationships.

In conjunction with the EMTN (EUR) 500 million issued in October 2016 and the EMTN (EUR) 300 million issued in December 2019, Chorus entered into cross currency interest rate swaps to hedge the foreign currency and foreign interest rate risks on the EMTN (EUR). The 2016 swaps have an aggregate principal of EUR 500 million on the receive leg and NZD 785 million on the pay leg, and the 2019 swaps have an aggregate principal of EUR 300 million on the receive leg and NZD 514 million on the pay leg. Using the cross-currency interest rate swaps, Chorus will pay NZD 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 for each issue: 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 six months to 31 December 2020 $1 million ineffectiveness was recognised in finance expense (31 December 2019: $1 million; 30 June 2020: $1 million) in relation to these hedging relationships. The cost of hedging (the fair value of the change in currency basis spread) recognised in the cost of hedging reserve, for the six months to 31 December 2020 was $14 million (31 December 2019: $1 million; 30 June 2020: $4 million debit).

As at 31 December 2020 Chorus holds all interest rate swaps in designated hedging relationships. All are held in effective hedging relationships and their unrealised gains or losses are recognised in the cash flow hedge reserve. Three interest rate swaps have been restructured; two in December 2018 and one in February 2020. The two interest rate swaps restructured in December 2018 have a combined face value of $500 million and were reset in conjunction with the resettable NZD fixed rate bond issued on 6 December 2018 to hedge interest rate exposure from December 2023.

As part of the restructure, the original hedge relationship was discontinued and on termination there was a net present value of $14 million to be recognised in the cash flow hedge reserve. This amount remains in the cash flow hedge reserve as the hedged item still exists and is being amortised over the original hedge period (April 2020- April 2026). The unamortised balance of this original fair value at 31 December 2020 is $12 million (31 December 2019: $14 million; 30 June 2020: $13 million).

The forward dated interest rate swap restructured in February 2020 had a face value of $200 million and was reset in conjunction with the EUR 300 million EMTN issued on 5 December 2019, to hedge interest rate exposure from April 2020. The original hedge relationship was discontinued and on termination had a net present value of $27 million. This amount was held in the cash flow hedge reserve as the hedged item still exists and will be amortised over the original hedge period (April 2020-April 2026). The unamortised balance of the original fair values at 31 December 2020 was $23 million (31 December 2019: nil; 30 June 2020: $26 million).

As long as the hedges remain effective, any future gains or losses will be processed through the hedge reserve; however, the initial fair values 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 of the Income statement can be predicted. For the six months to 31 December 2020, $1 million debit ineffectiveness was recognised within finance expense in the Income statement in relation to these restructures (31 December 2019: nil; 30 June 2020: nil).

Chorus has also entered into two interest rate swaps which have a combined face value $200 million and were entered in conjunction with the 10 year NZD bonds issued on 2 December 2020. The intention of these swaps is to swap the interest exposure from a fixed to a floating rate to December 2030. This hedging relationship was entered to comply with Chorus Treasury policy which does not allow for greater than 70% of term debt to be subject to fixed interest rates beyond a 3 year time period.

Note 10 – Related party transactions

The gross remuneration of directors and key management personnel during the six months to 31 December 2020 was $5.8 million (31 December 2019: $5.7 million; 30 June 2020: $8.8 million).

Chorus had loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2020 of $0.4 million (31 December 2019: $0.9 million; 30 June 2020: $0.9 million) relating to the Chorus long term performance share scheme outlined in note 8. All loans outstanding are interest-free limited recourse loans.

Note 11 – Post balance date events

Dividends

On 22 February 2021 Chorus declared an interim dividend in respect of the six month period ended 31 December 2020. The total amount of the dividend is $47 million, which represents a fully imputed dividend of 10.5 cents per ordinary share.

CIP securities and Crown funding

There was one call notice issued on 28 January 2021 to CIP in respect to 1,752 premises (UFB2) with a total aggregate issue price of $3.6 million. These premises had been passed and tested by CIP before 31 December 2020 so have been accrued for in these financial statements.

Independent 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 5 to 17 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2020 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 2020;
- 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, technical accounting training and other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. 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 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 interim consolidated financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG
Wellington
22 February 2021