# Half Year Results

For the six months ended 31 December 2019



CHORUS

# Half year result overview

### Fixed line connections

HY20
**1,432,000**

FY19
1,450,000

### Broadband connections

HY20
**1,206,000**

FY19
1,196,000

### Fibre connections

HY20
**693,000**

FY19
610,000

### Dividend

HY20
**10cps**

HY19
9.5cps

### EBITDA[1]

HY20
**$332m**

HY19
$318m

### Net profit after tax

HY20
**$31m**

HY19
$30m

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 $332 million for the six months ending 31 December 2019 (HY20). This was an increase of $14 million on the same six months in FY19 (HY19), with significant reductions in operating expenses more than offsetting a $6 million decrease in revenues. Net earnings increased by $1 million compared to HY19 due to increased finance expenses following the issue of bonds in December 2018 and 2019. The combination of operating cost reductions and strong broadband connections growth means we're on track to achieve our goal of returning to modest EBITDA growth in FY20. We've increased FY20 EBITDA guidance to a new range of $640 million to $655 million, from a prior range of $625 million to $645 million.**

## Operating revenue

Revenues of $483 million were down $6 million compared to HY19. This was largely a consequence of a reduction in field services activity requested by third parties for network relocation, with a corresponding decrease in other network costs.

Broadband revenue grew as mass market broadband connections increased from 1,186,000 in HY19 to 1,206,000 in HY20. Average revenue per user also grew as the proportion of fibre broadband customers on higher speed services, above the entry level 50 megabits per second (Mbps) service, continued to grow and annual price increases were applied across certain fibre and copper services.

Copper voice and data services revenues reduced as a consequence of declining connections. Total connections on our network, including mass market broadband, reduced by 54,000 connections between the end of HY19 and HY20.

Other revenue increased by $3 million from $2 million in HY19 due to favourable legal settlements.

| | CONNECTIONS 31 DECEMBER 2019 | CONNECTIONS 30 JUNE 2019 | CONNECTIONS 31 DECEMBER 2018 |
|---|---|---|---|
| Fibre broadband (GPON)[2] | 681,000 | 599,000 | 517,000 |
| Fibre premium (P2P)[3] | 12,000 | 11,000 | 12,000 |
| Copper VDSL | 242,000 | 270,000 | 295,000 |
| Copper ADSL | 283,000 | 327,000 | 374,000 |
| Data services over copper | 4,000 | 5,000 | 5,000 |
| Unbundled copper | 18,000 | 24,000 | 39,000 |
| Baseband copper | 192,000 | 214,000 | 244,000 |
| **Total fixed line connections** | **1,432,000** | **1,450,000** | **1,486,000** |

## Expenses

Total operating expenses were $151 million in HY20, a significant 12% reduction from $171 million in HY19. This reflects our continued focus on reducing costs across the business, supported by the network cost benefits of our transition to an increasingly fibre-centric customer base, and a net reduction in regulatory related costs.

### Labour

Labour costs of $39 million represent staff costs that are not capitalised and one-off restructuring costs of $1.5 million. Staff numbers are reducing because we have passed the peak of the Ultra-Fast Broadband (UFB) rollout programme and are moving from a build to more operational focus. Towards the end of HY20 our Network and Field Management and Customer Care teams were merged, resulting in a reduction in roles. We had 862 permanent and fixed term employees at the end of HY20, down from 914 employees at the end of HY19.

Labour cost in relation to the UFB build and connect activity is capitalised. As this activity reduces over time, We expect the related labour cost savings to be largely capital in nature.

### Network maintenance

Network maintenance costs reduced by $4 million compared to HY19, largely as a consequence of fewer network faults and truck rolls. The main contributors to this outcome were:

- underlying fault levels reducing as a greater proportion of customers migrate to the newer fibre network and total customer connections have reduced;
- fewer weather-related network events in HY20 compared to HY19.

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 reduced by $6 million compared to HY19. This was largely the effect of a reduction in third party requests for network relocation activity that cannot be capitalised, with a corresponding reduction in field services revenue.

### Rent and rates

Rent and rates reduced by $1 million compared to HY19. This was partly due to reduced office space.

### Information technology

Information technology costs were down $3 million compared to HY19. The ongoing replacement of legacy shared systems with our own in-house solutions is resulting in lower maintenance and support costs.

### Electricity

Electricity costs reduced by $1 million compared to HY19 due to a combination of lower average prices and lower overall power consumption.

### Provisioning

Provisioning reduced by $1 million compared to HY19 as copper connections continued to reduce and an increasing proportion of copper provisioning is classified as customer retention expenditure.

### Consultants

Consultant costs increased by $1 million in HY20 compared to the same period in FY19. We are engaging with several external consultants to provide advice and guidance on the establishment of a Building Block Model and expenditure submissions in anticipation of new regulatory requirements.

### Regulatory levies

Regulatory levies reduced by $4 million compared to HY19. This reflects a reduction in our share of the FY18/19 Telecommunications Development Levy and confirmation that our contribution will reduce further for the FY19/20 period with the total industry levy reducing from $50 million to $10 million.

### Other

Other costs have decreased by $2 million in HY20, mainly as a result of lower marketing expenses. During the same period in FY19, there was increased advertising activity due to the Chorus rebranding rollout across the country and more commercials across various media outlets.

### Depreciation and amortisation

Depreciation continues to increase because of our investment in long life network assets for the 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 higher for the period as the proceeds from the December 2019 EUR denominated Euro Medium Term Notes (EMTN) are held on term deposit until required for repayment of the GBP EMTN in April 2020.

Interest on the fixed rate NZD bonds has increased in comparison to HY19, with a full year's interest paid on the $500 million NZD bonds issued in December 2018. The EUR 300 million EMTN issued in December 2019 incurred one month of interest. Notional interest on Crown Infrastructure Partners (CIP) securities also increased as Crown funding continued to grow.

## Capital expenditure

Gross capital expenditure for HY20 was $357 million, down from $395 million in HY19. Fibre remained the dominant category of spend at 84%, with copper related expenditure continuing to trend downwards. The UFB1 rollout was completed in November 2019 and the UFB2 rollout is 37% complete, meaning we are now 86% of the way towards completing the overall programme.

We invested $100 million in the UFB rollout during the period, with $26 million spent in UFB1 areas and $74 million spent in UFB2 areas. A total of 45,000 premises were passed, up from 38,000 premises in HY19. This included 16,000 UFB2 premises.

Fibre connections and layer 2 spend was $155 million, driven largely by the cost to connect fibre to 99,000 homes and businesses (UFB1 85,000; UFB2 14,000). This was up from 95,000 connections in HY19. The average cost per residential premises connected (CPPC) in UFB1 areas during HY20 was $995[4], just below the guidance range of $1,000 to $1,150, largely as a result of favourable deployment costs. The CPPC in UFB2 areas was $1,179[4]. This was in line with the lower end of UFB2 programme guidance of $1,650 to $1,850 in 2017 dollars, which includes layer 2 and service desk costs, and backbone costs for multi-dwelling units and rights of way with 10 or fewer premises.

Spend on other fibre connections and growth was $28 million, down from $36 million in HY19 largely due to reduced pole replacement investment in the current period.

Copper capital expenditure reduced from $39 million in HY19 to $29 million in the current period. Spend on network sustain was $15 million, down from $19 million in HY19, reflecting the lower spend required as customer numbers on our copper network reduce. Copper layer 2 spend also reduced by $3 million with the prior period including capacity investment ahead of the Rugby World Cup.

Common capital expenditure was up slightly from HY19 because we modernised several information technology systems to support better customer delivery.

## Dividends, equity and capital management

We will pay an interim dividend of 10 cents per share on 14 April 2020 to all holders registered at 5:00pm 17 March 2020. 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 1.76 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, but there will be no 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 18 March 2020. 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 cents per share is expected to be declared in August 2020, subject to no material adverse changes in circumstances or outlook.

On 5 December 2019 we issued EUR 300 million seven-year unsecured, subordinated, fixed rate EMTN. The funds raised will be used for general corporate purposes including the repayment of the existing GBP EMTN 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 2019, Chorus had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

4 Excluding layer 2 and backbone costs for multi-dwelling units and rightsof way, 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 2019**

| (Dollars in millions) | Notes | SIX MONTHS ENDED 31 DECEMBER 2019 UNAUDITED $M | SIX MONTHS ENDED 31 DECEMBER 2018 UNAUDITED $M | YEAR ENDED 30 JUNE 2019 AUDITED $M |
|---|---|---|---|---|
| Fibre broadband (GPON) | | 187 | 136 | 294 |
| Fibre premium (P2P) | | 36 | 37 | 74 |
| Copper based broadband | | 144 | 181 | 344 |
| Copper based voice | | 42 | 56 | 106 |
| Data services copper | | 8 | 10 | 18 |
| Field services products | | 33 | 39 | 74 |
| Value add and network services | | 16 | 16 | 30 |
| Infrastructure | | 12 | 12 | 24 |
| Other | | 5 | 2 | 6 |
| **Total operating revenue** | | **483** | **489** | **970** |
| Labour costs | | (39) | (37) | (74) |
| Network maintenance | | (34) | (38) | (75) |
| Other network | | (12) | (18) | (33) |
| Information technology | | (23) | (26) | (50) |
| Rent and rates | | (6) | (7) | (13) |
| Property maintenance | | (5) | (6) | (17) |
| Electricity | | (8) | (9) | (17) |
| Provisioning | | (2) | (3) | (6) |
| Insurance | | (2) | (2) | (3) |
| Consultants | | (5) | (4) | (7) |
| Regulatory levies | | (4) | (8) | (16) |
| Other | | (11) | (13) | (23) |
| **Total operating expenses** | | **(151)** | **(171)** | **(334)** |
| **Earnings before interest, income tax, depreciation and amortisation** | | **332** | **318** | **636** |
| Depreciation | 1 | (155) | (150) | (303) |
| Amortisation | 2 | (43) | (46) | (90) |
| **Earnings before interest and income tax** | | **134** | **122** | **243** |
| Finance income | | 7 | 4 | 10 |
| Finance expense | | (95) | (83) | (175) |
| **Net earnings before income tax** | | **46** | **43** | **78** |
| Income tax expense | | (15) | (13) | (25) |
| **Net earnings for the period** | | **31** | **30** | **53** |

**Earnings per share**

| | | | | |
|---|---|---|---|---|
| Basic earnings per share (dollars) | | **0.07** | **0.07** | **0.12** |
| Diluted earnings per share (dollars) | | **0.06** | **0.05** | **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 2019**

| (Dollars in millions) | Note | SIX MONTHS ENDED 31 DECEMBER 2019 UNAUDITED $M | SIX MONTHS ENDED 31 DECEMBER 2018 UNAUDITED $M | YEAR ENDED 30 JUNE 2019 AUDITED $M |
|---|---|---|---|---|
| **Net earnings for the period** | | **31** | **30** | **53** |
| **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 | 4 | (14) | (45) |
| Amortisation of de-designated cash flow hedges transferred to income statement | 9 | (1) | (1) | (2) |
| Movement in cost of hedging reserve | 9 | (1) | (1) | - |
| **Other comprehensive income net of tax** | | **(2)** | **(16)** | **(47)** |
| **Total comprehensive income for the period net of tax** | | **33** | **14** | **6** |

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

# Condensed consolidated statement of financial position

**As at 31 December 2019**

| (Dollars in millions) | Notes | 31 DECEMBER 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and call deposits | | 678 | 281 | 273 |
| Income tax receivable | | 16 | 16 | 11 |
| Trade and other receivables | | 192 | 214 | 140 |
| Derivative financial instruments | 9 | 2 | 4 | 3 |
| Finance lease receivable | | 6 | 5 | 6 |
| **Total current assets** | | **894** | **520** | **433** |
| **Non-current assets** | | | | |
| Derivative financial instruments | 9 | 37 | 43 | 56 |
| Trade and other receivables | | 2 | 5 | 7 |
| Deferred tax receivable | | 102 | 87 | 101 |
| Customer retention assets | 3 | 59 | 45 | 61 |
| Software and other intangibles | 2 | 134 | 136 | 137 |
| Network assets | 1 | 4,976 | 4,634 | 4,823 |
| **Total non-current assets** | | **5,310** | **4,950** | **5,185** |
| **Total assets** | | **6,204** | **5,470** | **5,618** |
| **Current liabilities** | | | | |
| Trade and other payables | | 323 | 359 | 360 |
| Income tax payable | | 4 | 4 | 2 |
| Lease payable | | 8 | 6 | 8 |
| Derivative financial instruments | 9 | 169 | 18 | 197 |
| Debt | 4 | 512 | - | 491 |
| **Total current liabilities excluding Crown funding** | | **1,016** | **387** | **1,058** |
| Current portion of Crown funding | 6 | 26 | 23 | 25 |
| **Total current liabilities** | | **1,042** | **410** | **1,083** |
| **Non-current liabilities** | | | | |
| Deferred tax payable | | 340 | 312 | 326 |
| Derivative financial instruments | | 122 | 222 | 91 |
| Lease payable | | 253 | 237 | 246 |
| Debt | 4 | 2,214 | 2,224 | 1,741 |
| **Total non-current liabilities excluding CIP and Crown funding** | | **2,929** | **2,995** | **2,404** |
| Crown Infrastructure Partners (CIP) securities | 5 | 422 | 299 | 355 |
| Crown funding | 6 | 836 | 756 | 797 |
| **Total non-current liabilities** | | **4,187** | **4,050** | **3,556** |
| **Total liabilities** | | **5,229** | **4,460** | **4,639** |
| **Equity** | | | | |
| Share capital | | 660 | 620 | 638 |
| Reserves | | (81) | (52) | (83) |
| Retained earnings | | 396 | 442 | 424 |
| **Total equity** | | **975** | **1,010** | **979** |
| **Total liabilities and equity** | | **6,204** | **5,470** | **5,618** |

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 24 February 2020

# Condensed consolidated statement of changes in equity

**For the six months ended 31 December 2019**

| (Dollars in millions) | Note | Share capital $M | Retained earnings $M | Hedging-related reserves $M | Total $M |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | | **590** | **468** | **(36)** | **1,022** |
| **Comprehensive income** | | | | | |
| Net earnings for the year | | - | 53 | - | 53 |
| **Other comprehensive income** | | | | | |
| Changes in cash flow hedge reserve | | - | - | (45) | (45) |
| Amortisation of de-designated cash flow hedges transferred to income statement | | - | - | (2) | (2) |
| **Total comprehensive income** | | **-** | **53** | **(47)** | **6** |
| **Contributions by and (distributions to) owners:** | | | | | |
| Dividends | 8 | - | (97) | - | (97) |
| Supplementary dividends | | - | (12) | - | (12) |
| Tax credit on supplementary dividends | | - | 12 | - | 12 |
| Dividend reinvestment plan | | 48 | - | - | 48 |
| **Total transactions with owners** | | **48** | **(97)** | **-** | **(49)** |
| **Balance at 30 June 2019 (AUDITED)** | | **638** | **424** | **(83)** | **979** |
| **Comprehensive income** | | | | | |
| Net earnings for the period | | - | 31 | - | **31** |
| **Other comprehensive income** | | | | | |
| Changes 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 changes in equity (continued)

**For the six months ended 31 December 2019**

| (Dollars in millions) | Note | Share capital $M | Retained earnings $M | Hedging-related reserves $M | Total $M |
|---|---|---|---|---|---|
| **Balance at 1 July 2018** | | **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 | 8 | – | (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** |

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

# Condensed consolidated statement of cash flows

**For the six months ended 31 December 2019**

| (Dollars in millions) | SIX MONTHS ENDED 31 DECEMBER 2019 UNAUDITED $M | SIX MONTHS ENDED 31 DECEMBER 2018 UNAUDITED $M | YEAR ENDED 30 JUNE 2019 AUDITED $M |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| *Cash was provided from/(applied to):* | | | |
| Cash received from customers | 466 | 447 | 966 |
| Finance income | - | - | 1 |
| Payment to suppliers and employees | (183) | (209) | (339) |
| Taxation paid | (7) | (7) | (3) |
| Interest paid | (63) | (55) | (129) |
| **Net cash flows from operating activities** | **213** | **176** | **496** |
| **Cash flows applied to investing activities** | | | |
| *Cash was applied to:* | | | |
| Purchase of network and intangible assets | (372) | (401) | (806) |
| Capitalised interest paid | (2) | (2) | (4) |
| **Net cash flows applied to investing activities** | **(374)** | **(403)** | **(810)** |
| **Cash flows from financing activities** | | | |
| *Cash was provided from/(applied to):* | | | |
| Net outflow from leases | (10) | (5) | (21) |
| Crown funding (including CIP securities) | 99 | 49 | 167 |
| Proceeds from debt | 514 | 500 | 500 |
| Repayment of debt | - | (60) | (60) |
| Dividends paid | (37) | (26) | (49) |
| **Net cash flows from financing activities** | **566** | **458** | **537** |
| **Net cash flow** | **405** | **231** | **223** |
| Cash at the beginning of the period | 273 | 50 | 50 |
| **Cash at the end of the period** | **678** | **281** | **273** |

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 2019.

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 2019.

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 2019 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 2019 and comparative information for the six months ended 31 December 2018 are unaudited. The comparative information for the year ended 30 June 2019 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 2019.

## Note 1 – Network assets

| (Dollars in millions) | 31 DECEMBER 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|
| **Cost** | | | |
| Opening balance | 10,290 | 9,626 | 9,626 |
| Additions | 322 | 353 | 711 |
| Disposals | (1) | (18) | (54) |
| Other | - | 4 | 7 |
| Closing balance | **10,611** | **9,965** | **10,290** |
| **Accumulated depreciation** | | | |
| Opening balance | (5,467) | (5,187) | (5,187) |
| Depreciation | (169) | (162) | (328) |
| Disposals | 1 | - | 49 |
| Other | - | 18 | (1) |
| Closing balance | **(5,635)** | **(5,331)** | **(5,467)** |
| **Net carrying amount** | **4,976** | **4,634** | **4,823** |

### Depreciation

The Crown funding amortisation that was released against depreciation for the six months ended 31 December 2019 was $14 million (31 December 2018: $12 million; 30 June 2019: $25 million). See note 6.

### 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.

### Additions

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

### Capital commitments

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

At 31 December 2019 the contractual commitment for acquisition of network assets was $188 million (31 December 2018: $395 million; 30 June 2019: $264 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 2018** | 9 | 26 | 191 | 226 |
| Additions | 1 | 10 | 5 | 16 |
| Relinquishments | - | - | (4) | (4) |
| Depreciation charge | (1) | (2) | (10) | (13) |
| **Balance at 30 June 2019** | **9** | **34** | **182** | **225** |
| Additions | - | 9 | - | 9 |
| Relinquishments | - | - | - | - |
| Depreciation charge | - | (3) | (3) | (6) |
| **Balance at 31 December 2019** | **9** | **40** | **179** | **228** |
| | | | | |
| **Balance 1 July 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** |

Additions to right of use assets during the period to 31 December 2019 were largely CPI adjustments to 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 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|
| Cost | | | |
| Opening balance | 781 | 728 | 728 |
| Additions | 22 | 25 | 53 |
| **Closing balance** | **803** | **753** | **781** |
| Accumulated amortisation | | | |
| Opening balance | (644) | (588) | (588) |
| Amortisation | (25) | (29) | (56) |
| **Closing balance** | **(669)** | **(617)** | **(644)** |
| **Net carrying amount** | **134** | **136** | **137** |

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

### Amortisation

| | Note | 31 DECEMBER 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|---|
| Amortisation charged on software and intangible assets | | 25 | 29 | 56 |
| Amortisation charged on customer retention assets | 3 | 18 | 17 | 34 |
| **Total amortisation** | | **43** | **46** | **90** |

### Capital commitments

At 31 December 2019, the contractual commitment for acquisition of software and other intangible assets was $35 million (31 December 2018: $12 million; 30 June 2019:$36 million), mainly relating to network capability enhancement activity.

## Note 3 – Customer retention assets

| (Dollars in millions) | 31 DECEMBER 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|
| Cost | | | |
| Opening balance | 150 | 96 | 96 |
| Additions | 19 | 20 | 54 |
| Disposals | - | (10) | - |
| **Closing balance** | **169** | **106** | **150** |
| Accumulated amortisation | | | |
| Opening balance | (89) | (54) | (54) |
| Amortisation | (21) | (17) | (35) |
| Disposals | - | 10 | - |
| **Closing balance** | **(110)** | **(61)** | **(89)** |
| **Net carrying amount** | **59** | **45** | **61** |

Customer retention assets are made up of $55 million of new connections and migrations and $4 million in customer incentives (31 December 2018: $45 million, nil; 30 June 2019: $57 million, $4 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 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|---|
| Amortised to amortisation expense | 2 | 18 | 17 | 34 |
| Amortised to operating revenue | | 3 | - | 1 |
| **Total Customer retention assets amortisation** | | **21** | **17** | **35** |

## Note 4 – Debt

| (Dollars in millions) | Due Date | 31 DECEMBER 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|---|
| Euro medium term notes GBP | Apr 2020 | 512 | 493 | 491 |
| Euro medium term notes EUR | Oct 2023 | 840 | 848 | 858 |
| Euro medium term notes EUR | Dec 2026 | 489 | - | - |
| Fixed rate NZD Bonds | May 2021 | 400 | 400 | 400 |
| Fixed rate NZD Bonds | Dec 2028 | 500 | 500 | 500 |
| Less: facility fees | | (15) | (17) | (17) |
| **Total Debt** | | **2,726** | **2,224** | **2,232** |
| **Current** | | **512** | **-** | **491** |
| **Non-current** | | **2,214** | **2,224** | **1,741** |

On 5 December 2019 Chorus issued EUR 300 million of Euro Medium Term Notes at a fixed interest rate of 0.875% for seven years. They will mature in December 2026 and have been swapped to a hedged rate of $514 million using cross currency interest rate swaps (see note 9).

As at 31 December 2019 Chorus had $550 million committed syndicated facilities on market standard terms and conditions (31 December 2018: $350 million; 30 June 2019: $550 million). The amount undrawn of the syndicated bank facility that is available for future operating activities is $550 million (31 December 2018: $350 million; 30 June 2019: $550 million).

The facilities are split into 2 tranches, a $350 million tranche which expires May 2022 and a $200 million tranche which expires May 2024. 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 2018: $677 million; 30 June 2019: $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 2018: $785 million; 30 June 2019: $785 million), both using cross currency interest rate swaps (see note 9).

## Note 5 – Crown Infrastructure Partners (CIP) securities

| (Dollars in millions) | 31 DECEMBER 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|
| **Fair value on initial recognition** | | | |
| Opening balance | 283 | 223 | 223 |
| Additional securities recognised at fair value | 53 | 15 | 60 |
| **Closing balance** | **336** | **238** | **283** |
| **Accumulated notional interest** | | | |
| Opening balance | 72 | 50 | 50 |
| Notional interest | 14 | 11 | 22 |
| **Closing balance** | **86** | **61** | **72** |
| **Total CIP securities** | **422** | **299** | **355** |

## 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 2019 UNAUDITED $M | 31 DECEMBER 2018 UNAUDITED $M | 30 JUNE 2019 AUDITED $M |
|---|---|---|---|
| **Fair value on initial recognition** | | | |
| Opening balance | 930 | 841 | 841 |
| Additional funding recognised at fair value | 54 | 33 | 89 |
| Closing balance | **984** | **874** | **930** |
| **Accumulated amortisation** | | | |
| Opening balance | (108) | (83) | (83) |
| Amortisation | (14) | (12) | (25) |
| Closing balance | **(122)** | **(95)** | **(108)** |
| **Total Crown funding** | **862** | **779** | **822** |
| **Current** | **26** | **23** | **25** |
| **Non-current** | **836** | **756** | **797** |

### Ultra-Fast Broadband (UFB)

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 81,433 premises passed (UFB1 58,337 and UFB2 23,096 ) where the premises were passed and tested by CIP as at 31 December 2019 (31 December 2018: 30,461; 30 June 2019: 109,784).

This brings the total number of premises passed and tested by CIP at 31 December 2019 to approximately 879,000 (31 December 2018: 715,000; 30 June 2019: 797,000).

The total number of premises able to connect (including those that have not been tested by CIP) was approximately 909,000 at 31 December 2019 (31 December 2018: 738,000; 30 June 2019: 842,000).

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 8 October 2019 a fully imputed final dividend of 13.5 cents per share, $59 million, was paid to shareholders (31 December 2018: 13 cents per share, $56 million; 30 June 2019: 22.5 cents per share, $97 million). There was an issue of 4,421,069 shares under the Dividend Reinvestment plan offered to shareholders.

### Net tangible assets per security

Net tangible assets per security for the period 31 December 2019 was $1.67 (31 December 2018: $1.79; 30 June 2019: $1.64).

### Long-term performance share scheme

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

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 Chorus 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.

The combined option cost for the period ended 31 December 2019 of $197,000 has been recognised in the income statement (31 December 2018: $141,000; 30 June 2019: $334,000).

## Note 9 – Derivative financial instruments

Finance expense includes any unrealised ineffectiveness arising from the Euro Medium Term Notes (EMTN) hedge relationships.

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 2019 is $1 million (31 December 2018: $6 million; 30 June 2019: $2 million). As long as the hedge remains effective, any future gains or losses will be processed through the cash flow hedge reserve. The initial fair value will flow to finance expense in the income statement at some time over the life of the derivatives as ineffectiveness. 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 2019, $1 million ineffectiveness was recognised within finance expense in the income statement (31 December 2018: $2 million; 30 June 2019: $6 million).

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 New Zealand Dollar (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 period to 31 December 2019 $1 million of ineffectiveness was recognised in finance expense (31 December 2018: nil; 30 June 2019: nil). 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 2019 was $1 million (31 December 2018: $1 million; 30 June 2019: nil).

Chorus have entered into 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 in December 2018 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. On termination of this hedge relationship a net present value of $14 million continued 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 will be amortised over the original hedge period (April 2020-April 2026). The unamortised balance of this original fair value at 31 December 2019 is $14 million (31 December 2018: $14 million; 30 June 2019: $14 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 of the income statement can be predicted. For the six months to 31 December 2019, $1 million ineffectiveness was recognised within finance expense in the income statement (31 December 2018: nil; 30 June 2019: nil).

## Note 10 – Related party transactions

The gross remuneration of directors and key management personnel during the period was $5.7 million (31 December 2018: $8.1 million; 30 June 2019: $8.9 million).

The Company has loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2019 of $0.9 million (31 December 2018: $1.5 million; 30 June 2019: $1.5 million) relating to 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 24 February 2020 Chorus declared an interim dividend in respect of the six month period ending 31 December 2019. The total amount of the dividend is $44.4 million, which represents a fully imputed dividend of 10 cents per ordinary share.

### CIP securities and Crown funding

There was one call notice issued on 16 January 2020 to CIP in respect to 6,901 premises (UFB1) with a total aggregate issue price of $8 million. These premises had been passed and tested by CIP before 31 December 2019 so were 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 2019 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 2019;

— 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. 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 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
24 February 2020