



FY16 Half Year Result

19 February 2016

Disclaimer

- This presentation may contain forward-looking statements regarding future events and the future financial performance of Chorus, including forward looking statements regarding industry trends, regulation and the regulatory environment, strategies, capital expenditure, the construction of the UFB network, possible business initiatives, credit ratings and future financial and operational performance. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Chorus' control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. No representation, warranty or undertaking, express or implied, is made as to the fairness, accuracy or completeness of the information contained, referred to or reflected in this presentation, or any information provided orally or in writing in connection with it. Please read this presentation in the wider context of material published by Chorus and released through the NZX and ASX.
- Except as required by law or the NZX Main Board and ASX listing rules, Chorus is not under any obligation to update this presentation at any time after its release, whether as a result of new information, future events or otherwise.
- The information in this presentation should be read in conjunction with Chorus' audited consolidated financial statements for the year ended 30 June 2015. This presentation includes a number of non-GAAP financial measures, including "EBITDA". These measures may differ from similarly titled measures used by other companies because they are not defined by GAAP or IFRS. Although Chorus considers those measures provide useful information they should not be used in substitution for, or isolation of, Chorus' audited financial statements. Refer to the presentation appendices for further detail relating to EBITDA measures.
- This presentation does not constitute investment advice or a securities recommendation and has not taken into account any particular investor's investment objectives or other circumstances. Investors are encouraged to make an independent assessment of Chorus.

Business performance overview

Mark Ratcliffe, Chief Executive Officer

Agenda

Mark Ratcliffe, CEO

- > Connections and trends 5-6
- > UFB rollout and uptake 7-8

Andrew Carroll, CFO

- > Financial results 10-11
- > Capex 12-13
- > Guidance summary and managing for value 14-15
- > Capital management, FY16 dividend, debt 16-17

Mark Ratcliffe, CEO

- > Improving the fibre connection process 19-20
- > Regulatory overview 21-22
- > Looking ahead 23

Appendices 24-34

OVERVIEW

Net Profit After Tax: \$33 million

Revenue: \$479 million

EBITDA: \$275 million

Broadband connections ↑16,000

Fixed line connections ↓33,000

- Dual copper-fibre lines reduced from ~20,000 (30 June) to ~10,000
- Other UFB networks now past ~300,000 consumers and ~60,000 connects (FY15:~250,000 passed and ~35,000 connected)
- Q2 and Q3 typically subject to seasonal variation (e.g. tertiary students)

FIXED LINE CONNECTIONS	31 DEC 2015	30 JUNE 2015
Baseband copper	1,320,000	1,408,000
Baseband IP	6,000	not material
UCLL	116,000	123,000
SLU/SLES	3,000	3,000
Naked Basic/Enhanced UBA and Naked VDSL	180,000	159,000
Data services over copper	11,000	13,000
Fibre (premium business + mass market)	125,000	88,000
Total fixed line connections	1,761,000	1,794,000

BROADBAND CONNECTIONS	31 DEC 2015	30 JUNE 2015
Basic UBA	74,000	96,000
Naked Basic UBA	7,000	10,000
Enhanced UBA	763,000	792,000
Naked Enhanced UBA	128,000	118,000
VDSL	94,000	85,000
Naked VDSL	45,000	31,000
Fibre (mass market)	112,000	75,000
Total broadband connections	1,223,000	1,207,000

CONNECTIONS TRENDS

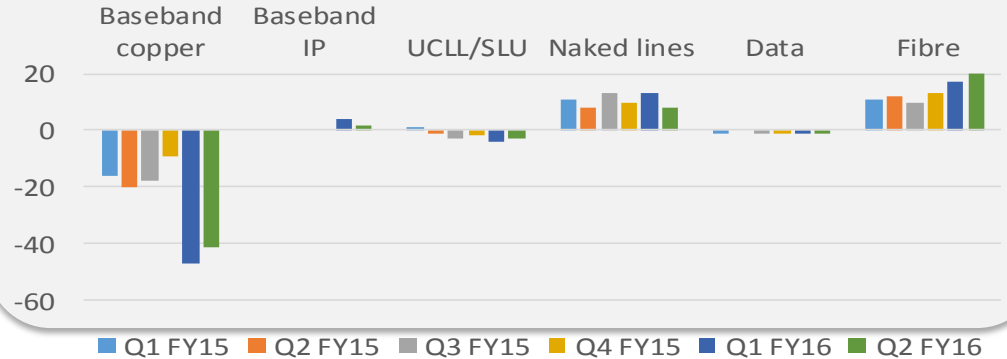
- **Fixed line trends**

- fibre demand accelerating with 42% increase in fibre lines
- 13% growth in naked lines

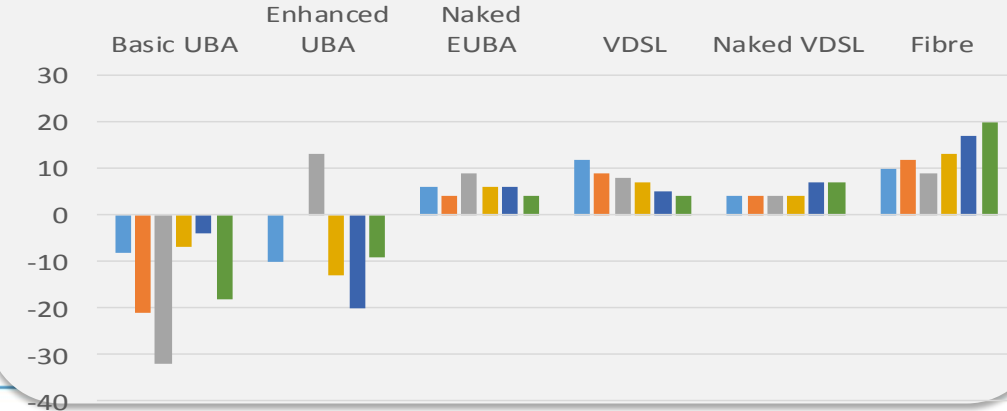
- **Broadband trends**

- copper broadband reducing as consumers migrate to fibre
- VDSL connections slowing; naked VDSL steady

Change in fixed line connections



Change in broadband connections



FIBRE ROLLOUT: 48% COMPLETE

- **539,000** consumers within reach of Chorus UFB fibre
- build complete for **400,000 premises**
- Masterton and Greymouth completed in H1
- **105,000** connections within UFB deployed footprint (68,000 at 30 June)
- **19% uptake** across UFB areas; Blenheim highest at 25%

Regional fibre uptake vs build; UFB uptake by Candidate Area at 31 December 2015

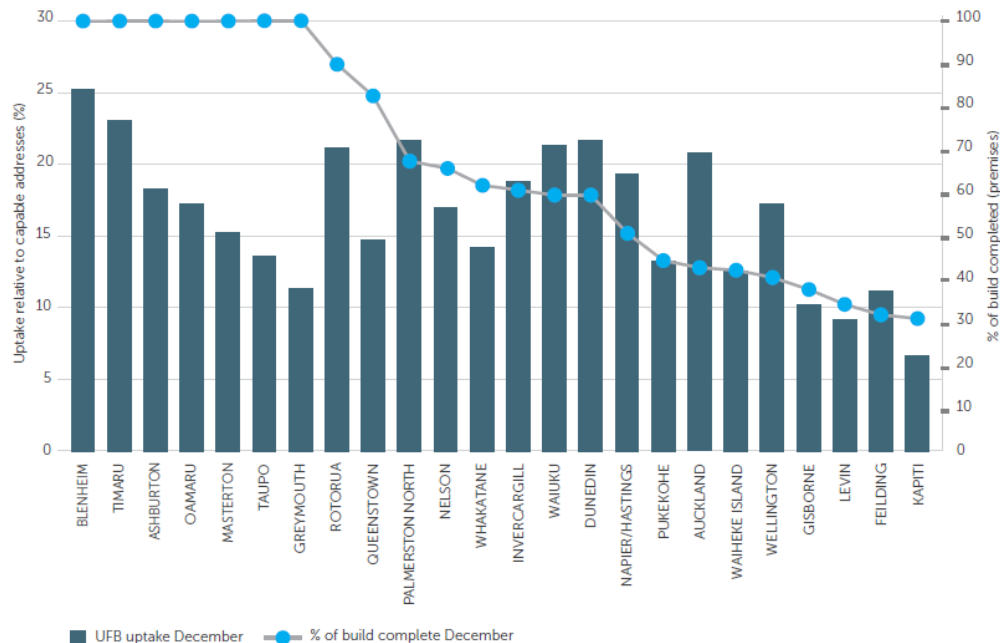
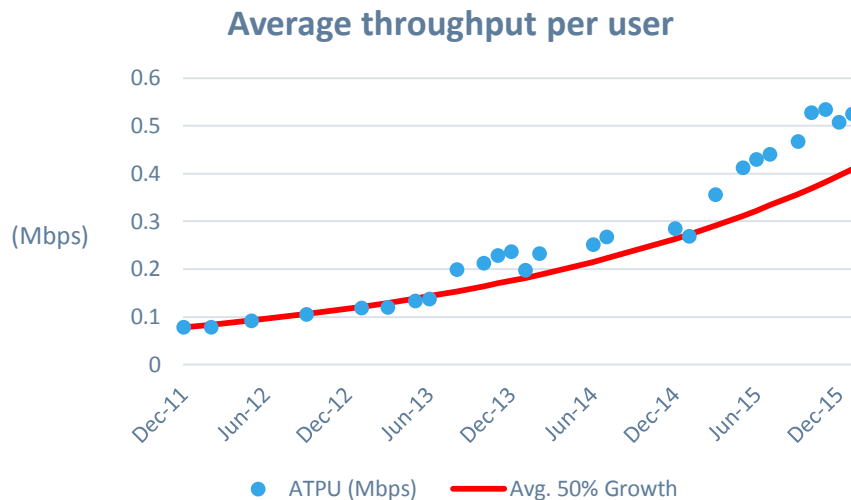


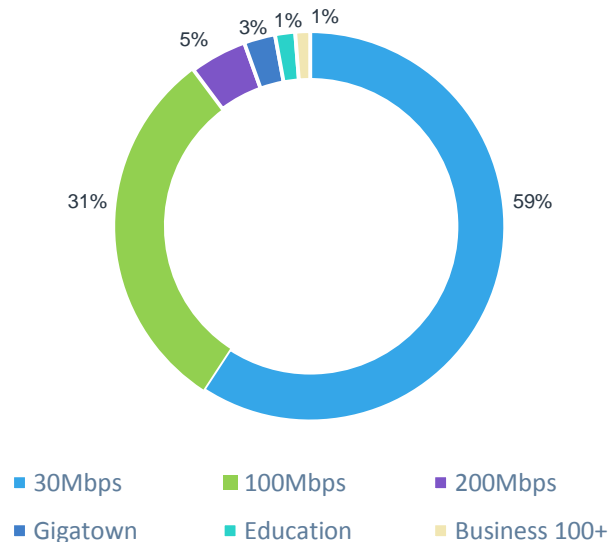
Chart shows consumer uptake as a proportion of UFB capable addresses (i.e. network is commissioned for service)

BANDWIDTH DEMAND & FIBRE UPTAKE



- Bandwidth demand continues to exceed forecasts with average throughput per user now 500kbps+
- Average connection speed on network now 23Mbps vs 10Mbps in 2011

Mass market fibre uptake



- 41% of mass market fibre connections are 100Mbps plans or better; up from 30% at 30 June

Financial performance

Andrew Carroll, Chief Financial Officer

Income statement

	H1 FY16 \$m	H2 FY15 \$m
Operating revenue	479	479
Operating expenses	(204)	(198)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	275	281
Depreciation and amortisation	(161)	(165)
Earnings before interest and income tax	114	116
Net interest expense	(67)	(78)
Net earnings before income tax	47	38
Income tax expense	(14)	(11)
Net earnings for the period	33	27

Revenue

	H1 FY16 \$m	H2 FY15 \$m
Basic copper	230*	239
Enhanced copper	115*	112
Fibre	61	53
Value Added Network Services	17	17
Field Services	43*	44
Infrastructure	10	10
Other	3	4
Total	479	479

* includes two weeks of the final copper pricing determination

Expenses

	H1 FY16 \$m	H2 FY15 \$m
Labour costs	38	35
Provisioning	31	30
Network maintenance	42	43
Other network costs	17	19
IT costs	33	34
Rents, rates and property maintenance	13	13
Regulatory levies	6	8
Electricity	7	7
Consultants	1	1
Insurance	2	2
Other	14	6
Total	204	198

Capex summary

- > Total capex of **\$254m** for period (H2 FY15: \$259m)
- > Managing for cash initiatives and UFB cost focus helped offset increased connection volumes:
 - reduced copper capex reflects restraint on discretionary proactive maintenance and shift in demand to fibre
 - building & engineering spend typically higher in H2

***Fibre connections & layer 2** capex includes premium business fibre capex previously included in **Other fibre connections & growth**. H2 FY15 categories adjusted for comparative purposes.

Fibre capex	H1 FY16	H2 FY15
UFB communal	87	84
Fibre connections & layer 2	90	75*
Fibre products & systems	8	8
Other fibre connections & growth	16	19*
RBI	16	21
Subtotal	217	207
Copper capex		
Network sustain	11	19
Copper connections	4	5
Copper layer 2	5	7
Product	3	1
Subtotal	23	32
Common capex		
Information technology	10	11
Building & engineering services	4	8
Other	0	1
Subtotal	14	20
TOTAL GROSS CAPEX	\$254m	\$259m

Fibre connections capex

- > Volume of standard fibre connections tracking higher than expected, but H1 connections mix positive overall

Fibre connections & layer 2 capex	H1 connections (vs FY16 estimate)	H1 FY16 \$90m	H2 FY15 \$75m
Layer 2 (long run programme average of \$100 per connection)		\$11m	\$8m
Premium business fibre connections	1,600 completed (FY16: 3,500)	\$12m	\$13m
Single dwelling units and apartments connections	38,000 completed (FY16: 80,000)	\$38m	\$27m
Backbone build: multi-dwelling units and rights of way	3,300 completed (FY16: 8,750)	\$29m	\$27m

Non-standard fibre connections

- > Chorus and CFH have been discussing opportunities to extend the non standard installation fund and we've agreed a number of matters that enable us to confirm the fund will continue until end of 2016.
- > We are continuing to explore opportunities to extend the fund beyond that date.

Guidance summary

	Existing guidance	H1 FY16 view
Cost Per Premises Passed (CPPP)	FY16: \$1,700 - \$1,770	Tracking to bottom of guidance range with \$1,643 for 33,000 premises build complete in H1
Cost Per Premises Connected (CPPC)	FY16: \$1,050 - \$1,250 (excluding layer 2 and including standard installations and some non-standard single dwellings)	Tracking to bottom of guidance range with \$1,002 average in H1
UFB connections & layer 2 capex	FY16: \$195 – \$225m (based on mass market 80,000 fibre connections and 8,750 backbone builds (FY16 backbone build mix anticipated to be less expensive than FY15 for the same mix); ~3,500 premium business fibre connections).	No change to capex range. Now anticipate 85,000 to 95,000 mass market fibre connections
FY16 Gross capex	\$580 – \$630m	No change
FY16 EBITDA	\$580-\$600m including the additional cost of activity Chorus is undertaking to improve the end-to-end fibre connection process for customers	Tracking to top half of guidance range

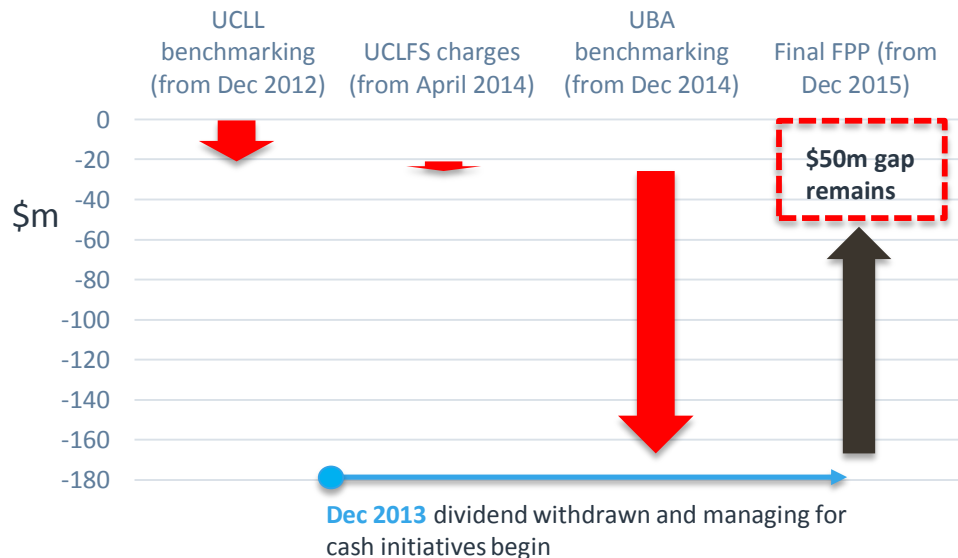
Current EBITDA outlook reflects

- VDSL and baseband IP uptake lower than expected to date, resulting in short term cost benefit
- some customer migration from legacy products, offsetting revenue growth
- increasing fibre provisioning costs as we take on industry support role

Return to managing for value vs cash

- > FPP outcome has not restored Chorus' financial position to demerger levels

Regulatory EBITDA impact (annualised)



- > No FPP appeals; now reviewing managing for cash initiatives
 - reassessing proactive maintenance approach given growing fibre uptake
 - reviewing IT separation capex
 - applying value-based investment criteria for growth capex
 - tight focus on cost management will continue

Capital management and FY16 dividend

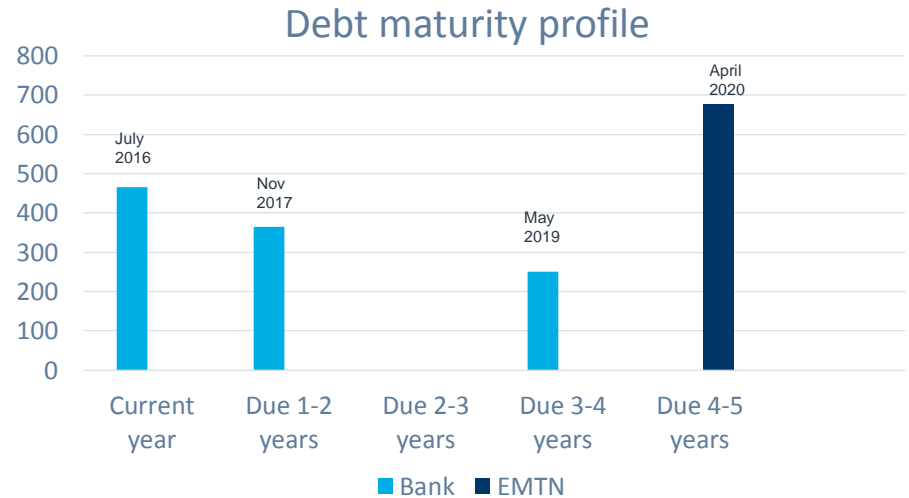
- FY16 dividend of **20cps**, subject to no material adverse changes in circumstances or outlook.
- FY16 interim dividend of **8 cps**, fully imputed
 - supplementary dividend of 1.41cps payable to non-resident shareholders
 - **record date**: 22 March 2016
 - **payment date**: 5 April 2016
 - **Dividend Reinvestment Plan** applies with 3% discount to prevailing market price; open to New Zealand and Australian resident shareholders
- During the UFB build programme to 2020, the Board expects to be able to provide shareholders with modest long term dividend growth from a base of 20cps per annum, subject to no material adverse changes in circumstances or outlook.
- The Chorus Board considers that a 'BBB' credit rating from S&P 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.

Debt

	As at 31 Dec 2015 \$m
Borrowings	1,757
+ PV of CFH debt securities (senior)	59
+ Net Finance leases	<u>131</u>
Sub total	1,947
- Cash	(78)
Total net debt	1,869
Net debt/EBITDA	3.3 times

- Financial covenants require senior debt ratio to be no greater than **4.0 times** and use underlying 12 month EBITDA
- Standard & Poor's treatment includes Operating leases and uses 8.5% discount for PV of CFH debt securities

- > At 31 December, debt of \$1,757m comprised:
 - \$15m short term money market facility
 - \$1,065m long term bank facilities
 - \$677m (NZ\$ equivalent at hedged rates) Euro Medium Term Note



Priorities & outlook

Mark Ratcliffe, Chief Executive Officer

OUR NUMBER ONE PRIORITY

Improving the fibre connection experience

Progress to date

Set up pre-visit contact team

Fibre crews increased to 380

Reduced RSP forecast variability

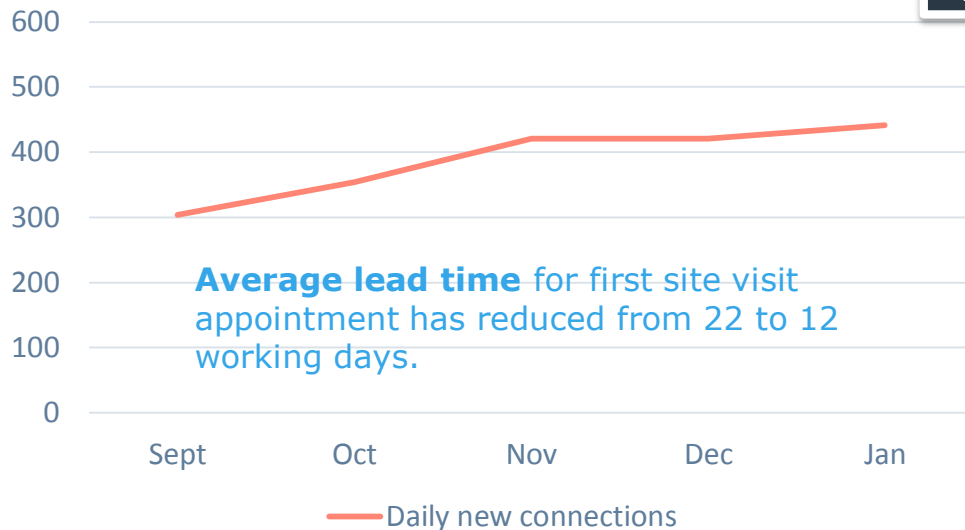
Reallocated service co. areas

Expanded role of MDU specialist

Improved fibre records accuracy

Average weekday fibre connections

Target: 600
by July



OUR NUMBER ONE PRIORITY

Improving the fibre connection experience

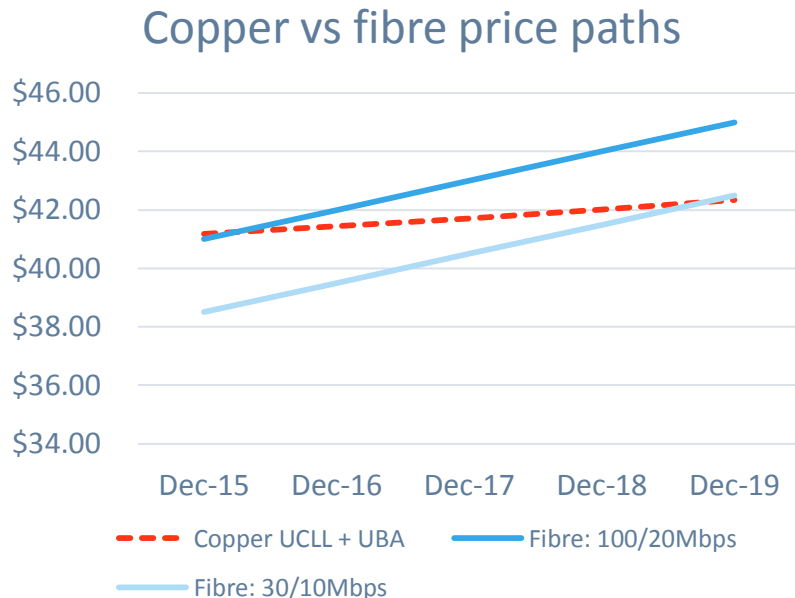
Next steps

1. Recruit more field crews
2. Reduce field crew downtime: 85% utilisation rate in January
 - focus on reducing on-day reschedules (~30%)
3. Propose managing consumer interaction from RSPs receipt of fibre order to service activation
 - Will require additional staff; levels subject to RSP opt-in and timeframe for RSP transition to online portal
 - We are underwriting RSP support to end December 2016
4. Developing online order tracker



REGULATORY OVERVIEW

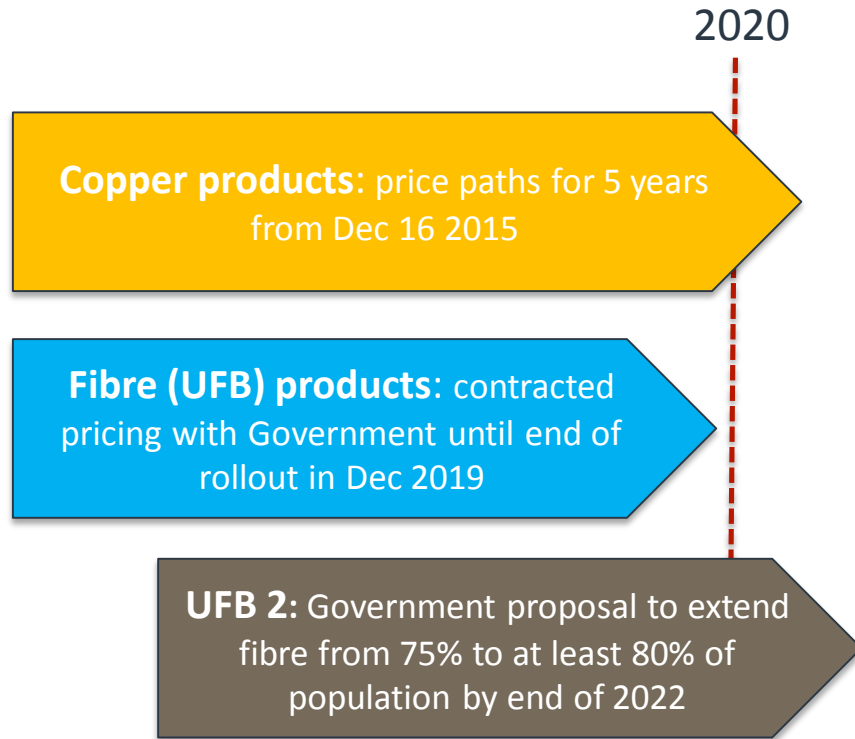
Copper price relativity returns



Commerce Commission recognised it costs more to provide network infrastructure in New Zealand:

- re-balancing of prices between copper line (UCLL) and broadband (UBA) services
- UCLL+UBA aggregate price path now more aligned to entry level 30Mbps fibre price

REGULATORY OVERVIEW



Future framework

Government review of post 2020 regulatory framework underway

- general industry consensus on need to change and improve current framework
- discussion document expressed “preliminary view” that a building block model is most appropriate pricing methodology for regulating UFB services
- our view that model should apply to fibre and copper
- we have proposed special access undertaking as simplest approach, possibly with a transitional period to 2030
- awaiting details on next phase of review

LOOKING AHEAD



- Focus returns to running the business for long-term shareholder value
- Fibre demand is driving added cost at a provisioning level and bringing forward decisions on how we manage two networks
- Growing network competition and RSP cost-out focus continue
- Bandwidth demand and network capability provide confidence in continued growth of fixed line broadband

Appendices



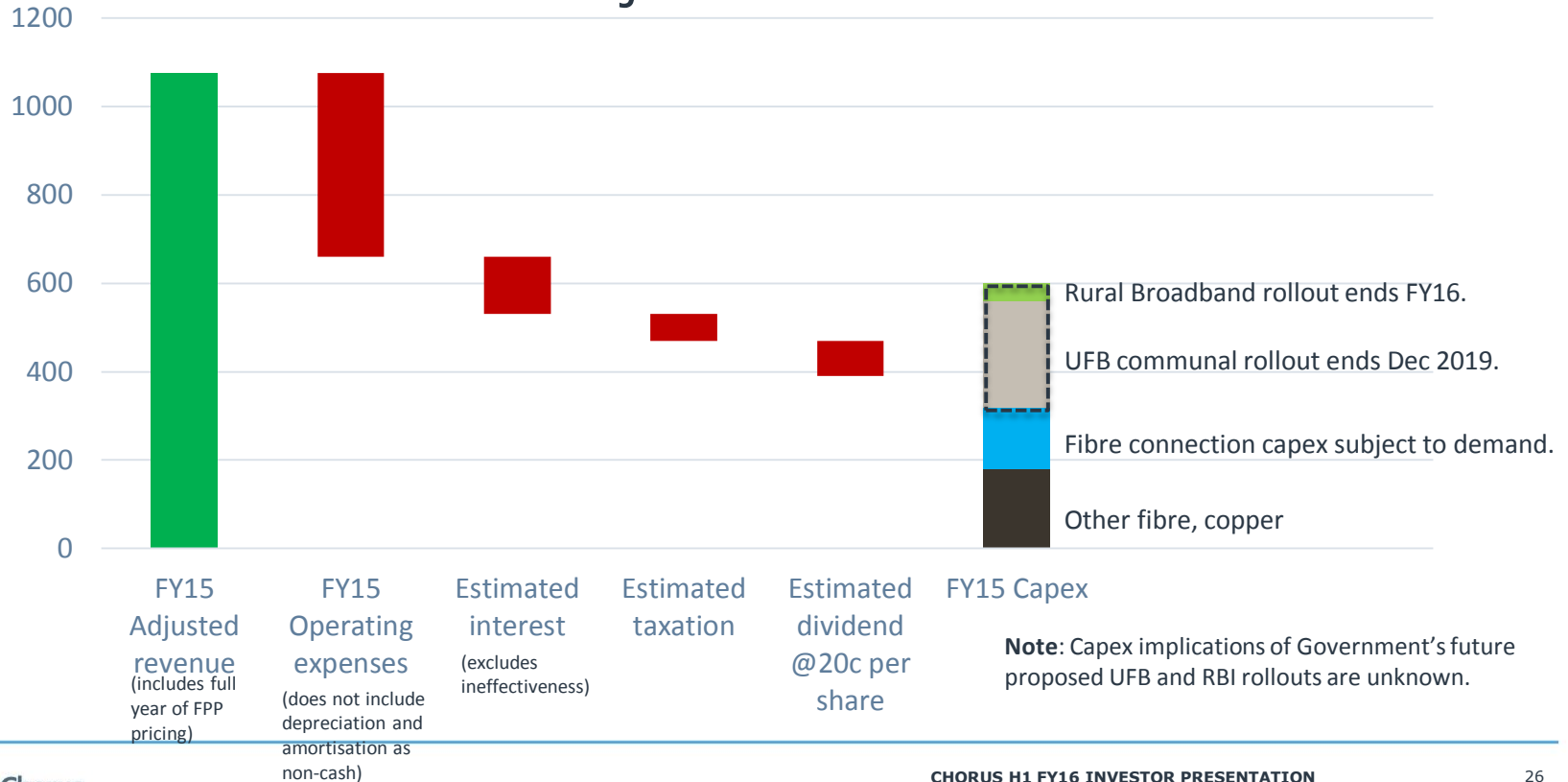
Appendix A: Non statutory measure – adjusted EBITDA

- This appendix provides a high level summary of Chorus' adjusted EBITDA. It has been prepared on the basis of the final pricing principle (FPP) determinations effective 16 December 2015.
- For comparative purposes this flows the pricing through both FY15 and H1 FY16 as though the pricing had changed on 1 July 2014.

	Adjusted H1 FY16 \$m	Adjusted H2 FY15 \$m	Adjusted H1 FY15 \$m
Adjusted operating revenue	538	540	533
Operating expenses	(204)	(198)	(206)
Adjusted EBITDA	334	342	327

	Statutory results \$m	Add: UBA and UCLL price change \$m	Less: transaction charge price change \$m	Adjusted \$m
H1 FY16 operating revenue	479	65	(6)	538
H2 FY15 operating revenue	479	67	(6)	540
H1 FY15 operating revenue	527	8	(2)	533

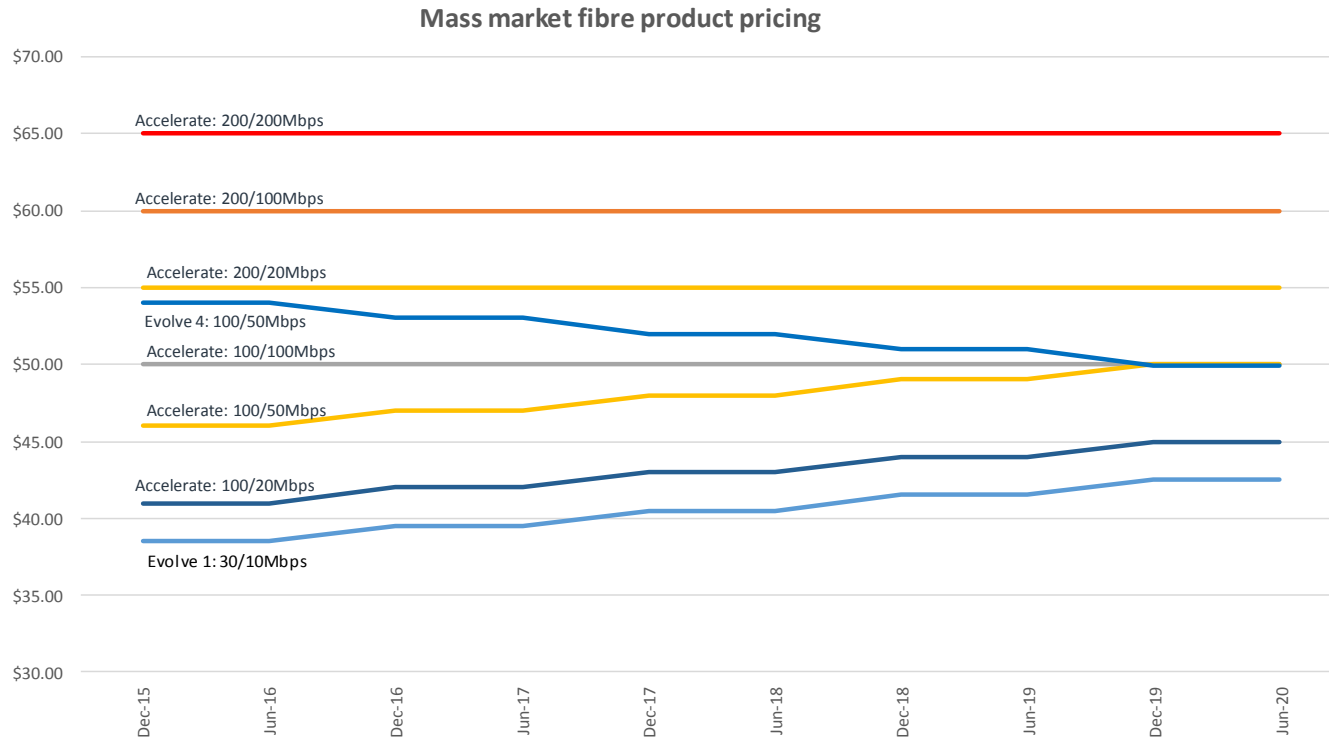
Appendix B: Illustrative Chorus pre-financing adjusted cash flows



Appendix C: Copper product pricing summary

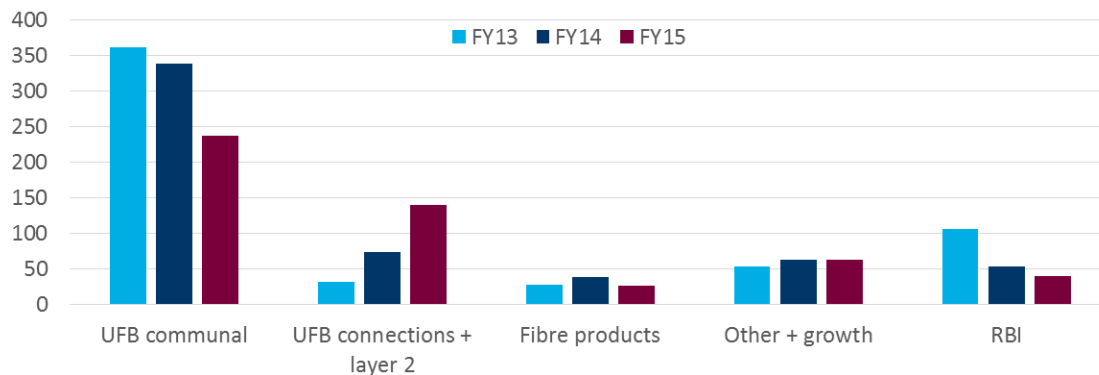
	Benchmark pricing	Pricing effective 16 December 2015
UCLL and UCLFS	\$23.52	Year 1 - \$29.75 Year 2 - \$30.22 Year 3 - \$30.70 Year 4 - \$31.19 Year 5 - \$31.68
Basic UBA uplift	\$10.92	Year 1 - \$11.44 Year 2 - \$11.22 Year 3 - \$11.01 Year 4 - \$10.83 Year 5 - \$10.67
UCLL + UBA = aggregate Basic UBA price	\$34.44	Year 1 - \$41.19 Year 2 - \$41.44 Year 3 - \$41.71 Year 4 - \$42.02 Year 5 - \$42.35
SLU	\$14.21	Year 1 - \$15.52 Year 2 - \$15.70 Year 3 - \$15.89 Year 4 - \$16.07 Year 5 - \$16.26

Appendix D: Chorus mass market fibre product pricing

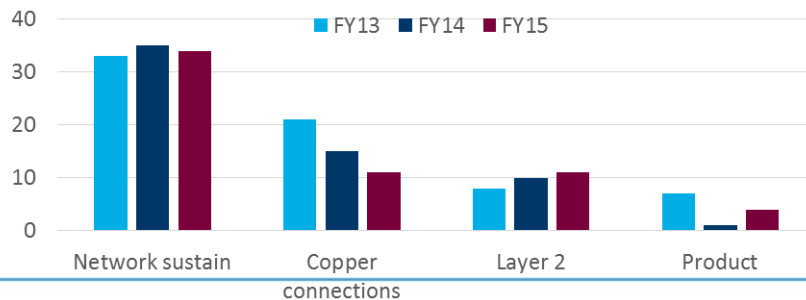


Appendix E: Capex, Expenses, Revenue trends FY13-FY15

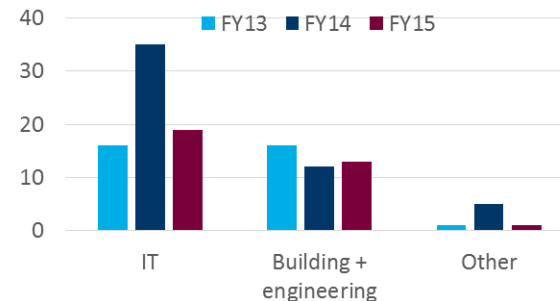
Fibre capex FY13-FY15



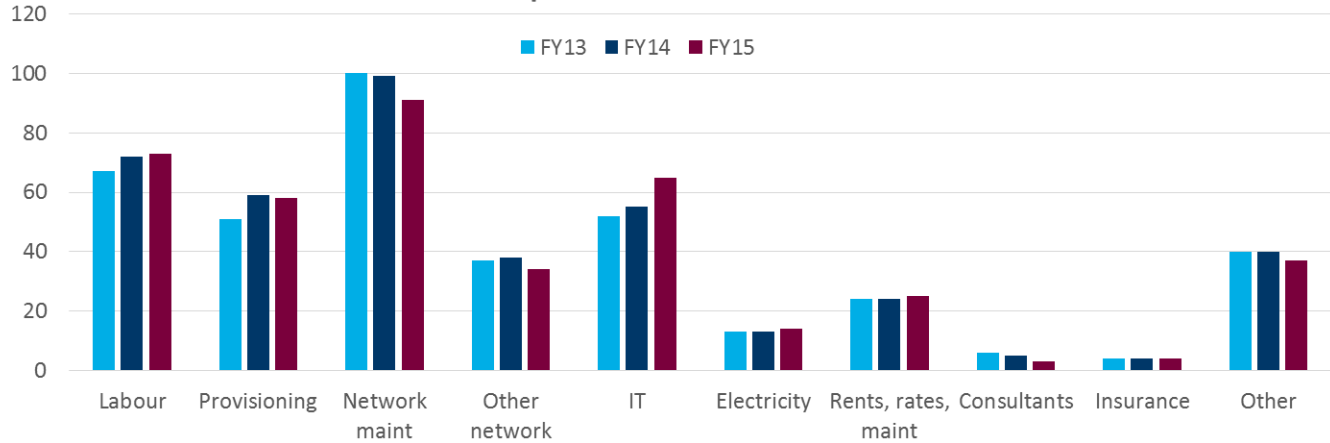
Copper capex FY13-FY15



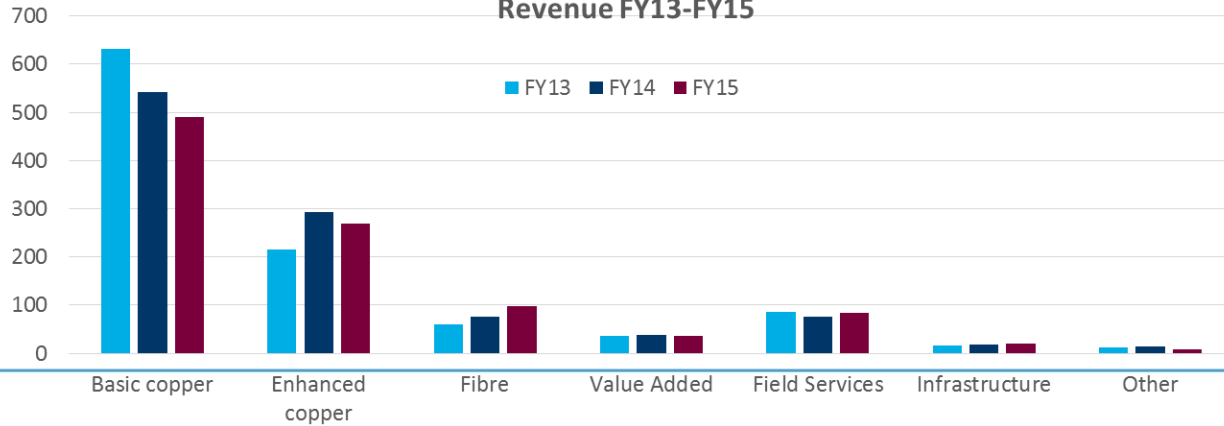
Common capex FY13-FY15



Expenses FY13-FY15



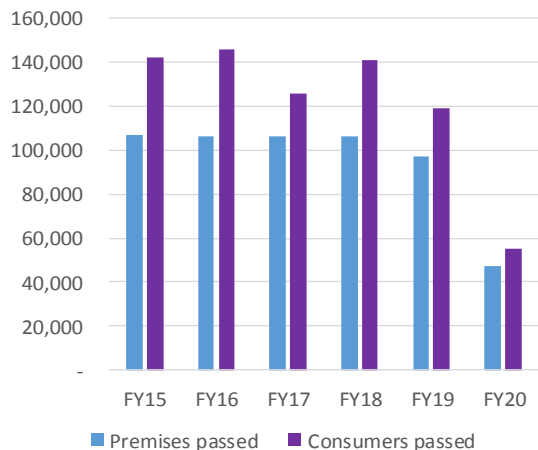
Revenue FY13-FY15



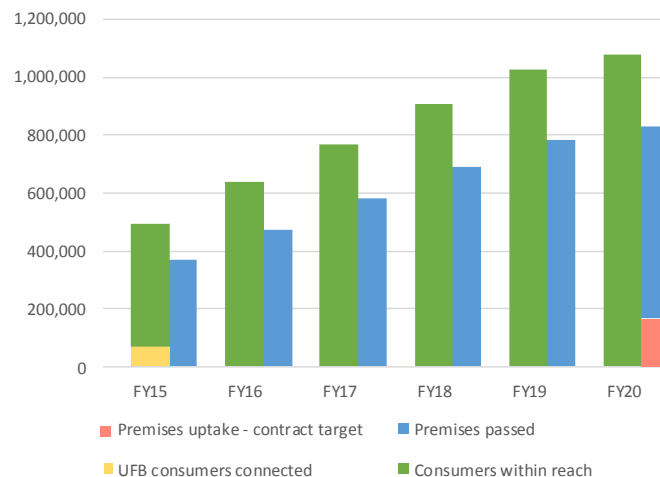
Appendix F: Ultra-fast broadband (UFB) rollout

- > Public private partnership to build fibre to 830,900 premises (approx. 1.1m consumers) by end 2019
 - Government to contribute up to \$929m; \$1,118 per premises passed
 - Chorus issues Crown debt and equity securities to Government in return. Debt to be redeemed in tranches from 2025 to 2036 at latest. Increasing portion of equity securities attract dividend payments from 2025 onwards.

Annual rollout plan FY15-FY20

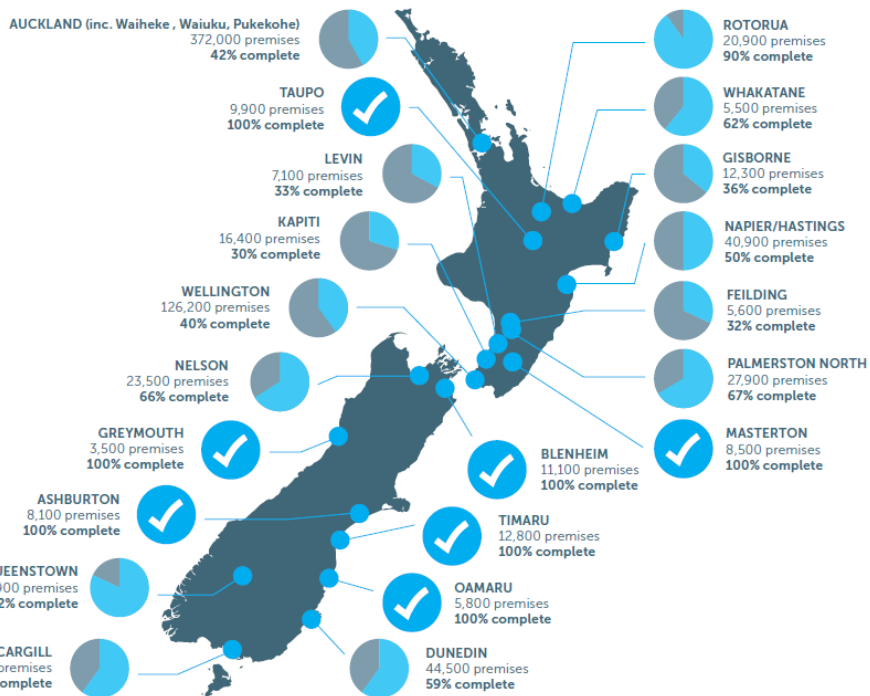


Cumulative rollout plan FY15-FY20

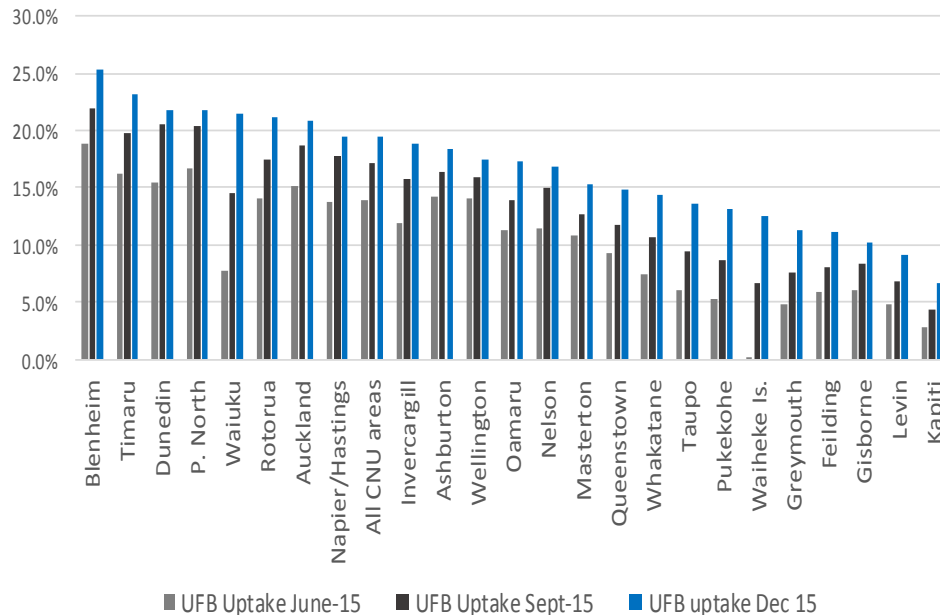


Note: Indicative plan only. Includes 45k greenfields premises

UFB rollout progress by area at 31 December 2015

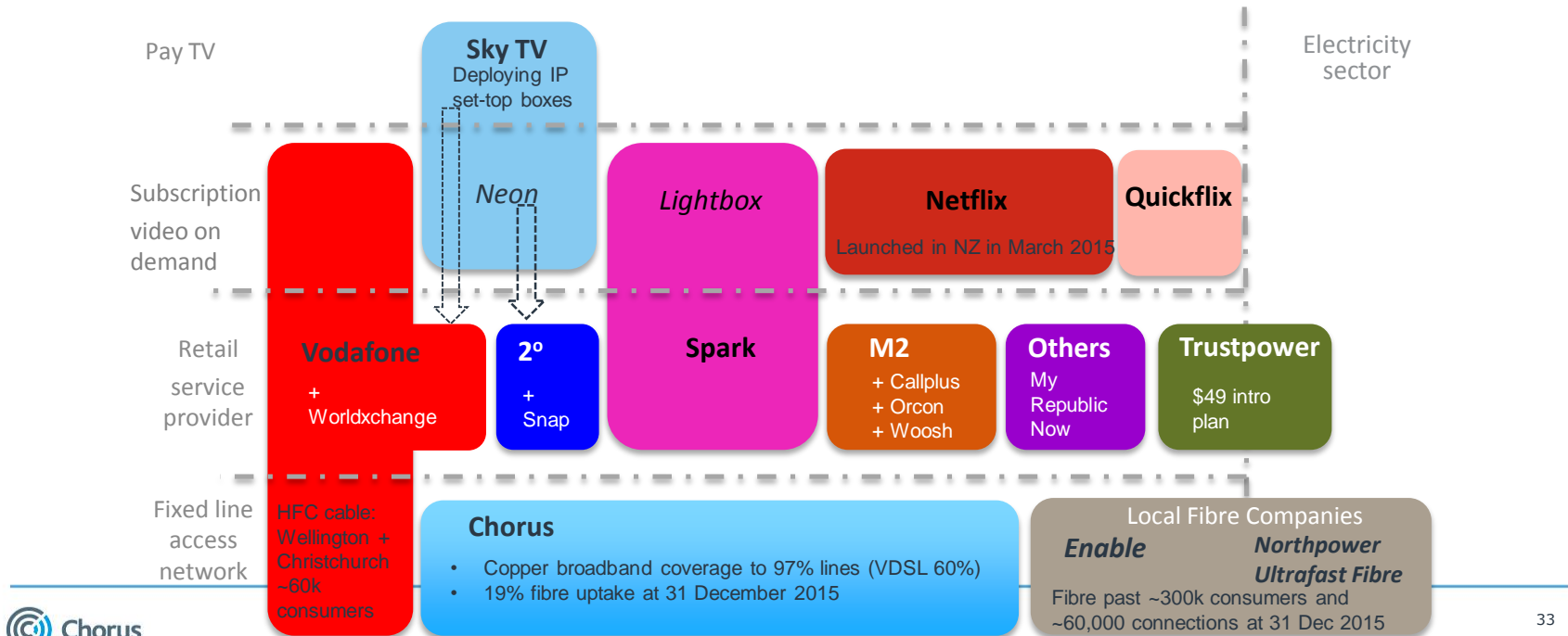


Regional fibre uptake relative to capable addresses – June to Dec 15



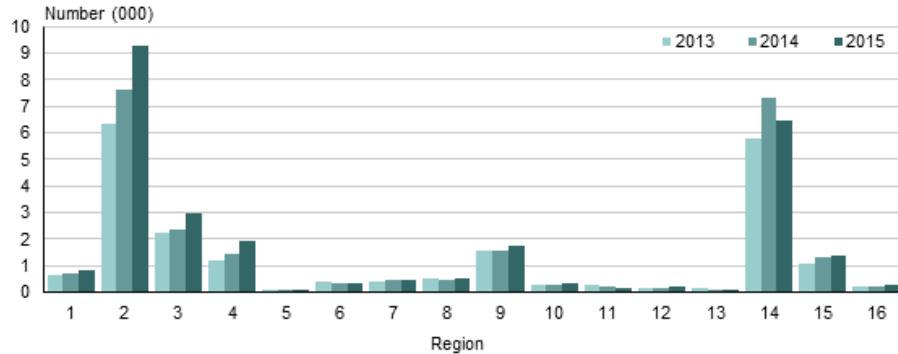
Appendix G: NZ fixed line market

- Significant changes in FY15: video content, RSP consolidation and new entrants



Appendix H: NZ dwelling and migration trends

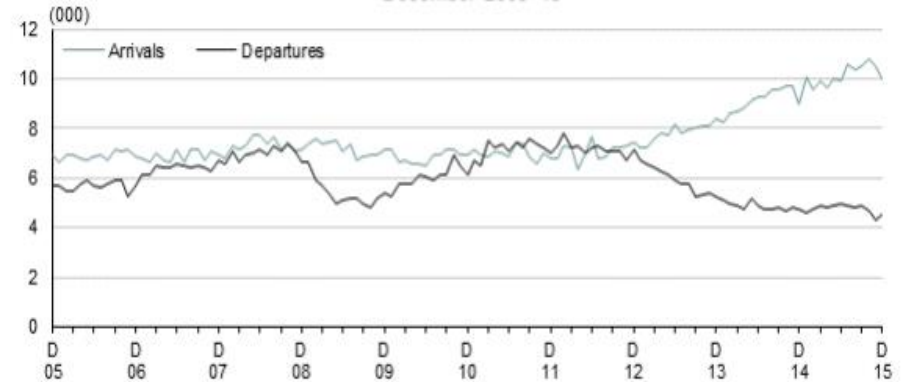
New dwellings consented
By region
Year ended December



- | | | | |
|-----------------|---------------------|----------------|---------------|
| 1 Northland | 5 Gisborne | 9 Wellington | 13 West Coast |
| 2 Auckland | 6 Hawke's Bay | 10 Tasman | 14 Canterbury |
| 3 Waikato | 7 Taranaki | 11 Nelson | 15 Otago |
| 4 Bay of Plenty | 8 Manawatu-Wanganui | 12 Marlborough | 16 Southland |

Source: Statistics New Zealand

Seasonally adjusted monthly permanent and long-term migration
December 2005–15



Source: Statistics New Zealand