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## **STOCK EXCHANGE ANNOUNCEMENT**

25 August 2014

### **Chorus 2014 full year results – supplementary documents**

Further to the filing of Chorus' Appendix 4E, the following are attached for release to the market:

1. Media Release
2. Investor Presentation
3. NZX Appendix 1

ENDS

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## **STOCK EXCHANGE ANNOUNCEMENT**

### **Chorus full year FY14 result**

#### **Solid financial performance overshadowed by regulatory uncertainty**

- \$148m NPAT
- Reduction in regulated prices from 1 December 2014 will cause significant funding gap
- Fundamental review of the business completed and wide ranging actions underway to help secure a sustainable future
- No final dividend
- UFB and RBI rollouts ahead of schedule
- Major IT projects delivered

Chorus Limited has today reported a net profit after tax (NPAT) of \$148 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$649 million for the year ended 30 June 2014.

Operating revenue for the period was \$1,058 million and operating expenses were \$409m. Depreciation and amortisation for the period was \$322 million, delivering earnings before interest and tax (EBIT) of \$327m.

“Chorus has delivered a solid financial performance during the year, but this success has been overshadowed by the need to reshape Chorus operationally and financially to address the challenges posed by the ongoing uncertainty with the regulatory framework and revised copper pricing,” said Mark Ratcliffe, Chorus CEO.

“Chorus has a credible but demanding plan through to 2020 to manage this shortfall, and has implemented a number of operational initiatives with more in train.

“A top to bottom review of the company was completed in February and we are now five months into a wide range of activities to help put Chorus back on a sustainable footing.

“We have worked closely with Crown Fibre Holdings to negotiate amendments to our contract to roll out fibre that give Chorus additional flexibility, as well as a funding backstop.

“We have presented our banks with a credible plan and they have supported us with some important changes to our funding arrangements. We have also stopped the payment of a dividend until a dividend policy is financially sustainable and there is sufficient certainty around Chorus’ outlook.

“We have developed an innovative range of commercial broadband products to enhance end-user choice and lift copper broadband beyond a best efforts service ahead of demand. We await regulatory guidance on their implementation.

“And at the same time we have reviewed our entire cost structure and this has required us to focus our limited available cash in areas that deliver short term cash rather than the best long term outcomes.

“In addition, Chorus has successfully delivered several large IT projects as the system separation from Spark continues.

“While good progress has been made, the funding gap remains very challenging and more will need to be done to return Chorus to stability,” he said.

## **Operating performance**

Broadband continued to grow during the period, with total broadband connections increasing by 51,000 to 1,163,000 during the period. Fibre broadband connections have more than doubled to 42,000.

Total lines remained largely static, reducing by 3,000 during the period to 1,781,000.

31% of Chorus’ Ultra-fast Broadband (UFB) rollout is now complete, meaning 353,000 end users are now within reach of Chorus UFB. The average cost per premises passed of \$2,948 was at the bottom end of the guidance range previously given of \$2,900 to \$3,200.

The standard cost to connect premises averaged \$1,680 during the period, and Chorus remains focused on reducing these costs.

“In particular, the process to connect premises in multi-dwelling units currently averages \$6,500 per building in addition to the standard connection costs. This will be an area where Chorus will work with the industry to seek solutions that remove blockages in the current processes that drive cost and complexity,” he said.

The Rural Broadband Initiative build is also ahead of schedule, delivering better broadband for more than 70,000 rural fixed lines.

## **Regulation**

“Chorus remains of the view that today’s regulatory framework is not appropriate for the new industry structure or the Government’s policy objectives. The new regulatory environment that comes into effect from 2020 will be critical for the sustainability of the industry.

“We continue to engage in the Final Pricing Principle (FPP) regulatory processes that are currently underway to finalise the price Chorus can charge for its copper lines and copper broadband service. The outcome of those processes will ultimately determine if a fair rate of return will be achieved for network investment in the short to medium term.

“These processes are currently scheduled for completion in April 2015 and a sustainable FPP outcome should give certainty to all industry participants through to the enactment of the new regulatory regime in 2020,” he said.

## **FY15 Guidance**

EBITDA: \$590 million to \$605 million

Gross Capex: \$590 million to \$640 million

Chorus’ broader capital management objectives are:

- Maintain an investment grade rating with headroom. In the longer term, the Board continues to consider a “BBB” rating appropriate for a business like Chorus

- Setting a financially sustainable dividend policy once sufficient certainty is achieved

## **Dividend**

No dividends will be paid until the later of the conclusion of the Commerce Commission's FPP review processes or 30 June 2015.

## **Results summary for the year ending 30 June 2014**

- Net Profit After Tax of \$148 million
- EBITDA of \$649 million
- Revenue of \$1,058 million
- Total fixed line connections largely stable at 1,781,000
- UFB and RBI fibre rollouts ahead of schedule
- A wide range of activities underway to help secure a sustainable future
- No final dividend

## **ENDS**

Chorus Chief Executive, Mark Ratcliffe, and Chief Financial Officer, Andrew Carroll, will discuss the final results at a briefing in Wellington from 10.00am (NZ time). The webcast will be available at [www.chorus.co.nz/webcast](http://www.chorus.co.nz/webcast).

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# Chorus Full Year Result, FY14

**For 12 months ending 30 June 2014**



25 August 2014, Wellington

# Disclaimer

## Forward-Looking Statements

- > 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 previously published by Chorus and released through the NZX and ASX.
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# Mark Ratcliffe

Chorus CEO





# Agenda

Mark Ratcliffe, CEO

- > Business performance overview
- > Connections trends
- > UFB and RBI programmes

Andrew Carroll, CFO

- > Financial results
- > Capex, CPPP and CPPC
- > Guidance update

Reshaping Chorus – Mark Ratcliffe, CEO

- > Workstreams
- > Regulatory processes
- > Q and A

# Solid financial performance

- > Net Profit After Tax of \$148 million
- > EBITDA of \$649 million
- > Revenue of \$1,058 million
- > Total fixed line connections largely stable at 1,781,000
- > UFB and RBI rollouts ahead of schedule; 425,000 end-users within reach of better broadband
- > NZ 15<sup>th</sup> in OECD for fixed broadband penetration, ahead of USA and Japan
- > Structural separation continues with delivery of significant IT projects
- > Aon Hewitt best employer for 3<sup>rd</sup> year running

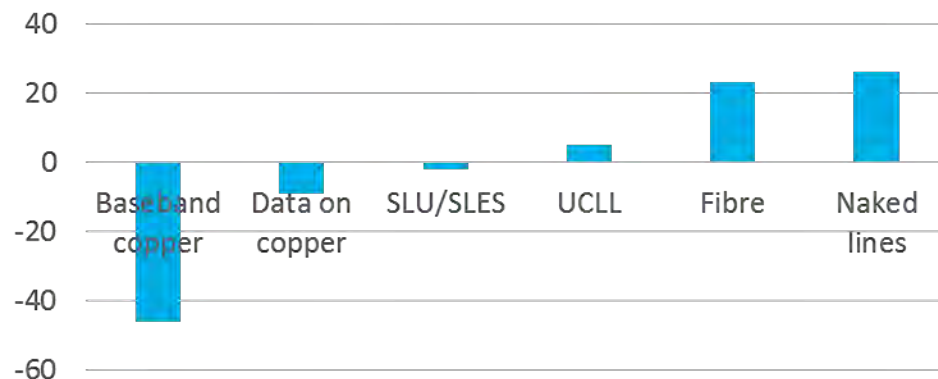
# Fixed line connections

Fixed line connections	30 June 2014	30 June 2013
Baseband copper	1,475,000	1,521,000
UCLL	127,000	122,000
SLU/SLES	4,000	6,000
Naked Basic/Enhanced UBA and Naked VDSL	117,000	91,000
Data services over copper	16,000	25,000
Fibre	42,000	19,000
<b>Total fixed line connections</b>	<b>1,781,000</b>	<b>1,784,000</b>

> Total connections decreased by 3,000 lines

- **naked lines** now account for ~7% of connections and **fibre** ~2%
- baseband copper shift to fibre and naked lines continues
- **baseband demand 'inflated'** where fibre lines still need copper voice
- some RSP clean-up of legacy lines
- UCLL/SLU ~7% of connections

Change in connections

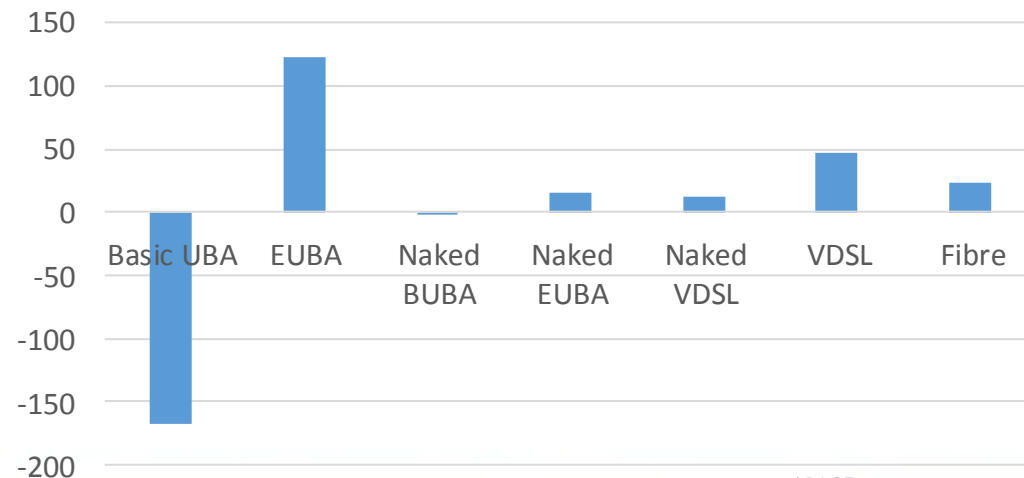


# Continuing broadband growth

Broadband connections	30 June 2014	30 June 2013
Basic UBA	164,000	331,000
Naked Basic UBA	9,000	11,000
Enhanced UBA	802,000	680,000
Naked Enhanced UBA	93,000	78,000
VDSL	49,000	2,000
Naked VDSL	15,000	2,000
Fibre (Bitstream 2, 3 and fibre subdivisions)	31,000	8,000
<b>Total broadband connections</b>	<b>1,163,000</b>	<b>1,112,000</b>

- > 51,000 broadband connections added
  - high speed services (VDSL and fibre) increased from ~1% to ~8% of broadband connections

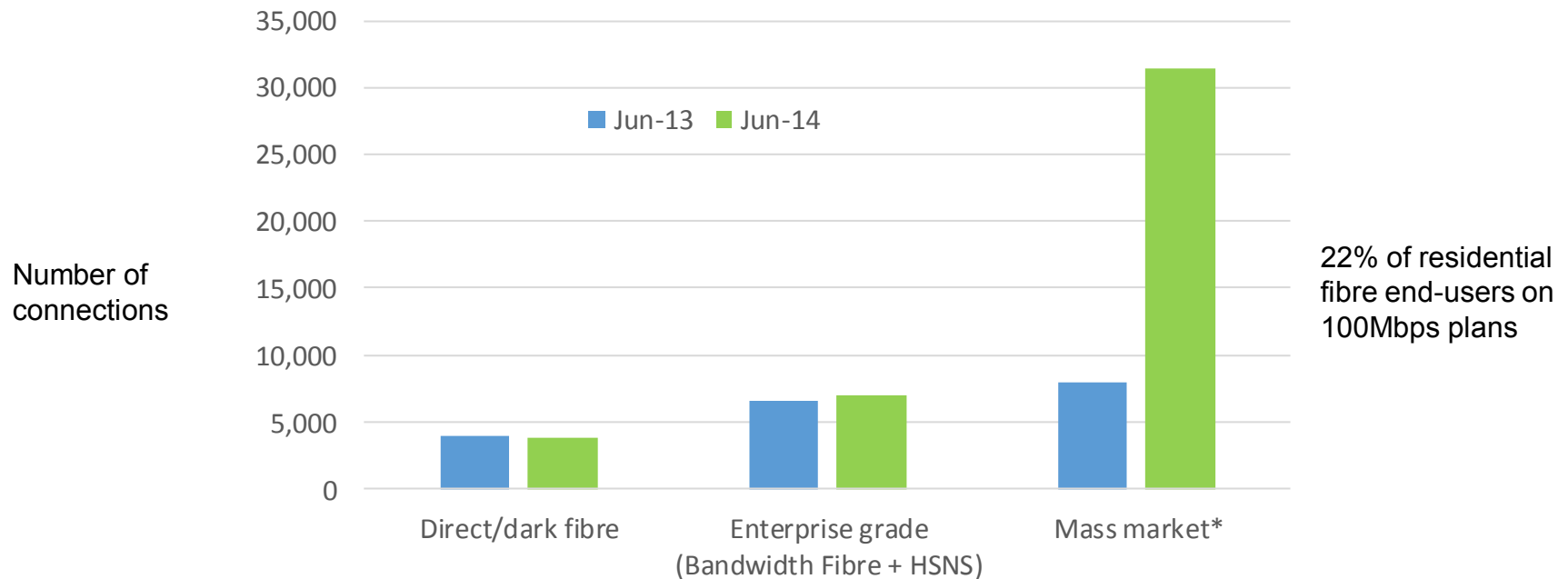
Change in broadband connections



# Fibre connection types

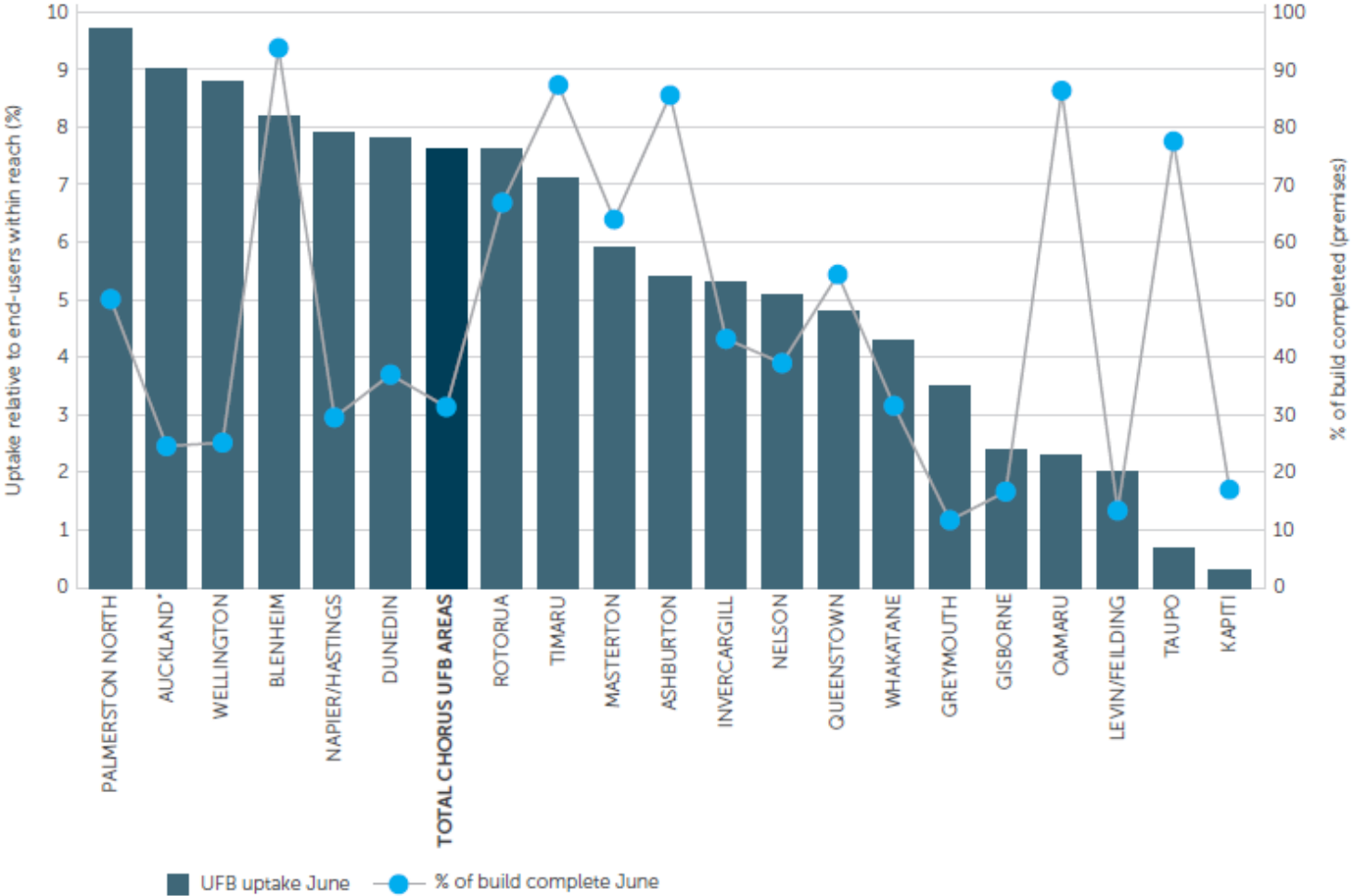
- > 27,000 fibre connections within UFB deployed footprint
- > 42,000 fibre connections nationwide

Fibre uptake by category



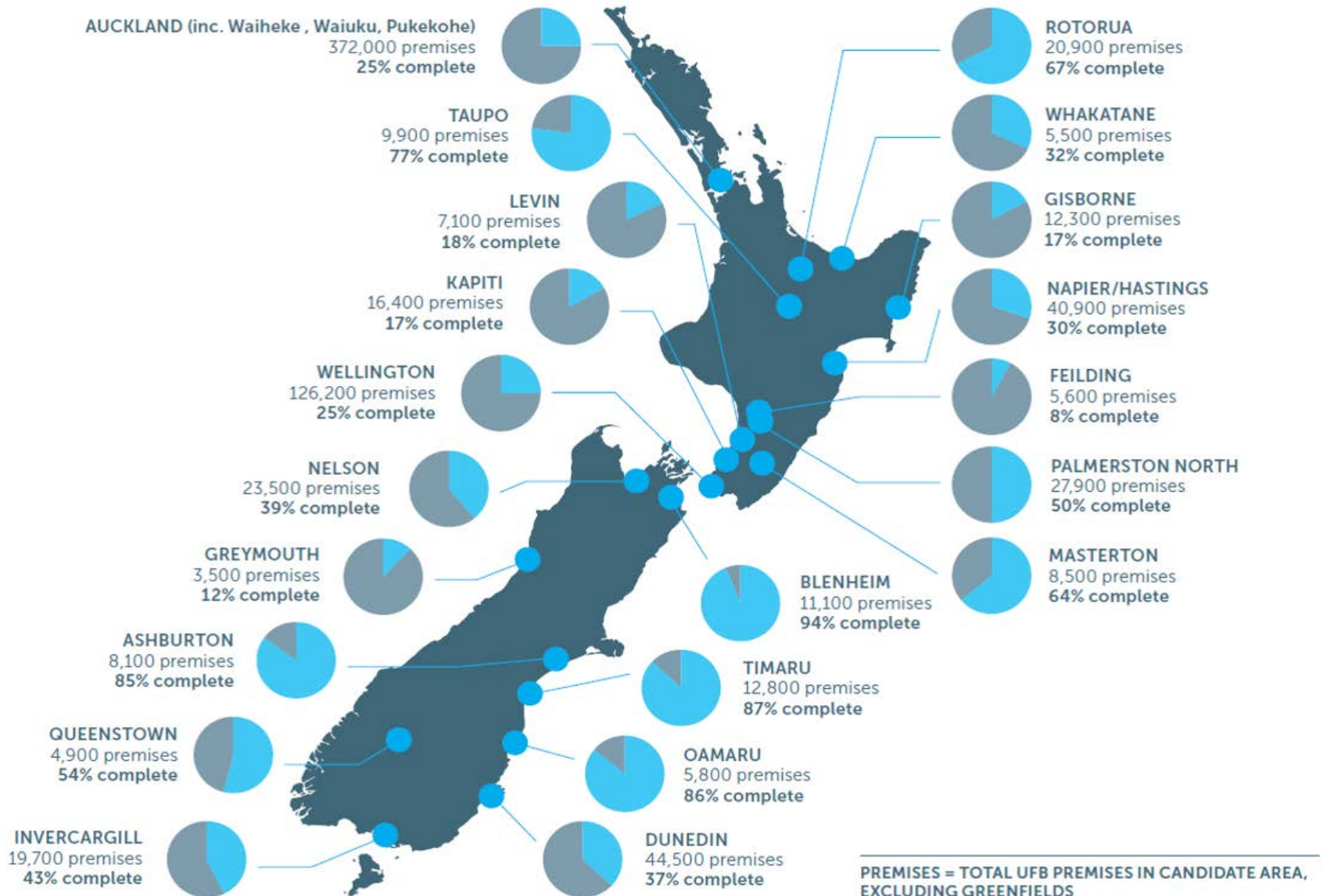
\* Includes UFB Bitstream 2 and 3 and education connections and non-UFB greenfields end-users

# UFB uptake varies widely



\* Includes Auckland North, Auckland South, Pukekohe, Waiuku & Waiheke Island.

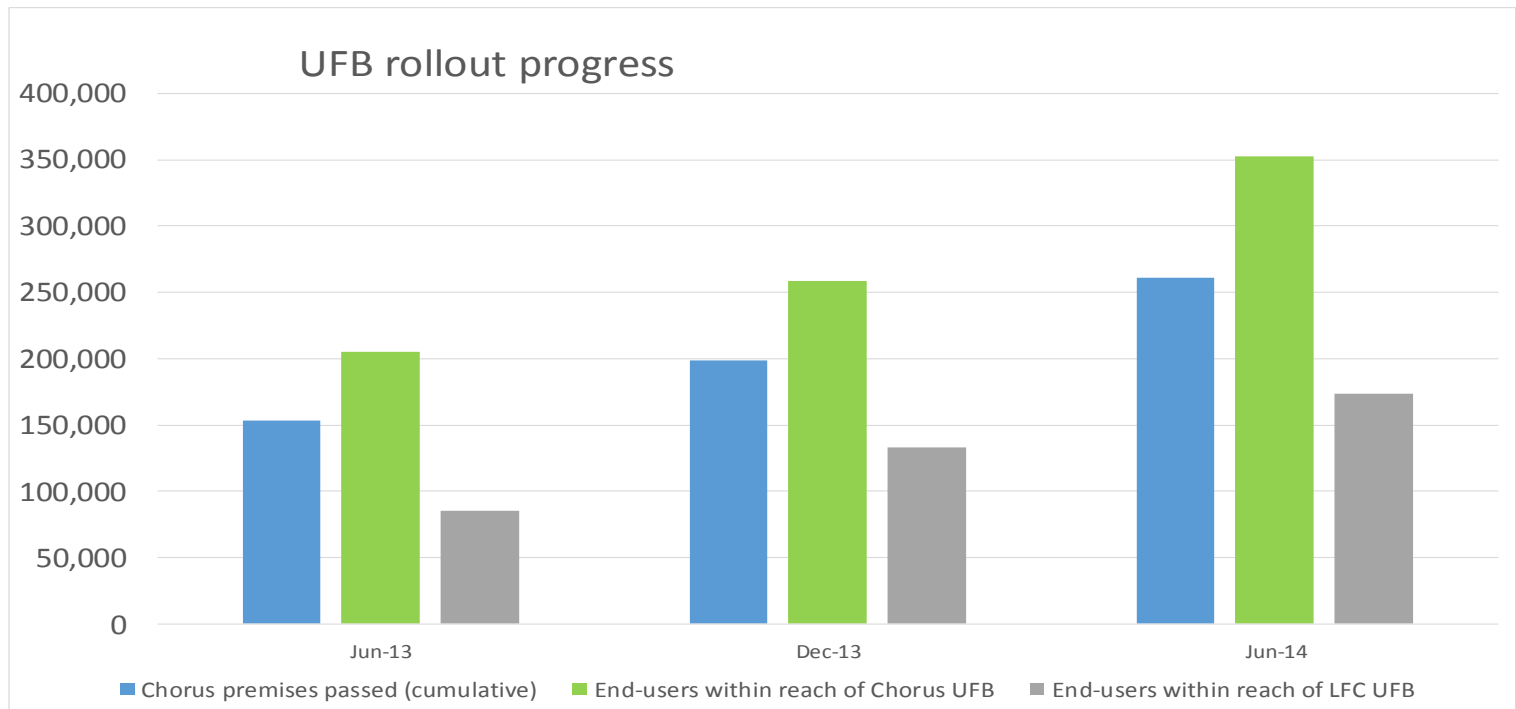
# UFB rollout progress by area



# UFB build ahead of schedule

- > UFB rollout **31%** complete
  - **353,000** end users now within reach of Chorus UFB
  - Build complete for **261,000 premises**; includes **57,000** (73%) priority premises
  - FY15 target: 106,000 premises to be completed

Premises passed / end-users within reach





# Rural Broadband rollout

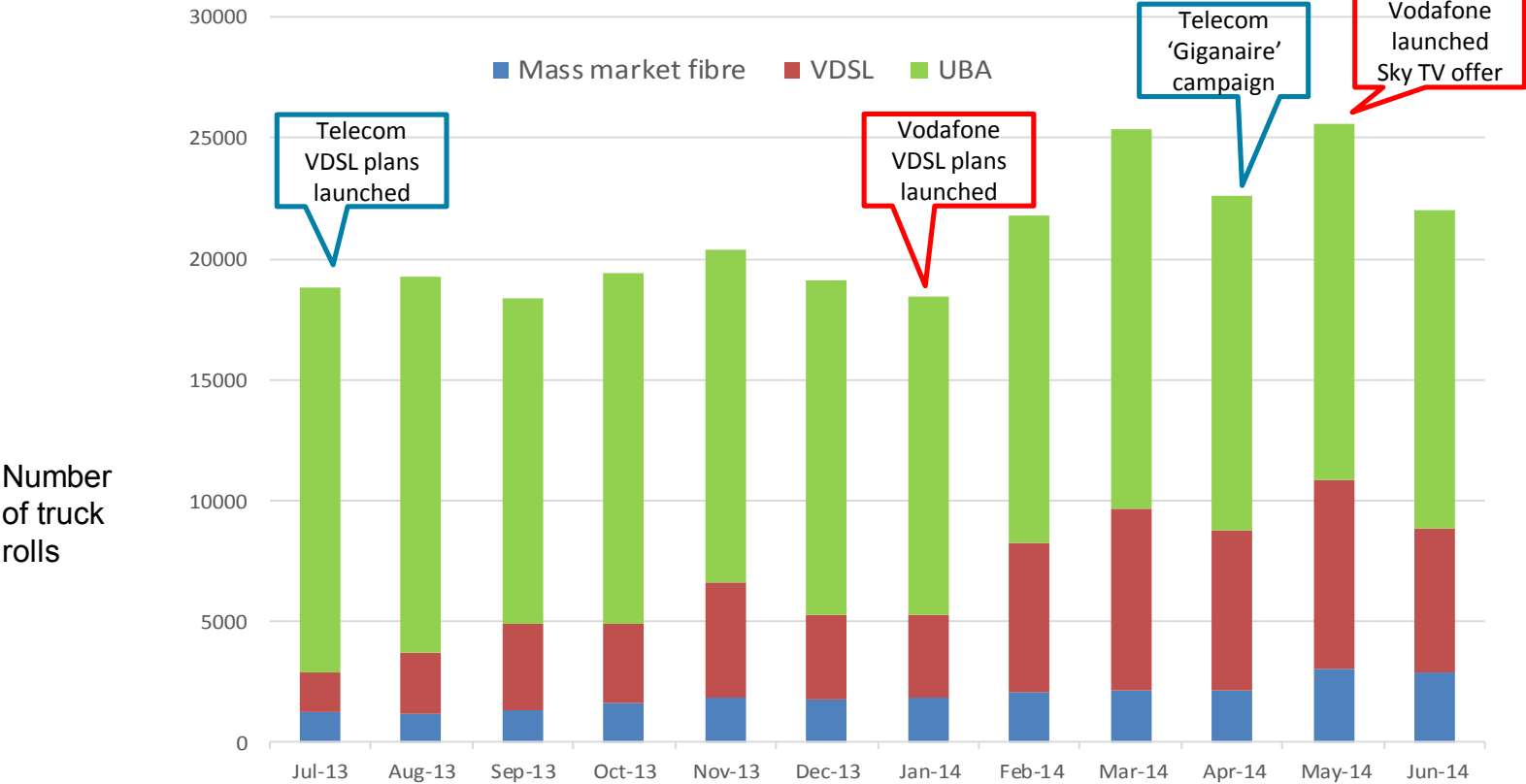
- > About 3,100 km fibre laid; 951 schools complete
- > 72,100 lines within reach of better broadband; 80% uptake

	Complete			% complete	To be completed	
	FY12	FY13	FY14		FY15	FY16
<b>Schools</b>	473	306	172	94	64	-
<b>Hospitals</b>	4	17	9	100	-	-
<b>Fibre to RBI tower sites</b>	13	40	37	58	51	13
<b>FTTN cabinets</b>	192	320	289	66	236	178
<b>Fixed lines served</b>	20,400	30,800	20,900	70	19,800	11,200
<b>Total \$m</b>	\$59m	\$106m	\$53m			

# Broadband provisioning mix

> High speed plans (VDSL + mass market fibre) up from 15% to 40% of provisioning activity during FY14

Broadband provisioning by type (where truck roll required)





# Andrew Carroll

Chorus CFO



# Income statement

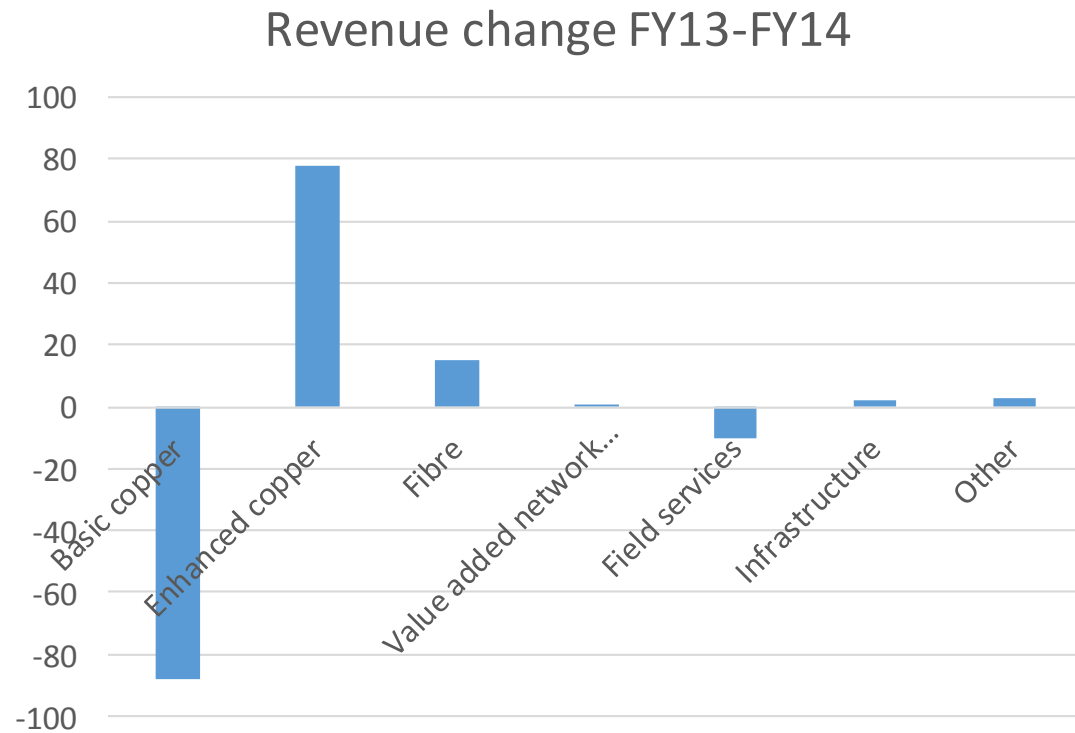
	<b>FY14 \$m</b>	<b>FY13 \$m</b>
Operating revenue	1,058	1,057
Operating expenses	(409)	(394)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>649</b>	<b>663</b>
Depreciation and amortisation	(322)	(319)
Earnings before interest and income tax	327	344
Net interest expense	(121)	(108)
Net earnings before income tax	206	236
Income tax expense	(58)	(65)
Net earnings for the year	<b>148</b>	<b>171</b>

- > Non-statutory measure: **FY14 underlying EBITDA \$656m\***
  - +\$9m UCLFS connection charge backdating
  - -\$2m insurance proceeds

\* See *Appendix Two* in Management Commentary for further detail

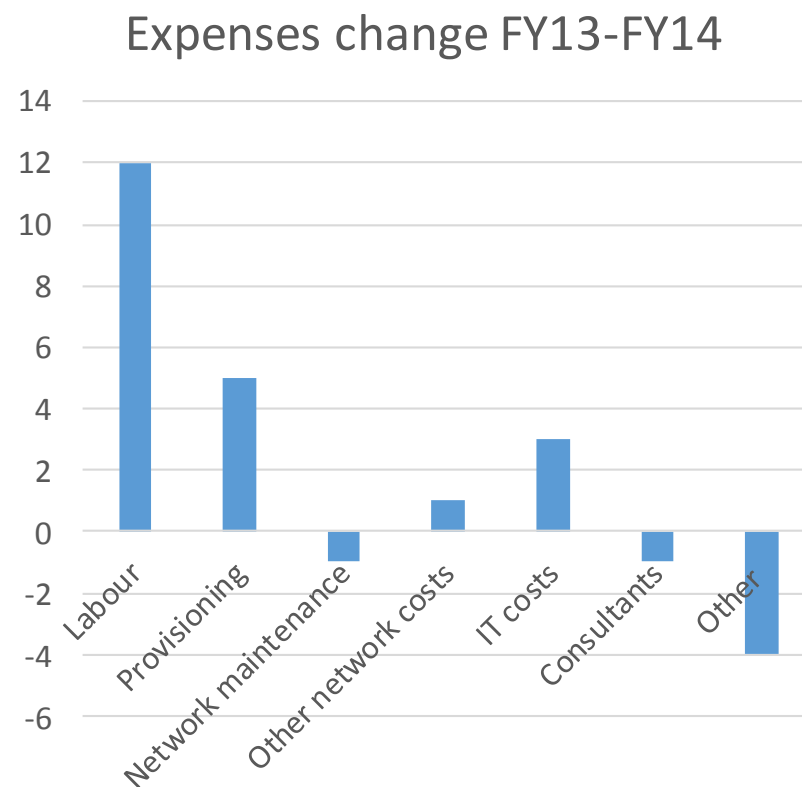
# Revenue

	<b>FY14 \$m</b>	<b>FY13 \$m</b>
Basic copper	543	631
Enhanced copper	293	215
Fibre	75	60
Value Added Network Services	38	37
Field Services	75	85
Infrastructure	19	17
Other	15	12
<b>Total revenue</b>	<b>1,058</b>	<b>1,057</b>



# Operating expenses

	FY14 \$m	FY13 \$m
Labour costs	79	67
Provisioning	56	51
Network maintenance	99	100
Other network costs	38	37
IT costs	55	52
Electricity	13	13
Rents, rates and property maintenance	24	24
Consultants	5	6
Insurance	4	4
Other	36	40
<b>Total operating expenses</b>	<b>409</b>	<b>394</b>



# FY14 gross capex summary

- > Total FY14 capex of **\$679m**
- > Fibre-related spend \$566m (83% of total capex)

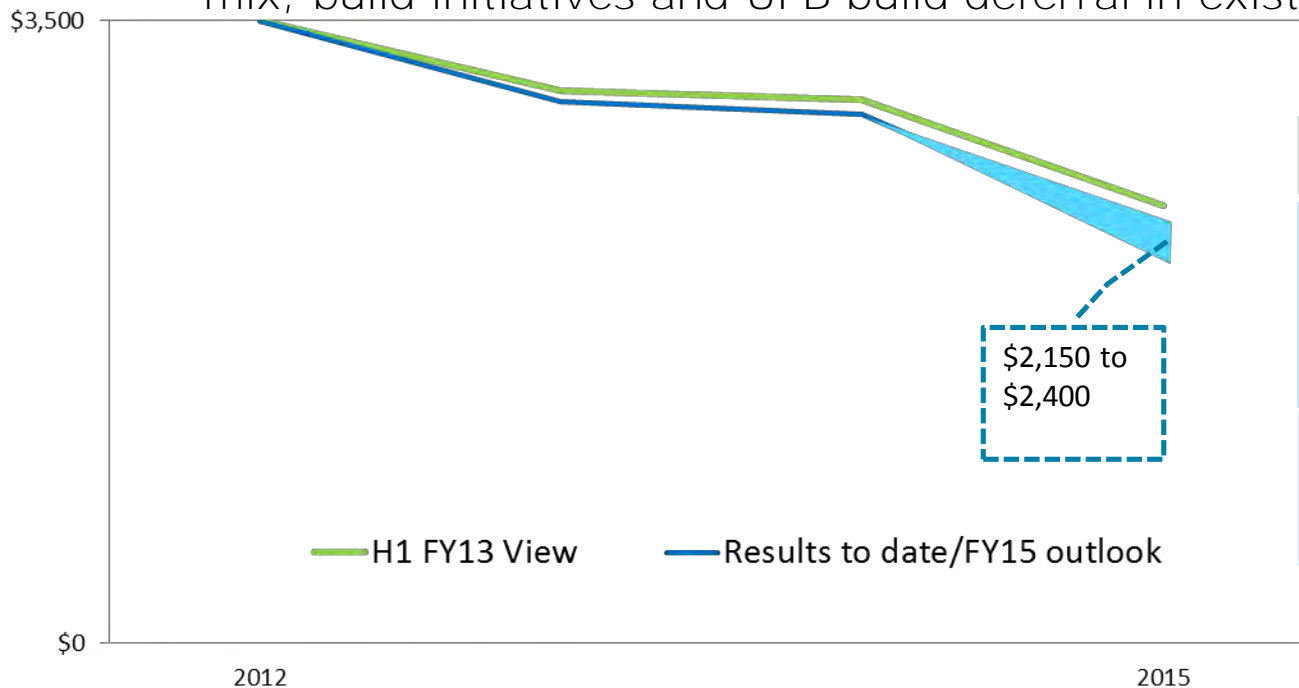
<b>Fibre capex</b>	<b>FY14 \$m</b>	<b>FY13 \$m</b>
UFB communal	338	362
UFB connections & fibre layer 2	74	31
Fibre products & systems	38	27
Other fibre connections & growth	63	53
RBI	53	106
<b>Total</b>	<b>566</b>	<b>579</b>

<b>Copper capex</b>	<b>FY14 \$m</b>	<b>FY13 \$m</b>
Network sustain	35	33
Copper connections	15	21
Copper layer 2	10	8
Product	1	7
<b>Total</b>	<b>61</b>	<b>69</b>

<b>Common capex</b>	<b>FY14 \$m</b>	<b>FY13 \$m</b>
Information technology	35	16
Building & engineering services	12	16
Other	5	1
<b>Total</b>	<b>52</b>	<b>33</b>

# Cost per premises passed: tracking well

- > FY14 UFB communal spend of \$338m included:
  - \$42m work in progress (FY13: \$30m)
  - \$4m 'synergy' build ahead of planned rollout
- > **FY14 CPPP:** achieved lower end of guidance range (\$2,900 to \$3,200) with \$2,973 for brownfields premises and **\$2,948 'blended' CPPP**
- > **FY15 CPPP guidance: \$2,150 to \$2,400** reflects change in build mix, build initiatives and UFB build deferral in existing fibred zones

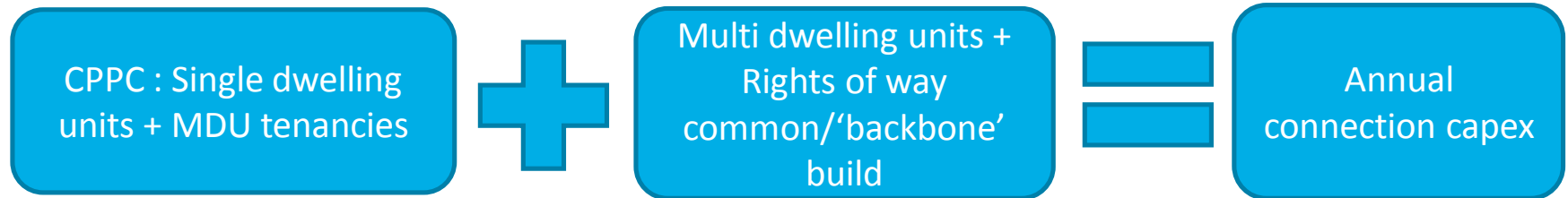


<b>FY12</b>	CPPP: \$3,567
<b>FY13</b>	CPPP: \$3,048 for UFB 'new build' premises Blended CPPP: \$2,935 when include existing Broadband Over Fibre premises and greenfields premises.
<b>FY14</b>	CPPP: \$2,973 for brownfields premises Blended CPPP: \$2,948 when include greenfields premises.



# UFB connection capex

- > **Total programme view** at demerger in 2011: \$900 to \$1,100 real (circa \$1,000 to \$1,200 in FY14 dollars) average cost to connect **standard** residential premises. **No change.**
- > **In any one year, UFB connection capex** reflects cost per premises connected (CPPC) **plus** upfront common build required for MDUs and RoWs.
- > 2% of potential end-users now connected (27,000), growing in materiality while emerging backbone build impacting capex timing.



- Average standard CPPC reflects lead-in type (trenched, ducted, aerial, internal)
- Cost of non-standard lead-in additional and ~14% of mix to date
- Average standard CPPC trending to programme view as volumes build
- Reflects non-standard capex and/or brought forward standard capex to be averaged across future connections in same MDU/RoW
- Contributions for non-standard backbone from NSI fund, RSP or building owner

# FY14 UFB connection capex

- > 21,000 end-users added in FY14
- > FY13 connection capex almost exclusively single dwelling units (SDUs)
- > **FY14 included 'backbone' spend on multi dwelling units (MDUs) + rights of ways (RoWs)**
- > **'backbone' capex in MDUs and RoWs = 28% of FY14 spend**

<b>FY14: UFB connections &amp; layer 2 capex</b>	<b>\$74m</b>
Layer 2 (long run programme average of \$100 per connection)	\$9m
Schools wiring (Crown funded)	\$4m
Connections: single dwelling units, apartments	\$40m*
Backbone build: multi-dwelling units (1,600) and rights of ways (1,600)	\$21m*

\*Non-standard install fund allocation for FY14 to be determined with CFH. Chorus has contributed \$28m to fund. \$100k used as of March 2013.

# CPPC: SDUs and apartments

- > FY14: **\$1,680** average for standard connections (mix of existing/new duct and aerial) paid during year, excluding layer 2

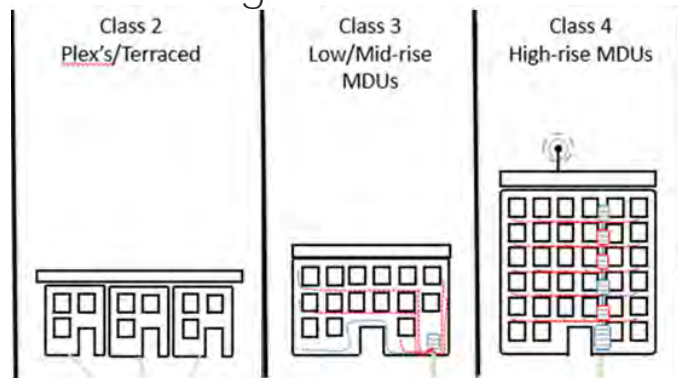
	<b>% of installs: Standard</b>	<b>% of installs: Non-standard</b>
Lead-in	86%	14%
Average cost	\$1,680 (includes all non-standard in-home wiring and excludes Layer 2)	\$620 (incremental cost of external lead-in)

- > FY15 focus on refining CPPC production line
  - coded rates in place with service companies
  - 3-stage install process (A-B-C) implemented
  - 'fit for purpose' install practices
  - Porirua trial supports longer term CPPC objective



# Connection capex: MDUs and RoWs

- > FY14: **\$6,500** average for MDU/RoW 'backbone' + street entry
  - 'backbone' or common build reflects non-standard capex and/or brought forward standard capex to be averaged across future connections
  - costs highly variable depending on MDU and RoW type
  - specialist MDU provider, UCG, for Auckland and Wellington
  - consent requirements driving time and cost
  - building owner contribution process implemented



- > MDU connection funding varies depending on height of building and number of tenancies
- > general principle that Chorus funds up to \$1,000 per end-user from the entry point to the apartment



- > general principle that RoW end-users receive 'free' 15m connection from Chorus

# FY15 UFB connection capex

- > FY15 **CPPC guidance: \$1,300 to \$1,500** (excluding layer 2)
- > **Materially more 'backbone' capex** relative to prior years as MDU and RoW build progresses
- > Current estimate is FY15 **'UFB connections & layer 2' capex \$105m - \$115m** based on:
  - ~36,000 connections
  - corresponding uplift in layer 2 capex
  - ~5,000 backbone build (MDUs and RoWs)
  - FY15 backbone build mix anticipated to be more expensive than FY14
- > Demand forecasting is challenging
  - difficult to forecast annual volumes and mix
  - completed 2,900 mass market fibre installs in June 14 vs 1,300 in July 13
  - influenced by RSP initiatives and pre-existing demand in newly built UFB areas



# FY15 EBITDA and capex guidance

	FY15 guidance \$m	FY14 actuals \$m
<b>EBITDA</b>	590-605	<b>649</b>
Copper capex	55 – 85	61
Common capex	45 – 50	52
Fibre capex	490 – 510	566
<b>Gross capex</b>	<b>590 – 640</b>	<b>679</b>

Note: The individual ranges presented above are not necessarily additive

- > FY15 EBITDA guidance reflects \$34.44 UBA pricing and installation charges that apply from 1 December, UCLFS pricing changes implemented in FY14, and Chorus UBA initiatives outlined at H1 FY14 results, including proposed **Boost** products
- > Copper capex range provides for incremental investment for proposed Boost products
- > Fibre capex reflects earlier assumptions around CPPP and CPPC, UFB uptake and connection mix and additional 'growth fibre' connection capex in CBD areas

# Net Debt / EBITDA

- > Average indebtedness increased through FY14 but closing leverage ratio reduced, reflecting timing of customer payments FY14 vs FY13
  - Note: underlying EBITDA is used for covenant reporting

	As at 30 June 2014 \$m
Borrowings	1,817
+ PV of CFH debt securities (senior)	36
+ Net Finance leases	<u>123</u>
Sub total	1,976
- Cash	(176)
<b>Total net debt</b>	<b>1,800</b>
Net debt/EBITDA	2.7 times

Note: Standard & Poor's treatment includes Operating leases

# Capital management

- > In February, Chorus noted its broader capital management objectives were to:
  - maintain an investment grade rating with headroom. In the longer **term, the Board continues to consider a “BBB” rating appropriate** for a business like Chorus; and
  - setting a financially sustainable dividend policy once sufficient certainty is achieved around the outcome of Chorus initiatives, CFH discussions, and regulatory reviews.
- > Consistent with this, as part of the 25 July bank agreements Chorus has agreed that no dividends will be paid until the later of the conclusion of the FPP review processes or 30 June 2015, so Chorus will not pay a final FY14 dividend.
- > If **Chorus uses the option to bring forward part of CFH’s existing** investment funding, Chorus would be unable to pay a dividend before December 2019 without CFH approval, unless Chorus normalises the CFH funding profile.





# Reshaping Chorus



# Addressing the funding gap\*

CFH discussions

Chorus initiatives

Regulatory

\*Funding gap refers to the \$1 billion funding shortfall identified by Chorus following the UBA decision of 5 November 2013, as confirmed by the EY report of 14 December 2013

# CFH discussions

## UFB improvements

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- First package of contractual amendments agreed 11 March 2014, providing Chorus with greater deployment flexibility and better matching of CFH funding to Chorus cost of build until June 2015.
- Changes to Chorus' marketing commitments and charging regime for UFB subdivisions, offset in part by an additional contribution to the non-standard installation fund of \$8m.

## 'backstop' facility

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- 'Backstop' facility agreed with CFH 18 July 2014, provides option of bringing forward the present value of CFH funding of up to \$178 million budgeted to be spent on Chorus' UFB programme in FY18 and FY19.

# Chorus initiatives

## Revenues

- Changed pricing for a range of commercial activities.
- Boost product proposals launched for consultation to RSPs 14 May. Discussions ongoing. Commission investigation into regulated UBA opened on 22 July.

## Operating model

- Reduction in support staff; FY15 short term incentives reduced.
- Discretionary capex tightly managed.
- Reduced proactive maintenance.
- Service company review under way.

## Capital management

- Interest rate swaps reset to realise \$30m cash.
- Dividend guidance withdrawn November 13 and no interim dividend paid. Capital management update to market 25 February indicating no dividend policy until financially sustainable and sufficient certainty.
- Agreed amendments to committed bank facilities 25 July, confirming no dividend until earlier of FPP or 31 July 2015.

# Regulatory

## Court process

- Seeking clarification of application of Telco Act. Appeal dismissed in High Court.
- Court of Appeal decision pending.

## FPP reviews

- UCLL review requested February 2013; UBA review requested December 2013.
- Commission's preliminary modelling views on a number of parameters received 9 July.
- WACC submissions (FPP and input methodologies) ongoing.
- Draft decisions for UCLL and UBA due 1 December. Final decisions due April 2015.

## Boost/UBA review

- Parallel Commission investigation/clarification of regulated UBA and Chorus' proposed *Boost* products. Decision timings unclear.

## 2013 TSO review and wider regulatory review

- Timings unclear.
- General election 20 September 2014.



# Chorus' network reality

# End-users value functionality

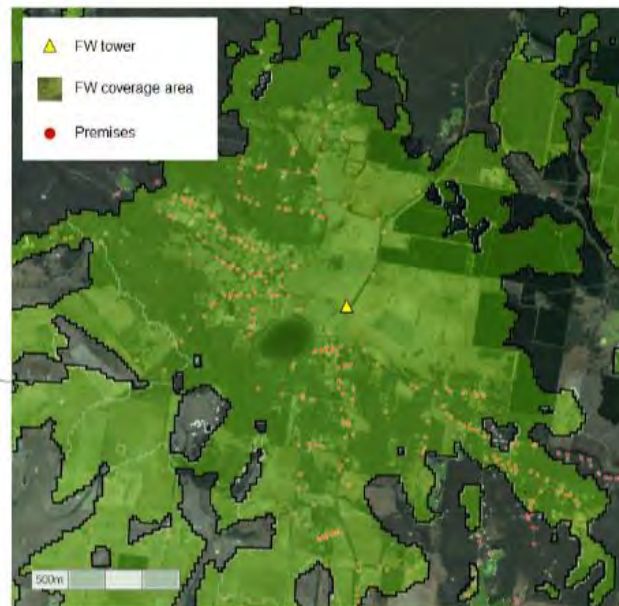
- > modelling should cost-in services end-users use and expect on the existing network
  - e.g. burglar alarms, medical alarms, Sky TV, eftpos



# Fixed wireless limitations

- > Fixed wireless can't be unbundled. Australia modelled just 1% for TSLRIC
  - NBN target ~3%, but with satellite as backstop
- > Capacity and coverage challenges
  - Kordia 20% failure rate; NBN modelling 7%
  - NBN review suggests ~\$1.1bn extra capex to double base stations

Exhibit 2-2: Example fixed wireless coverage area

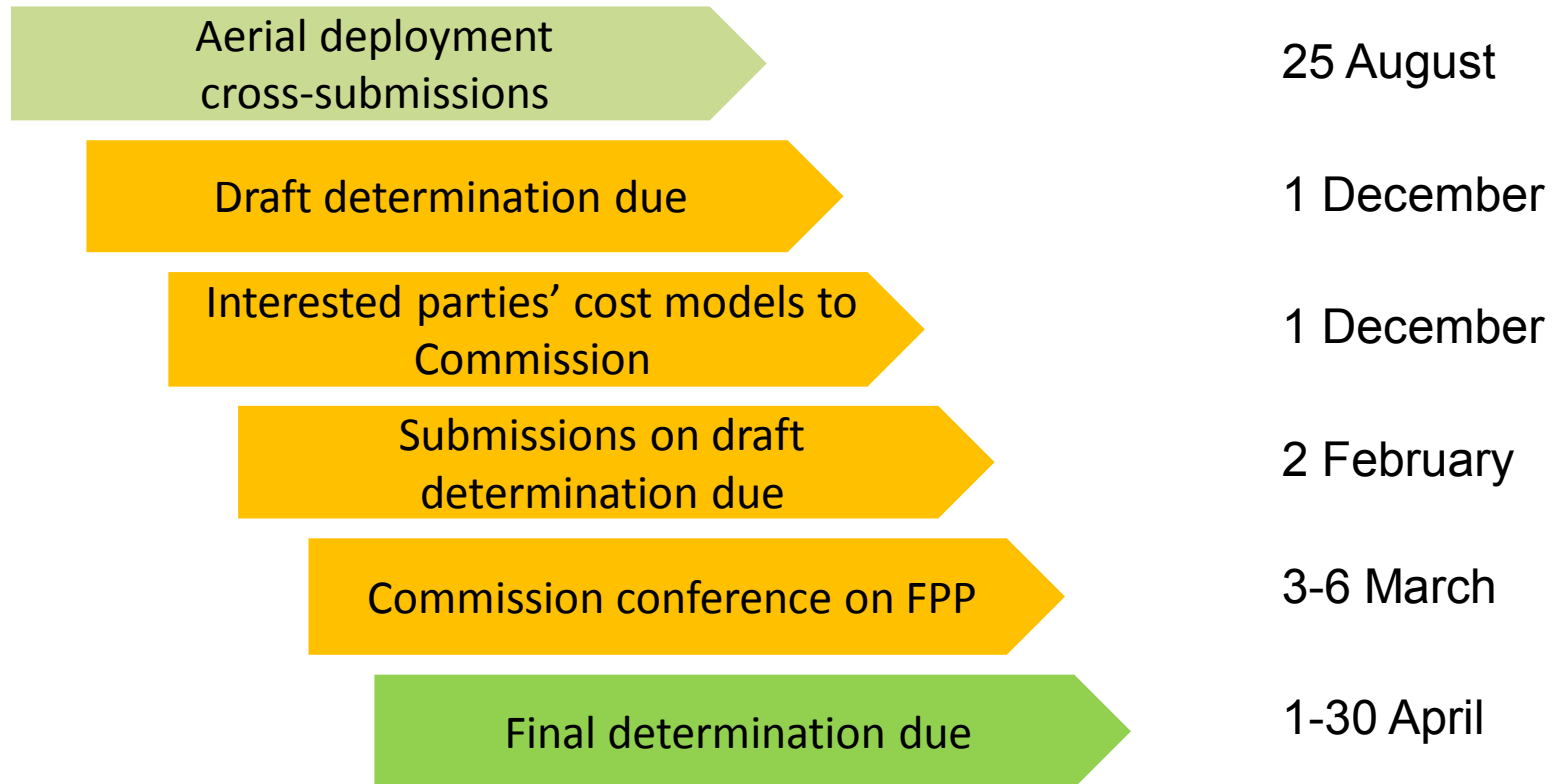


Due to line of sight requirements and local topography, range of NBN Co fixed wireless towers is often as little as 2-3km, even though theoretical range can extend to 14km

On average, actual geographic coverage for any individual NBN Co tower is ~20 percent of the area defined by a 14km radius

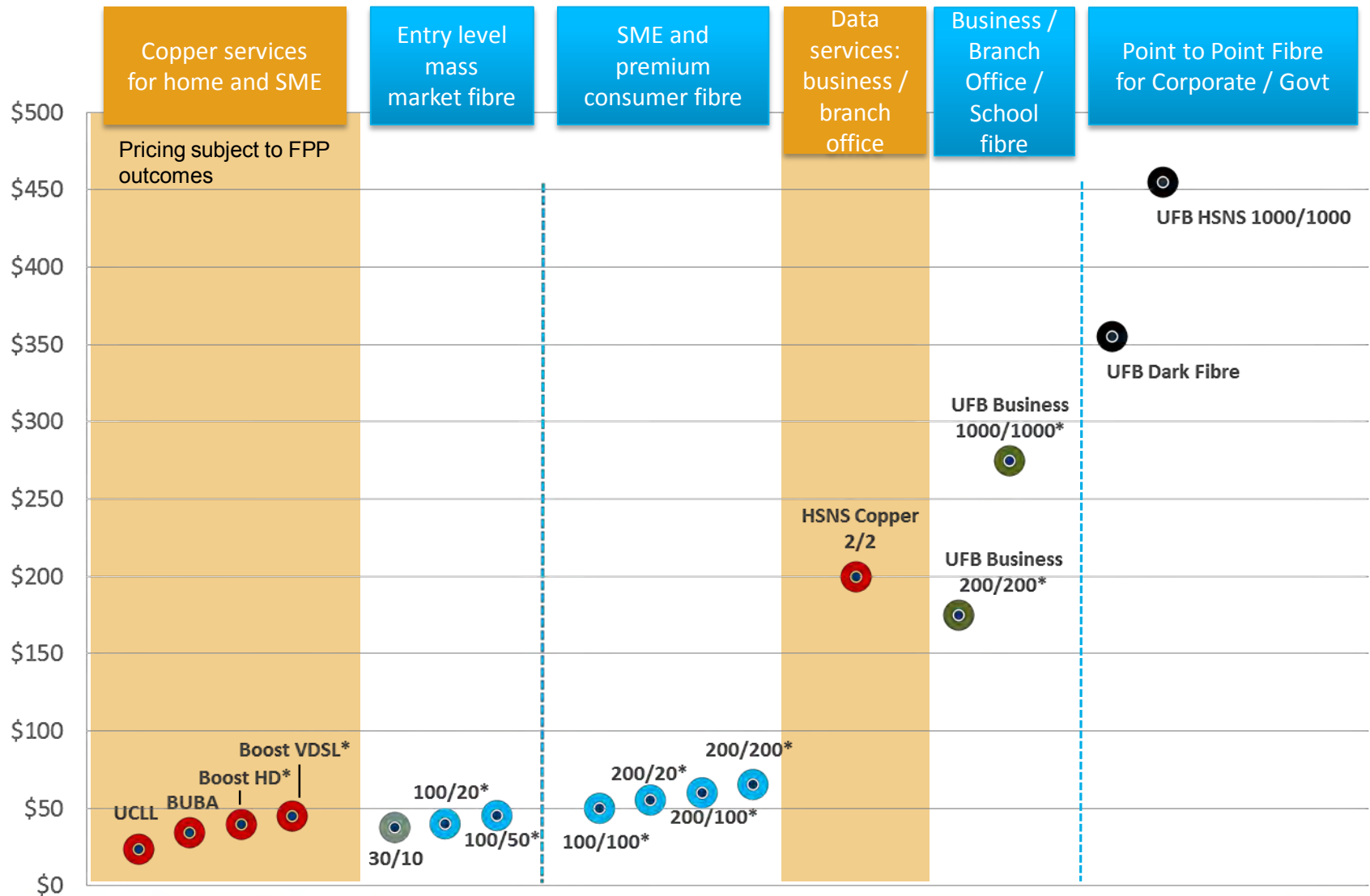


# Final pricing principle calendar



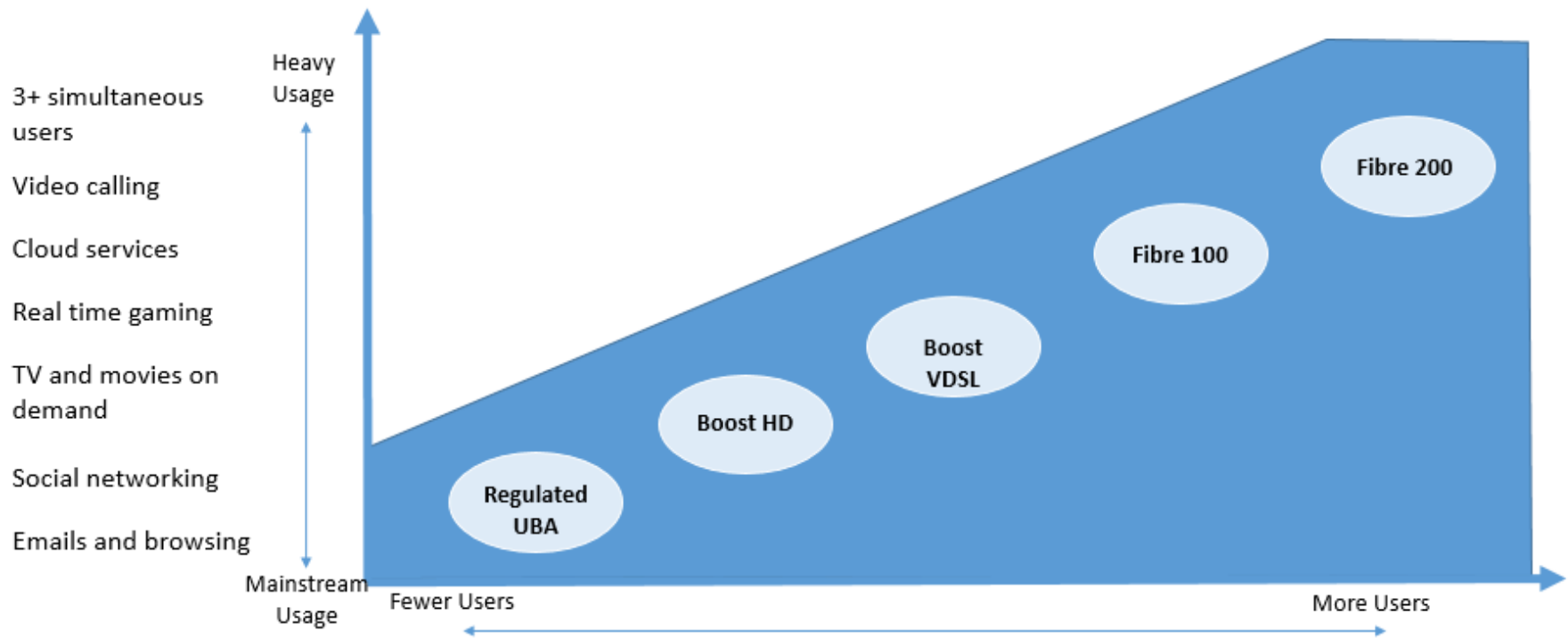
# Innovation focus

Chorus wholesale product overview – from 1 December 2014

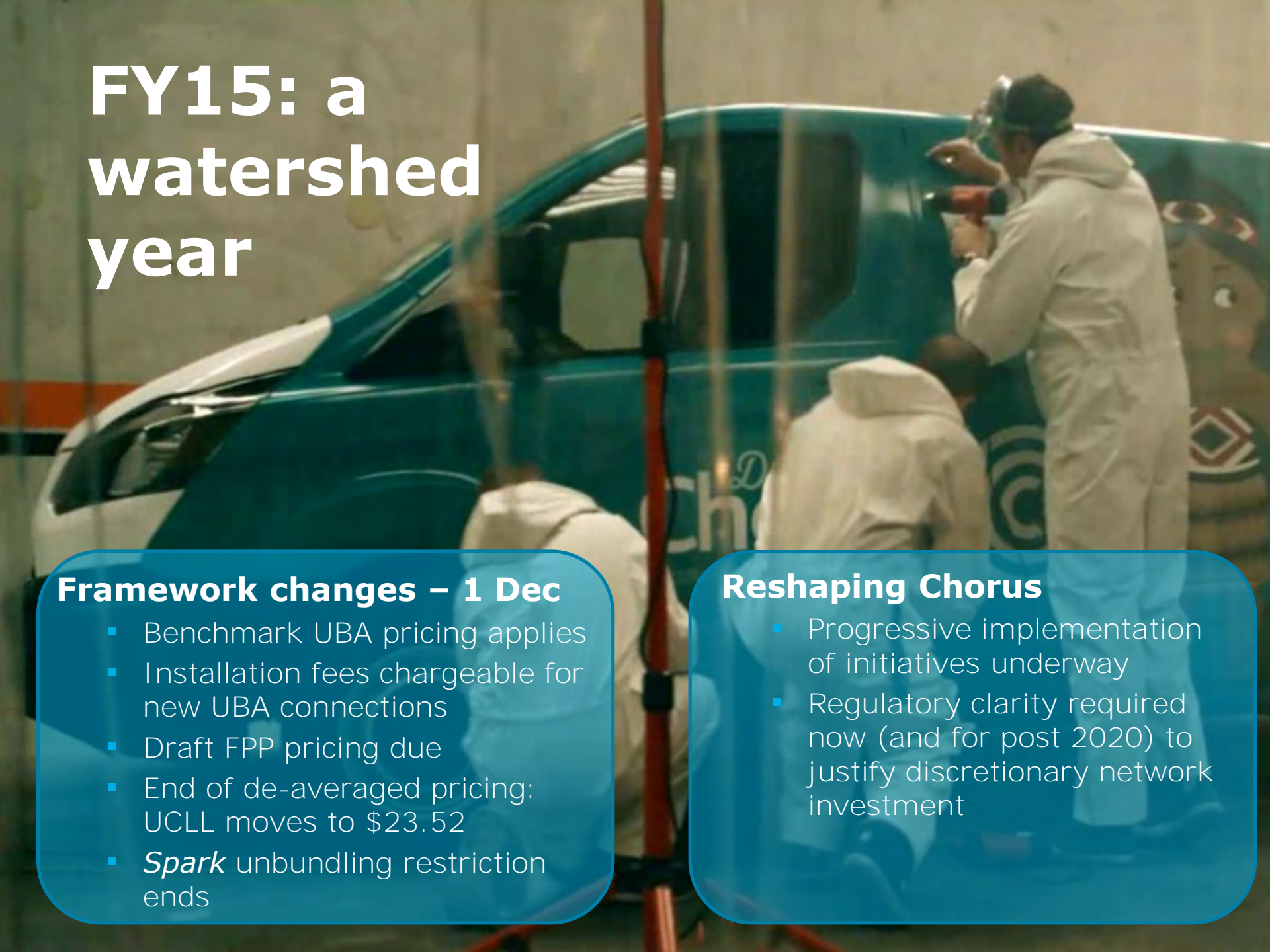


\* Chorus Accelerate range of improved services announced in May

# Enabling service differentiation



# FY15: a watershed year



## Framework changes – 1 Dec

- Benchmark UBA pricing applies
- Installation fees chargeable for new UBA connections
- Draft FPP pricing due
- End of de-averaged pricing: UCLL moves to \$23.52
- *Spark* unbundling restriction ends

## Reshaping Chorus

- Progressive implementation of initiatives underway
- Regulatory clarity required now (and for post 2020) to justify discretionary network investment

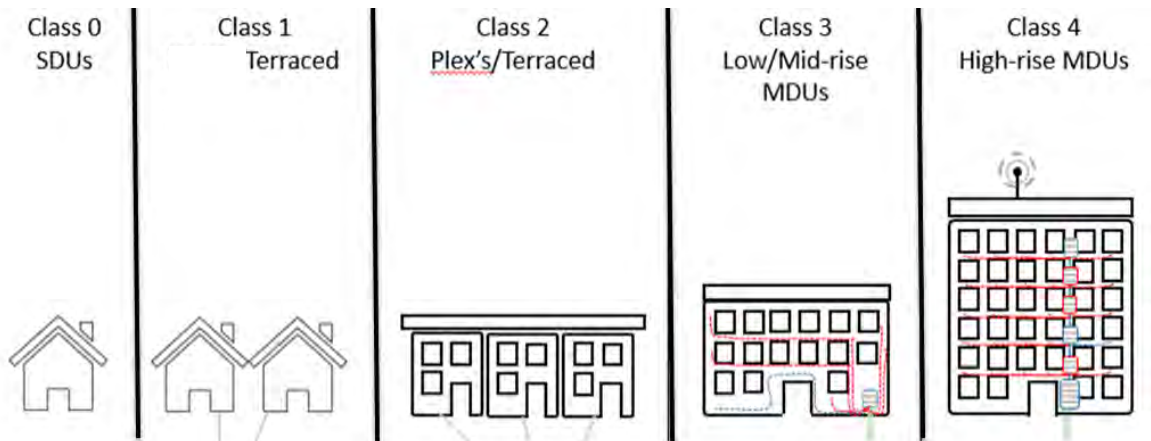


Any questions?



# Appendix A: UFB premises types

*Premises type estimates from UFB deployment premises count methodology*







<b>Premises</b>	649,000	123,000	10,000	4,000	1,000	<b>787,000*</b>
<b>End user connections</b>	649,000	267,000	43,000	34,000	57,000	<b>1,050,000</b>

\*Total UFB premises in Candidate Area, excluding greenfields

Note: Rights of way may occur in any of the above premises type categories

# Appendix B: UFB installation types and funding

	Rights of way 	Single dwelling units 	Simple Multi-dwelling units (up to 3 stories) 	Complex Multi-dwelling units (>3 stories) 
<b>Chorus funded</b> Note: funding policy will change at end of UFB build contract in 2020	<b>Residential/business standard lead-in from street to building entry point at time of connection:</b> <ol style="list-style-type: none"> <li>1. New underground – up to 15m</li> <li>2. Existing conduit or open trench – up to 100m</li> <li>3. Aerial – 1 span</li> <li>4. In-home wiring to the ONT*</li> </ol> *Internal cabling limited to 5m once NSI fund ends.			
				<b>Entry point to Apartment ('backbone riser'):</b> Chorus funds up to \$1k per residential/business tenancy
<b>Non-standard install Fund</b> Note: capped at \$28m funding from Chorus	<b>Residential non-standard RoW installation:</b> <ol style="list-style-type: none"> <li>1. New underground 15m to 200m</li> <li>2. Existing Conduit open trench &gt;100m to 200m</li> <li>3. Aerial &gt; 1 span</li> </ol>	<b>Residential non-standard installation:</b> NSI fund available for: <ol style="list-style-type: none"> <li>1. New underground 15m to 200m</li> <li>2. Existing conduit or open trench up to 200m</li> <li>3. Aerial &gt;1 span</li> </ol>		
		<b>Entry point to residential apartment ('backbone riser'):</b> NSI fund for >\$1k cost		
<b>Other funding required</b>	<b>Residential &gt;200m</b> charged via RSP			Building owner to pay for lead-in and backbone riser costs if exceeds Chorus funding
	<b>Business non-standard RoW installation:</b> charged via RSP <ol style="list-style-type: none"> <li>1. New underground &gt;15m</li> <li>2. Existing conduit or open trench &gt;200m</li> <li>3. Aerial &gt; 1 span</li> </ol>	<b>Business non-standard install lead-in:</b> charged via RSP	<b>Simple business install:</b> charged via RSP (or building owner) to fund lead-in and backbone riser costs if exceeds Chorus funding.	

Note: Installation is different from connection, which may be charged for business plans.

# Appendix C: Revenue categories

## Basic Copper

- core regulated products that are earlier technology or products with limited scope for further development e.g Baseband copper (UCLFS), Basic UBA, Naked UBA, UCLL, SLU, SLES

## Enhanced Copper

- products enhanced to deliver higher speed capability and better customer experience e.g. Enhanced UBA, VDSL2, Baseband IP, HSNS Lite Copper

## Fibre

- existing business fibre and new UFB services. Also includes UFB **backhaul and direct, or 'dark', fibre**

## Value Added Network Services

- products and expertise for higher value or specialist services. Includes carrier network services which provide connectivity across backhaul links

## Field Services

- field force in provisioning, maintaining and installing copper or fibre products

## Infrastructure

- **services that provide access to Chorus' network assets,** principally exchange co-location space.



# Appendix D: Capex categories

## Fibre capex categories

### UFB communal

- cost of building UFB network along street to pass premises

### UFB connections & fibre layer 2

- UFB connections are subject to demand via RSPs
- Layer 2 electronics

### Fibre products & systems

- Fibre- related product and system development

### Other fibre connections & growth

- Demand driven by greenfield & business fibre growth.
- Regional backhaul to enable RSP traffic
- Fibre lifecycle investment

### RBI

- Layers 0, 1 - network duct and fibre; Layer 2 cabinet electronics
- Expect total 5 year programme to cost around \$280 - 295 million. Spend weighted to front end of programme

# Copper capex categories

## Network sustain

- Upgrading or replacing plant (e.g. poles, cabinets, cables) where risk of failure or degraded service
- Proactive network replacement more cost effective than reactive maintenance

## Copper connections

- Demand for copper connections for residential / business customers (e.g. infill housing, new buildings)

## Copper layer 2

- Demand driven layer 2 investment in broadband capacity and growth. Expected to reduce slowly as customers migrate to fibre

## Product fixed

- Largely RSP driven investment in copper-related products

# Common capex categories

## **Information technology**

- Investment in future Chorus IT platforms, in part to meet June 2014 deadline to move from Telecom enterprise systems

## **Building and engineering services**

- Spend for growth and plant replacement (e.g. power, air conditioning) at Chorus exchange, building and remote sites

## **Other**

- Items such as office accommodation and equipment

# Appendix E: Contributions to capex

## UFB

- CFH funds up to \$929 million over course of programme, at a rate of \$1,118 per premises

## RBI

- Government grant funding of ~\$236 million over 5 years to cover most layer 0 and 1 capex spend
- Layer 2 is not covered by the grant
- Grant is payable on completion of build work
- Annual grant around 80 - 85% of annual RBI capex spend

## Other

- Central & local government contribute to cost (often 100%) when requesting Chorus to relocate or rebuild existing network.

<b>Chorus Limited</b>	
<b>Results for announcement to the market</b>	
Reporting Period	Year ended 30 June 2014
Previous Reporting Period	Year ended 30 June 2013

	Amount (000s)	Percentage change
Revenue from ordinary activities	\$1,058,000	Up 0.1%
Profit (loss) from ordinary activities after tax attributable to security holders.	\$148,000	Down 13.5%
Net profit (loss) attributable to security holders.	\$148,000	Down 13.5%

Interim/Final Dividend	Amount per security	Imputed amount per security
No dividends will be paid in respect of the year ended 30 June 2014.		

Record Date	N/A
Dividend Payment Date	N/A

Comments:	This announcement should be read in conjunction with the attached audited financial statements and management commentary for the year ended 30 June 2014, media release and investor presentation. In particular refer to appendix two of the management commentary which identifies non-recurring items incurred in the ordinary course of business.
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PRELIMINARY ANNOUNCEMENT - FULL YEAR RESULTS  
For the year ended 30 June 2014

**1.1 Reporting Period and Previous Reporting Period**  
The reporting period is the year ended 30 June 2014 and the previous corresponding period the year ended 30 June 2013.

**1.3 (a) Statement of Financial Performance**  
Refer to attached financial statements.

**1.3 (b) Statement of Financial Position**  
Refer to attached financial statements.

**1.3 (c) Statement of Cash Flows**  
Refer to attached financial statements.

**1.3 (d) Dividends**

No dividends have been paid or declared in respect of the year ended 30 June 2014.

A dividend was paid on 11 October 2013 in respect of the year ended 30 June 2013 as follows:

Dividend	Amt per share(cps)	Supplementary dividend
FY13 final dividend	15.5	2.7353

**1.3 (e) Dividend Reinvestment Plan**  
Chorus' dividend reinvestment plan was suspended on 11 April 2014.

**1.3 (f) Statement of Movements in Equity**  
Refer to attached financial statements.

**1.3 (g) Net tangible assets per security**  
There are \$1.43 net tangible assets per security (30 June 2013: \$1.21).

**1.3(h) Control of Entities gained or lost during year**  
N/A

**1.3(i) Details of associates or joint ventures**  
N/A

**1.3 (j) Any other significant information**  
Refer to attached financial statements, management commentary, investor presentation and media release. In

particular refer to appendix two of the management commentary which identifies non-recurring items incurred in the ordinary course of business.

- 1.3 (k) Commentary on the results of the period**  
Refer to attached management commentary, investor presentation and media release. In particular refer to appendix two of the management commentary which identifies non-recurring items incurred in the ordinary course of business.
- 1.3 (l) Audit**  
This report is based on financial statements which have been audited. Chorus' auditors have issued an unqualified audit opinion which includes the following emphasis of matter: "We draw your attention to pages 9 and 12 of the consolidated financial statements which explain that significant uncertainties exist in relation to future regulatory, legal and political outcomes that may impact the assessment of the carrying value of Chorus' assets. Our opinion is not qualified in respect of this matter".
- 1.3 (m) Subsequent events**  
Refer to attached financial statements and management commentary.
- 1.3 (n) Revaluation of Assets and unrealised gains from net changes in values or development margins of investment assets**  
N/A
- 3.1 Accounting Standards**  
The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the Financial Reporting Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards.
- 3.2 Critical accounting policies**  
Refer to attached financial statements.
- 3.3 Changes in accounting policies**  
There have been no changes in accounting policies other than the adoption of NZIFRS 13: Fair Value Measurement. All policies have been consistently applied throughout the period.
- 3.4 Audit Report**  
Refer to attached financial statements.