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STOCK EXCHANGE ANNOUNCEMENT

26 January 2017

Chorus to extend fibre to another 200,000 customers

Chorus today announced it has reached an agreement with Crown Fibre Holdings to extend its ultra-fast broadband (UFB) rollout to a further 169 areas extending from Taipa–Mangonui in Northland to Bluff in Southland. This will make fibre available to an additional 200,000-plus homes and businesses beyond the 1.1 million customers in Chorus' existing UFB rollout areas.

Chorus CEO Mark Ratcliffe said Chorus was delighted to be working with the Government to extend the reach of fibre broadband to so many new communities. "Fibre is undoubtedly the future of broadband. In the five and a half years that we've been building the UFB network and connecting homes and businesses to fibre we've seen a huge upsurge in demand.

"We're particularly pleased to see many of the towns and areas soon to benefit from fibre are within the Government's Regional Growth Programme, helping to increase jobs, income and investment in regional New Zealand.

"We're looking forward to working alongside local councils and lines companies as we finalise our deployment plans and we will also endeavour to make recent earthquake hit areas a priority".

At the end of 2016, the uptake of fibre across Chorus' current UFB deployment areas was at 32%, with areas completed earlier in the programme seeing uptake surpassing 40%.

Monthly household internet data consumption has also burgeoned in the last five years. In 2011, as the first phase of UFB was announced, the average household used about 13 gigabytes of internet data a month. This has grown to more than 120 gigabytes a month today with nearly half of all broadband customers having made the move to unlimited data plans.

"Fibre provides the broadband equivalent of an *autobahn* right to the door of homes and businesses, it will future-proof these communities for the anticipated continued growth in data consumption.

“With no signs of demand waning, we’re forecasting average monthly usage of 680 gigabytes by 2020 as people access more and more online content and switch on to activities like video streaming,” said Mr Ratcliffe.

The second phase of the UFB rollout is expected to commence in July 2017 and finish by December in 2024. A list of the Chorus towns and areas can be found at chorus.co.nz/ufb2.

Chorus estimates the cost of the UFB2 communal network will be \$370 million to \$410 million. The cost to connect each of the 203,000 potential customers within this footprint is estimated to average \$1,500 to \$1,700 (in 2017 dollars and including layer 2, backbone costs for MDUs and rights of way with 10 or fewer premises).

Today’s agreement does not change Chorus’ FY17 capital expenditure guidance or previous dividend guidance.

ENDS

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Outline of UFB2 agreement key terms

The UFB2 agreement terms are materially similar to UFB1 and include:

- Pricing for services in UFB2 areas will be the same as for Chorus' existing UFB areas and subject to the prevailing regulatory regime from 2020. The UFB2 network includes backhaul from remote towns to UFB1 handover points.
- Until 1 January 2026, UFB2 residential customers will not be charged for connections up to a distance of 200 metres.
- Chorus must connect services on the date agreed with RSPs or credit them a month's rental. Service level payments to Crown Fibre Holdings (CFH) are triggered if less than 75% of agreed dates are met. There are a range of other service levels that include payments to RSPs and CFH.
- Unbundling of the UFB2 network is not contractually required before 2026, but in the event of a regulatory requirement to unbundle the UFB2 network earlier there would be no compensation provided to Chorus.

- Chorus must complete each UFB2 area 12 months from the agreed start date, but may start earlier provided the build takes no longer than 15 months. Communal network must be built in rights of way with more than 10 premises unless consent from affected persons is not granted.
- Overall, Chorus has greater control in UFB2 and the agreement is more outcomes focused. For example, while the key network requirements are described in the contract, CFH does not have an approval right over the network architecture. There is a liquidated damages regime for delays, but it is simpler than in UFB1. The risk of delays is reduced by the fact that the schedule will be agreed upfront for the entire programme. Chorus and CFH can agree changes to the schedule if something unexpected arises, for example relating to Council consents or the discovery of archaeological features.

- Chorus expects to receive \$291 million in CFH funding to build fibre past the 168,240 premises in UFB2 areas. There are three different funding rates – \$1,552 per premises for 112,433 premises to be passed by 2023, \$2,000 for 38,620 premises in the latter half of the rollout and \$2,300 for 17,187 other premises throughout the rollout.
- In return for the CFH funding, CFH equity and debt securities will be issued on very similar terms to UFB1. Chorus can elect the mix of securities to be issued (up to a maximum of \$189m equity securities) but expects to issue 65% equity securities and 35% debt securities, with equity securities likely to be issued first.
- Dividends are payable on the equity securities proportionately:
 - 18.46% from 30 June 2030
 - 55.38% from 30 June 2033
 - 100% from 30 June 2036
- The debt securities are to be proportionately redeemed from 2030:
 - 18.46% on 30 June 2030
 - 36.92% on 30 June 2033
 - 44.62% on 30 June 2036

- The CFH equity securities will not have any voting rights and will rank ahead of ordinary shares on liquidation. They may be converted to ordinary shares in certain circumstances, and Chorus may redeem them for cash or ordinary shares. The CFH debt securities will comprise a senior and a subordinated portion, on a similar basis as the existing CFH debt securities and may be accelerated in the event of a material breach by Chorus or on insolvency or cross-default.
- While CFH equity and debt securities are outstanding, Chorus cannot pay a dividend to ordinary shareholders without CFH consent if it does not have an investment grade rating.
- There are no CFH warrants or uptake targets.
- In order for CFH to provide funding: Chorus must not be in breach of the financial covenants in its banking facilities; from 2020 (or earlier if it does not have financial covenants in its bank facilities) Chorus must not have a sub-investment grade rating from both S&P and Moody's (or only one entity if that is the only rating entity) for a continuous period of four months; and there must not be a material breach of the UFB2 agreement or suspension of it for health and safety reasons.
- Material breach events include where Chorus fails to complete a build milestone within nine months, where Chorus fails to meet the same CFH service level for three consecutive months and then fails to remedy that service level within a further three months, Chorus becoming unable to fulfil its obligations or an insolvency type event or cross default occurs. If the material breach relates to build delays, CFH may elect to require Chorus to pay \$50,000 liquidated damages per day for up to 180 days and if the material breach is not remedied in that time, CFH may contract a third party to undertake the build. There is no management step in right.
- There is a suspension right following a death or serious injury or material breach of health and safety legislation and CFH may terminate the agreement if Chorus has been convicted of a serious offence under the Health and Safety at Work Act 2017.
- Chorus and CFH have also entered a conditional agreement giving Chorus the option to bring forward part of the CFH funding if Chorus' credit rating is below investment grade for a period of at least four months between 1 January 2020 and 31 December 2021. The funding is available on terms similar to those agreed with CFH in July 2014. As with the 2014 agreement, if Chorus chooses to use the facility, Chorus would be unable to pay a dividend on its ordinary shares before completing the UFB2 build without CFH approval, unless Chorus normalises the CFH funding profile.

The agreement is conditional on Chorus securing tax and ratings treatment consistent with UFB1, as well as competition law authorisations which were provided for UFB1.



UFB2 – Taking Fibre Further

26 January 2017

UFB2 OVERVIEW

> Chorus will build UFB2 network in 169 areas

- fibre to pass about 203,000 homes and businesses (up to 168,240 “premises” under the UFB2 contract)
- rollout expected to commence in July 2017 and finish by December 2024
- service company discussions already well advanced

Indicative rollout schedule	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	Total
Premises to be passed	0	5,000	26,000	33,000	29,000	23,000	25,000	21,000	6,000	168,000

> UFB2 communal capex

- to pass the ~168,000 premises (including rights of way with more than 10 premises) requires estimated gross capex of **\$370-\$410m**
- implied average cost of **\$2,200-\$2,440** per premises passed reflects lower density and greater boundary distances for UFB2 premises vs UFB1 areas, as well as UFB2 locations

UFB2 OVERVIEW

> UFB2 connection capex

- ~203,000 potential connections within planned UFB2 footprint
- estimated cost of **\$1,500-\$1,700** per connection (in 2017 dollars and including layer 2, backbone costs for MDUs and rights of way with 10 or fewer premises)
Note: Chorus is currently considering the treatment of other fibre provisioning costs previously expensed and will provide an update at its half year result.
- consistent with current UFB1 practice, residential connections up to 200 metres will be free until 2026

> UFB2 product pricing

- pricing for services in UFB2 areas will be the same as for UFB1 areas and subject to the prevailing regulatory regime from 2020

UFB2 OVERVIEW

> Increased per premises passed Crown funding

- total expected funding of **\$291.3 million** at an average per premises funding rate of **\$1,731** (UFB1: \$1,118 per premises passed)

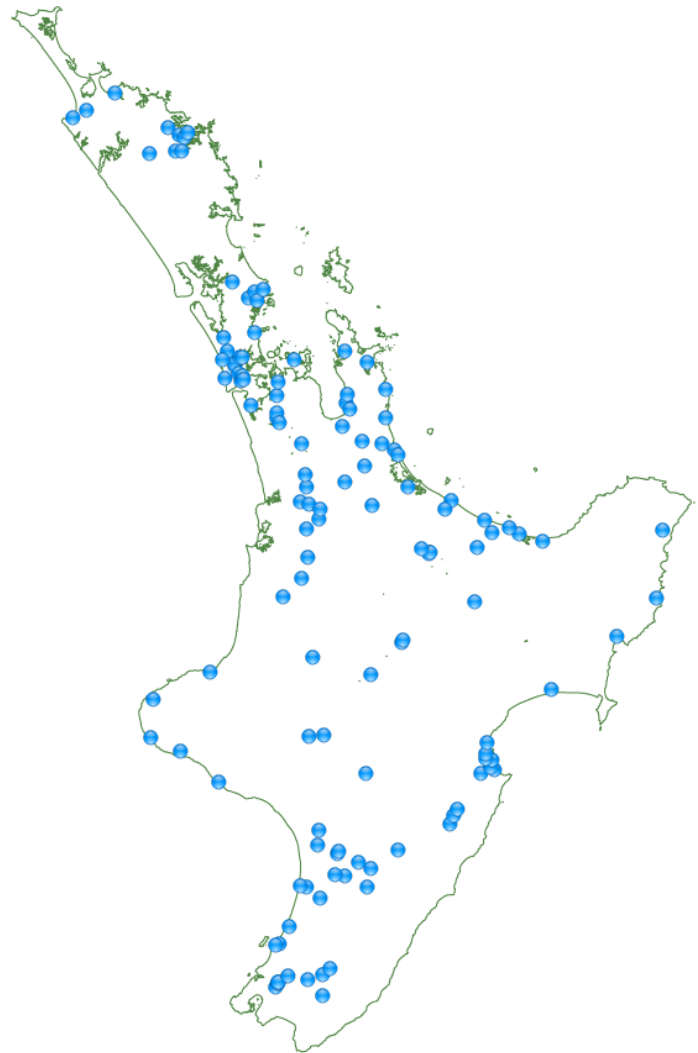
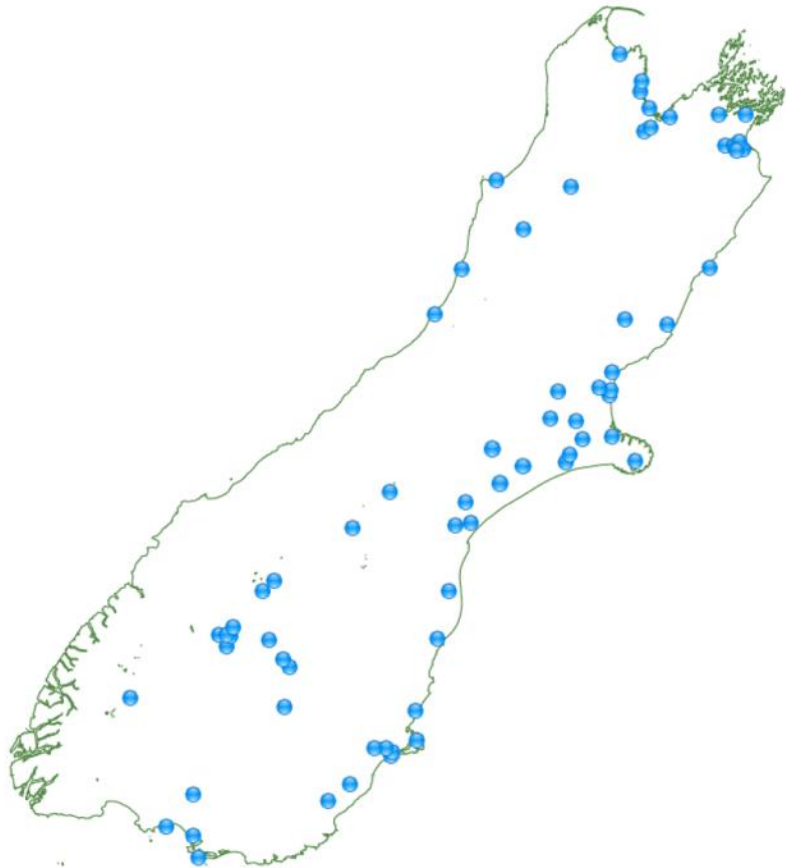
Note: There are three different funding rates - \$1,552 for 112,433 premises to be passed by 2023, \$2,000 for 38,620 premises in the latter half of the rollout and \$2,300 for 17,187 other premises throughout the rollout

- Chorus expects to split funding 65% CFH equity securities and 35% CFH debt securities (UFB1: 50% debt, 50% equity) with CFH equity securities expected to be issued first as build is completed up to a maximum of \$189 million - see slide 11 for UFB2 debt securities repayment profile

> No change to dividend guidance

- during the UFB build programme to 2020, the Board expects to be able to provide shareholders with modest long term dividend growth from the base of 20 cents per share paid in FY16, subject to no material adverse changes in circumstances or outlook

CHORUS UFB2 ROLLOUT AREAS



WHY TAKE FIBRE FURTHER?

> Demand for fibre clearly established relative to UFB1 in 2011

- 32% uptake at 31 December 2016 - well ahead of UFB1 contract target of 20% by 2020
- fibre demand has accelerated materially since early 2015 – the “Netflix effect”
- 36% demand (fibre orders received) has already been achieved in FY16 build areas (i.e. within 18 months of availability)

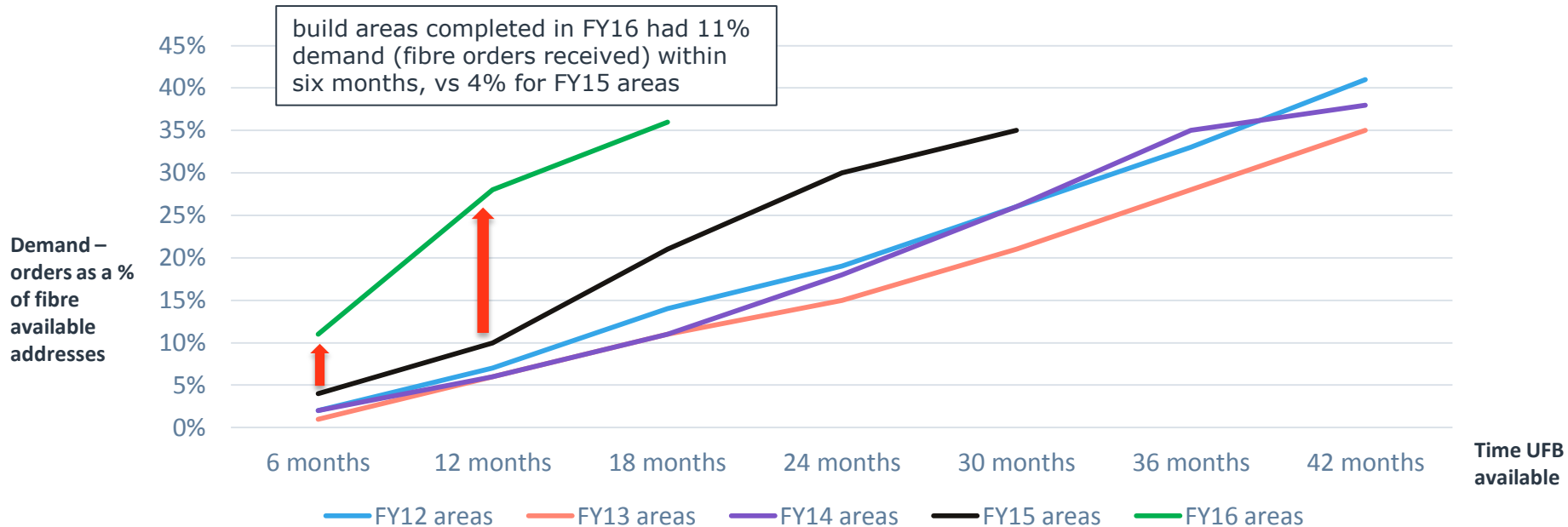
> Fibre is future-proofed

- uncapped data plans and video streaming will drive ongoing growth in bandwidth needs
- **123GB** average monthly bandwidth usage in December (fibre 197GB; copper 106GB)
- forecasting 680GB average by 2020
- maintains Chorus’ position as New Zealand’s leading fixed communications infrastructure provider

Demand profile (fibre orders received) based on time UFB available in area



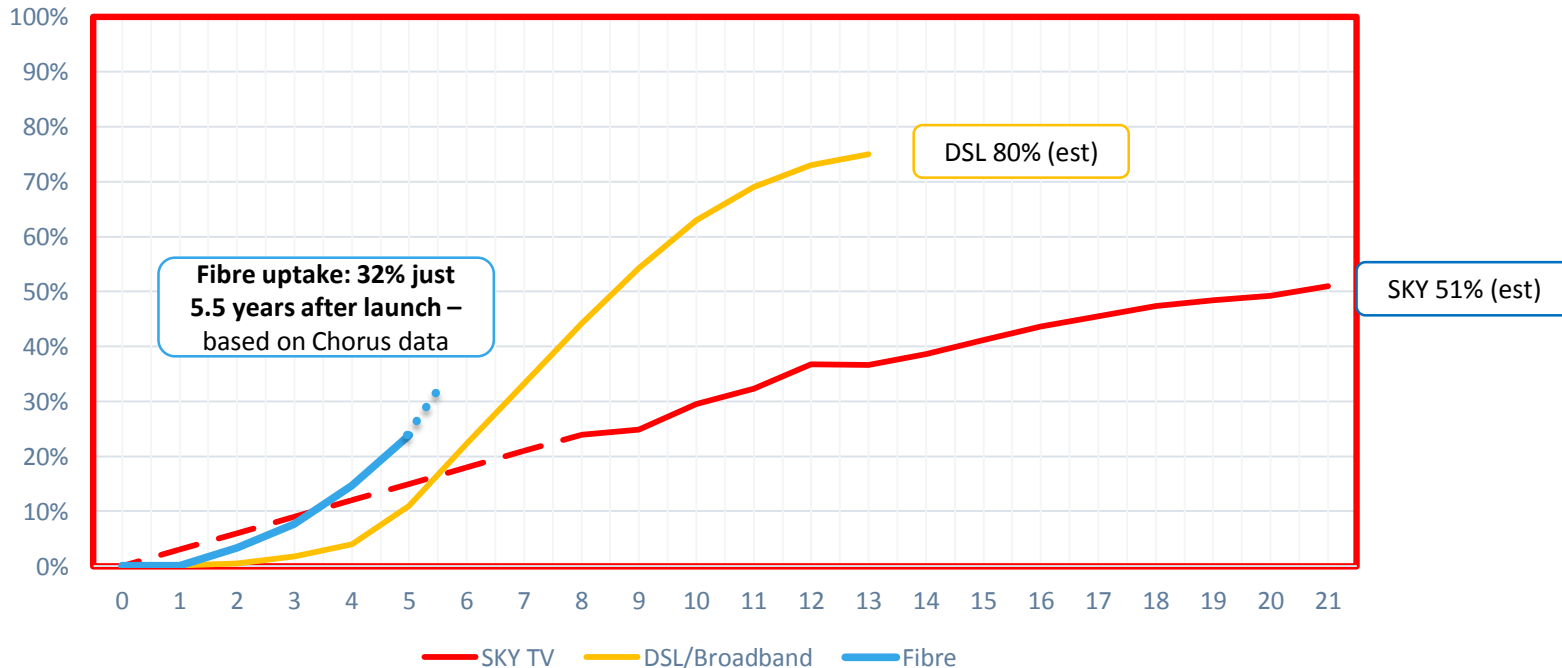
SIGNIFICANT INCREASE IN PENT UP DEMAND



FIBRE DEMAND IS AHEAD OF EXPECTATIONS

Technology adoption in NZ (% of households)

Fibre uptake based on % addresses covered, given incremental build

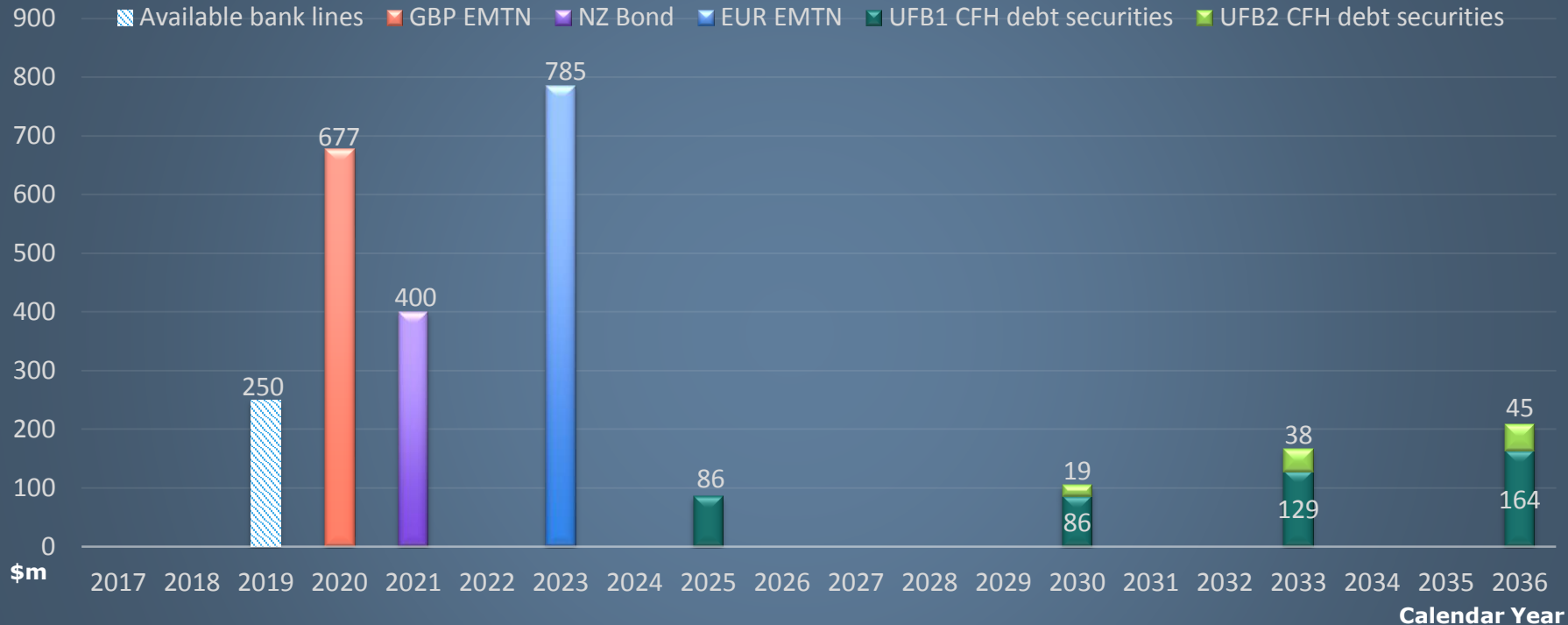


Appendices

UFB1 + UFB2 SUMMARY

	UFB1	UFB2	TOTAL
Premises to be passed	up to 830,900 (by December 2019)	up to 168,200 (by December 2024)	up to ~1 million
Estimated communal capex to pass premises	\$1.75 to \$1.80 billion	\$370 to \$410 million (includes rights of way with more than 10 premises)	\$2.12 to \$2.21 billion
CFH funding	up to \$929 million	up to \$291 million	up to \$1.22 billion
Customers able to connect by rollout end	~1.1 million	~203,000	~1.3 million

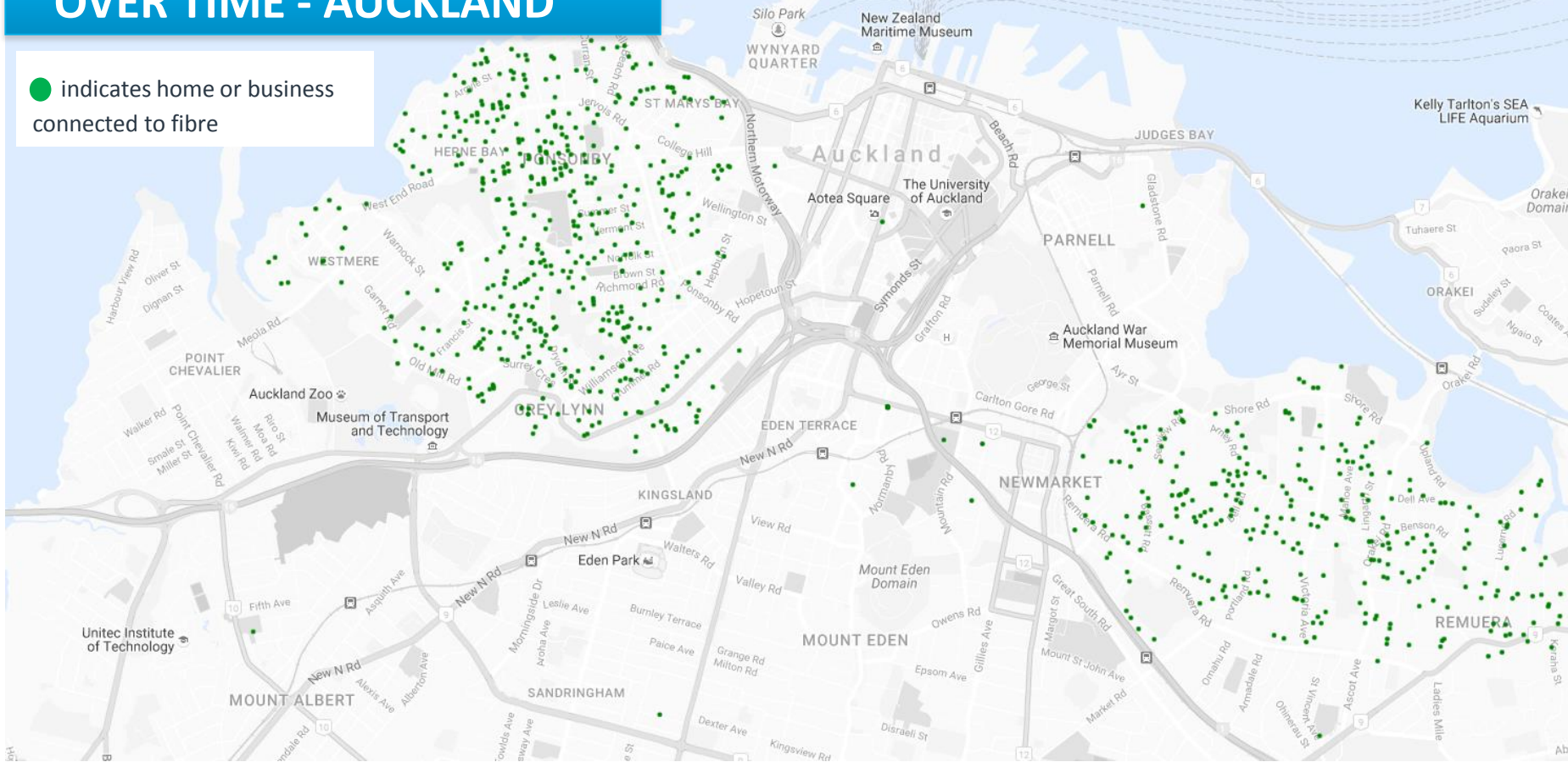
DEBT MATURITY PROFILE

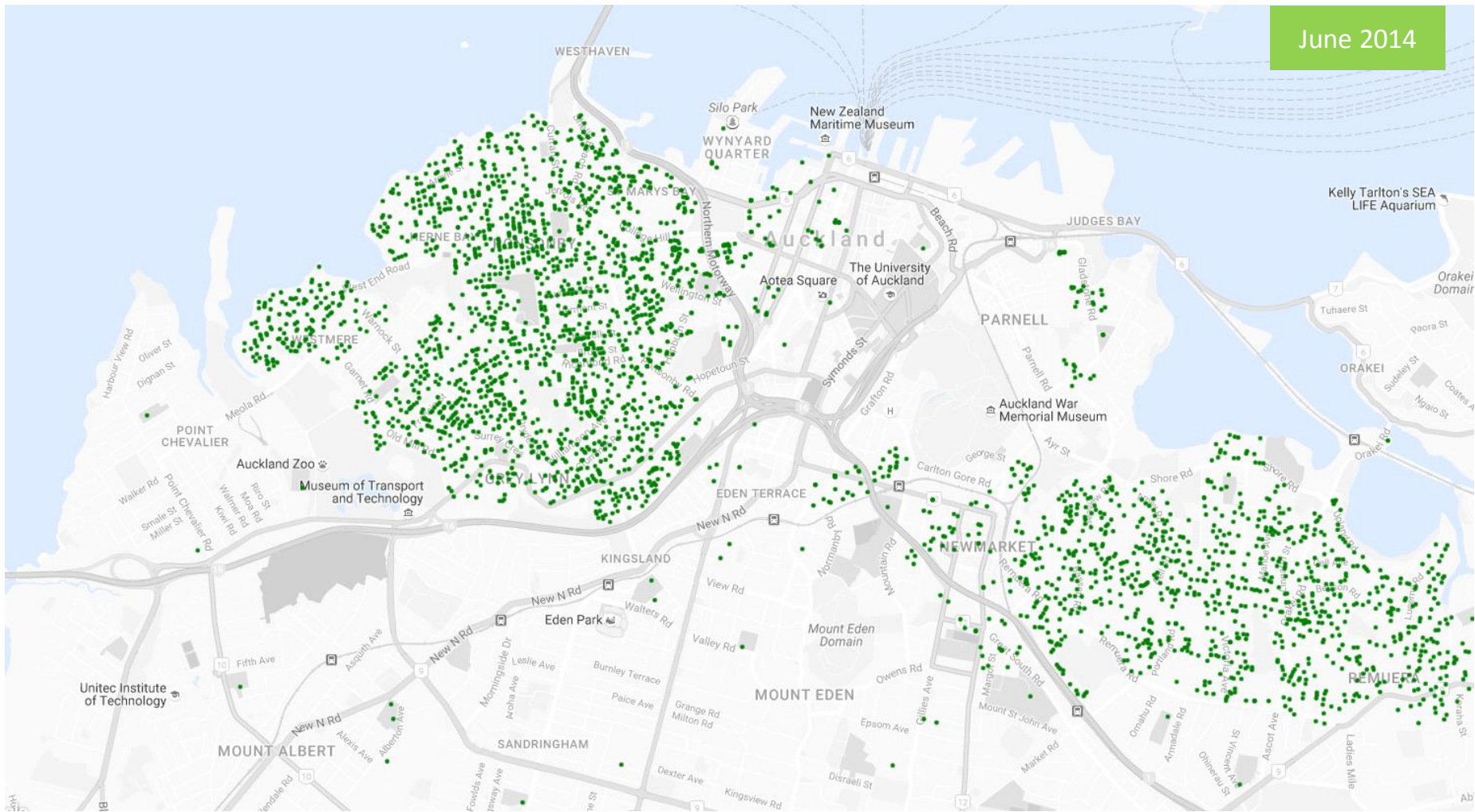


UFB CONNECTION GROWTH OVER TIME - AUCKLAND

June 2013

● indicates home or business
connected to fibre





March 2015

