2012
Chorus Annual Report

Highlights

EBITDA

$399m

Earnings before interest, income tax, depreciation and amortisation

Dividend

14.6

Cents per share (see page F.3 for details)

Fixed line connections

1,776,000

Craig Davison – Programme Manager (RBI Deployment)

P.2

"A pleasing start to our operations as a standalone business," says CEO Mark Ratcliffe.

P.2

The new Chorus is up and running, working from the outset to get people and processes in place.

P.4-5

Team settles into its stride with Ultra Fast Broadband and Rural Broadband Initiative projects throughout New Zealand.

P.6

Chorus awarded Aon Hewitt Best Employers Accreditation following 85% engagement in first staff survey.

Chorus

A pleasing start

Report from chairman Sue Sheldon and CEO Mark Ratcliffe

Chorus' first 'year' as a standalone company has been a huge one.

Hitting the ground running, we've put in place a comprehensive business plan based on our ability to deliver on our short and long term goals and, in line with being an open access wholesaler, have increased transparency for all our stakeholders about the factors that influence our business.

We've kept the network and daily operations running for our customers – achieving our best network performance in a decade – against a backdrop of establishment of a standalone dual listed company.

As a cornerstone partner to the Crown, Chorus is privileged to be building a large part of the new Ultra Fast Broadband fibre optic network. As it rolls out, it will change the way New Zealanders communicate and interact with the world, opening the doors to opportunities we don't yet perceive.

This is a massive undertaking – not just for Chorus but for the industry as a whole. It's a long term project to be completed by 2019 – though that's a relatively short time when you think of the years it took to put our copper network in place. We're satisfied with the progress we've made to date in building the new network under the terms of our contract with the Crown. We've made early learnings and identified ongoing improvements that we can take forward into future years. We've been working closely with local councils to co-ordinate build work, and have increased community engagement and communications as we've gone from neighbourhood to neighbourhood.

But it doesn't end with getting fibre in the ground. The real success comes not only in building the network – but critically in ensuring an efficient migration so that people use it and New Zealanders realise the benefits a fibre network and faster broadband can bring. Our experience in these early stages is in line with gradual uptake trends for new technology adoption. We're working closely with our customers and other stakeholders to encourage everyone to play their part in getting New Zealand on the road to a fibre world.

Our people are central to Chorus. We value diversity. Our people include those who have a rich history and decades of experience in running telecommunications networks and those who have joined recently, bringing new ideas and a fresh perspective. Together we can build the new network right and build it to last while looking to open up new ways to work with our customers, to lead New Zealand through this landscape change.

It's this combination that gives us the confidence to build from our first year, shifting our focus to embedding operational efficiencies and earning the licence to lead in this fibre journey.

This report is dated 21 September 2012 and is signed on behalf of the Board of Chorus Limited:

Sue Sheldon
Chairman

Mark Ratcliffe
Chief Executive Officer

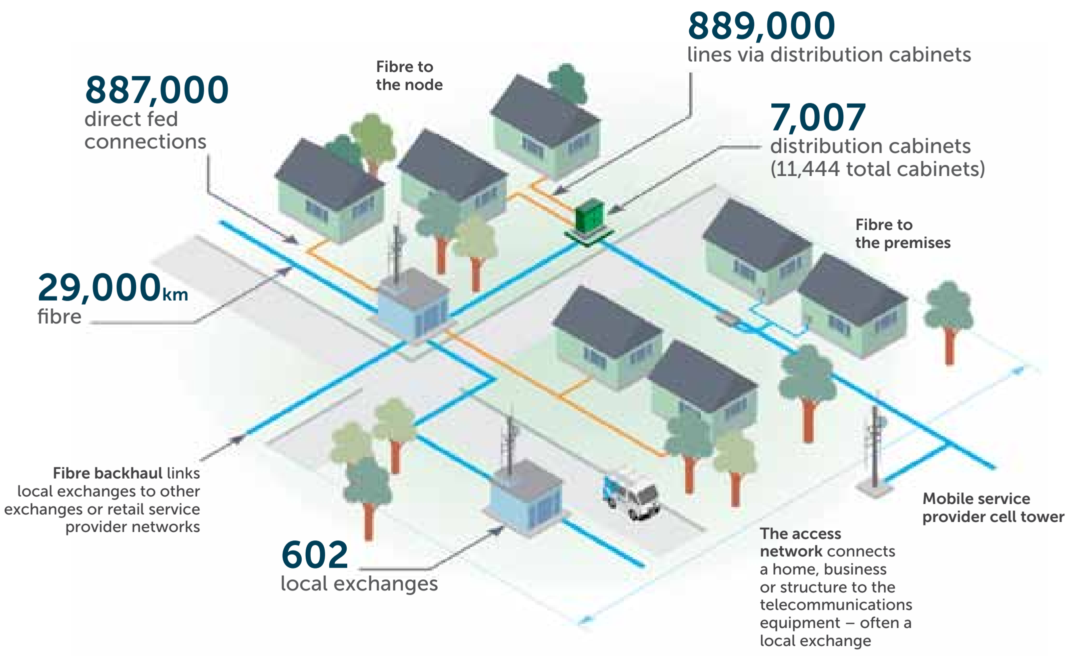
Getting the new Chorus up and running

In what must surely be one of the fastest corporate demergers in the world, Chorus demerged from Telecom on 1 December 2011. Right from the outset, Chorus got busy getting the right people and teams on board and putting processes in place to make sure it was set up for success as a publicly listed company – and one with a leading role in delivering a new fibre network for New Zealand.

In addition to new recruits, people from the Chorus and Telecom Wholesale business units make up a significant portion of the current team. This provides continuity, as Chorus is still tasked with managing and building the fixed line last mile network. Chorus also took on the responsibility of providing the wholesale access services that other retail service providers use to connect to their end users.

Chorus moved into a second Wellington office in Jervois Quay and new offices in Wyndham Street in Auckland to accommodate the more than 500-strong team which includes people from various parts of the corporate, shared services and other Telecom business units. Chorus also benefits from fresh perspectives brought in by its new recruits, who relish the opportunity to be part of setting the tone for a new company and a new direction for the telecommunications industry.

In its establishment year, Chorus focused on developing the business strategy and operational programmes that help make sure it runs smoothly and has a clear direction to deliver on its commitments to stakeholders and shareholders. Alongside this, it has also maintained existing network operations at the best performance levels in a decade and made satisfactory strides in rolling out massive programmes of work with the Ultra Fast Broadband (UFB) and Rural Broadband Initiative (RBI) deployments.



Chorus Network Overview

KEY
- Fibre
- Copper

Directors

Sue Sheldon CNZM, BCom, FCA

Chairman; director since 1 July 2011; independent

Sue is a professional company director. She is chairman of Freightways, deputy chairman of the Reserve Bank of New Zealand, a director of Contact Energy, and Paymark. She is a former director of Telecom, Smiths City Group and Meridian Energy, among others. She has extensive experience as both a chairman and member of audit and risk committees and is a former president of the New Zealand Institute of Chartered Accountants. Sue was made a Companion of the New Zealand Order of Merit for services to business in 2007.

Anne Urlwin, BCom, CA, F InstD, FNZIM, ACIS

Director since 1 December 2011; independent

Anne has 20 years' directorship experience across many sectors, including energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry and the primary sector, as well as education, sports administration and the arts. Anne is chairman of Lakes Environmental and Naylor Love Enterprises and is a director of Southern Response Earthquake Services. She is the former chairman of the New Zealand Blood Service and of New Zealand Domain Name Registry, and a former director of Meridian Energy.

Clayton Wakefield, BSc (Computer Science), GradDip Mgmt

Director since 1 December 2011; independent

Clayton has over 30 years' experience in the banking, financial services, telecommunications and technology industries. He is an executive director and owner of Techspace, a leading New Zealand independent IT advisory company working with New Zealand's major corporates. From 2001 to 2007 he was Head of Technology and Operations at ASB Bank. He was previously a director and chairman of Electronic Transaction Services and of Visa New Zealand, and is currently an independent director of Endace Ltd.

Jon Hartley, BA Econ Accounting (Hons), Fellow ICA (England & Wales), Associate ICA (Australia), Fellow AICD

Director since 1 December 2011; independent

Jon is a Chartered Accountant and fellow of the Australian Institute of Company Directors. He has held senior roles across a diverse range of commercial and not for profit organisations in several countries, including chairman of SkyCity, CEO of Brierley New Zealand and Solid Energy, and CFO of Lend Lease in Australia. Jon is deputy chairman of ASB Bank, Sovereign Life and VisionFund International, a director of Mighty River Power and VisionFund Cambodia, and trustee of World Vision New Zealand and the Wellington City Mission.

Keith Turner, BE (Hons), ME, PhD

Director since 1 December 2011; independent

Dr Keith Turner was CEO of New Zealand electricity generator and retailer Meridian Energy for nine years from its establishment in 1999. He is now the chairman of Fisher and Paykel Appliances, deputy chairman of Auckland International Airport and a director of Spark Infrastructure, an Australian listed company. He is also a director of several small start-up enterprises. Keith has had an extensive career in electricity, taking part in much of its reform including separation of Transpower from Electricity Corporation of New Zealand Ltd (ECNZ) in 1992, the separation of Contact Energy from ECNZ in 1996 and the eventual break up of ECNZ into three companies in 1999.

Mark Ratcliffe, BA Accounting

Director since 9 December 2011; non-independent

Mark has been CEO of Chorus since it was established in 2007 as an operationally separate business unit within Telecom, and was appointed CEO in the new entity in July last year. In a 20 year career with Telecom, Mark held finance, marketing, product development, product management and IT roles and was promoted to the executive team in 1999 where he was CIO (including a period as joint CEO of AAPT in Australia) and then COO Technology and Wholesale before becoming CEO of Chorus. From May 2010, he led the team that secured Chorus' participation in the Government's UFB initiative and the demerger of Chorus and Telecom.

Prue Flacks, LLB, LLM.

Director since 1 December 2011; independent

Prue is a director of Bank of New Zealand and associated companies, Mighty River Power and a trustee of the Victoria University Foundation. She is a barrister and solicitor with extensive experience in commercial law and, in particular, banking, finance and securities law. Her areas of expertise include corporate and regulatory matters, corporate finance, capital markets, securitisation and business restructuring. Prue is a consultant to Russell McVeagh, where she was previously a partner for 20 years.

Executive Team

Mark Ratcliffe

Chief Executive Officer

See above.

Andrew Carroll, MCA (Hons)

Chief Financial Officer

Andrew joined Chorus after nine years with Telecom where, as Head of Mergers & Acquisitions, he was involved in the Gen-i acquisition and the sale of Yellow Pages. Prior to this he worked in investment banking for a decade. Andrew worked closely with the Chorus team on the UFB negotiations with Crown Fibre Holdings and throughout the demerger process.

Chris Dyhrberg, BCom, LLB

General Manager, Network Build

Chris held a variety of marketing, industry and commercial management roles with Telecom over many years and has played a key role in developing and implementing major changes in New Zealand's telecommunications industry. He has also worked at Transpower, the Central Regional Health Authority and Capital Coast Health.

Ed Beattie

General Manager, Infrastructure Operations

Ed has more than 30 years' experience in building and maintaining fixed line and mobile telecommunications networks in New Zealand. Most recently, he managed the delivery of the successful Fibre to the Node programme and played a lead role in the Christchurch crisis response and restoration activities.

Ewen Powell, BE

Chief Information Officer

Ewen has nearly 20 years' experience in managing the technology, services and partnerships that operate a national communications network. Much of his career was spent at Telecom where he was at the forefront of a wide range of technology changes, most recently driving the technology changes required to achieve Chorus' operational separation requirements.

Irene Lovejoy

Executive Assistant

Before joining Chorus, Irene spent 22 years with Telecom where she held roles in the marketing, technology and corporate teams. She has worked with Chorus CEO Mark Ratcliffe for more than 13 years, bringing a unique insight that adds value to the development of the Chorus executive team.

Nick Woodward

General Manager, Customer Services

Nick's career combines a wide range of IT, sales and customer management experience in the financial and telecommunications industries. His roles have seen him work across the United States and Europe for Hutchison 3G UK and Household Bank in the United Kingdom. Before joining Chorus, he headed up Telecom's Channel Planning and Operations group.

Sara Broadhurst, BA, Dip (Bus), Dip (Psych), PG Dip (Psych)

General Manager, Human Resources

Sara joined Chorus in 2008, bringing more than 10 years' experience in human resources in New Zealand and the United Kingdom from a wide range of industries including housing, manufacturing, banking and not for profit organisations. She previously held human resources roles in New Zealand for ANZ National Bank, EFTPOS and Barnardos.

Vanessa Oakley, LLB (Hons), PGCert (MgtSt), PGCert (CompPolicy) (UK), GAICD, MInstD

General Counsel & Company Secretary

Vanessa has extensive experience in law and policy, especially in relation to regulated infrastructure businesses. A qualified lawyer in New Zealand and England and Wales, Vanessa joined Chorus after playing a key role in the UFB contract, legislative and demerger processes. Prior to that she has held roles in the public and private sectors including as a key adviser to UK and New Zealand regulators and across the Telecom group.

Victoria Crone, MCA

General Manager, Sales and Marketing

Victoria has extensive experience in bringing telecommunications products and services to market. She has held several senior business, sales and marketing roles with Telecom, including responsibility for the sales strategy and operations for its retail business, managing offerings for the business market and developing Telecom's proposition for next generation products and services.

Team settles into its stride with marathon UFB project

Rolling out the Government's UFB plan is a nine year marathon project. Chorus has made a solid start, building on an extensive existing fibre network and drawing on technical network expertise and experience. However, as any marathon runner will tell you, preparation is everything. Chorus' effort in the first year has focused on setting up and bedding in processes and fibre training for field staff. There have been a lot of lessons learned in these early stages and Chorus is now settling into its stride and looking good for the long haul.

In May 2011, Chorus was selected by Crown Fibre Holdings Ltd (CFH) to roll out UFB in 24 of the 33 areas nationwide. This contract – with Crown funding up to NZ$929 million – will see Chorus deploy around 17,000km of new fibre optic cables to areas covering around 70% of the UFB footprint.

Much of the work in the first months of the UFB rollout has been establishing the processes to manage this major project and mobilise the necessary resources. Chorus has worked closely with partners and councils to establish the frameworks and plans that will be refined as the deployment progresses. Training staff has also been a priority given the need to build and then deploy teams in the field – from none initially to more than 200.

The work to get things started was carried out in parallel with getting work done. At 30 June 2012 deployment was underway in 12 UFB areas from Albany to Invercargill, with teams drilling, digging or hauling cable into existing ducts to install new fibre network past about 42,000 premises, with thousands more close to completion. This meant more than 57,000 customers were within reach of UFB services.

Chorus is reusing much of its existing network. This includes the 29,000km fibre network connecting telephone exchanges and suburban broadband cabinets. With 60% to 70% of deployment costs relating to civil work, Chorus is using as much of its existing duct network as possible. Half of Chorus' existing network is already ducted. Chorus is also working with councils and utility companies to further reduce deployment costs by, for example, trench sharing and linking with footpath replacement programmes to minimise reinstatement costs. Employing a consistent approach across UFB and RBI (see separate story) creates further efficiencies since it can use many of the same materials on both jobs.

Achieving the lowest total cost of ownership for the UFB network is just as important as controlling deployment costs. Aerial networks are more costly to maintain in the long term. Chorus is also acutely aware of communities' demands for moving aerial infrastructure underground and wants to avoid the cost of redeploying the network over time. For these reasons the preference is to put the network along the streets underground.

With an open mind on ways of doing things and a continuous improvement focus, in many respects Chorus' first year deployment has been a learning process and it is continuing to refine deployment approaches and methods. Chorus is working with CFH to identify places where there is high density or priority users and where there's indicated demand for fibre based services.

Chorus, as well as CFH, has three representatives on the UFB Steering Committee which oversees material matters relating to UFB and deployment.

Chorus is committed to keeping communities well informed about work in their area and helping minimise disruption and inconvenience wherever possible.

The fibre build continues through to 2019.

First customers connected to UFB

Connecting homes and businesses is the final leg of the journey in the UFB rollout and the one that will really make a difference to the way New Zealanders experience the internet. Right now, Chorus is trialling the process for installing UFB, working out the best method to connect the first UFB customers. The task involves installing the fibre cable from the boundary as well as completing the in-home installation of the optical network terminal (ONT), which is essentially the modem for fibre.

The lounge is emerging as the preferred location for the ONT. With end users increasingly multi-tasking – talking on the phone, working on a laptop and using smart devices like TV and mobile phones for high bandwidth applications – it's clear the living room is where most bandwidth is consumed. From there, there are various options for integrating with the existing home wiring, depending on the retail service provider's offering and the type of service their end users want.

As with any new endeavour, it's a steep learning curve and Chorus is working closely with the industry, its retail service provider customers and CFH on the final installation approach. What Chorus does know is that it needs to be one seamless simple process and a positive experience for end users. Overseas experience shows that multiple truck rollouts are not only more costly but also result in more faults.

Chorus is continuing to work with retail service providers around developing new fibre services, designing the best possible installation experience and together educating New Zealanders on the benefits of fibre and the migration path to a fibre world.

Making a difference to rural communities

Chorus and Vodafone continue to work together to deliver the Government's RBI programme. This joint project is bringing better broadband to rural schools, health providers and tens of thousands of rural residents. It will also help rural businesses access the communications technology they need to drive business innovation and efficiencies. For rural communities, RBI will help enable them to access services currently only available to their urban counterparts.

There are several elements to this Government subsidised project. The main task for Chorus is laying fibre, often to exchange areas where there isn't fibre today. Chorus is making the most of the opportunity this brings to future-proof the network.

In addition, Chorus will deliver fibre to 154 new Vodafone mobile sites that will be used to deliver fixed wireless broadband to rural communities.

Chorus was also selected, in April this year, to help extend the reach of fibre to many more schools, hospitals, integrated family health centres and now libraries as part of phase two of RBI.

As part of RBI Chorus is laying approximately 3,350km of fibre and upgrading or installing about 1,000 new broadband cabinets that will serve approximately 1,040 schools and 50 hospitals and family health centres. In addition, Chorus is working in some areas of the rural community to promote the benefits of better broadband and encourage local businesses to connect.

With RBI funded fibre and wireless components available on an equivalent basis to retail service providers, rural New Zealanders will potentially be offered greater choice in the future.

KEY

Fibre

Copper

1 100Mbps+ services to rural schools

2 Enhanced rural fixed line broadband
>5Mbps to 57%
>10Mbps to 50%
>20Mbps to 34%

3 ~1,000 rural cabinets upgraded or installed for fixed line broadband.

A new industry landscape not just for Chorus but for New Zealand

The structural separation of Chorus as the organisation that looks after an open access network infrastructure and Telecom as a retail provider of products and services, is a substantial shift in New Zealand's telecommunications landscape.

This significant change, where the underlying fixed line communications infrastructure is available to everyone on a level playing field, requires a new way of thinking for the telecommunications industry. It changes the investment choices and competitive dynamics for companies like Telecom, TelstraClear, Vodafone, Orcon, CallPlus and many other retail service providers.

Going beyond the telecommunications industry, the move to a fibre network also compels the wider business community and other sectors – education, health, tourism, agriculture, etc – to consider a change to the way they operate and hopefully realise the productivity gains a fibre optic network can enable.

As the largest copper and fibre network operator in New Zealand, Chorus is subject to regulation. This includes:

- **Regulation of copper services.** Under the Telecommunications Act 2001, the Commerce Commission (Commission) can determine price and non-price terms for a number of copper-based services, including UCLL, SLU, UBA and UCLFS (see P.6 for more about Chorus' products and services). The Commission also has the ability to recommend to the Minister of Communications that new products and services are regulated;
- **Open Access Deeds of Undertakings.** These three deeds govern the way Chorus provides copper, fibre and RBI services on an open access (non-discriminatory and equivalent) basis;
- **Three line of business restrictions.** These are designed to prevent Chorus from operating in the retail market; and
- **Telecommunications Service Obligation (TSO).** The mechanism for universal service obligations for residential, local access and calling services. Chorus is required to maintain lines and coverage obligations and provide a voice input service to Telecom.

Chorus does face some competition from other telecommunications infrastructure providers. This includes UFB Local Fibre Companies and other fibre network operators, such as TelstraClear, Vector, FX Networks and Kordia. Chorus remains subject to competition and other laws, such as the Commerce Act 1986 and Fair Trading Act 1986.

Chorus continues to manage a portfolio of regulated and commercial services, both at the access network and the bitstream service level, and remains committed to delivering these services to all its customers on an open access basis.

Demerger and UFB create opportunities

Ensuring a smooth transition through demerger for retail service providers was pivotal to success for Chorus. It worked hard to achieve this and with the transition phase largely complete, Chorus is now focused on building retail service provider customer relationships and taking advantage of the significant opportunities separation presents for Chorus and retail service providers.

New retail service providers are keen to do business with Chorus, with its new business development sales pipeline increasing month by month. By the end of June 2012, Chorus was working actively with around 30 potential new retail service providers.

Chorus' customer base is mainly made up of retail service providers that buy both layer 1 and layer 2 services. Chorus has been working with retail service providers around what the shift to fibre means for them and their end user customers, and helping them with their business case for fibre by utilising analysis of local market and global trends.

Given the $5.5 billion* of investment in the telecommunications market in the last four years, it's not surprising that Chorus' retail service provider customers are heavily focused on return on invested capital. Everyone is acutely aware that the telecommunications market is static at a connections and revenue level (at around $4.9 billion* annually). While Chorus sees there is still opportunity for growth in broadband, the area of greatest potential is, of course, the transition to fibre.

* Source: Commerce Commission Annual Telecommunications Monitoring report 2011, May 2012.

Developing new products for a new era

While copper products are core to Chorus' portfolio today, Chorus' success and future growth requires an innovative approach to product and service development that responds to the transition from copper to a new fibre world. Chorus is working closely with retail service providers and the wider industry on development of these new services.

Key Chorus products and services include:

- **Basic copper products.** Today's existing phone and internet services delivered over the copper network. They include services such as:
  - Basic Unbundled Bitstream Access (UBA), which allows retail service providers to offer own-branded internet-grade broadband services over DSL access lines.
  - Unbundled Copper Local Loop (UCLL), Sub Loop UCLL (SLU) and Sub-Loop Extension Service (SLES) enabling retail service providers to connect Chorus access lines to their own broadband and voice equipment to deliver services to their end users.
- **Enhanced copper products.** These provide a stepping stone to next generation fibre offerings, giving end users a premium offering that gets the best performance from the existing network. This is ideal for services that need more bandwidth or higher service levels than basic copper products. The products have an important role to play in the migration to fibre and for those areas that come later in the UFB build programme. Services include:
  - Enhanced UBA offers the option of a real-time channel dedicated for voice simultaneously with a best-efforts internet service.
  - Wholesale VDSL2 Service utilises third generation DSL technology that delivers significantly faster broadband for short copper loop lengths.
- **Fibre products.** Chorus is working with retail service providers to develop fibre access products. Retail service providers need the ability to develop and deliver unique product offerings for their end user customers swiftly and cost effectively. The new, dynamic Chorus co-innovation framework allows them to work directly with Chorus product and technology experts to create, prototype, test and perfect new products in a collaborative environment. Fibre products include:
  - Next Generation Access (NGA). Services delivered as part of the UFB initiative to provide phone and broadband services to residential end users. NGA includes building blocks such as Baseband, which enables the delivery of a basic voice service, and can be provided standalone as well as with a broadband solution.
  - High Speed Network Services (HSNS) Premium. A fibre-based access service for business end users with large data requirements.
- **Field services.** Chorus has around 2,000 field technicians who work on its behalf, providing installation and similar services to end users. These services are increasingly important as New Zealanders prepare their homes and businesses for using fibre services.
- **Infrastructure services.** These provide the backbone network carrier services for retail service providers with their own networks, so they can connect and interact with the Chorus network.

In addition to these products and services, Chorus acts as an agent for Telecom, selling wholesale products such as PSTN and Centrex lines on its behalf.

Everyone plays a part

The team spirit inherent in the name 'Chorus' has been very much in evidence as teams have come together and new people come on board, with the Chorus team growing from 275 people in a Telecom business unit to over 500 people in Chorus as a standalone listed company at the end of the financial year.

Chorus has worked to create a new culture and values that reflect its people and business for the years ahead. It is delighted to have achieved 85% engagement in its first people survey, giving Chorus confidence that it's on track to achieve the aim of all its people believing Chorus is the best place they've ever worked. In addition, just six months after separation, Chorus was awarded Best Employer Accreditation in Aon Hewitt's Best Employer Australia and New Zealand Accreditation Programme. It was one of just 14 employers across both countries to gain this accreditation.

Chorus values were built by its people. Every employee participated in personal values workshops contributing their views and ideas about the sort of place they wanted to work in. Chorus values are an articulation of the values offered at those workshops. Chorus also makes considerable investment in psychometrics and workshops that help its people to understand themselves and each other better as they build a high-performing company.

Chorus is also dedicated to ensuring that everyone understands how they personally contribute to the organisation's performance. Individual annual performance plans are developed following 'line of sight' sessions, which enable Chorus people to understand how what they do on a day to day basis links to Chorus' goals and longer-term strategies. As well as enabling Chorus people to focus on those things that will have an impact on Chorus' success and shareholder outcomes, it enables them to be involved in meaningful work, which is so critical to a sense of engagement.

Think national, act local

While Chorus has a significant national role in building and maintaining a telecommunications network across the country, it is firmly grounded in local communities. This is where its people live and work and where its infrastructure is part of the physical landscape – the copper and fibre cables in the ground, the cabinets on the verge and the Chorus vans driving around the neighbourhood.

Chorus believes it's vital to work closely with local government and community groups to ensure that the network infrastructure is part of the neighbourhood it serves. This means keeping the lines of communication open in more ways than one. For example, keeping local residents informed through community advertising, letters and local information evenings. Chorus has got a job to do, of course, and there are a lot of practical considerations, but it works with residents wherever possible to ensure the best outcome for everyone.

Chorus is always ready to listen to residents' concerns. Recognising that graffiti is a community issue, Chorus is doing its part to tackle this head on by getting together with some community groups and councils to have local artists transform roadside cabinets that have suffered regular abuse from taggers into community works of art.

Chorus has had, and continues to have, a long-term view of its impact in the community and on the environment. Reporting on a new sustainability strategy is currently being put in place.

The Canterbury earthquakes reminded all New Zealanders of the vulnerability and importance of key infrastructure that connects them to friends and family, and keeps businesses going. Chorus is conscious of its critical role in keeping New Zealand online following natural disasters. It has established a reputation as a company that retail service providers and communities can depend on to go the extra mile and Chorus works with Civil Defence to ensure it is ready to play its part should the need arise.

Management Commentary & Financial Statements

Financial Highlights - For the seven months ended 30 June 2012

EBITDA

$399m

Earnings before interest, income tax, depreciation and amortisation

Contents

Management Commentary

Financial Statements

Dividend

14.6

Cents per share (see page F.3 for details)

Capital expenditure

$346m

Fixed line connections	Broadband connections	Fibre connections	Staff engagement
1,776,000	1,040,000	10,000	85%
	Increase over seven months 50,000		Aon Hewitt, Best Employers 2012 Accreditation

Chorus

Management Commentary

Chorus reports earnings before interest, income tax, depreciation and amortisation (EBITDA) of $399 million for the seven months ending 30 June 2012. After adjusting for $11 million of insurance proceeds from the Canterbury earthquakes, the underlying EBITDA of $388 million is described by Chief Executive Officer Mark Ratcliffe as "a pleasing start to our operations as a standalone business."

	2012 (7 MONTHS) $M
Operating revenue	613
Operating expenses	(214)
Earnings before interest, income tax, depreciation and amortisation	**399**
Depreciation and amortisation	(189)
Earnings before interest and income tax	**210**
Net interest expense	(68)
Net earnings before income tax	**142**
Income tax expense	(40)
Net earnings for the period	**102**
EBITDA	**399**
Less: insurance proceeds	(11)
Underlying EBITDA	**388**

In summary

- Chorus will pay a prorated dividend for the seven months ending 30 June 2012 of 14.6 cents per share in line with the demerger scheme booklet.
- Chorus achieved solid EBITDA for the seven months ending 30 June 2012 of $399 million.
- Gross capital expenditure for the seven months was $346 million, with satisfactory progress made on both the Rural Broadband Initiative (RBI) and the Ultra Fast Broadband (UFB) network deployment programmes.
- Demand for fixed broadband continued to grow steadily with about 50,000 connections added over the seven months, for a total of 1,040,000 connections.
- The regulatory environment remains uncertain with the Commerce Commission yet to finalise pending reviews for prices for Unbundled Copper Local Loop (UCLL) and Unbundled Bitstream Access (UBA), which could have potential implications for other key regulated copper services.

Dividends

Chorus will pay a prorated dividend of 14.6 cents per share on 5 October 2012 to all holders registered at 5.00pm Friday 21 September 2012. The shares will be quoted on an ex-dividend basis from 19 September 2012 on the NZSX and 17 September 2012 on the ASX.

The dividends paid will be fully imputed (at a ratio of 28/72) in line with the corporate income tax rate. In addition, a supplementary dividend of 2.5765 cents per share will be payable to shareholders who are not resident in New Zealand.

Chorus expects to pay a fully imputed dividend of 25.5 cents per share in FY13, subject to there being no material adverse changes in circumstances or operating outlook. An interim dividend is expected to be paid in April 2013 and a final dividend is expected to be paid in October 2013, on an estimated 40/60 split basis, subject to there being no material adverse changes in circumstances or operating outlook.

Given the current regulatory uncertainty, Chorus is unable to provide longer term dividend guidance. Without that regulatory uncertainty, the Board expects Chorus would have been able to announce a dividend policy consistent with modest long term dividend growth from an annual dividend of 25 cents per share, subject to the standard caveat of there being no material adverse change in circumstances or operating outlook.

EBITDA

EBITDA for the seven months ended 30 June 2012 was $399 million. This reflects the strength of underlying demand for Chorus basic and enhanced copper products, including steady broadband uptake over the period. Business fibre connections also show signs of positive growth, supported by the rollout of the UFB network and revised pricing for fibre based High Speed Network Service (HSNS). A significant amount of Chorus' revenues are from regulated products, which gives little discretionary flexibility in revenues. This has resulted in a very close focus on controlling expenditure. There are a number of additional costs associated with running a standalone business in addition to the network maintenance costs, provisioning expenditure and other network costs that were incurred by Chorus as a business unit of Telecom.

Capital expenditure

Capital expenditure for the seven months ended 30 June 2012 was $346 million. Almost 80% of this expenditure was focused on fibre related investment, principally on the UFB and RBI deployment programmes. The programmes are a key focus for Chorus because they represent investment in future network capability and are also extending the reach of the network. Chorus is working with the Crown to deliver each programme and has an agreed deployment schedule that is being worked to.

Regulatory environment

Chorus' UFB services and pricing are set by the UFB contract until the end of 2019. The majority of Chorus' non-UFB services are regulated by the Commerce Commission (Commission). The Commission is currently reviewing prices for Chorus' UCLL and UBA services and there could be potential implications for other services.

The Commission issued a draft decision in May 2012 on UCLL and issued a further discussion paper on 17 August 2012, with a conference to follow in September 2012. The review is expected to be concluded in November 2012 and may reset the reviewed de-averaged UCLL prices and, to apply from 2014, an averaged UCLL price. The review process has raised substantial questions and uncertainty as to the pricing of related services, namely Unbundled Copper Low Frequency Service (UCLFS) and the pricing of the Sub Loop UCLL (SLU) service and impacts arising from changes. Chorus is continuing to actively engage with the Commission through the consultation process with particular focus on the alignment of the regulatory decision making with the policy settings and legislative amendments accompanying UFB, the demerger of Chorus and potential implications for migration from copper to fibre.

On 11 September 2012 the Commission announced a delay in its proposed timeline for reviewing the UBA price that comes into effect from 1 December 2014. It is now proposed that this determination be made in April 2013.

There is no certainty in relation to the outcomes of the pending reviews or any future reviews that may be initiated.

Overview of the telecommunications wholesale market

Chorus is New Zealand's largest telecommunications infrastructure provider, supplying about 90% of all fixed network connections to retail service providers. Chorus has business line restrictions that include a prohibition on selling directly to end users. The wholesale market is characterised by steady, but slightly declining, fixed line connections for voice. Chorus' total of approximately 1,776,000 fixed line connections at 30 June 2012 is slightly less than twelve months ago, and reflects the slow migration of fixed voice services to mobile in New Zealand relative to other countries. With the strong growth in mobile smart devices, fixed networks globally are increasingly seen as complementary to supporting the mobile experience.

New Zealand's broadband market continues to grow steadily, with Chorus adding about 50,000 connections in the seven months.

In 2011, New Zealand ranked as the fourth fastest growing broadband market in the OECD, with total broadband connections increasing 8% to 1,175,000. Broadband penetration per 100 inhabitants is 27%, ahead of both the OECD average (26%) and Australia (23%). New Zealand also now has the highest level of OECD broadband penetration relative to GDP[1].

In the seven months since its establishment as a standalone business, Chorus has focused on pioneering a new industry and global model featuring public private partnerships and open access wholesale services. It is a period of complex industry transition, representing both opportunity and challenge for Chorus, as well as for retail service providers. An open access network, together with the roll out of fibre to 75% of New Zealanders, is likely to influence further change in the industry. This change includes increasing the focus on services competition, consolidation of retail service providers (as already seen in the proposed purchase of TelstraClear by Vodafone) and leadership of the migration from copper to fibre.

Over the next three years Chorus anticipates:

- **Retail service provider consolidation and increasing competition:** retail service providers will reposition themselves to capitalise on the new wholesale network structure.
- **Strong focus by retail service providers on cost control and productivity benefits:** New Zealand telecommunications retail revenues are flat to declining, with growth in broadband, Internet Protocol (IP) and mobile services offset by declines in traditional voice.
- **Regulatory influence on decision making:** regulated pricing will likely be a strong influence on Chorus' future revenues, retail service provider investment incentives in copper or fibre and industry willingness to migrate to fibre.
- **Strong growth in mobile devices and associated bandwidth demand:** this will drive demand for high definition video and cloud based services within the home, supporting fibre adoption.
- **Renewed business demand for fibre:** lower UFB based fibre pricing and improved coverage will stimulate business demand, particularly in the small to mid sized business market.

Other networks

Chorus' network competitors include TelstraClear, Vector, FX Networks, Kordia and a range of regionally based fixed wireless network providers such as Woosh, CallPlus and Now (formerly Airnet). TelstraClear is a significant Chorus customer but is also Chorus' largest network competitor operating a cable network in Wellington, Kapiti and Christchurch, with about 60,000 broadband customers[2]. It also has business fibre networks in all major central business areas and a national transport and backhaul network.

Three local fibre companies Northpower, Ultrafast Fibre and Enable Networks are participating in the Crown's UFB initiative and have begun to deploy fibre access networks in their respective areas. It is expected that these local fibre companies will deploy UFB fibre past about 365,000 premises. Chorus expects its UFB network to have passed about 830,900 premises by the end of 2019.

1 OECD fixed (wired) broadband subscriptions per 100 inhabitants, by technology, December 2011 http://www.oecd.org/internet/broadbandandtelecom/broadbandportal-pressrelease-dec2011.htm

2 IDC Telecommunications Tracker Q1 2012

Revenue commentary

Operating revenue

	2012 (7 MONTHS) $M
Basic copper	399
Enhanced copper	89
Fibre	28
Value added network services	18
Infrastructure	14
Field services	47
Other	18
Total operating revenue	**613**

Revenue overview

Chorus' focus in the past seven months has been to manage and mitigate the risks of service transition through demerger, sustain demand for connections and build relationships with retail service providers. Revenues and volumes have remained relatively steady throughout the seven months.

Chorus' product portfolio encompasses a broad range of broadband, data and voice services. It includes a mix of regulated and commercial copper and legacy products, and contractually agreed fibre products. Chorus' revenue strategy focuses on:

- Retaining value by sustaining demand for Chorus' share of market connections;
- Delivering growth by driving demand for UFB services in line with the Government's objective to maximise connections. Chorus' goal is to deliver products that support bandwidth growth and encourage adoption of higher speed fibre products of 100Mbps or more; and
- Defining new market opportunities for Chorus' connections and services.

Chorus' revenue reporting categories are as follows:

- **Basic copper:** incorporates core regulated products that, while an important part of the portfolio, have limited scope for further development by Chorus, or are founded on earlier technology and product variants that are being superseded by enhanced copper and fibre services. It includes most of Chorus' layer 1 network products and includes the copper voice input UCLFS, Basic UBA including broadband only connections (naked UBA), UCLL, SLU and Sub Loop Extension Services (SLES).
- **Enhanced copper:** copper based next generation regulated and commercial products that deliver higher speed capability, a better customer experience and can assist transition to fibre. It includes Enhanced UBA, VDSL2, Baseband IP voice input service and HSNS Lite (Copper) for business data.
- **Fibre:** includes Chorus' existing business fibre products (such as HSNS Premium) and new UFB residential and business fibre services. This category also captures UFB backhaul and Direct Fibre, which is the equivalent of dark fibre and can also be used to deliver backhaul connections to mobile sites.
- **Field services:** captures all revenues generated by the field force in provisioning, maintaining and installing all copper and fibre products.
- **Infrastructure:** services that provide access to Chorus' network assets, including civil works and telecommunications exchange space. It also includes co-location of equipment and access to poles.
- **Value added network services:** this captures the products and expertise Chorus offers to support retail service providers wanting to deliver higher value or specialist services, such as enhanced service level agreements. It also includes carrier network services, which provide network connectivity across backhaul links.
- **Other:** includes transitional services, agency services and other miscellaneous revenues.

This structure is expected to provide insight into the evolution of Chorus' revenues and better reflects the way Chorus operates relative to the revenue categories contained in the scheme booklet.

Basic copper

As expected, migration from Basic UBA broadband services to enhanced copper services and a gradual shift in traditional voice volumes, as retail service providers invest in IP voice services, is continuing and therefore basic copper revenues have been declining. The key products in basic copper include Baseband Copper, Basic UBA and UCLL.

The majority of basic copper revenues are derived from Chorus' Baseband Copper services (including UCLFS) which retail service providers can use as an input into traditional voice offers . Baseband Copper services have been priced at $24.46 since demerger, reflecting the averaged urban and non-urban UCLL price. There is some uncertainty with this price given the pending UCLL pricing proceedings, although there is no formal review of the UCLFS determination at present (see the *competition, regulation and litigation* section). At 30 June 2012 there were approximately 1,585,000 Baseband Copper lines[3].

Basic UBA is an early variant broadband service. It is delivered on a 'best efforts' basis using older generation technology. Chorus had almost 619,000 Basic UBA connections at 30 June 2012. This reflects retail service provider systems upgrades and migration to the Enhanced UBA service, which starts at the same wholesale price as Basic UBA but provides a superior broadband experience. UBA pricing was set on a retail minus basis prior to demerger and has been frozen at $21.46 per connection until December 2014. The Commission has recently rescheduled its determination of a cost based pricing approach for UBA services to April 2013 (see the *competition, regulation and litigation* section).

Chorus had 11,000 naked Basic UBA connections at 30 June 2012. This product provides broadband services only (no voice service) and its $45.92 price is subject to change as part of the Commission's review of UCLL pricing (see the *competition, regulation and litigation* section).

As at 30 June 2012, approximately 116,000 access lines were being used by retail service providers to deliver unbundled services to consumers. The total comprised 97,000 UCLL lines and 19,000 SLU lines (offered in conjunction with Chorus' commercial SLES) from 156 unbundled exchanges. UCLL lines are currently charged at $19.84 for urban and $36.63 for non-urban. The price moves to an averaged price in 2014 and was set at $24.46 in November 2011. The UCLL prices are currently under further review by the Commission (see the *competition, regulation and litigation* section).

Enhanced copper

Chorus' enhanced copper category delivered steady growth over the period, reflecting both increased migration from Basic UBA as Enhanced UBA becomes the default connection choice for broadband and a technology shift to ethernet services generally. Enhanced UBA connections were approximately 371,000 at 30 June 2012. A standard Enhanced UBA (with analogue voice) connection costs $21.46 although Chorus can achieve higher revenue than this when retail service providers offer service differentiation to their customers and opt for higher bandwidth capability from Chorus. There were also approximately 39,000 naked Enhanced UBA connections at 30 June 2012.

Chorus' commercial VDSL2 product is consumed, with low volumes to date, by some retail service providers as a premium service. It utilises existing copper based capability and offers download speeds of 30-50Mbps and upload speeds of up to 20Mbps, subject to an end user's distance from the broadband equipment and line capability.

Fibre

Chorus is dedicated to driving growth in high speed fibre and working with retail service providers to transition to fibre services. Fibre is in the very early stages of deployment and therefore adoption. Chorus' current focus is on educating retail service providers and New Zealanders about the benefits of fibre, supporting fibre trials and removing barriers to bandwidth growth.

Chorus already has a large business fibre footprint that has traditionally been used to deliver premium point-to-point fibre connectivity to large businesses. In September 2011 Chorus reduced the price of HSNS Premium, a high grade business fibre service (also referred to as Bitstream 4 under the UFB agreement) to bring it into line with contracted UFB pricing. Repricing HSNS Premium to $380 per month for up to 100Mbps has driven new demand with the number of HSNS Premium connections almost doubling between 1 December 2011 and 30 June 2012. Chorus estimates that it provides fibre connections to approximately 50% of the business fibre market.

Chorus had total fibre connections of approximately 10,000 at 30 June 2012, comprising a range of business, residential and other network connections. This includes the layer 1 fibre product Bandwidth Fibre and Direct Fibre Access, although the number of these connections is not large.

The rollout of the UFB network has been prioritised to provide connectivity for businesses, schools and hospitals by 2015 in accordance with the UFB policy and agreement. This will make HSNS Premium and other business capable services more widely available. The number of UFB connections provided during the seven months to 30 June 2012 was naturally small given the very early stages of the deployment that will continue until 2019.

3 For billing purposes, this total includes instances where UCLFS is sold with UBA connections. Although the UCLFS Standard Terms Determination contemplates such connections as naked UBA connections, the price outcome is the same as if these connections were billed for naked UBA and zero for UCLFS/Baseband.

Value added network services

The main revenue driver for this category is carrier network services, which provide network connectivity across backhaul links. The nature of these services means volumes and revenues in this category were largely unchanged.

Infrastructure

Chorus provides commercial access to its exchanges, poles and other infrastructure. Co-location revenue derives from retail service providers and other network operators installing their equipment in Chorus exchanges, as well as leased commercial space in exchange buildings. Unbundling (UCLL) has been the primary driver of co-location revenues to date.

The infrastructure category delivered continued growth over the seven month period, primarily through demand driven by growth in UCLL, new market entrants and demand for handover links to national backhaul providers as retail service providers prepared for UFB.

Field services

This category includes work performed by service company technicians providing new services, maintaining customer networks, relocating Chorus' network on request and chargeable cable location services. As Chorus utilises service companies to perform the field services' work, there is a direct cost associated with all field services revenues.

Provisioning revenues are generally based on customer orders for technicians to install new services and are driven by the number and nature of customer orders, and the type of work required.

Maintenance revenues are generated when faults are proven to be on the retail service provider's rather than Chorus' network, and are driven by the number of reported faults and proactive maintenance programmes performed on behalf of retail service providers.

These revenues also include costs recovered for damage to Chorus' network by third parties.

Other

This category includes revenues from the resale of Telecom's Integrated Services Digital Network (ISDN) and voice related services, as well as one off type revenue items and proceeds from the disposal of surplus copper.

Chorus summary connection facts

	CONNECTIONS (30 JUNE 2012)
Total fixed line connections	**1,776,000**
Baseband copper	1,585,000
UCLL	97,000
SLU/SLES	19,000
Fibre	10,000
Naked Basic UBA and Enhanced UBA	50,000
Legacy data services over copper	15,000
Total broadband	**1,040,000**
Basic UBA (with analogue voice service)	619,000
Naked Basic UBA	11,000
Enhanced UBA (with analogue voice service)	371,000
Naked Enhanced UBA	39,000

Expenditure commentary

Operating expenses

	2012 (7 MONTHS) $M
Labour costs	31
Provisioning	23
Network maintenance	52
Other network costs	22
Information technology costs	30
Rent and rates	6
Property maintenance	8
Electricity	11
Insurance	3
Consultants	5
Other	23
Total operating expenses	**214**

Labour costs of $31 million represent staff costs that are not capitalised. As at 30 June 2012, Chorus employed 548 permanent and fixed term employees (532 full time equivalent positions). This compares with scheme booklet employee estimates of 470-540 full time equivalents.

During FY13 Chorus will transition approximately 100 more customer service staff in house from Telecom where they currently perform fulfil, assure and billing functions for Chorus. Telecom currently provides these functions to Chorus through a transitional service agreement and charges Chorus the operating costs. This people transition is a continuation of the demerger process and reflects Chorus' focus on increased self sufficiency. The cost outcome is expected to be largely neutral.

Provisioning costs are incurred where Chorus provides new or changed service to retail service providers. A proportion of these costs also result in revenue. The total provisioning cost is driven by the volume of orders, the type of work required to fulfil them, technician labour, material and overhead costs. Chorus is continually working to optimise provisioning activity and this may translate to higher field services revenues, and/or reduced costs, depending on the level of retail service provider demand.

Network maintenance costs relate to fixing network faults and any operational expenditure arising from the proactive maintenance programme. Where faults are on a retail service provider's network (rather than Chorus' network) Chorus charges the retail service provider for this service. Network maintenance costs are driven by the number of retail service provider reported faults, the type of work required to fix the faults and the extent of Chorus' proactive maintenance programme. The level, type and cost of faults is affected by factors such as rainfall, lightning, network degradation, labour costs, material costs and network growth. Chorus manages its maintenance plans with the objective of an overall net reduction in the volume of faults and related network maintenance costs.

Other network costs relate to costs associated with service partner contract costs, engineering services and the cost of network spares.

Information technology costs of $30 million represent the costs paid directly by Chorus to third party vendors, as well as the operating expenditure component of systems currently shared with Telecom.

Rent and rates, property maintenance, electricity and insurance costs relate to the operation of Chorus' network estate (for example, exchanges, radio sites and roadside cabinets). The principal cost is electricity, used to operate the network electronics, and this is dependent on the number of sites, electricity consumption and electricity prices. Electricity prices have been higher than historical averages.

'Other' includes expenditure incurred by Chorus for shared services provided by Telecom, together with general costs such as advertising, travel, training and legal fees.

Depreciation and amortisation

	2012 (7 MONTHS) $M	ESTIMATED USEFUL LIFE (YEARS)	WEIGHTED AVERAGE USEFUL LIFE (YEARS)
Depreciation			
Copper cables	41	10 - 20	20
Fibre cables	13	20	20
Ducts and manholes	7	50	50
Cabinets	15	5 - 14	10
Property	8	5 - 50	18
Network electronics	62	2 - 14	9
Other	5	2 - 15	6
Less: Crown funding	(1)		
Total depreciation	**150**		
Amortisation			
Software and other intangibles	39	2 - 20	5
Total amortisation	**39**		

The weighted average useful life represents the useful life in each category weighted by the net book value of the assets.

The capital spend in the current year as a result of the RBI and UFB rollout predominantly relates to long dated asset categories (for example, copper cables, fibre cables, ducts and manholes). Chorus expects the depreciation profile to shift to long dated assets as the UFB and RBI rollout progresses. The Crown funding release against depreciation is also expected to increase over time as additional call notices are issued and funding is received from the Crown, with the associated amortisation to depreciation increasing accordingly.

Net interest expense

	2012 (7 MONTHS) $M
Interest income	**(4)**
Interest expense	
Interest on syndicated bank facility	32
Interest on EMTN	27
Other interest expense	16
Capitalised interest	(3)
Total interest expenses excluding CFH Securities	**72**
CFH securities (notional interest)	-
Total interest expense	**72**
Net interest expense	**68**

At a minimum, Chorus aims to maintain 50 percent of its debt obligations at a fixed rate of interest. It has fully hedged the foreign exchange exposure on the Euro Medium Term Note (EMTN) with cross currency interest rate swaps. The floating interest on these derivatives has been fully hedged using interest rate swap instruments. The exposure to floating rate interest on the syndicated bank facility has been reduced using interest rate swaps.

As at 30 June 2012, approximately 70 percent of the outstanding debt obligation was fixed at an effective rate of 5.77% through derivative or fixed rate debt arrangements.

Other interest expense includes finance lease interest of $9 million and a non-cash charge of $7 million. The non-cash charge reflects the mark to market impact of the unhedged debt position from 1 December 2011 to 14 February 2012. The debt was entered into a hedge relationship on 14 February 2012. While the hedge remains effective any future gains or losses will be processed through the hedge reserve.

Taxation

The 2012 effective tax rate of 28% equates to the statutory rate of 28%. There are no material differences between net earnings before income tax and what is, or will be, taxable for the period to 30 June 2012.

Statement of financial position commentary

	1 DECEMBER 2011 $M	30 JUNE 2012 $M
Current assets	80	341
Non-current assets	2,436	2,593
Total assets	**2,516**	**2,934**
Current liabilities	69	344
Non-current liabilities	2,012	2,063
Total liabilities	**2,081**	**2,407**
Equity	435	527
Total liabilities and equity	**2,516**	**2,934**

See pages F13-F30 for detailed disclosure of the above line items.

Current assets

The increase in current assets since Chorus' demerger is driven predominantly by an increase in cash reserves and trade and other receivables. Cash reserves increased by $100 million as a result of the positive financial performance over the seven month period. The majority of trade and other receivables remained with Telecom at demerger, with the increase at the end of the period the result of normal operations and settlement terms from an artificially low starting base.

Non-current assets

The increase in non-current assets is due largely to Chorus' investment in the RBI and UFB rollout programmes. As these programmes progressed, the costs associated with fibre capital spend (for example, trenching, laying ducts and fibre cables) were capitalised against the network assets categories of fibre cables ($75 million) and ducts and manholes ($86 million).

Current liabilities

At demerger the majority of trade and other payables remained with Telecom. Trade and other payables has increased to normal operational levels from an artificially low base. The year end balance largely consists of capital expenditure payables relating to the RBI and UFB rollout programmes ($90 million).

Non-current liabilities

The minor increase in non-current liabilities reflects Crown funding received for grantable costs attributable to the relevant milestones for deploying the rural link or rural cabinets.

Cash flow commentary

	2012 (7 MONTHS) $M
Cash flows from operating activities	332
Cash flows applied to investing activities	(259)
Cash flows from financing activities	27
Net movement in cash	**100**

See pages F13-F30 for detailed disclosure of the above line items.

The net movement in cash fairly reflects the movements in cash balance over the seven months to 30 June 2012. However, consideration must be made of the minimal working capital balances transferred to Chorus on demerger and that Chorus hasn't paid a dividend during the last seven months. This is also the reason capital expenditure and investing activities do not reconcile in the usual manner.

Cash flows from operating activities

Net cash from operating activities is $332 million. This is largely made up of $530 million in cash received from customers, which was used to pay salaries and suppliers ($147 million), income tax ($20 million) and interest on debt ($35 million).

Cash flows applied to investing activities

A total of $256 million in cash was invested in network assets and software, related mostly to the RBI and UFB rollouts.

Cash flows from financing activities

Net cash received from financing activities was $27 million. This was mostly represented by Crown funding of $13 million from CFH, albeit Chorus had completed the build work for approximately 42,000 premises. There is a time lag between the completion of the UFB build work in a specified area, CFH testing and certification and final receipt by Chorus of the CFH funding.

During the seven month period $51 million of debt was drawn down and then subsequently repaid.

Capital expenditure commentary

	2012 (7 MONTHS) $M
Fibre	274
Copper	49
Common	23
Gross capital expenditure	**346**

Chorus has divided capital expenditure into three categories, which reflects the major build programmes:

- 'Fibre' includes spend specifically focused on fibre assets (layer 0 and layer 1 UFB network assets) to support the fibre network (IT delivering fibre products) and programmes largely focused on fibre (UFB and RBI).
- 'Copper' includes spend on copper related network assets and supporting capability (such as layer 2 electronics).
- 'Common' includes a range of spend unrelated to network asset classes, such as Chorus' enterprise systems, buildings and office equipment.

Gross capital expenditure for the seven months to 30 June 2012 was $346 million, which is within the guidance range of $335 to $355 million.

Fibre capital expenditure

	2012 (7 MONTHS) $M
UFB communal	162
Fibre layer 2	13
Fibre products and systems	7
Other fibre connections and growth	33
RBI	59
Total fibre capital expenditure	**274**

Fibre capital expenditure is the largest component of Chorus' gross capital expenditure spend due to the scale of the UFB build programme. Chorus has estimated that it will cost $1.4 - $1.6 billion to build the communal UFB network by the end of 2019.

Chorus commenced building the UFB communal network in August 2011 and by 30 June 2012 had built the fibre network past about 42,000 premises, with thousands more close to completion. The rollout progress meant that about 57,000 end users were able to connect to Chorus' growing UFB network at 30 June 2012. The build programme has ramped up significantly during Chorus' seven months as a standalone business and $162 million was spent on the UFB communal network, with $122 million spent on completed premises, $30 million on year 1 work in progress and $10 million on work in progress for year 2 deployment.

Layer 2 capital expenditure was a relatively modest $13 million because of the early stage of the rollout.

Investment in fibre related products and systems development was $7 million.

Capital expenditure of $33 million on other fibre connections and growth reflects demand for business fibre connections, new 'greenfield' fibre subdivisions, fibre lifecycle investment and regional backhaul connections for retail service provider data traffic. Chorus expects to see a transition over time between this category and UFB related capital expenditure as the UFB network footprint grows.

The RBI is a five year programme of work that commenced in July 2011 in conjunction with Vodafone. Chorus' role in the initiative is to deploy network duct and fibre (largely grant funded, see *contributions to capital expenditure* section below) to connect schools, hospitals, wireless broadband towers and other priority users in rural areas. Chorus is also deploying cabinets and cabinet electronics to expand its broadband footprint as part of the phase 1 initiative. The programme is expected to cost around $280 - $295 million, with the majority of spending scheduled early in the programme.

Copper capital expenditure

	2012 (7 MONTHS) $M
Network sustain	20
Copper connections	14
Copper layer 2	12
Product fixed	3
Total copper capital expenditure	**49**

Network sustain refers to capital expenditure where the network is being upgraded or network elements, such as poles, cabinets and cables are replaced. This is typically where there is risk of network failure or degraded service for customers and network replacement is deemed more cost effective than reactive maintenance.

Capital expenditure on copper connections occurs where there is demand for copper connections for residential or business customers, such as infill housing or new buildings. It is expected that demand for copper connections will decrease over time as the UFB network footprint expands and demand for fibre connections grows.

Copper layer 2 reflects investment in network electronics and equipment as a consequence of demand for broadband capacity and growth. This is expected to reduce slowly over time in line with the UFB network rollout and uptake.

Capital expenditure on 'Product fixed' is largely driven by retail service provider demand for new copper related products.

Common capital expenditure

	2012 (7 MONTHS) $M
Information technology	12
Building and engineering services	10
Other	1
Total common capital expenditure	**23**

Chorus made a $12 million investment in information technology systems during the seven months to 30 June 2012. This spend largely relates to changes required to existing systems as a result of the demerger. As part of the demerger Chorus is required to submit a plan to the Minister of Communications and Information Technology by December 2012 outlining how it will transition off prescribed Telecom information technology systems. The plan will be updated annually. One of the first systems to be transitioned will be the enterprise system, which must be separate by 30 June 2014.

Building and engineering services reflects the capital spend on growth and plant replacement (for example, power and air conditioning) at Chorus exchanges, buildings and remote sites.

'Other' includes items such as office accommodation and equipment.

Contributions to capital expenditure

Chorus receives significant financing and contributions towards its gross capital expenditure each year. During the seven months to 30 June 2012, Chorus received contributions from the following sources:

i) RBI funding: The Crown is contributing grant funding of about $236 million towards Chorus' layer 0 and layer 1 capital spend over the five year Rural Broadband Initiative. The grant is payable on completion of build work and will vary each year, subject to the agreed build programme and the grantable network that is built. For the seven months to 30 June 2012, $18 million was received.

ii) Other: Chorus is able to recover the cost of other capital spend in certain circumstances. This includes replacing network damaged by third parties or instances where central or local government authorities ask Chorus to relocate or rebuild existing network. A total of $3 million was received in the current financial period and is included as part of Crown funding, given its modest size.

Long term capital management

Chorus' principal source of liquidity is operating cash flows and external borrowing from established debt programmes, such as the EMTN and bank facilities. Chorus also issues debt and equity securities to CFH as it completes relevant milestones. It also receives grants from the Crown in relation to its RBI build programme.

The Chorus Board is committed to maintaining a 'BBB' long term credit rating from Standard & Poor's and a 'Baa2' long term credit rating from Moody's Investors Service. Chorus' capital management policies are designed to ensure that this objective is met in expected operating circumstances. It is Chorus' intention that in normal circumstances the ratio of net debt to EBITDA will not materially exceed 3.5 times (net debt includes the senior portion of CFH debt securities and net lease obligations).

At 30 June 2012, Chorus had a long term credit rating of BBB/stable by Standard & Poor's and Baa2/stable by Moody's Investors Service.

Competition, regulation and litigation

Chorus' competitive and regulatory environment is set out below. This should be read in conjunction with the competitive and regulatory disclosures, as set out in the scheme booklet (available at www.chorus.co.nz/financial-reports) and current period financial statements (see pages F13-F30).

Ultra Fast Broadband (UFB) Initiative

The UFB initiative has the objective of accelerating the rollout of UFB to 75% of the New Zealand population over ten years, concentrating in the first six years on priority users. Under the UFB initiative $1.35 billion would be financed by the Crown, via Crown Fibre Holdings Limited (CFH), the Crown owned investment entity managing the funding in selected participants covering 33 national regions. In May 2011, Telecom's bid to participate in the Government's UFB initiative was accepted by CFH and Telecom was awarded 24 out of the 33 candidate areas.

In order to participate in the UFB initiative, subject to certain necessary approvals, Telecom had to demerge into two listed entities, being:

- **Chorus,** which owns and operates New Zealand's nationwide fixed line access network infrastructure, and comprises the Chorus business unit and certain parts of Telecom Wholesale; and
- **Telecom,** a retail focused telecommunications business comprising fixed, mobile and ICT businesses.

This demerger was successfully executed on 30 November 2011.

Subsequent to demerger Chorus has taken responsibility for the UFB agreement with CFH.

Rural Broadband Initiative (RBI)

On 20 April 2011 the Government announced that it had successfully concluded contract negotiations with Telecom and Vodafone for a combined $285 million fibre and wireless infrastructure rollout for rural areas over the next six years. The Government's objectives for the RBI are to have ultra fast broadband (100Mbps) to 93% of rural schools and fast broadband services (5Mbps or better) to at least 80% of rural households. A direct contribution by Government ($48 million) and a Telecommunications Development Levy (TDL) from the industry ($252 million over six years) will be used to fund the RBI. The RBI agreement between Telecom and the Crown was transferred to Chorus on demerger.

On 29 June 2012, the Government entered into an additional 'Phase 2' RBI agreement with Chorus to extend the deployment of ultra fast broadband to schools, hospitals, health centres and libraries in Zone 3 (non-rural towns outside the UFB coverage area), excluding Nelson/Marlborough, which was awarded to another party.

Chorus' role in the RBI is building and delivering the fibre based infrastructure and services, while Vodafone's role is building the wireless towers. The new RBI fibre and fixed line broadband (DSL) network will involve adding approximately 3,350 kilometres of new fibre, providing ultra fast broadband to approximately 1,040 schools and 50 hospitals and family health centres, and installing or upgrading approximately 1,000 cabinets.

Chorus Open Access Deeds of Undertaking

Chorus is bound by three open access deeds of undertaking (Deeds). The Copper, Fibre and Rural Broadband Initiative undertakings represent a series of legally binding obligations focused around the provision of services on a non-discriminatory or equivalent basis.

More specifically, the Deeds require that Chorus:

- Supplies most services that it offers in accordance with a principle of non-discrimination;
- Builds, supplies and consumes a small number of layer 1 'input services' on an Equivalence of Inputs (EOI) basis;
- Protects customer commercial information and commercial information;
- Supplies UBA with resold voice access as a bundle;
- Publishes standard terms contracts in respect of fibre services;
- Develops a compliance framework including provision of information to the Commission, self reporting and the development of key performance indicators to demonstrate that EOI and non-discrimination obligations are being met; and
- Prepares a transition plan within 12 months of demerger as to the actions required to move to ending the sharing arrangements between Telecom and Chorus without imposing significant and unreasonable costs on Chorus.

Telecommunications Services Obligations (TSO) and Telecommunications Development Levy (TDL)

The TSO is the regulatory mechanism by which universal service obligations for residential, local access and calling services are imposed and administered. On demerger, the TSO obligations were retained but were split as follows:

- Chorus is required to maintain lines and coverage obligations and provide a voice input service to Telecom; and
- Telecom is required to provide retail services at the capped retail prices.

The Telecommunications Amendment Act 2011 also implemented a number of TSO policy changes first announced by the Government in 2009 and confirmed in March 2010, including amendments to the methodology used to assess the net cost of complying with the TSO.

The Government is required, under the Telecommunications Amendment Act, to commence a comprehensive review of the TSO at the start of 2013. This review will take into account, among other things, changes to the telecommunications sector that have arisen from the rollout of new infrastructure and facilities and the impact of this on the TSO arrangement, the continued need and relevance of the arrangement, the practicality of adopting a universal service obligation (rather than a provider specific TSO arrangement), the impact of the TSO funding arrangement and related regulatory issues. The review is required to be complete by the end of 2013. There is no guarantee or certainty of the outcome with respect to any of the items covered within the TSO review.

The Telecommunications Amendment Act also introduces the TDL, which is an industry levy of $50 million per year between FY10 and FY16 and $10 million each year thereafter for any TSO changes, non-urban telecommunications infrastructure, upgrades to emergency calling and other wide purposes so long as a consultation process is followed. Following the demerger both Telecom and Chorus will be liable for annual TDL payments. The amount payable by each liable person will be determined by the Commission based on the proportion of revenue that each liable person receives from telecommunications services offered by means of a public telephone network. In August 2012 the Commission determined that Chorus will be liable this financial year but has not yet determined the amount of the liability for Chorus.

Other regulatory matters

UCLL and SLU pricing

The terms, including price, for UCLL and SLU are currently regulated by the Commission. In November 2011, the Commission determined new geographically averaged prices for UCLL and SLU that will apply from 1 December 2014, as required by the Telecommunications Amendment Act. The Commission set prices of $24.46 and $14.77 per month respectively by applying a simple average of existing de-averaged prices. The Commission then initiated a further benchmarking review of UCLL to consider whether the existing de-averaged prices and the averaged UCLL price should be updated. In May 2012 the Commission issued a draft decision and issued a further discussion document in August 2012, with a conference to be held in September 2012. The Commission expects to conclude the review in November 2012. While formal review processes are not underway for SLU and UCLFS, the UCLL pricing review process has raised significant uncertainty around the level of pricing of these services and the copper pricing framework generally given that other services are linked to the UCLL price and the framework.

UBA pricing

The terms, including price, for UBA are currently regulated by the Commission. In November 2011, the Commission set an average price for uplift that applies when a retail service provider is taking UBA without analogue voice service (ie, either standalone or with a UCLFS or Baseband service). The pricing of the uplift reflects the de-averaged UCLL pricing described above. The averaged pricing applies to UBA services purchased since 1 December 2011.

For three years from demerger date (until 1 December 2014) the price for UBA services will be 'frozen' for existing instances of UBA at the lower of the price on demerger and the price that applies under the UBA Standard Terms Determination at 30 June 2011 (which is based on the previous retail minus methodology). However, for new instances of the UBA service, the price will be geographically averaged. From three years after demerger date (1 December 2014) the UBA price will transition to a cost based pricing methodology. The Commission issued a draft discussion document in August 2012 for consultation. The Commission proposes to determine the new cost based price for UBA by April 2013.

Unbundled Copper Low Frequency Service (UCLFS)

In order to meet its TSO requirements, Chorus has made available a technology neutral voice input service on a commercial basis. This service is known as Baseband. The pricing of a subset of the Baseband service, UCLFS (a voice input service offered over the copper access network), was determined by the Commission in November 2011 (at the same time as averaged prices for UCLL and SLU were determined). The price for UCLFS was set at the averaged UCLL price ($24.46 per month). While formal review processes are not underway for the determined UCLFS, the UCLL pricing review process has raised significant uncertainty around the level of pricing of these services and the copper pricing framework generally, given other services are linked to the UCLL price and the framework.

Line of business restrictions

There are three line of business restrictions that apply to Chorus. Chorus is prohibited from:

- Providing services to end users. The Commission maintains a published register of non-end users to which Chorus can supply services;
- Selling services that link two or more end users sites; and
- Providing services above layer 2.

Other legislation

Chorus continues to be subject to other legislative requirements such as the requirements of the Commerce Act 1986, Fair Trading Act 1986, as well as Telecommunications Carrier Forum codes. Chorus is also subject to the Telecommunications (Interception Capability) Act 2004 (the Act) which requires network operators to ensure that every public telecommunications network that they own, control or operate, and every telecommunications service that they provide in New Zealand, has interception capability meeting the specifications set out in the Act. The requirements under the Act have the potential to drive significant compliance costs.

Telecommunications Act litigation

The following matters of existing litigation were allocated to Chorus on demerger.

Telecommunications Service Obligation

In November 2011 Vodafone New Zealand Limited v Telecom New Zealand Limited the Supreme Court dismissed appeals from a decision of the High Court (Vodafone New Zealand Limited v Telecom New Zealand Limited, HC Wellington, Winklemann J) setting aside the 2004/05 and 2005/06 TSO determinations. As a result of the Supreme Court judgement, TelstraClear and some other liable persons made a claim against Chorus for repayment of part of the sums paid to Telecom as a result of the Commission's TSO cost calculations for the periods 2003/04 to 2007/08. As these claims were not covered by Telecom's settlement with Vodafone in 2011, Chorus assumed responsibility for dealing with them as a result of the demerger. In June 2012, Chorus and TelstraClear settled all TSO claims and disputes between them. The terms of settlement are confidential to the parties. Chorus is in discussions with other liable persons in respect of any potential claims they may have arising out of the Supreme Court judgement.

Sub Loop Extension Services (SLES) and Sub Loop Unbundling (SLU)

In October 2010 the Commission announced the commencement of an investigation into Telecom's alleged breach of the Operational Separation Undertakings (the obligation not to discriminate) in respect of Chorus' provision of SLES and Telecom Wholesale's failure to provide UBA with SLU and SLES. On 26 May 2011 the Commission announced that it had decided to issue enforcement proceedings alleging that Telecom is likely to have discriminated in breach of the Operational Separation Undertakings by failing to provide other telecommunications retail service providers with UBA in conjunction with SLES, when it provided an equivalent service to its own retail business. A settlement of this matter was entered into in October 2011 between Telecom, the Commission, Vodafone, Kordia, Orcon, CallPlus, Airnet and Compass, pursuant to which the total sum of $31.6 million was paid by Telecom to compensate the various retail service providers, in agreed amounts. Any residual issues arising out of this matter were allocated to Chorus under the demerger. No residual issues have arisen. This matter is considered closed.

Other litigation

Telecom was joined as one of numerous respondents in a claim lodged through the Weathertight Homes Resolution Services. The claim related to a property development site called 'Ellerslie Park' where Telecom installed external telephone junction boxes. This claim was settled at mediation in June 2012. The terms of the settlement are confidential to the parties.

Chorus has other ongoing claims, investigations and inquiries, none of which it currently believes are expected to have significant effect on the financial position or profitability of Chorus.

Chorus cannot reasonably estimate the adverse effect (if any) on Chorus if any of the foregoing outstanding claims or inquiries are ultimately resolved against Chorus' interest. There can be no assurance that such cases will not have a significant effect on Chorus' business, financial position and results of operations or profitability.

Financial Statements

For the seven months ended 30 June 2012

Craig Davison – Programme Manager (RBI Deployment)

KPMG

Independent auditor's report

To the shareholders of Chorus Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Chorus Limited ("the company") and the group, comprising the company and its subsidiary, on pages F13 to F30. The financial statements comprise the statements of financial position as at 30 June 2012, the income statements and statements of comprehensive income, changes in equity and cash flows for the 7 month period then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other assurance services to the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages F13 to F30:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2012 and of the financial performance and cash flows of the company and the group for the 7 month period then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Chorus Limited as far as appears from our examination of those records.

KPMG

27 August 2012
Wellington

Income statement

FOR THE SEVEN MONTHS ENDED 30 JUNE 2012

(DOLLARS IN MILLIONS)	NOTES	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Operating revenue	8	613	–
Operating expenses	9	(214)	(1)
Earnings/(loss) before interest, income tax, depreciation and amortisation		**399**	**(1)**
Depreciation	2	(150)	–
Amortisation	3	(39)	–
Earnings/(loss) before interest and income tax		**210**	**(1)**
Interest expense	10	(72)	(66)
Interest income		4	62
Net earnings/(loss) before income tax		**142**	**(5)**
Income tax (expense)/benefit	14	(40)	1
Net earnings/(loss) for the period		**102**	**(4)**

Earnings per share			
Basic and diluted earnings per share (dollars)	19	**0.26**	

Statement of comprehensive income

FOR THE SEVEN MONTHS ENDED 30 JUNE 2012

(DOLLARS IN MILLIONS)	NOTE	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Net earnings/(loss) for the period		**102**	**(4)**
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges (pre-tax)		(14)	(14)
Amounts reclassified from cash flow hedge reserve to income statement		–	–
Tax benefit on cash flow hedge	14	4	4
Other comprehensive income/(loss) net of tax		**(10)**	**(10)**
Total comprehensive income/(loss) for the period net of tax		**92**	**(14)**

The notes on pages F16 to F30 are an integral part of these financial statements

Statement of financial position

AS AT 30 JUNE 2012

(DOLLARS IN MILLIONS)	NOTES	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Current assets			
Cash and call deposits	15	140	61
Income tax receivable		–	1
Trade and other receivables	11	198	40
Finance lease receivable	16	3	–
Total current assets		**341**	**102**
Non-current assets			
Derivative financial instruments	21	2	2
Investment and advances	17	–	2,238
Software and other intangibles	3	180	–
Network assets	2	2,411	–
Total non-current assets		**2,593**	**2,240**
Total assets		**2,934**	**2,342**
Current liabilities			
Trade and other payables	12	328	31
Income tax payable		14	–
Total current liabilities excluding Crown funding		**342**	**31**
Current portion of Crown funding	6	2	–
Total current liabilities		**344**	**31**
Non-current liabilities			
Trade and other payables	12	9	–
Derivative financial instruments	21	110	110
Finance lease payable	16	121	–
Debt	4	1,609	1,609
Deferred tax payable	14	177	12
Total non-current liabilities excluding CFH securities and Crown funding		**2,026**	**1,731**
CFH securities	5	3	3
Crown funding	6	34	10
Total non-current liabilities		**2,063**	**1,744**
Total liabilities		**2,407**	**1,775**
Equity			
Share capital	18	435	581
Reserves	18	(10)	(10)
Retained earnings		102	(4)
Total equity		**527**	**567**
Total liabilities and equity		**2,934**	**2,342**

The notes on pages F16 to F30 are an integral part of these financial statements

On behalf of the Board

Sue Sheldon, Chairman
Authorised for issue on 27 August 2012

MARK RATCLIFFE, Chief Executive Officer

Statement of changes in equity

FOR THE SEVEN MONTHS ENDED 30 JUNE 2012

		GROUP			
(DOLLARS IN MILLIONS)	NOTE	SHARE CAPITAL NZ$M	RETAINED EARNINGS NZ$M	CASH FLOW HEDGE RESERVE NZ$M	TOTAL NZ$M
Balance at 1 December 2011		**435**	**–**	**–**	**435**
Comprehensive income					
Net earnings/(loss) for the period		–	102	–	102
Other comprehensive income					
Net effective portion of changes in fair value of cash flow hedges	18	–	–	(10)	(10)
Net amounts reclassified from cash flow hedge reserve to income statement	18	–	–	–	–
Total comprehensive income/(loss)		**–**	**102**	**(10)**	**92**
Balance at 30 June 2012		**435**	**102**	**(10)**	**527**

		PARENT			
(DOLLARS IN MILLIONS)	NOTE	SHARE CAPITAL NZ$M	RETAINED EARNINGS NZ$M	CASH FLOW HEDGE RESERVE NZ$M	TOTAL NZ$M
Balance at 1 December 2011		**581**	**–**	**–**	**581**
Comprehensive income					
Net earnings/(loss) for the period		–	(4)	–	(4)
Other comprehensive income					
Net effective portion of changes in fair value of cash flow hedges	18	–	–	(10)	(10)
Net amounts reclassified from cash flow hedge reserve to income statement	18	–	–	–	–
Total comprehensive income/(loss)		**–**	**(4)**	**(10)**	**(14)**
Balance at 30 June 2012		**581**	**(4)**	**(10)**	**567**

The notes on pages F16 to F30 are an integral part of these financial statements

Statement of cash flows

FOR THE SEVEN MONTHS ENDED 30 JUNE 2012

(DOLLARS IN MILLIONS)	NOTE	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers		530	–
Interest income		4	48
Payment to suppliers and employees		(147)	(1)
Income tax paid		(20)	–
Interest paid on debt and derivatives		(35)	(38)
Net cash flows from operating activities		**332**	**9**
Cash flows applied to investing activities			
Cash was provided from/(applied to):			
Purchase of network assets		(256)	–
Capitalised interest paid		(3)	–
Net cash flows applied to investing activities		**(259)**	**–**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Proceeds from finance lease receivable		2	–
Crown funding (including CFH securities)		25	12
Proceeds from debt		51	51
Repayment of debt		(51)	(51)
Net cash flows from financing activities		**27**	**12**
Net cash flow		100	21
Cash at the beginning of the period		40	40
Cash at the end of the period	15	**140**	**61**

The notes on pages F16 to F30 are an integral part of these financial statements

RECONCILIATION OF NET EARNINGS/(LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES

(DOLLARS IN MILLIONS)	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Net earnings/(loss) for the period	102	(4)
Adjustment for:		
Depreciation charged on network assets	151	–
Amortisation of Crown funding	(1)	–
Amortisation of software and other intangible assets	39	–
Other	2	9
	293	**5**
Change in current assets and liabilities:		
Change in trade and other receivables	(101)	(23)
Change in trade and other payables	126	27
Change in income tax payable	14	–
	39	**4**
Net cash flows from operating activities	**332**	**9**

The notes on pages F16 to F30 are an integral part of these financial statements

Notes to the financial statements

Reporting entity and statutory base

Chorus Limited is registered in New Zealand under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993. Chorus Limited was established as a standalone, publicly listed entity on 1 December 2011, upon its demerger from Telecom Corporation of New Zealand Limited (Telecom). The demerger was a condition of an agreement with Crown Fibre Holdings Limited (CFH) to enable Chorus Limited to be the Crown's Ultra Fast Broadband (UFB) provider in 24 regions, representing approximately 70% of the UFB coverage area. Chorus Limited is listed and trades on the NZX main board equity security market (NZSX), on the Australian Stock Exchange (ASX) and trades on the over the counter market in the United States.

The financial statements presented are those of Chorus Limited (the Company, Parent or the Parent Company) together with its subsidiary (the Chorus Group, Group or Chorus).

Nature of operations

Chorus is New Zealand's largest telecommunications utility company. Chorus maintains and builds a network predominantly made up of local telephone exchanges, cabinets, copper and fibre cables. Chorus has approximately 1.8 million fixed line connections. There are many thousand kilometres of copper cable and about 29,000 kilometres of fibre cable connecting homes and businesses to local exchanges, and roadside cabinets throughout the country.

Basis of preparation

These 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.

These financial statements are expressed in New Zealand dollars, which is Chorus' functional currency. References in these financial statements to '$', 'NZ$' and 'NZD' are to New Zealand dollars, references to 'USD' are to US dollars, references to 'AUD' are to Australian dollars, references to 'EUR' are to Euros and references to 'GBP' are to pounds sterling. All financial information has been rounded to the nearest million, unless otherwise stated.

Measurement basis

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 below and the accompanying notes.

Specific accounting policies

Chorus was established as a standalone publicly listed entity on 1 December 2011. The accounting policies adopted have been applied consistently throughout the period presented in these financial statements.

Basis of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Subsidiaries are recorded at cost less any impairment losses in the Parent Company financial statements.

Critical accounting estimates and assumptions

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. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The principal areas of judgement in preparing these financial statements are set out below.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Crown funding (note 6)

Chorus must exercise judgement when recognising Crown funding to determine if conditions of the funding contract have been satisfied. This judgement will be based on the facts and circumstances that are evident for each contract at the time of preparing the financial statements.

Leases (note 16)

Determining whether a lease agreement is a finance lease or operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to Chorus.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Network assets (note 2)

Assessing the appropriateness of useful life and residual value estimates of network assets requires a number of factors to be considered such as the physical condition of the asset, expected period of use of the asset by Chorus, technological advances, regulation and expected disposal proceeds from the future sale of the asset.

CFH securities (note 5)

Determining the fair value of the CFH securities requires assumptions on expected future cash flow and discount rate based on future long dated swap curves.

Note 1 – Transfer of assets and liabilities from Telecom

Chorus has an extensive network comprising of local telephone exchanges, cabinets, copper and fibre cables. The origins of this network lie in the New Zealand Post and Telegraph Department, followed by the privatisation of the network and establishment of Telecom in 1987. Today Chorus is largely a combination of the Chorus (layer 1) business unit and a portion of the Telecom Wholesale (layer 2) business unit that were formed as part of Telecom's operational separation (2008-2011).

Chorus was established as a standalone publicly listed entity on 1 December 2011. The statement of financial position below represents the values of assets and liabilities transferred from Telecom and items recognised at demerger.

Statement of financial position

AS AT 1 DECEMBER 2011

(DOLLARS IN MILLIONS)	GROUP 2011 NZ$M
Current assets	
Cash	40
Trade and other receivables	38
Finance lease receivable	2
Total current assets	**80**
Non-current assets	
Derivative financial instruments	1
Software and other intangibles	155
Network assets	2,280
Total non-current assets	**2,436**
Total assets	**2,516**
Current liabilities	
Trade and other payables	68
Debt	1
Total current liabilities	**69**
Non-current liabilities	
Trade and other payables	17
Derivative financial instruments	77
Finance lease payable	119
Debt	1,617
Deferred tax payable	175
Total non-current liabilities excluding Crown funding	**2,005**
Crown funding	7
Total non-current liabilities	**2,012**
Total liabilities	**2,081**
Equity	
Share capital	435
Total equity	**435**
Total liabilities and equity	**2,516**

Note 1 – *Transfer of assets and liabilities from Telecom (continued)*

Debt

As part of the demerger, Telecom bondholders elected to exchange GBP235 million (NZ$625 million at hedged rates) of Telecom GBP Euro Medium Term Notes (EMTN) to Chorus GBP EMTN, issued by Chorus under the Chorus EMTN programme. The related cross currency interest rate swaps were novated to Chorus along with the EMTN.

Network assets

On demerger certain network infrastructure assets (copper and fibre cables, telephone exchanges and roadside cabinets) connecting premises to the global telecommunications fixed line network were transferred from Telecom to Chorus.

Note 2 – Network assets

In the statement of financial position, network assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of additions to network assets and capital work in progress constructed by Chorus includes the cost of all materials used in construction, direct labour costs specifically associated with construction, interest costs that are attributable to the asset, resource management consent costs and attributable overheads.

Repairs and maintenance costs are recognised in the income statement as incurred.

Estimating useful lives and residual values of network assets

The determination of the appropriate useful life for a particular asset requires management to make judgements about, amongst other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, the likelihood of Chorus ceasing to use the asset in its business operations and the effect of government regulation.

Where an item of network assets comprises major components having different useful lives, the components are accounted for as separate items of network assets.

Where the remaining useful lives or recoverable values have diminished due to technological, regulatory or market condition changes, depreciation is accelerated. The asset's residual values, useful lives, and methods of depreciation are reviewed at each reporting period date and adjusted prospectively, if appropriate.

Depreciation is charged on a straight-line basis to write down the cost of network assets to their estimated residual value over their estimated useful lives. Estimated useful lives are as follows:

Copper cables	10-20 years
Fibre cables	20 years
Ducts and manholes	50 years
Cabinets	5-14 years
Property	5-50 years
Network electronics	2-14 years
Other	2-15 years

Other network assets include motor vehicles, network management and administration systems and radio infrastructure.

Any future adverse impacts arising in assessing the carrying value or lives of Chorus' network assets could lead to future impairment losses or increases in depreciation charges that could affect future earnings.

An item of network assets and any significant part is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Where network assets are disposed of, the profit or loss recognised in the income statement is calculated as the difference between the sale price and the carrying value of the asset.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Land and work in progress are not depreciated.

Note 2 – *Network assets (continued)*

	GROUP								
	COPPER CABLES NZ$M	FIBRE CABLES NZ$M	DUCTS AND MANHOLES NZ$M	CABINETS NZ$M	PROPERTY NZ$M	NETWORK ELECTRONICS NZ$M	OTHER NZ$M	WORK IN PROGRESS NZ$M	TOTAL NZ$M
Cost									
Balance as at 1 December 2011	2,365	490	705	372	467	1,283	185	69	5,936
Additions	–	–	–	–	–	–	–	282	282
Disposals	–	–	–	(5)	–	(1)	–	–	(6)
Transfers from work in progress	25	75	86	13	6	24	3	(232)	–
Balance as at 30 June 2012	**2,390**	**565**	**791**	**380**	**473**	**1,306**	**188**	**119**	**6,212**
Accumulated Depreciation									
Balance as at 1 December 2011	(1,690)	(192)	(317)	(146)	(190)	(952)	(169)	–	(3,656)
Depreciation	(41)	(13)	(7)	(15)	(8)	(62)	(5)	–	(151)
Disposals	–	–	–	5	–	1	–	–	6
Balance as at 30 June 2012	**(1,731)**	**(205)**	**(324)**	**(156)**	**(198)**	**(1,013)**	**(174)**	**–**	**(3,801)**
Net carrying amount	**659**	**360**	**467**	**224**	**275**	**293**	**14**	**119**	**2,411**

The Parent does not hold any network assets. There are no restrictions on Chorus network assets or any network assets pledged as securities for liabilities. At 30 June 2012 the contractual commitment for acquisition and construction of network assets was NZ$23 million.

Depreciation

Chorus receives funding from the Crown to finance the capital expenditure associated with the development of the ultra fast broadband network, rural broadband services and other services. At Group level this funding is offset against depreciation over the life of the assets the funding is used to construct.

The Crown funding released against depreciation for the current period is as follows:

	GROUP 2012 NZ$M
Depreciation charged on network assets	151
Less: Crown funding – ultra fast broadband	–
Crown funding – rural broadband initiative	–
Crown funding – other	(1)
Total depreciation	**150**

Refer to note 6 for information on Crown funding.

Note 2 – *Network assets (continued)*

Property exchanges

Chorus has leased property exchange space owned by Telecom subject to finance lease arrangements. These have been included in Chorus' network assets under the property category. As at 30 June 2012 the property exchange assets capitalised under a finance lease had a cost of NZ$157 million, together with accumulated depreciation of NZ$3 million.

Network electronics

Chorus has joint arrangements for use of certain network electronics assets with Telecom. The equipment used by Chorus is included in the network electronics category of network assets. As at 30 June 2012 the equipment capitalised had a cost of NZ$16 million, together with accumulated depreciation of NZ$3 million.

Impairment

At each reporting date, Chorus reviews the carrying amounts of its network assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated to determine the extent, if any, of the impairment loss recognised in earnings. Should the conditions that gave rise to the impairment loss no longer exist, and the assets are no longer considered to be impaired, a reversal of an impairment loss would be recognised immediately in earnings.

No impairment loss on the network assets were identified in the current period.

Capitalised interest

Finance costs are capitalised on qualifying items of network assets at an annualised rate of 6%. Interest is capitalised for the period required to complete the network assets and prepare for its intended use. In the current period finance costs totalling NZ$3 million have been capitalised against network assets.

Note 3 – Software and other intangibles

Software and other intangible assets are initially measured at cost. The direct costs associated with the development of network and business software for internal use are capitalised where project success is probable and the capitalisation criteria is met. Following initial recognition, software and other intangible assets are stated at cost less accumulated amortisation and impairment losses. Software and other intangible assets with a finite life are amortised from the date the asset is ready for use on a straight-line basis over its estimated useful life, which is as follows:

Software	2-8 years
Other intangibles	6-20 years

Other intangibles mainly consist of land easements.

At each reporting date, Chorus reviews the carrying amounts of its software and other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any indication exists, the recoverable amount of the asset is estimated to determine the extent, if any, of the impairment loss recognised in earnings. Should the conditions that gave rise to the impairment loss no longer exist, and the assets are no longer considered to be impaired, a reversal of an impairment loss would be recognised immediately in earnings.

Where estimated useful lives or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated.

Note 3 – *Software and other intangibles (continued)*

	GROUP			
	SOFTWARE NZ$M	OTHER INTANGIBLES NZ$M	WORK IN PROGRESS NZ$M	TOTAL NZ$M
Cost				
Balance as at 1 December 2011	338	5	–	343
Additions	–	–	64	64
Transfers from work in progress	29	1	(30)	–
Balance as at 30 June 2012	**367**	**6**	**34**	**407**
Accumulated amortisation				
Balance as at 1 December 2011	(188)	–	–	(188)
Amortisation	(39)	–	–	(39)
Balance as at 30 June 2012	**(227)**	–	–	**(227)**
Net carrying amount	**140**	**6**	**34**	**180**

The Parent does not hold any software and other intangible assets.

There are no restrictions on Chorus software and other intangible assets or any software and other intangible assets pledged as securities for liabilities. At 30 June 2012 the contractual commitment for acquisition of software and other intangible assets was NZ$2 million.

Shared systems

Chorus has in place trading arrangements with Telecom for the portion of shared systems utilised by Chorus. Chorus' share of these assets have been included as part of software and other intangibles.

Note 4 – Debt

Debt is included as non-current liabilities except for those with maturities less than 12 months from the reporting date, which are classified as current liabilities.

Debt is initially measured at fair value, less any transaction costs that are directly attributable to the issue of the instruments. It is subsequently measured at amortised cost using the effective interest method.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Syndicated bank facility – 3 year	675	675
Syndicated bank facility – 5 year	430	430
Euro medium term notes	513	513
Less: syndicated loans facility fee	(9)	(9)
	1,609	**1,609**
Current	**–**	**–**
Non-current	**1,609**	**1,609**

Note 4 – *Debt (continued)*

Syndicated bank facility

Chorus has in place a NZ$1,350 million syndicated bank facility, with tranches of three and five year maturity on market standard terms and conditions. The amount of undrawn syndicated bank facility that is available for future operating activities is NZ$245 million. The syndicated bank facility is held with bank and institutional counterparties rated -A to AAA, based on rating agency Standard & Poor's ratings.

Chorus utilises hedging instruments to manage the interest rate risk associated with the syndicated bank facility. The Group manages interest rate exposure within Board approved parameters set out in the treasury policy.

The carrying value of syndicated bank facility approximates its fair value.

Euro Medium Term Notes (EMTN)

FACE VALUE	INTEREST RATE	DUE DATE	GROUP 2012 NZ$M	PARENT 2012 NZ$M
260 million GBP	6.75%	6 Apr 2020	513	513

Chorus has in place cross currency interest rate swaps to hedge the foreign currency exposure to the EMTN. The cross currency interest rate swaps entitle Chorus to receive GBP principal and GBP fixed coupon payments for NZD principal and NZD floating interest payments. The floating interest rate exposure on the NZD interest payments have been hedged using interest rate swaps.

The following table reconciles EMTN at hedged rates to EMTN at spot rates as reported under IFRS.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
EMTN	513	513
Impact of hedged rates used	164	164
EMTN at hedged rates	**677**	**677**

The fair value of EMTN, calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date, was NZ$576 million compared to a carrying value of NZ$513 million.

Note 4 – *Debt (continued)*

Schedule of maturities

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Current	–	–
Due 1 to 2 years	–	–
Due 2 to 3 years	675	675
Due 3 to 4 years	–	–
Due 4 to 5 years	430	430
Due over 5 years	513	513
Total due after one year	**1,618**	**1,618**
Less: syndicated loans facility fee	(9)	(9)
	1,609	**1,609**

None of Chorus' debt has been secured against assets. However, there are financial covenants and event of default triggers, as defined in the various debt agreements. There has not been any trigger event or breach in covenants in the current period.

Chorus New Zealand Limited (subsidiary) has provided a guarantee to the lenders in respect of the Chorus Limited syndicated bank facility and EMTN.

Refer to note 22 for information on financial risk management.

Note 5 – CFH securities

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. Chorus receives funding at a rate of NZ$1,118 for every premises passed (as certified by CFH) in return Chorus issues CFH equity securities, CFH debt securities and CFH warrants. The equity and debt securities issued by Chorus have an issue price of NZ$1 and are issued on a 50:50 basis. For each premises passed, NZ$559 of equity securities and NZ$559 of debt securities are issued by Chorus for which Chorus receives NZ$1,118 funding in return. CFH warrants are issued for NZ$nil value. The total committed funding available for Chorus over the period of UFB network construction is expected to be around NZ$929 million.

The CFH equity and debt securities are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. The fair value is derived by discounting the NZ$559 of equity securities and NZ$559 of debt securities per premises passed by the effective interest rate based on market rates. The difference between funding received (NZ$1,118 per premises passed) and the fair value of the securities is recognised as Crown funding. Over time, the CFH debt and equity securities increase to face value and the Crown funding is released against depreciation and reduces to nil.

CFH equity securities

CFH equity securities are a class of non-interest bearing security that carry no right to vote at meetings of holders of Chorus ordinary shares, but entitles the holder to a preferential right to repayment on liquidation and additional rights that relate to Chorus' performance under its construction contract with CFH.

Dividends will become payable on a portion of the CFH equity securities from 2025 onwards, with the portion of CFH equity securities that attract dividends increasing over time. A greater portion of CFH equity securities attract dividends if the proportion of premises with a fibre connection within Chorus' coverage area at 30 June 2020 does not exceed 20%. The dividend rate will be equal to the New Zealand 180-day bank bill rate plus a margin of 6%.

The CFH equity securities are treated as a compound financial instrument with a Crown funding component due to the instrument, including an interest free loan from a government entity. On initial recognition, the fair value of the liability component of the compound instrument is calculated using market inputs with no residual amounts allocated to equity. Until the liability component of the compound instrument expires the CFH equity securities are required to be disclosed as a liability. The difference between the face value of the CFH equity securities and the fair value of the liability component is then recorded as Crown funding.

After this, the liability component is measured at amortised cost using the effective interest method and the Crown funding is amortised to depreciation on a systematic basis over the useful lives of the relevant UFB assets.

Note 5 – *CFH securities (continued)*

CFH debt securities

CFH debt securities are unsecured, non-interest bearing and will carry no voting rights at meetings of holders of Chorus ordinary shares. Chorus will be required to redeem the CFH debt securities in tranches from 2025 to 2036 (at the latest) by repaying the face value to CFH. An accelerated repayment schedule applies if the proportion of premises with a fibre connection within Chorus' coverage area at 30 June 2020 does not exceed 20%.

The CFH debt securities are treated as a financial liability with a Crown funding component due to the instrument, including an interest free loan from a government entity. On initial recognition the difference between the face value of the CFH debt securities and their fair value (calculated using market inputs) is recorded as Crown funding. After this the liability component is measured at amortised cost using the effective interest method and the Crown funding is amortised to depreciation on a systematic basis over the useful lives of the relevant UFB assets.

CFH warrants

Chorus issues CFH warrants to CFH for NZ$nil consideration, along with each tranche of CFH equity securities. Each CFH warrant gives CFH the right, on a specified exercise date, to purchase at a set strike price a Chorus share to be issued by Chorus. A CFH warrant will therefore be 'in the money' to the extent that the price that CFH can realise for the Chorus share exceeds the price paid to exercise the CFH warrant. The strike price for a CFH warrant is based on a total shareholder return of 16% per annum on Chorus shares over the period December 2011 to June 2036. Therefore, a holder of a CFH warrant is only likely to exercise the CFH warrant if total shareholder return on Chorus shares has exceeded 16% per annum over the period June 2025 to June 2036.

At balance date Chorus had issued 272,207 warrants that had a fair value and carrying value that approximated zero.

At balance date the component parts of debt and equity instruments were:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
CFH debt securities	2	2
CFH equity securities	1	1
Total CFH securities	**3**	**3**

The carrying value of CFH debt and equity securities approximates its fair value.

Key assumptions

Although Chorus believes that the estimate of the liability components of the CFH securities on initial recognition are appropriate, the use of different methodologies or assumptions could lead to different measurements of these component parts. The liability components of the CFH securities have been calculated using expected cash flows discounted at risk-adjusted discount rates. Key inputs and assumptions used in these calculations on initial recognition include:

Discount rate

On initial recognition, the discount rate between 10.77% to 10.87% for the CFH equity securities and 6.65% to 6.90% for the CFH debt securities applied to the expected cash flows is based on long dated NZ swap curves. The swap rates were adjusted for Chorus-specific credit spreads (based on market observed credit spreads for debt issued with similar credit ratings and tenure). The discount rate on the CFH equity securities is capped at Chorus' estimated cost of (ordinary) equity.

Expected cash flows

Timing of principal repayments and dividend cash flows have been based on forecasts that reflect economically rational outcomes given the terms of the CFH debt and equity securities.

Repayment dates have been based on an estimate that the proportion of premises with a fibre connection within Chorus' coverage area will exceed 20% at 30 June 2020.

Sensitivity analysis

Chorus considers that it is reasonably possible that future outcomes may be different from the assumptions applied and could require a material adjustment to the carrying amount of the component parts of the CFH securities. The number of fibre connections assumed to have been made by 30 June 2020 is one of the key sensitivities implicit in the measurement of the CFH securities. A change in this proportion would result in the following impact on the financial statements:

Note 5 – *CFH securities (continued)*

	ACTUAL	ALTERNATIVE OUTCOME	IMPACT ON FINANCIAL STATEMENTS
CFH debt securities			
Fibre connection proportion	≥ 20%	< 20%	Increase CFH debt securities liability by NZ$263,000
			Decrease Crown funding by NZ$263,000
CFH equity securities			
Fibre connection proportion	≥ 20%	< 20%	Increase CFH equity securities liability by NZ$221,000
			Decrease Crown funding by NZ$221,000

Note 6 – Crown funding

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

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Ultra fast broadband	10	10
Rural broadband initiative	18	–
Other	8	–
	36	**10**
Current	**2**	**–**
Non-current	**34**	**10**

Ultra fast broadband

During the period the Group received NZ$13 million in funding from CFH, which equated to 11,388 premises passed. The component parts of this funding can be summarised as follows:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Funding received	13	13
Less: CFH securities (see note 5)	(3)	(3)
Amortisation of contribution	–	–
Ultra fast broadband	**10**	**10**

Note 6 – *Crown funding (continued)*

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 the number of premises passed by fibre optic cables by key dates and compliance with certain specifications under User Acceptance Testing (UAT) by CFH.

Rural Broadband Initiative

Chorus receives Crown funding from the Ministry of Economic Development (MED) for capital expenditure incurred under the Rural Broadband Initiative.

Chorus is entitled to claim payment for the grantable costs attributable to the relevant milestones for deploying the rural link or rural cabinets. MED will pay Chorus one dollar of funding for each dollar of grantable costs incurred by Chorus up to a maximum funding limit of about NZ$236 million. In addition MED reimburse Chorus for all capital expenditure attributable to school lead-ins.

During the period Chorus recognised NZ$18 million in funding from MED. The component parts of this funding can be summarised as follows:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Funding recognised	18	–
Less: Amortisation of contribution	–	–
Rural Broadband Initiative	**18**	**–**

Other

Chorus receives funding towards the cost of relocation of telecommunications equipment and extending the network coverage to rural areas. The component parts of this funding can be summarised as follows:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Funding recognised	9	–
Less: Amortisation of contribution	(1)	–
Other	**8**	**–**

Note 7 – Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses whose operating results are regularly reviewed by the entity's chief operating decision maker and for which discrete financial information is available.

Chorus' Chief Executive Officer has been identified as the chief operating decision maker for the purpose of segmental reporting.

Chorus has determined that it operates in one segment providing nationwide fixed line access network infrastructure. The determination is based on the reports reviewed by the Chief Executive Officer in assessing performance, allocating resources and making strategic decisions.

All of Chorus' operations are provided in New Zealand, therefore no geographic information is provided.

Revenue from Telecom exceeded 10 percent of Chorus' operating revenue in the period to 30 June 2012. The total revenue from Telecom for the period ending 30 June 2012 was NZ$523 million.

Note 8 – Operating revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Chorus and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable.

Chorus recognises revenue as it provides services to customers. Billings are generally made on a monthly basis. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue is deferred in respect of the portion of fixed monthly charges that have been billed in advance. Revenue from installations and connections are recognised upon completion of the installation or connection.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Basic copper	399	–
Enhanced copper	89	–
Fibre	28	–
Value added network services	18	–
Infrastructure	14	–
Field services	47	–
Other	18	–
Total operating revenue	**613**	**–**

Note 9 – Operating expenses

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Labour costs	(31)	–
Provisioning	(23)	–
Network maintenance	(52)	–
Other network costs	(22)	–
Information technology costs	(30)	–
Rent and rates	(6)	–
Property maintenance	(8)	–
Electricity	(11)	–
Insurance	(3)	–
Consultants	(5)	(1)
Other	(23)	–
Total operating expenses	**(214)**	**(1)**

Labour costs

Labour costs of NZ$31 million represents staff costs related to non-capital expenditure.

Pension contributions

Included in labour costs are defined benefit payments to the New Zealand Government Superannuation Fund of NZ$149,000 and contributions to Kiwisaver of NZ$346,000. Chorus has no other obligations to provide pension benefits in respect of employees.

Note 9 – *Operating expenses (continued)*

Operating leases

Rent and rates costs include leasing and rental expenditure of NZ$3 million for property, network infrastructure and items of equipment.

Auditor remuneration

Included in other expenses are fees paid to auditors of NZ$550,000 for the audit of the statutory accounts and other fees of NZ$37,680 relating to the review of accounting treatment of CFH instruments and technical guidance on financial instrument accounting.

Note 10 – Interest expense

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Interest on syndicated bank facility	(32)	(32)
Interest on EMTN	(27)	(27)
Other interest expense	(16)	(7)
Capitalised interest	3	–
Total interest expense excluding CFH securities	**(72)**	**(66)**
CFH securities (notional interest)	–	–
Total interest expense	**(72)**	**(66)**

Interest expense on financial liabilities measured at amortised cost for the current period was NZ$59 million. Other interest expense includes a non-cash charge of NZ$7 million from mark to market of derivatives and NZ$9 million finance lease interest expenses.

Note 11 – Trade and other receivables

Trade and other receivables are initially recognised at the fair value of the amounts to be received, plus transaction costs (if any). They are subsequently measured at amortised cost (using the effective interest method) less impairment losses.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Trade receivables	135	–
Other receivables	62	18
Intercompany receivables	–	22
	197	**40**
Prepayments	1	–
Trade and other receivables	**198**	**40**

Note 11 – *Trade and other receivables (continued)*

Trade receivables are non-interest bearing and are generally on terms 20 working days or less.

Chorus maintains a provision for impairment losses when there is objective evidence of customers being unable to make required payments. Chorus has minimal provision for doubtful debt in the current period and there have been no significant individual impairment amounts recognised as an expense. Trade receivables are net of allowances for disputed balances with customers.

The ageing profile of trade receivables as at 30 June 2012 is as follows:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Not past due	124	–
Past due 1-30 days	10	–
Past due 31-60 days	1	–
Past due 61-90 days	–	–
Past due over 90 days	–	–
	135	**–**

Chorus has a concentrated customer base consisting predominantly of a small number of retail service providers. The concentration of Chorus' customer base heightens the risk that a dispute with a customer, or customer's failure to pay for services, will have a material adverse effect on Chorus' collectability of receivables.

Any disputes arising that may affect the relationship between the parties will be raised by relationship managers and follow the Chorus dispute resolution process. Chorus has NZ$11 million of accounts receivable that are past due but not impaired. The carrying value of trade and other receivables approximate the fair value. The maximum credit exposure is limited to the carrying value of trade and other receivables.

Note 12 – Trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs (if any). They are subsequently measured at amortised cost using the effective interest method.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Trade payables	147	–
Joint arrangements	21	–
Accruals	125	31
Personnel accrual	14	–
Revenue billed in advance	30	–
Trade and other payables	**337**	**31**
Current	**328**	**31**
Non-current	**9**	**–**

Trade and other payables are non-interest bearing and normally settled within 30 day terms. The carrying value of trade and other payables approximate their fair values.

Joint arrangements

Certain network electronic assets and shared systems owned by Telecom are required for continued use by Chorus post demerger. The right to use these assets have been granted by Telecom under joint arrangements over the life of the assets.

Note 13 – Commitments

Network infrastructure project agreement

Chorus is committed to deploying infrastructure for premises in the UFB candidate areas awarded to Chorus, to be built according to annual build milestones and to be completed by no later than 31 December 2019. In total it is estimated that the communal infrastructure will pass an estimated 830,900 premises. Chorus has estimated that it will cost NZ$1.4-NZ$1.6 billion to build the communal UFB network by the end of 2019.

Lease commitments

Chorus has entered into finance leasing arrangements both as lessee and lessor for property exchanges. The future non cancellable minimum finance lease commitments for the period ending 30 June 2012 for the Group was NZ$118 million. The net operating expense commitments relating to property finance lease arrangements was NZ$60 million.

Chorus has buildings, carparks, sites and other items of equipment under operating lease arrangements. The future non cancellable minimum operating lease commitments for the period ending 30 June 2012 for the Group was NZ$19 million.

Capital expenditure

At 30 June 2012 Chorus had NZ$25 million committed under contractual arrangements, with substantially all payments due within one year. The capital expenditure commitments principally relate to network assets.

Joint arrangements

Chorus has a contractual commitment at 30 June 2012 of NZ$21 million for payment for use of assets under joint arrangements with Telecom.

Rural Broadband Initiative

As part of the Rural Broadband Initiative Phase 1, Chorus is committed to deploying approximately 3,100 kilometres of fibre to connect approximately 850 schools and enable approximately 57% of rural users to access broadband speeds of at least 5Mbps. In addition, under Phase 2 of the Rural Broadband Initiative, Chorus will be deploying a further 250 kilometres of fibre to connect 189 provincial schools, up to 181 rural public libraries and 45 rural hospitals and family health centres.

The estimated cost of the build is in the range of NZ$280-NZ$295 million.

Note 14 – Taxation

Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Future tax benefits are recognised where realisation of the asset is probable.

Current and deferred tax are recognised in the income statement, except when the tax relates to items charged or credited to other comprehensive income, in which case the tax is also recognised in other comprehensive income.

Income tax

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Income statement		
Current income tax		
Current period income tax (expense)/credit	(34)	1
Deferred income tax		
Network assets, software and other intangibles	(13)	–
Employee entitlements	2	–
Other	5	–
Income tax (expense)/credit recognised in income statement	**(40)**	**1**
Other comprehensive income		
Current income tax		
Current period income tax expense	–	–
Deferred income tax		
Effective portion of changes in fair value of cash flow hedges	4	4
Income tax credit recognised in other comprehensive income	**4**	**4**

The taxation expense charged to earnings includes both current and deferred tax and is calculated after allowing for adjustments.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Reconciliation of effective tax rate		
Net earnings/(loss) for the period	**102**	**(4)**
Add: Income tax (expense)/credit	(40)	1
Net earnings/(loss) before income tax	**142**	**(5)**
Income tax at 28%	(40)	1
	(40)	**1**

For the seven months to 30 June 2012 the effective tax rate of 28% equates to the statutory rate of 28%.

Note 14 – *Taxation (continued)*

Movement in deferred tax balance during the period

	GROUP			
ASSETS/(LIABILITIES)	BALANCE 1 DECEMBER 2011 NZ$M	RECOGNISED IN PROFIT AND LOSS NZ$M	RECOGNISED IN OTHER COMPREHENSIVE INCOME NZ$M	BALANCE 30 JUNE 2012 NZ$M
Fair value portion of EMTN debt securities and CCIRS hedging derivatives	**(16)**	–	–	**(16)**
Network assets, software and other intangibles	**(201)**	(13)	–	**(214)**
Employee entitlements	**2**	2	–	**4**
Finance leases	**35**	–	–	**35**
Other	**5**	5	–	**10**
Effective portion of changes in fair value of cash flow hedges	**–**	–	4	**4**
Total	**(175)**	**(6)**	**4**	**(177)**

	PARENT			
ASSETS/(LIABILITIES)	BALANCE 1 DECEMBER 2011 NZ$M	RECOGNISED IN PROFIT AND LOSS NZ$M	RECOGNISED IN OTHER COMPREHENSIVE INCOME NZ$M	BALANCE 30 JUNE 2012 NZ$M
Fair value portion of EMTN debt securities and CCIRS hedging derivatives	**(16)**	–	–	**(16)**
Effective portion of changes in fair value of cash flow hedges	**–**	–	4	**4**
Total	**(16)**	**–**	**4**	**(12)**

Imputation credits

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Imputation credits available for subsequent reporting periods	33	-

The imputation credit amount represents the balance of the imputation credit account as at the end of the reporting period, adjusted for imputation credits that will arise from the payment of the provision for income tax. Imputation credits are available for use subject to the requirements of the Income Tax Act 2007 being satisfied.

For the purposes of the Income Tax Act 2007 Telecom demerger transactions do not give rise to, and are ignored for the purposes of, calculating available subscribed capital of Chorus.

Note 15 – Cash and call deposits

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Cash and call deposits	**140**	**61**

Cash and call deposits are held with banks and financial institutions counterparties rated at a minimum of A+, based on rating agency Standard & Poor's ratings. Interest earned on call deposits is based on the daily deposit rate.

There are no cash or call deposit balances held by Chorus that are not available for use.

The carrying values of cash and call deposits approximate their fair values. The maximum credit exposure is limited to the carrying value of cash and call deposits.

Cash denominated in foreign currencies is retranslated into New Zealand dollars at the spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the income statement.

Cash flow

Cash flows from certain items are disclosed net due to the short term, quick turnover and volume of transactions involved.

Cash flows from derivatives in cash flow and fair value hedge relationships are recognised in the cash flow statement in the same category as the hedged item.

For the purposes of the statement of cash flows, cash is considered to be cash on hand, in banks and cash equivalents, including bank overdrafts and highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in values.

Note 16 – Leases

Chorus is a lessee of certain network assets under both operating and finance lease arrangements. Lease costs relating to operating leases are recognised on a straight-line basis over the life of the lease. Finance leases, which effectively transfer to Chorus substantially all the risks and benefits of ownership of the leased assets, are capitalised at the lower of the leased asset's fair value or the present value of the minimum lease payments at inception of the lease. The leased assets and corresponding liabilities are recognised, and the leased assets are depreciated over their estimated useful lives.

Determining whether a lease agreement is a finance lease or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to Chorus. Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease means the asset is recognised in the statement of financial position as network assets whereas for an operating lease no such asset is recognised.

Chorus has exercised its judgement on the appropriate classification of network asset leases, and has determined a number of lease arrangements are finance leases.

Finance leases

ASSETS/(LIABILITIES)	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Minimum lease payments payable:		
Less than one year	(8)	–
Between one and five years	(31)	–
More than five years	(395)	–
Total minimum lease payments	**(434)**	**–**
Less: future finance charges	316	–
Present value of minimum lease payments	**(118)**	**–**
Present value of minimum lease payments payable:		
Less than one year	3	–
Between one and five years	13	–
More than five years	(134)	–
Total present value of minimum lease payments	**(118)**	**–**
Classified as:		
Current asset – finance lease receivable	3	–
Non-current liability – finance lease payable	(121)	–
Total	**(118)**	**–**

The carrying value of the finance leases approximates their fair value.

Note 16 – *Leases (continued)*

Property exchanges

Chorus has rented exchange space and commercial co-location space owned by Telecom, which is subject to finance lease arrangements. Chorus in turn rents exchange space and commercial co-location space owned by Chorus to Telecom under a finance lease arrangement. The payable and receivable under these finance lease arrangements are net settled in cash. The finance lease arrangement above reflects the net finance lease receivable and payable position.

Operating leases

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	4	–
Between one and five years	11	–
More than five years	4	–
Total	**19**	**–**

Chorus has entered into leasing arrangements for buildings, carparks, sites and other items of equipment which are classified as operating leases. Certain leases are subject to Chorus being able to renew or extend the lease period based on terms that would then be agreed with the lessor. There are no other significant lease terms that relate to contingent rents, purchase options or other restrictions on Chorus.

Note 17 – Investment and advances

Chorus New Zealand Limited incorporated in New Zealand is a wholly owned operating subsidiary of Chorus Limited.

The investment in the subsidiary is carried at cost less any impairment losses and comprises:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Shares at cost	–	538
Term advance	–	1,700
Total investment and advances	**–**	**2,238**

Note 18 – Equity

Share capital

Chorus has 385,082,123 fully paid issued ordinary shares. The issued ordinary shares have no par value. There has not been any change to the number of ordinary shares issued during the seven months ending 30 June 2012.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of Chorus. Under Chorus' constitution, Crown approval is required if a shareholder wishes to have a holding of 10% or more of Chorus ordinary shares, or if a shareholder who is not a New Zealand national wishes to have a holding of 49.9% or more of ordinary shares.

Chorus issues securities to CFH based on the number of premises passed. CFH securities are a class of security that carry no right to vote at meetings of holders of Chorus ordinary shares but carry preference on liquidation. Refer to note 5 for additional information on CFH securities.

Should Chorus return capital to shareholders it will be taxable as Chorus has zero available subscribed capital on demerger.

Reserves

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet affected earnings.

For cash flow hedges, the effective portion of gains or losses from remeasuring the fair value of the hedging instrument is recognised in other comprehensive income and accumulated in the cash flow hedge reserve. Accumulated gains or losses are subsequently transferred to the income statement when the hedged item affects the income statement, or when the hedged item is a forecast transaction that is no longer expected to occur. Alternatively, when the hedged item results in a non-financial asset or liability, the accumulated gains and losses are included in the initial measurement of the cost of the asset or liability.

The remeasurement gain or loss on the ineffective portion of a cash flow hedge is recognised immediately in the income statement.

A reconciliation of movements in the cash flow hedge reserve follows:

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Balance at 1 December 2011	–	–
(Gain)/loss recognised in other comprehensive income	10	10
Net amounts reclassified from cash flow hedge reserve to income statement	–	–
Balance at 30 June 2012	**10**	**10**

The periods in which the cash flows associated with cash flow hedges are expected to impact earnings are as follows:

	GROUP AND PARENT					
	WITHIN 1 YEAR NZ$M	1-2 YEARS NZ$M	2-3 YEARS NZ$M	3-4 YEARS NZ$M	4-5 YEARS NZ$M	GREATER THAN 5 YEARS NZ$M
Cross currency interest rate swaps	–	–	–	–	–	(16)
Interest rate swaps	–	–	2	–	4	20
	–	**–**	**2**	**–**	**4**	**4**

Fair value hedge reserve

For fair value hedges, gains or losses from remeasuring the fair value of the hedging instrument are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability.

Chorus did not have any hedging arrangements designated as a fair value hedge in the current period.

Note 19 – Earnings per share

Chorus' diluted earnings per share is calculated on the same basis as basic earnings per share. All of Chorus' net earnings are attributable to the ordinary shareholders. Chorus currently does not have any equity instruments that result in dilution of earnings per share.

The calculation of basic earnings per share at 30 June 2012 is based on the net earnings for the period of NZ$102 million, and the weighted average number of ordinary shares outstanding during the period of 385 million, calculated as follows:

	GROUP 2012
Net earnings attributable to ordinary shareholders (NZ$ millions)	102
Weighted average number of ordinary shares (millions)	385
Basic and diluted earnings per share	**0.26**

Note 20 – Related party transactions

Transactions with related parties

Certain Chorus directors have relevant interests in a number of companies with which Chorus has transactions in the normal course of business. A number of Chorus' directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered into independently on an arm's length commercial basis.

The table below includes remuneration of NZ$467,000 paid to directors for the period.

Key management personnel compensation

	GROUP 2012 NZ$000's	PARENT 2012 NZ$000's
Short-term employee benefits	3,108	–
Post-employment benefits	–	–
Termination benefits	–	–
Other long-term benefits	542	–
Share-based payments	–	–
	3,650	**–**

Parent/subsidiary relationship

Chorus Limited is the listed holding company with the debt obligation for the EMTN and syndicated bank facility and is the issuer of the CFH securities. Chorus New Zealand Limited is an operational subsidiary providing fixed access and aggregation services in New Zealand. Chorus Limited provides funding to Chorus New Zealand Limited for the operation and construction of the network. Chorus New Zealand Limited has provided a guarantee to the lenders in respect of the Chorus Limited syndicated bank facility and EMTN debt.

	PARENT 2012 NZ$M
Intercompany interest income	60
Intercompany short term receivable	22
Intercompany term advance	1,700

All outstanding balances with these related parties are priced on an arm's length basis.

Note 21 – Derivative financial instruments

Chorus uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates. The use of hedging instruments is governed by the treasury policy approved by the Board of Directors.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The fair values are estimated on the basis of the quoted market prices for similar instruments in an active market or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument. If the derivative is not designated as a hedging instrument, the remeasurement gain or loss is recognised immediately in the income statement.

	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Non-current derivative assets		
Interest rate swaps	–	–
Forward exchange rate contracts	–	–
Cross currency interest rate swaps	2	2
Currency options	–	–
	2	**2**
Non-current derivative liabilities		
Interest rate swaps	32	32
Forward exchange rate contracts	–	–
Cross currency interest rate swaps	78	78
Currency options	–	–
	110	**110**

The fair value of the short term forward exchange contracts and options as at 30 June 2012 is not significant.

The notional values of contract amounts outstanding are as follows:

	CURRENCY	MATURITY	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Interest rate swap	NZD	2014 – 2020	1,242	1,242
Forward exchange contract	NZD:EUR	2012	5	5
	NZD:USD	2012	4	4
Cross currency interest rate swap	NZD:GBP	2020	677	677
Currency options	NZD:AUD	2012	4	4
	NZD:EUR	2012	6	6
	NZD:USD	2012	4	4
			1,942	**1,942**

Credit risk associated with derivative financial instruments is managed by ensuring that transactions are executed with counterparties with high quality credit ratings, along with credit exposure limits for different credit classes. The counterparty credit risk is monitored and reviewed by the Board on a regular basis.

Note 22 – Financial risk management

Financial risk management

Chorus' financial instruments consist of cash, short-term deposits, trade and other receivables (excluding prepayments), investments and advances, trade and other payables, syndicated bank facility, EMTN, derivative financial instruments and CFH securities.

Financial risk management for currency fluctuations and interest rate risk is carried out by the treasury function under policies approved by the Board. Chorus' risk management policy, approved by the Board, provides the basis for overall risk management.

Chorus does not hold or issue derivative financial instruments for trading purposes. All contracts have been entered into with major creditworthy financial institutions. The risk associated with these transactions is the cost of replacing these agreements at the current market rates in the event of default by a counterparty.

Currency risk

Chorus' exposure to foreign currency fluctuations predominantly arise from the foreign currency debt and future commitment to purchase foreign currency denominated assets. The primary objective in managing foreign currency risk is to protect against the risk that Chorus assets, liabilities and financial performance will fluctuate due to changes in foreign currency exchange rates. Chorus enters into foreign exchange contracts, foreign currency options and cross currency interest rate swaps to manage the foreign exchange exposure.

Chorus holds GBP260 million foreign currency debt in the form of EMTN. Chorus has in place cross currency interest rate swaps with a right to receive GBP260 million principal and GBP fixed coupon payments for NZ$677 million principal and floating NZD interest payments. The exchange gain or loss resulting from the translation of EMTN denominated in foreign currency to New Zealand dollars is recognised in the income statement. The movement is offset by the translation of the principal value of the related cross currency interest rate swap.

As at 30 June 2012, Chorus did not have any significant unhedged exposure to currency risk. A 10% increase or decrease in the exchange rate has minimal impact on profit and equity reserves of Chorus.

Interest rate risk

Chorus has interest rate risk arising from the cross currency interest rate swap converting the foreign debt into a floating rate New Zealand dollar obligation and the floating rate on the drawn down portion of the syndicated bank facility. Chorus aims to reduce the uncertainty of changes in interest rate by entering into interest rate swaps to fix the effective interest rate to minimise the cost of net debt and manage the impact of interest rate volatility on earnings. The interest risk on the cross currency interest rate swaps has been fully hedged using interest rate swaps. The interest rate exposure on the syndicated banking facility has been hedged up to NZ$565 million with the remaining paying floating interest.

Interest rate repricing analysis

The following table indicates the earliest period in which recognised financial instruments reprice or mature. Fixed rate balances presented include the effect of derivative financial instruments, hedging both interest rates and foreign exchange.

	GROUP						
	WITHIN 1 YEAR NZ$M	1-2 YEARS NZ$M	2-3 YEARS NZ$M	3-4 YEARS NZ$M	4-5 YEARS NZ$M	GREATER THAN 5 YEARS NZ$M	TOTAL NZ$M
Floating rate							
Cash and call deposits	140	–	–	–	–	–	**140**
Debt	540	–	–	–	–	–	**540**
Fixed rate							
Joint arrangements	11	7	3	–	–	–	**21**
Debt (after hedging)	–	–	350	–	215	677	**1,242**
CFH securities	–	–	–	–	–	3	**3**
Finance lease (net settled)	(3)	(3)	(3)	(3)	(4)	134	**118**
	688	**4**	**350**	**(3)**	**211**	**814**	**2,064**

Note 22 – *Financial risk management (continued)*

	PARENT						
	WITHIN 1 YEAR NZ$M	1-2 YEARS NZ$M	2-3 YEARS NZ$M	3-4 YEARS NZ$M	4-5 YEARS NZ$M	GREATER THAN 5 YEARS NZ$M	TOTAL NZ$M
Floating rate							
Cash and call deposits	61	–	–	–	–	–	**61**
Debt	540	–	–	–	–	–	**540**
Fixed rate							
Debt (after hedging)	–	–	350	–	215	677	**1,242**
CFH securities	–	–	–	–	–	3	**3**
	601	**–**	**350**	**–**	**215**	**680**	**1,846**

As at 30 June 2012 a change of 100 basis points in interest rate would increase/(decrease) equity (after hedging) and earnings by the amounts shown below:

	GROUP		PARENT	
	2012 NZ$M PROFIT OR LOSS	2012 NZ$M EQUITY	2012 NZ$M PROFIT OR LOSS	2012 NZ$M EQUITY
100 basis point increase	(5)	21	(5)	21
100 basis point decrease	5	(23)	5	(23)

The Group does not have any additional exposure to interest rate risk.

Credit risk

In the normal course of its business, Chorus incurs counterparty credit risk from financial instruments, including cash, call deposits, trade and other receivables, finance lease receivables and derivative financial instruments.

The maximum exposure to credit risk at the reporting date was as follows:

	NOTES	GROUP 2012 NZ$M	PARENT 2012 NZ$M
Cash and call deposits	15	140	61
Trade and other receivables	11	197	40
Derivative financial instruments	21	2	2
Maximum exposure to credit risk		**339**	**103**

Refer to individual notes for additional information on credit risk.

Note 22 – *Financial risk management (continued)*

Liquidity risk

Liquidity risk is the risk that Chorus will encounter difficulty raising liquid funds to meet commitments as they fall due or foregoing investment opportunities, resulting in defaults or excessive debt costs. Prudent liquidity risk management implies maintaining sufficient cash and the ability to meet its financial obligations. Chorus' exposure to liquidity risk based on contractual cash flows relating to financial liabilities is summarised below:

	GROUP							
	CARRYING AMOUNT NZ$M	CONTRACTUAL CASH FLOW NZ$M	LESS THAN 1 YEAR NZ$M	1 – 2 YEAR NZ$M	2-3 YEARS NZ$M	3-4 YEARS NZ$M	4-5 YEARS NZ$M	5+ YEARS NZ$M
Non-derivative financial liabilities								
Trade and other payables	293	295	285	7	3	–	–	–
Finance lease (net settled)	118	434	8	8	8	8	7	395
Debt	1,609	2,024	74	74	737	50	472	617
CFH securities	3	6	–	–	–	–	–	6
Derivative financial liabilities								
Interest rate swaps	32	82	12	12	12	11	10	25
Cross currency interest rate swaps								
Inflows	–	(279)	(35)	(35)	(35)	(35)	(35)	(104)
Outflows	78	304	38	38	38	38	38	114
Forward exchange rate contracts								
Inflows	–	(9)	(9)	–	–	–	–	–
Outflows	–	9	9	–	–	–	–	–

	PARENT							
	CARRYING AMOUNT NZ$M	CONTRACTUAL CASH FLOW NZ$M	LESS THAN 1 YEAR NZ$M	1 – 2 YEAR NZ$M	2-3 YEARS NZ$M	3-4 YEARS NZ$M	4-5 YEARS NZ$M	5+ YEARS NZ$M
Non-derivative financial liabilities								
Trade and other payables	31	31	31	–	–	–	–	–
Debt	1,609	2,024	74	74	737	50	472	617
CFH securities	3	6	–	–	–	–	–	6
Derivative financial liabilities								
Interest rate swaps	32	82	12	12	12	11	10	25
Cross currency interest rate swaps								
Inflows	–	(279)	(35)	(35)	(35)	(35)	(35)	(104)
Outflows	78	304	38	38	38	38	38	114
Forward exchange rate contracts								
Inflows	–	(9)	(9)	–	–	–	–	–
Outflows	–	9	9	–	–	–	–	–

Note 22 – *Financial risk management (continued)*

The gross (inflows)/outflows of derivative financial liabilities disclosed in the previous table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out prior to contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement (for example, forward exchange contracts).

Chorus manages the liquidity risk by ensuring sufficient access to committed facilities, continuous cash flow monitoring and maintaining prudent levels of short term debt maturities. At balance date, Chorus has available approximately NZ$245 million under the syndicated bank facility for its immediate use.

Capital risk management

Chorus manages its capital considering shareholders' interests, the value of Chorus assets and Chorus' credit ratings. The capital Chorus manages consists of cash and debt balances.

The Board is committed to maintaining a 'BBB' long term credit rating from Standard & Poor's and a 'Baa2' long term credit rating from Moody's Investors Service. Chorus' capital management policies are designed to ensure that this objective is met. It is Chorus' intention that in normal circumstances the ratio of net debt to EBITDA will not materially exceed 3.5 times.

Hedge accounting

Chorus designates and documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. At hedge inception (and on an ongoing basis) hedges are assessed to establish if they are effective in offsetting changes in fair values or cash flows of hedged items. Chorus discontinues hedge accounting if (a) the hedging instrument expires or is sold, terminated, or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the hedge designation is revoked.

Hedges are classified into two primary types:

- cash flow hedges; and
- fair value hedges.

Refer to note 18 for additional information on cash flow and fair value hedge reserves.

Fair value

Under NZ IFRS, financial instruments are either carried at amortised cost, less any provision for impairment losses, or fair value. The only significant variances between instruments held at amortised cost and their fair value relates to the EMTN.

For those instruments, recognised at fair value in the statement of financial position, fair values are determined as follows:

Level 1: Quoted market prices – financial instruments with quoted prices for identical instruments in active markets.

Level 2: Valuation techniques using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3: Valuation techniques with significant non-observable inputs – financial instruments valued using models where one or more significant inputs are not observable.

	GROUP AND PARENT		
	LEVEL 1 NZ$M	LEVEL 2 NZ$M	LEVEL 3 NZ$M
Financial assets			
Cross currency interest rate swaps	–	2	–
Financial liabilities			
Interest rate swaps	–	32	–
Cross currency interest rate swaps	–	78	–

Cross currency interest rate swaps and interest rate swaps

Fair values are estimated on the basis of the quoted market prices of these instruments. If a listed market price is unavailable, then fair value is estimated by using a valuation model involving discounted future cash flows of the derivative using the applicable forward price curve (for the relevant interest rate, foreign exchange rate or commodity price) and discount rate.

Note 22 – *Financial risk management (continued)*

The carrying amounts of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

	GROUP					
	FAIR VALUE THROUGH PROFIT OR LOSS NZ$M	HELD TO MATURITY NZ$M	LOANS AND RECEIVABLES NZ$M	AVAILABLE FOR SALE NZ$M	DESIGNATED IN A HEDGING RELATIONSHIP NZ$M	OTHER FINANCIAL LIABILITIES AT AMORTISED COST NZ$M
Assets						
Cash and call deposits	–	–	140	–	–	–
Trade receivables	–	–	135	–	–	–
Other receivables	–	–	62	–	–	–
Derivative financial instruments	–	–	–	–	2	–
	–	**–**	**337**	**–**	**2**	**–**
Liabilities						
Trade accounts payable	–	–	–	–	–	147
Joint arrangements	–	–	–	–	–	21
Accruals	–	–	–	–	–	125
Derivative financial instruments	–	–	–	–	110	–
Finance lease (net settled)	–	–	–	–	–	118
Debt	–	–	–	–	–	1,609
CFH securities	–	–	–	–	–	3
	–	**–**	**–**	**–**	**110**	**2,023**

	PARENT					
	FAIR VALUE THROUGH PROFIT OR LOSS NZ$M	HELD TO MATURITY NZ$M	LOANS AND RECEIVABLES NZ$M	AVAILABLE FOR SALE NZ$M	DESIGNATED IN A HEDGING RELATIONSHIP NZ$M	OTHER FINANCIAL LIABILITIES AT AMORTISED COST NZ$M
Assets						
Cash and call deposits	–	–	61	–	–	–
Other receivables	–	–	18	–	–	–
Intercompany receivables	–	–	22	–	–	–
Investment and advances	–	–	1,700	–	–	–
Derivative financial instruments	–	–	–	–	2	–
	–	**–**	**1,801**	**–**	**2**	**–**
Liabilities						
Accruals	–	–	–	–	–	31
Joint arrangements	–	–	–	–	110	–
Debt	–	–	–	–	–	1,609
CFH securities	–	–	–	–	–	3
	–	**–**	**–**	**–**	**110**	**1,643**

Note 23 – Contingencies

Where Chorus concludes that its defence will more likely than not be successful, then such lawsuits or claims are considered a contingent liability and no provision is recognised. When it is more likely than not that Chorus is liable and there will be an outflow of resources to settle a lawsuit or claim, a provision is recognised, unless the amount cannot be measured reliably. There can be no assurance that such litigation will not have a material adverse effect on Chorus' business, financial condition or results of operations.

Land claims

Interests in land included in property, plant and equipment purchased from the Crown may be subject to claims to the Waitangi Tribunal or deemed to be wāhi tapu and, in either case, may be resumed by the Crown. Certain claims have been brought or are pending against the Crown under the Treaty of Waitangi Act 1975. Some of these claims may affect land transferred to Telecom by the Crown, some of which was transferred to Chorus on demerger. Any land resumed by the Crown for treaty settlement purposes must be acquired under the Public Works Act 1981 and Chorus would be compensated in accordance with the provisions of that Act.

Other litigation

Telecom was joined as one of numerous respondents in a claim lodged through the Weathertight Homes Resolution Services. The claim related to a property development site called 'Ellerslie Park' where Telecom installed external telephone junction boxes. This claim was settled at mediation in June 2012. The terms of the settlement are confidential to the parties.

Note 24 – Post balance date events

Dividends

On 27 August 2012 Chorus declared a prorated dividend in respect of the seven month period ending 30 June 2012. The total amount of the dividend is NZ$56 million, which represents a fully imputed dividend of 14.6 cents per share.

CFH securities and Crown funding

Chorus issued a call notice on 17 August 2012 to CFH with an aggregate issue price of NZ$13 million. The component of the cash received will be allocated as follows: CFH debt securities NZ$2 million, CFH equity securities NZ$1 million and Crown funding NZ$10 million.

Note 25 – New standards, amendments and interpretations to existing standards have been published but not yet adopted

Certain new standards, amendments and interpretations have been published that have not been early adopted, and which are relevant to Chorus are as follows:

NZ IFRS 9 Financial instruments

Effective for periods beginning on or after 1 January 2015

The standard adds the requirements related to the classification, measurement and derecognition of financial assets and liabilities.

NZ IFRS 10 Consolidated financial statements

Effective for periods beginning on or after 1 January 2013

The standard introduces new principles in identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.

NZ IFRS 11 Joint arrangements

Effective for periods beginning on or after 1 January 2013.

The standard outlines the accounting by entities that jointly control an arrangement. Joint control involves the contractual agreed sharing of control and arrangements subject to joint control are classified as either a joint venture (representing a share of net assets and equity accounted) or a joint operation (representing rights to assets and obligations for liabilities, accounted for under proportional consolidation).

NZ IFRS 12 Disclosure of interest in other entities

Effective for periods beginning on or after 1 January 2013

The standard applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. It establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives.

NZ IFRS 13 Fair value measurement

Effective for periods beginning on or after 1 January 2013

The standard establishes a single framework for measuring fair value where that is required by other standards and is applicable to both financial and non-financial items.

The standards are not expected to have a material impact on Chorus.

Glossary of terms

ASX	Australian Securities Exchange
Baseband	A technology neutral voice input service that can be bundled with a broadband product or provided on a standalone basis
Basic UBA	Basic Unbundled Bitstream Access, available with or without analogue voice service
Board	The board of directors of Chorus Limited
Chorus	Chorus Limited and, where the context requires, its subsidiary
Chorus Shares	Ordinary shares in Chorus
Commission	Commerce Commission
CFH	Crown Fibre Holdings Limited
Demerger	The demerger of Chorus by Telecom, as detailed in the scheme booklet
DSL	Digital Subscriber Line, a family of communications technologies allowing high-speed data over existing copper-based telephony plant in the local loop
EBITDA	Earnings before interest, income tax, depreciation and amortisation
Enhanced UBA	Enhanced Unbundled Bitstream Access, available with or without analogue voice service
EOI	Equivalence of Inputs
FS	Full speed
FY	Financial period – twelve months ended 30 June, except for FY12 which is the seven months ended 30 June 2012
HSNS Lite (Fibre)	High Speed Network Service Lite over fibre
HSNS Lite (Copper)	High Speed Network Service Lite over copper
HSNS Premium	High Speed Network Service Premium (Bitstream 4)
IP	Internet Protocol
ISDN	Integrated Services Digital Network
MED	Ministry of Economic Development – since 1 July 2012, part of the Ministry of Business, Innovation and Employment
Naked UBA	Broadband only UBA connections, without analogue voice service
NGA	Next Generation Access
NZSX	Main board equity securities market operated by the NZX
PSTN	Public Switched Telephone Network, a nationwide dial-up telephone network
RBI	Rural Broadband Initiative
Scheme booklet	The Telecom demerger scheme booklet, published on 13 September 2011 available at www.chorus.co.nz/financial-reports
SLES	Sub Loop Extension Service
SLU	Sub Loop Unbundling
STD	Standard Terms Determination
TDL	Telecommunications Development Levy
Telecom	Telecom Corporation of New Zealand Limited and, where the context requires, subsidiaries
TSO	Telecommunications Service Obligation recorded in the Telecommunications Service Obligation deed for local residential telephone service between the Crown and Telecom New Zealand Limited, dated December 2001
UBA	Unbundled Bitstream Access
UCLFS	Unbundled Copper Low Frequency Service
UCLL	Unbundled Copper Local Loop
UFB	Ultra Fast Broadband
VDSL2	Very High Speed Digital Subscriber Line – a DSL technology

Forward looking statements and disclaimer

This annual report may contain forward looking statements regarding future events and the future financial performance of Chorus, including forward looking statements regarding industry trends, strategies, capital expenditure, the construction of the UFB network, 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 annual report. 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 annual report or any information provided orally or in writing in connection with it. Please read this annual report in the wider context of material previously published by Chorus and released through the NZSX and ASX.

Chorus

Governance & Disclosures

Contents

GOVERNANCE AT CHORUS

The Board and management are committed to ensuring that Chorus maintains international best practice governance structures and adheres to the highest ethical standards. The Board will regularly review and assess Chorus' governance structures and processes to ensure that they are consistent with international best practice, both in form and substance.

Framework

Chorus has a dual listing of its shares on the NZSX and on the ASX and is required to comply with the listing rules of the NZSX and ASX.

Chorus is subject to governance requirements in both New Zealand and Australia. This includes the NZSX Listing Rules and Corporate Governance Best Practice Code; the New Zealand Securities Commission's (now Financial Markets Authority (FMA)) report entitled 'Corporate Governance in New Zealand Principles and Guidelines'; the ASX Listing Rules and the ASX Corporate Governance Council's Principles and Recommendations.

As is appropriate for an NZSX and ASX dual listed company, Chorus has reviewed the requirements and adopted practices and policies during the financial period consistent with the requirements across both jurisdictions and the Chorus operations and culture. The Board will continue to monitor developments in the governance area and carry out regular reviews of governance policies and practices.

Compliance with corporate governance codes, principles and recommendations

The NZSX Listing Rules require Chorus to include a statement in this report on whether the corporate governance principles adopted or followed by Chorus materially differ from the Corporate Governance Best Practice Code. Chorus considers that its corporate governance practices comply with the Code. Chorus also considers that its corporate governance practices comply with the FMA's Corporate Governance in New Zealand Principles and Guidelines.

The ASX Listing Rules require Chorus to include a statement in this report disclosing the extent to which it has followed the ASX Corporate Governance Council's Principles and Recommendations during the financial period. Chorus considers it complies with each of the recommendations.

Managing risk

Chorus has a Managing Risk Policy that mandates one framework for the management of risk in Chorus to:

- ensure the Board sets the risk appetite and reviews the principal risks annually;
- integrate risk management in line with the Board's risk appetite into structures, policies, processes and procedures; and
- deliver regular principal risk reviews and monitoring.

The Audit and Risk Management Committee (ARMC) is responsible for the risk management framework and monitoring compliance with that framework. The ARMC and the Board regularly receive reports on risk management, which include reports on the effectiveness of Chorus' management of its material business risks.

Chorus requires its CEO and CFO to make an annual declaration in relation to Chorus' financial statements relating to the matters set out in s295A of the Australian Corporations Act 2001. The CEO and CFO provided the Board with a declaration that in their opinion:

- the financial records of Chorus have been properly maintained;
- the financial statements of Chorus and accompanying notes set out in this 2012 annual report comply with generally accepted accounting practice in New Zealand and International Financial Reporting Standards; and
- the financial statements of Chorus and accompanying notes set out in this 2012 annual report give a true and fair view of the financial position and performance of Chorus.

The above declaration was founded on a sound system of risk management and internal control and that system is operating effectively in all material respects in relation to financial reporting risks.

The non-audit related fees paid to the auditor during the financial period (as detailed in Note 9 to the Financial Statements) were permitted non-audit services under Chorus' External Auditor Independence Policy.

Delegation of authority

As described in the Board Charter, to allow for the effective day-to-day management and leadership of Chorus, the Board has delegated its authority, in part, to the CEO. The CEO may, in turn, sub-delegate authority to other Chorus people. Formal policies and procedures govern the parameters and operation of these delegations.

Code of ethics

Chorus expects its directors and employees to conduct themselves in accordance with the highest ethical standards. Chorus has Codes of Ethics for its directors and employees that set the expected standards for their professional conduct. These Codes are intended to facilitate decisions that are consistent with Chorus' values, business goals and legal and policy obligations. The director Code of Ethics is available at www.chorus.co.nz/governance.

Chorus has communicated the Codes of Ethics to directors and employees and has provided training to its employees. Chorus encourages its people to report any unethical behaviour through a compliance function that investigates any such reports.

A whistle blowing policy allows for confidential reporting of serious misconduct or wrongdoing.

Chorus has not received any reports of serious instances of unethical behaviour during the financial period.

THE CHORUS BOARD

Role of the Board

The Board is appointed by Chorus' shareholders and has statutory responsibility for the business and affairs of Chorus. The Board has overall responsibility for the strategy, culture, governance and performance of Chorus working with, and through, the CEO.

The Board and Board Committee Charters and other key governance documents are available on Chorus' website at www.chorus.co.nz/governance. The annex to the Board Charter contains a diagram that illustrates the key governance documents and the roles and responsibilities of the Board and Board Committees.

Board membership

The Board currently has seven directors – six independent directors and a managing director. The Board has substantial managerial, financial, accounting and industry experience. See P.3 for more information on the skills and experience of the directors.

The independence status of each director is noted in their biographies on P.3. For a director to be considered independent, the Board must affirmatively determine that the director does not have a disqualifying relationship (other than solely as a consequence of being a director). The disqualifying relationships are set out in the Board Charter. While the Board has not set financial materiality thresholds for determining independence, it considers the materiality basis of all relationships having regard to the materiality to Chorus, the director and the relevant person or organisation (eg customer, supplier or adviser) with which the director is related. Materiality is assessed in the context of each relationship and from the perspective of both parties to that relationship.

Board Committees

The Board currently has three standing Board Committees, as noted below. Each Board Committee has a Board-approved Charter and a chairman. The Board Committees assist the Board by focusing on specific responsibilities in greater detail than is possible for the Board as a whole.

Audit and Risk Management Committee

The ARMC assists the Board in ensuring oversight of all matters relating to risk management, financial management and controls and the financial accounting, audit and reporting of Chorus.

All Committee members are non-executive directors. For information on Committee members' qualifications, see P.3.

Members: Anne Urlwin (chairman), Jon Hartley and Sue Sheldon.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee (HRCC) assists the Board in overseeing people policies and strategies, including remuneration frameworks.

Members: Clayton Wakefield (chairman), Prue Flacks and Keith Turner.

Nominations and Corporate Governance Committee

The Nominations and Corporate Governance Committee (NCGC) assists the Board in promoting and overseeing continuous improvement of good corporate governance.

Members: Sue Sheldon (chairman), Prue Flacks and Jon Hartley.

Director restrictions

The Chorus Constitution provides that no person who is an 'associated person' of a person that provides telecommunications services in New Zealand (other than the services provided by Chorus) shall be appointed or hold office as a director. NZX has granted Chorus a waiver to allow the Chorus Constitution to include this restriction on the persons who may hold office as director.

Board and Board Committee meeting attendance

The table below sets out attendance at the Board and Board Committee meetings to 30 June 2012. This table does not include details of any meetings held prior to demerger, when Chorus was a wholly-owned subsidiary of Telecom.

	Board Meetings	Special Board Meetings	ARMC	HRCC	NCGC
Total number of meetings held	**5**	**3**	**4**	**4**	**2**
Sue Sheldon (chairman)	5	3	4	4*	2
Anne Urlwin	5	3	4	-	-
Clayton Wakefield	5	3	-	4	-
Jon Hartley	5	1	3	-	2
Keith Turner	4	3	-	4	-
Mark Ratcliffe	4^	3	4^	4^	2^
Prue Flacks	5	3	-	4	2

* Attended meetings as an observer and not as a Committee member.

^ Mark Ratcliffe was appointed as a director on 9 December 2011, after the first Board meeting, which he attended in his capacity as CEO. He is not a member of any Board Committees, but attends all Board Committee meetings as CEO and as an observer, and may be asked to leave at any time.

Trading in Chorus shares

All non-executive directors are encouraged to hold Chorus ordinary shares (Chorus Shares). Given the NZX waiver that Chorus was not required to prepare half yearly accounts during the financial period, Chorus directors have refrained from purchasing Chorus Shares during that time.

Directors are subject to limitations on their ability to deal in Chorus Shares and other relevant Chorus securities (Chorus Securities) by Chorus' Insider Trading Policy, the New Zealand Securities Market Act 1988 and the Australian Corporations Act 2001. These limitations include the requirement that directors may not deal in Chorus Securities or the securities of another issuer while in possession of inside information about that entity.

As a matter of policy, Chorus also requires that directors, prior to dealing in Chorus Securities, notify and obtain consent from the chairman and that trading may only occur in accordance with Chorus' Insider Trading Policy.

All changes in any interests in Chorus Securities held by directors are required to be reported to the Board, the NZSX and the ASX.

Director induction and education

The Board seeks to ensure new directors are appropriately introduced to management and the Chorus business, that all directors are acquainted with relevant industry knowledge and economics and that they receive a copy of the Board and Board Committee Charters and the key governance documents.

It is expected that all directors continuously educate themselves to ensure they have appropriate expertise to effectively perform their duties.

In addition, visits to Chorus operations, briefings from key management and industry experts or key advisers to Chorus and educational and stakeholder visits, briefings or meetings will be arranged for the Board.

Independent advice

A director may, with the chairman's prior approval, take independent professional advice (including legal advice). A director may request the attendance of such an adviser at a Board or Board Committee meeting where this is necessary to fulfil their role and responsibilities for Chorus. The costs of any such adviser will be paid for by Chorus.

Review and evaluation of Board performance

The chairman meets regularly with directors to discuss individual performance.

The Board will annually review the Board's performance, that of individual directors and Board Committees utilising a Board evaluation process to be developed and overseen by the NCGC. As Chorus has only been a standalone, publicly listed entity since demerger, no performance evaluations have been carried out yet. The first performance evaluations are expected to be carried out in FY13.

DIVERSITY AT CHORUS

Diversity and inclusiveness at Chorus

Chorus has a Board-approved Diversity and Inclusiveness Policy. Chorus believes that having a team of individuals working together who all have different experiences, views and self-reflections makes it stronger and better as an organisation. Chorus defines diversity as the characteristics that make one individual similar to or different from another. It defines inclusion as the recognition that diverse backgrounds, experiences and perspectives lead to a better experience of work for its people, makes teams stronger, leads to greater creativity and performance, contributes to a more meaningful relationship with its retail service provider customers and stakeholders, and ultimately lead to increased value to shareholders.

Valuing diversity is more than a moral imperative; it is also sensible business practice.

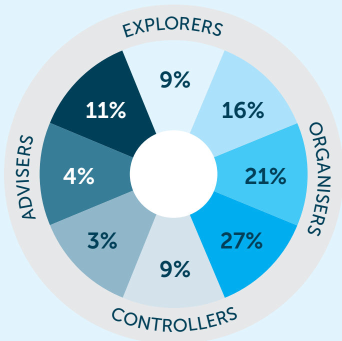
The focus of the policy is to leverage differences as a competitive advantage through its attraction and development practices, develop inclusiveness as a core capability for its people leaders and as a channel to its people, and to continue to recognise individual contribution and performance.

The HRCC recommends measurable objectives to the Board to be set and assessed annually.

Working preferences

Chorus uses a tool to assess the working preferences of its people. This promotes diversity of thought, working style and contribution across teams, and understanding of how to leverage differences.

The graphic here shows Chorus has the full spectrum of working preferences across the distribution. This fully validated self-assessment tool is a Team Management Index[1] of the 348 contributors who had completed the workshops at the time of preparing this data.



Diversity metrics as at 30 June 2012

The Board has set the following measurable objectives for achieving greater diversity at Chorus:

Measure	Description	Actual as at 30 June 2012	Benchmark
Age profiles	Median age	42.7 years	42 years. Statistics New Zealand National Labour Force Projections May 2010
Employee satisfaction	Response to the diversity question "The work environment is very open and accepting of individual differences"	83%	79% Aon Hewitt Best Employer
Ethnicity by role	Organisational groupings by ethnicity	Not currently available	People leader population distribution = total company population distribution
Flexible working arrangements	Percentage of the population utilising flexible working arrangements	4.5% working part-time hours	4% working part-time hours
Gender by role	Organisational groupings by gender	39% ♀ 61% ♂ all 34% ♀ 66% ♂ people leaders 40% ♀ 60% ♂ executive team 43% ♀ 57% ♂ Board 50% ♀ 50% ♂ non-executive Board	People leader population distribution = total company population distribution
Rookie ratio	The previous year's intake by age, ethnicity and gender	Average age 37.8 years Gender 42%♀ 58%♂ Ethnicity not available	No measure – for information
Internal hire rate	The previous year's appointments identifying internal vs external hire rate	59% of all appointments have been internal. 86% of roles in layers 1-3 were recruited internally.	66% of roles in layers 1-3

Chorus' Diversity and Inclusiveness Policy can be found at www.chorus.co.nz/governance.

[1] The distribution only reflects the Major Role preference of the 348 contributors – as opposed to a representation of their preference across all factors at all levels. For more information go to www.tms.co.nz

REMUNERATION AT CHORUS

Directors' fees

The total remuneration available to non-executive directors was fixed at $980,000 and the initial fee structure was set out in the scheme booklet. At the time of demerger, NZX granted a waiver from the requirement to obtain shareholder approval for the remuneration of the Board on the condition that the remuneration of the Board is approved at Chorus' first annual meeting.

During the year ending 30 June 2012, the total remuneration earned by the directors of Chorus (in their capacity as such) was as follows:

Director	Total fees $
Sue Sheldon (chairman)	116,666.67
Anne Urlwin	72,916.67
Clayton Wakefield	70,000.00
Jon Hartley	64,166.67
Keith Turner	80,500.00
Mark Ratcliffe	-
Prue Flacks	63,000.00
Total	**467,250.01**

Notes:

(i) No fees were paid by Chorus to any director prior to demerger. The figures shown are for the seven months to 30 June 2012, are gross amounts and exclude GST where applicable.

(ii) Directors are entitled to be paid or reimbursed for reasonable travelling, accommodation and other expenses incurred in relation to management of Chorus without requiring authorisation of shareholders. Any such expenses are not included in the table above.

(iii) Following demerger all non-executive directors received a base fee.

(iv) Board Committee fees are not paid to the chairman of the Board. Directors (other than the chairman of the Board) received the single highest applicable fee if they were the chairman or a member of more than one Board Committee.

(v) The fee for being a member of the UFB Steering Committee was paid in addition to any Board Committee fee.

(vi) Directors (other than the CEO) do not receive any other benefits.

(vii) Mark Ratcliffe, as CEO, does not receive any remuneration in his capacity as a director of Chorus. The remuneration of the CEO is detailed below.

The HRCC reviews the remuneration of directors based on criteria developed by that Committee.

For FY13, the Board has sought advice on non-executive director remuneration from independent consultants. Based on that advice, the overall fee pool for the Board for FY13 is unchanged, subject to obtaining shareholder approval at Chorus' first annual meeting. The Board has approved, within that total fee pool, modest fee changes to the fee structure for FY13 as follows:

	ANNUAL FEE STRUCTURE FROM 1 JULY 2012 $	ANNUAL FEE STRUCTURE FROM 1 DECEMBER 2011 $
Base fees:		
Chairman of the Board	208,000	200,000
Non-executive director	104,000	100,000
Board Committee fees:		
Audit and Risk Management Committee		
• Chairman	31,000	25,000
• Member	15,500	10,000
Human Resources and Compensation Committee		
• Chairman	21,000	20,000
• Member	10,500	8,000
Nominations and Corporate Governance Committee		
• Chairman	15,500	15,000
• Member	8,000	7,500
UFB Steering Committee		
• Chairman	Not applicable	Not applicable
• Member	31,000	30,000

Continued...

Continued...

Notes:

(i) The annual fee structure from 1 December 2011 was disclosed in the scheme booklet and applied to the seven month period ending 30 June 2012 (actual fees paid were a proportionate amount of these annual fees – see earlier table on directors fees).

(ii) From 1 July 2012:

- With the exception of the chairman of the Board, directors receive a fee for each Board Committee of which the director is the chairman or a member from 1 July 2012.
- Directors may be paid an additional daily rate of $2,400 for additional work as determined and approved by the chairman of the Board and where the payment is within the total fee pool available for the relevant financial year based on advice of the General Counsel & Company Secretary.

No director receives compensation in share options. No director (except the CEO) participates in a bonus or profit-sharing plan.

No superannuation was paid to or other scheme for retirement benefits exist for any director (except for the CEO) in the seven months to 30 June 2012.

CEO remuneration

Mark Ratcliffe commenced as the CEO of Chorus on 1 December 2012, on demerger from Telecom.

Remuneration package for the financial period

Mark Ratcliffe's remuneration as CEO consists of a mixture of fixed remuneration, short term incentives (STI) and long term incentives (LTI). The actual remuneration paid to Mark Ratcliffe in the financial period is as follows:

Fixed remuneration (1 December 2011- 30 June 2012)	$433,351.37 (gross)
Short term incentive for the period (1 July 2011 - 30 June 2012, including time with Telecom)	$661,000.00 (gross), paid 27 August 2012
Total remuneration received	$1,094,351.37 (gross)

The 2012 short term incentive payment includes a one off $98,507 (gross) payment to Mark Ratcliffe for his performance during the demerger period.

In addition, in the seven months to 30 June 2012, payments totalling $10,574.50 with regard to KiwiSaver and medical insurance were made on behalf of Mark Ratcliffe.

The following LTI liabilities are due to be calculated and paid in the following manner. They are all cash payments:

Grant year	Vesting year	Detail	Potential value
2010	2012	A cash LTI grant was made to Mark Ratcliffe by Telecom in September 2010 with a two year vesting period. Chorus carried across a liability for the value of $124,233.00 (gross) with a qualifying date of 15 September 2012. Payment was to be based on the establishment of Chorus and performance to be determined by the Board.	The Board has determined that this will be paid out at the maximum value of $124,233.00 (gross) in September 2012.
2011	2012	A cash LTI grant was made by Telecom in November 2011, with a one year vesting period (1 December 2012). Chorus carried across a liability for the value of $200,000.00 (gross). Mark Ratcliffe has given an undertaking, on vesting, to use the funds for the purchase of Chorus Shares which must be retained for the term of his employment. There are no performance hurdles. The cash value was converted into Equity Equivalent Units (EEUs) based on dividing the target value by the volume weighted average sale price (VWAP) of Chorus Shares for the first twenty days of trading, following demerger.	65,825 EEUs converted back into a cash value at vesting based on share price performance at that time.
2011	2014	A cash LTI grant was made by Telecom in September 2011. Chorus carried across a liability for the value of $250,000.00 (gross). The cash value was converted into EEUs based on dividing the target value by the VWAP of Chorus Shares for the first twenty days of trading, following demerger. Performance will be assessed by the Board to determine the proportion of this value to be paid out.	A maximum of 82,281 EEUs converted back into a cash value at vesting based on share price performance at that time.

From 1 July 2012 the CEO remuneration package will be:

Item	Detail	Potential Value
Fixed annual remuneration	$783,750.00 (gross)	$783,750.00 (gross)
Total base remuneration – additional costs	Incorporating KiwiSaver and medical insurance and noting that KiwiSaver employer contributions change to 3% as from April 2013.	~$22,000.00 (gross)
Short term incentives	The STI target value for Mark Ratcliffe for the FY13 year is $438,900.00 (gross). Payment, like all Chorus employees, is subject to company performance and his own performance, assessed by the Chorus Board. Performance and payment will be calculated in August 2013 for the year commencing 1 July 2012.	Payment may range from 0 to 2.8 times the target value; that is $0 - $1,228,920.00 (gross)

Item	Detail	Potential Value
Long term incentives*.	The LTI grant to Mark Ratcliffe in September 2012 will have a target value of $349,779.00 (gross). This figure was arrived at by the Board incorporating a base value of 33.33% of fixed annual remuneration and then taking into account company performance and individual performance in between 1 December 2011 and 30 June 2012. This cash grant will be converted into EEUs based on dividing the target value by the VWAP of Chorus Shares for period 27 August 2012 to 21 September 2012. This grant has a three year vesting period (25 September 2015) and has performance hurdles agreed with HRCC.	EEUs converted back into a cash value at vesting based on share price performance at that time.

* The Chorus LTI scheme is under review by the Board. The 2012 LTI grant which will take place in September 2012 replicates the previous 2011 pre demerger Telecom LTI scheme as an interim measure.

The CEO remuneration package is reviewed annually by the HRCC and Board, after seeking advice from external remuneration specialists and reviewing CEO and Chorus' performance. In future years, the target values may be revised due to any future adjustments to the CEO remuneration package and components.

Chorus remuneration model

The Board has reviewed the remuneration model for Chorus and has established principles of alignment to shareholder outcomes, simplicity, clarity, and fairness, and remuneration outcomes are based on performance.

All Chorus employees have a fixed remuneration and STI component in their remuneration package. A limited number of employees also have an LTI component.

Fixed remuneration

The fixed remuneration model is informed and adjusted each year based on data from multiple remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current remuneration position in market range.

STI plan

STI values are calculated as a percentage of fixed remuneration and determined based on the complexity of the roles. Employees' STI payments are determined following review of company performance and individual performance and may be paid out at a multiplier of 0x to 2.8x. This model is focussed on articulating performance goals, driving for outcomes and rewarding delivery.

LTI plan

Chorus operates an LTI plan for its Executives and an identified number of senior leaders. Certain Telecom people who transferred to Chorus as part of the demerger, were granted LTIs under a scheme operated by Telecom. Chorus has assumed liability for these grants.

Managing performance

Chorus' performance management process is based on all Chorus people having a performance and development plan for the year, which is regularly reviewed with their people leader. The performance plan is developed initially by the individual after participating in 'Line of Sight' sessions which enable them to link Chorus' strategy with their day to day work and focus areas. The performance plan includes both outcome based objectives and behavioural measures, along with a development plan. End of year performance reviews are undertaken for all Chorus people. In these the people leader for the individual seeks additional feedback and participates in a peer review and moderation process, resulting in an overall rating and remuneration recommendation that impacts the individual's total reward (fixed remuneration and target STI).

This same process was undertaken for the Chorus executive team, with the CEO making recommendations to the HRCC for the executive team and the chairman of the HRCC leading on the performance review of the CEO and making recommendations to the Board. This allows the Board to provide input into these individuals' performance outcomes, total reward approvals (fixed remuneration, target STI and LTI) and development plans.

Employee remuneration range

The table below shows the number of employees and former employees who, in their capacity as employees, received remuneration and other benefits in excess of $100,000 during the seven month period ending 30 June 2012. For information purposes, the table also includes the estimated number of employees based on annualised remuneration for the Chorus employees for a 12 month period.

Employees can choose to receive telephone concessions including contributions towards telephone line rental, national and international phone calls and online services. In addition, certain employees receive contributions towards membership of the Marram Trust (a community healthcare and holiday accommodation provider), contributions to the Government Superannuation Fund (a legacy benefit provided to a small number of employees) and, if the individual is a KiwiSaver member, a contribution of up to 2% of gross earnings towards that individual's KiwiSaver scheme. These amounts are not included in these remuneration figures.

Any benefits received by employees that do not have an attributable value are not included.

Remuneration Range $	Number of employees (based on actual payments to employees for seven months ended 30 June 2012)	Estimated number of employees (based on estimated annualised remuneration payable to employees)
1,420,001-1,430,000		1
540,001-550,000		1
510,001-520,000		1
490,001-500,000		1
440,001-450,000		1
430,001-440,000	1	
400,001-410,000		2
340,001-350,000		1
310,001-320,000		1
300,001-310,000		2
280,001-290,000		1
270,001-280,000		1
260,001-270,000		2
250,001-260,000		1
240,001-250,000		6
230,001-240,000		2
220,001-230,000		8
210,001-220,000		7
200,001-210,000		8
190,001-200,000	1	12
180,001-190,000		11
170,001-180,000	2	10
160,001-170,000	2	11
150,001-160,000	1	12
140,001-150,000	1	21
130,001-140,000	1	25
120,001-130,000	5	44
110,001-120,000	3	35
100,000-110,000	11	42
Total	**28**	**270**

DISCLOSURES

Directors

Directors during the year ending 30 June 2012

The current directors are listed on P.3. The following people were directors who resigned during the year ending 30 June 2012.

Director	Date of Appointment	Date of Resignation
Kevin Roberts	1 July 2011	1 December 2011
Murray Horn	1 July 2011	1 December 2011
Paul Reynolds	1 July 2011	1 December 2011
Ronald Spithill	1 July 2011	1 December 2011
Wayne Boyd	1 July 2011	1 December 2011

Indemnities and insurance

As permitted by the Chorus Constitution, Chorus has entered into deeds of indemnity with each of the directors for potential liabilities or costs they may incur for acts or omissions in their capacity as directors.

Deeds of indemnity have also been given to certain senior staff for potential liabilities and costs they may incur for acts or omissions in their capacity as employees of Chorus, directors of Chorus subsidiaries or as directors of non-Chorus companies in which Chorus holds interests.

Chorus has a directors' and officers' liability insurance policy in place. This provides insurance for the liabilities of the directors and employees of Chorus for acts or omissions in their capacity as directors or employees. It does not cover dishonest, fraudulent, malicious or wilful acts or omissions.

Director shareholding as at 30 June 2012

As at 30 June 2012, directors had a relevant interest (as defined in the Securities Markets Act 1988) in Chorus Shares as follows:

Director	Interest	Number
Clayton Wakefield	Legal and beneficial interest	2,004
Keith Turner	Legal Interest	5,500
Mark Ratcliffe	Beneficial interest	16,778
Total		**24,282**

As at 30 June 2012 directors had a relevant interest representing approximately 0.006% of the Chorus Shares outstanding.

Interests Register

Directors disclosed, pursuant to section 140 of the Companies Act 1993, an interest or cessation of interest in the following entities during the seven months ended 30 June 2012:

Sue Sheldon: FibreTech Holdings Ltd and subsidiaries (director), Contact Energy Ltd (director), Freightways Ltd (chairman), Paymark Ltd (director), Sue Sheldon Advisory Ltd (director), Reserve Bank of New Zealand (deputy chairman).

Anne Urlwin: Lakes Environmental Ltd (chairman), Naylor Love Ltd (director), Naylor Love Construction Ltd (director), Naylor Love Enterprises Ltd (chairman), Meridian Energy Ltd (ceased to be a director), Southern Response Earthquake Services Ltd (director), SR 1 Ltd (director), SR 2 Ltd (director*), SR 3 Ltd (director*), SR 4 Ltd (director*), SR 5 Ltd (director*), SR 6 Ltd (director*), SR 7 Ltd (director*), SR 8 Ltd (director*), SR 9 Ltd (director*), SR 10 Ltd (director*), SR 11 Ltd (director*), Ngai Tahu Te Runanga Audit & Risk Committee (independent chairman).

Clayton Wakefield: Walsh Financial Services Ltd (director and shareholder), Wakefield & Walsh Ltd (director and shareholder), Techspace Ltd (director and shareholder), Techspace Investments Ltd (director and shareholder), Techspace Consulting Ltd (executive director and shareholder), Endace Ltd (director), Wakefield Walsh Family Trust (trustee and beneficiary).

Jon Hartley: ASB Bank Ltd (deputy chairman), Mighty River Power Ltd (director), Trango Capital Ltd (director, shareholder and trustee of a shareholder), VisionFund International Ltd (vice chairman), VisionFund Cambodia Ltd (director), Hartley Family Trust (trustee), Wellington City Mission (Anglican) Trust Board (trustee), Mission Residential Care Ltd (director), World Vision NZ (trustee), Yorkshire Trust (trustee), Sovereign Assurance Company Ltd (deputy chairman).

Keith Turner: Solar City New Zealand Ltd (chairman), Auckland International Airport Ltd (deputy chairman), Waitaki Wind Ltd (director), Fisher & Paykel Appliances Holdings Ltd (chairman), Spark Infrastructure Pty Ltd (director).

Mark Ratcliffe: Telecom Corporation of New Zealand Ltd (shareholder), Matapouri Family Trust (trustee and beneficiary), Telstra Corporation Ltd (shareholder).

Prue Flacks: Mighty River Power Ltd (director), Bank of New Zealand (director), BNZ Life Insurance Ltd (chairman).

* Anne Urlwin ceased to be a director of these companies after 30 June 2012.

Shares and shareholders

Stock exchange listings and American Depositary Receipts

Chorus Shares have a dual listing on the NZSX and on the ASX. Chorus trades under the ticker 'CNU'.

American Depositary Shares (ADSs), each representing five ordinary shares and evidenced by American Depositary Receipts (ADRs), are not listed but are traded on the over-the-counter (OTC) market in the United States under the ticker symbol 'CHRYY'. Chorus' depositary is the Bank of New York Mellon.

NZX waivers

A summary of all waivers granted and published by NZX within or relied upon by Chorus in the 12 months preceding the date two months before the publication date of the annual report, are published on Chorus' website at www.chorus.co.nz. This summary will be published for 12 months following publication of this annual report.

ASX disclosures

Chorus has been admitted to the official list of the ASX. As a result, Chorus is required to make the following disclosures:

- Chorus' place of incorporation is New Zealand.
- Chorus is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial shareholdings and takeovers).
- Chorus' Constitution contains limitations on the acquisition of securities, as disclosed below.
- Chorus used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives as set out in the scheme booklet.

Registration as a foreign company

Chorus has registered with the Australian Securities and Investments Commission (ASIC) as a foreign company. Chorus has been issued an Australian Registered Body Number (ARBN) of 152 485 848.

Quoted securities

As at 30 June 2012 there were 385,082,123 Chorus Shares on issue.

Each Chorus Share confers on its holder the right to attend and vote at a meeting of Chorus, including the right to cast one vote on a poll on any resolution.

Non-standard designation

NZX has attached a 'non-standard' designation to the listing of the Chorus Shares owing to the ownership restrictions in Chorus' Constitution, as described below.

Chorus' constitutional ownership restrictions

Chorus' Constitution includes the ownership restrictions that prohibit any person:

- from having a relevant interest in 10% or more of Chorus Shares, unless the prior written consent of the New Zealand Government is obtained; or
- other than a New Zealand national, from having a relevant interest in more than 49.9% of Chorus Shares, unless the prior written consent of the New Zealand Government is obtained.

If the Board or the New Zealand Government determines there are reasonable grounds for believing that a person has a relevant interest in voting shares in excess of the ownership restrictions, the Board may, after following certain procedures, prohibit the exercise of voting rights (in which case the voting rights shall vest in the chairman) and may force the sale of shares. The Board may also decline to register a transfer of shares if it reasonably believes the transfer would breach the ownership restrictions.

NZX has granted Chorus waivers to allow the Chorus Constitution to include the power of forfeiture, the restrictions on transferability of Chorus Shares and the Board's power to prohibit the exercise of voting rights relating to these ownership restrictions.

Chorus has been advised by the Crown that AMP Capital Holdings Ltd and its related companies have been granted approval, should they choose to exercise it in future, to acquire a relevant interest in 10% or more (but not exceeding 15%) of Chorus Shares.

Unquoted securities

Security	Number issued during the financial period	Holder	Percentage held
CFH Equity Securities	6,365,892	Crown Fibre Holdings Ltd	100%
CFH Debt Securities	6,365,892	Crown Fibre Holdings Ltd	100%
CFH Warrants	272,207*	Crown Fibre Holdings Ltd	100%

* The CFH warrants have been issued in two series, with different repayment schedules. On 30 June 2020 one series will be cancelled depending on whether the 20% fibre up-take threshold is met.

The CFH equity securities are a unique class of security that carry no right to vote at meetings of holders of Chorus Shares but entitle the holder to a right to a repayment preference on liquidation.

The CFH debt securities are unsecured, non-interest bearing and carry no voting rights at meetings of holders of Chorus Shares.

The CFH warrants are an option to acquire Chorus Shares on a specified exercise date at a set strike price.

The terms of the issue for each of the CFH equity securities, CFH debt securities and the CFH warrants are set out in the subscription agreement with CFH. For more information see pages 139 - 142 of the scheme booklet.

Distribution of shareholders and shareholdings as at 28 August 2012

	Number of holders	Number of shares held	% of issued capital
Size of shareholding			
1 to 1,000	28,369	8,812,033	2.29
1,001 to 5,000	6,955	16,026,164	4.15
5,001 to 10,000	1,321	9,771,319	2.54
10,001 to 100,000	813	18,893,781	4.91
100,001 and over	65	331,578,826	86.11
Total shareholders	37,523	385,082,123	100

Substantial security holders as at 28 August 2012

Based upon notices received, the following persons are deemed to be substantial security holders, in accordance with Section 26 of the Securities Markets Act 1988:

Substantial security holder	Number of voting securities	Date of notice
AMP Capital Investors	43,371,379	26 July 2012
Schroder Investment Management Australia Ltd	26,952,232	21 December 2011
Bank of New York Mellon	19,311,109	31 May 2012

Twenty largest registered shareholders as at 28 August 2012

Rank	Holder Name	Holding	%
1.	National Nominees New Zealand Ltd	62,763,862	16.29
2.	JP Morgan Chase Bank NA	41,216,955	10.70
3.	HSBC Nominees (New Zealand) Ltd	23,435,697	6.08
4.	HSBC Nominees (New Zealand) Ltd A/C State Street	21,240,619	5.51
5.	Accident Compensation Corporation	18,530,630	4.81
6.	National Nominees Ltd	15,762,202	4.09
7.	JP Morgan Nominees Australia Ltd	14,276,989	3.70
8.	AMP Life Ltd	9,951,887	2.58
9.	New Zealand Superannuation Fund Nominees Ltd	9,111,766	2.36
10.	BNP Paribas Nominees (NZ) Ltd	8,239,461	2.13
11.	BNP Paribas Noms Pty Ltd	7,115,007	1.84
12.	AMP Investments Strategic Equity Growth Fund	6,826,199	1.77
13.	FNZ Custodians Ltd	6,780,577	1.76
14.	Citibank Nominees (New Zealand) Ltd	6,504,138	1.68
15.	TEA Custodians Ltd	6,369,149	1.65
16.	Westpac NZ Shares 2002 Wholesale Trust	5,618,511	1.45
17.	HSBC Custody Nominees (Australia) Ltd	4,957,502	1.28
18.	Citicorp Nominees Pty Ltd	4,599,468	1.19
19.	Forsyth Barr Custodians Ltd	4,505,075	1.16
20.	Premier Nominees Ltd -Onepath Wholesale Australasian Shr Fund	4,370,095	1.13

Shareholders holding less than a marketable parcel

As at 28 August 2012, there were 6,359 shareholders holding between 1 and 99 Chorus Shares (a minimum holding under the NZSX Listing Rules) and, based on the market price of A$2.60, there were 12,354 holders that held less than a marketable parcel of A$500 of Chorus Shares under the ASX Listing Rules.

On-market buy-back: There is no current on-market buy-back.

Net tangible assets per security

As at 30 June 2012, the consolidated net tangible assets per share was NZ$0.90. Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS.

Company Secretary

Vanessa Oakley

Donations

Chorus made no donations for the seven months ending 30 June 2012.

Subsidiaries

Chorus New Zealand Ltd

Directors:
Mark Ratcliffe (Chairman), Andrew Carroll, Brian Hall, Vanessa Oakley and Lucy Riddiford (as alternate director for Vanessa Oakley).

Director Remuneration:
The directors are all employees and do not receive any remuneration in their capacity as directors of Chorus New Zealand Ltd.

Directors interests:
Mark Ratcliffe: Chorus Ltd (shareholder), Telecom Corporation of New Zealand Ltd (shareholder), Telstra Corporation Ltd (shareholder), Matapouri Family Trust (trustee and beneficiary).

Andrew Carroll: Chorus Ltd (shareholder).

Brian Hall: Chorus Ltd* (shareholder), Telecom Corporation of New Zealand Ltd (shareholder).

Lucy Riddiford: Chorus Ltd* (shareholder), Telecom Corporation of New Zealand Ltd* (shareholder).

Vanessa Oakley: Chorus Ltd (shareholder), Telecom Corporation of New Zealand Ltd (shareholder), First Foundation (unpaid mentor).

* Disclosed after 30 June 2012.

Indemnities and Insurance:

See Indemnities and Insurance on P.10 for further information.

DIRECTORY

Registered Offices

New Zealand
Level 9, North Tower
Datacom House,
68 - 86 Jervois Quay
Wellington 6011
New Zealand
Phone: +64 4 471 0220

Australia
C/- Allens Corporate Services Pty Limited
Level 5, Deutsche Bank Place
126 Phillip Street
Sydney
NSW 2000
Australia
Phone: +61 2 9230 4000

Registrars

New Zealand
Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
New Zealand
Phone: +64 9 488 8777
Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz
www.investorcentre.com/nz

Australia
Computershare Investor Services Pty Limited
GPO Box 3329
Melbourne 8060
Australia
Freephone: 1 800 501 366
Fax: +61 3 9473 2500
E-mail: enquiry@computershare.co.nz
www.investorcentre.com/nz

Depository

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
United States
Phone: +1 201 680 6825
Email: shrrelations@bnymellon.com
www.bnymellon.com/shareowner

Chorus

CHO 1590 / SEPTEMBER 2012