Chorus Annual Report 2015

Chorus Board and Management
FY15 Overview

Jon Hartley
Interim chairman

Mark Ratcliffe
Managing Director and CEO

This report is dated 23 August 2015 and is signed on behalf of the Board of Chorus Limited.

Chorus' financial result for FY15 was impacted substantially by the requirement to implement initial regulatory pricing decisions based on international benchmarking, with EBITDA* down by $47 million compared to FY14. This regulatory pricing remains under review and the ongoing uncertainty has overshadowed positive increases in fixed line and broadband connections, as well as Chorus' work on the Ultra-Fast and rural broadband rollouts that continue to deliver better broadband ahead of schedule.

Chorus made significant progress during FY15 to reshape its business and protect shareholder value by absorbing some of the impact from the December 2014 regulated price cuts. These business initiatives delivered results ahead of target for the year, partially offsetting the very significant reduction in regulated pricing. This, together with slightly improved draft copper pricing, has helped the share price recover some value although dividends remain suspended.

FY15 HIGHLIGHTS

EBITDA*
$602m
Earnings before interest, income tax, depreciation and amortisation

NPAT
$91m
Net profit after tax

FIXED LINE CONNECTIONS
1,794,000

UFB PROGRAMME
44%
COMPLETE

FY14 COMPARISON

EBITDA*
$649m
Earnings before interest, income tax, depreciation and amortisation

NPAT
$148m
Net profit after tax

FIXED LINE CONNECTIONS
1,777,000

UFB PROGRAMME
31%
COMPLETE

* EBITDA is a non-GAAP profit measure calculated as reported profit for the period before net finance expense, tax, depreciation and amortisation. Chorus monitors this as a key indicator of Chorus' performance and believes it assists investors in assessing the performance of the core operations of the business.

Highlights and challenges

Highlights

Total fixed line connections increased to 1,794,000 and broadband connections grew to 1,207,000.

UFB build now complete for five towns and the UFB and RBI rollouts both on schedule, with about 588,000 end-users able to access better broadband capability.

New service company agreements enabled Chorus to narrow its UFB rollout guidance and lower FY15 connection costs.

Chorus' Gigatown competition increased UFB awareness significantly and will bring socio-economic benefits to the Dunedin community as the winners of subsidised gigabit capability.

Government released proposals, including amendments to property access regimes, that would help speed up the installation of UFB.

Challenges

Regulated price cuts based on the Commerce Commission's initial benchmarked pricing have been in effect from 1 December 2014, reducing revenues significantly. Draft final pricing is an improvement, but remains below 2011 pricing.

Delays in the final pricing process have necessitated Chorus' managing for cash focus lasting for a much longer period with consequential effects on discretionary investment and network operating practices.

Growth in fibre connections is driving additional demands on capital expenditure during a period of constrained cash.

Improving provisioning processes to meet growing fibre demand. Chorus is working with its industry and service company partners to enhance the experience for end-users.

Long term network investment remains challenging in the absence of clarity on a post 2020 regulatory framework and may constrain Chorus' participation in further Government broadband initiatives.

Delivering better broadband

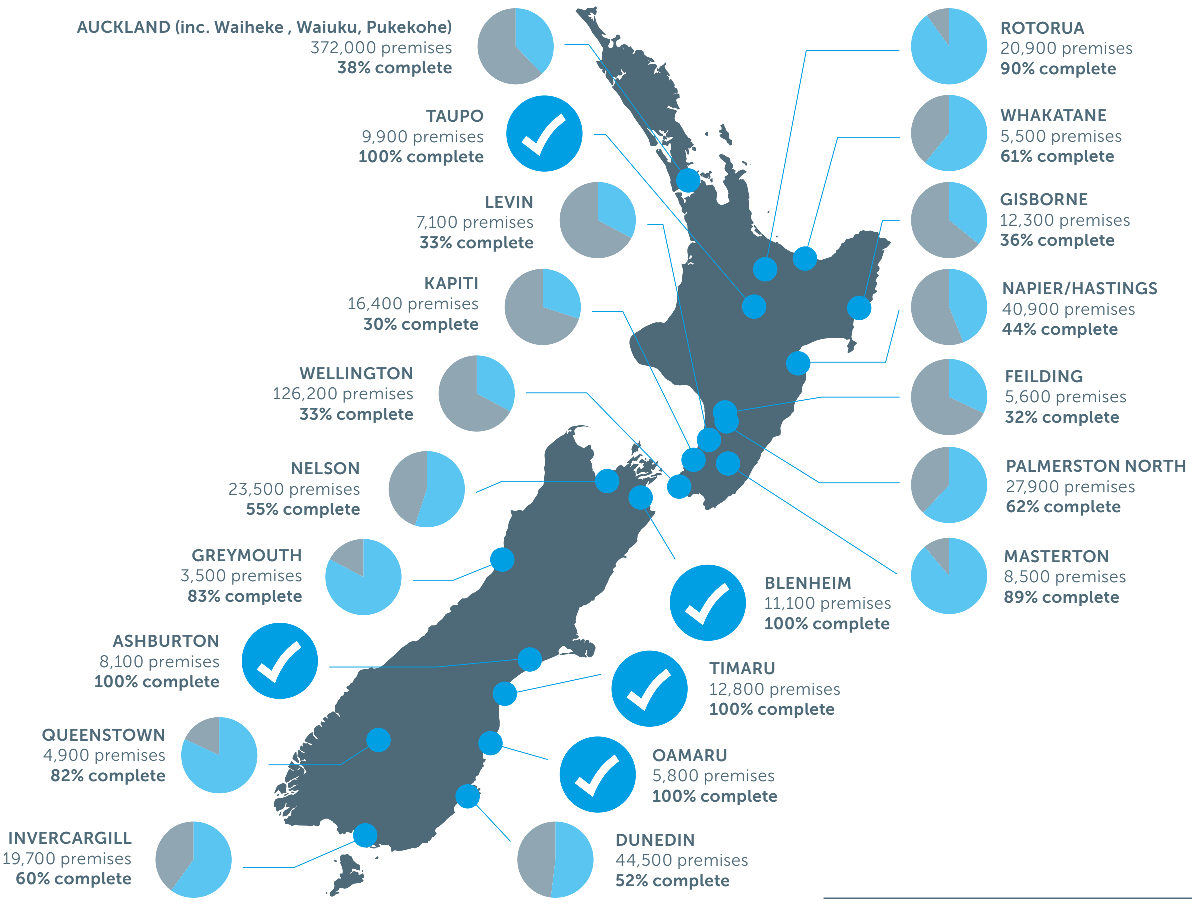
Chorus is proud to be building communications networks that will provide long term benefits for end-users and New Zealand as a whole. This work is already making a real difference. The average broadband speed on Chorus' network has increased from 11Mbps in December 2011 to 18Mbps and almost 60% of end-users can access a better broadband service than they are currently using.

The scale of work required for the Ultra-Fast Broadband (UFB) and Rural Broadband Initiative (RBI) rollouts should not be underestimated. The eight-year UFB rollout is New Zealand's largest ever communications construction project and will ultimately reach 75% of New Zealanders. In Chorus' 24 deployment areas (representing approximately 70% of the Government UFB programme), about $1.1 billion has been invested to take fibre to the boundary of 368,000 premises or 44% of Chorus' target. About $390 million had been received in Crown financing to 30 June 2015. The Crown will ultimately provide $929 million, half of which is debt that Chorus must repay from 2025 onwards. The other half is special equity which begins to attract dividends from 2025 if not redeemed.

Chorus' rollout is tracking to schedule with work now completed in five towns – Ashburton, Taupo, Timaru, Blenheim, Oamaru – and 495,000 end-users across all of Chorus' deployment areas already able to connect to fibre. A further five towns are expected to be completed in FY16. Cities such as Wellington and Auckland are naturally taking longer to complete given their relative scale. Figure 1 shows rollout progress to 30 June 2015.

UFB deployment work has largely moved from built up business areas to suburban zones, enabling Chorus to shift to fixed price contracts with its largest service company partners. This added certainty meant Chorus was able to narrow the expected cost range for the UFB rollout (excluding connection costs) from the previous range of $1.7 to $1.9 billion to a new range of $1.75 to $1.80 billion.

Figure 1: Progress by Chorus UFB Area as at 30 June 2015



PREMISES = TOTAL UFB PREMISES IN CANDIDATE AREA, EXCLUDING GREENFIELDS

While fibre demand is growing, demand remains highly variable from town to town. Uptake across all Chorus areas averaged 14% at 30 June 2015. Chorus is continuing to work closely with its service company partners and retail service providers to streamline connection processes. Current consent requirements are extending connection times and constraining demand. Chorus therefore welcomed the Government's announcement in June that it will consider amending the way in which network operators like Chorus must seek permission to access private property, particularly in situations like shared driveways and apartment buildings.

In November 2014, Dunedin won Chorus' highly successful Gigatown competition and we are continuing to support Dunedin's evolution as a digital innovation hub by funding the introduction of the Co.Starters franchise from the United States for aspiring entrepreneurs. There are already some positive early signs with Chorus' gigabit capability helping Dunedin jump up the broadband charts to be ranked 1st in Australasia for broadband speed (Ookla "Net Index" global broadband rankings April 2015).

Urban New Zealanders are not the only ones benefitting from Chorus' investment in better broadband. The RBI rollout is almost finished with new or upgraded broadband coverage extended to 93,000 rural lines and just 10,500 more to be covered in FY16. Rural demand for better broadband, combined with Chorus' network being available via a wide range of service providers, has seen broadband uptake across these lines reach 85%. RBI fibre has also been extended to more than 1,000 schools and over 100 RBI wireless broadband tower sites. The Government is funding the majority of the RBI rollout through an industry levy, which Chorus is a significant contributor to, with Chorus also directly providing approximately 15-20% of the investment required to fund its fixed line portion of the rollout.

Figure 2: Regional fibre uptake vs build : UFB Uptake by Candidate Area – 30 June 2015

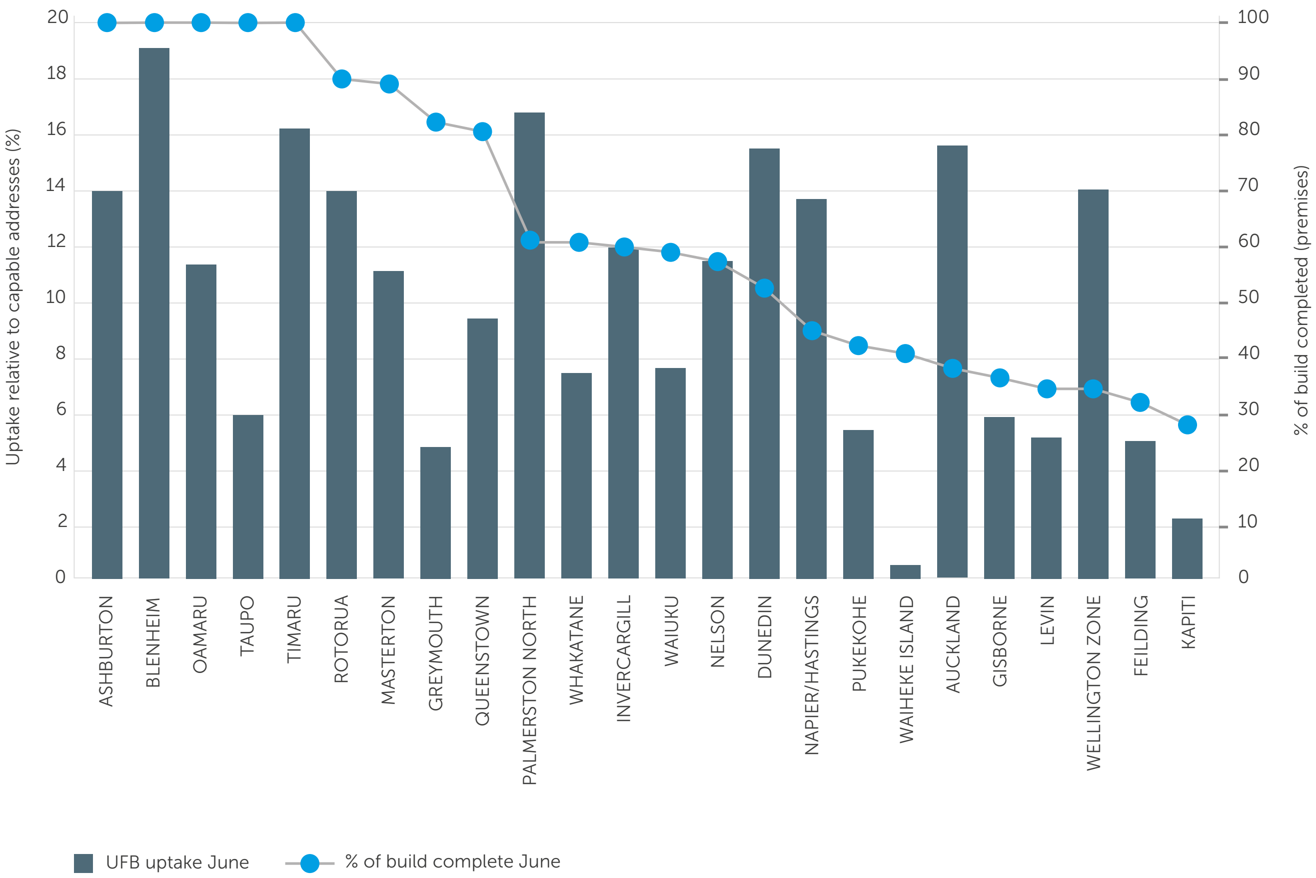


Chart shows end-user uptake as a proportion of UFB capable addresses (i.e. network is commissioned for service) ranked according to proportion of build complete premises in each area

Regulatory developments

Regulatory developments continued to be the single most important factor affecting Chorus and its shareholders during FY15. Revenues from Chorus' copper network provide the basis for Chorus' ongoing investment in better broadband infrastructure, particularly the roughly $3 billion cost to build and connect New Zealanders in Chorus' UFB areas. These revenues remain the subject of an ongoing final review by the Commerce Commission (the Commission).

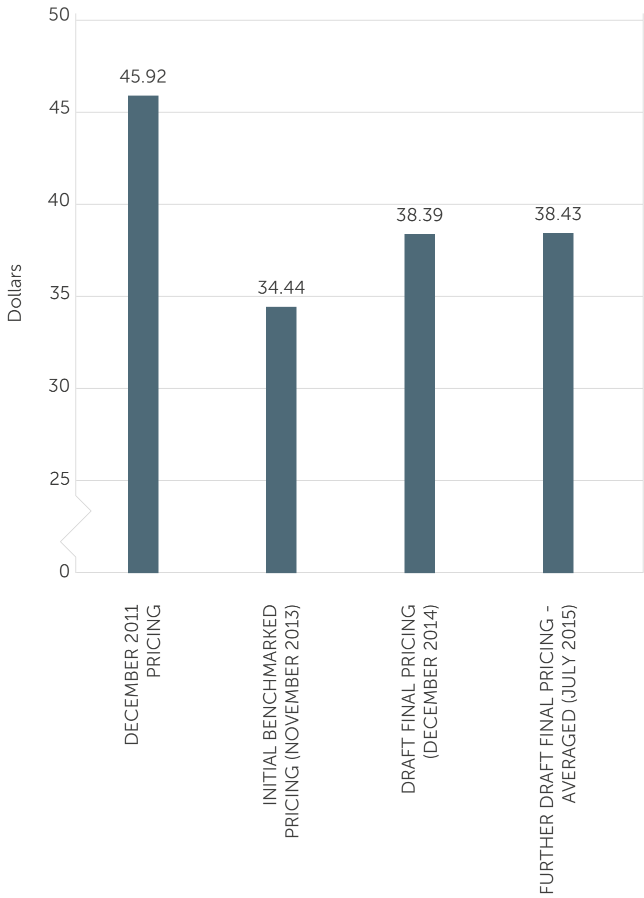
As Chorus has said since 2012, when the Commission made its first decision to reduce Chorus' copper line pricing on the basis of international benchmarking, New Zealand regulatory pricing needs to reflect the costs of building and maintaining networks in New Zealand. That is why Chorus exercised its legislative right to request that the Commission review its pricing by modelling the cost of building a network in New Zealand.

The Commission has since concluded that:

> "New Zealand's local loop network is unique when compared to overseas benchmarks... Simplistic comparisons of international wholesale broadband prices do not tell the true story."
>
> (Commerce Commission media release, 2 July 2015)

However, the Commission's final review is based on the concept of a hypothetically efficient operator and in its most recent 2 July 2015 further draft decision the Commission proposed an annual price path for monthly copper broadband pricing, from $37.89 in Year 1 to $39.08 in Year 5. This suggests an average price of $38.43, which is below the $45.92 aggregate price that applied in 2011 when Chorus was demerged from Telecom New Zealand, but above the $34.44 aggregate price established by the initial benchmarking process.

Figure 3: Aggregate copper pricing



The Commission's modeling assumptions have a significant bearing on the pricing produced by their model. For example,the Commission notes that a weighted average cost of capital (WACC) of 6.53% would have increased the Year 1 aggregate monthly price from $37.89 to $39.40. The 2 July decision has reduced WACC from 6.47% to 6.03%. This is about 25% below most independent analysts' estimates of Chorus' WACC.

Chorus continues to believe that the draft pricing significantly undervalues the true cost of network investment in New Zealand. Extensive data from its network rollout experience, urban UFB pricing agreed with the Crown and the comparable value of regulated electricity networks all support the view that aggregate pricing should be at or above 2011 levels. Significant portions of Chorus' real world network have also been excluded from the Commission's model.

Despite the Commission's views on benchmarking, the Commission's latest draft decision also proposes to make a 30% reduction, or around $12 million annually, to the one-off fees Chorus charges to retail service providers. This proposed reduction is based on international benchmarking of the fees charged in a selection of European countries, whereas Chorus' charges are competitively tendered rates with New Zealand service companies.

Chorus considers it a well established principle that the final monthly broadband pricing determined by the Commission's modeling will be aligned to the date when the incorrect benchmark pricing was first applied. It is, therefore, concerning that the majority view in the Commission's 2 July decision is that there should be no such correction of the initial pricing and the final pricing should instead apply from the conclusion of the current review process.

This would be a significant reversal on previous Commission views and decisions. Chorus has borne the significant financial impact of the benchmark pricing decisions since December 2012 and the Commission's two draft determinations have clearly established that the benchmark pricing was too low. The Commission's December 2014 views suggested that 1 December 2014 would be the effective date and the Commission has previously required Chorus to repay retail service providers from December 2012 for a decision on other transaction charges made in April 2014.

Because Chorus has been required to charge the $34.44 monthly benchmarked price since 1 December 2014, the financial impact on Chorus is compounded by the timeframe for the Commission's review process. The Commission has changed the timetable for concluding the review four times, with the date for a final decision ultimately delayed from December 2014 to December 2015.

The regulatory pricing delays have ongoing consequences for a wide range of stakeholders. Chorus continues to maintain a handbrake on all discretionary spending, with current and future implications for end-users and retail service providers. Investment programmes involving proactive maintenance and information technology platforms remain deferred wherever possible as a result. Chorus' higher cost recovery requirements are dampening end-user demand for new network extensions to homes and businesses.

Chorus is also unable to make any decisions on dividends until it knows the final price it will be operating under. As the New Zealand Shareholders' Association noted, the prolonged regulatory uncertainty means shareholders are receiving no income return on their investment and it does not help the credibility of New Zealand's capital markets.

Framework review

Continued investment by Chorus is crucial because, as a nationwide open access network operator, its investment underpins the delivery of services by any retail service providers that wish to use the network. This open access structure is helping level the competitive playing field by enabling new service providers to enter the New Zealand broadband market and in turn deliver their own new and innovative services.

New Zealand therefore needs a fit-for-purpose regulatory framework that brings price, quality and investment conversations together if consumer demands for better services are to continue to be realised. Chorus believes a building block model, as is already applied to other regulated utilities in New Zealand and the National Broadband Network in Australia, is the most logical and internationally recognised approach that can deliver long term certainty for all stakeholders.

The Government is expected to commence a review of the Telecommunications Act this year, with a view to implementing an updated regulatory regime to apply from 2020, when the contractual provisions for UFB pricing come to an end.

For a complete overview of Chorus' regulatory environment, please see the *Regulation, legislation and litigation* section in the Management Commentary.

Market overview

Chorus is New Zealand's largest fixed line communications infrastructure services provider with fixed line broadband available to 97% of its lines nationwide.

The number of fixed line connections on Chorus' network has been relatively static at approximately 1.8 million for some years now.

However, the number of end-users also taking a broadband connection from Chorus continues to increase with growth of 4% to 1,207,000 connections by 30 June 2015.

In July 2015 the Organisation for Economic Co-operation and Development (OECD) reported that New Zealand was ranked 15th in the OECD for broadband penetration and first for growth in fibre volumes to December 2014.

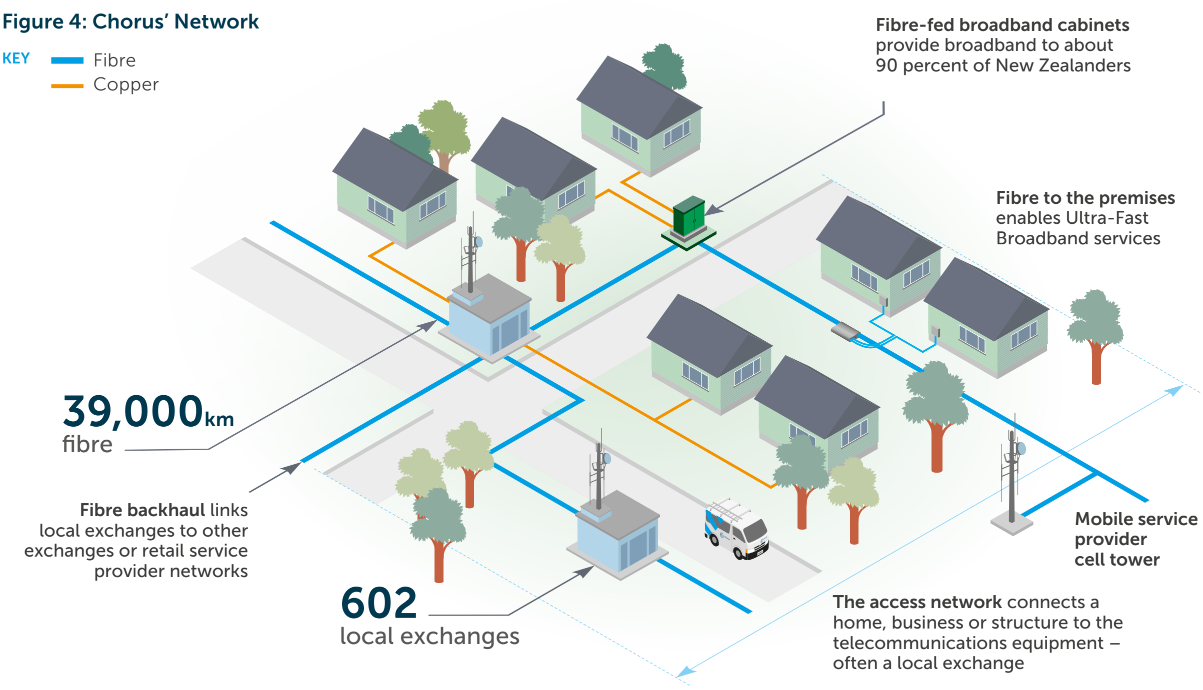
Chorus summary connection facts

	CONNECTIONS 30 JUN 2015	CONNECTIONS 31 DEC 2014	CONNECTIONS 30 JUN 2014
Total fixed line connections	**1,794,000**	**1,782,000**	**1,777,000***
Baseband copper	1,408,000*	1,435,000	1,471,000**
UCLL	123,000	127,000	127,000
SLU/SLES	3,000	4,000	4,000
Naked Basic / Enhanced UBA / naked VDSL	159,000	136,000	117,000
Data services over copper	13,000	15,000	16,000
Fibre	88,000	65,000	42,000
Total Broadband	**1,207,000**	**1,186,000**	**1,163,000**
Basic UBA	96,000	135,000	164,000
Naked Basic UBA	10,000	10,000	9,000
Enhanced UBA	792,000	792,000	802,000
Naked Enhanced UBA	118,000	103,000	93,000
VDSL	85,000	70,000	49,000
Naked VDSL	31,000	23,000	15,000
Fibre (mass market)	75,000	53,000	31,000

* Includes about 16,000 lines identified following billing changes and reviews.

** Revised in October 2014 to exclude 4,000 connections previously counted as intact but non-revenue generating.

Figure 4: Chorus' Network



The core of Chorus' business is the nationwide network of fibre optic cables (39,000km) and copper cables (130,000km) that connect homes and businesses to each other. These cables typically connect back to local telephone exchanges, of which Chorus has about 600 nationwide. Chorus fibre also connects many mobile phone towers owned by mobile service providers. About 7,000 cabinets provide interconnection points for around 50% of the lines in the Chorus network. A large number of these cabinets are like mini telephone exchanges and have electronic broadband equipment installed in them.

Other networks

A range of network operators compete with Chorus' fixed line network across different areas around New Zealand. These networks include:

- The local fibre companies (LFCs) – Northpower, Ultrafast Fibre and Enable Networks – that have also partnered with the Government to build fibre past about 365,000 premises in nine of the 33 UFB areas. As at 30 June 2015, it is estimated they had passed approximately 250,000 end-users and had 35,000 connections.
- Vodafone's cable network in Wellington, Kapiti and Christchurch connects about 60,000 broadband end-users. It also has business fibre networks in all major central business areas and a national transport and backhaul network.
- Vector, Vocus Communications, Citylink and Unison operate fibre networks of varying sizes, typically focused on the backhaul and business markets.
- Some retail service providers have 'unbundled' Chorus' network by installing their own broadband equipment in exchanges and paying Chorus for the rental of the copper access line. Unbundling is declining with the growth in fibre demand. About 7% of Chorus' lines were unbundled at 30 June 2015.
- Spark (formerly Telecom New Zealand), Vodafone and 2 Degrees operate mobile phone networks and are deploying 4G technology upgrades.
- Vodafone, CallPlus and Now are among a range of fixed wireless network providers. An estimated 25,000 end-users are served by wireless networks in New Zealand.

Industry developments

Chorus is prohibited from selling services directly to end-users and provides open access wholesale services to approximately 100 retail service providers.

The retail service provider landscape is changing rapidly as global industry trends, combined with the new market dynamic created by the UFB rollout, foster the entry of new market participants and simultaneously drive existing retail service providers to seek scale. Notable developments during FY15 included:

- Australian telecommunications operator Vocus Communications announced in July 2014 that it was purchasing FX Networks and its 4,100km fibre network.
- Callplus completed its purchase of Orcon in July 2014, increasing its retail market share to approximately 15% and making it New Zealand's third largest retail service provider.

- MyRepublic, a Singapore-based retail service provider, launched operations in New Zealand in October 2014 with a focus on fibre-based services.
- Vocus Communications and Spark announced a new fibre construction joint venture in February 2015.
- New Zealand's third largest mobile operator, 2degrees, purchased Snap in March 2015.
- In April 2015, Australian telecommunications company M2 announced it was purchasing Callplus.
- Vodafone announced the purchase of WorldxChange in June 2015.
- M2 purchased Woosh's customer base in July 2015.

Another significant industry dynamic is the rapid growth in video on demand services, combined with the uptake of uncapped broadband plans. Chorus' network traffic increased 77% during the year with the launch of services from Netflix, Neon (Sky TV) and Lightbox (Spark) helping promote online viewing options.

The increase in bandwidth demand created peak-time constraints on a limited number of Chorus' network links necessitating work to provide additional network capacity. The Commission's pricing reviews will be a key determinant of ongoing investment for bandwidth demand growth, particularly as Chorus already delivers network capacity well above the regulated minimum for the broadband service.

Governance and corporate sustainability

In March, Sue Sheldon resigned after chairing the Board since Chorus' demerger. Chorus thanks her for her stewardship, particularly through the challenging regulatory turbulence of the last few years.

The Board welcomes Dr Patrick Strange as a director and believes his experience with utility regulation, particularly as former chief executive of Transpower, will be valuable. Murray Jordan will join the Board from 1 September 2015, bringing strong customer and stakeholder experience from his role as Managing Director of Foodstuffs North Island. With the full support of the Board, Dr Strange will be appointed as chairman from 1 September 2015. Jon Hartley has been interim chairman of the Chorus Board since April 2015, and will take up the position of deputy chairman following Dr Strange's appointment.

In June 2015 Chorus became the first New Zealand company to win the Best of the Best supreme award in the Aon Hewitt Best Employer awards. About 150 Australasian companies were involved, with Chorus having to demonstrate excellence in employee engagement, leadership effectiveness and a high-performance culture. It was the fourth consecutive year in which Chorus has received best employer accreditation, with a 2015 employee engagement score of 82%.

Chorus has a range of health and safety performance measures and governance reporting that underpin the Board's strong focus on Chorus' risks and the development of a strong safety culture. This focus extends to Chorus' contractors. Chorus continued to enhance its health and safety management processes and systems, attaining ACC Workplace Safety Management Practices accreditation in June 2015, and preparing for expected new Health & Safety legislation.

Chorus is focused on enhancing its sustainable operating model to efficiently deliver its needs of today without compromising its needs of tomorrow. Chorus continued programmes to replace network batteries, fuel tanks and ozone depleting substances from air conditioners with more sustainable alternatives. Data is reported to the Carbon Disclosure Project, a leading global carbon benchmark. About 340 Chorus people helped their local communities through the volunteer day programme and employees also donated to local charities through Chorus' payroll giving programme.

Chorus aims to provide shareholders with as much insight into its business as possible and has received positive feedback on the content of its prior Annual Reports. A PwC report on "Communication through reporting" described Chorus' 2014 annual report as a leading example, alongside the BBC's, of prominently presenting information that is critical to understanding the performance of the entity. Chorus aspires to continue to meet that standard and welcomes shareholders' feedback.

Outlook

Chorus is committed to delivering better broadband for New Zealanders while also achieving a fair rate of return on the investment that underpins the ongoing development of New Zealand's fixed line communications network.

Operationally, Chorus remains focused on continuing to deliver on its contractual commitments under the UFB and RBI rollouts and meeting the cost profiles advised to shareholders. UFB uptake is expected to continue to grow as the network footprint expands and the level of uptake will have an important bearing on capital expenditure demands for FY16. Significant work is going into refining the UFB connection experience for end-users and possible Government changes to the access and consent regimes may remove some of the complexity and impediments to uptake.

There may be some light at the end of the regulatory tunnel with the Commission's recent regulatory decisions supporting an increase in copper pricing relative to its prior benchmarking processes. However, until Chorus receives a final pricing decision it must continue to operate on the reduced pricing introduced on 1 December 2014.

This means discretionary activity and investment will remain restricted for at least the first half of FY16. Consistent with previous advice, Chorus will update investors on dividend policy once the Commission's final pricing review is complete. The extent to which various initiatives to reshape the business will be adjusted is ultimately linked to the level and timing of the Commission's pricing decisions.

Longer term investment decisions also remain challenging in this context, exacerbated by the absence of a post 2020 regulatory framework. Chorus' ability to participate in the Government's proposal to undertake further phases of UFB and RBI investment is inextricably linked to the need for regulatory clarity and recognition of a fair rate of return on the cost of efficiently building networks in New Zealand. Chorus firmly believes that the draft final pricing to date undervalues Chorus' network relative to its own extensive analysis and experience, including through the UFB and RBI rollouts.

Chorus made significant progress during FY15 to reshape its business and absorb some of the impact from the December 2014 regulated price cuts. These business initiatives delivered results ahead of target for the year, partially offsetting the very significant reduction in regulated pricing. Further challenges are expected in FY16 from wider industry dynamics and the consequences of managing the business for cash for an extended period, including:

- The continued reduction in discretionary proactive maintenance spend which will ultimately result in more network faults.
- The deferral of IT investment previously earmarked to separate from Spark is necessitating continued reliance on multiple legacy systems, resulting in increased IT operating expenditure.
- UFB uptake will continue to erode demand for Chorus' existing copper network in UFB areas where Chorus is not the Government's partner.
- The availability of an enhanced and in some cases relatively new product set (such as Very High Speed Digital Subscriber Line, mass market fibre, baseband IP) is driving increased provisioning demands and additional labour and provisioning cost into Chorus.
- Retail service providers will continue to focus on reducing their wholesale input costs from Chorus, whether by taking alternative or lower grade products, or using non-Chorus network inputs and suppliers.

Despite these challenges, Chorus is focused on improving returns to shareholders and securing a regulatory environment that enables shareholders to earn a fair return on the investment they are making to bring better broadband to New Zealand.

Chorus is well placed to help New Zealand realise the socio-economic benefits of broadband as demand for digital connectivity grows. We are seeing growing demand for better broadband for educational, business and entertainment purposes, reinforcing Chorus' role as an essential utility provider. A fit-for-purpose regulatory framework will help New Zealand realise even greater broadband potential.

Directors

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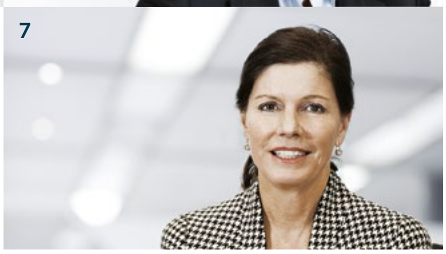

1. Jon Hartley, BA Econ Accounting (Hons), Fellow ICA (England & Wales), Associate ICA (Australia), Fellow AICD

Interim chairman; 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 as chairman of SkyCity, director of Mighty River Power, CEO of Brierley New Zealand and Solid Energy, and CFO of Lend Lease in Australia. Jon is currently deputy chairman of ASB Bank and Sovereign Assurance Company, chairman of VisionFund International and the Wellington City Mission and a trustee of World Vision New Zealand. Jon is chairman of Chorus' Nominations and Corporate Governance Committee and a member of its Audit and Risk Management Committee.

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

Director since 1 December 2011; independent

Anne is chairman of Naylor Love Enterprises and a director of Southern Response Earthquake Services, Steel & Tube Holdings, OnePath Life (NZ) and Summerset Group. Anne is also the independent chairman of the Ngai Tahu Te Runanga Audit and Risk Committee. Her previous directorship experience encompasses 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. She is the former chairman of Lakes Environmental, the New Zealand Blood Service, the New Zealand Domain Name Registry and a former director of Meridian Energy. Anne is chairman of Chorus' Audit and Risk Management Committee.

3. Clayton Wakefield, BSc (Computer Science), GradDip Mgmt, CMInstD

Director since 1 December 2011; independent

Clayton has over 30 years' experience in the banking, financial services, telecommunications and technology industries and is a Chartered Member of the Institute of Directors. Clayton is currently a director of Fisher & Paykel Finance and its subsidiaries, a former chairman of Electronic Transactions Services and Visa New Zealand, a former director of Endace and a former executive director and owner of Techspace. From 2001 to 2007 Clayton was Head of Technology and Operations at ASB Bank. Clayton is chairman of Chorus' Human Resources and Compensation Committee.

4. Keith Turner, BE (Hons), ME, PhD DistFIPENZ

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 currently chairman of Fisher & Paykel Appliances and a director of Spark Infrastructure, an Australian listed company. Keith was formerly chairman of Emirates Team New Zealand and deputy chairman of Auckland International Airport. Keith has had an extensive career in electricity, taking part in much of its reform, including the separation of Transpower from Electricity Corporation of New Zealand (ECNZ) in 1992, the separation of Contact Energy from ECNZ in 1996 and the eventual break up of ECNZ into three companies in 1999. Keith is a member of Chorus' Human Resources and Compensation Committee, its Nominations and Corporate Governance Committee and a member of the UFB Steering Committee.

5. Mark Ratcliffe, BA Accounting

Managing 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 as its first CEO when it became a separately listed entity in 2011.
In a 20 year career with Telecom, Mark held finance, marketing, product development, product management and IT roles. Mark 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.

6. Patrick Strange, BE (Hons), PhD

Director since 6 April 2015; independent

Dr Patrick Strange has spent 30 years working as a senior executive and director in both private and listed companies, including for more than six years as Chief Executive of Transpower where he oversaw Transpower's $3.8 billion of essential investment in the National Grid. Patrick is currently a director of Mighty River Power, Worksafe New Zealand, NZX Limited and of the joint board of Ausgrid, Endeavour Energy and Essential Energy, Australia. Patrick is a member of Chorus' Audit and Risk Management Committee.

7. Prue Flacks, LLB, LLM

Director since 1 December 2011; independent

Prue is a director of Bank of New Zealand and Mighty River Power. 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. Prue is a member of Chorus' Nominations and Corporate Governance Committee and its Human Resources and Compensation Committee.

Note: Murray Jordan will join the Board from 1 September 2015.

Executive Team

1. Mark Ratcliffe
Chief Executive Officer

See previous page.

2. Andrew Carroll, MCA (Hons)
Chief Financial Officer

Andrew joined Chorus after nine years with Telecom where he was involved in a range of corporate finance and M&A activity, including 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.

3. Ed Beattie
General Manager, Infrastructure

Ed has more than 30 years' experience in building and maintaining fixed line and mobile telecommunications networks in New Zealand. He managed the delivery of the successful Fibre to the Node programme from 2008 to 2011 and played a lead role in the Christchurch earthquake response and restoration activities. As General Manager Infrastructure, Ed has primary responsibility for the UFB and RBI network rollouts.

4. Ewen Powell, BE
Chief Technology Officer

Ewen has over 20 years' experience in managing the technology, services and partnerships that operate a national communications network. He has spent time in both the supplier and operator communities with much of his career spent at Telecom. Ewen's focus is on deploying core enterprise systems to run the business and develop technology capabilities to provision and manage the new fibre network.

5. Ian Bonnar
General Manager, Corporate Relations

Ian was appointed General Manager Corporate Relations in October 2014 with overall responsibility for protecting and enhancing the reputation of Chorus with its stakeholders. Before joining Chorus in 2013 he held a range of positions at Telecom, including Head of Communications, and was communications lead on the UFB negotiations and the Chorus demerger.

6. Nick Woodward
General Manager, Customer Service

Nick's career combines a wide range of IT, sales, customer and project 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.

7. Paula Earl-Peacock
General Manager, Human Resources

Paula joined Chorus in November 2014, and has over 20 years' experience in generalist human resources roles in both New Zealand and Australia. Her most recent role was in consumer goods with Mars Petcare in Australia, she has also worked in the financial services, consulting and retail sectors. Paula's focus is on the development of high performance organisations through constructive leadership, and the development of people, culture and teams.

8. Tim Harris, LLB, MBA
Chief Commercial Officer

Tim joined Chorus in October 2014 as Chief Commercial Officer with responsibility for leading Chorus' Marketing, Sales and Corporate Strategy functions. Tim has held a number of senior roles, most recently as Managing Director of BT Global Services South-East Asia. Tim has an MBA from the UK-based Cranfield School of Management.

9. Vanessa Oakley, LLB (Hons)
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, England and Wales, Vanessa joined Chorus after playing a key role in the UFB contract, legislative and demerger processes. She previously held roles in the public and private sectors, including as a key adviser to United Kingdom and New Zealand regulators and across the Telecom group.

10. Irene Lovejoy
Executive Assistant

Irene has worked with Chorus CEO Mark Ratcliffe for more than 15 years, bringing a unique insight that adds value to the development of the Chorus executive team. Before joining Chorus, Irene spent 22 years with Telecom where she held roles in the marketing, technology and corporate teams.

Chronology of significant Chorus announcements

18 July 2014	Chorus announces an agreement with Crown Fibre Holdings (CFH) that provides the option of bringing forward UFB funding subject to various conditions.
22 July 2014	The Commission announces an investigation relating to proposed changes to the regulated Unbundled Bitstream Access (UBA) service. This is in parallel to considering Chorus' proposed Boost services.
25 July 2014	Chorus announces it has agreed amendments to its committed bank facilities to provide significant additional financial flexibility and funding certainty. This includes agreeing no dividends will be paid until the later of the Commission's review processes or 30 June 2015.
4 September 2014	The Commission releases a consultation paper on proposed changes to Chorus' regulated UBA service.
8 September 2014	The Court of Appeal dismisses Chorus' appeal on the UBA price set by the Commission's initial benchmarking process.
7 October 2014	Chorus provides insights into cost modelling by Analysys Mason showing the cost to re-build the copper network, without re-using existing infrastructure, would be around $16 billion.
16 October 2014	The Commission suspends its investigation into Chorus' proposed changes to the regulated UBA service after Chorus put its proposed changes on hold.
25 November 2014	New service company agreements for the cost of connections to the UFB network enable Chorus to reduce its connections cost guidance.
2 December 2014	The Commission releases its draft final cost modelling decision, proposing an aggregate price of $38.39 compared to the $34.44 price previously derived from its initial benchmarking review. Chorus releases an update of Analysys Mason's modelling which continues to show prices should be at or above 2011 levels.
4 December 2014	Standard & Poor's revises Chorus' outlook to stable.
17 December 2014	Moody's revises Chorus' outlook to stable.
19 December 2014	The Commission advises that it is extending the final cost modelling timetable by five months with final determinations due by September 2015 instead of April 2015. The Commission also says its emerging view is that final prices should only be effective from 1 December 2014.
23 December 2014	Chorus concludes further service company agreements for the cost of connections to the UFB network and agrees a fixed price UFB deployment contract with Visionstream for the Auckland UFB area.
23 February 2015	Chorus narrows the UFB communal capital expenditure guidance range to $1.75 to $1.80 billion, from a previous range of $1.70 to $1.90 billion. This follows the agreement of a fixed price UFB deployment contract with Downer.
19 March 2015	Sue Sheldon announces she is resigning as chairman effective 31 March 2015.
7 April 2015	Dr Patrick Strange is appointed to the Chorus Board effective 6 April 2015.
15 April 2015	The Commission advises that it intends to further extend the final cost modelling review timetable with final determinations delayed to December 2015.
25 June 2015	Murray Jordan is appointed to the Chorus Board effective 1 September 2015.
2 July 2015	The Commission releases its further draft final cost modelling determination, re-confirming the initial benchmarking prices were too low. A majority of Commissioners propose that the final pricing should be implemented at the conclusion of the Commission's process, rather than from the date when Chorus was required to begin charging the initial benchmarking pricing.

Management Commentary

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Management commentary

	2015 $M	2014 $M
Operating revenue	1,006	1,058
Operating expenses	(404)	(409)
Earnings before interest, income tax, depreciation and amortisation	**602**	**649**
Depreciation and amortisation	(324)	(322)
Earnings before interest and income tax	**278**	**327**
Net interest expense	(151)	(121)
Net earnings before income tax	**127**	**206**
Income tax expense	(36)	(58)
Net earnings for the year	**91**	**148**

In summary

EBITDA

Chorus reports earnings before interest, income tax, depreciation and amortisation (EBITDA) of $602 million for the year ending 30 June 2015 (FY15), a decrease of $47 million on the prior year.

Results for FY15 were affected by a material reduction in Unbundled Bitstream Access (UBA) pricing following the introduction of the Commerce Commission's (the Commission) initial benchmarked pricing on 1 December 2014, and a wide range of cash management initiatives ('the initiatives') Chorus implemented to partially offset the very significant loss in financial flexibility resulting from the UBA price reduction. As outlined in the results announcement on 24 February 2014, Chorus undertook a fundamental review to identify an extensive range of operating cost out, capital expenditure reductions and revenue initiatives that would reshape the business. Chorus also indicated that there may be impacts on longer term incremental revenue and additional operating costs due to the extent of the short term cost out initiatives.

Revenue decreased significantly as a result of the UBA price reduction. Other smaller reductions in revenues occurred because retail service providers asked Chorus to do less maintenance work on their networks and following the expiry of the Spark transitional services agreements on 30 June 2014. These revenue declines were partially offset by some of the initiatives Chorus implemented in FY15, primarily in the field services, infrastructure and enhanced copper revenue categories. Continued growth in demand for broadband and fibre products over the year also increased revenues.

Costs decreased in aggregate by more than 1%, reflecting an intensive cost reduction programme as part of the initiatives, such as deferral of non-critical maintenance costs, tight control of provisioning costs and other expenses. This cost reduction programme was partially offset by growth in labour, information technology (IT), electricity costs and regulatory levies. Growth in IT costs reflected a new stand-alone Chorus IT environment and the need to run duplicate platforms, exacerbated by delays in the IT separation programme due to deferred capital expenditure. Growth in connection numbers for both fibre and copper based Very High Speed Digital Subscriber Line (VDSL) installations have driven increases in personnel numbers, with the associated increase in costs, as the processes to provision these products are less mature and more labour intensive.

Significant items that impacted the operating results for Chorus in FY15 include the reduction in UBA pricing and associated changes to the UBA transaction charges. Excluding the impact of these changes consistently across both years results in adjusted EBITDA for FY15 of $546 million and $518 million for FY14. A comparison of the adjusted full year results for the year ended 30 June 2015 with the adjusted results for the year ended 30 June 2014 (FY14), and commentary on the items being adjusted is included in *appendix one*.

Capital expenditure

Capital expenditure for the year ended 30 June 2015 was $597 million. Approximately 85% of Chorus' capital expenditure was focused on fibre related investment, principally for the Ultra-Fast Broadband (UFB) and Rural Broadband Initiative (RBI) deployment programmes. UFB communal capital expenditure totalled $236 million, with build work completed for about 368,000 premises by 30 June 2015. A further $140 million was spent connecting end-users to the fibre network. Continuing cash constraints are impacting the capital expenditure choices being made and may ultimately result in the sacrifice of value enhancing capital expenditure to the detriment of stakeholders.

Dividends

As part of the 25 July 2014 bank amendments Chorus agreed that no dividends will be paid until the later of the conclusion of the Commission's final pricing review processes or 30 June 2015. Following further delays the Commission's final pricing review is currently expected to be completed in December 2015, almost three years after the Commission was requested to undertake the reviews.

In addition, Chorus has agreed an optional funding backstop with Crown Fibre Holdings (CFH) which gives Chorus the option to bring forward part of CFH's existing investment funding. If Chorus needed to use the facility, Chorus would be unable to pay a dividend before December 2019 without CFH approval, unless Chorus normalises the CFH funding profile. The facility is only available from October 2015 and automatically terminates if not used by 30 June 2016.

Revenue commentary

	2015 $M	2014 $M
Basic copper	491	543
Enhanced copper	268	293
Fibre	98	75
Value added network services	36	38
Infrastructure	21	19
Field services	84	75
Other	8	15
Total revenue	**1,006**	**1,058**

Revenue overview

Chorus' product portfolio encompasses a broad range of broadband, data and voice wholesale services. It includes a mix of regulated and commercial copper and legacy products, and fibre products.

Revenue declined compared to the prior period. UBA pricing reduced from $21.46 to $10.92 from 1 December 2014 as a result of the Commission's benchmarking price decision of 5 November 2013.

Total fixed line connections increased by 17,000 connections (from 1,777,000 to 1,794,000). In addition, with the reduction in UBA pricing there is now a differential in pricing between basic copper connections and the price charged for VDSL and fibre connections, resulting in higher average revenue per VDSL and fibre connection.

A summary of Chorus' connection numbers for key products is on *page 6*.

Basic copper

Basic copper incorporates core regulated products that, while an important part of the portfolio, 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 such as the copper voice input Unbundled Copper Low Frequency Service (UCLFS), Unbundled Copper Local Loop (UCLL), Sub Loop Unbundling (SLU), Sub Loop Extension Service (SLES) and Basic UBA (including broadband only naked Basic UBA connections).

Basic copper revenues are continuing to decline as retail service providers migrate end-users from Basic UBA broadband services to enhanced copper and Internet Protocol (IP) voice services.

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. At 30 June 2015, there were approximately 1,408,000 baseband copper lines[1], a decrease of 63,000 lines from 30 June 2014. This reduction was offset by the migration of connections to Chorus' other fixed line connection products. In particular, 'naked' connections (naked Basic UBA, naked Enhanced UBA and naked VDSL) grew by 42,000 lines. There continued to be a significant number of baseband copper lines that would typically have been disconnected but are currently being retained by end-users who have switched to a fibre connection because their retail service provider required the copper line for voice service delivery.

The number of unbundled exchanges grew from 189 to 214 over the year, while the number of unbundled lines declined to 126,000. The total comprised 123,000 UCLL lines and 3,000 SLU lines (offered in conjunction with Chorus' commercial Sub Loop Extension Service).

UCLL lines are currently charged at a geographically averaged price of $23.52. Prior to December 2014, the price was $19.08 for urban and $35.20 for non-urban lines following the Commission's re-benchmarking of UCLL pricing in December 2012. The pricing of these services is still subject to a final pricing review – see the *Regulation, legislation and litigation* section.

1 For reporting purposes, this total includes instances where UCLFS is combined with UBA connections. From 1 December 2014, the UBA Standard Terms Determination includes the UCLFS component. The price outcome is the same as if these connections were billed for naked UBA and zero for UCLFS/Baseband.

Basic UBA is a broadband service delivered on a 'best efforts' basis, typically using older generation technology. The number of Basic UBA connections declined to about 106,000 connections at 30 June 2015 as end-users transition to better broadband products.

UBA pricing reduced from $21.46 to $10.92 from 1 December 2014 as a result of the Commission's initial benchmarked price decision of 5 November 2013. The pricing of this service is still subject to a final cost modelled review by the Commission – see the *Regulation, legislation and litigation* section.

Enhanced copper

Enhanced copper includes copper based next generation regulated and commercial products that deliver higher speed capability, a better end-user experience and can assist the transition to fibre. It includes Enhanced UBA, VDSL, Baseband IP voice input service and High Speed Network Service (HSNS) Lite for business data on copper.

Chorus' enhanced copper revenue declined because UBA pricing reduced from $21.46 to $10.92 from 1 December 2014 applied to Enhanced UBA and VDSL connections.

Enhanced UBA connections were approximately 910,000 at 30 June 2015, an increase from 895,000 at 30 June 2014.

Uptake of VDSL has continued to increase significantly, up from 64,000 at 30 June 2014 to 116,000 by 30 June 2015. VDSL utilises existing copper based capability and can provide download speeds of about 20-50Mbps and upload speeds of up to 10Mbps, subject to an end-user's distance from the broadband equipment and line capability. About 60% of lines nationwide are able to support VDSL, including a growing number of rural users within the RBI rollout footprint.

'Data service over copper' connections reduced by 3,000 lines as retail service providers scrutinised input costs.

Baseband IP connections, used by retail service providers to deliver a voice over internet protocol service over copper, continued to grow but are not yet material. Baseband IP is currently available across about 10% of Chorus' lines.

Fibre

Fibre revenues are earned from 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 Access Service, which provide point to point networking solutions and can be used to deliver backhaul connections to mobile sites.

Fibre connections nationwide more than doubled during the year, increasing from 42,000 to 88,000 lines. This growth reflected new demand linked to the ongoing expansion of the UFB footprint and continued demand for new business and carrier connections via Chorus' existing fibre network. Chorus had approximately 68,000 fibre connections within the areas where it had deployed UFB communal network at 30 June 2015, up from 27,000 connections at 30 June 2014. This total includes a combination of residential UFB connections and new, or pre-UFB, business fibre connections within the areas where Chorus' UFB network was built.

About 75,000 of Chorus' fibre connections were mass market end-users (which includes UFB Bitstream 2 and 3 and education connections). UFB uptake has increased as the UFB coverage area has grown and fibre has become more mainstream. However, uptake varies widely from area to area, largely reflecting the degree of retail service provider focus on promoting fibre services in each area.

The majority of end-users are on entry level 30Mbps fibre products. During FY15 Chorus introduced new 100Mbps plans at a $40 wholesale price to help establish this speed as the entry level fibre wholesale product. Approximately 30% of Chorus' residential mass market connections are on speeds of 100Mbps or greater.

Direct Fibre Access Service connections were about 5,000 of total fibre connections at 30 June 2015. Bandwidth Fibre Access Service and HSNS Premium fibre connections (also referred to as Bitstream 4) accounted for the remaining 8,000 fibre connections. Demand for business fibre connections has been predominantly for higher grade HSNS Premium connections rather than Bitstream 3 services. This may change over time as the UFB network makes Bitstream 3 services more widely available and retail service providers start to introduce new fibre products based on the lower grade UFB inputs.

Value added network services

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

Revenue commentary (cont.)

Infrastructure

Infrastructure revenue relates to services that provide access to Chorus' network assets. 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.

Infrastructure revenue has increased due to strong growth in commercial co-location, which enables retail service providers to interconnect with Chorus' UFB footprint. The capacity for this product to grow much further is limited.

Field services

This category includes work performed by Chorus' service company technicians providing new services, chargeable cable location services, maintaining retail service provider networks and relocating or extending Chorus' network on request. As Chorus utilises service companies to perform field services work, there is a direct cost associated with all field services revenues recognised in the provisioning and network maintenance expense categories.

Provisioning revenues are generally based on orders for technicians to install services and are driven by the number and nature of 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. It is difficult to establish specific trends in this revenue category because it is dependent on third party demand or damages to Chorus' network by third parties. However the revenue associated with on-charging maintenance costs for work done on retail service provider networks has declined as they are choosing to do more of this work themselves.

Field Services revenues have increased year on year as a result of more up front charging being undertaken and the changed charging regime from December 2014, whereby UBA became the primary service and Chorus is able to recover more of its costs of installing services. Chorus is also recovering a greater proportion of its costs for greenfields and infill subdivisions.

Prior year field services revenues included connection charges for various products. UCLFS connection charges were reset so that they were the same (and backdated) as the benchmarked UCLL connection charges that were set in December 2012.

Other

Other income has consisted largely of revenue generated from the demerger transitional services agreements with Spark and has declined as several of these agreements expired at 30 June 2014. Chorus continues to provide certain services to Spark including billing and network management services which largely makes up the remainder of other revenues.

Approximately $2 million was received in FY14 for Christchurch earthquake related insurance proceeds.

Expenditure commentary

Operating expenses

	2015 $M	2014 $M
Labour costs	73	72
Provisioning	58	58
Network maintenance	91	99
Other network costs	34	38
Information technology costs	65	55
Rent and rates	14	12
Property maintenance	11	12
Electricity	14	13
Insurance	4	4
Consultants	3	4
Regulatory levies	15	10
Other	22	32
Total operating expenses	**404**	**409**

Operating expenditure has decreased by 1.2% relative to FY14. A tight focus on controlling costs and managing for cash throughout the year has seen decreases in many of the expense categories, partially offset by growth in labour, IT costs, electricity and regulatory levies. Maintenance costs have decreased due to favourable weather conditions and the deferral of all non-essential expenditure, while the IT cost increases reflect the costs of new stand-alone Chorus IT infrastructure and some duplication of costs as Chorus progressively exits Spark systems. Areas of significant change include:

Labour costs of $73 million for the year represent staff costs that are not capitalised. At 30 June 2015 Chorus had 842 permanent and fixed term employees. This was up from 823 employees at 30 June 2014. A further 33 people were employed in the customer services team to support continued growth in fibre provisioning and complex provisioning as the processes to provision these products are less mature and more manual in nature. The subdivision team was insourced during the year, while business restructuring as a result of the initiatives resulted in the number of roles across the rest of the business declining.

Provisioning costs are incurred where Chorus provides new or changed service to retail service providers. 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. While the volume of provisioning truck rolls has decreased year on year, the mix of products being purchased has changed and a Consumer Price Index price increase on the costs charged by service companies has resulted in higher costs for Chorus. The provisioning cost per truck roll for VDSL installations is greater, due to it being a more labour intensive product to provision, and strong uptake of VDSL has resulted in higher upfront costs which are recovered as revenue over time. Other provisioning costs are declining as the uptake of fibre increases.

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 costs associated with maintenance on retail service provider networks has fallen, by approximately $3 million, due to retail service providers choosing to maintain more of their own network themselves, with the associated revenue reduction. Chorus network maintenance costs are lower by approximately $5 million due to a number of initiatives to reduce overall costs, favourable weather conditions and some change in mix, with copper faults falling while fibre faults have increased slightly. The initiatives to reduce overall costs have included removing the proactive element that was a core part of certain fault fixes. Some initiatives, while saving cash in the short term, will result in more faults in the mid to long term.

Other network costs relate to costs associated with service partner contract costs, engineering services, project costs unable to be capitalised and the cost of network spares. Any costs which have been incurred for fibre orders that are subsequently cancelled are included in other network costs. As with other expense items, there has been a reduction in discretionary spend particularly associated with projects, engineering services, proactive maintenance and some service partner related costs (which has more than offset increasing costs of cancelled fibre orders).

Expenditure commentary (cont.)

Information technology costs of $65 million represent the costs paid directly by Chorus to third party vendors, as well as the operating expenditure component of systems which are shared with Spark. In late FY14 Chorus established a data centre, network operations centre, cloud based desktop system, information management system and enterprise resource planning system to enable the migration of some Spark systems to Chorus. FY15 includes a full year of the ongoing maintenance and support costs for these systems. The overall relative spend has increased reflecting the increased flexibility that has been built into a number of these systems (and advantages to flexible working that a cloud based desktop environment brings) as well as the costs associated with purchasing virtual servers and databases to support a smaller scale organisation. In addition to this the delay of the Spark separation programme has resulted in the duplication of some costs for longer than initially expected.

Rent and rates, property maintenance, electricity and insurance costs relate to the operation of Chorus' network estate (e.g. exchanges, radio sites and roadside cabinets). Rates are levied on network assets both above and below ground. Electricity is used to operate the network electronics and this is dependent on the number of sites, electricity consumption and electricity prices.

Rent and rates costs have increased during the period as the aerial deployment of UFB fibre resulted in increased pole rental costs and assets being deployed through the UFB rollout, with new UFB assets also being included in the rating calculations of local bodies.

Electricity costs have increased slightly on the previous year as a result of increased line charges and additional network related consumption. Chorus hedges its electricity usage to minimise volatility in electricity spot prices. About 50% of Chorus' requirements have been hedged with a rolling three year horizon.

Consultant costs have decreased during the current year as a number of projects have been deferred and discretionary consultant resource cost avoided. There has continued to be a significant amount of spend on the multiple streams of regulatory work through FY15.

Regulatory levies reflects the amount paid for the Telecommunications Development Levy and the Telecommunications Regulation Levy. The FY13 and FY14 levies were finalised during FY15. The expense for the current year reflects the FY15 accrual as well as a catch up for the difference between the previous year accruals and the final actual costs.

'Other' includes expenditure on general costs such as advertising, telecommunications, travel, training and legal fees. The largest reduction in other expenses relates to advertising following the conclusion of Chorus' Gigatown campaign. Tight cost control on discretionary spend has resulted in a decrease in all other costs.

Depreciation and amortisation

	2015 $M	2014 $M	ESTIMATED USEFUL LIFE (YEARS)	WEIGHTED AVERAGE USEFUL LIFE (YEARS)
Depreciation:				
Copper cables	58	63	10–30	22
Fibre cables	50	38	20	20
Ducts and manholes	31	22	50	50
Cabinets	36	35	5–14	10
Property	17	16	5–50	16
Network electronics	78	87	2–15	8
Other	1	6	2–10	6
Less: Crown funding	(12)	(8)		
Total depreciation	**259**	**259**		
Amortisation:				
Software	65	63	2–8	5
Other intangibles	-	-	6–20	20
Total amortisation	**65**	**63**		

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

During the year ended 30 June 2015 $597 million of network assets and software were capitalised. The 'UFB communal' and 'UFB connections and fibre layer 2' included in 'fibre' capital expenditure was largely capitalised against the network assets categories of fibre cables (28%) and ducts and manholes (71%). The average depreciation rate for UFB communal infrastructure spend is currently 36 years, reflecting the very high proportion of long life assets being constructed, with ducts and manholes having a depreciation rate of 50 years.

Software and other intangibles largely consist of the software components of billing, provisioning and operational systems, including Chorus spend on Spark-owned systems. A total of $86 million of software was capitalised during the year, which will be amortised over an average of five years.

Chorus' depreciation profile is expected to continue to change, reflecting the greater mix of longer dated assets for the UFB and RBI rollouts. The amortisation of Crown funding against depreciation is expected to continue to increase over time as the amount of funding received from the Crown accumulates, with the associated amortisation to depreciation increasing accordingly.

Net finance expense

	2015 $M	2014 $M
Finance income	**(8)**	**(8)**
Finance expense		
Interest on syndicated bank facility	68	64
Interest on EMTN	53	49
Ineffective portion of change in fair value of cash flow hedge	19	-
Other interest expense	19	20
Capitalised interest	(6)	(7)
Total finance expenses excluding CFH Securities	**153**	**126**
CFH securities (notional interest)	6	3
Total finance expense	**159**	**129**

Interest costs increased in FY15 largely reflecting the increased weighted effective interest rate on debt (6.9% in FY15 compared to 6.3% in FY14). Slightly offsetting this was lower average debt through the period.

The weighted effective interest rate on debt has increased due to Moody's Investor Services rating downgrade (as a consequence of the Commission's initial benchmarked UBA decision) and the impact of the December 2013 reset of interest rate swaps (with a face value of $676 million and fair value of $31 million) to the prevailing market interest rates (4.89% compared to 3.99% prior to the transaction). These transactions realised $30 million of cash and generated a finance expense of $1 million, being the difference between the fair value of the swaps and the proceeds realised. The reset swaps hedge the same underlying exposure and risk profile but at a higher effective borrowing cost.

The Euro Medium Term Notes (EMTN) hedging relationship was reset with a fair value of $49 million on 9 December 2013 following the close out of the interest rate swaps relating to the EMTN. During the current year, ineffectiveness of $19 million (30 June 2014: no ineffectiveness) flowed through interest expense. A further $30 million remains in the hedge reserve and will flow as ineffectiveness to interest expense in the income statement at some time over the life of the derivatives. It will be a non-cash charge. Neither the direction, nor the rate of the impact on the income statement can be predicted

Other interest expense includes finance lease interest of $13 million (30 June 2014: $13 million), $2 million (30 June 2014: nil) of costs relating to the financing tax payments through Tax Management New Zealand (TMNZ) and $3 million amortisation (30 June 2014: $2 million) arising from the difference between fair value and proceeds realised from the interest rate swap reset.

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 EMTN with cross currency interest rate swaps. The floating interest on these derivatives has been 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 2015, approximately 51% (30 June 2014: 68%) of the outstanding debt obligation was fixed through derivative or fixed rate debt arrangements, with a further 15% of the outstanding debt obligation being fixed in August 2015.

Taxation

The 2015 effective tax rate of 28% equates to the statutory rate of 28%. There are no material permanent differences between net earnings before income tax and what is, or will be, taxable for the year to 30 June 2015.

Payments of provisional tax will continue to be paid via a tax financing arrangement with TMNZ as required. This means that Chorus notifies TMNZ that they wish to make 'payment' via tax financing, and TMNZ then arranges for a payment to the Inland Revenue Department on Chorus' behalf. This effectively results in a delayed cash flow for Chorus.

Capital expenditure commentary

	2015 $M	2014 $M
Fibre	504	566
Copper	60	61
Common	33	52
Gross capital expenditure	**597**	**679**

Gross capital expenditure for the year to 30 June 2015 was $597 million. This was below the guidance range of $625 million to $650 million (updated in February 2015 as a result of revised connection capex estimates) and reflects ongoing restrictions on discretionary spending as a result of delays in the regulatory final cost modelled pricing process, slightly less than the February estimated fibre connections combined with lower than expected demand for 'backbone' network spend in multi-dwelling and rights of way premises.

Fibre capital expenditure

	2015 $M	2014 $M
UFB communal	236	338
UFB connections and fibre layer 2	140	74
Fibre products and systems	26	38
Other fibre connections and growth	63	63
RBI	39	53
Total fibre capital expenditure	**504**	**566**

Fibre capital expenditure includes spend specifically focussed on fibre assets (layer 0 and layer 1 UFB network assets), spend to support the fibre network (IT delivering fibre products) and programmes largely focussed on fibre (UFB and RBI). Fibre capital expenditure represents about 85% of Chorus' gross capital expenditure spend, mainly for the UFB and RBI programmes.

UFB communal network deployment continued at full pace with build work completed for about 368,000 premises at 30 June 2015. This represented the addition of 107,000 premises with build complete during the year, or 1,000 premises ahead of target. There were 495,000 end-users able to be connected to the UFB network.

The cost of the deployment of UFB communal network for the year was $236 million. This included $44 million spent on work in progress for communal network scheduled to be completed in the following year, slightly higher than the $42 million in the previous year.

The average cost per premises passed was $2,134 for UFB premises during the year ended 30 June 2015. This was below Chorus' guidance of an average cost of $2,150 to $2,400 for the year and is a consequence of the build programme shifting from more expensive central business district areas into residential areas, aerial deployment options becoming available (subject to access conditions) and the fixed price deployment contracts entered into with service companies in the middle of this financial year. These new fixed price deployment contracts with Visionstream and Downer (responsible for approximately 90% of Chorus' UFB build areas) provide additional certainty on deployment costs through the remainder of the UFB deployment period. This enabled Chorus to narrow its previous communal guidance for the UFB rollout from $1.7 – $1.9 billion to $1.75 – $1.8 billion.

UFB connections and layer 2 spend increased from $74 million at 30 June 2014 to $140 million for this year as the volume of fibre connections continued to grow in line with Chorus' expanding UFB footprint and increasing uptake. Layer 2 equipment, such as Gigabit capable passive optical network ports and splitters, was installed ahead of demand as the UFB footprint grew.

Installation processes and close co-ordination with retail service providers remain key areas of focus as Chorus continues to establish a sustainable framework for UFB connections, particularly in the context of variable regional demand. At 30 June, Chorus had about 68,000 connections within the areas where it had deployed UFB. This represents about 6% of end-users within the Chorus planned UFB footprint by 2020.

The average cost per premises connected for standard residential premises and some non-standard single dwelling unit installations was $1,233, excluding the long run average cost of layer 2 equipment. This was within the expected range of $1,150 to $1,350 advised in November following new service company agreements that provide for fixed pricing, varying according to specified deployment types.

There is no change to Chorus' 2011 total UFB programme view of an average cost of $900 – $1,100 real (circa $1,000 – $1,200 in 2015 dollars) average cost to connect standard residential end-user premises, inclusive of the long run average cost of layer 2 equipment.

A significant proportion of the UFB connections spend to 30 June 2015 was incurred in providing 'backbone' network to enable the connection of end-users located along rights of way or in multi-dwelling units. This spend represents upfront investment as it ultimately enables multiple end-users in a building, or along a right of way, to connect to UFB.

Chorus is able to recover some connection costs in instances where the connection is 'non-standard' as defined by the UFB contract with CFH. In November 2012 Chorus made $20 million of funding available to encourage fibre uptake with free installation for some non-standard residential connections. This was increased to $28 million as part of a March 2014 package of improvements to the UFB initiative agreed with CFH. The period over which this funding will be available will depend on the volume and type of non-standard installations encountered. In Chorus' assessment, with growing fibre uptake plus increasing deployment in rights of way and multi-dwelling units, Chorus' non-standard installation fund is likely to expire at some point in 2016. Chorus and CFH are currently discussing opportunities to potentially extend the fund's life as well as its optimal future scope.

Fibre products and systems spend reduced to $26 million as Chorus concluded its major investment programme in fibre inventory systems to improve the ordering and provisioning process for fibre connections.

Capital expenditure of $63 million on other fibre connections and growth reflected demand for fibre connections in areas where UFB has not yet been deployed, new 'greenfield' fibre subdivisions, fibre lifecycle investment and regional backhaul connections for retail service provider data traffic. Business and residential demand for new network has been affected by Chorus' cost recovery approach while it awaits the outcome of the regulatory final cost modelled pricing review process.

Spend for the RBI rollout continued to reduce as the programme nears its conclusion in FY16. Chorus' part in the initiative is delivering ahead of expectations with broadband uptake of about 85% and the total programme cost tracking towards the lower end of the $280 – $295 million range at 30 June 2015. Chorus expects to receive approximately $236 million in Government grant funding for the rollout (see the *Contributions to capital expenditure* section below).

Copper capital expenditure

	2015 $M	2014 $M
Network sustain	34	35
Copper connections	11	15
Copper layer 2	11	10
Product fixed	4	1
Total copper capital expenditure	**60**	**61**

Copper capital expenditure was $60 million for the year, with the slight decrease reflecting Chorus' continuing focus on cash management due to the prevailing regulatory uncertainty.

Network sustain expenditure 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 end-users and network replacement is deemed more cost effective than reactive maintenance. Requests to shift network for roadworks purposes continued to increase but the cost is largely recovered in '*Crown Funding – other*'.

Capital expenditure on copper connections occurs where there is demand for copper connections for residential or business end-users, such as infill housing or new buildings. Demand for copper connections decreased during the period. This is attributed to the combined effect of some 'new' demand shifting to the UFB network and the dampening of demand because of Chorus' current policy of cost recovery for new connections.

Copper layer 2 reflects investment in network electronics and equipment as a consequence of demand for broadband capacity and growth. This increased slightly as a result of increased bandwidth demand, driven by growing online video consumption, necessitating Chorus' investment in enhanced capacity at a small number of network locations. Capital expenditure on 'Product fixed' also increased as Chorus developed new commercial products, such as Boost VDSL.

Capital expenditure commentary (cont.)

Common capital expenditure

	2015 $M	2014 $M
Information technology	19	35
Building and engineering services	13	12
Other	1	5
Total common capital expenditure	**33**	**52**

Common capital expenditure was $33 million. This was a significant reduction from $52 million in the prior year because of the deferral of further information technology projects to separate Chorus' systems from Spark, pending the outcome of the regulatory pricing review, and completion of the standalone enterprise, business intelligence and desktop systems in 2014.

Building and engineering services reflects the capital spent on growth and plant replacement (e.g. power and air conditioning) at Chorus exchanges, buildings and remote sites. Discretionary investment was significantly reduced during the period, but this was offset by additional spending required for earthquake strengthening of buildings.

'Other' includes items such as office accommodation and equipment and the prior year included spend on post demerger accommodation requirements.

Contributions to capital expenditure

Chorus receives significant financing and contributions towards its gross capital expenditure each year. During the year to 30 June 2015, Chorus received contributions from the following sources:

i) **RBI funding:** The Crown is contributing grant funding of about $236 million (excluding school lead-in contributions) towards Chorus' layer 0 and layer 1 capital spend over the five-year rollout. The grant is payable on completion of build work and varies each year subject to the agreed build programme and the grantable network that is built. For the year ended 30 June 2015 $22 million was recognised.

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 $5 million was recognised in the current year and is included as part of Crown funding given its modest size.

Long term capital management

Chorus' principal sources of liquidity are operating cash flows, external borrowing from established debt programmes such as the EMTN and bank facilities and Crown funding for the UFB build as UFB milestones are completed. It also receives grants from the Crown in relation to its RBI build programme.

The Chorus Board's broader capital management objectives include maintaining an investment grade credit rating with headroom. In the longer term, the Board continues to consider a 'BBB' rating appropriate for a business like Chorus.

Chorus indicated in February 2015 that capital management initiatives would form part of Chorus' approach to addressing the very material reduction in revenues resulting from implementation of the Commission's initial pricing principle decision from 1 December 2014. This has involved withdrawal of dividend guidance, changes to the CFH funding arrangements and committed bank facilities. Due to the delays in the Commission processes these initiatives are still required.

At 30 June 2015, Chorus had a long term credit rating of BBB/stable outlook by Standard & Poor's (30 June 2014: BBB/negative) and Baa3/stable by Moody's Investors Service (30 June 2014: Baa3/negative).

Regulation, legislation and litigation

Significant developments in Chorus' regulatory environment during the year are set out below. This should be read in conjunction with previous disclosures which are available online at: **www.chorus.co.nz/investor-centre.**

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.

Chorus submitted a transition plan to the Minister for Communications in late 2012 relating to the actions required to move to ending the sharing arrangements between Spark and Chorus, as required by the Deeds. Chorus provides annual updates to the plan, the most recent was provided in late 2014.

Telecommunications Services Obligations and Levies

The Telecommunications Services Obligations (TSO) is the regulatory mechanism by which universal service obligations for residential, local access and calling services are imposed and administered. Chorus is required to maintain lines and coverage obligations, and provide a voice input service. On 9 July 2013, the Government issued a discussion document on the TSO, as part of a scheduled review and Chorus made submissions. The timing for a formal update on the review from Government is unknown and there is no guarantee or certainty of the outcome.

The Telecommunications Development Levy (TDL) is an industry levy of $50 million per year from FY10 and initially scheduled to reduce to $10 million each year from FY16. In May 2015, the Government extended the TDL so that the levy will continue to be $50 million per year until FY19, reducing to $10 million each year thereafter, as part of its RBI extension policy. On 22 December 2014, the Commission determined that Chorus was liable for $11.5 million of the TDL for FY14.

Chorus is also required to contribute towards the Commission's costs through a Telecommunications Regulatory Levy (TRL). Chorus was determined to be liable for $1.1 million of the TRL for FY14.

UCLL and SLU pricing

The terms, including price, for UCLL and SLU are currently regulated by the Commission. On 3 December 2012, the Commission issued a final decision on its benchmarking review of the price Chorus can charge for UCLL. The final averaged UCLL price of $23.52 represented a 3.8% reduction. The UCLL price is linked to a number of other Chorus services, meaning that the UCLFS and SLU prices, and some UBA prices, were impacted by the decision.

Chorus applied to the Commission to review the UCLL price, using a final pricing principle of Total Service Long Run Incremental Cost (TSLRIC). The application was made on the basis that Chorus considered that the initial price set by the Commission by reference to benchmarking underestimates the TSLRIC of providing the UCLL in New Zealand. Spark, Vodafone, CallPlus and Kordia also made final pricing principle applications. In December 2014, the Commission issued a draft determination, with a proposed UCLL price of $28.22 and SLU price of $14.45. In July 2015, the Commission released a further draft determination, which proposed a glide path for pricing over a five-year period, which would be the equivalent of a constant price for UCLL of $27.59 and SLU of $10.84. The Commission expects to complete the final pricing principle process in December 2015.

Unbundled Copper Low Frequency Service

To meet TSO requirements, Chorus has made a technology neutral voice input service, baseband, available on a commercial basis. The pricing of a subset of this service, UCLFS (a voice input service offered over the copper access network), is set at the averaged UCLL price as determined by the Commission. Because the UCLFS price is linked to the UCLL price, a new UCLFS price of $23.52 per month applied from 3 December 2012 (previously $24.46 per month). Any change to the UCLL price as a result of the final pricing principle process should flow through to the UCLFS price. The UCLFS price flows contractually to the baseband price. As noted above, the Commission expects to complete its reviews by December 2015.

Regulation, legislation and litigation (cont.)

UBA pricing

The terms, including price, for UBA are currently regulated by the Commission. On 5 November 2013, the Commission issued an initial benchmarked decision on UBA pricing for a reduction in price from $21.46 to $10.92 per month based on benchmarking of pricing in two countries. The Commission's initial benchmarked price of $10.92 applied from 1 December 2014.

Chorus applied to the Commission to review the UBA price, using a final pricing principle of TSLRIC. The application was made on the basis that Chorus considered that the initial price set by the Commission by reference to benchmarking underestimates the TSLRIC of providing UBA in New Zealand. Spark, Vodafone, CallPlus and Orcon also made final pricing principle applications. In December 2014, the Commission issued a draft determination, with a proposed UBA price of $10.17. In July 2015, the Commission released a further draft determination, which proposed a glide path for pricing over a five-year period, which would be the equivalent of a constant UBA price of $10.84. The Commission expects to complete the final pricing principle process in December 2015.

In parallel with the Commission's review process, Chorus asked the High Court to determine whether the Commission was correct in law to rely on pricing from two countries when setting the initial UBA price and whether s18(2A) of the Telecommunications Act was considered as intended. The High Court dismissed Chorus' appeal. Chorus appealed that decision to the Court of Appeal. The Court of Appeal dismissed Chorus' appeal.

Commercial UBA variants

On 14 May 2014, Chorus announced that it proposed to launch two new commercial UBA variants – Boost HD and Boost VDSL – that would have provided a line speed commitment to end-users. In accordance with the requirements of the UBA Standard Terms Determination (STD), Chorus gave notice to the Commission of the proposed Boost services. The Commission initiated a process to assess whether the Boost services are, or should be, covered by the existing STD.

On 22 July 2014, the Commission announced that it had received a complaint that the changes Chorus proposed to make to the regulated UBA service in parallel to the Boost services were in breach of the STD. The Commission initiated an investigation. In October 2014, the Commission suspended the investigation following Chorus' announcement that it had put some proposals on hold. In April 2015, the Commission ended its investigation.

The Commission has not offered any final views on the interpretation of the UBA STD or on when and whether commercial services may be offered. A review of the non-price terms of the UBA STD is expected. The timing and scope of the review is uncertain.

Regulatory framework review

Under amendments made to the Telecommunications Act to facilitate Chorus' demerger, the Government is required to commence a review of the regulatory framework by 2016, with a particular focus on the framework to apply once the UFB build is complete in 2020.

On 8 February 2013 the Government announced that it was bringing forward the regulatory review and on 7 August 2013 it released a discussion paper proposing a phased approach – with an immediate focus on copper pricing. The Government has indicated its intention to continue the review and is currently expected to issue a discussion paper in 2015.

Consenting requirements

On 9 June 2015 the Government issued a discussion paper proposing a range of options for optimising the consent process for rights of way and multi-dwelling units. The timing and outcome of any consequential law changes is not known.

Other legislation

Chorus is subject to other legislative requirements such as the requirements of the Commerce Act 1986, Fair Trading Act 1986, as well as telecommunications codes.

Chorus is also subject to the Telecommunications (Interception Capability and Security) Act 2013 (TICSA), which replaces the Telecommunications (Interception Capability) Act 2004. The TICSA has reduced Chorus' obligations to provide lawful interception capability as Chorus is no longer required to pre-invest in lawful interception solutions for wholesale network services and infrastructure level services.

However, the TICSA introduced new obligations on network operators to prevent, sufficiently mitigate or remove network security risks arising from public telecommunications networks. Chorus, like other network operators, is obliged to engage with the Government Communications Security Bureau where it might affect New Zealand's national security and this has the potential to drive significant compliance costs.

Litigation

Chorus has ongoing claims, investigations and inquiries, none of which are currently 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 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.

Appendix one

Non statutory measure: adjusted EBITDA

This appendix provides a high level trend analysis of the adjusted EBITDA. It has been prepared on the basis of prevailing regulatory pricing. The initial benchmarked pricing changed on 1 December 2014 and for comparative purposes this appendix flows the pricing through both FY14 and FY15 as though the pricing had changed on 1 July 2013. In addition, FY14 has been adjusted for the non-recurring insurance proceeds and UCLFS backdating of transaction charges.

The commentary included here is for information purposes only. Appendix one has not been audited.

Summary

	ADJUSTED 2015 $M	ADJUSTED 2014 $M	%
Adjusted operating revenue	950	927	2.5
Operating expenses	(404)	(409)	(1.2)
Adjusted EBITDA	**546**	**518**	**5.4**

The table above shows comparable adjusted results for FY15 when compared to the adjusted results for FY14. The details of the items which have been adjusted will be discussed in further detail over the page. Adjusted FY15 has shown good revenue growth, with a slight reduction in expenses, resulting in a modest EBITDA increase. The result is underpinned by a comprehensive programme of revenue, operating expenses and capital expenditure initiatives.

Adjusted operating revenue

	ADJUSTED 2015 $M	ADJUSTED 2014 $M	%
Basic copper	482	512	(5.9)
Enhanced copper	217	183	18.6
Fibre	98	75	30.7
Value added network services	36	38	(5.3)
Infrastructure	21	19	10.5
Field services	88	87	1.1
Other	8	13	(38.5)
Total adjusted operating revenue	**950**	**927**	**2.5**

Once prevailing regulatory pricing is flowed through both periods under review the ongoing trend of a decline in basic copper revenue emerges. As with previous periods a certain amount of this decline relates to the continued migration from basic copper to enhanced copper. In addition, there has been a steady migration of end-users from copper to fibre services throughout the year.

There is now a price differential between basic copper (UBA) and VDSL / fibre, resulting in an uplift in average revenue per connection for all VDSL and fibre connections.

Field services revenue has been adjusted to reflect the impact of the changes in UBA transaction charges (effectively showing the change in the transaction charges as if they occurred on 1 July 2013) and the impact of backdating the UCLFS transaction charges in FY14. Excluding this, field services revenue has increased as a result of cost recovery initiatives for greenfields subdivisions.

All other revenue categories are unchanged, so no additional commentary is provided to that included in the main body of the management commentary.

Appendix one (cont.)

Adjustments to the results

Both the FY15 and FY14 results contain a number of balances that do not make them directly comparable in isolation. These adjusted balances have been removed from the balances described above so that a more direct comparison can be made. The adjustments made to the statutory balances are discussed below.

Adjusted FY15 results

	2015 $M	LESS: UBA AND UCLL PRICE CHANGE $M	ADD: UBA TRANSACTION CHARGES $M	ADJUSTED 2015 $M
Operating revenue	1,006	(60)	4	950
Operating expenses	(404)	-	-	(404)
EBITDA	**602**	**(60)**	**4**	**546**

Included in FY15 is the impact of the UBA and UCLL price change (flowing the impact of the price reduction through the first five months of the period) and reflecting the UBA transaction charges in the first five months of the period.

Adjusted FY14 results

	2014 $M	LESS: INSURANCE PROCEEDS $M	LESS: UBA AND UCLL PRICE CHANGE $M	ADD: UCLFS $M	ADD: UBA TRANSACTION CHARGES $M	ADJUSTED 2014 $M
Operating revenue	1,058	(2)	(141)	3	9	927
Operating expenses	(409)	-	-	-	-	(409)
EBITDA	**649**	**(2)**	**(141)**	**3**	**9**	**518**

FY14 has been adjusted to reflect the impact of the UBA and UCLL price change (flowing the impact of the price change through FY14) and reflecting the UBA transaction charges through the period. The backdating of the UCLFS price change and $2 million of insurance proceeds have been excluded from operating revenue.

The UCLFS monthly charge price change (which occurred during FY14) has flowed consistently through FY14 and FY15.

Financial Statements

CONTENTS

Independent auditor's report

TO THE SHAREHOLDERS OF CHORUS LIMITED

We have audited the accompanying consolidated financial statements of Chorus Limited and its subsidiary ("the group") on pages 31 to 60. The financial statements comprise the consolidated statement of financial position as at 30 June 2015, the consolidated income statement and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand, the New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements 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 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 consolidated 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 regulatory audit services, other assurance services and tax compliance services to the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 31 to 60 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of Chorus Limited as at 30 June 2015 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Carrying value of assets

We draw your attention to Pages 36 to 37 of the financial statements which explains that significant uncertainties exist in relation to future regulatory, legal and political outcomes that may impact the assessment of the carrying value of Chorus' assets. Our opinion is not qualified in respect of this matter.

KPMG

23 August 2015

Wellington

Income statement

FOR THE YEAR ENDED 30 JUNE 2015

(DOLLARS IN MILLIONS)	NOTES	2015 $M	2014 $M
Operating revenue	7	1,006	1,058
Operating expenses	8	(404)	(409)
Earnings before interest, income tax, depreciation and amortisation		**602**	**649**
Depreciation	1	(259)	(259)
Amortisation	2	(65)	(63)
Earnings before interest and income tax		**278**	**327**
Finance income		8	8
Finance expense	3	(159)	(129)
Net earnings before income tax		**127**	**206**
Income tax expense	12	(36)	(58)
Net earnings for the year		**91**	**148**
Earnings per share			
Basic earnings per share (dollars)	16	0.23	0.38
Diluted earnings per share (dollars)	16	0.19	0.31

Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2015

(DOLLARS IN MILLIONS)	NOTE	2015 $M	2014 $M
Net earnings for the year		**91**	**148**
Other comprehensive income			
Items that will be reclassified subsequently to income statement when specific conditions are met			
Ineffective portion of changes in fair value of cash flow hedges	15	14	-
Effective portion of changes in fair value of cash flow hedges	15	(16)	2
Amortisation of de-designated cash flow hedges transferred to income statement	15	(1)	(1)
Other comprehensive income net of tax		**(3)**	**1**
Total comprehensive income for the year net of tax		**88**	**149**

The accompanying notes are an integral part of these financial statements

Statement of financial position

AS AT 30 JUNE 2015

(DOLLARS IN MILLIONS)	NOTES	2015 $M	2014 $M
Current assets			
Cash and call deposits	13	80	176
Trade and other receivables	9	165	196
Derivative financial instruments	18	3	1
Finance lease receivable	14	3	3
Total current assets		**251**	**376**
Non-current assets			
Derivative financial instruments	18	14	3
Trade and other receivables	9	11	-
Software and other intangibles	2	159	174
Network assets	1	3,406	3,128
Total non-current assets		**3,590**	**3,305**
Total assets		**3,841**	**3,681**
Current liabilities			
Trade and other payables	10	315	323
Income tax payable	12	12	32
Derivative financial instruments	18	12	14
Total current liabilities excluding Crown funding		**339**	**369**
Current portion of Crown funding	5	13	11
Total current liabilities		**352**	**380**
Non-current liabilities			
Derivative financial instruments	18	61	123
Finance lease payable	14	130	126
Debt	3	1,663	1,639
Deferred tax payable	12	199	192
Total non-current liabilities excluding CFH securities and Crown funding		**2,053**	**2,080**
CFH securities	4	107	73
Crown funding	5	510	417
Total non-current liabilities		**2,670**	**2,570**
Total liabilities		**3,022**	**2,950**
Equity			
Share capital	15	465	465
Reserves	15	(3)	-
Retained earnings		357	266
Total equity		**819**	**731**
Total liabilities and equity		**3,841**	**3,681**

The accompanying notes are an integral part of these financial statements

On behalf of the Board

Jon Hartley, Interim chairman

Mark Ratcliffe, Managing Director

Authorised for issue on 23 August 2015

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2015

(DOLLARS IN MILLIONS)	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	CASH FLOW HEDGE RESERVE $M	TOTAL $M
Balance at 1 July 2013		**447**	**178**	**(1)**	**624**
Comprehensive income					
Net earnings for the year		-	148	-	148
Other comprehensive income					
Amortisation of de-designated cash flow hedges transferred to income statement	15	-	-	(1)	(1)
Effective portion of changes in fair value of cash flow hedges	15	-	-	2	2
Total comprehensive income		**-**	**148**	**1**	**149**
Contributions by and (distributions to) owners:					
Dividends	15	-	(60)	-	(60)
Supplementary dividends		-	(5)	-	(5)
Tax credit on supplementary dividends		-	5	-	5
Dividend reinvestment plan	15	18	-	-	18
Total transactions with owners		18	(60)	-	(42)
Balance at 30 June 2014		**465**	**266**	**-**	**731**
Comprehensive income					
Net earnings for the year		-	91	-	91
Other comprehensive income					
Ineffective portion of changes in fair value of cash flow hedges	15	-	-	14	14
Effective portion of changes in fair value of cash flow hedges	15	-	-	(16)	(16)
Amortisation of de-designated cash flow hedges transferred to income statement	15	-	-	(1)	(1)
Total comprehensive income		**-**	**91**	**(3)**	**88**
Balance at 30 June 2015		**465**	**357**	**(3)**	**819**

The accompanying notes are an integral part of these financial statements

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2015

(DOLLARS IN MILLIONS)	NOTES	2015 $M	2014 $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers		1,006	1,173
Finance income		4	5
Payment to suppliers and employees		(414)	(406)
Taxation paid	12	(48)	(30)
Interest paid		(132)	(120)
Net cash flows from operating activities		**416**	**622**
Cash flows applied to investing activities			
Cash was applied to:			
Purchase of network assets and software and intangible assets		(589)	(690)
Capitalised interest paid		(6)	(7)
Net cash flows applied to investing activities		**(595)**	**(697)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net proceeds from/(repayment of) finance leases		3	(3)
Crown funding (including CFH securities)		155	241
Proceeds from debt		63	450
Repayment of debt		(138)	(505)
Settlement of derivatives	18	-	30
Dividends paid		-	(42)
Net cash flows from financing activities		**83**	**171**
Net cash flow		**(96)**	**96**
Cash at the beginning of the year		176	80
Cash at the end of the year	13	**80**	**176**

The accompanying notes are an integral part of these financial statements

Statement of cash flows (cont.)

RECONCILIATION OF NET EARNINGS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

(DOLLARS IN MILLIONS)	2015 $M	2014 $M
Net earnings for the year	91	148
Adjustment for:		
Depreciation charged on network assets	271	267
Amortisation of Crown funding	(12)	(8)
Amortisation of software and other intangible assets	65	63
Deferred income tax	8	1
Ineffective portion of changes in fair value of cash flow hedges (pre-tax)	19	-
Other	2	8
	444	**479**
Change in current assets and liabilities:		
Change in trade and other receivables	(16)	92
Change in trade and other payables	8	24
Change in income tax (receivable)/payable	(20)	27
	(28)	**143**
Net cash flows from operating activities	**416**	**622**

The accompanying notes are an integral part of these financial statements

Notes to the financial statements

Reporting entity and statutory base

Chorus Limited is a profit-orientated company registered in New Zealand under the Companies Act 1993 and a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. 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), now known as Spark New Zealand Limited (Spark). 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 its ordinary shares quoted on the NZX main board equity security market (NZX Main Board) and on the Australian Stock Exchange (ASX). American Depositary Shares, each representing five ordinary shares (and evidenced by American Depositary Receipts), are not listed but are traded 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 subsidiaries (the Chorus Group, Group or Chorus).

Nature of operations

Chorus is New Zealand's largest fixed line communications infrastructure services provider. Chorus maintains and builds a network predominantly made up of local telephone exchanges, cabinets, copper and fibre cables.

Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the Financial Reporting Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and 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.

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.

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 subsidiaries 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.

Accounting policies

Accounting policies that summarise the measurement basis used and are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements. Certain comparative information has been reclassified to conform with the current year's presentation.

There are no new standards, amendments or interpretations that have been issued and effective, that are expected to have a significant impact on the Group.

Prior period reclassifications

On 1 July 2014 Chorus migrated its general ledger from Spark's shared SAP finance system to its own independent SAP finance system. As part of this migration the general ledger hierarchy was reviewed and certain expenditure items and assets were re-presented in the financial statements. Specifically for the year ended 30 June 2014 $7 million of labour recoveries were reclassified from other costs to labour costs and $8 million net book value of assets previously classified as network assets were reclassified to software and other intangibles.

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 regularly 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.

Network assets (note 1)

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.

The regulatory environment is currently having a significant impact on the operating environment of Chorus, including its future cash flows. The initial benchmarked price for the copper broadband service (UBA) is priced at a level substantially below previous pricing levels which came into effect from 1 December 2014. The initial benchmarked price for the unbundled copper local loop (UCLL) service are subject to final cost model processes. In addition to this the Government is expected to continue a review of the regulatory framework (regulatory review).

Continuing uncertainty in the existing copper regulatory regime and uncertainty on the regulatory environment post 2020 are causing challenges on the estimates of Chorus' future cash flows for a number of reasons. These include:

- Chorus has applied to the Commerce Commission (the Commission) for a final pricing principle review of its initial benchmarked 2013 UBA decision and initial benchmarked 2012 UCLL decision which means the Commission is undertaking cost modelling to determine the price of those new services rather than benchmarking prices against those in other countries. Two draft decisions have indicated the initial benchmarked prices were too low. A final decision is expected by December 2015. The outcome is unknown until that time;
- Chorus continues to develop options available to it, and within its own control, to mitigate the impact of the Commission's benchmarked pricing;
- Other regulatory processes under the existing framework may open and the outcomes or potential implications are unknown; and
- The potential regulatory framework for post 2020 will not be known specifically until after the conclusion of the regulatory review. The outcome and timing of this review is unknown.

While the Directors believe that the carrying value of Chorus' assets remain appropriate, adverse outcomes in relation to any of these uncertainties could have a significant impact on the carrying value of Chorus' assets.

CFH securities (note 4)

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

Crown funding (note 5)

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 14)

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.

Financial risk management (note 19)

Credit valuations have been adjusted to reflect credit risk as required by NZ IFRS 13: Fair Value Measurement. The effect of credit risk is quantified using an expected future exposure methodology where credit default swap prices are used to represent the probability of default.

Note 1 – Network assets

In the statement of financial position, network assets are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of additions to network assets and 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 annually and adjusted prospectively, if appropriate.

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

Copper cables	10-30 years
Fibre cables	20 years
Ducts and manholes	50 years
Cabinets	5-14 years
Property	5-50 years
Network electronics	2-15 years
Other	2-10 years

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

Any future adverse impacts arising when 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 1 – Network assets (cont.)

AS AT 30 JUNE 2015	COPPER CABLES $M	FIBRE CABLES $M	DUCTS AND MANHOLES $M	CABINETS $M	PROPERTY $M	NETWORK ELECTRONICS $M	OTHER $M	WORK IN PROGRESS $M	TOTAL $M
Cost									
Balance as at 1 July 2014	2,307	956	1,427	444	507	1,519	4	103	7,267
Additions	-	-	-	-	-	-	-	547	547
Other	-	-	-	-	-	-	-	2	2
Disposals	-	-	-	-	-	(1)	-	-	(1)
Transfers from work in progress	26	180	263	41	14	41	-	(565)	-
Balance as at 30 June 2015	2,333	1,136	1,690	485	521	1,559	4	87	7,815
Accumulated depreciation									
Balance as at 1 July 2014	(1,716)	(278)	(410)	(234)	(215)	(1,284)	(2)	-	(4,139)
Depreciation	(58)	(50)	(31)	(36)	(17)	(78)	(1)	-	(271)
Disposals	-	-	-	-	-	1	-	-	1
Balance as at 30 June 2015	(1,774)	(328)	(441)	(270)	(232)	(1,361)	(3)	-	(4,409)
Net carrying amount	**559**	**808**	**1,249**	**215**	**289**	**198**	**1**	**87**	**3,406**

AS AT 30 JUNE 2014	COPPER CABLES $M	FIBRE CABLES $M	DUCTS AND MANHOLES $M	CABINETS $M	PROPERTY $M	NETWORK ELECTRONICS $M	OTHER $M	WORK IN PROGRESS $M	TOTAL $M
Cost									
Balance as at 1 July 2013	2,258	758	1,174	420	530	1,502	15	95	6,752
Additions	-	-	-	-	-	-	-	607	607
Other	-	-	-	-	-	-	-	1	1
Disposals	-	(1)	-	-	(43)	(29)	(20)	-	(93)
Transfers	-	1	-	-	1	(2)	-	-	-
Transfers from work in progress	49	198	253	24	19	48	9	(600)	-
Balance as at 30 June 2014	2,307	956	1,427	444	507	1,519	4	103	7,267
Accumulated depreciation									
Balance as at 1 July 2013	(1,653)	(240)	(388)	(199)	(242)	(1,226)	(16)	-	(3,964)
Depreciation	(63)	(38)	(22)	(35)	(16)	(87)	(6)	-	(267)
Disposals	-	-	-	-	43	29	20	-	92
Balance as at 30 June 2014	(1,716)	(278)	(410)	(234)	(215)	(1,284)	(2)	-	(4,139)
Net carrying amount	**591**	**678**	**1,017**	**210**	**292**	**235**	**2**	**103**	**3,128**

Note 1 – Network assets (cont.)

There are no restrictions on Chorus network assets or any network assets pledged as securities for liabilities. At 30 June 2015 the contractual commitment for acquisition and construction of network assets was $448 million (30 June 2014: $17 million).

Depreciation

	2015 $M	2014 $M
Depreciation charged on network assets	271	267
Less: Crown funding – Ultra-Fast Broadband	(6)	(3)
Crown funding – Rural Broadband Initiative	(4)	(3)
Crown funding – Other	(2)	(2)
Total depreciation	**259**	**259**

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. The contract for Ultra-Fast Broadband is agreed between the Parent and Crown Fibre Holdings. The Parent receives the Crown funding directly, however the construction of the network assets is carried out by Chorus New Zealand Limited (subsidiary). Funding is offset against depreciation over the life of the assets the funding is used to construct.

Refer to note 5 for information on Crown funding.

Property Exchanges

Chorus has leased property exchange space owned by Spark subject to finance lease arrangements. These have been included in Chorus' network assets under the property category. As at 30 June 2015 the property exchange assets capitalised under a finance lease had a cost of $157 million (30 June 2014: $157 million) together with accumulated depreciation of $16 million (30 June 2014: $12 million).

Network electronics

Chorus has joint arrangements for use of certain network electronics assets with Spark. The equipment used by Chorus is included in the network electronics category. As at 30 June 2015 the equipment capitalised had a cost of $16 million (30 June 2014: $16 million) together with accumulated depreciation of $14 million (30 June 2014: $12 million).

Impairment

The carrying amounts of non-financial assets including network assets, software and other intangibles are reviewed at the end of each reporting period for any indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised in earnings whenever the carrying amount of an asset exceeds its estimated recoverable amount. 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.

The recoverable amount is the greater of an asset's value in use and fair value less costs to sell. Chorus' assets do not generate independent cash flows and are therefore assessed from a single cash-generating unit perspective. In assessing the recoverable amount, the estimates of future cash flows are discounted to their net present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the business.

During the year ended 30 June 2015 there were no indicators of impairment so no additional work was performed. During the year ended 30 June 2014 there was an indicator of impairment and additional work was performed. No impairment losses were recognised on assets, software and other intangibles during the year ended 30 June 2014.

Capitalised interest

Finance costs are capitalised on qualifying items of network assets and software assets at an annualised rate of 6.50% (30 June 2014: 6.00%). Interest is capitalised over the period required to complete the assets and prepare them for their intended use. In the current year finance costs totalling $6 million (30 June 2014: $7 million) have been capitalised against network assets and software assets.

Note 2 – 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. For impairment policy and process refer to note 1.

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

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 2015 the contractual commitment for acquisition of software and other intangible assets was $4 million (30 June 2014: $11 million).

AS AT 30 JUNE 2015	SOFTWARE $M	OTHER INTANGIBLES $M	WORK IN PROGRESS $M	TOTAL $M
Cost				
Balance as at 1 July 2014	467	6	46	519
Additions	-	-	50	50
Transfers from work in progress	86	-	(86)	-
Balance as at 30 June 2015	**553**	**6**	**10**	**569**
Accumulated amortisation				
Balance as at 1 July 2014	(344)	(1)	-	(345)
Amortisation	(65)	-	-	(65)
Balance as at 30 June 2015	**(409)**	**(1)**	**-**	**(410)**
Net carrying amount	**144**	**5**	**10**	**159**

AS AT 30 JUNE 2014	SOFTWARE $M	OTHER INTANGIBLES $M	WORK IN PROGRESS $M	TOTAL $M
Cost				
Balance as at 1 July 2013	431	6	26	463
Additions	-	-	72	72
Other	5	-	-	5
Disposals	(21)	-	-	(21)
Transfers from work in progress	52	-	(52)	-
Balance as at 30 June 2014	**467**	**6**	**46**	**519**
Accumulated amortisation				
Balance as at 1 July 2013	(301)	(1)	-	(302)
Amortisation	(63)	-	-	(63)
Disposals	20	-	-	20
Balance as at 30 June 2014	**(344)**	**(1)**	**-**	**(345)**
Net carrying amount	**123**	**5**	**46**	**174**

Note 2 – Software and other intangibles (cont.)

Shared systems and other cost movement

Chorus shares a number of Information Technology (IT) systems with Spark, with some systems owned by Chorus and some owned by Spark. Due to the terms of the governance framework in place, these systems are deemed to be jointly controlled assets, as defined in NZ IFRS 11: Joint Arrangements. For assets that it does not own, Chorus recognises its share of the jointly controlled assets, as well as a liability for the future payments due, similar to a finance lease. For assets that it does own, Chorus derecognises the share of the asset used by Spark, as well as recognising a receivable for the future receipts due. The other cost movement in 2014 of $5 million relates to a reassessment of the extent of Spark's use of Chorus owned assets during the year. As at 30 June 2015 Chorus recognised jointly controlled system assets owned by Spark with a net book value in Chorus financial statements of $1 million (30 June 2014: $2 million).

Note 3 – Debt

Debt is included in non-current liabilities except for debt 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. Debt is subsequently measured at amortised cost using the effective interest method. The weighted effective interest rate on debt including the effect of derivative financial instruments was 6.90% (30 June 2014: 6.28%).

	DUE DATE	2015 $M	2014 $M
Syndicated bank facility A	Jul 2016	450	500
Syndicated bank facility B	Nov 2017	365	390
Syndicated bank facility	May 2019	250	250
Euro medium term notes	Apr 2020	603	504
Less: syndicated loans facility fee		(5)	(5)
		1,663	**1,639**
Current		-	-
Non-current		**1,663**	**1,639**

Syndicated bank facilities

As at 30 June 2015 Chorus had in place $1,500 million committed syndicated bank facilities on market standard terms and conditions (30 June 2014: $1,600 million). The amount of undrawn syndicated bank facilities that is available for future operating activities is $435 million (30 June 2014: $460 million). However, subject to an agreement with its bank lenders, Chorus has agreed, among other things, to limit total drawings across all committed bank facilities to $1.2 billion until outcomes from the Commission's final pricing principle process are known. This agreement means that there is $135 million available under bank facilities for immediate use.

The syndicated bank facilities are held with bank and institutional counterparties rated -A to AAA, based on rating agency Standard & Poor's ratings. In July 2014 Chorus extended the maturity of syndicated bank facility A from November 2015 to July 2016.

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

The carrying value of syndicated bank facilities approximates their fair value.

Euro Medium Term Notes (EMTN)

FACE VALUE	INTEREST RATE	2015 $M	2014 $M
GBP 260 million	6.75%	603	504

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 has been hedged using interest rate swaps.

The following table reconciles EMTN at hedged rates to EMTN at spot rates as reported under IFRS. EMTN at hedged rates is a non-GAAP measure and is not defined by NZ IFRS.

Note 3 – Debt (cont.)

	2015 $M	2014 $M
EMTN	603	504
Impact of hedged rates used	74	173
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 $690 million (30 June 2014: $552 million) compared to a carrying value of $603 million (30 June 2014: $504 million). This fair value has been determined using Level 2 of the fair value hierarchy as described in note 19.

Schedule of maturities

	2015 $M	2014 $M
Current	-	-
Due 1 to 2 years	450	500
Due 2 to 3 years	365	-
Due 3 to 4 years	250	390
Due 4 to 5 years	603	250
Due over 5 years	-	504
Total due after one year	**1,668**	**1,644**
Less: syndicated loans facility fee	(5)	(5)
	1,663	**1,639**

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. During the current year Chorus fully complied with the requirements set out in its financing agreements (30 June 2014: full compliance).

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

Refer to note 19 for information on financial risk management.

Finance expense

	2015 $M	2014 $M
Interest on syndicated bank facility	68	64
Interest on EMTN	53	49
Ineffective portion of changes in fair value of cash flow hedges (pre-tax)	19	-
Other interest expense	19	20
Capitalised interest	(6)	(7)
Total finance expense excluding CFH securities	**153**	**126**
CFH securities (notional interest)	6	3
Total finance expense	**159**	**129**

Other interest expense includes $13 million finance lease interest expense (30 June 2014: $13 million), $2 million of costs relating to the financing of tax payments through Tax Management New Zealand (TMNZ) (30 June 2014: nil) and $3 million (30 June 2014: $2 million) amortisation arising from the difference between fair value and proceeds realised from the swaps reset (refer to note 18).

The EMTN hedging relationship was reset with a fair value of $49 million on 9 December 2013 following the close out of the interest rate swaps relating to the EMTN. During the current year ineffectiveness of $19 million (30 June 2014: no ineffectiveness) flowed through interest expense. A further $30 million remains in the hedge reserve and will flow as ineffectiveness to interest expense in the income statement at some time over the life of the derivatives. It will be a non-cash charge. Neither the direction, nor the rate of the impact on the income statement can be predicted.

Note 4 – 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 $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 $1 and are issued on a 50:50 basis. For each premises passed, $559 of equity securities and $559 of debt securities are issued by Chorus for which Chorus receives $1,118 funding in return. CFH warrants are issued for nil value. The total committed funding available for Chorus over the period of UFB network construction is expected to be $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 $559 of equity securities and $559 of debt securities per premises passed by the effective interest rate based on market rates. The difference between funding received ($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 entitle 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%. CFH equity instruments can be settled by issuing Chorus shares valued at a 5% discount to the 20-day volume weighted average price for Chorus shares traded in ordinary trading on the NZX Main Board.

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.

CFH debt securities

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

The principal amount of CFH debt securities consists of a senior portion and a subordinated portion. The senior portion ranks equally with all other unsecured, unsubordinated creditors of Chorus, and has the benefit of any negative pledge covenant that may be contained in any of Chorus' debt arrangements. The subordinated portion ranks above ordinary shares of Chorus. The initial value of the senior portion is the present value (using a discount rate of 8.5%) of the sum repayable on the CFH debt securities, and the initial subordinated portion will be the difference between the issue price of the CFH debt security and the value of the senior portion.

CFH warrants

Chorus issues CFH warrants to CFH for 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 issue date period from June 2025 to June 2036.

At balance date Chorus had issued in total 10,987,036 warrants which had a fair value and carrying value that approximated zero (30 June 2014: 7,261,722 warrants issued). The number of premises with fibre connections made by 30 June 2020 impacts the number of warrants that could be exercised. Should the number of premises with fibre connections at 30 June 2020 exceed 20% then the number of warrants that would be able to be exercised is 4,722,349 (30 June 2014: 3,124,672).

Note 4 – CFH securities (cont.)

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

	2015			2014		
	CFH DEBT SECURITIES $M	CFH EQUITY SECURITIES $M	TOTAL CFH SECURITIES $M	CFH DEBT SECURITIES $M	CFH EQUITY SECURITIES $M	TOTAL CFH SECURITIES $M
Fair value on initial recognition:						
Balance as at 1 July	43	26	69	19	10	29
Additional securities recognised at fair value	17	11	28	24	16	40
Balance as at 30 June	60	37	97	43	26	69
Accumulated notional interest:						
Balance as at 1 July	3	1	4	1	-	1
Current year notional interest	3	3	6	2	1	3
Balance as at 30 June	6	4	10	3	1	4
Total CFH securities	**66**	**41**	**107**	**46**	**27**	**73**

Refer to note 21 for further information on these securities.

The fair value of CFH debt securities at balance date was $63 million (30 June 2014: $48 million) compared to a carrying value of $66 million (30 June 2014: $46 million). The fair value of CFH equity securities at balance date was $41 million (30 June 2014: $33 million) compared to a carrying value of $41 million (30 June 2014: $27 million). The fair value has been calculated using discount rates from market rates at balance date and using Level 2 of the fair value hierarchy as described in note 19.

Key assumptions

Although Chorus believes that the estimate of the liability components of the CFH securities on initial recognition is 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. As the number of CFH securities expected to be issued increases over time the potential impact of alternative methodologies and assumptions will become increasingly material. Key inputs and assumptions used in these calculations on initial recognition include:

Discount rate

On initial recognition, the discount rate between 8.86% to 11.61% (30 June 2014: 8.88% to 10.98%) for the CFH equity securities and 5.98% to 8.14% (30 June 2014: 6.18% to 7.65%) for the CFH debt securities used to discount the expected cash flows is based on long dated New Zealand 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 has 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 premises with 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:

	ACTUAL	ALTERNATIVE OUTCOME	IMPACT ON FINANCIAL STATEMENTS
CFH debt securities			Increase CFH debt securities liability by $11.0 million (30 June 2014: $8.0 million)
Fibre premises connection proportion	$\geq$ 20%	< 20%	Decrease Crown funding by $11.0 million (30 June 2014: $8.0 million)
CFH equity securities			Increase CFH equity securities liability by $11.0 million (30 June 2014: $8.5 million)
Fibre premises connection proportion	$\geq$ 20%	< 20%	Decrease Crown funding by $11.0 million (30 June 2014: $8.5 million)

Note 5 – Crown funding

Funding from the Crown is recognised at fair value where there is reasonable assurance that the funding is receivable and Chorus complies 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.

	2015				2014			
	UFB $M	RBI $M	OTHER $M	TOTAL $M	UFB $M	RBI $M	OTHER $M	TOTAL $M
Fair value on initial recognition:								
Balance as at 1 July	224	189	28	441	104	108	21	233
Additional funding recognised at fair value	80	22	5	107	120	81	7	208
Balance as at 30 June	304	211	33	548	224	189	28	441
Accumulated amortisation of funding:								
Balance as at 1 July	(4)	(4)	(5)	(13)	(1)	(1)	(3)	(5)
Current year amortisation	(6)	(4)	(2)	(12)	(3)	(3)	(2)	(8)
Balance as at 30 June	(10)	(8)	(7)	(25)	(4)	(4)	(5)	(13)
Total CFH securities	**294**	**203**	**26**	**523**	**220**	**185**	**23**	**428**
Current				**13**				**11**
Non-current				**510**				**417**

Ultra-Fast Broadband

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. During the year, Chorus has recognised funding for 92,189 premises passed (30 June 2014: 142,554) where user acceptance testing was complete at 30 June 2015. This brings the total premises passed at 30 June 2015 to approximately 353,000 (30 June 2014: 261,000).

Continued recognition of the full amount of the Crown funding is contingent on certain material performance targets being met by Chorus. The most significant of these material performance targets relate to the number of premises passed by fibre optic cables by key dates and compliance with certain specifications under user acceptance testing by CFH.

Rural Broadband Initiative

Chorus receives Crown funding from the Ministry of Business, Innovation and Employment (MBIE) for capital expenditure incurred under the Rural Broadband Initiative.

Chorus is entitled to claim payment for the grantable costs attributable for deploying the rural cabinets, links, schools, hospitals, health centres and mobile sites. The MBIE will pay Chorus one dollar of funding for each dollar of grantable costs incurred by Chorus up to a maximum funding limit of around $236 million. In addition the MBIE reimburses Chorus for all capital expenditure attributable to school lead-ins.

Other

Chorus receives funding towards the cost of relocation of communications equipment, school lead-ins and extending the network coverage to rural areas.

Note 6 – 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 and for which 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.

Two Chorus customers met the reporting threshold of 10 percent of Chorus' operating revenue in the year to 30 June 2015. The total revenue for the year ending 30 June 2015 from one customer was $641 million (30 June 2014: $775 million) and from the other customer was $164 million (30 June 2014: $125 million).

Note 7 – 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 its 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 is recognised upon completion of the installation or connection.

	2015 $M	2014 $M
Basic copper	491	543
Enhanced copper	268	293
Fibre	98	75
Value added network services	36	38
Infrastructure	21	19
Field services	84	75
Other	8	15
Total operating revenue	**1,006**	**1,058**

Note 8 – Operating expenses

	2015 $M	2014 $M
Labour costs	73	72
Provisioning	58	58
Network maintenance	91	99
Other network costs	34	38
Information technology costs	65	55
Rent and rates	14	12
Property maintenance	11	12
Electricity	14	13
Insurance	4	4
Consultants	3	4
Regulatory levies	15	10
Other	22	32
Total operating expenses	**404**	**409**

Labour costs

Labour costs of $73 million (30 June 2014: $72 million) represents employee costs related to non-capital expenditure.

Share based payments

In September 2013 Chorus implemented an employee equity building scheme to better align employee and shareholder interests. A total of 652 employees (30 June 2014: 622 employees) participated in the scheme. Under the scheme, 185,168 shares (30 June 2014: 106,984 shares) were purchased at an average price of $1.76 per share (30 June 2014: $2.90 per share). The shares are held by a trustee and vest to participating employees after a three year period. As at 30 June 2015 the scheme holds 268,968 shares on behalf of 704 members.

Note 8 – Operating expenses (cont.)

Pension contributions

Included in labour costs are payments to the New Zealand Government Superannuation Fund of $357,000 (30 June 2014: $369,000) and contributions to KiwiSaver of $2,180,000 (30 June 2014: $1,878,000). At 30 June 2015 there were 25 employees in the New Zealand Government Superannuation Fund (30 June 2014: 27 employees) and 720 employees in KiwiSaver (30 June 2014: 676 employees). Chorus has no other obligations to provide pension benefits in respect of employees.

Charitable and political donations

Other costs include charitable donations of $3,000 to Active Minds Aotearoa (30 June 2014: $25,000 to Wellington Free Ambulance). Chorus has not made any political donations (30 June 2014: nil).

Operating leases

Rent and rates costs include leasing and rental expenditure of $5 million for property, network infrastructure and items of equipment (30 June 2014: $5 million).

Auditor remuneration

Included in other expenses are fees paid to auditors:

	2015 $000's	2014 $000's
Audit and review of statutory financial statements	504	535
Regulatory audit and assurance work[1]	397	388
Tax compliance services	3	36
Other assurance services[2]	3	3
Other services[3]	-	29
Total other services	**403**	**456**
Total fees paid to the auditor	**907**	**991**

1 Includes the audit of Information Disclosure Determination, Telecommunications Services Obligations and Telecommunications Development Levy.

2 Relates to attendance at the Annual General Meeting.

3 Primarily relates to accounting advice relating to financial instrument disclosure.

Note 9 – 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.

	2015 $M	2014 $M
Trade receivables	120	130
Other receivables	35	56
	155	**186**
Prepayments	21	10
Trade and other receivables	**176**	**196**
Current	**165**	**196**
Non-current	**11**	**-**

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

Chorus maintains a provision for impairment losses when there is objective evidence of its customers being unable to make required payments and makes provision for doubtful debt where debt is more than 90 days overdue. There have been no significant individual impairment amounts recognised as an expense. Trade receivables are net of allowances for disputed balances with customers.

Note 9 – Trade and other receivables (cont.)

The ageing profile of trade receivables as at 30 June 2015 is as follows:

	2015 $M	2014 $M
Not past due	106	112
Past due 1-30 days	10	11
Past due 31-60 days	4	3
Past due 61-90 days	-	4
Past due over 90 days	-	-
	120	**130**

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 a 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 $14 million of accounts receivable that are past due but not impaired (30 June 2014: $18 million). 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 10 – 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.

	2015 $M	2014 $M
Trade payables	104	119
Joint arrangements	1	4
Accruals	143	148
Personnel accrual	22	20
Revenue billed in advance	45	32
Trade and other payables	**315**	**323**
Current	**315**	**323**
Non-current	**-**	**-**

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 Spark are required for continued use by Chorus post demerger. The right to use these assets has been granted by Spark under joint arrangements over the life of the assets.

Note 11 – 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 complete by no later than 31 December 2019. In total it is expected that the communal infrastructure will pass an estimated 830,900 premises. Chorus has estimated that it will cost $1.75 – $1.8 billion to build the communal UFB network by the end of 2019.

Rural Broadband Initiative

As part of the Rural Broadband Initiative, Chorus is committed to deploying approximately 3,300 kilometres of fibre to connect approximately 1,000 schools, 53 rural hospitals and health centres. It will enable approximately 57% of rural users to access broadband speeds of at least 5Mbps.

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

Capital expenditure

Refer to note 1 and note 2 for details of capital expenditure commitments.

Lease commitments

Chorus has buildings, car parks and site licenses under operating lease arrangements. The future non-cancellable minimum operating lease commitment as at 30 June 2015 was $21 million (30 June 2014: $27 million). Refer to note 14 for further information on leases.

Note 12 – Taxation

Tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantively enacted at balance date and any adjustments to tax payable in respect of prior years. Tax expense is recognised in the income statement except when it relates to items recognised directly in the statement of comprehensive income, in which case the tax expense is recognised in the statement of comprehensive income.

Deferred tax expense is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent it is probable it will be utilised.

Current tax expense

	2015 $M	2014 $M
Recognised in income statement		
Net earnings before tax	**127**	**206**
Tax at 28%	(36)	(58)
Tax effect of adjustments		
Other non taxable items	(1)	(1)
Adjustments in respect of prior periods	1	1
Tax expense reported in income statement	**(36)**	**(58)**
Comprising:		
Current tax expense	(28)	(57)
Deferred tax expense	(8)	(1)
	(36)	**(58)**
Recognised in other comprehensive income		
Net movement in cash flow hedge reserve (pre-tax)	4	(3)
Tax at 28%	1	(1)
Tax expense reported in other comprehensive income	**1**	(1)
Comprising:		
Current tax expense	-	-
Deferred tax expense	1	(1)
	1	**(1)**

Note 12 – Taxation (cont.)

Current tax payable

	2015 $M	2014 $M
Balance as at 1 July 2014	32	5
Tax liability for the year	28	57
Tax paid	(48)	(30)
Balance as at 30 June 2015	**12**	**32**

For the year ended 30 June 2015 the effective tax rate of 28% equates to the statutory rate (30 June 2014: 28%).

The balance of the 2014 tax financed through TMNZ was settled on 4 June 2015 and is reflected in the tax paid above. The first payment of provisional tax for the 2015 tax year was financed through TMNZ, deferring the cash outflow until 6 June 2016. The second instalment of provisional tax for 2015 was paid directly to the Inland Revenue Department and is reflected in tax paid above.

Deferred tax

(ASSETS)/LIABILITIES	FAIR VALUE PORTION OF DERIVATIVES $M	EMTN DEBT SECURITIES $M	CHANGES IN FAIR VALUE OF CASH FLOW HEDGES $M	NETWORK ASSETS, SOFTWARE AND OTHER INTANGIBLES $M	FINANCE LEASES $M	OTHER $M	TOTAL $M
Balance at 1 July 2013	-	16	-	217	(35)	(8)	190
Recognised in the income statement	(6)	-	-	4	-	3	1
Recognised in other comprehensive income	-	-	1	-	-	-	1
Balance as at 30 June 2014	(6)	16	1	221	(35)	(5)	192
Recognised in the income statement	-	-	-	6	-	2	8
Recognised in other comprehensive income	-	-	(1)	-	-	-	(1)
Balance as at 30 June 2015	**(6)**	**16**	**-**	**227**	**(35)**	**(3)**	**199**

Imputation credits

There are $120 million (30 June 2014: $88 million) of imputation credits available for subsequent reporting periods. The imputation credit balance represents the balance of the imputation credit account at the end of the reporting year, adjusted for imputation credits that will arise from the payment of provisional tax relating to the year ended 30 June 2015.

Note 13 – Cash and call deposits

Cash and call deposits are held with bank 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 and call deposits denominated in foreign currencies are 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 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 14 – 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

	2015 $M	2014 $M
Assets/(liabilities)		
Expected future lease payments:		
Less than one year	(8)	(8)
Between one and five years	(31)	(32)
More than five years	(372)	(379)
Total expected future lease payments	**(411)**	**(419)**
Less: future finance charges	284	296
Present value of expected future lease payments	**(127)**	**(123)**
Present value of expected future lease payments payable:		
Less than one year	3	3
Between one and five years	16	15
More than five years	(146)	(141)
Total present value of expected future lease payments	**(127)**	**(123)**
Classified as:		
Current asset – finance lease receivable	3	3
Non-current liability – finance lease payable	(130)	(126)
Total	**(127)**	**(123)**

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

Note 14 – Leases (cont.)

Property exchanges

Chorus has leased exchange space and commercial co-location space owned by Spark which is subject to finance lease arrangements. Chorus in turn leases exchange space and commercial co-location space owned by Chorus to Spark under a finance lease arrangement. The term of the lease where Chorus is lessee is for ten years with multiple rights of renewal for a further twenty five years. The term of the lease where Chorus is lessor is for three years with two rights of renewal for a further three years each. The full term has been used in the calculation of finance lease payables and receivables as it is likely due to the specialised nature of the buildings that the leases will be renewed to the maximum term. 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

	2015 $M	2014 $M
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	5	6
Between one and five years	11	15
More than five years	5	6
Total	**21**	**27**

Chorus has entered into leasing arrangements for properties, network infrastructure 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 15 – Equity

Share capital

Movements in Chorus Limited's issued ordinary shares were as follows:

NUMBER OF SHARES (MILLIONS)	2015 M	2014 M
Balance 1 July	396	389
Dividend reinvestment plan	-	7
Balance at 30 June	**396**	**396**

Chorus Limited has 396,369,767 fully paid ordinary shares (30 June 2014: 396,369,767 fully paid ordinary shares). The issued shares have no par value. 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 Limited. Under Chorus Limited's constitution, Crown approval is required if a shareholder wishes to have a holding of 10% or more of Chorus Limited's 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 Limited has a Dividend Reinvestment Plan where eligible shareholders (those resident in New Zealand or Australia) can choose to have Chorus Limited reinvest all or part of their future dividends in additional Chorus Limited shares. For the year ended 30 June 2014, 7,070,718 shares with a total value of $18 million were issued in lieu of dividends. The Dividend Reinvestment Plan is currently suspended.

Chorus Limited 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 Limited ordinary shares but carry a preference on liquidation. Refer to note 4 for additional information on CFH securities.

Should Chorus Limited return capital to shareholders, any return of capital that arose on demerger from Telecom (now known as Spark) is expected to be taxable as Chorus Limited had zero available subscribed capital on demerger.

There were no dividends declared or paid by Chorus Limited during the year ended 30 June 2015. The 2013 final dividend of 15.5 cents per share, $60 million, was paid during the year ending 30 June 2014.

Note 15 – Equity (cont.)

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:

	2015 $M	2014 $M
Opening balance	-	1
Ineffective portion of changes in fair value of cash flow hedges	(14)	-
Effective portion of changes in fair value of cash flow hedges	16	(2)
Net amounts reclassified from cash flow hedge reserve to income statement	1	1
Closing balance	**3**	**-**

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

AS AT 30 JUNE 2015	WITHIN 1 YEAR $M	1-2 YEARS $M	2-3 YEARS $M	3-4 YEARS $M	4-5 YEARS $M	GREATER THAN 5 YEARS $M
Cross currency interest rate swaps	-	-	-	-	(13)	-
Interest rate swaps	-	1	-	3	32	-
Forward exchange contracts	-	-	-	-	-	-
Electricity contracts	1	-	-	-	-	-
	1	**1**	**-**	**3**	**19**	**-**

AS AT 30 JUNE 2014	WITHIN 1 YEAR $M	1-2 YEARS $M	2-3 YEARS $M	3-4 YEARS $M	4-5 YEARS $M	GREATER THAN 5 YEARS $M
Cross currency interest rate swaps	-	-	-	-	-	3
Interest rate swaps	-	-	(2)	-	-	6
Forward exchange contracts	-	-	-	-	-	-
Electricity contracts	-	-	-	-	-	-
	-	**-**	**(2)**	**-**	**-**	**9**

As at 30 June 2015 the cash flow reserve contained $21 million of non-cash amounts (30 June 2014: $7 million) and these have been excluded from the table above.

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 year (30 June 2014: nil).

Note 16 – Earnings per share

The calculation of basic earnings per share at 30 June 2015 is based on the net earnings for the year of $91 million (30 June 2014: $148 million), and a weighted average number of ordinary shares outstanding during the period of 396 million (30 June 2014: 394 million), calculated as follows:

	2015	2014
Basic earnings per share		
Net earnings attributable to ordinary shareholders ($ millions)	91	148
Denominator – weighted average number of ordinary shares (millions)	396	394
Basic earnings per share (dollars)	**0.23**	**0.38**
Diluted earnings per share		
Net earnings attributable to ordinary shareholders ($ millions)	91	148
Weighted average number of ordinary shares (millions)	396	394
Ordinary shares required to settle CFH equity securities (millions)	68	80
Ordinary shares required to settle CFH warrants (millions)	5	4
Denominator – diluted weighted average number of shares (millions)	469	478
Diluted earnings per share (dollars)	**0.19**	**0.31**

The number of ordinary shares that would have been required to settle all CFH equity securities and CFH warrants on issue at 30 June has been used for the purposes of the diluted earnings per share calculation.

Note 17 – 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 are in the ordinary course of business.

Key management personnel compensation

	2015 $000's	2014 $000's
Short term employee benefits	6,389	5,491
Post employment benefits	-	-
Termination benefits	-	-
Other long term benefits	331	316
Share based payments	-	-
	6,720	**5,807**

The table above includes remuneration of $887,474 (30 June 2014: $889,500) paid to directors for the year.

Note 18 – Derivative financial instruments

Chorus uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates, interest rates and the spot price of electricity. The use of hedging instruments is governed by the treasury policy approved by the Board. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value with an adjustment made for credit risk in accordance with NZ IFRS 13: Fair Value Measurement. 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.

During the year ended 30 June 2014 interest rate swaps with a face value of $676 million and fair value of $31 million were reset at the prevailing market interest rates. These transactions realised $30 million of cash and resulted in an $11 million gain being recorded in the cash flow hedge reserve to be amortised over the period to 2020. During the year ended 30 June 2015 amortisation of $4 million was recognised in finance income (30 June 2014: $3 million) and $3 million was recognised in finance expense (30 June 2014: $2 million). New swaps that hedge the same underlying exposure and risk profile were entered into on the same date, but at a higher effective borrowing cost (4.89% compared to 3.99% prior to the transaction).

Finance expense includes any ineffectiveness arising from the EMTN hedge relationship. Following the close out of the interest rate swaps relating to the EMTN the hedge relationship was reset on 9 December 2013 with a fair value of $49 million. As long as the hedge remains effective any future gains or losses will be processed though the hedge reserve, however the $49 million will flow as ineffectiveness to interest expense in the income statement at some time over the life of the derivatives. It will be a non-cash charge. Neither the direction, nor the rate of impact on the income statement can be predicted. For the year ended 30 June 2015 ineffectiveness of $19 million was recognised in the income statement (30 June 2014: no ineffectiveness).

	2015 $M	2014 $M
Current derivative assets		
Interest rate swaps	-	1
Cross currency interest rate swaps	3	-
	3	**1**
Non-current derivative assets		
Interest rate swaps	-	3
Cross currency interest rate swaps	14	-
	14	**3**
Current derivative liabilities		
Interest rate swaps	11	5
Cross currency interest rate swaps	-	8
Electricity contracts	1	1
	12	**14**
Non-current derivative liabilities		
Interest rate swaps	39	3
Cross currency interest rate swaps	22	120
	61	**123**

Note 18 – Derivative financial instruments (cont.)

The notional values of contract amounts outstanding are as follows:

	CURRENCY	MATURITY	2015 $M	2014 $M
Interest rate swaps	NZD	2015-2020	1,141	1,242
Forward exchange rate contracts	NZD:AUD	2015	-	2
	NZD:EUR	2015-2016	1	5
	NZD:USD	2015	1	-
Cross currency interest rate swaps	NZD:GBP	2020	677	677
Electricity contracts	NZD	2015-2018	8	5
			1,828	**1,931**

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 19 – 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 payables and certain other payables, syndicated bank facilities, EMTN, derivative financial instruments and CFH securities. Financial risk management for currency 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 financial 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 has issued GBP 260 million foreign currency debt in the form of EMTN. Chorus has in place cross currency interest rate swaps under which Chorus receives GBP 260 million principal and GBP fixed coupon payments for $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 2015, Chorus did not have any significant unhedged exposure to currency risk (30 June 2014: no significant unhedged exposure to currency risk). A 10% increase or decrease in the exchange rate, with all other variables held constant, has minimal impact on profit and equity reserves of Chorus.

Price risk

In the normal course of business, Chorus is exposed to a variety of financial risks which include the volatility in electricity prices. Chorus has entered into electricity swap contracts to reduce the exposure to electricity spot price movements. Chorus has designated the electricity contracts in cash flow hedge relationships.

A 10% increase or decrease in the spot price of electricity, with all other variables held constant, 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 facilities. Chorus aims to reduce the uncertainty of changes in interest rates 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 rate risk on the cross currency interest rate swaps has been hedged using interest rate swaps. The interest rate exposure on the syndicated banking facilities has been hedged up to $215 million with the remaining paying floating interest (30 June 2014: $565 million).

Note 19 – Financial risk management (cont.)

Interest rate repricing analysis

AS AT 30 JUNE 2015	WITHIN 1 YEAR $M	1-2 YEARS $M	2-3 YEARS $M	3-4 YEARS $M	4-5 YEARS $M	GREATER THAN 5 YEARS $M	TOTAL $M
Floating rate							
Cash and deposits	80	-	-	-	-	-	80
Debt	850	-	-	-	-	-	850
Fixed rate							
Debt (after hedging)	-	215	-	-	677	-	892
CFH securities	-	-	-	-	-	107	107
Finance lease (net settled)	(3)	(4)	(4)	(4)	(4)	146	127
	927	**211**	**(4)**	**(4)**	**673**	**253**	**2,056**

AS AT 30 JUNE 2014	WITHIN 1 YEAR $M	1-2 YEARS $M	2-3 YEARS $M	3-4 YEARS $M	4-5 YEARS $M	GREATER THAN 5 YEARS $M	TOTAL $M
Floating rate							
Cash and deposits	176	-	-	-	-	-	176
Debt	575	-	-	-	-	-	575
Fixed rate							
Joint arrangements	4	-	-	-	-	-	4
Debt (after hedging)	350	-	215	-	-	677	1,242
CFH securities	-	-	-	-	-	73	73
Finance lease (net settled)	(3)	(3)	(4)	(4)	(4)	141	123
	1,102	**(3)**	**211**	**(4)**	**(4)**	**891**	**2,193**

Sensitivity analysis

A change of 100 basis points in interest rates with all other variables held constant, would increase/(decrease) equity (after hedging) and earnings after tax by the amounts shown below:

	2015 PROFIT OR (LOSS) $M	2015 EQUITY $M	2014 PROFIT OR (LOSS) $M	2014 EQUITY $M
100 basis point increase	(5)	(6)	(3)	(7)
100 basis point decrease	5	5	3	7

Credit risk

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

Chorus has certain derivative transactions that are subject to bilateral credit support agreements that require Chorus or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2015 no collateral was posted.

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

	NOTES	2015 $M	2014 $M
Cash and call deposits	13	80	176
Trade and other receivables	9	155	186
Derivative financial instruments	18	17	4
Finance lease receivable	14	3	3
Maximum exposure to credit risk		**255**	**369**

Refer to individual notes for additional information on credit risk.

Note 19 – Financial risk management (cont.)

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:

AS AT 30 JUNE 2015	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOW $M	LESS THAN 1 YEAR $M	1-2 YEARS $M	2-3 YEARS $M	3-4 YEARS $M	4-5 YEARS $M	5+ YEARS $M
Non derivative financial liabilities								
Trade and other payables	248	248	248	-	-	-	-	-
Finance lease (net settled)	127	411	8	8	8	8	8	371
Debt	1,663	1,989	539	75	427	304	644	-
CFH securities	107	107	-	-	-	-	-	107
Derivative financial liabilities								
Interest rate swaps	50	54	14	15	11	8	6	-
Cross currency interest rate swaps								
Inflows	-	(318)	(16)	(16)	(16)	(16)	(254)	-
Outflows	22	375	18	18	18	19	302	-
Electricity contracts	1	6	3	2	1	-	-	-
Forward exchange contracts								
Inflows	-	(2)	(2)	-	-	-	-	-
Outflows	-	2	2	-	-	-	-	-

AS AT 30 JUNE 2014	CARRYING AMOUNT $M	CONTRACTUAL CASH FLOW $M	LESS THAN 1 YEAR $M	1-2 YEARS $M	2-3 YEARS $M	3-4 YEARS $M	4-5 YEARS $M	5+ YEARS $M
Non derivative financial liabilities								
Trade and other payables	271	271	271	-	-	-	-	-
Finance lease (net settled)	123	419	8	8	8	8	8	379
Debt	1,639	2,042	101	585	73	448	297	538
CFH securities	73	73	-	-	-	-	-	73
Derivative financial liabilities								
Interest rate swaps	8	1	10	2	(1)	(2)	(3)	(5)
Cross currency interest rate swaps								
Inflows	-	(708)	(34)	(34)	(34)	(34)	(34)	(538)
Outflows	128	981	44	49	51	52	54	731
Electricity contracts	1	5	3	2	-	-	-	-
Forward exchange contracts								
Inflows	-	(6)	(4)	(2)	-	-	-	-
Outflows	-	6	4	2	-	-	-	-

Note 19 – Financial risk management (cont.)

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 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 $435 million under the syndicated bank facilities (30 June 2014: $460 million). However, subject to an agreement with its bank lenders, Chorus has agreed, among other things, to limit total drawings across all committed bank facilities to $1.2 billion until outcomes from the Commission's final pricing principle process are known. This agreement means that there is $135 million available under bank facilities for immediate use, refer to note 3 for more information on the facilities. In addition, a $10 million overdraft facility is in place to manage short term cash funding requirements.

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 Chorus Board's broader capital management objectives include maintaining an investment grade credit rating with headroom. In the longer term, the Board continues to consider a 'BBB' rating appropriate for a business like Chorus.

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 15 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.

The relevant financial assets and financial liabilities and their respective fair values are outlined in note 18 and are all Level 2 (30 June 2014: Level 2).

Cross currency interest rate swaps and interest rate swaps

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 and foreign exchange rate) and discount rate.

Electricity swaps

Fair value is estimated on the ASX forward price curve that relates to the derivative.

Note 19 – Financial risk management (cont.)

The carrying amounts of financial assets and liabilities are as follows:

	CARRIED AT COST OR AMORTISED COST 2015 $M	CARRIED AT FAIR VALUE 2015 $M	CARRIED AT COST OR AMORTISED COST 2014 $M	CARRIED AT FAIR VALUE 2014 $M
Loans and receivables				
Cash and call deposits	80	-	176	-
Trade receivables	120	-	130	-
Other receivables	35	-	56	-
Designated in a hedging relationship				
Derivative financial assets	-	17	-	4
Derivative financial liabilities	-	(73)	-	(137)
Other financial liabilities				
Trade accounts payable	(104)	-	(119)	-
Joint arrangements	(1)	-	(4)	-
Accruals	(143)	-	(148)	-
Finance lease (net settled)	(127)	-	(123)	-
Debt	(1,663)	-	(1,639)	-
CFH securities	(107)	-	(73)	-

Note 20 – Contingencies

Chorus is undertaking a programme to assess the presence and condition of any asbestos containing materials (ACM) within its property portfolio and take appropriate action where buildings are identified as containing ACM. It is expected that the assessment programme will take approximately three years to complete. Chorus considers it has a contingent liability for the identification and removal of ACM in buildings not yet assessed. Chorus is unable to reliably determine the removal costs associated with buildings yet to be assessed, but it is not expected to be material.

Note 21 – Post balance date events

CFH securities and Crown funding

Chorus issued a call notice on 22 July 2015 to CFH with an aggregate issue price of $13 million which is allocated as follows: CFH debt securities $2 million, CFH equity securities $1 million and Crown funding $10 million. This funding has been accrued in the financial statements at 30 June 2015 representing the portion of the call notice where user acceptance testing was complete. In addition, 372,958 CFH warrants were issued.

Chorus issued a call notice on 18 August 2015 to CFH with an aggregate issue price of $7 million and 209,434 warrants. This funding is not recognised in the financial statements at 30 June 2015.

Governance & Disclosures

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Governance & Disclosures

Chorus' Board and management are committed to ensuring that our people act ethically, with integrity and in accordance with Chorus' policies and values.

Corporate governance framework

Chorus is incorporated in New Zealand and has its shares quoted on the New Zealand and Australian stock exchanges.

Chorus' governance practices and policies therefore reflect, and are consistent with, the:

- New Zealand Exchange Ltd (NZX) Main Board Listing Rules and NZX Corporate Governance Best Practice Code;
- Australian Stock Exchange (ASX) Listing Rules and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Corporate Governance Code); and
- Financial Markets Authority's Corporate Governance Principles and Guidelines (FMA Corporate Governance Code).

The Board regularly reviews and assesses Chorus' governance policies, processes and practices to identify opportunities for enhancement and to ensure they reflect Chorus' operations and culture.

The Chorus Board

Role of the Board and delegation of authority

The Board is appointed by Chorus' shareholders and has overall responsibility for the strategy, culture, governance and performance of Chorus.

The Board's roles and responsibilities are set out in its Charter.

The Board has delegated its authority, in part, to the Chief Executive Officer (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.

The Board has established three standing Board Committees to assist it in carrying out its responsibilities. The Board has delegated some of its responsibilities, powers and authorities to those Committees. The Board may also establish other ad-hoc or standing committees and delegate specific responsibilities, powers and authorities to those committees and to particular directors.

The Board and Board Committee Charters, and other key governance documents, are available on Chorus' website at **www.chorus.co.nz/governance.**

Board membership

The Board seeks to ensure that through its skills mix and composition it is positioned to add value to Chorus.

The Board currently has seven directors (six independent directors and a managing director)[2] with a broad range of managerial, financial, accounting and industry experience. See page 10 for more information on the skills and experience of the directors.

For a director to be considered independent, the Board must affirmatively determine that the director does not have a disqualifying relationship as set out in the Board Charter.

Board Committees

Each standing Board Committee has a Board approved Charter and chairman and assist the Board by focusing on specific responsibilities in greater detail than is possible for the Board as a whole. All Board Committee members are independent directors.

Audit and Risk Management Committee (ARMC)

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.

Members: Anne Urlwin (chairman), Jon Hartley and Patrick Strange.

Human Resources and Compensation Committee (HRCC)

The HRCC assists the Board in overseeing people policies and strategies, including:

- Chorus' remuneration frameworks; and
- Reviewing candidates for, and the performance and remuneration of, the CEO.

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

Nominations and Corporate Governance Committee (NCGC)

The NCGC assists the Board in promoting and overseeing continuous improvement of good corporate governance. The NCGC's role includes identifying and recommending suitable candidates for nomination to be members of the Board and Board Committees, and establishing, developing and overseeing a process for the Board to annually review and evaluate the performance of the Board, its Committees and individual directors.

Members: Jon Hartley (chairman), Prue Flacks and Keith Turner.

2 Murray Jordan will join the Chorus Board from 1 September 2015.

Board and Board Committee meeting attendance in the year ended 30 June 2015

	BOARD MEETINGS	SPECIAL BOARD MEETINGS	ARMC	HRCC	NCGC
Total number of meetings held	11	9	6	5	5
Jon Hartley++	11	7	6	5*	5
Anne Urlwin	11	9	6	5*	2*
Clayton Wakefield	11	7	5*	5	1*
Keith Turner	11	8	2*	5	2+
Mark Ratcliffe	10	8	6^	5^	5^
Prue Flacks	11	8	4*	5	5
Patrick Strange**	5	0	1	1*	0
Sue Sheldon++	6	9	5	3*	3

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

\+ Attended meetings as an observer up to 7 April 2015 and as a Committee member from 8 April 2015.

^ Mark Ratcliffe 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.

** Patrick Strange joined the Board on 6 April 2015 and became a member of the ARMC on 8 April 2015.

++ Sue Sheldon resigned as chairman and a director effective 31 March 2015. Jon Hartley became interim chairman on 1 April 2015.

Managing risk

Chorus has a Managing Risk Policy to:

- Ensure the Board sets the risk appetite and reviews 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.

Chorus' Board sets, and annually reviews, Chorus' risk management framework.

As part of its role, the ARMC is responsible for overseeing and monitoring risk and ensuring compliance with Chorus' risk management framework. The ARMC receives regular reporting on risk management, including the management of material business risks and the effectiveness of Chorus' internal controls.

Codes 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.

Trading in Chorus securities

Chorus has an insider trading policy under which:

- Directors must obtain consent from the chairman (or in the chairman's case, the chair of the ARMC) before dealing in Chorus securities; and
- Chorus' "Restricted Persons" must obtain consent from the General Counsel & Company Secretary (or in the General Counsel & Company Secretary's case, the chairman) before dealing in Chorus securities.

Directors and other Chorus people are also prohibited from dealing in Chorus securities while in possession of inside information under the Financial Markets Conduct Act 2013 and the Australian Corporations Act 2001.

Director induction and education

Chorus has a director induction programme to ensure new directors are appropriately introduced to management and the Chorus business.

All directors are expected to continuously educate themselves to ensure they have appropriate expertise to effectively perform their duties. Visits to Chorus operations, briefings from key management, industry experts and key advisers to Chorus, together with educational and stakeholder visits, briefings or meetings are also arranged for the Board.

Independent advice

A director may, with the chairman's prior approval, take independent professional advice (including legal advice) and request the attendance of such an adviser at a Board or Board Committee meeting.

Review and evaluation of Board performance

The chairman meets with directors to discuss individual performance. The Board has carried out, in the reporting period, a review of the Board's performance, that of individual directors and Board Committees utilising the Board evaluation process developed and overseen by the NCGC.

Market disclosures

Chorus is committed to providing timely, consistent and credible information to promote orderly market behaviour and investor confidence. Chorus believes it is imperative that disclosure be evenly balanced during good times and bad and that all parties in the investment community have fair access to this information.

Compliance with corporate governance codes

Chorus considers that during the year ended 30 June 2015:

- It followed each of the recommendations set out in the ASX Corporate Governance Code;
- The corporate governance principles adopted and followed by it did not materially differ from NZX's Corporate Governance Best Practice Code; and
- It met the principles set out in the FMA Corporate Governance Code.

Corporate Governance Statement

More information on Chorus' corporate governance is available in its Corporate Governance Statement available at **www.chorus.co.nz/governance/key-documents/principal-governance-documents.**

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 offer different backgrounds, experiences and perspectives, strengthens its ability to perform as a business.

Chorus defines diversity as the characteristics that make one individual similar to, or different from, another and inclusiveness as embracing a variety of people and their views in everyday work, both of which ultimately lead to increased customer and shareholder value.

The focus of Chorus' policy is to value differences as a business advantage through attraction and development practices. Chorus aims to develop its people leaders to behave constructively and in an inclusive way as a core capability, while at the same time recognising and differentiating individual performance.

The HRCC recommends measurable diversity objectives to the Board that are set and assessed annually.

Diversity metrics as at 30 June 2015

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

MEASURE	DESCRIPTION	AS AT 30 JUNE 2015	AS AT 30 JUNE 2014	BENCHMARK
Age profiles	Median age	41.7 years	41.5 years	42 years. Statistics New Zealand National Labour Force Projections updated August 2012
Employee satisfaction	Response to the diversity question "The work environment is very open and accepting of individual differences"	86%	85%	85% Aon Hewitt Best Employer
Ethnicity by role[1]	Organisational groupings by ethnicity	Total pop'n / People Leaders Africa 1% / 0% Asia 17% / 3% Australia 1% / 0% Europe 8% / 13% Maori 3% / 3% New Zealand 63% / 79% Pacific Island 5% / 1% South America 0% / 1% Unknown/not disclosed 2% / 0%	Total pop'n / People Leaders Africa 1% / 0% Asia 15% / 2% Australia 1% / 0% Europe 8% / 13% Maori 4% / 4% New Zealand 66% / 79% Pacific Island 5% / 1% South America 0% / 1% Unknown/not disclosed 1% / 0%	People leader population distribution = total company population distribution
Flexible working arrangements	Percentage of the population utilising flexible working arrangements	45%[2]	3.9% working part-time hours	New measure – no benchmark set

MEASURE	DESCRIPTION	AS AT 30 JUNE 2015	AS AT 30 JUNE 2014	BENCHMARK
Gender by role	Organisational groupings by gender	♀ ♂ 38% 62% All 34% 66% People Leaders[3] 22% 78% Officers/Senior Executives[4] 29% 71% Board[5] 33% 67% Non-executive Board[6]	♀ ♂ 39% 61% All 29% 71% People Leaders[3] 22% 78% Officers/Senior Executives[4] 43% 57% Board[5] 50% 50% Non-executive Board[6]	People leader population distribution = total company population distribution
Rookie ratio	The previous year's intake by age, ethnicity and gender	Average age 35.9 years Gender 44% ♀ 56% ♂ Africa 2% Asia 25% Australia 1% Europe 10% Maori 1% New Zealand 51% Pacific Island 4% Unknown/ not disclosed 6%	Average age 36.4 years Gender 45% ♀ 55% ♂ Africa 1% Asia 27% Australia 2% Europe 11% Maori 1% New Zealand 53% Pacific Island 5% Unknown/ not disclosed 2%	No measure – for information
Internal hire rate	The previous year's appointments identifying internal vs external hire rate	47% of all appointments have been internal. 60% of roles in layers 1-3[7] were recruited internally	45% of all appointments have been internal. 88% of roles in layers 1-3[7] were recruited internally	66% of roles in layers 1-3[7]

1 Ethnicity is self-reported.

2 A survey was introduced in FY15 to capture flexible working arrangements as well as part time working. Previously only part time working arrangements were measured.

3 People Leaders have Chorus people formally reporting to them.

4 Chorus' Officers/Senior Executives are its Chief Executive and those reporting to the Chief Executive other than the Executive Assistant. As at 30 June 2015, Chorus had 2 female and 7 male Officers/Senior Executives (30 June 2014, 2 female, 7 male).

5 As at 30 June 2015, Chorus had 2 female and 5 male directors (30 June 2014, 3 female, 4 male).

6 As at 30 June 2015, Chorus had 2 female and 4 male non-executive directors (30 June 2014, 3 female, 3 male).

7 "Layers 1–3" means the CEO, those reporting to the CEO, and those reporting to them.

Based on the annual review of the effectiveness of Chorus' Diversity and Inclusiveness Policy and Chorus' measurable diversity objectives, the Board considers that overall Chorus is making good progress towards achieving its diversity and inclusiveness objectives and has performed well against the policy generally.

Remuneration and Performance

Chorus' remuneration model

Chorus' remuneration model is based on principles of alignment to shareholder value, simplicity, clarity and fairness, and remuneration outcomes based on both individual and company performance.

All Chorus employees have a fixed remuneration and short term incentive (STI) component in their remuneration packages. A limited number of employees also have a long term incentive (LTI) component.

The Board regularly reviews Chorus' remuneration model.

Fixed remuneration

Chorus' fixed remuneration model is based on a matrix of individual employee performance and position in the market remuneration range. The model is informed and adjusted each year based on data from multiple independent remuneration specialists.

Short term incentives

Chorus' STIs are focussed on differentiating high performance and rewarding delivery.

Chorus' STIs contain two performance targets: a company performance target and an individual performance target. Chorus must achieve the company target, and an individual his or her own target, for a payment to be received under the STIs.

Performance targets are reviewed annually to ensure alignment with shareholder interests. In the year ended 30 June 2015 key performance targets were focused on EBITDA and capital efficiency (e.g. cost per premises passed, cost per premises connected).

Payments are calculated as a percentage of fixed remuneration and role complexity and are determined following review of company and individual performance. Multipliers range from 0x to 2.8x.

Long term incentives

Chorus introduced an LTI scheme for its executives on demerger in 2011. The LTI was primarily designed to align the interests of Chorus' executives and shareholders. An STI Extension Programme is operating in place of that LTI scheme from December 2013 to March 2016.

The Board has reviewed the LTI design and, on the basis of independent advice, intends to introduce a new scheme in late 2015.

STI Extension Programme

An STI Extension Programme was introduced for certain executives while long term measures have been subject to external uncertainties. The STI Extension Programme was intended to retain and reward key executives based on specific performance criteria, until a period of relative stability has been restored.

Managing performance

Chorus' performance management approach is based on fostering and rewarding valuable business outcomes.

All Chorus people have performance and development plans, which are regularly reviewed with their people leaders.

Performance plans are developed by individuals after participating in 'Line of Sight' sessions, which enable them to link Chorus' strategy with their functional plans and individual roles. Performance plans include outcome based objectives, behavioural measures and an individual development plan.

Formal performance reviews are undertaken annually for all Chorus people. As part of this, people leaders seek feedback and participate in peer review and calibration sessions, resulting in an overall performance rating and remuneration recommendation that determines an individual's total pay (fixed remuneration and STI).

A similar process is undertaken each year for the executive team, with the CEO making recommendations to the HRCC for executive team members, and the HRCC chairman leading the performance review of the CEO, making recommendations to the Board. These processes are consistent with those set out in the HRCC Charter, allow the Board to provide input into individual performance outcomes, total reward approvals (fixed remuneration, target STI and LTI) and development plans and were undertaken in the year ended 30 June 2015.

Director remuneration

Total remuneration available to non-executive directors in the year ended 30 June 2015 was fixed at Chorus' 2014 annual shareholders' meeting at $1,100,000.

Remuneration paid to directors (in their capacity as such) in the year ended 30 June 2015:

DIRECTOR	TOTAL FEES $
Jon Hartley (interim chairman)*	152,125
Anne Urlwin	139,000
Clayton Wakefield	128,500
Keith Turner	151,956
Mark Ratcliffe	-
Patrick Strange**	28,893
Prue Flacks	126,500
Sue Sheldon***	160,500
Total	**887,474**

* Jon Hartley became interim chairman on 1 April 2015.

** Patrick Strange joined the Chorus Board on 6 April 2015.

*** Sue Sheldon resigned as chairman and a director effective 31 March 2015.

Notes:

(i) Amounts are gross and exclude GST (where applicable).

(ii) All non-executive directors receive a base fee.

(iii) Board Committee fees are not paid to the chairman of the Board.

(iv) A fee is paid to other non-executive directors for being a member of a Board Committee or the UFB Steering Committee in addition to the base fees.

(v) Directors are entitled to be paid or reimbursed for reasonable travelling, accommodation and other expenses without shareholder authorisation. Any such expenses are excluded.

(vi) No superannuation was paid to, or other scheme for retirement benefits existed for, any director (except for the CEO).

(vii) Directors (other than the CEO) did not receive any other benefits.

(viii) Mark Ratcliffe, as CEO, does not receive any remuneration in his capacity as a director. The CEO's remuneration is summarised on the following page.

Director remuneration structure

On the advice of independent consultants, the Board adopted the fee structure noted below on 1 July 2013. That fee structure applied in the year ended 30 June 2015 and applies again from 1 July 2015 with the exception of the fees payable to the deputy chairman. The Board has decided to appoint a deputy chairman from 1 September 2015 with a fee reflecting the additional work that role entails.

	ANNUAL FEE STRUCTURE FROM 1 JULY 2015 $	ANNUAL FEE STRUCTURE YEAR ENDED 30 JUNE 2015 $
Base fees:		
Chairman of the Board	214,000	214,000
Deputy chairman	160,500	-
Non-executive director	107,000	107,000
Board Committee fees:		
Audit and Risk Management Committee		
Chairman	32,000	32,000
Member	16,000	16,000
Human Resources and Compensation Committee		
Chairman	21,500	21,500
Member	11,000	11,000
Nominations and Corporate Governance Committee		
Chairman	16,000	16,000
Member	8,500	8,500
UFB Steering Committee		
Member	32,000	32,000

Notes:

(i) Board Committee fees are paid to directors, except the chairman and deputy chairman of the Board, in addition to base fees.

(ii) Directors may be paid an additional daily rate of $2,400 for additional work as determined and approved by the chairman and where the payment is within the total fee pool available. No such fees were paid in the year ended 30 June 2015.

(iii) No director receives compensation in share options.

(iv) No director (except the CEO) participates in a bonus or profit-sharing plan.

(v) No superannuation is payable to, or other scheme for retirement benefits exist for, any director (except for the CEO).

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

CEO remuneration

The CEO's remuneration consists of fixed and variable remuneration, STI and LTI.

The CEO's remuneration package is reviewed annually by the HRCC and Board after reviewing CEO and Chorus performance and taking advice from external remuneration specialists.

Remuneration paid to the CEO in the year ended 30 June 2015

COMPONENT	$ (GROSS)
Fixed remuneration	831,355
Short term incentive	521,490
Short term incentive extension	185,515
Long term incentive payments	99,565
Non-taxable accommodation payments	20,800
Total remuneration paid	**1,658,725**

In addition, $55,932 KiwiSaver and medical insurance payments were made on behalf of the CEO in the year ended 30 June 2015.

The following LTI payments were made, or liabilities are due to be calculated and paid. They are all cash payments:

GRANT YEAR	VESTING YEAR	DETAIL	POTENTIAL VALUE
2012	2015	A cash LTI grant was made by Chorus in September 2012 to the value of $349,779 (gross). The cash value was converted into Equity Equivalent Units (EEUs) based on dividing the target value by the volume weighted average price of Chorus shares for a defined 20 day trading period. A number of post-allocation performance hurdles have been introduced by the Board for this grant. Performance against these measures is considered annually but for the purposes of the grant it is the collated three year performance that determines the vesting multiplier on the grant.	A maximum of 104,853 EEUs converted back into a cash value at vesting based on share price performance at that time.

Employee remuneration range

The table alongside shows the number of employees and former employees who, in their capacity as such, received remuneration and other benefits in excess of $100,000 during the year ended 30 June 2015.

During the year, certain employees participated in Chorus' employee equity building scheme, received contributions towards membership of the Marram Trust (a community healthcare and holiday accommodation provider), received contributions toward their Government Superannuation Fund (a legacy benefit provided to a small number of employees) and, if a member, received contributions of 3% of gross earnings towards their KiwiSaver accounts. These amounts are not included in these remuneration figures. Any benefits received by employees that do not have an attributable value are also excluded.

Employee Equity Building Scheme

Chorus implemented an employee equity building scheme in 2013 to better align employee and shareholder interests. A total of 652 Chorus employees participated in the scheme in the year ended 30 June 2015. Chorus contributed up to $499 per participating employee. A total of 185,168 Chorus shares were purchased on market under the scheme at $1.76 per share. The shares are held by a trustee and vest to participating employees after a three year period.

REMUNERATION RANGE $ (GROSS)	NUMBER OF EMPLOYEES IN THE YEAR ENDED 30 JUNE 2015 (BASED ON ACTUAL PAYMENTS)
1,650,001-1,660,000	1
760,001-770,000	1
580,001-590,000	1
560,001-570,000	2
480,001-490,000	1
360,001-370,000	1
350,001-360,000	3
330,001-340,000	1
320,001-330,000	2
310,001-320,000	1
300,001-310,000	1
290,001-300,000	2
280,001-290,000	1
270,001-280,000	3
260,001-270,000	4
250,001-260,000	2
240,001-250,000	7
230,001-240,000	5
220,001-230,000	7
210,001-220,000	8
200,001-210,000	4
190,001-200,000	15
180,001-190,000	9
170,001-180,000	13
160,001-170,000	18
150,001-160,000	22
140,001-150,000	42
130,001-140,000	43
120,001-130,000	42
110,001-120,000	48
100,000-110,000	47

Disclosures

Directors

Directors during the year ended 30 June 2015

Sue Sheldon resigned as chairman, and a director, effective 31 March 2015. No other directors resigned during the year ended 30 June 2015.

Patrick Strange was appointed as a director on 6 April 2015. The Board has also agreed to appoint Murray Jordan as a director from 1 September 2015.

Indemnities and insurance

Chorus has entered into deeds of indemnity with each director for potential liabilities or costs they may incur for their acts or omissions as directors.

Deeds of indemnity have also been entered into with certain senior employees for potential liabilities and costs they may incur for their acts or omissions 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 covering directors and employees for liability arising from their acts or omissions in their capacity as directors or employees. The policy does not cover dishonest, fraudulent, malicious or wilful acts or omissions.

Director interests in Chorus shares

As at 30 June 2015, directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.04% of Chorus' shares as follows:

	AS AT 30 JUNE 2015		TRANSACTIONS DURING THE REPORTING PERIOD
DIRECTOR	SHARES	INTEREST	NUMBER OF SHARES PURCHASED (SOLD)
Clayton Wakefield	20,712	Beneficial interest	Nil
Keith Turner	5,994	Legal and beneficial interest	Nil
Anne Urlwin	10,000	Director and shareholder of registered holder	Nil
Mark Ratcliffe	105,333	Beneficial interest	Nil
Prue Flacks	5,142	Legal and beneficial interest	Nil
	5,240	Trustee of family trusts	Nil
Total	**152,421**		

Changes in director interests

Jon Hartley	Appointed as a director of VisionFund Myanmar Ltd and a trustee of Wellington Diocesan Board of Trustees. Ceased being a director, shareholder, and trustee of shareholder of Trango Capital Ltd.
Anne Urlwin	Ceased being a director of OnePath Insurance Services (NZ) Ltd.
Clayton Wakefield	Appointed as a director of Columbus Financial Services Ltd and a committee member of the Auckland Branch of the Institute of Directors. Ceased being a director and shareholder of Techspace Ltd and Techspace Investments Ltd. Ceased being executive director and shareholder of Techspace Consulting Ltd.
Keith Turner	Ceased being chairman of Team New Zealand AC35 Challenge Ltd and deputy chairman of Auckland International Airport Ltd.
Mark Ratcliffe	Appointed as a director of The New Zealand Initiative Ltd. Change in beneficial interest in Spark New Zealand Ltd ordinary shares.
Patrick Strange	Interests noted as a director of Mighty River Power Ltd, WorkSafe New Zealand, Networks NSW (Ausgrid, Endeavour Energy, Essential Energy), and Waitahoata Farms Ltd on appointment. Appointed as a director of NZX Ltd.
Prue Flacks	Nil.
Sue Sheldon*	Appointed as a member of the Christchurch City Council Capital Release Project Group.

* Sue Sheldon resigned as a director effective 31 March 2015.

Director restrictions

Under Chorus' constitution, no person who is an 'associated person' of a telecommunications services provider in New Zealand may be appointed or hold office as a director. NZX has granted Chorus a waiver to allow its constitution to include this restriction.

External audit

The non-audit related fees paid to the auditor during the financial period (as detailed in Note 8 to the Financial Statements) were permitted non-audit services under Chorus' External Auditor Independence Policy.

Shares and shareholders

Stock exchange listings and American Depositary Receipts

Chorus' shares are quoted on the NZX Main Board and on the ASX.

Chorus trades under the ticker 'CNU'.

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

Chorus has also issued GBP260 million foreign currency debt in the form of European medium term notes (EMTNs). Chorus is listed, and the EMTNs quoted, on the Luxembourg Stock Exchange.

NZX waivers

A summary of all waivers granted and published by NZX in the 12 months ending on 30 June 2015 and relied on by Chorus is available on Chorus' website at **www.chorus.co.nz.**

ASX 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 described below.

Registration as a foreign company

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

Quoted securities

As at 30 June 2015 there were 396,369,767 ordinary shares on issue.

Each ordinary share confers on its holder the right to attend and vote at a shareholder meeting (including the right to cast one vote on a poll on any resolution).

Non-standard designation

NZX has attached a 'non-standard' designation to Chorus because of the ownership restrictions in Chorus' constitution (described below).

Chorus' constitutional ownership restrictions

Chorus' constitution includes 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 allowing 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 OF SECURITIES ISSUED IN YEAR ENDED 30 JUNE 2015	TOTAL NUMBER OF SECURITIES ON ISSUE AS AT 24 JULY 2015	HOLDER	PERCENTAGE HELD
CFH Equity Securities	63,246,022	200,156,146	Crown Fibre Holdings Ltd	100%
CFH Debt Securities	63,246,022	200,156,146	Crown Fibre Holdings Ltd	100%
CFH Warrants	3,725,314	11,359,994	Crown Fibre Holdings Ltd	100%

CFH equity securities are a unique class of security that carry no right to vote at meetings of holders of ordinary shares but entitle the holder to a right to a repayment preference on liquidation. Dividends become payable on a portion of CFH equity securities from 2025, with the portion increasing over time. A greater portion of CFH equity securities attract dividends if a 20% fibre up-take threshold is not met by 30 June 2020. CFH equity securities can be redeemed by Chorus at any time by payment of the issue price or issue of new ordinary shares (at a 5% discount to the 20-day volume weighted average price) to the holder. In limited circumstances CFH equity securities may be converted by the holder into voting preference or ordinary shares.

CFH debt securities are unsecured, non-interest bearing and carry no voting rights at meetings of holders of ordinary shares. Chorus is required to redeem the CFH debt securities in tranches from 2025 to 2036 (at the latest) by repaying the issue price to the holder. An accelerated repayment schedule applies if a 20% fibre up-take threshold is not met by 30 June 2020.

CFH warrants are an option to acquire ordinary shares on a specified exercise date at a set strike price and have been issued in two series, with different repayment schedules. On 30 June 2020 one series will be cancelled depending on whether a 20% fibre up-take threshold is met.

The terms of issue for the CFH equity securities, CFH debt securities and CFH warrants are set out in the subscription agreement with CFH and summarised on Chorus' website at **www.chorus.co.nz/investor-information/annual-reports/annual-reports.**

Shareholder distribution as at 24 July 2015

SHAREHOLDING	NUMBER OF HOLDERS	% OF TOTAL HOLDERS	TOTAL NUMBER OF SHARES HELD	% OF ORDINARY SHARES ISSUED
1 to 1,000	22,304	70.25	6,622,639	1.67
1,001 to 5,000	6,293	19.82	15,413,469	3.89
5,001 to 10,000	1,707	5.38	12,649,222	3.19
10,001 to 100,000	1,353	4.26	32,444,002	8.19
100,001 and over	94	0.30	329,240,435	83.06
Total	**31,751**	**100**	**396,369,767**	**100**

Substantial holders

Chorus received notice of substantial product/security holders as follows:

	AS AT 30 JUNE 2015		AS AT 24 JULY 2015	
	NUMBER ORDINARY SHARES HELD	%	NUMBER ORDINARY SHARES HELD	%
Accident Compensation Corporation	28,293,763	7.14	28,293,763	7.14
L1 Capital Pty Ltd	19,953,203	5.03	ceased being a substantial holder	

Chorus also received substantial product/security holder notices in respect of Jason Familton and Jonathan Davis. Neither Mr Familton nor Mr Davis are individually substantial holders. Notices were submitted on the basis of the aggregation of interests in securities held by them personally and held by Accident Compensation Corporation (ACC) given the qualified powers they may have to exercise voting rights and acquire or dispose of Chorus shares beneficially owned by ACC.

Twenty largest shareholders as at 24 July 2015

RANK	HOLDER NAME	HOLDING	%
1.	New Zealand Central Securities Depository Limited*	163,662,963	41.29
2.	JP Morgan Nominees Australia Limited	30,774,486	7.76
3.	National Nominees Limited	30,341,157	7.65
4.	HSBC Custody Nominees (Australia) Limited	23,361,633	5.89
5.	Citicorp Nominees Pty Limited	19,781,153	4.99
6.	RBC Investor Services Australia Nominees Pty Limited (Bkcust A/C)	9,823,082	2.47
7.	Ronald James Woodrow	4,739,781	1.19
8.	HSBC Custody Nominees (Australia) Limited (A/C 3)	3,870,679	0.97
9.	FNZ Custodians Limited	3,701,246	0.93
10.	Deutsche Securities New Zealand Limited	2,831,162	0.71
11.	HSBC Custody Nominees (Australia) Limited (Nt-Comnwlth Super Corp A/C)	2,731,178	0.68
12.	Kingfisher Nominees Pty Limited	2,475,755	0.62
13.	Investment Custodial Services Limited (A/C C)	1,987,320	0.50
14.	BNP Paribas Noms Pty Ltd (DRP)	1,919,842	0.48
15.	New Zealand Depository Nominee Limited (A/C 1) Cash Account	1,901,087	0.47
16.	Bond Street Custodians Limited (Macq High Conv Fund A/C)	1,702,394	0.42
17.	Forsyth Barr Custodians Limited (1-33)	1,661,671	0.41
18.	FNZ Custodians Limited (DRP NZ A/C)	1,198,625	0.30
19.	Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,065,289	0.26
20.	Sandhurst Trustees Limited (S I S F A/C)	1,000,000	0.25

* New Zealand Central Securities Depository Ltd provides a custodial depository service which allows electronic trading of securities by its members.

Shareholders holding less than a marketable parcel

As at 24 July 2015 there were 10,423 shareholders holding less than a marketable parcel of A$500 of shares (based on a closing market price of A$2.53).

On-market buy-back

There is no current on-market buy-back.

Net tangible assets per security

As at 30 June 2015, consolidated net tangible assets per share was $1.62 (30 June 2014: $1.43). Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZIFRS.

Revenue from ordinary activities and net profit

In the year ended 30 June 2015 Chorus':

- Revenue from ordinary activities decreased 4.9% to $1,006 million; and
- Profit from ordinary activities after tax, and net profit, attributable to shareholders decreased 38.5% to $91 million.

Subsidiaries

Chorus New Zealand Ltd

Directors: Mark Ratcliffe (chairman), Andrew Carroll, Nick Woodward, Vanessa Oakley and Lucy Riddiford (as alternate director for Vanessa Oakley).

Brian Hall resigned as a director of Chorus New Zealand Ltd on 4 September 2014. Nick Woodward was appointed as a director of Chorus New Zealand Ltd on 21 October 2014.

Director remuneration

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

Changes in director interests

Mark Ratcliffe: Appointed as a director of The New Zealand Initiative Ltd. Change in beneficial interest in Spark New Zealand Ltd ordinary shares.

Nick Woodward: Interests in Spark New Zealand Ltd and Chorus Ltd ordinary shares noted on appointment.

Chorus LTI Trustee Ltd

Chorus LTI Trustee Ltd was incorporated on 11 December 2014 and has undertaken no transactions since then.

Directors: Clayton Wakefield, Keith Turner and Prue Flacks.

No Chorus LTI Trustee Ltd directors resigned in the year ended 30 June 2015.

Director remuneration

The directors of Chorus LTI Trustee Ltd are all directors of Chorus Ltd and do not receive any remuneration in their capacity as directors of Chorus LTI Trustee Ltd.

Other subsidiaries

Chorus has no other subsidiaries.

Glossary

Backbone network	Fibre cabling and other shared network elements required either in the common areas of multi-dwelling units to connect individual apartments/offices, or to serve premises located along rights of way.
Bandwidth fibre access	A fibre service that provides dedicated bandwidth (up to 10Gbps download speed) between an end-user and their retail service provider's equipment in the local exchange.
Baseband	A technology neutral voice input service that can be bundled with a broadband product or provided on a standalone basis.
Baseband IP	Used by retail service providers to provide a copper voice service from their exchange equipment via Chorus equipment in cabinets or exchanges.
Bitstream 2,3,4	Refers to services defined under the UFB contract. Bitstream 2 and 3 are mass market services (between 30Mbps and 100Mbps downstream speeds). Bitstream 4 is a premium fibre service, which is the equivalent of HSNS fibre for corporate and UFB priority end-users.
CFH	Crown Fibre Holdings Limited, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.
Chorus	Chorus Limited and subsidiaries.
Commission	Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.
Direct fibre access	Also known as 'dark' fibre, a fibre service that provides a point to point fibre connection and can be used to deliver backhaul connections to mobile sites.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.
EMTN	European Medium Term Note.
FY	Financial year – twelve months ended 30 June. e.g. FY15 is from 1 July 2014 to 30 June 2015.
Gigabit	The equivalent of 1 billion bits. Gigabit Ethernet provides data transfer rates of about 1 gigabit per second.
Gbps	Gigabits per second. A measure of the average rate of data transfer.
HSNS	High Speed Network Service – a high speed Layer 2 service with dedicated bandwidth on either copper or fibre.
IFRS	International Financial Reporting Standards – the rules that the financial statements have to be prepared by.
IP	Internet Protocol.
IT	Information Technology.
Layer 0, 1, 2	Refers to the layers within the Open Systems Interconnection model. Layer 0 is ducts and manholes. Layer 1 is the physical cables and co-location space. Layer 2 is the data link layer including broadband electronics.
LFCs	Local Fibre Companies – refers to the three other organisations the Government has contracted with for the UFB rollout in non-Chorus areas.
MBIE	Ministry of Business, Innovation and Employment – the Government Ministry that oversees telecommunications policy and the RBI rollout.
Mbps	Megabits per second – a measure of the average rate of data transfer.
Naked broad-band/UBA	Broadband only connections, where the end-user does not also take an analogue voice service.
OECD	Organisation for Economic Co-operation and Development.
RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas by 2016.
share	Means an ordinary share in Chorus.
SLES	Sub Loop Extension Service – enables retail service providers to connect a sub loop UCLL line from a cabinet to the exchange.
SLU	Sub Loop Unbundling – where retail service providers use the regulated copper line service available between the premises and cabinet.
STD	Standard Terms Determination.
TDL	Telecommunications Development Levy – a $50 million annual levy on telecommunications companies, including Chorus, introduced by Government in FY10 to fund rural broadband. Scheduled to reduce to $10 million from FY20.
TRL	Telecommunications Regulatory Levy – an annual levy on telecommunications companies, including Chorus, to fund the Commerce Commission's costs.
TSLRIC	Total Service Long Run Incremental Cost – a forward-looking cost based methodology used by the Commission in its final price review process.
TSO	Telecommunications Services Obligation – a universal service obligation under which Chorus must maintain certain coverage and service on the copper network.
UBA	Unbundled Bitstream Access – regulated service that enables retail service providers to use Chorus equipment to deliver broadband to end-users.
UCLFS	Unbundled Copper Low Frequency Service – a subset of the baseband voice input service offered over copper, with pricing set at the averaged UCLL price.
UCLL	Unbundled Copper Local Loop – a regulated service enabling retail service providers to offer voice and broadband services on copper lines using their own electronic equipment in the exchange.
UFB	Ultra-Fast Broadband – refers to the Government programme to build a fibre to the premises network to 75% of New Zealanders by 2020.
VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides data transmission up to about 50Mbps downstream and 20Mbps upstream.

Directory

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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, regulation and the regulatory environment, 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 NZX and ASX.

Except as required by law or the listing rules of the NZX and ASX, Chorus is not under any obligation to update this annual report at any time after its release, whether as a result of new information, future events or otherwise.

Chorus