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STOCK EXCHANGE ANNOUNCEMENT

28 August 2017

Chorus 2017 full year results & annual report

The following are attached in relation to Chorus' FY17 full year results and annual report:

1. Media Release
2. Investor Presentation (including FY18 outlook and guidance)
3. Annual Report (including audited financial statements)
4. NZX Appendix 1
5. NZX Appendix 7
6. Corporate Governance Statement
7. Letter to investors (including section 209C Notice)

Chief Executive Officer Kate McKenzie, and Chief Financial Officer Andrew Carroll, will discuss the FY17 full year results by webcast at 10.00am New Zealand time today. The webcast will be available at www.chorus.co.nz/webcast.

ENDS

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MEDIA RELEASE

28 August 2017

Chorus full year result for FY17
Fibre uptake soars, despite connections headwinds

- Net profit after tax $113m (FY16: $91m)
- EBITDA $652m (FY16: $594m)
- Operating revenue of $1,040m (FY16: $1,008m)
- Final dividend 12.5 cents per share
- Chorus' UFB rollout now 70% complete, uptake of 35%
- Total fixed line connections down 7% to 1,602,000
- Broadband connections down 3% to 1,186,000

Chorus has today reported a net profit after tax (NPAT) of $113m and earnings before interest, tax, depreciation and amortisation (EBITDA) of $652m for the year ended 30 June 2017.

Operating revenue for the period was $1,040m (FY16: $1,008m) and operating expenses were $388m (FY16: $414m). Depreciation and amortisation for the period was $339m (FY16: $327m), delivering earnings before interest and tax (EBIT) of $313m (FY16: $267m).

Chorus' financial result for 2017 was underpinned by a strong focus on costs as we streamlined copper provisioning processes and began capitalising labour expenses relating to certain fibre provisioning costs.

Chorus' FY17 EBITDA declined relative to adjusted EBITDA[1] for FY16 of $677 million. This reflects a reduction in revenue as other fibre companies continued to gain connections in their fibre rollout areas and large vertically integrated retailers began encouraging their customers on to their own wireless broadband networks.

"In response to this change in market dynamics, we launched an advertising campaign in May to promote the benefits and availability of better fixed line

[1] Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed.

broadband and early indications are that this has had positive results," said Kate McKenzie, Chorus CEO.

"Meanwhile, our UFB build programme continues at pace and we're now 70% of the way through the first phase, compared with 57% at this time last year.

"This means 778,000 customers are now able to connect to the best possible broadband at speeds of up to one gigabit per second. Across the Chorus UFB footprint more than one third have connected to fibre, with 275,000 connections at the end of June 2017. That's a big jump from 156,000 connections or 24% uptake last year."

Improving the customer experience

During FY17 considerable focus was directed to improving customer experience. Chorus' fibre installation workforce grew to 615 field crews by the end of FY17, up from 524 crews at the start. They completed 129,000 new fibre connections nationwide, a substantial increase on the 93,000 connections in the previous year. Productivity improved significantly after a reorganisation of service company responsibilities for fibre installations in October.

"Perhaps the best measure of our improvement is customer satisfaction with fibre installations. Pleasingly, we've seen customer satisfaction scores increase from 6.9 out of 10 last year to 7.4 at the end of June.

"But there remains some way to go before we achieve our goal of offering a frictionless fibre install experience," said Kate.

Better Broadband

"Our promotion of better broadband has been supported by a growing awareness of the importance of reliable broadband at peak demand times," said Kate.

"In the last year we saw a 51% increase in the average amount of internet traffic through our network around 9pm each evening. This trend seems set to continue as more and more New Zealanders use their broadband connection to stream video content on demand."

The strong demand for fibre means we're now trialling new connection approaches, such as working with various retailers in completed fibre areas or encouraging residents to connect as we build the street network in new areas.

Our goal is to improve the customer experience further by reducing the time they need to be at home for an installation to less than a day, while also balancing fluctuations in orders for our workforce.

Chorus undertook a strategic review during the year to consider technology and industry developments.

"Fibre is clearly the best technology to meet ever increasing and changing data demands. Given the likely infrastructure requirements and service characteristics of future wireless technology, and the extensive nature of our fibre to the home network, we believe wireless will continue to be a largely complementary access technology," Kate said.

Dividend

Chorus will pay a final dividend of 12.5 cents per share, fully imputed, on 10 October 2017 to all shareholders registered at 5pm on 26 September 2017. A supplementary dividend will be paid to non-resident shareholders. A dividend reinvestment plan will apply for the final dividend at a discount rate of 3%. Applications to participate must be received by 5pm (NZ time) on 27 September 2017.

FY18 guidance

EBITDA: $625 - $650 million
Capital expenditure: $780 - $820 million
Dividend: 22 cents per share, subject to no material adverse changes in circumstances or outlook.

ENDS

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

For further information:

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FY17 Full Year Result

28 August 2017

Chorus

Disclaimer

- This presentation may contain forward-looking statements regarding future events and the future financial performance of Chorus, including forward looking statements regarding industry trends, regulation and the regulatory environment, strategies, capital expenditure, the construction of the UFB network, possible business initiatives, credit ratings and future financial and operational performance. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Chorus' control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. No representation, warranty or undertaking, express or implied, is made as to the fairness, accuracy or completeness of the information contained, referred to or reflected in this presentation, or any information provided orally or in writing in connection with it. Please read this presentation in the wider context of material published by Chorus and released through the NZX and ASX.

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

- The information in this presentation should be read in conjunction with Chorus' audited consolidated financial statements for the year ended 30 June 2017. This presentation includes a number of non-GAAP financial measures, including "EBITDA". These measures may differ from similarly titled measures used by other companies because they are not defined by GAAP or IFRS. Although Chorus considers those measures provide useful information they should not be used in substitution for, or isolation of, Chorus' audited financial statements. Refer to the presentation appendices for further detail relating to EBITDA measures.

- This presentation does not constitute investment advice or a securities recommendation and has not taken into account any particular investor's investment objectives or other circumstances. Investors are encouraged to make an independent assessment of Chorus.

Business performance overview

Kate McKenzie, Chief Executive Officer

Agenda

FY17 RESULT OVERVIEW

Metric	FY17	Change	FY16
FIXED LINE CONNECTIONS	1,602,000	↓ 7%	1,727,000
BROADBAND CONNECTIONS	1,186,000	↓ 3%	1,226,000
EBITDA[1]	$652m		$594m
ADJUSTED[2] EBITDA	$652m		$677m[2]
FIBRE CONNECTIONS	305,000	↑ 69%	180,000
NET PROFIT AFTER TAX	$113m		$91m
DIVIDEND	21cps		20cps
EMPLOYEE ENGAGEMENT SCORE	81%		83%

1 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of the business.

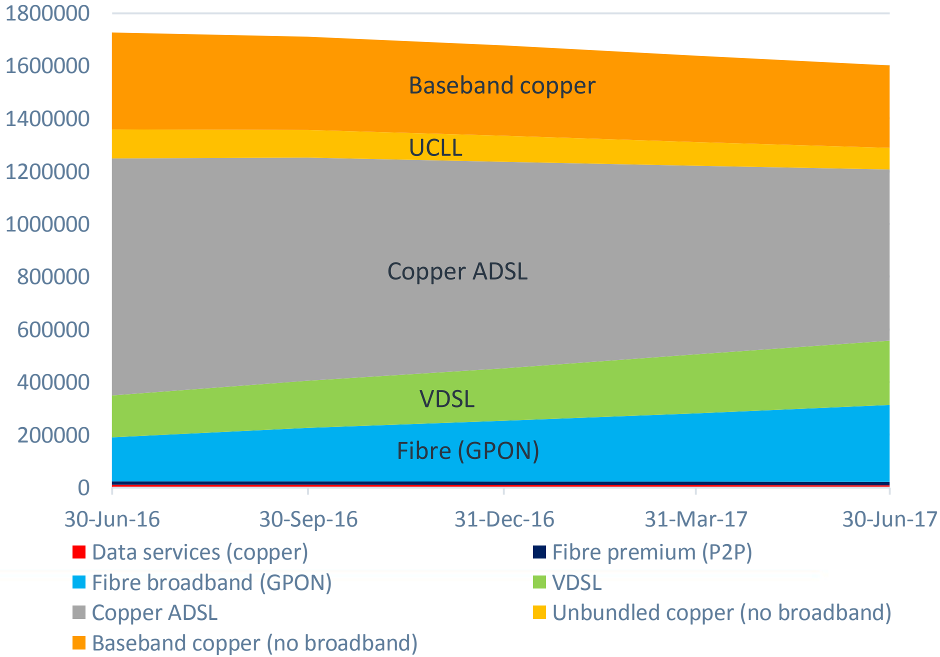
2 Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed. See Appendix A for the detailed calculation.

FY17 CONNECTION TRENDS

> Total connections reduced by **125,000**

- a reduction of **83,000** copper lines with no broadband
- a **40,000** decrease in total broadband connections to **1,186,000**
- decline of **2,000** data services (copper) connections

	30 June 2016	31 Dec 2016	30 June 2017
Unbundled Copper (incl SLU/SLES)	110,000	99,000	82,000
Baseband copper (no broadband)	368,000	343,000	313,000
Fibre broadband (GPON)	167,000	231,000	292,000
VDSL (includes naked)	159,000	199,000	244,000
Copper ADSL (includes naked)	900,000	784,000	650,000
Data services (copper)	10,000	9,000	8,000
Fibre premium (P2P)	13,000	13,000	13,000
Total fixed line connections	**1,727,000**	**1,678,000**	**1,602,000**



Chorus

FY17 CONNECTION TRENDS

> **Chorus connections declined as:**

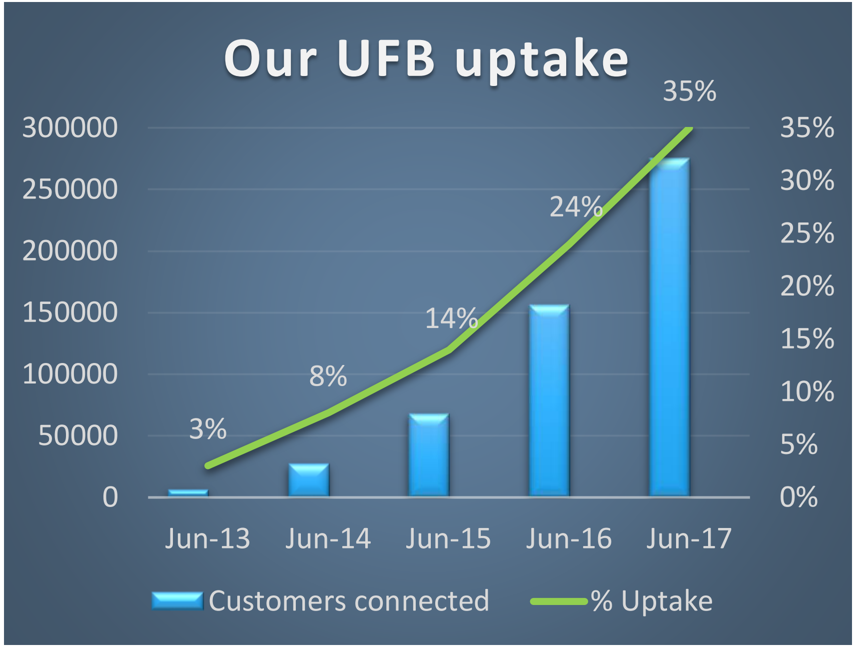
- Local Fibre Companies grew broadband share: ~140k connections at 30 June 17 (~85k FY16)
- fixed (mobile) wireless retailers encouraged existing broadband customers onto their own networks
- voice only lines migrated to broadband and/or mobile/wireless; some consolidation of multiple lines
- BUT broadband losses have slowed progressively following advertising/promotional activity

FY17 CONNECTION CHANGES		Non-UFB1 areas	Chorus UFB1 areas	Local Fibre Company UFB1 areas	TOTAL CHANGE
H2 FY17	Broadband	-13,000	+8,000	-23,000	
	Copper line only (incl UCLL)	-9,000	-28,000	-10,000	
	TOTAL	-22,000	-20,000	-33,000	-75,000
H1 FY17	Broadband	-6,000	+15,000	-21,000	
	Copper line only (incl UCLL)	-7,000	-24,000	-6,000	
	TOTAL	-13,000	-9,000	-27,000	-49,000

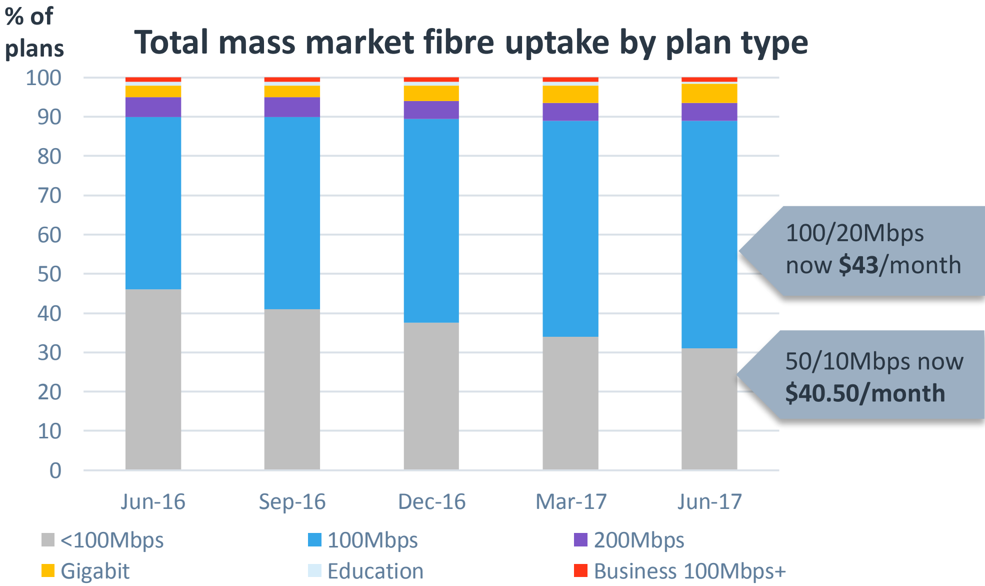
TOTAL CONNECTIONS BY UFB ZONE	Non-UFB1 & 2 areas	Chorus UFB1 & 2 areas	Local Fibre Company UFB 1 & 2 areas	TOTAL
Indicative No. of connections at 30 June (excludes premium business connections)	66,000 voice only 173,000 broadband	252,000 voice only 853,000 broadband	79,000 voice only 158,000 broadband	397,000 1,184,000
TOTAL	**239,000**	**1,105,000**	**237,000**	**1,581,000**

FIBRE ROLLOUT & UPTAKE

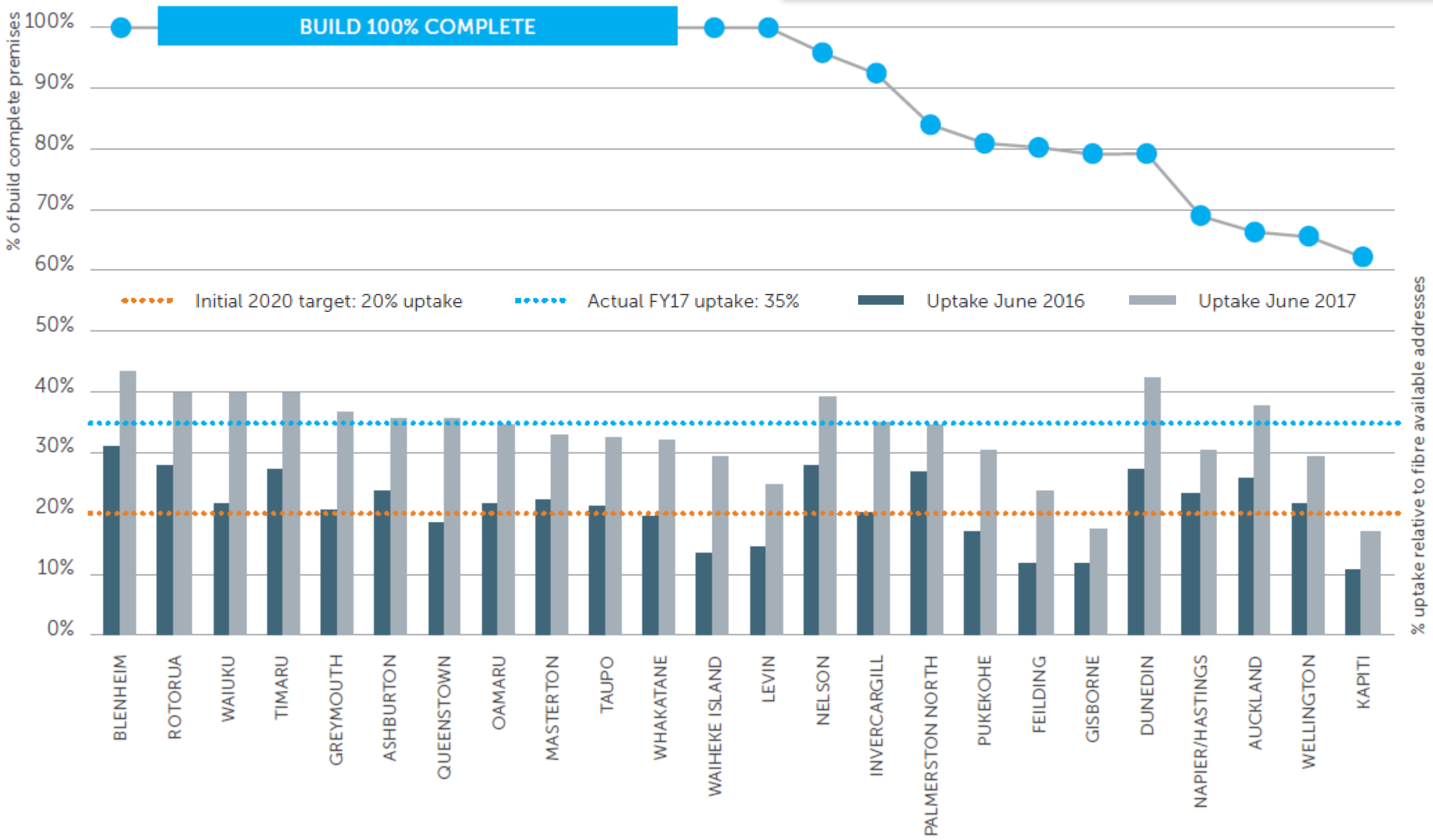
- UFB1 rollout **70% complete** with **581,000 premises passed**
- **778,000** customers able to connect



- **35% uptake** with **275,000** connections within UFB deployed footprint (FY16:156,000)
- **69%** of mass market fibre plans now ≥100Mbps (FY16:54%)



UFB ROLLOUT & UPTAKE BY REGION



FY17: A STEP UP IN FIBRE EXPERIENCE & DEMAND

CUSTOMER SATISFACTION[1]

JUNE 16: 6.9 out of 10 → JUNE 17: 7.4 out of 10

TECHNICIAN RESCHEDULES

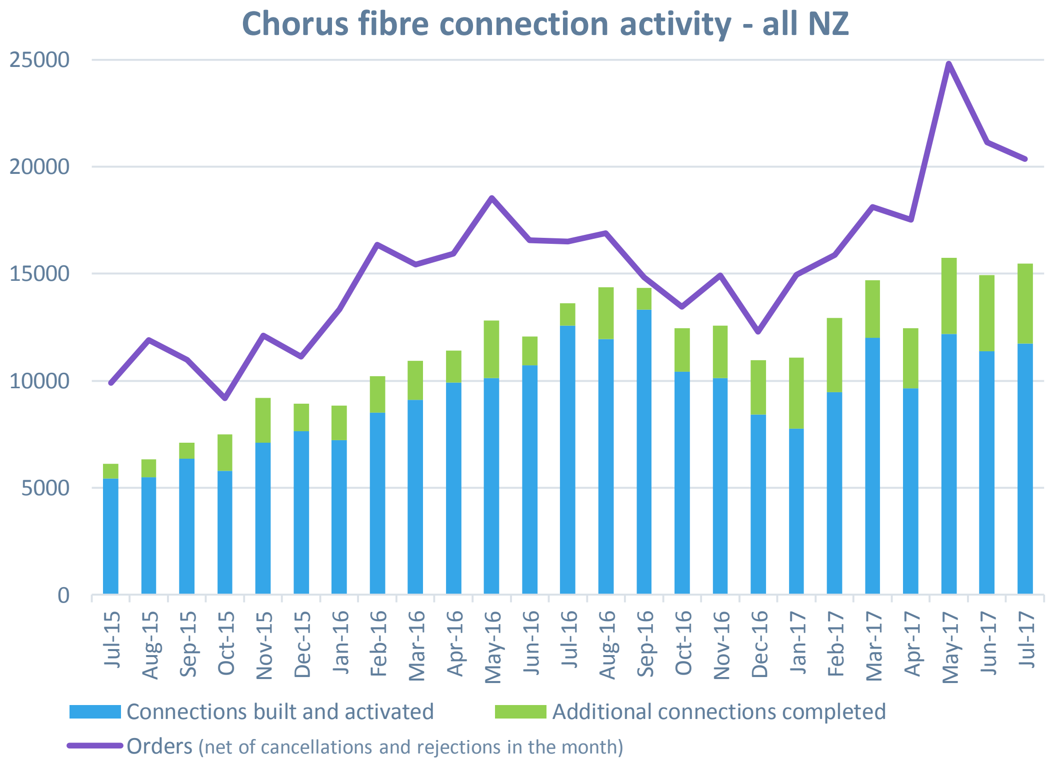
JUNE 16: 14% → JUNE 17: 4%

PROVIDING RESIDENTIAL SERVICE WHEN SCHEDULED

JUNE 16: 78% → JUNE 17: 91%

CUSTOMER ESCALATIONS

JUNE 16: 7% → JUNE 17: 4%



1. As measured on a three month rolling average.

Financial performance

Andrew Carroll, Chief Financial Officer

INCOME STATEMENT

	FY17 $m	FY16 $m
Operating revenue	1,040	1,008
Operating expenses	(388)	(414)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**652**	**594**
Depreciation and amortisation	(339)	(327)
Earnings before interest and income tax	313	267
Net interest expense	(154)	(140)
Net earnings before income tax	159	127
Income tax expense	(46)	(36)
Net earnings for the year	**113**	**91**

> FY16 EBITDA was impacted by five and a half months of benchmark copper pricing

Revenue

	FY17 $m	FY16 $m
Basic copper	450	489*
Enhanced copper	248	242*
Fibre	198	133
Value Added Network Services	36	35
Field Services	76	83*
Infrastructure	23	20
Other	9	6
Total	**1,040**	**1,008**

* included ~6 months of the final copper pricing determination

Note: simplifying revenue categories for FY18 – **see Appendix C**

Expenses

	FY17 $m	FY16 $m
Labour costs	74**	78
Provisioning	43	60
Network maintenance	87	89
Other network costs	27	34
IT costs	60**	65
Rents, rates and property maintenance	30	28
Regulatory levies	13	13
Electricity	14	14
Consultants	10	4
Insurance	3	3
Other	27	26
Total	**388**	**414**

** These costs are impacted by a changed capitalisation approach in FY17

CAPEX SUMMARY

> Total capex of **$639m** (FY16: $593m) was just below $640m - $680m guidance range

Fibre capex	FY17	FY16
UFB communal	183	194
Fibre connections & layer 2	258*	205
Fibre products & systems	17	18
Other fibre connections & growth	45	47
Rural Broadband Initiative (RBI)	-	22
Subtotal	**503**	**486**

Common capex	FY17	FY16
Information technology	34	25
Building & engineering services	19	13
Other	4	2
Subtotal	**57**	**40**

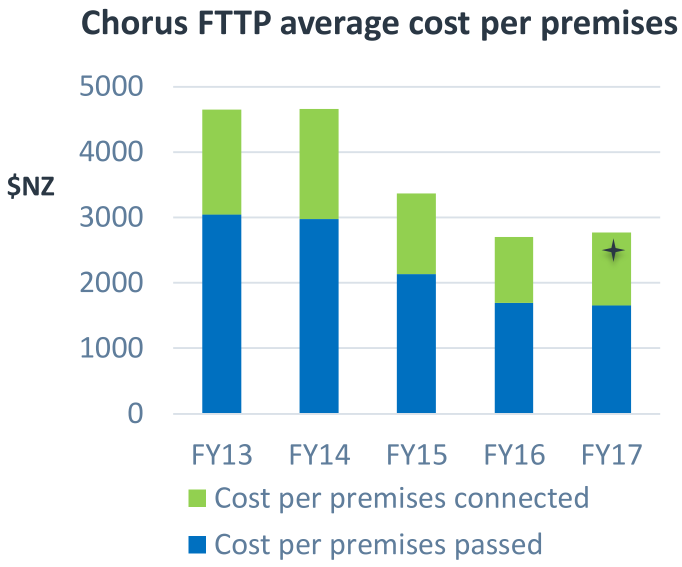
- $258m or 40% of FY17 capex was **fibre connections & layer 2** spend. This includes $21.5m of capitalised labour and IT costs relating to certain fibre provisioning service desk costs previously expensed
- **copper capex** increased to $79m reflecting additional investment in VDSL and rural cabinet upgrades
- **common capex** increased to $57m as IT separation projects continue and deferred building & engineering programmes resumed

Copper capex	FY17	FY16
Network sustain	29	29
Copper connections	4	5
Copper layer 2	44	29
Product	2	4
Subtotal	**79**	**67**

UFB COSTS

> **Cost per premises passed** (CPPP): **$1,651** vs $1,550 - $1,650 guidance

> $41m work in progress (FY16 $48m)

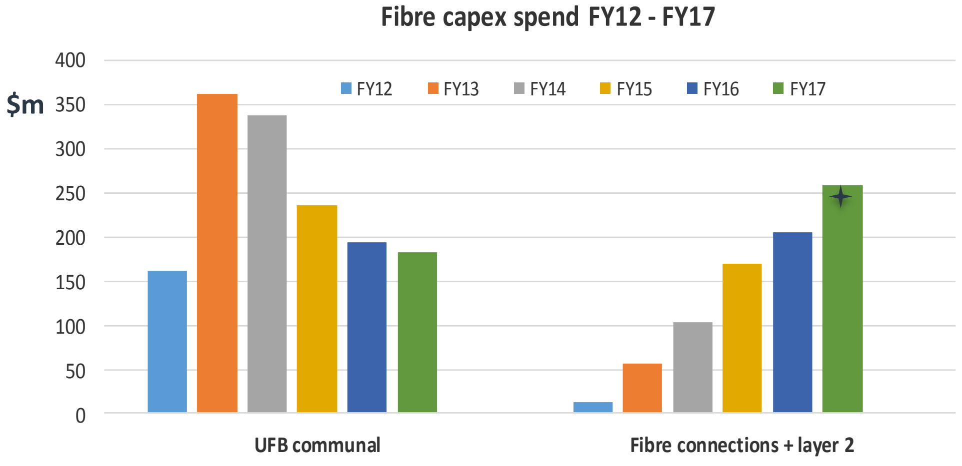


✦ Includes capitalised service desk costs

> **Cost per premises connected** (CPPC): **$1,122*** vs $1,100 - $1,250 guidance

* excludes layer 2 and includes standard installations, some non-standard single dwellings and service desk costs

> **~$2.3 billion** invested in UFB communal and fibre connections + layer 2 since demerger



✦ Includes capitalised service desk costs

FIBRE CONNECTIONS CAPEX

> FY17 **$258m** cost of fibre connection capex vs FY16:$205m reflects:
  - single dwelling units $144m includes $21.5m service desk costs
  - significant increase in volumes with an additional **36,000** single dwelling units + **3,200** backbone
  - good progress on reducing average cost for connections/backbone

Fibre connections & layer 2 capex	FY17 spend	FY16 spend
Layer 2 (long run programme average of $100 per connection)	**$20m**	**$19m**
Premium business fibre connections	**$19m**: 2,000 connections (FY17 estimate: 2,500)	**$21m**: 2,500 connections
Single dwelling units and apartments connections	**$144m**: 129,000 connections (FY17 estimate: 150,000)	**$97m**: 93,000 connections
Backbone build: multi-dwelling units and rights of way	**$75m**: 11,300 completed (FY17 estimate: 10,000)	**$68m**: 8,100 completed
TOTAL SPEND	**$258m**	**$205m**

Note: we estimate ~40% of MDUs and ~45% of RoWs requiring backbone build have been completed

GUIDANCE SUMMARY

	FY18 guidance	FY17 result
UFB1 Cost Per Premises Passed (CPPP)	**$1,500 - $1,600**	$1,651
UFB2 communal capex	**$50m - $70m** (based on estimated starting premises of 30,000 to 40,000 and premises handed over of 5,000 to 15,000)	
UFB1 Cost Per Premises Connected (CPPC)	**$1,050 - $1,200** (excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs)	**$1,122**
Fibre connections & layer 2 capex	**$260 – $290m** (based on mass market 152,000 fibre connections, 12,000 backbone builds and 2,500 premium business fibre connections and including service desk costs)	$258m
FY18 Gross capex	**$780 – $820m (see following page)**	$639m
FY18 EBITDA	**$625 – 650m (see appendices for illustrative IFRS impacts)**	$652m

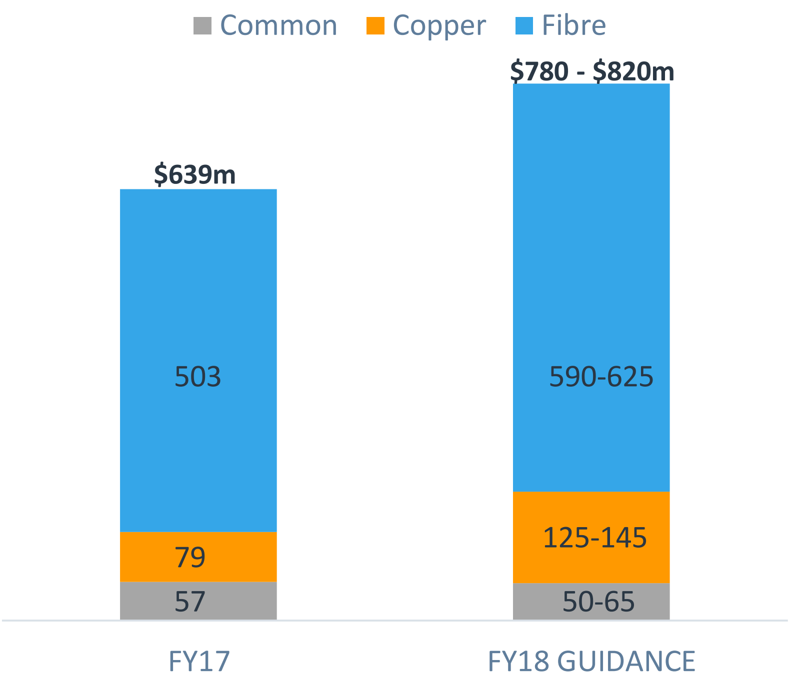
	UFB programme guidance
UFB1 Communal guidance: $1.75 - $1.8 billion	Tracking toward the top half of this programme guidance, excluding additional splitter investment. As a result of higher than anticipated fibre uptake, Chorus is bringing forward the investment of additional splitters prior to 2020, and expects to spend up to $30 million on this capability by 2020. This additional expenditure is growth related.

FY18 CAPEX GUIDANCE

> **FY18 GUIDANCE**: **$ 780m - $820m** gross capex reflects the following:

- **Fibre $590m-$625m**
  - ~$10m capitalisation (IFRS 15)
  - ~$10m pole replacement programme in Chorus UFB areas
  - $50-70m spend forecast for UFB2 communal
  - Growth in forecast fibre connections
- **Copper $125m-$145m**
  - ~$50m capitalisation of items previously expensed (IFRS 15)
  - ~$10m pole replacement programme across the balance of the network
- **common**: **$50m-$65m**

FY17 vs FY18 illustrative capex profile



CAPITAL MANAGEMENT & FY18 DIVIDEND

- FY17 final dividend of **12.5 cps**, fully imputed
  - supplementary dividend of 2.2cps payable to non-resident shareholders
  - **record date**: 26 September 2017
  - **payment date**: 10 October 2017
  - **Dividend Reinvestment Plan** applies with 3% discount to prevailing market price; open to New Zealand and Australian resident shareholders

- FY18 dividend guidance of **22cps,** subject to no material adverse changes in circumstances or outlook.

- The Chorus Board considers that a 'BBB' credit rating or equivalent credit rating is appropriate for a company such as Chorus. It intends to maintain capital management and financial policies consistent with these credit ratings.

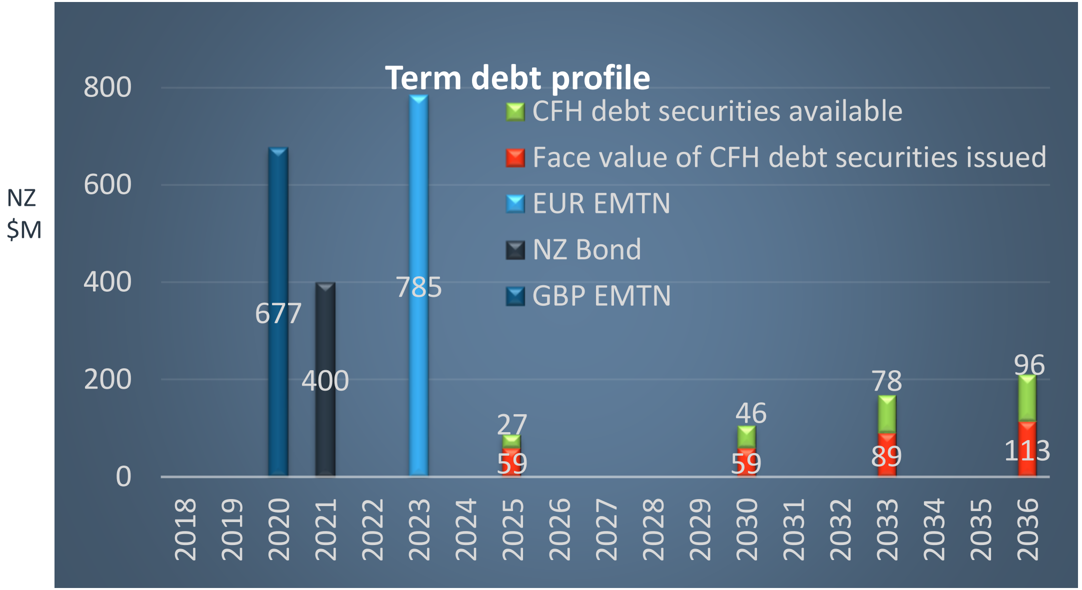
- During the UFB build programme to 2020, the Board expects to be able to provide shareholders with modest dividend growth from a base of 20cps per annum, subject to no material adverse changes in circumstances or outlook.

DEBT

	As at 30 June 2017 $m
Borrowings	1,862
+ PV of CFH debt securities (senior)	99
+ Net Finance leases	154
Sub total	2,115
- Cash	(170)
Total net debt	**1,945**
Net debt/EBITDA	2.98 times

- Financial covenants require senior debt ratio to be no greater than **4.75 times**

> At 30 June, debt of $1,862m comprised:
- Long term bank facilities $350m undrawn
- NZ bond $400m
- Euro Medium Term Notes $1,462m (NZ$ equivalent at hedged rates)



Our priorities for FY18

Kate McKenzie, Chief Executive Officer

WHAT WE'RE FOCUSED ON

Better broadband

- Driving broadband uptake and retention
- Providing customers with a network that is fast, reliable and congestion free

Transforming customer experience and cost

- Optimising the fibre/VDSL connection experience for customers
- Implementing new models for fibre connection

Delivering the future broadband network

- Delivering our UFB rollout on time and on budget
- Underpinned by a regulatory framework that supports ongoing investment

Creating opportunities to grow

- Identifying new open access business opportunities, including the role of fibre in future uses cases such as non-broadband access points and the Internet of Things

DELIVERING THE FUTURE BROADBAND NETWORK

> **New regulatory framework bill introduced to Parliament 8 August (General Election 23 Sept)**

Fibre – post 2020 utility framework

- Regulated asset base (RAB) to be set by Commerce Commission:
  - depreciated historical cost for pre 2011 assets
  - depreciated actual cost for post 2011 assets and
  - increased by unrecovered losses incurred pre 2020
  - no retrospective efficiency review
- Revenue cap with commercial geographically averaged pricing except for:
  - two anchor products (voice only + entry level broadband – 100/20Mbps fibre) at 2019 prices + CPI
  - similar price cap for direct fibre access
  - after 2023 the Commission can review the revenue cap model, as well as the anchor products subject to specified conditions & statutory criteria

Copper – post 2020 legacy framework

WHERE FIBRE IS AVAILABLE:

- Copper network to be deregulated and Telecommunications Service Obligation (TSO) removed
- Chorus can withdraw copper service, subject to minimum consumer protection requirements

WHERE FIBRE IS NOT AVAILABLE:

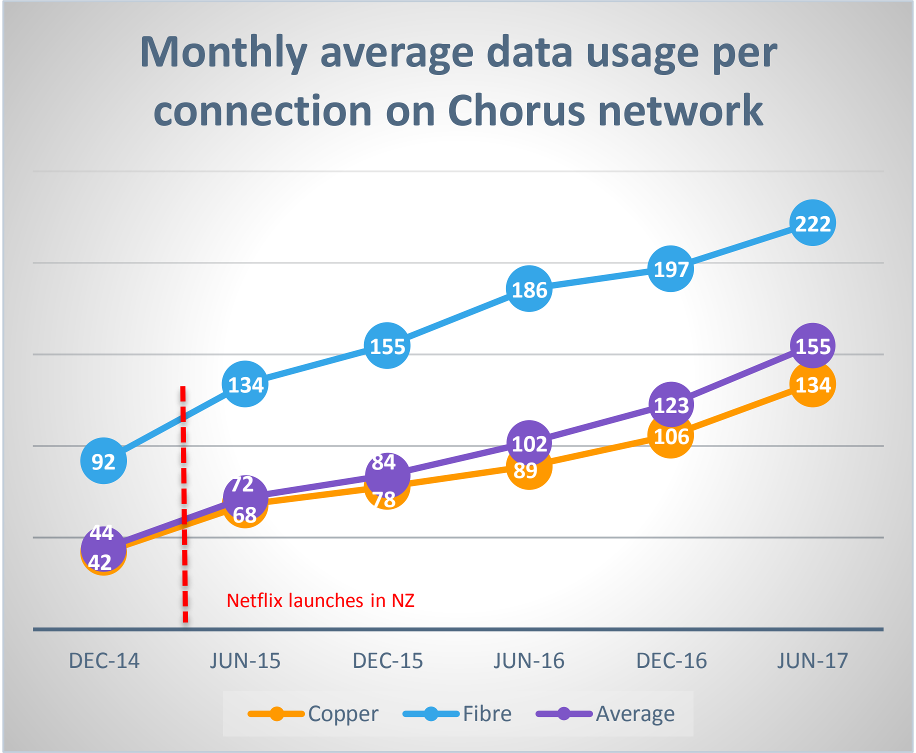
- Copper remains regulated and TSO applies
- Copper pricing capped at 2019 levels with CPI adjustments
- Commission required to review pricing framework no later than 2025

Next steps: legislative process, then the Commerce Commission will consult and set input methodologies.

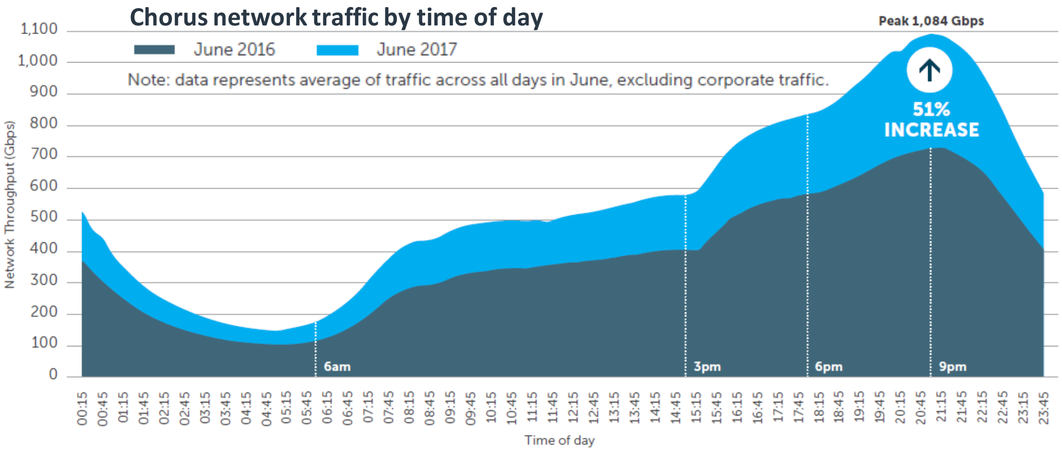
BETTER BROADBAND: CONGESTION FREE

> **A year ago we forecast ~170GB monthly average per connection by the end of FY17**
- during FY17 average data usage grew 52% from 102GB to **155GB**
- **167GB** achieved in July

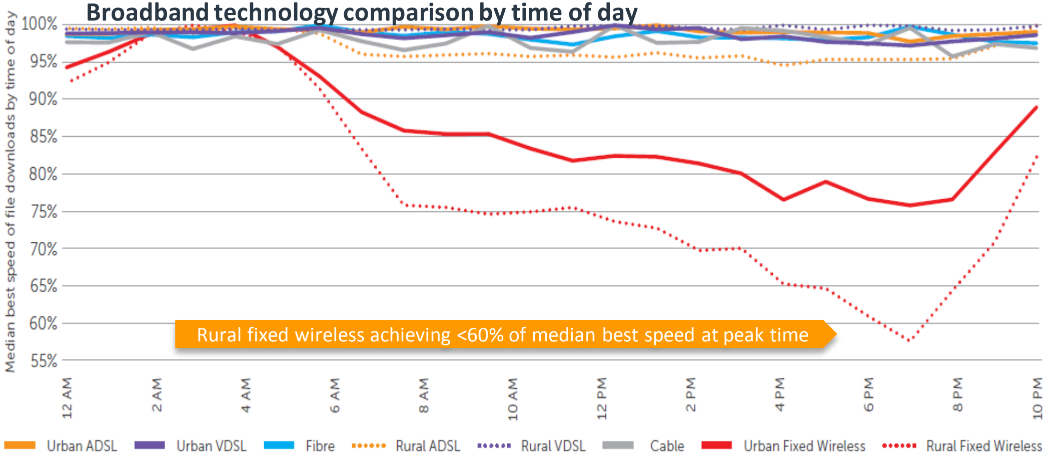
> **Based on historical trends, we're forecasting ~680GB average data usage by 2020**
- HD TV uses **3GB** per hour
- 4K TV uses **7GB** per hour
- **22%** of NZ consumers streaming programmes
- **~50%** of Sky TV set-top boxes internet capable
- **~60%** households on unlimited data plans



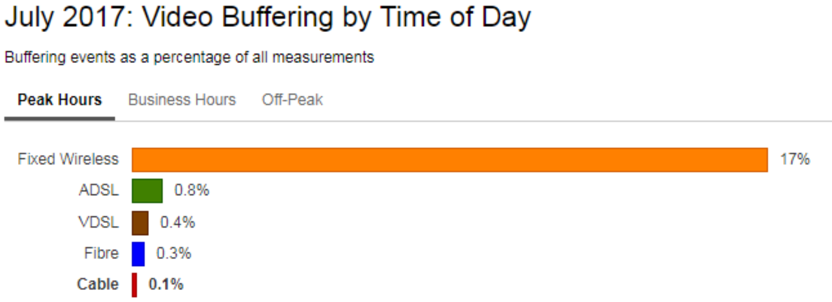
PEAK HOUR – WHEN CONGESTION FREE REALLY COUNTS



- **Peak hour data traffic is growing rapidly**
  - 51% increase in Chorus network traffic at ~9pm between June 2016 and June 2017
  - TrueNet data shows fixed line broadband (fibre/VDSL/ADSL) delivers consistent performance at peak times
  - wireless (mobile) networks share capacity, as evidenced by significant video buffering



Source: *TrueNet Urban and Rural Broadband Reports June 2017*



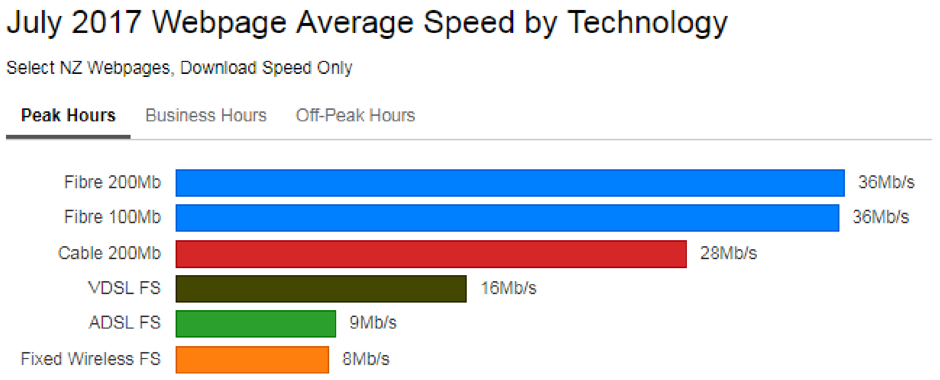
Source: *TrueNet Urban Broadband Report July 2017*

PROMOTING BETTER BROADBAND

> ***Ask for better* campaign has seen a steady decline in broadband connection losses**
  - 35,000 address checks: 24k could upgrade to VDSL or fibre

> **For the next phase we've proposed:**
  - credit contributions for ADSL connections **above a threshold volume,** migrated to fibre or VDSL
  - credit contributions for **qualifying offnet or other identified addresses** migrated to our network

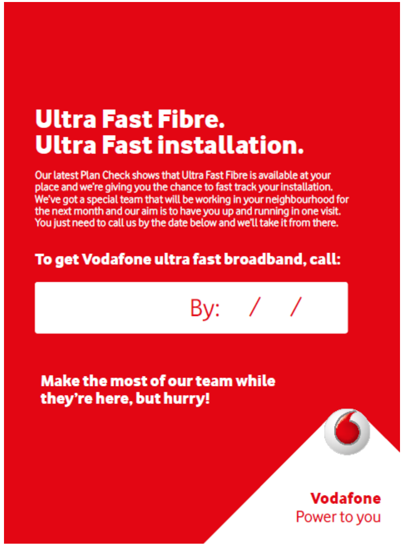
> **Fixed wireless performs about the same as ADSL for webpage browsing**



Source: *TrueNet Urban Broadband Report July 2017*

TRANSFORMING CUSTOMER EXPERIENCE & COST

> **Strong fibre demand requires mass connection solutions**
- tactical fibre migration activity to group orders and reduce customer effort to <1 day



Fibre migration activity

> **RSP led migrations in completed UFB areas**
- linked to RSP door-to-door campaigns

> **Chorus initiatives in completed UFB areas**
- MDU fibre awareness campaigns underway
- door knock trial in suburban areas soon

> **combined UFB street build + ONT installation**
- strong response to door knock trial in Hokitika
- extending to rest of Hokitika build area

> **Fibre ready subdivisions**
- working with developers to pre-connect homes

TRANSFORMING CUSTOMER EXPERIENCE

> **We're reshaping our structure to lift customer experience further**

- need to orient the business around focused customer migration activities
- preparing for a post UFB rollout environment

STRATEGY
&
BUSINESS OPS:
drives end-to-end performance improvement

RSP PRODUCT, SALES & MARKETING
- RSP relationships from operational matters to sales

CUSTOMER CARE
- order management, faults and fibre consenting

TECHNOLOGY
- consolidated planning for investment across network

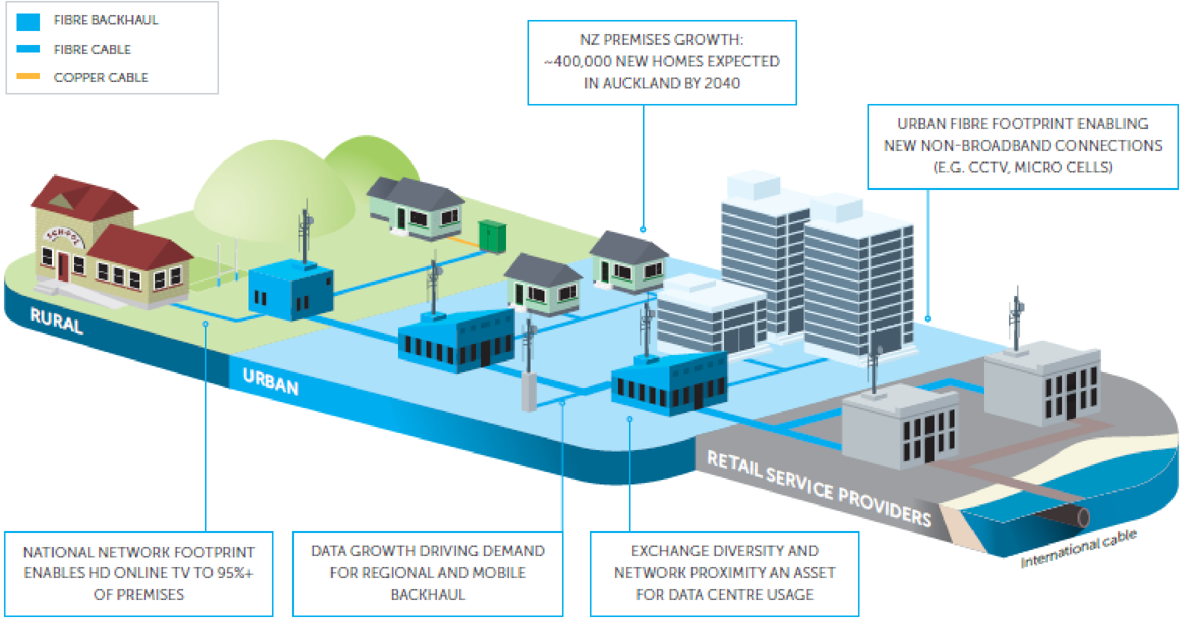
NETWORK & FIELD MANAGEMENT
- responsibility for network resilience and service companies

CORPORATE

CREATING OPPORTUNITIES TO GROW

> **Leveraging our network**

- fixed line and 5G: we see a complementary future
- strong demand for trial data centre; more sites planned
- national backhaul contract with 2degrees
- emerging demand for non-broadband access points



Appendices

Appendix A – NON STATUTORY MEASURE: FY16 ADJUSTED EBITDA

- This appendix provides a high level summary of Chorus' FY16 adjusted EBITDA for comparison with statutory FY17 results for information purposes. It has been prepared on the basis of the final pricing principle determinations effective 16 December 2015 and capitalisation of service desk costs.
- For comparative purposes this flows the pricing through FY16 as though the pricing had changed on 1 July 2015 and as though the capitalisation of certain labour ($16m) and IT costs ($8m) had occurred in FY16.

	Adjusted FY16 $m	FY17 $m	%
Adjusted operating revenue	1,067	1,040	(2.6)
Operating expenses	(390)	(388)	(0.5)
Adjusted EBITDA	**677**	**652**	**(3.8)**

	Statutory results $m	Add: UBA and UCLL price change $m	Less: transaction charge price change $m	Add: service desk capitalisation $m	Adjusted FY16 $m
Total operating revenue	1,008	65	(6)	-	1,067
Total operating expenses	(414)	-	-	24	(390)
EBITDA	**594**	**65**	**(6)**	**24**	**677**

Appendix B.1 – PRO FORMA FY17 EBITDA

For information purposes only. This appendix provides an approximate translation of FY17 to show the illustrative impact if IFRS 15 and IFRS 16 had applied in FY17.

	Statutory results $m		Notes
Total operating revenue		1,040	
Add broadband promotion credits	Field services 8		• Three months of costs incurred in FY17. In FY18 these costs will be capitalised and amortised over three years
Pro forma total operating revenue		**1048**	
Total operating expenses		(388)	
Less IFRS 15	Labour 5 Provisioning 27 IT costs 10	42	• Costs incurred in acquiring and retaining customers • These costs are capitalised and amortised over 1 or 3 years • Will be disclosed as separate line items in copper and fibre capex
Less IFRS 16	Rent and rates 8		• Current items that are classified as operating leases will now be considered finance leases • These costs are capitalised and amortised over the life of the lease agreement
Pro forma total operating expenses		**(338)**	
Pro forma EBITDA		**710**	

Appendix B.2 - PRO FORMA FY17 CAPEX

For information purposes only. This appendix provides an approximate translation of FY17 to show the illustrative impact if IFRS 15 and IFRS 16 had applied in FY17.

- The adoption of IFRS 15 requires the capitalisation of costs incurred in acquiring and retaining customers (with the costs capitalised and amortised over the life of the customer relationship (typically three years, but most provisioning costs will be amortised over one year)). Approximate values in FY17 and categories are as follows: labour (~$5m), provisioning (~$27m) and IT costs (~$10m). In FY17 $8m of costs were incurred in three months relating to broadband promotion. IFRS 15 would require capitalisation of these costs (and amortised over the life of the customer relationship (on average three years)).
- The adoption of IFRS 16 means that current items that are classified as operating leases will now be considered finance leases (with the future lease payments capitalised and amortised over the life of the lease) (~$8m in FY17).

	FY17 capex $m	Impact of IFRS 15 $m	Impact of IFRS 16 $m	Pro-forma FY17 capex $m
Fibre	503	11	-	514
Copper	79	39	8	126
Common	57	-	-	57
Total capital expenditure	**639**	**50**	**8**	**697**

Appendix B.3 - PRO FORMA FY17 EBITDA H1 vs H2

For information purposes only. This appendix provides an approximate translation of the two halves of FY17 to show the illustrative impact if IFRS 15 and IFRS 16 had applied in FY17.

	H1 17 Statutory results $m	IFRS impact $m	Pro-forma H1 17 $m		H2 17 Statutory results $m	IFRS impact $m	Pro-forma H2 17 $m
Total operating revenue	529	-	529		511	8	519
Labour	(38)	2	(36)		(36)	3	(33)
Provisioning	(24)	14	(10)		(19)	13	(6)
IT costs	(30)	7	(23)		(30)	3	(27)
Rent and rates	(8)	4	(4)		(9)	4	(5)
Other operating expenses	(94)	-	(94)		(100)	-	(100)
Total operating expenses	(194)	27	(167)		(194)	23	(171)
EBITDA	**335**	**27**	**362**		**317**	**31**	**348**

Chorus

Appendix B.4 - PRO FORMA FY16 EBITDA H1 vs H2

For information purposes only. This appendix provides an approximate translation of the two halves of FY16 to show the illustrative impact if IFRS 15 and IFRS 16 had applied in FY16. This assumes FPP pricing had changed on 1 July 2015, the capitalisation of certain labour ($16m) and IT costs ($8m) had occurred in FY16 and the impact of the adoption of IFRS 15 and IFRS 16 on income statement line items.

	H1 16 Statutory results $m	Adj. (per App A) $m	IFRS impact $m	Pro-forma H1 16 $m		H2 16 Statutory results $m	Adj. (per App A) $m	IFRS impact $m	Pro-forma H2 16 $m
Total operating revenue	479	59	-	538		529	-	-	529
Labour	(38)	6	(2)	(30)		(40)	10	3	(27)
Provisioning	(31)	-	(21)	(10)		(29)	-	15	(14)
IT costs	(33)	4	(4)	(25)		(32)	4	4	(24)
Rent and rates	(8)	-	(3)	(5)		(8)	-	4	(4)
Other operating expenses	(94)	-	-	(94)		(101)	-	-	(101)
Total operating expenses	(204)	10	(30)	(164)		(210)	14	26	(170)
EBITDA	**275**	**69**	**30**	**374**		**319**	**14**	**26**	**359**

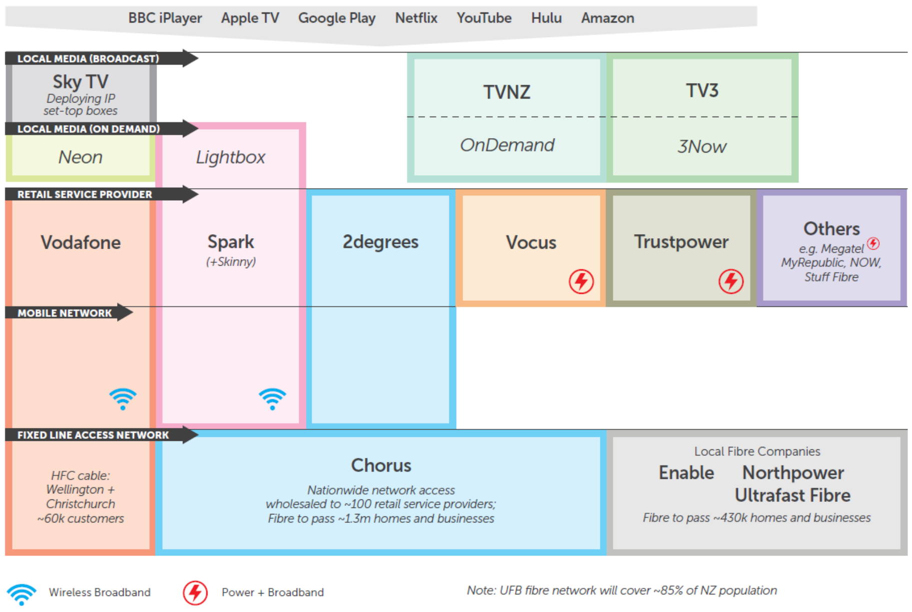
Appendix C: FY18 REVISED REVENUE REPORTING CATEGORIES

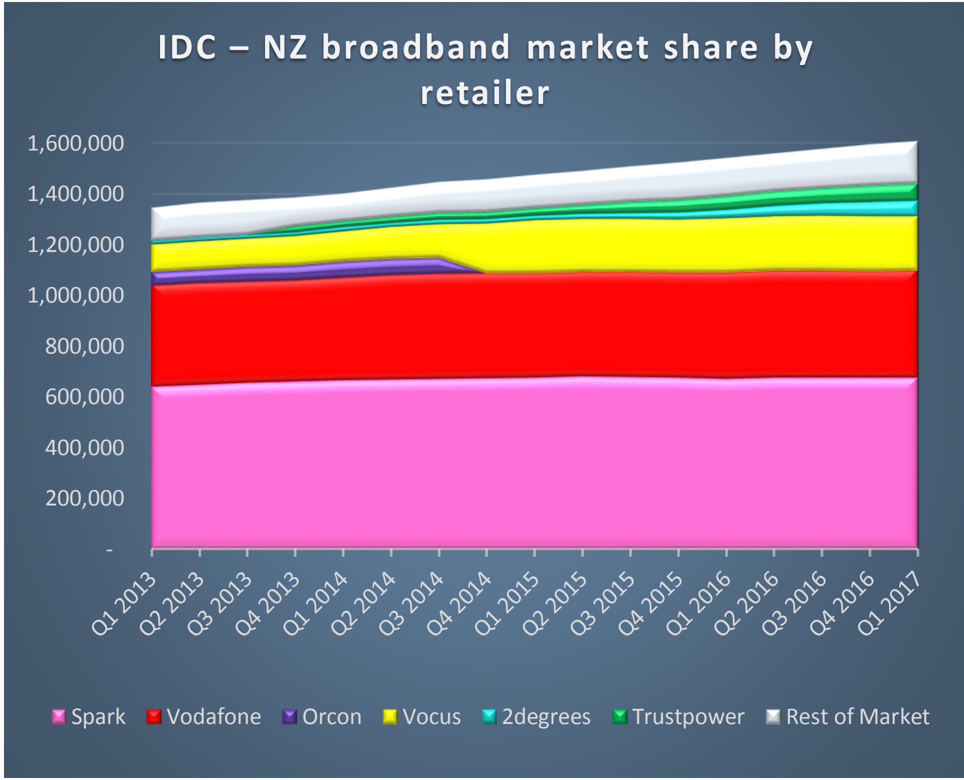
Category	Description	FY15 $m	HY16 $m	FY16 $m	HY17 $m	FY17 $m
Copper line (no broadband)	Revenues received for copper lines where no broadband service is provided by Chorus (i.e. 'voice only' UCLL, SLU, SLES, Baseband IP, UCLFS lines).	443	148	235	83	163
Copper based broadband	Revenues received for copper lines where an ADSL or VDSL broadband service is provided by Chorus, including the backhaul (tail extension services) relating to these services.	268	176	456	263	501
Data services (copper)	Revenues received for the ~8,000 data services connections on copper.	43	18	36	17	32
Fibre broadband (GPON)	Revenues for business and residential fibre connections on GPON.	29	25	60	54	123
Fibre premium (P2P)	Revenues for enterprise/network grade bandwidth and direct (dark) fibre point-to-point (P2P) connections. Note: Includes regional backhaul previously included in Value Added Network Services and fibre backhaul for copper connections previously included in Basic Copper.	74	39	78	39	79
Value added network services	Revenues for carrier grade data transport services and aggregation handover links.	36	17	34	17	34
Infrastructure	No change	21	10	20	11	23
Field services	No change	84	43	83	42	76
Other revenue	No change	8	3	6	3	9
Total revenue		**1,006**	**479**	**1,008**	**529**	**1,040**

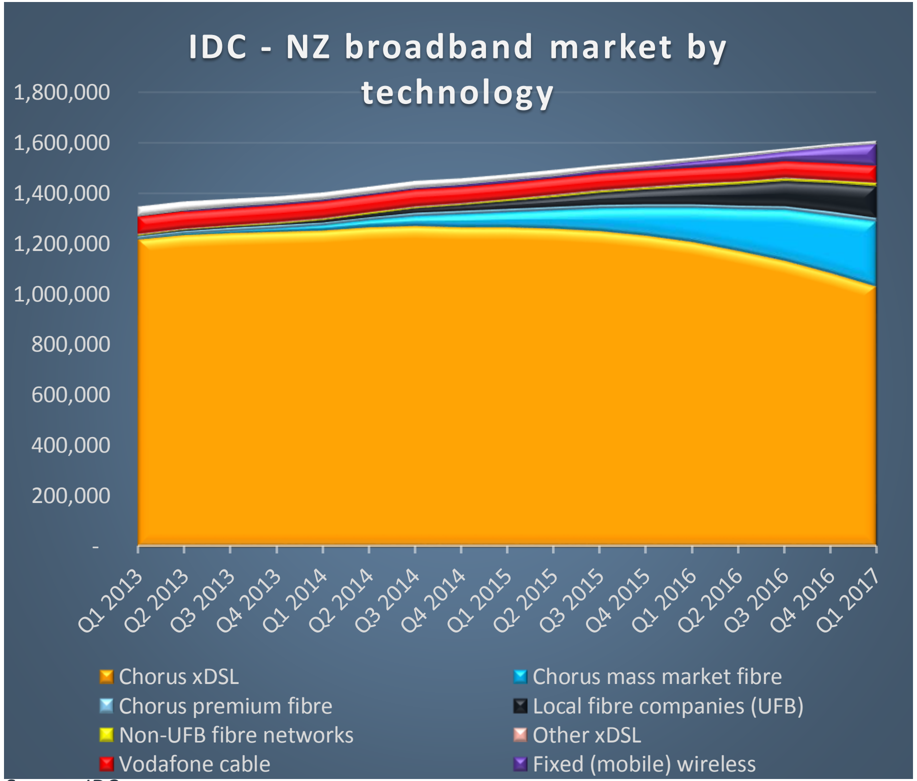
Appendix D: FY17 CONNECTIONS TABLE

	CONNECTIONS 30 JUN 2017	CONNECTIONS 31 DEC 2016	CONNECTIONS 30 JUN 2016
Baseband copper	976,000	1,109,000	1,221,000
UCLL	81,000	98,000	108,000
SLU/SLES	1,000	1,000	2,000
Naked copper (UBA / VDSL)	213,000	207,000	197,000
Baseband IP	18,000	10,000	9,000
Data services over copper	8,000	9,000	10,000
Fibre (mass market + premium business)	305,000	244,000	180,000
Total fixed line connections	**1,602,000**	**1,678,000**	**1,727,000**
Copper UBA (includes naked UBA)	650,000	784,000	900,000
VDSL (includes naked VDSL)	244,000	199,000	159,000
Fibre (mass market)	292,000	231,000	167,000
Total broadband connections	**1,186,000**	**1,214,000**	**1,226,000**

Appendix E: NZ BROADBAND MARKET





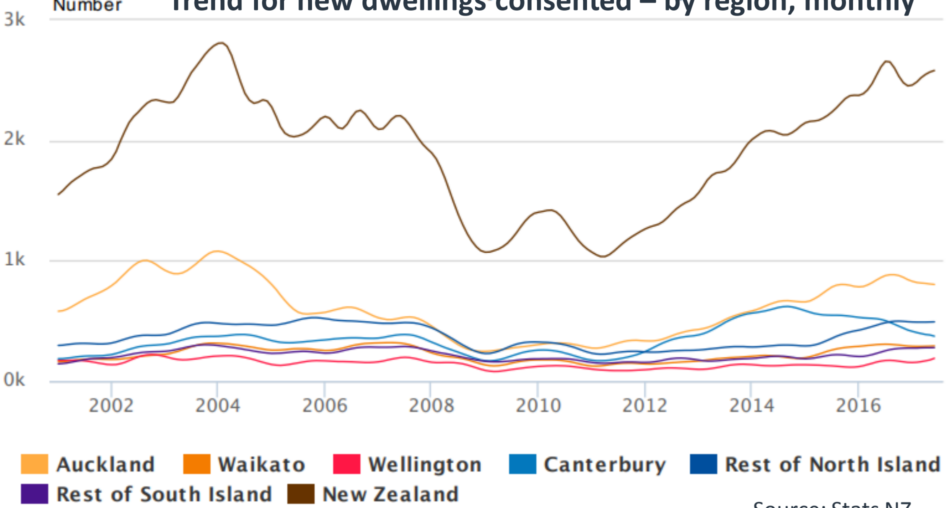


Source: *IDC*

> Population and premises growth supporting ongoing broadband uptake

- 30,453 new dwellings consented in NZ in FY17 (up 4.7% from FY16)
- Auckland projected to account for over half of NZ population growth to 2040 with 400,000 homes

Trend for new dwellings consented – by region, monthly



Source: Stats NZ

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Annual Report | 2017

FY17 result overview

FIXED LINE CONNECTIONS

FY17
1,602,000

↓ 7%

FY16
1,727,000

BROADBAND CONNECTIONS

FY17
1,186,000

↓ 3%

FY16
1,226,000

FIBRE CONNECTIONS

FY17
305,000

↑ 69%

FY16
180,000

NET PROFIT AFTER TAX

FY17
$113m

FY16
$91m

EBITDA[1]

FY17
$652m

FY16
$594m

ADJUSTED[2] EBITDA

FY17
$652m

FY16
$677m[2]

DIVIDEND

FY17
21cps

FY16
20cps

EMPLOYEE ENGAGEMENT SCORE

FY17
81%

FY16
83%

1 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of the business.

2 Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed. Refer to Appendix one on page 23 for the detailed calculation.

Chorus Board and management overview

Kate McKenzie Chief Executive

Patrick Strange Chairman

This report is dated 28 August 2017 and is signed on behalf of the Board of Chorus Limited.

Dear Investors

We made substantial progress this year in our drive to bring better broadband to more New Zealanders. We're now more than two-thirds of the way towards our original goal of bringing ultra-fast broadband (UFB) within reach of more than one million customers by 2020. By the end of June 2017 we'd already achieved 35% uptake, connecting more than 275,000 customers to fibre broadband in our UFB areas. That's a significant increase from the 24% uptake at the start of FY17 and well ahead of our initial contractual target of 20% uptake by 2020. Our employee engagement score of 81% shows our people believe strongly in the contribution they're making to New Zealand's future through the rollout of this critical infrastructure.

The strength of demand for fibre broadband gave us the confidence in January to announce an extension of our UFB partnership with the Government. This time to extend fibre to approximately 200,000 more customers. More than half of New Zealand's population will be able to connect to our fibre network when the rollout is complete. When you combine our areas with those to be served by the Government's other fibre partners, fibre broadband has been committed to about 85% of the population with just $1.5 billion in Government financing. It's little wonder that New Zealand's rollout is now cited by other countries as an example of success for both model and cost.

Network investment also requires financial and regulatory stability. During the year the Government took some significant steps that will see us transition to a utility-type regulatory framework from 2020. This promises to allow UFB network providers the opportunity to earn normal returns over the lifetime of their investments. Our evolution towards a utility model continued to encourage shareholder interest out of Australia, leading to our inclusion in the S&P/ASX 200 Index in May 2017. During FY17, our market capitalisation increased from $1.7 billion to $1.9 billion and total shareholder returns were 18% for the period.

A fully imputed final dividend of 12.5 cents per share will be paid on 10 October 2017, bringing total dividends for FY17 to 21 cents per share. The dividend reinvestment plan has been popular with shareholders and will be available again so we may retain cash for network investment purposes.

We achieved net profit after tax of $113 million and delivered a good financial performance for the year with EBITDA of $652 million. This was underpinned by a strong focus on costs as we streamlined copper provisioning processes and began capitalising more labour expenses relating to certain fibre provisioning service desk costs. However, FY17 EBITDA declined relative to adjusted[1] EBITDA of $677 million for FY16. This reflects a reduction in revenue as other fibre companies gain connections in their fibre rollout areas and large vertically integrated retailers encourage their customers on to their own wireless broadband networks. In response, we launched a campaign in May to promote the benefits and availability of better fixed line broadband and this has had positive early results.

We undertook a strategic review during the year to consider technology and industry developments. New Zealand is very different from most other countries where fibre networks haven't been built. Fibre is clearly the best technology to meet the ever increasing and changing data demands of customers and retailers. Given the likely infrastructure requirements and service characteristics of future wireless technology, and the extensive nature of our fibre to the home network, we believe wireless will continue to be a largely complementary access technology. We believe our assets can potentially also support a number of future uses that are still in their infancy.

1 Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed. Refer to Appendix one on page 23 for the detailed calculation.

1. Connecting customers to better broadband

Last year we acknowledged we needed to become a more customer-oriented broadband company. We devoted considerable focus to customer outcomes during FY17.

1.1 The fibre installation experience

Improving the fibre connection process and delivering a high quality connection experience for customers was our number one operational priority for the year.

Our fibre installation workforce grew to 615 field crews by the end of FY17, up from 524 crews at the start. They completed 129,000 new fibre connections nationwide during FY17, a substantial increase from 93,000 connections in FY16. Productivity improved significantly after we reorganised service company responsibility for fibre installations in October. That helped reduce national weighted average lead times for a connection from 17 working days in June 2016 to 11 days by April 2017. Lead times subsequently increased to 22 days by the end of June after we received about 28,000 fibre orders in May. This was our largest ever month of orders and 33% higher than in May 2016.

The best measure of our improvement is customer satisfaction with fibre installations. Customers on average rated the overall experience 7.4 out of 10 by the end of June 2017, a significant increase from 6.9 out of 10 in June 2016. There's clearly still a way to go before we achieve our goal of delivering an effortless experience for customers. Clear communication with customers, technicians turning up when expected and making sure every installation meets our expected standards are the keys to better results. We supported improved communication processes by offering to manage all customer interaction for retailers from early 2016. We've now reduced this support as retailers have implemented their own processes, or moved to our new automated fibre provisioning system.

These process improvements and increased productivity have helped reduce reschedules by our technicians from 14% to 4%. Customer escalations reduced from 7% to 4%, reflecting our initiatives to ensure our quality standards are met and the growing experience of our field crews following the initial ramp up in the workforce to meet demand.

Our focus on improving the fibre installation experience included trialling new initiatives to make the connection process more seamless for customers. For example, we've begun testing new connection methods, such as approaching groups of homeowners on a street by street basis to have their fibre installation completed, rather than waiting for them to place an order individually. We've also been working with subdivision developers to provide new homes with working fibre connections when building work is completed. In the past, the homeowner would have to move into the premises and then order the final connection, resulting in a service delay.

CUSTOMER SATISFACTION[1]

JUNE 16: 6.9 out of 10 → JUNE 17: 7.4 out of 10

PROVIDING RESIDENTIAL SERVICE WHEN SCHEDULED

JUNE 16: 78% → JUNE 17: 91%

TECHNICIAN RESCHEDULES

JUNE 16: 14% → JUNE 17: 4%

CUSTOMER ESCALATIONS

JUNE 16: 7% → JUNE 17: 4%

1 As measured on a three month rolling average.

1.2 Maintaining our focus on copper network connections

While the fibre network may be the growth area of our business, we remain committed to ensuring the approximately 1.3 million connections on our copper network receive stable and reliable service. Following a challenging 2016 winter, our service companies employed more people and we undertook a focused proactive maintenance programme. We're very pleased with the way the network performed through two cyclones in autumn and the speed with which customers were reconnected. Restoration times were still within a world-class 24 hour mark at the end of June.

Our copper broadband network continues to deliver high quality service. For example, a copper fixed line connection has an average fault rate of once every five years, with loss of service being about 18 hours on average, which stacks up very favourably against international comparisons. However, there are a small percentage of customers who are not receiving the level of reliability and stability they should. During the year we identified about 20,000 copper lines that were no longer meeting acceptable levels of service and we encouraged retailers to proactively migrate those customers to our new fibre network.

Figure 1:

Our UFB uptake

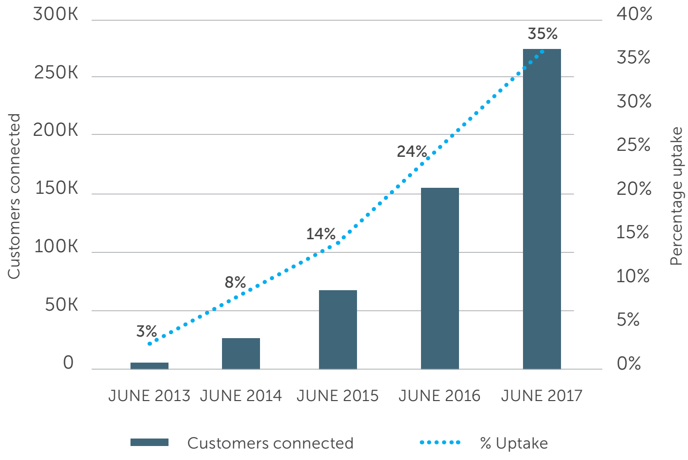
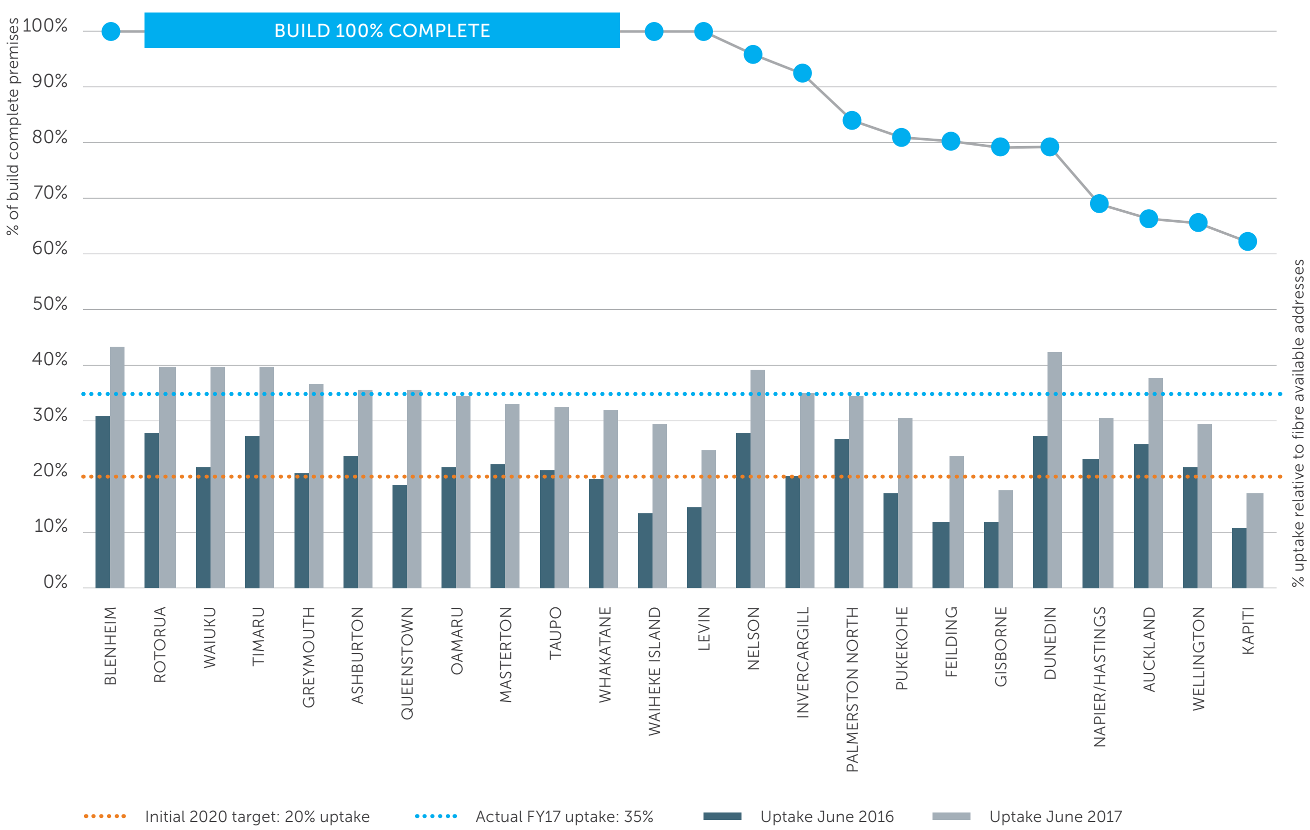


Figure 2:

UFB rollout and uptake by region



2. Our challenges and opportunities

As a network business, the core of what we do is fundamentally simple. Our purpose is to bring better broadband to New Zealanders through ongoing investment and innovation and the more people that connect to our network, the better the returns on our network investment should be. However, we operate in a complex environment, in part because much of our business is heavily regulated. This is further complicated by the unique dynamics of New Zealand's telecommunications market, built around structural separation of the historical incumbent vertically integrated retail operator (i.e. Telecom New Zealand, now Spark) from its wholesale only network arm (i.e. Chorus), and the continuing evolution of technology and customer demand.

Bearing in mind these complexities, the following are the material challenges and opportunities we're currently focused on.

2.1 Regulatory environment

Current regulatory framework

We currently operate within the regulatory framework established by the Telecommunications Act. This framework was amended in 2011 to facilitate our demerger from Telecom New Zealand. Approximately 65% of our FY17 revenues were from copper services with pricing and terms regulated by the Commerce Commission (the Commission) under the Act. As we saw with the copper price reviews conducted by the Commission between early 2012 and late 2015, changes to copper pricing can have a significant impact on our business. At the conclusion of its price review process in December 2015, the Commission set a five-year schedule of pricing for our regulated copper services.

Our fibre services aren't currently regulated. Most are instead subject to contractual pricing and terms agreed with the Government as part of our UFB1 and UFB2 contracts. The UFB1 contract applies through to the end of the UFB1 rollout in December 2019. The UFB2 contract applies through to the end of that rollout.

While there is a lot of oversight from the regulator and the Crown contract, since December 2015 we have been able to be increasingly focused on customer experience and ongoing investment and innovation for the future.

We're also subject to the requirements of the Commerce Act 1986, Fair Trading Act 1986 and four open access deeds of undertaking for copper, fibre and Rural Broadband Initiative services. These deeds represent a series of legally binding obligations focused on the provision of services on a non-discriminatory or equivalent basis. The Commission can recommend to the Communications Minister that services not currently regulated be regulated and vice versa.

This regime will remain in place after 2020 except for matters that are dealt with in the revised utility model.

Figure 3:

Regulation: moving to a utility model

(Final regulatory framework policy decisions announced by Government on 1 June)

Fibre – post 2020 utility framework

- Regulated asset base (RAB) to be set by Commerce Commission:
  - depreciated historical cost for pre 2011 assets
  - depreciated actual cost for post 2011 assets and
  - increased by unrecovered losses incurred pre 2020
  - no retrospective efficiency review
- Revenue cap with commercial geographically averaged pricing except for:
  - two anchor products (voice only + entry level broadband – 100/20Mbps fibre) at 2019 prices + CPI
  - similar price cap for direct fibre access
  - after 2023 the Commission can review the revenue cap model, as well as the anchor products subject to specified conditions & statutory criteria

Copper – post 2020 legacy framework

WHERE FIBRE IS AVAILABLE:

- Copper network to be deregulated and Telecommunications Service Obligation (TSO) removed
- Chorus can withdraw copper service, subject to minimum consumer protection requirements

WHERE FIBRE IS NOT AVAILABLE:

- Copper remains regulated and TSO applies
- Copper pricing capped at 2019 levels with CPI adjustments
- Commission required to review pricing framework no later than 2025

Moving to a utility model

The pricing and terms on which we deliver copper and fibre access services from 2020 onwards has been the subject of a government regulatory framework review. The Government released its final policy decisions from this review on 1 June 2017.

The Government has decided that our newer fibre investment will be regulated under a utility style building block model framework. This model is already used to regulate other New Zealand utility businesses such as electricity lines and gas networks. It is recognised as supporting efficient private sector investment to meet network upgrades and increasing consumer demands through ongoing incentives to innovate, invest and improve efficiency for the long term benefit of customers. The copper network will be deregulated in areas where fibre is available, but will remain regulated where fibre is not available. Key features of the proposed regime are summarised in Figure 3.

The Government will need to pass legislation to implement these proposed changes. A Bill was introduced to Parliament on 8 August 2017. The legislative process won't be completed until after the general election scheduled for September 2017. If and when legislation is passed, it will be subject to interpretation and implementation by the Commission.

Legislative detail will be important to ensure the Commission implements a smooth transition to the new regime in time for 2020 without shocks for anyone. The Commission will need to determine key input methodologies that will set the rules for then setting the starting value of our regulated asset base, the regulatory weighted average cost of capital, cost allocations, expenditure allowances and our maximum allowable revenue. There is the possibility that in exercising discretion the Commission sets the initial regulated asset base and our revenue cap, for example, at lower than expected levels. There will also be information disclosure requirements. The Commission's input methodologies and price/quality determination process will be subject to the different forms of merits review by the Courts.

In the event that the Commission doesn't complete its process by 2020, the Government proposal is that key fibre and copper prices will be frozen at the then existing pricing levels, adjusted for inflation, for up to 24 months.

We'll continue to be an active participant in the ongoing legislative and regulatory process outlined above. There is a clear need for the framework to strike a balance between providing the broadband innovation and quality customers want with the need for investors to receive a fair return on the significant network investments they've made. Many investors have made their own submissions to this effect through the earlier phases of the regulatory review. We welcome the Government's progress to date towards a refreshed regulatory framework that supports efficient investment without costly duplication of utility infrastructure.

2.2 Network demand and substitution

The New Zealand broadband market has been growing consistently for many years, fuelled by the emergence of broadband as the fourth utility and ongoing premises growth. In Auckland, for example, about 400,000 new homes are forecast to be needed by 2040.

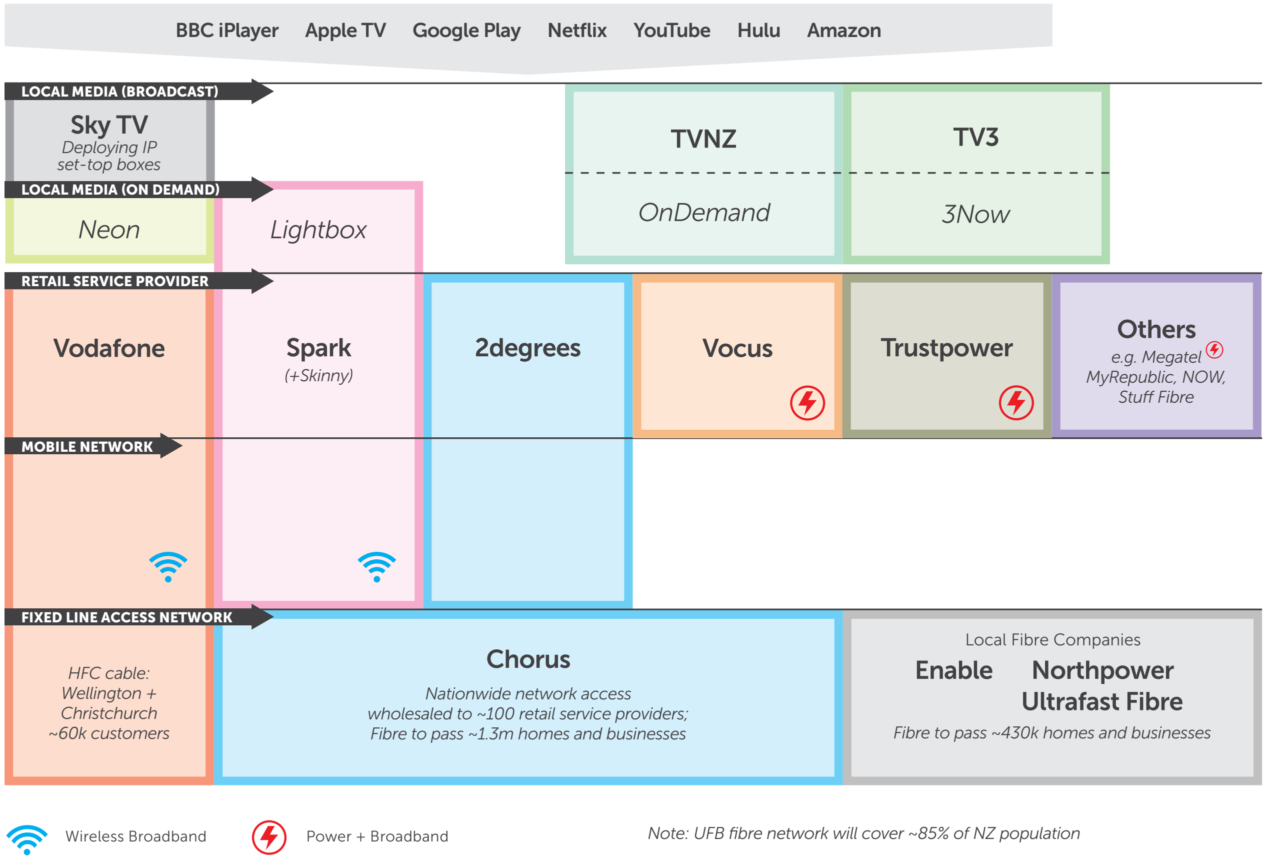
Against this backdrop, the total number of fixed line connections on our network reduced from 1,727,000 to 1,602,000 during FY17. This reflects three significant competitive dynamics:

- **Fixed line competition**, primarily in those areas where the Government's three other fibre network partners – Northpower (Whangarei area), Ultra-Fast Fibre (central North Island), and Enable (Christchurch area) – are building fibre to the premises networks. They had connected approximately 140,000 customers by the end of June 2017, up from an estimated 85,000 customers at the end of June 2016. We also face competition from Vodafone's hybrid fibre coaxial cable network in Wellington and Christchurch which it has been marketing as a fibre alternative. In addition, there are metro and backhaul fibre networks operated by providers including Vector, Citylink, Unison, Vocus, Vodafone and Spark in some areas.
- **Fixed wireless competition** from large vertically integrated retailers seeking to leverage their mobile network investments. Spark, for example, has announced an intention to reduce its Chorus network costs and increase margins by encouraging 20-25% of its copper broadband customers to move to fixed wireless.
- **Ongoing reduction in voice only lines** as customer demand declines. This reflects a combination of changing demographics, households switching to mobile only voice connections and consolidation of multiple lines.

Figure 4:

The New Zealand fixed line market

Rationalisation, new entrants and new business models are disrupting the NZ market.



Enabling and promoting better broadband

A reduction in connections has consequences for our revenues and profitability, as does customers shifting from higher cost services to alternative lower cost services. To mitigate these risks we're continually investing in our copper and fibre services and working with retailers to enhance the customer experience.

We made a lot of enhancements to our network during the year to provide customers with better broadband options. This work included:

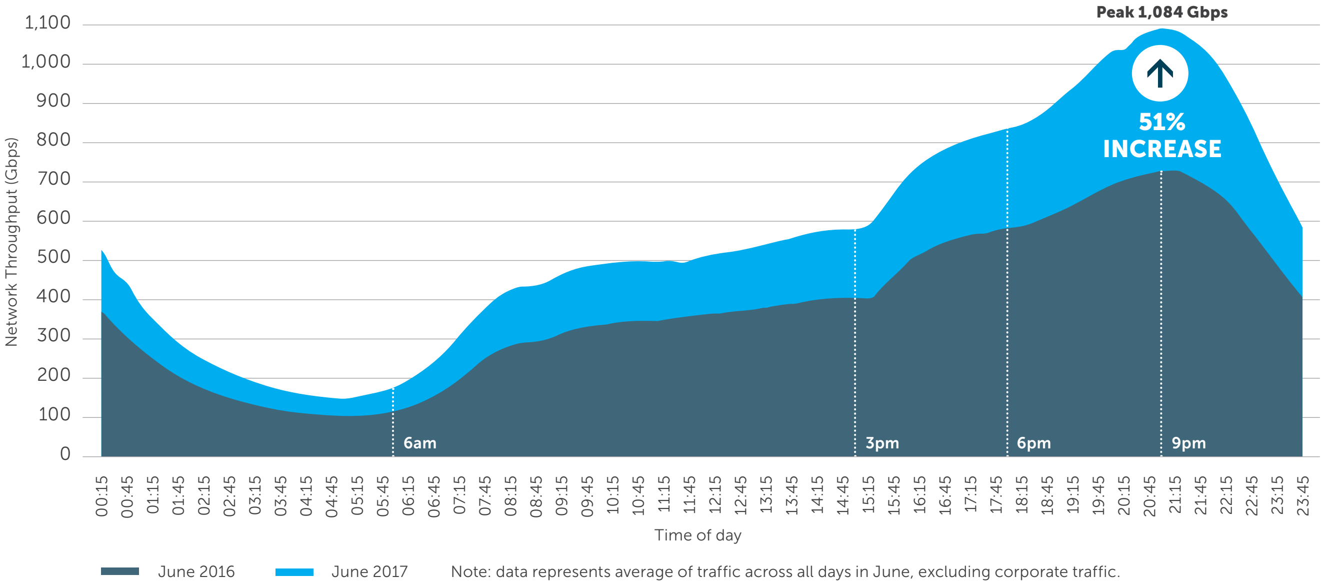
- extending fibre past 106,000 more premises for the UFB rollout
- making gigabit services available across our fibre footprint
- increasing the entry level 30Mbps fibre service to 50Mbps
- deploying new Dynamic Line Management technology to automatically improve the stability of copper broadband connections, resulting in a significant improvement in average speeds
- upgrading 125 rural broadband cabinets with fibre optic cable and VDSL broadband capability.

As a structurally separated wholesaler, we've tended to rely on retailers to promote our network services to their existing and potential customers. However, we don't believe it's in customers' interests to switch to potentially inferior wireless networks, especially when they aren't fully aware of the potential consequences for their existing home network set-up or their broadband experience as data needs increase. Given these considerations and the changing market dynamics, we decided to take steps to raise awareness of the better broadband options already available to customers on our network.

Our initiatives have included making more network information about VDSL and fibre availability public via the address checker on our website (see www.chorus.co.nz/broadband-checker) and launching our first ever mainstream advertising campaign in May 2017. The campaign encouraged New Zealanders to ask for better (see www.askforbetter.co.nz) and generated a strong response, with about 83,000 website visitors and 31,000 address checks. We also worked directly with retailers to encourage them to upgrade their customers to better broadband by providing contributions to their upgrade costs.

Figure 5:

Peak hour – an ever growing mountain of data



Note: data represents average of traffic across all days in June, excluding corporate traffic.

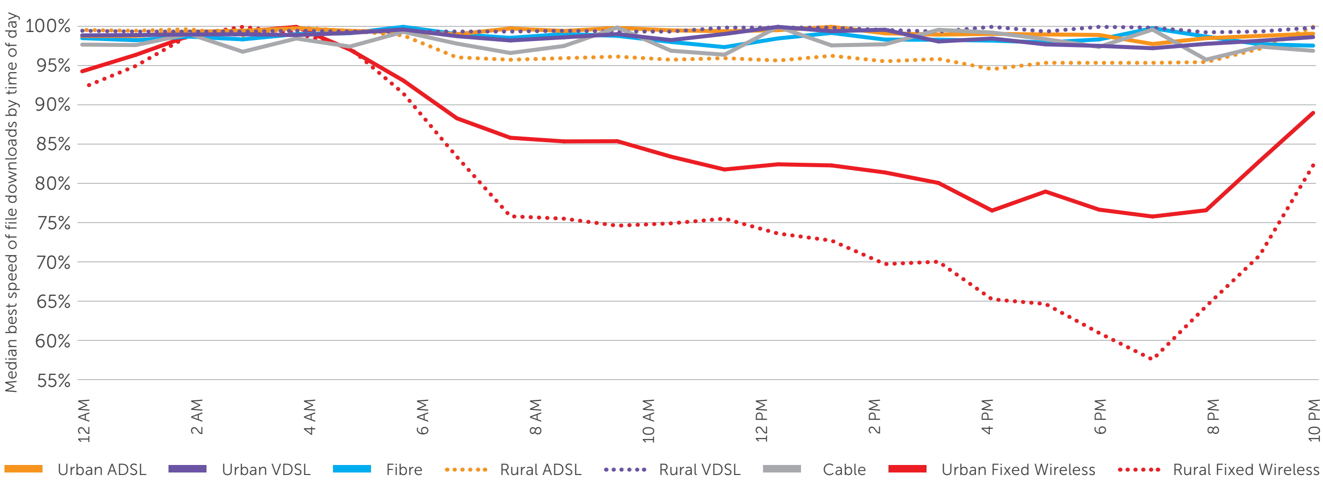
Peak time data demand favours fixed line broadband

Our promotion of better broadband has been supported by growing awareness of the importance of reliable broadband at peak demand times. As Figure 5 shows, between June 2016 and June 2017 we saw a 51% increase in the average amount of data traffic through our network at the peak time around 9pm each evening. This trend is continuing as more and more New Zealanders use their broadband connection to stream video content on demand. Where feasible, we design our fixed line network, whether copper or fibre, to support peak time demand and provide a reliable and consistent performance. In contrast, fixed wireless networks share capacity and are more prone to congestion at peak times.

This congestion results in service degradation when most people are online in the evening, illustrated by independent testing by Truenet. Figure 6 shows wireless median best speed performance reducing at peak times to almost 75% in urban areas and below 60% in rural areas. In contrast, copper and fibre fixed line performance remains stable at around 95% or better. Another consequence of peak time congestion is the significant increase in buffering, where video content pauses because of delays in content downloading, as shown in Figure 7.

Figure 6:

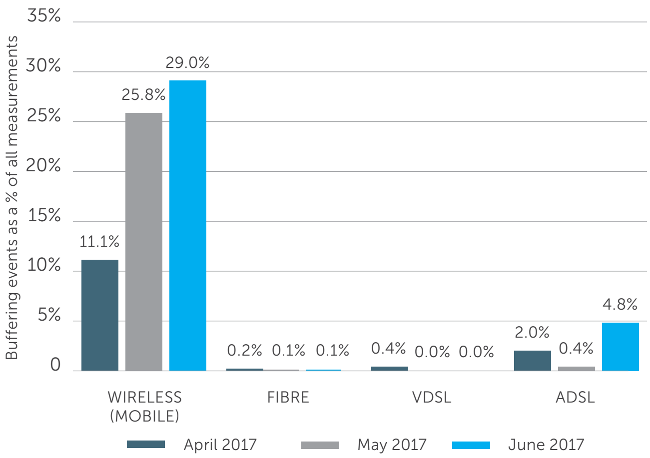
June 2017: Peak speed



Source: *TrueNet Urban and Rural Broadband Reports – April–June 2017*

Figure 7:

Buffering average vs peak hours (8-9pm)

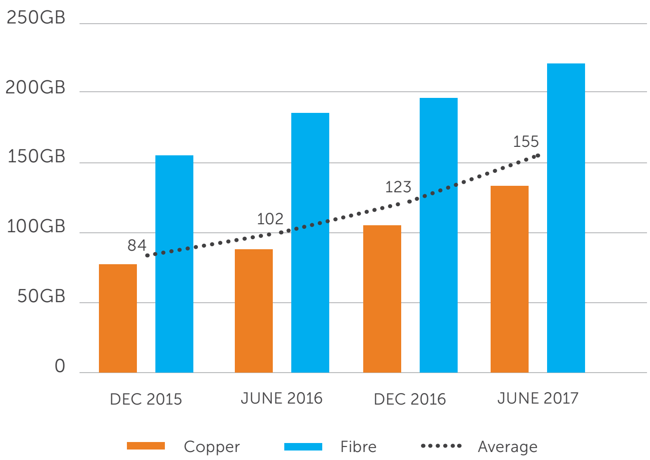


Source data: TrueNet Urban Broadband Report – April-June 2017

There are customers who do not use much data and for whom wireless networks may provide a viable network alternative. However, our view is that ever increasing data demands and the evolution of new data hungry devices and applications, such as 4K televisions and virtual reality, will only continue to fuel the demand for bandwidth. More than 60% of New Zealand households are thought to be on unlimited broadband plans and average monthly bandwidth demand on our network has reached 155 gigabytes per customer. We're forecasting average monthly data usage of 680GB per customer by 2020 based on historical growth rates. Currently, wireless broadband retailers have monthly datacaps of up to 120GB and only offer unlimited data on fixed line plans.

Figure 8:

Average monthly data usage per connection on our network



Source data: Chorus

Fixed line and 5G – a complementary future

While there is much speculation and marketing hype about the potential speeds and performance of so-called 5G mobile developments, the transmission and capacity characteristics of fibre optic technology give us confidence that fibre broadband will continue to outperform mobile technology. Global 5G standards aren't expected to be agreed before 2020. This means 5G deployments are unlikely to occur until later in 2020 unless network operators risk deploying non-standard equipment. We already offer 1 gigabit per second connections into New Zealand homes and these have no datacap constraints. By 2020 we'll have completed our UFB1 fibre rollout in large cities and towns and we'll be well advanced on our UFB2 rollout to smaller centres.

There is also uncertainty about the economic case for mobile network operators to undertake the small cell 5G deployments needed to deliver higher mobile speeds. A multitude of sites will be required for transmission purposes and each small cell site will only serve a very limited number of customers due to line of sight requirements. This is in addition to the spectrum and fibre backhaul assets likely to be required. We, therefore, envisage a potentially important and complementary future for shared infrastructure operators such as us in a 5G future.

2.3 The UFB rollout

We're a cornerstone partner in phases 1 and 2 of the Government's UFB initiative. This initiative is building a fibre to the home network to approximately 85% of New Zealanders. Our network rollout began in 2011 and will pass about one million premises. An estimated 1.3 million customers will be able to connect to this network. Building the fibre network past these homes and businesses is estimated to cost more than $2 billion. This amount excludes the significant additional cost of connecting each customer, the total cost of which will depend on the level of uptake over time.

The Government, through Crown Fibre Holdings (CFH), is providing up to $1.22 billion in financing. This financing was agreed to help make the business case for building the UFB network ahead of demand and acknowledging the significant risks involved. We receive the Government financing as the network is built past premises according to our agreed deployment plan. We issue debt and equity securities in return. The debt will be redeemed in tranches from 2025 to 2036, while an increasing portion of the equity securities attract dividend payments from 2025 onwards.

Given the large funding requirements related to the UFB rollout, it's critical that we maintain an appropriate capital structure for our financial profile. The Board considers that a 'BBB' or equivalent credit rating is appropriate for a company such as ours. If our credit rating falls below investment grade we would require CFH approval to pay a dividend on our ordinary shares and, after 2019, to continue accessing Government financing for the UFB2 rollout.

Figure 9:

UFB rollout summary

	UFB1	UFB2	TOTAL
PREMISES TO BE PASSED	up to 830,900	up to 168,200	**up to ~1 million**
ESTIMATED COMMUNAL CAPEX TO PASS PREMISES	$1.75 to $1.80 billion	$370 to $410 million (includes rights of way with more than 10 premises)	**$2.12 to $2.21 billion**
CFH FUNDING	up to $929 million 50% CFH debt, 50% CFH equity	up to $291 million 35% CFH debt, 65% CFH equity	**up to $1.22 billion**
CUSTOMERS ABLE TO CONNECT BY ROLLOUT END	~1.1 million	~203,000	**~1.3 million**
CONNECTION CAPEX	subject to demand		

If we breach our design, build, delivery or operational obligations under the UFB contract, the Government may be entitled to remedies such as default payments, financial penalties, liquidated damages and management step in and termination rights. We are, therefore, very focused on ensuring the UFB rollout progresses smoothly. Our confidence in our delivery of the UFB1 rollout is reflected in our UFB2 agreement with the Government announced in January 2017, which will extend fibre to about 200,000 more customers.

Like any large scale, long duration infrastructure construction project, the UFB rollout could be subject to unforeseen costs. To mitigate this risk we have fixed contracts in place for the communal network deployment (i.e. past homes and businesses), as well as the connections to customers. These contracts are with third party suppliers including Visionstream, Broadspectrum, Downer and Universal Communications Group. Our agreements with these third parties generally contain binding service level requirements and provide for remedies for failure. We're working closely with our service company partners on the installation experience because poor customer experience entails potential reputational risk for us. We've made good progress this year, but there's still work to be done and we need to balance fluctuations in demand with the need to maintain our workforce at sustainable levels.

2.4 Network assets and cybersecurity

Our network infrastructure may be damaged or interrupted by a range of factors. These include equipment or power failure, cable cuts, and damage caused by weather, earthquake, fire or third parties. Network damage or interruption could result in lost revenue, higher capital expenditure and operating costs, liabilities to retailers and reputational consequences.

We have a comprehensive insurance programme typical of large scale infrastructure utilities and we utilise modelling from GNS Science to undertake probability based loss estimate modelling.

Earthquakes

In recent years we've had several major earthquakes that have demonstrated the resilience of our network.

- The Christchurch earthquakes of 2010 and 2011 resulted in limited damage to our network despite the largest quake of 7.1 magnitude. Despite the ground acceleration forces experienced, damage to our exchange buildings was minimal and instead tended to be to localised cables.
- The Kaikoura earthquakes in November 2016, with the largest quake of 7.8 magnitude, also resulted in limited damage to our network. The greatest impact was on the coastal fibre routes owned by other network providers.

Cybersecurity

As a lifeline utility provider we have a strong focus on avoiding network disruption and mitigating potential cybersecurity risks. This focus includes security governance through policies, processes, and registers to ensure that cybersecurity risks are contemplated and addressed through technology selection, delivery practices, and ongoing operations of IT systems. Regular external reviews provide assurance and feedback on our cybersecurity risk assessments and controls. These include external audits and ad-hoc reviews.

As a wholesale network operator our risks are different from those of retail-facing network operators. Our insurances cover key cybersecurity risks and potential liabilities from cybersecurity events are limited through our customer contracts.

3. Our people, communities and the environment

3.1 Health & safety

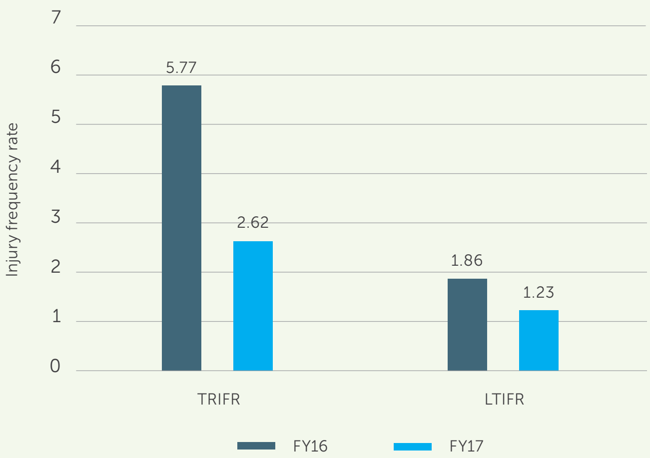
We place the utmost importance on keeping our people healthy and safe. This includes our 1,032 employees and the more than 4,000 people working on our behalf to build, connect and maintain our network. Our health and safety focus also extends to anyone who is in, or in the vicinity of, our workplaces.

We've increased our focus on critical risks, established an open reporting culture and are continuing to improve our health and safety reporting so we can identify learnings from incidents and opportunities for targeted initiatives. We've worked closely with our service company partners to standardise our tracking and reporting measures. We regularly screen our contractors and suppliers to ensure their systems and procedures meet our health and safety expectations. We also require that new service company technicians complete a work training competency programme for field work, endorsed by the New Zealand Qualifications Authority, before they can work on our network.

The evolution of our health and safety programme is reflected in the fact that during the year we achieved Tertiary Level in an Accident Compensation Corporation *Workplace Safety Management Practices* audit. Our graduation from Primary to Tertiary Level recognises we have a clear record of established systems and practices operating effectively in our workplace.

Figure 10:

Injury frequency rates FY16 – FY17



We also saw proof of our progress in a reduction in injury rates. During the 13 million hours worked in FY17 we, including our service companies, recorded:

- a Total Recorded Injury Frequency Rate (TRIFR) of 2.62 vs 5.77 in FY16 (this is lost time injuries + medical treatment injuries + restricted work injuries divided by total work hours x 1,000,000. This is a global standard that we can use to benchmark ourselves).
- a Lost Time Injury Frequency Rate (LTIFR) of 1.23 vs 1.86 in FY16 (this is the number of lost time injuries divided by total work hours x 1,000,000. Again, this is a global measure).

While these rates show improvement, too many injuries are still occurring. We want to do better than just complying with standard requirements. For FY18 we intend to focus our efforts on specific initiatives including:

- working closely with our contracted partners to address ongoing incidents involving ladder work and strikes on underground networks
- reducing driving incidents
- enhancing our procedures for people working alone in our offices and in the field.

3.2 Our people and communities

We had our first change in leadership this year with our founding chief executive, Mark Ratcliffe, stepping down in February 2017 after successfully navigating us through the regulatory turbulence of the last five years. Kate McKenzie is our new chief executive and was previously Chief Operations Officer of Telstra in Australia. Kate brings a breadth of regulatory, operational and customer experience.

As a core part of our business strategy, we're committed to providing equal opportunity to all of our employees. We believe this will maximise our collective capability, allow us to leverage diversity of thought, better reflect and understand our diverse customer base and, as a result, lead to better decision making and higher shareholder value. We invest in recruitment, development and wellbeing programmes supporting a diverse and inclusive, safe, transparent and rewarding workplace. Our people share a strong commitment to our goal of delivering better broadband for New Zealanders. For the sixth consecutive year we received best employer accreditation from Aon Hewitt with an employee engagement score of 81%. Although this was down slightly from 83% in 2016, it is still a very strong score and indicates we're providing a positive workplace experience for employees. About 400 of our people used their sponsored volunteer day to help their local community through activities such as tree planting, assisting in local hospices and other community projects.

Socio-economic benefits of broadband

We believe our network will benefit communities by delivering significant socio-economic benefits. Alcatel Lucent's Bell Labs found that UFB could contribute $32.8 billion in economic benefits to New Zealand over 20 years. Sapere Research Group recently estimated wider social benefits from maximum UFB uptake at about $2 billion annually, on top of a $3.3 billion annual contribution to GDP from uptake by businesses. Some of the socio-economic benefits include distance learning, e-health, interactive conferencing and remote working. We're working with a range of groups to help foster innovative uses of our network and achieve these projected benefits, including:

- supporting the New Zealand Innovation Partnership, a network of organisations that support digital innovation in New Zealand across business, education and government
- backing the rollout of CO.STARTERS, a programme that helps create a strong support network for business start-ups, into five towns and cities
- donating $75,000 to the Manaiakalani Education Trust to help expand their digital training model for Māori and Pasifika students from low income households
- sponsoring residential gigabit broadband services in Dunedin at entry level wholesale prices through to December 2018. Dunedin won our Gigatown competition in 2014
- contributing to a Gig-Start Fund, for Dunedin entrepreneurs and innovators to deliver new fibre-based services, and the GigCity Dunedin Community Fund, for groups using fibre to benefit their community
- sponsoring the Health & Science category of the 2017 New Zealand Innovators Awards.

Keeping communities connected

We're also busy in numerous local communities through our everyday work as a nationwide network owner and builder. Our service company crews often go the extra mile to keep communities connected when our network is affected by extreme events and we work closely with Civil Defence organisations. We interact closely with councils and community groups to discuss our network plans and initiatives. For the next phase of the UFB rollout, for example, we've met with more than 50 local councils to discuss our deployment plans and identify opportunities to reduce disruption to communities through infrastructure sharing and coordinated work programmes.

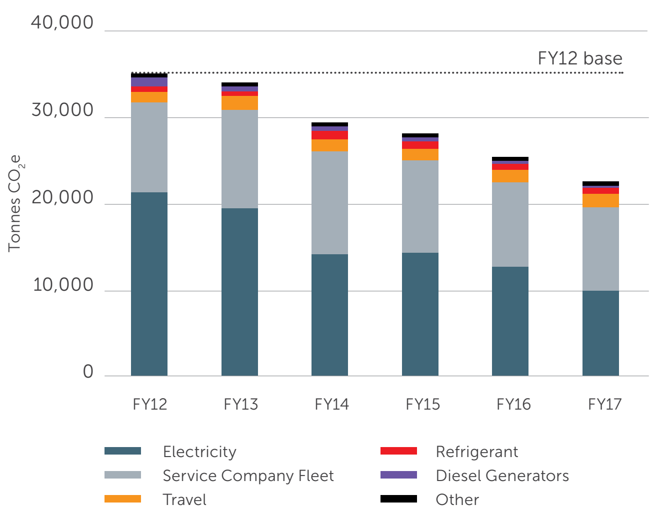
A low carbon network

We're an ultra-low carbon business. Our investment in better broadband networks is helping establish a platform for low carbon communities, by enabling communications options that enhance social interaction and change the way businesses operate, including teleworking and less car or plane travel. We're committed to a sustainable operating model and we report our carbon emissions annually to CDP, a global organisation that collects companies self-reported environment information.

Our greenhouse gas emissions are reducing at world-class rates. In the five years since our FY12 base year we've reduced our emissions by 36%. In FY17 our emissions were 23 kilotonnes of carbon dioxide equivalents, down 11% from FY16. Network electricity consumption and our field service vehicle fleet accounted for 87% of our emissions. We source electricity from the national grid and this was 85% renewable in FY17. No significant environmental incidents were recorded during FY17.

Figure 11:

Greenhouse gas emissions



4. Outlook

We've been building a fantastic infrastructure asset for New Zealand since 2011 and fibre broadband will soon be available more widely than in almost any other country in the world. It's a great example of how a bold vision, pursued by committed people who care deeply about what they're doing for New Zealand, can lead to remarkable things. The job's not done yet though. We need to keep delivering our UFB rollout on time and on budget.

We're focused on making sure, as the owner and operator of a utility asset critical to New Zealand, that we're well positioned to grow and thrive into the future. A stable regulatory environment is central to this. We took some important steps towards this in FY17 with the Government acknowledging that broadband is just as essential as electricity, or water, with its final policy decision for a path to a utility-like regulatory framework. We look forward to working to finalise the legislative details of this new regime in FY18, so we can achieve the Government's objective of a smooth implementation by the regulator by 2020.

Our other near term focus remains customer experience. We know we need to continue to work hard to make the fibre installation experience as seamless as possible, so customers don't delay switching to fibre, or consider opting for alternative broadband networks. We'll keep collaborating with our service companies and retailers to make the process faster and simpler, including trying new methods such as completing installations in batches while we're building the network down the street. By making things simpler, customer experience and cost reduction should follow.

We recognise that fibre's widespread recognition as the premium broadband product means we'll continue to lose copper connections to the Government's other fibre partners.

Figure 12:

What we're focused on

Better broadband	Transforming customer experience and cost
• Driving broadband uptake and retention • Providing customers with a network that is fast, reliable and congestion free	• Optimising the fibre/VDSL connection experience for customers • Implementing new models for fibre connection
Delivering the future broadband network	**Creating opportunities to grow**
• Delivering our UFB rollout on time and on budget • Underpinned by a regulatory framework that supports ongoing investment	• Identifying new open access business opportunities, including the role of fibre in future uses cases such as non-broadband access points and the Internet of Things

However, we're confident our fixed line network – whether copper or fibre – offers solid reliability and consistent performance that makes it superior to wireless technology more often than not. As viewing habits shift online and peak time data usage grows, it is network capacity that matters and that is where a fixed line network has a distinct advantage. Growing customer reliance on digital platforms will make network resilience increasingly critical.

One of the benefits of operating an open access network is that it has fostered an increasingly competitive retail market. This means we have a range of retailers willing to promote better broadband options as a means of growing their market share. We'll continue working with them to let New Zealanders know that better broadband is already available for many of them, whether its fibre or VDSL broadband on our copper network where fibre isn't available.

We may see more network competition emerge in rural areas, with the Government due to allocate $150 million in grants to extend rural broadband coverage and address mobile coverage black spots. The Government's initiatives will not solve the digital divide for all rural residents. Our ongoing investment in rural areas will inevitably be shaped by the future regulatory settings and our ability to earn a fair return.

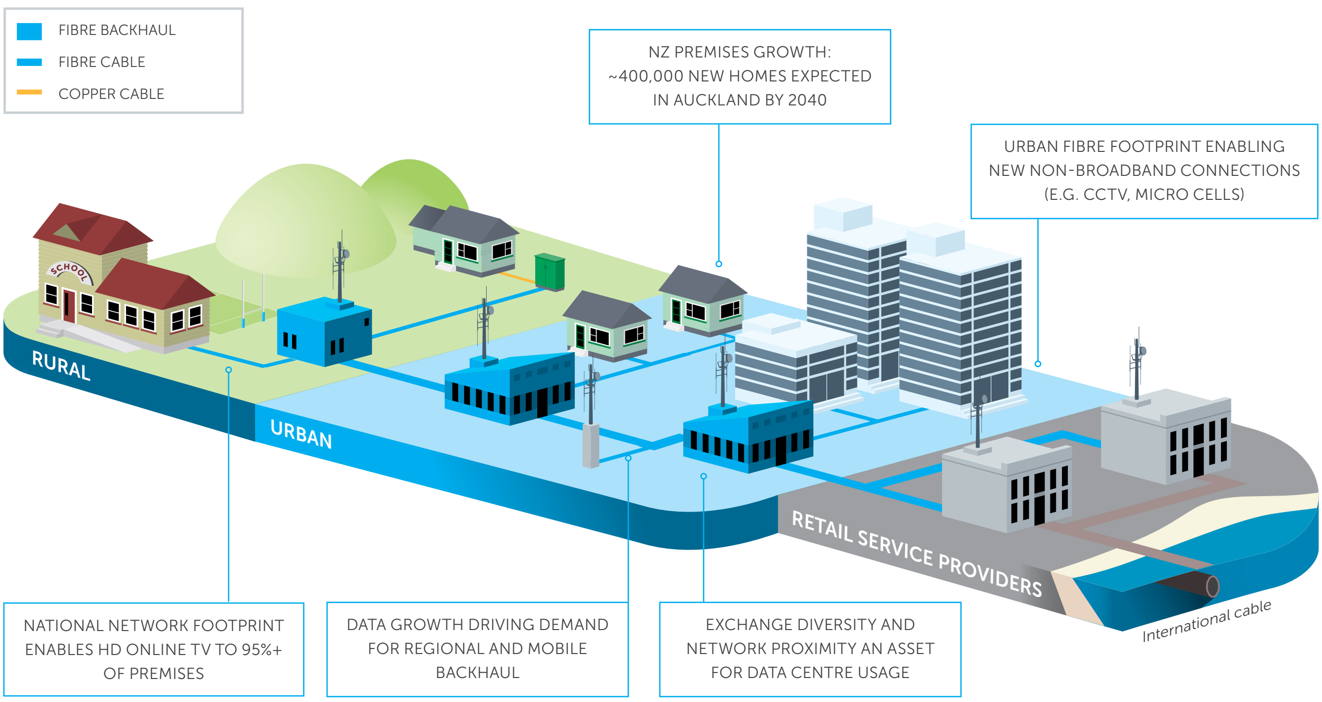
We're also focused on the future make-up of our network. With growing fibre uptake and the proposed regulatory changes from 2020, we're starting to plan for when we might start switching off parts of the copper network in our fibre areas. That is still some time in the future and customers will be informed well in advance.

At the same time, we're thinking carefully about the ways in which we can leverage our network for future products and services as technology evolves. New Zealand has already shown how efficient fibre investment can avoid the costly duplication of utility infrastructure and deliver healthy retail competition. Now we're turning our minds to how we might use our urban fibre footprint for new non-broadband connections, like closed circuit TV or wireless network micro-cells, and responding to growing demand for dispersed cloud computing by utilising our exchanges as data centres.

There are many opportunities to consider and they give us reason to believe our business has a bright and interesting future.

Figure 13:

Leveraging the utility of our network



Management commentary

Management commentary

	2017 $M	2016 $M
Operating revenue	1,040	1,008
Operating expenses	(388)	(414)
Earnings before interest, income tax, depreciation and amortisation	**652**	**594**
Depreciation and amortisation	(339)	(327)
Earnings before interest and income tax	**313**	**267**
Net interest expense	(154)	(140)
Net earnings before income tax	**159**	**127**
Income tax expense	(46)	(36)
Net earnings for the year	**113**	**91**

In summary

We report earnings before interest, income tax, depreciation and amortisation (EBITDA) of $652 million for the year ending 30 June 2017 (FY17), an increase of $58 million on the prior year. Net earnings increased by $22 million year on year.

Results for FY17 reflect a full 12 months of benchmarked Unbundled Bitstream Access (UBA) pricing being in effect. In the prior year, this pricing was only effective for five and a half months with aggregate copper pricing applied for the remaining months.

The FY17 results also reflect the impact of capitalisation of certain service desk costs.

Capital expenditure for FY17 was $639 million. This was marginally below updated FY17 guidance range of $640 million to $680 million and largely reflects a combination of slightly lower than forecast demand for fibre connections and lower than expected average connection costs. About 79% of our capital spend was fibre related, mainly for the UFB programme.

We will pay a final dividend of 12.5 cents per share on 10 October 2017. The dividend reinvestment plan will be available. We expect to pay a dividend of 22 cents per share for FY18, subject to no material adverse changes in circumstance or outlook.

	CONNECTIONS 30 JUN 2017	CONNECTIONS 31 DEC 2016	CONNECTIONS 30 JUN 2016
Baseband copper	976,000	1,109,000	1,221,000
UCLL	81,000	98,000	108,000
SLU/SLES	1,000	1,000	2,000
Naked copper (UBA / VDSL)	213,000	207,000	197,000
Baseband IP	18,000	10,000	9,000
Data services over copper	8,000	9,000	10,000
Fibre (mass market + premium business)	305,000	244,000	180,000
Total fixed line connections	**1,602,000**	**1,678,000**	**1,727,000**
Copper UBA (includes naked UBA)	650,000	784,000	900,000
VDSL (includes naked VDSL)	244,000	199,000	159,000
Fibre (mass market)	292,000	231,000	167,000
Total broadband connections	**1,186,000**	**1,214,000**	**1,226,000**

Revenue commentary

	2017 $M	2016 $M
Basic copper	450	489
Enhanced copper	248	242
Fibre	198	133
Value added network services	36	35
Infrastructure	23	20
Field services	76	83
Other	9	6
Total revenue	**1,040**	**1,008**

Revenue overview

Our product portfolio encompasses a broad range of wholesale broadband, data and voice services across a mix of regulated and commercial products. Revenue increased compared to the prior period broadly reflecting the net effect of:

- Changes in regulated copper pricing between the Commission's benchmarking and final pricing review decision; and
- A reduction of 125,000 total fixed line connections (from 1,727,000 to 1,602,000).

Copper

At 30 June 2017, there were approximately 976,000 baseband copper lines, a decrease of 245,000 lines from 30 June 2016. This reduction was partially offset by the migration of connections to our other fixed line connection products such as VDSL and fibre. The number of unbundled lines declined to 82,000 (including 1,000 Sub Loop Unbundled lines (offered in conjunction with our commercial Sub Loop Extension Service)).

Uptake of VDSL continued to grow, up from 159,000 at 30 June 2016 to 244,000 by 30 June 2017 as we continued to expand our VDSL footprint and promoted its availability more widely.

'Data service over copper' connections continued to decline as retailers opted for cheaper inputs. Baseband IP connections grew as some retailers used the service to deliver their own voice over internet protocol service over copper.

Fibre

Fibre revenues are earned from our business fibre products (such as HSNS Premium) and UFB residential and business fibre services. This includes UFB backhaul and Direct Fibre Access Services, which provide point to point networking solutions and can be used to deliver backhaul connections to mobile sites.

Nationwide fibre connections increased more than two thirds during the year, from 180,000 to 305,000 lines. This was driven by the growing demand for fibre services and the ongoing expansion of the UFB footprint. We had approximately 275,000 fibre connections within the areas where we had deployed UFB communal network at 30 June 2017, up from 156,000 connections at 30 June 2016.

About 292,000 of our fibre connections were to mass market customers (which includes lower speed business and education connections).

Customers continued to favour higher speed fibre plans over the entry level 50Mbps plan. By 30 June 2017 approximately 69% of mass market fibre connections were on plans of 100Mbps or greater, compared to 54% at the start of the period.

Premium business fibre connections remained stable at 13,000 connections, although there was a shift in connection types with Direct Fibre Access Service connections increasing to about 5,000 connections, while Bandwidth Fibre Access Service and HSNS Premium fibre connections totalled 7,000 at the end of the period. The remaining 1,000 premium business fibre connections are largely backhaul connections.

Value added network services

The main revenue driver for this category is national data transport services, which provide network connectivity across backhaul links as well as aggregation handover links. Although retailers have been replacing legacy backhaul connections with alternative cheaper inputs, revenues in this category increased because overall demand for transport and bandwidth solutions has grown.

Infrastructure

Infrastructure revenue relates to services that provide access to our network assets, such as renting exchange space. This revenue category increased as retailers purchased more co-location space to support their network growth.

Revenue commentary (cont.)

Field services

Field services revenues includes work performed by service company technicians providing new services, chargeable cable location services, maintaining retail service provider networks and relocating our network on request. As we utilise service companies to perform field services work, there is a direct cost associated with all field services revenues recognised in the network maintenance expense category.

We receive provisioning revenues when technicians install services and the revenue is dependent on the number and nature of orders, and the type of work required. There was reduced copper provisioning work in FY17, partially offset by higher greenfields and infill subdivision work.

Maintenance revenues are generated when faults are on the retail service provider's network rather than ours, and depend on the number of reported faults. It is difficult to establish specific trends in this revenue category because it is dependent on third party demand or damage to our network by third parties.

Other

Other income largely consists of revenue generated from the provision of billing and network management services to Spark, dividends received from electricity trusts that supply us with electricity and any other minor income.

Expenditure commentary

Operating expenses

	2017 $M	2016 $M
Labour costs	74	78
Provisioning	43	60
Network maintenance	87	89
Other network costs	27	34
Information technology costs	60	65
Rent and rates	17	16
Property maintenance	13	12
Electricity	14	14
Insurance	3	3
Consultants	10	4
Regulatory levies	13	13
Other	27	26
Total operating expenses	**388**	**414**

Operating expenditure of $388 million is lower than FY16 largely due to a significant reduction in provisioning costs and the effect of the capitalisation of certain service desk costs ($14.8 million labour costs and $6.7 million IT costs).

Labour costs of $74 million for the year represent staff costs that are not capitalised. Excluding the impact of the capitalisation, labour costs increased largely due to the annualised impact of additional people employed in the prior year. At 30 June 2017 we had 1,032 permanent and fixed term employees, up from 944 employees at 30 June 2016. We employed additional people to:

- establish an inventory and spares function that was previously outsourced
- assist with the increase in greenfields subdivision activity
- develop new IT systems and processes.

Provisioning costs are incurred where we provide new or changed services to our customers. These costs are driven by the volume of orders, the type of work required to fulfil them, technician labour, material and overhead costs. Field provisioning costs have declined as fibre uptake increases and fewer copper services are ordered. The unit cost per truck roll has also decreased as more connections are completed without a technician visit to the customer's premises.

Network maintenance costs are driven by the number of reported faults, the type of work required to fix the faults and the extent of our proactive maintenance programme. Our network maintenance costs fell slightly in FY17, despite more adverse weather and earthquake events compared to FY16.

The total number of faults decreased as more customers shifted to the newer fibre network and total connections declined. The average cost per fault reduced because of a slightly lower proportion of more expensive time and material faults in FY17 compared to FY16. We also completed slightly more chargeable maintenance work on retailers' networks during the period.

Expenditure commentary (cont.)

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. These costs reduced significantly in FY17 as one-off programmes, such as the enhancement of network records, were largely incurred in FY16 and costs fell for fibre orders that were subsequently cancelled.

Information technology costs were $60 million after excluding the $6.7 million of IT costs now included in the capital costs of new fibre connections. Overall, maintenance and support costs have remained largely consistent with Spark shared systems continuing to be replaced and offset by our own solutions. Non-capital related project costs were slightly higher due to costs coming through in FY17 relating to work on the decommissioning of Spark-linked systems and equipment.

Rent and rates costs relate to the operation of our network estate (for example, exchanges, radio sites and roadside cabinets). Rates are levied on network assets both above and below ground. The aerial deployment of fibre has resulted in increased pole rental costs and the assets deployed as part of the UFB rollout are being progressively included in the rating calculations of local bodies.

Property maintenance costs increased as some previously deferred maintenance was completed.

Electricity is used to operate the network electronics and this is dependent on the number of sites, electricity consumption and electricity prices. Electricity costs remained largely flat, despite increased line charges and additional network related consumption, as electricity prices were lower in FY17 than FY16. About 50% of our requirements have been hedged, with a current end date of March 2019.

Consultant costs increased as a result of the current review of the telecommunications regulatory framework and a strategic review of the organisation.

Regulatory levy reflects the amount paid for the Telecommunications Development Levy and the Telecommunications Regulation Levy. The expense for the current year reflects the estimated liability for FY17.

'Other' includes expenditure on general costs such as advertising, telecommunications, travel, training and legal fees. Overall savings in most areas were offset by an advertising campaign to raise awareness of the better broadband options available to customers.

Depreciation and amortisation

	2017 $M	2016 $M	ESTIMATED USEFUL LIFE (YEARS)	WEIGHTED AVERAGE USEFUL LIFE (YEARS)
Depreciation				
Copper cables	53	56	10–30	22
Fibre cables	72	60	20	20
Ducts and manholes	39	35	20–50	49
Cabinets	45	41	5–20	10
Property	19	18	5–50	30
Network electronics	67	68	2–15	9
Other	–	–	2–10	6
Less: Crown funding	(21)	(15)		
Total depreciation	**274**	**263**		
Amortisation				
Software	65	64	2–8	4
Other intangibles	–	–	6–20	20
Total amortisation	**65**	**64**		

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 2017, $639 million of expenditure on network assets and software was capitalised. The 'UFB communal' and 'Fibre connections and fibre layer 2' included in 'fibre' capital expenditure was largely capitalised against the network assets categories of fibre cables (48%) and ducts and manholes (33%). The average depreciation rate for UFB communal infrastructure spend is based on an estimated life of 38 years, reflecting the very high proportion of long life assets being constructed.

Software and other intangibles largely consist of the software components of billing, provisioning and operational systems, including spend on Spark-owned systems. A total of $47 million of software was capitalised during the year, which will be amortised over an average of four years.

Our depreciation profile is expected to continue to change, reflecting the greater mix of longer dated assets for the UFB and RBI rollouts. The offset 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.

Expenditure commentary (cont.)

Net finance expense

	2017 $M	2016 $M
Finance income	**(10)**	**(7)**
Finance expense		
Interest on syndicated bank facility	16	60
Interest on EMTN – GBP	53	53
Interest on EMTN – EUR	27	–
Interest on fixed rate NZD bonds	18	3
Fair value adjustment on interest rate swap	6	
Ineffective portion of change in fair value of cash flow hedges	17	9
Other interest expense	18	17
Capitalised interest	(4)	(5)
Total finance expenses excluding Crown funding	**151**	**137**
Crown Fibre Holdings securities (notional interest)	13	10
Total finance expense	**164**	**147**

Interest costs (excluding ineffectiveness, fair value adjustments and Crown funding) for FY17 was the same as FY16 at $128 million. Debt of $1,609 million (30 June 2016: $1,540 million) increased during the year and the higher interest expense was offset by a decreased weighted effective interest rate on debt (30 June 2017: 6.1%; 30 June 2016: 6.6%).

We continued to restructure our debt during the year, with $665 million of syndicated bank facility debt being repaid early and replaced with EUR 500 million of Euro Medium Term Notes (EMTN) ($785 million). The EMTN was issued on 18 October 2016 with a fixed interest rate of 1.125% and maturity date 18 October 2023.

Other interest expense includes finance lease interest of $14 million (30 June 2016: $13 million) and $3 million amortisation (30 June 2016: $3 million) arising from the difference between fair value and proceeds realised from the GBP EMTN interest rate swap reset.

At a minimum, we aim to maintain 50% of our debt obligations at a fixed rate of interest. We have fully hedged the foreign exchange exposure on the EUR and GBP EMTNs with cross currency interest rate swaps. The floating interest on the GBP cross currency interest rate swaps has been fully hedged using interest rate swap instruments, along with a portion of the floating interest on the EUR cross currency interest rate swaps.

As at 30 June 2017, approximately 71% (30 June 2016: 88%) of the outstanding debt obligation was fixed through derivative or fixed rate debt arrangements.

Ineffectiveness

The increase in total finance expense largely arises from ineffectiveness on the new EUR EMTN cash flow hedges of $11 million and $6 million of non-cash costs relating to a $250 million interest rate swap that is not currently in a hedging relationship for accounting purposes.

The foreign exchange exposure on the EUR EMTN has been fully hedged and interest rate exposure partially hedged. For hedge accounting purposes the hedging relationship consists of a fair value hedge and two cash flow hedges. Ineffectiveness on the cash flow hedges of $11 million flowed through interest expense as a non-cash charge.

The GBP 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 $6 million (30 June 2016: $9 million) flowed through interest expense. A further $15 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.

Taxation

The 2017 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 2017.

Capital expenditure commentary

	2017 $M	2016 $M
Fibre	503	486
Copper	79	67
Common	57	40
Gross capital expenditure	**639**	**593**

Gross capital expenditure for the year to 30 June 2017 was $639 million and includes capitalised labour and IT costs relating to certain fibre provisioning service desk costs. This was slightly below the FY17 guidance range of $640 million to $680 million. This was the result of a combination of slightly lower than forecast demand for fibre connections and lower than expected average connection costs.

Fibre capital expenditure

	2017 $M	2016 $M
UFB communal	183	194
Fibre connections and fibre layer 2[1]	258	205
Fibre products and systems	17	18
Other fibre connections and growth	45	47
RBI	–	22
Total fibre capital expenditure	**503**	**486**

Fibre capital expenditure includes spend specifically focused on fibre assets and was about 79% of our FY17 gross capital expenditure spend.

The cost of the deployment of UFB communal network for the year was $183 million. This included $41 million spent on work in progress for communal network scheduled to be completed in the following year, of which $3 million was spent on beginning UFB2 deployment.

The average cost per premises passed during the year was $1,651. This was marginally above the top end of FY17 guidance for an average cost of $1,550 to $1,650 reflecting a different timing of completion and handover of more expensive premises than originally anticipated.

Fibre connections and layer 2 spend was $258 million as the volume of fibre connections grew as a result of our expanding UFB footprint and increasing uptake. Demand for higher cost premium business fibre connections was a little lower than in FY16.

The average cost per premises connected for standard residential premises and some non-standard single dwelling unit installations and service desk costs was $1,122, excluding the long run average cost of layer 2 equipment.[1] This was at the lower end of the expected FY17 cost range of $1,100 to $1,250, reflecting a cheaper actual mix of connection types. This cost now also includes $21.5 million of capitalised labour and IT costs relating to certain fibre provisioning service desk costs that were previously expensed.

In October we announced we expect to track at the top end of the total UFB1 programme view for the average cost to connect standard residential premises, due to higher mobilisation costs in a time of relatively full employment and higher than expected fibre uptake. The programme view was also updated from $900 to $1,100 to a new range of $1,050 to $1,250, in 2011 dollars, to include the capitalisation of certain labour and IT costs. We expect to be able to hold average standard connection costs per unit flat in nominal terms across the term of the UFB1 contract rather than secure further economies in connection costs.

A significant proportion of the fibre connections spend was upfront investment for 'backbone' network to enable the connection of customers located along rights of way or in multi dwelling units. This spend ultimately enables multiple customers in a building, or along a right of way, to connect.

During FY17 we agreed with CFH that we would continue to fund non-standard residential connections through to the end of the build period (2019) on the basis that these costs are likely to be recognised in the future regulatory framework. In the event that this hasn't occurred by 31 December 2020, or not all of our actual UFB non-standard installation costs are included in the asset base, the dates on which we must redeem or provide dividends on the CFH debt and equity securities will be postponed. At a maximum, postponement would contribute approximately $60 million of value towards non-standard installation costs incurred from 2017 to the end of 2019.

Fibre products and systems investment continued with Fibre Fulfilment Capability taking over from the Business to Business Portal project completed in FY16.

Capital expenditure of $45 million on other fibre connections and growth reflected increased investment in 'greenfield' fibre subdivisions and ongoing investment in fibre transport to support regional backhaul and broadband capacity.

1 Layer 2 equipment, such as gigabit capable passive optical network ports, is installed ahead of demand as the UFB footprint expands.

Capital expenditure commentary (cont.)

Copper capital expenditure

	2017 $M	2016 $M
Network sustain	29	29
Copper connections	4	5
Copper layer 2	44	29
Product fixed	2	4
Total copper capital expenditure	**79**	**67**

Copper capital expenditure was $79 million for the year. The increase reflected further investment in copper broadband capacity and growth to provide better broadband for customers.

Network sustain expenditure includes capital expenditure where the network is being upgraded, or where the replacement of poles, cabinets and cables is more cost effective than reactive maintenance. Investment to upgrade and replace copper network increased during the period, but was offset by reductions in requests to shift network for roadworks purposes.

Capital expenditure on copper connections was up slightly. Demand for copper connections has reduced as demand shifts to the UFB network and a contribution for new connections is required.

Copper layer 2 reflects investment in network electronics and equipment as a consequence of demand for broadband capacity and growth. During FY17 we also invested $8 million in rural broadband cabinet upgrades and $9 million in VDSL upgrades.

Common capital expenditure

	2017 $M	2016 $M
Information technology	34	25
Building and engineering services	19	13
Other	4	2
Total common capital expenditure	**57**	**40**

Common capital expenditure was $57 million.

Information technology spend increased, largely as a result of a project to replace legacy copper provisioning platforms and continued investment in other supporting technologies.

Building and engineering services spend also increased because we partially upgraded some exchanges and replaced older fuel tanks and generators.

'Other' common capital expenditure includes items such as office accommodation and equipment.

Contributions to capital expenditure

We received $7 million in contributions towards our gross capital expenditure in FY17 for network damaged by third parties, or instances where central or local government authorities asked us to relocate or rebuild existing network. These contributions are included as part of Crown funding.

Long term capital management

We will pay a final dividend of 12.5 cents per share on 10 October 2017 to all holders registered at 5.00pm 26 September 2017. The shares will be quoted on an ex-dividend basis from 25 September 2017. The dividends paid will be fully imputed, at a ratio of 28/72, in line with the corporate income tax rate. In addition, a supplementary dividend of 2.2 cents per share will be payable to shareholders who are not resident in New Zealand.

The dividend reinvestment plan will remain in place for the final dividend at a discount rate of 3%. Shareholders who have previously elected to participate in the dividend reinvestment plan do not need to take any further action. For those shareholders who wish to participate, election notices to participate must be received by 5.00pm (NZ time) on 27 September 2017.

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

For FY18, Chorus expects to pay a dividend of 22 cents per share, subject to no material adverse changes in circumstance or outlook.

The Board considers that a 'BBB' or equivalent credit rating is appropriate for a company such as Chorus. It intends to maintain capital management and financial policies consistent with these credit ratings. At 30 June 2017, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

Appendix one

Non statutory measure: adjusted EBITDA

This appendix provides a high level summary of Chorus' adjusted EBITDA for information purposes. It has been prepared on the basis of the final pricing principle determinations effective 16 December 2015 and capitalisation of service desk costs.

For comparative purposes this flows the pricing through FY16 as though the pricing had changed on 1 July 2015 and as though the capitalisation of certain labour ($16 million) and IT costs ($8 million) had occurred in FY16.

	FY17 $M	ADJUSTED FY16 $M	%
Adjusted operating revenue	1,040	1,067	(2.6)
Operating expenses	(388)	(390)	(0.5)
Adjusted EBITDA	**652**	**677**	(3.8)

	STATUTORY RESULTS $M	ADD: UBA AND UCLL PRICE CHANGE $M	LESS: TRANSACTION CHARGE PRICE CHANGE $M	ADD: SERVICE DESK CAPITALISATION $M	ADJUSTED FY16 $M
Total operating revenue	1,008	65	(6)	-	1,067
Total operating expenses	(414)	-	-	(24)	(390)
EBITDA	**594**	**65**	**(6)**	**(24)**	**677**

Financial statements

KPMG

Independent auditor's report

To the shareholders of Chorus Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Chorus Limited and its subsidiaries (the "Group") on pages 29 to 56:

i. present fairly in all material respects the Group's financial position as at 30 June 2017, its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2017;

— the consolidated income statement, statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our Audit in accordance with International Standards on Auditing (New Zealand) (ISA's (NZ)). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under International Standards on Auditing (New Zealand) are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Our firm has also provided other services to the Group in relation to regulatory audit services, technical accounting advice and other assurance services. The Group sponsor an award at the KPMG Innovation Council. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of 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.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $7.8 million. This was determined with reference to a benchmark of Group profit before tax. We chose profit before tax as the benchmark as the Group is a profit oriented business and in our view, this is a key measure of the of the Group's performance. Materiality represents 5% of the benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
1. Capitalisation and asset lives	
As disclosed in note 1 of the financial statements, the Group has network assets of $3,973 million (2016: $3,656 million). During the year ended 30 June 2017 the Group has spent over $590 million in network asset additions as it continues with its purpose of bringing better broadband to New Zealanders. Capitalisation of these costs and useful lives assigned to these assets are a key audit matter due to the significance of network assets to the Group's business, and due to the judgement involved in the: — decision to capitalise or expense costs relating to the network. This decision depends on whether the expenditure is considered to enhance the network (and therefore capital), or to maintain the current operating capability of the network (and therefore an expense); — estimation of the stage of completion of assets under construction; and — estimation of the useful life of the asset once the costs are capitalised. There is also judgment when estimating asset lives due to the uncertainty of the impact of technological change.	Our audit procedures in this area included, among others: — Examining the operating effectiveness of controls around the addition of capital projects into the fixed asset register and the approval of the asset life annual review. — Assessing the nature of costs incurred in capital projects by checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria. — Evaluating a sample of assets under construction in which no costs had been incurred in the final three months of the financial reporting period. We challenged the status of those assets under construction to determine whether they remained appropriately capitalised. — Assessing, on a sample basis, whether the accruals recorded for assets under construction were calculated in accordance with the progress of construction and the arrangements with external suppliers. — Assessing the useful economic lives of the assets, by comparing to industry benchmarks and our knowledge of the business and its operations.
2. Chorus funding	
As disclosed in notes 3, 4, 5 and 18 of the financial statements, the Group has external debt of $1,609 million (2016: $1,540 million), crown funding of $698 million (2016: $639 million) and derivative financial instruments of $276 million (2016: $214 million). The CFH securities, cross-currency and interest rate derivatives are a key audit matter due to their significance to the Group's consolidated statement of financial position. There is complexity and judgement involved in determining the appropriate valuation and accounting treatment for the interest rate derivatives and the CFH securities.	The procedures we performed to assess the valuation and accounting treatment for the Group's interest rate derivatives and CFH securities included: — Our financial instrument specialists re-valued all interest rate derivatives using valuation models and inputs independent from those utilised by management. — Evaluating the hedge effectiveness of the interest rate derivatives hedging the GBP and EUR denominated Euro Medium Term Notes. In both instances, our financial instrument specialists assessed the effectiveness of these hedges by independently modelling the future changes in the value of these instruments to assess whether the underlying derivatives were effective. — Assessing the accounting treatment of the CFH securities. We read the underlying loan agreement and analysed the various features of the loan agreement to determine whether the CFH securities were a debt or equity instrument. — Evaluating the valuation of the CFH securities. Our valuation specialists assessed the methodology used by management for determining the amounts allocated to debt and government grant. — Assessing the inputs used in the valuation of the CFH securities. On a sample basis we compared interest rates and credit spreads to independent sources of information to determine an acceptable range of valuation inputs.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
3. Accuracy of revenue	
As disclosed in note 7 of the consolidated financial statements, the Group has revenue of $1,040 million (2016: $1,008 million). Accuracy of revenue is considered to be a key audit matter due to the nature of the underlying billing processes that existed following the Chorus demerger from Spark in 2011. There are certain legacy products where the billing is based on network consumption which cannot be easily linked to a physical end user connection. There is a risk that revenue billed on this basis may be disputed by Chorus' customers who have a different view of their consumption of the Chorus network. Due to the legacy nature of these products, the volumes are decreasing each year and are approximately 18% of revenue in the current financial year.	The procedures we performed to conclude on the accuracy of revenue included: — Evaluating the Group's recognition of revenue by assessing any revenue disputes recorded in the industry's dispute reporting tool by Chorus customers. We compared the disputes raised by Chorus customers to the revenue recorded by Chorus and checked a sample of settled disputes to the final settlement agreements. — Independently confirming the accuracy of a sample of outstanding debtor balances with Chorus customers. — Agreeing a sample of revenue adjustments recorded during the year to authorised credit notes.

Other information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chorus Board and management overview, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this audit report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being NZ IFRS) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the Audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditing-standards/

This description forms part of our Auditor's Report.

KPMG

Ed Louden

For and on behalf of KPMG
Wellington
28 August 2017

Income statement

FOR THE YEAR ENDED 30 JUNE 2017

(DOLLARS IN MILLIONS)	NOTES	2017 $M	2016 $M
Operating revenue	7	1,040	1,008
Operating expenses	8	(388)	(414)
Earnings before interest, income tax, depreciation and amortisation		**652**	**594**
Depreciation	1	(274)	(263)
Amortisation	2	(65)	(64)
Earnings before interest and income tax		**313**	**267**
Finance income		10	7
Finance expense	3	(164)	(147)
Net earnings before income tax		**159**	**127**
Income tax expense	12	(46)	(36)
Net earnings for the year		**113**	**91**
Earnings per share			
Basic earnings per share (dollars)	16	0.28	0.23
Diluted earnings per share (dollars)	16	0.23	0.19

Statement of comprehensive income

FOR THE YEAR ENDED 30 JUNE 2017

(DOLLARS IN MILLIONS)	NOTE	2017 $M	2016 $M
Net earnings for the year		**113**	**91**
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	12	7
Effective portion of changes in fair value of cash flow hedges	15	(7)	(29)
Amortisation of de-designated cash flow hedges transferred to income statement	15	(1)	(1)
Other comprehensive income net of tax		**4**	**(23)**
Total comprehensive income for the year net of tax		**117**	**68**

The accompanying notes are an integral part of these financial statements

Statement of financial position

AS AT 30 JUNE 2017

(DOLLARS IN MILLIONS)	NOTES	2017 $M	2016 $M
Current assets			
Cash and call deposits	13	170	102
Income tax receivable	12	1	3
Trade and other receivables	9	139	158
Derivative financial instruments	18	1	1
Finance lease receivable	14	5	4
Total current assets		**316**	**268**
Non-current assets			
Trade and other receivables	9	7	10
Software and other intangibles	2	142	160
Network assets	1	3,973	3,656
Total non-current assets		**4,122**	**3,826**
Total assets		**4,438**	**4,094**
Current liabilities			
Trade and other payables	10	346	347
Derivative financial instruments	18	46	24
Total current liabilities excluding Crown funding		**392**	**371**
Current portion of Crown funding	5	19	17
Total current liabilities		**411**	**388**
Non-current liabilities			
Derivative financial instruments	18	231	191
Finance lease payable	14	159	136
Debt	3	1,609	1,540
Deferred tax payable	12	202	194
Total non-current liabilities excluding CFH securities and Crown funding		**2,201**	**2,061**
CFH securities	4	203	152
Crown funding	5	679	622
Total non-current liabilities		**3,083**	**2,835**
Total liabilities		**3,494**	**3,223**
Equity			
Share capital	15	520	481
Reserves	15	(22)	(26)
Retained earnings		446	416
Total equity		**944**	**871**
Total liabilities and equity		**4,438**	**4,094**

The accompanying notes are an integral part of these financial statements

On behalf of the Board

Patrick Strange, Chairman

Kate McKenzie, Managing Director

Authorised for issue on 28 August 2017

Statement of changes in equity

FOR THE YEAR ENDED 30 JUNE 2017

(DOLLARS IN MILLIONS)	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	CASH FLOW HEDGE RESERVE $M	TOTAL $M
Balance at 1 July 2015		**465**	**357**	**(3)**	**819**
Comprehensive income					
Net earnings for the year		–	91	–	91
Other comprehensive income					
Ineffective portion of changes in fair value of cash flow hedges	15	–	–	7	7
Effective portion of changes in fair value of cash flow hedges	15	–	–	(29)	(29)
Amortisation of de-designated cash flow hedges transferred to income statement	15	–	–	(1)	(1)
Total comprehensive income		**–**	**91**	**(23)**	**68**
Contributions by and (distributions to) owners:					
Dividends	15	–	(32)	–	(32)
Supplementary dividends		–	3	–	3
Tax credit on supplementary dividends		–	(3)	–	(3)
Dividend reinvestment plan	15	17	–	–	17
Employee share plan	15	(1)	–	–	(1)
Total transactions with owners		**16**	**(32)**	**–**	**(16)**
Balance at 30 June 2016		**481**	**416**	**(26)**	**871**
Comprehensive income					
Net earnings for the year		–	113	–	113
Other comprehensive income					
Ineffective portion of changes in fair value of cash flow hedges	15	–	–	12	12
Effective portion of changes in fair value of cash flow hedges	15	–	–	(7)	(7)
Amortisation of de-designated cash flow hedges transferred to income statement	15	–	–	(1)	(1)
Total comprehensive income		**–**	**113**	**4**	**117**
Contributions by and (distributions to) owners:					
Dividends	15	–	(83)	–	(83)
Supplementary dividends		–	9	–	9
Tax credit on supplementary dividends		–	(9)	–	(9)
Dividend reinvestment plan	15	40	–	–	40
Employee share plan	15	(1)	–	–	(1)
Total transactions with owners		**39**	**(83)**	**–**	**(44)**
Balance at 30 June 2017		**520**	**446**	**(22)**	**944**

The accompanying notes are an integral part of these financial statements

Statement of cash flows

FOR THE YEAR ENDED 30 JUNE 2017

(DOLLARS IN MILLIONS)	NOTES	2017 $M	2016 $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers		1,070	1,003
Finance income		6	3
Payment to suppliers and employees		(397)	(404)
Taxation paid	12	(38)	(47)
Interest paid		(117)	(120)
Net cash flows from operating activities		**524**	**435**
Cash flows applied to investing activities			
Cash was applied to:			
Purchase of network assets and software and intangible assets		(638)	(569)
Capitalised interest paid		(4)	(5)
Net cash flows applied to investing activities		**(642)**	**(574)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net proceeds from finance leases		3	5
Crown funding (including CFH securities)		117	179
Proceeds from debt		785	585
Repayment of debt		(675)	(593)
Dividends paid		(44)	(15)
Net cash flows from financing activities		**186**	**161**
Net cash flow		**68**	**22**
Cash at the beginning of the year		102	80
Cash at the end of the year	13	**170**	**102**

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)	2017 $M	2016 $M
Net earnings for the year	113	91
Adjustment for:		
Depreciation charged on network assets	295	278
Amortisation of Crown funding	(21)	(15)
Amortisation of software and other intangible assets	65	64
Deferred income tax	6	4
Ineffective portion of changes in fair value of cash flow hedges (pre-tax)	17	9
Other	27	11
	502	**442**
Change in current assets and liabilities:		
Change in trade and other receivables	19	(11)
Change in trade and other payables	1	19
Change in income tax receivable	2	(15)
	22	**(7)**
Net cash flows from operating activities	**524**	**435**

The accompanying notes are an integral part of these financial statements

Notes to the financial statements

Chorus includes Chorus Limited together with its subsidiaries.

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

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 provide the majority of the Crown's Ultra-Fast Broadband (UFB). 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) and has bonds quoted on the NZX debt market. 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.

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. 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.

Accounting policies and standards

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.

New accounting standards – NZ IFRS 9 Financial Instruments, NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 16 Leases have been issued. Chorus intend to early adopt these standards for the year ended 30 June 2018. Further information is detailed below:

NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments addresses the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting.

NZ IFRS 9 hedge accounting rules align hedge accounting more closely with Chorus' risk management activities in the following areas:

The adoption of NZ IFRS 9 will permit Chorus to reduce reported volatility in the income statement as NZ IFRS 9 enables Chorus to record the change in the fair value of the cost to convert foreign currency into New Zealand dollars in the cost of hedging reserve, a new reserve under Other Comprehensive Income. This accounting treatment was not possible under the current accounting standards. The retrospective application of the new accounting treatment under IFRS 9 will have approximately $9 million positive impact on the reported net earnings for the year.

Furthermore, NZ IFRS 9's more principle based approach will enable Chorus to hedge account for some of its interest rate swaps that could not be hedge accounted under the current accounting standards. While this is expected to reduce income statement volatility over time, the interest rate swaps in place on transition to NZ IFRS 9 may not be fully effective hedges so a portion of the mark to market adjustment for these will continue to be reflected in finance expense.

No other significant changes are expected as a result of the classification, measurement and impairment requirements of IFRS 9.

NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 enables the capitalisation of costs and revenue items incurred in acquiring and retaining customers, and for these items to be amortised over the course of the customer relationship. The adoption of this standard will change Chorus' accounting policy around the treatment of incremental costs incurred in acquiring new customers and retaining existing customers, including customer incentives for an initial period. The estimated impact of adopting this standard, based on earnings for the year ended 30 June 2017, is an increase in revenue of $4 million, increase in amortisation of $14 million, and decrease in expenses of $44 million. The impact to net earnings is nil over the duration of the customer relationship. These figures exclude any tax implications.

NZ IFRS 16 Leases

NZ IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Accounting by lessors is unchanged under NZ IFRS 16. A lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Management are in the process of finalising the assets subject to lease agreements and the impact of these on the balance sheet and income statement. Management's process to date highlights that the impact is expected to be material (greater that $20 million) given Chorus' asset intensive nature. The agreements identified to date relate to poles, buildings, easements and IT equipment.

Accounting estimates and judgements

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, technological advances, regulation and expected disposal proceeds from the future sale of the asset.

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)

Exercising 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 adjusting 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 our 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	20-50 years
Cabinets	5-20 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 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 2017	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 2016	2,353	1,336	1,835	537	540	1,638	4	99	8,342
Additions	–	–	–	–	–	–	–	592	592
Other	–	–	–	–	7	–	–	8	15
Disposals	–	–	–	(3)	(2)	(53)	–	–	(58)
Transfers from work in progress	16	230	172	49	19	88	1	(575)	–
Balance as at 30 June 2017	2,369	1,566	2,007	583	564	1,673	5	124	8,891
Accumulated depreciation									
Balance as at 1 July 2016	(1,830)	(388)	(476)	(311)	(250)	(1,429)	(2)	–	(4,686)
Depreciation	(53)	(72)	(39)	(45)	(19)	(67)	–	–	(295)
Disposals	–	–	–	2	1	53	–	–	56
Other	–	–	–	–	7	–	–	–	7
Balance as at 30 June 2017	(1,883)	(460)	(515)	(354)	(261)	(1,443)	(2)	–	(4,918)
Net carrying amount	**486**	**1,106**	**1,492**	**229**	**303**	**230**	**3**	**124**	**3,973**

AS AT 30 JUNE 2016	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 2015	2,333	1,136	1,690	485	521	1,559	4	87	7,815
Additions	–	–	–	–	–	–	–	528	528
Other	–	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	(1)	–	(1)
Transfers from work in progress	20	200	145	52	19	79	1	(516)	–
Balance as at 30 June 2016	2,353	1,336	1,835	537	540	1,638	4	99	8,342
Accumulated depreciation									
Balance as at 1 July 2015	(1,774)	(328)	(441)	(270)	(232)	(1,361)	(3)	–	(4,409)
Depreciation	(56)	(60)	(35)	(41)	(18)	(68)	–	–	(278)
Disposals	–	–	–	–	–	–	1	–	1
Balance as at 30 June 2016	(1,830)	(388)	(476)	(311)	(250)	(1,429)	(2)	–	(4,686)
Net carrying amount	**523**	**948**	**1,359**	**226**	**290**	**209**	**2**	**99**	**3,656**

There are no restrictions on Chorus' network assets or any network assets pledged as securities for liabilities. At 30 June 2017 the contractual commitment for acquisition and construction of network assets was $507 million (30 June 2016: $341 million).

Depreciation

	2017 $M	2016 $M
Depreciation charged on network assets	295	278
Less: Crown funding – Ultra-Fast Broadband	(11)	(8)
Crown funding – Rural Broadband Initiative	(8)	(6)
Crown funding – Other	(2)	(1)
Total depreciation	**274**	**263**

Chorus receives funding from the Crown to finance the capital expenditure associated with the development of the UFB network, rural broadband services and other services. 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.

Note 1 – Network assets (cont.)

Property Exchanges

Chorus has leased property exchange space owned by Spark subject to finance lease arrangements. These have been included in network assets under the property category. As at 30 June 2017 the property exchange assets capitalised under a finance lease had a cost of $173 million (30 June 2016: $162 million) together with accumulated depreciation of $22 million (30 June 2016: $21 million).

The Other cost movement under property exchanges relates to a reassessment of the extent of Spark's use of Chorus owned assets during the year. This resulted in the recognition of $7 million previously derecognised assets and $7 million accumulated depreciation.

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 2017 there was no impairment loss on the network assets or software and other intangibles (30 June 2016: nil).

Capitalised interest

Finance costs are capitalised on qualifying items of network assets and software assets at an annualised rate of 6.50% (30 June 2016: 6.50%). 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 $4 million (30 June 2016: $5 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 software and other intangible assets or any software and other intangible assets pledged as securities for liabilities. At 30 June 2017 the contractual commitment for acquisition of software and other intangible assets was $13 million (30 June 2016: $6 million).

Note 2 – Software and other intangibles (cont.)

AS AT 30 JUNE 2017	SOFTWARE $M	OTHER INTANGIBLES $M	WORK IN PROGRESS $M	TOTAL $M
Cost				
Balance as at 1 July 2016	597	6	31	634
Additions	–	–	47	47
Transfers from work in progress	42	–	(42)	–
Balance as at 30 June 2017	639	6	36	681
Accumulated amortisation				
Balance as at 1 July 2016	(473)	(1)	–	(474)
Amortisation	(65)	–	–	(65)
Balance as at 30 June 2017	(538)	(1)	–	(539)
Net carrying amount	**101**	**5**	**36**	**142**

AS AT 30 JUNE 2016	SOFTWARE $M	OTHER INTANGIBLES $M	WORK IN PROGRESS $M	TOTAL $M
Cost				
Balance as at 1 July 2015	553	6	10	569
Additions	–	–	65	65
Transfers from work in progress	44	–	(44)	–
Balance as at 30 June 2016	597	6	31	634
Accumulated amortisation				
Balance as at 1 July 2015	(409)	(1)	–	(410)
Amortisation	(64)	–	–	(64)
Balance as at 30 June 2016	(473)	(1)	–	(474)
Net carrying amount	**124**	**5**	**31**	**160**

Note 3 – Debt

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

Debt is initially measured at fair value, less any transaction costs that are directly attributable to the issue of the instruments. Debt is subsequently measured at amortised cost using the effective interest method. Some borrowings are designated in fair value hedge relationships, which means that any change in market interest and foreign exchange rates result in a change in the fair value adjustment on that debt.

The weighted effective interest rate on debt including the effect of derivative financial instruments was 6.06% (30 June 2016: 6.63%).

	DUE DATE	2017 $M	2016 $M
Syndicated bank facility B	Apr 2019	–	415
Syndicated bank facility C	May 2020	–	250
Euro medium term notes – GBP	Apr 2020	462	485
Euro medium term notes – EUR	Oct 2023	762	–
Fixed rate NZD Bonds	May 2021	400	400
Less: facility fees		(15)	(10)
		1,609	**1,540**
Current		**–**	**–**
Non-current		**1,609**	**1,540**

Note 3 – Debt (cont.)

Syndicated bank facilities

In November 2016 syndicated facility B was repaid and cancelled. At this time Facility C was repaid and remained available for future operating activities. In May 2017 Facility C was extended from $250 million to $350 million and the termination date from May 2019 to May 2020. As at 30 June 2017 Chorus had $350 million committed syndicated bank facilities on market standard terms and conditions (30 June 2016: $925 million). The amount of undrawn syndicated bank facility that is available for future operating activities is $350 million (30 June 2016: $260 million).

The syndicated bank facility is held with bank and institutional counterparties rated – A to AAA, based on rating agency Standard & Poor's ratings.

Euro Medium Term Notes (EMTN)

FACE VALUE	INTEREST RATE	2017 $M	2016 $M
GBP 260 million	6.75%	462	485
EUR 500 million	1.125%	762	–

On 18 October 2016 Chorus issued EUR 500 million of Euro Medium Term Notes at a fixed rate of 1.125%. They will mature in October 2023 and have been swapped back to $785 million using cross currency interest rate swaps (see note 18).

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 and EUR principal and GBP and EUR fixed coupon payments for NZD principal and NZD floating interest payments. For the GBP cross currency interest rate swaps the floating interest rate exposure on the NZD interest payments have been hedged using interest rate swaps. The EUR cross currency interest rate swaps are partially hedged for the NZD interest payments using interest rate swaps (notional amount $250 million).

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.

	2017 EUR $M	2016 EUR $M	2017 GBP $M	2016 GBP $M
EMTN	762	–	462	485
Impact of fair value hedge	17	–	–	–
Impact of hedged rates used	6	–	215	192
EMTN at hedged rates	**785**	**–**	**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 $526 million (30 June 2016: $566 million) compared to a carrying value of $462 million (30 June 2016: $485 million) for the GBP EMTN, and $776 million (30 June 2016: nil) compared to a carrying value of $762 million (30 June 2016: nil) for the EUR EMTN. This fair value has been determined using Level 2 of the fair value hierarchy as described in note 19.

Fixed rate NZD Bonds

	INTEREST RATE	2017 $M	2016 $M
Fixed rate NZD Bonds	4.12%	400	400

On 6 May 2016 $400 million of unsecured, unsubordinated debt securities were issued at a fixed rate of 4.12%. The maturity date is May 2021.

Schedule of maturities

	2017 $M	2016 $M
Current	–	–
Due 1 to 2 years	–	–
Due 2 to 3 years	462	665
Due 3 to 4 years	400	485
Due 4 to 5 years	–	400
Due over 5 years	762	–
Total due after one year	**1,624**	**1,550**
Less: facility fees	(15)	(10)
	1,609	**1,540**

Note 3 – Debt (cont.)

No 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 2016: full compliance).

Refer to note 19 for information on financial risk management.

Finance expense

	2017 $M	2016 $M
Interest on syndicated bank facility	16	60
Interest on EMTN – GBP	53	53
Interest on EMTN – EUR	27	–
Interest on fixed rate NZD bonds	18	3
Fair value adjustment on interest rate swap	6	–
Ineffective portion of changes in fair value of cash flow hedges (pre-tax)	17	9
Other interest expense	18	17
Capitalised interest	(4)	(5)
Total finance expense excluding CFH securities	**151**	**137**
CFH securities (notional interest)	13	10
Total finance expense	**164**	**147**

Other interest expense includes $14 million finance lease interest expense (30 June 2016: $13 million) and $3 million of amortisation arising from the difference between fair value and proceeds realised from the swaps reset (30 June 2016: $3 million) (refer to note 18).

The GBP 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 GBP EMTN. During the current year ineffectiveness of $6 million (30 June 2016: $9 million) flowed through interest expense. A further $15 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

UFB1

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. For the first phase of the UFB network build (UFB1) 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 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 and 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 UFB1 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 over the useful lives of the relevant UFB assets, 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.

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.

The CFH equity securities are required to be disclosed as a liability until the liability component of the compound instrument expires.

Note 4 – CFH securities (cont.)

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 by repaying the face value to the holder.

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. 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.

At balance date Chorus had issued a total 8,496,986 warrants which had a fair value and carrying value that approximated zero (30 June 2016: 15,502,118 warrants issued). Changes to the Non Standard Installation agreement and UFB1 agreements resulted in all series one warrants being cancelled in March 2017, only series two warrants remain. The number of fibre connections made by 30 June 2020 impacts the number of warrants that could be exercised, because fibre connections already exceed 20% before 30 June 2020, the number of warrants that would be able to be exercised is 8,496,986 (30 June 2016: 6,658,739).

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

	2017			2016		
	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	81	51	132	60	37	97
Additional securities recognised at fair value	21	17	38	21	14	35
Balance as at 30 June	102	68	170	81	51	132
Accumulated notional interest						
Balance as at 1 July	11	9	20	6	4	10
Notional interest	7	6	13	5	5	10
Balance as at 30 June	18	15	33	11	9	20
Total CFH securities	**120**	**83**	**203**	**92**	**60**	**152**

The fair value of CFH debt securities at balance date was $137 million (30 June 2016: $97 million) compared to a carrying value of $120 million (30 June 2016: $92 million). The fair value of CFH equity securities at balance date was $102 million (30 June 2016: $65 million) compared to a carrying value of $83 million (30 June 2016: $60 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 in calculations on initial recognition

On initial recognition, the discount rate between 7.22% to 10.26% (30 June 2016: 8.46% to 12.05%) for the CFH equity securities and 5.08% to 7.52% (30 June 2016: 5.91% to 8.57%) for the CFH debt securities used to discount the expected cash flows is based on the NZ swap curve. 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.

UFB2

In January 2017 Chorus was contracted to build 84% of the second phase of the UFB network build (UFB2), amounting to 168,240 premises. Chorus' UFB2 build commenced prior to 30 June 2017 however no Crown funding was recognised in the year ending 30 June 2017.

The build process and funding under UFB2 is similar to UFB1. Chorus will receive funding at an average rate of $1,731 per premises passed. In return we will issue CFH equity securities and CFH debt securities. The total committed funding available for Chorus over the period of UFB2 network construction is expected to be $291 million. The debt securities are interest free and are repayable from June 2030. Dividends on the equity securities are payable from June 2030.

Note 5 – Crown funding

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

	2017				2016			
	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	398	242	39	679	304	211	33	548
Additional funding recognised at fair value	73	–	7	80	94	31	6	131
Balance as at 30 June	471	242	46	759	398	242	39	679
Accumulated amortisation of funding								
Balance as at 1 July	(18)	(14)	(8)	(40)	(10)	(8)	(7)	(25)
Amortisation	(11)	(8)	(2)	(21)	(8)	(6)	(1)	(15)
Balance as at 30 June	(29)	(22)	(10)	(61)	(18)	(14)	(8)	(40)
Total Crown funding	**442**	**220**	**36**	**698**	**380**	**228**	**31**	**639**
Current				**19**				**17**
Non-current				**679**				**622**

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 98,884 premises passed (30 June 2016: 121,253) where user acceptance testing was complete at 30 June 2017. This brings the total premises passed where user acceptance testing was complete at 30 June 2017 to approximately 573,000 (30 June 2016: 474,000).

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 Crown Fibre Holdings. Performance targets to date have been met.

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.

Three Chorus customers met the reporting threshold of 10 percent of Chorus' operating revenue in the year to 30 June 2017. The total revenue for the year ending 30 June 2017 from these customers was $541 million (30 June 2016: $570 million), $212 million (30 June 2016: $204 million) and $117 million (30 June 2016: $113 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.

	2017 $M	2016 $M
Basic copper	450	489
Enhanced copper	248	242
Fibre	198	133
Value added network services	36	35
Infrastructure	23	20
Field services	76	83
Other	9	6
Total operating revenue	**1,040**	**1,008**

Note 8 – Operating expenses

	2017 $M	2016 $M
Labour costs	74	78
Provisioning	43	60
Network maintenance	87	89
Other network costs	27	34
Information technology costs	60	65
Rent and rates	17	16
Property maintenance	13	12
Electricity	14	14
Insurance	3	3
Consultants	10	4
Regulatory levies	13	13
Other	27	26
Total operating expenses	**388**	**414**

Labour costs

Labour costs of $74 million (30 June 2016: $78 million) represents employee costs related to non-capital expenditure.

Pension contributions

Included in labour costs are payments to the New Zealand Government Superannuation Fund of $323,000 (30 June 2016: $339,000) and contributions to KiwiSaver of $2,907,000 (30 June 2016: $2,778,000). At 30 June 2017 there were 21 employees in New Zealand Government Superannuation Fund (30 June 2016: 22 employees) and 962 employees in KiwiSaver (30 June 2016: 849 employees). Chorus has no other obligations to provide pension benefits in respect of employees.

Charitable and political donations

Other costs include charitable donations to the Manaiakalani Education Trust ($75,000), the Consumer Foundation ($12,550) and smaller contributions to three other charities (total of $2,313) (30 June 2016: total of $2,500). Chorus has not made any political donations (30 June 2016: nil).

Operating leases

Rent and rates costs include leasing and rental expenditure of $7 million for property, network infrastructure and items of equipment (30 June 2016: $7 million).

Note 8 – Operating expenses (cont.)

Auditor remuneration

Included in other expenses are fees paid to auditors:

	2017 $000's	2016 $000's
Audit and review of statutory financial statements	493	483
Regulatory audit and assurance work	308	317
Tax compliance services	–	6
Other assurance services[1]	30	4
Other services[2]	46	47
Total other services	**384**	**374**
Total fees paid to the auditor	**877**	**857**

1 Relates to attendance at the Annual Shareholders Meeting and assurance relating to EUR EMTN comfort letters.
2 Other services includes preparation and presentation of hedge accounting training and sponsorship of an award category at the New Zealand Innovation Awards, run by the New Zealand Innovation Council, which is owned by KPMG.

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.

	2017 $M	2016 $M
Trade receivables	100	126
Other receivables	22	20
	122	**146**
Prepayments	24	22
Trade and other receivables	**146**	**168**
Current	**139**	**158**
Non-current	**7**	**10**

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.

The ageing profile of trade receivables is as follows:

	2017 $M	2016 $M
Not past due	94	105
Past due 1-30 days	5	18
Past due 31-60 days	1	3
	100	**126**

Chorus has a concentrated customer base consisting predominantly of a small number of retail service providers. The concentrated 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 the collectability of receivables.

Any disputes arising that may affect the relationship between the parties will be raised by relationship managers and follow a dispute resolution process. Chorus has $6 million of accounts receivable that are past due but not impaired (30 June 2016: $21 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.

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.

	2017 $M	2016 $M
Trade payables	86	98
Accruals	182	176
Personnel accrual	20	19
Revenue billed in advance	58	54
Trade and other payables	**346**	**347**
Current	**346**	**347**

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 December 2019 for UFB1 and December 2024 for UFB2. In total it is expected that the communal infrastructure will pass an estimated 999,000 premises. Chorus has estimated that it will cost $2.1–$2.2 billion to build the communal UFB network by the end of 2024.

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 2017 was $64 million (30 June 2016: $42 million). Refer to note 14 for further information on leases.

In March 2017 Chorus and Vodafone entered into a fibre swap agreement relating to an RBI settlement. This resulted in a ten year fibre lease commitment of $3 million with Chorus as the Lessee. The lease is expected to commence in approximately November 2017.

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 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.

Note 12 – Taxation (cont.)

Current tax expense

	2017 $M	2016 $M
Recognised in income statement		
Net earnings before tax	**159**	**127**
Tax at 28%	(45)	(36)
Tax effect of adjustments		
Other non taxable items	(1)	–
Tax expense reported in income statement	**(46)**	**(36)**
Comprising:		
Current tax expense	(40)	(32)
Deferred tax expense	(6)	(4)
	(46)	**(36)**
Recognised in other comprehensive income		
Net movement in cash flow hedge reserve (pre-tax)	(6)	32
Tax at 28%	(2)	9
Tax expense reported in other comprehensive income	**(2)**	**9**
Comprising:		
Current tax expense	–	–
Deferred tax expense	(2)	9
	(2)	**9**

Current tax (receivable)/payable

	2017 $M	2016 $M
Balance as at 1 July	(3)	12
Tax liability for the year	40	32
Tax paid	(38)	(47)
Balance as at 30 June	**(1)**	**(3)**

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 2015	(6)	16	–	227	(35)	(3)	199
Recognised in the income statement	1	(9)	–	11	(2)	3	4
Recognised in other comprehensive income	–	–	(9)	–	–	–	(9)
Balance as at 30 June 2016	(5)	7	(9)	238	(37)	–	194
Recognised in the income statement	1	(2)	–	16	(5)	(4)	6
Recognised in other comprehensive income	–	–	2	–	–	–	2
Balance as at 30 June 2017	**(4)**	**5**	**(7)**	**254**	**(42)**	**(4)**	**202**

Imputation credits

There are $154 million (30 June 2016: $138 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 2017.

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.

There are no cash or call deposit balances held 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 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

	2017 $M	2016 $M
Assets/(liabilities)		
Expected future lease payments:		
Less than one year	(9)	(8)
Between one and five years	(48)	(35)
More than five years	(393)	(369)
Total expected future lease payments	**(450)**	**(412)**
Less: future finance charges	296	280
Present value of expected future lease payments	**(154)**	**(132)**
Present value of expected future lease payments payable:		
Less than one year	4	4
Between one and five years	9	15
More than five years	(167)	(151)
Total present value of expected future lease payments	**(154)**	**(132)**
Classified as:		
Current asset – finance lease receivable	5	4
Non-current liability – finance lease payable	(159)	(136)
Total	**(154)**	**(132)**

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 to Spark under a finance lease arrangement. The term of the leases vary from three years to ten years and include rights of renewal. 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

	2017 $M	2016 $M
Non-cancellable operating lease rentals are payable as follows:		
Less than one year	8	6
Between one and five years	26	14
More than five years	30	22
Total	**64**	**42**

Chorus has entered into leasing arrangements for properties, network infrastructure and other items of equipment which are classified as operating leases. Certain leases are able to be renewed or extended 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)	2017 M	2016 M
Balance 1 July	401	396
Dividend reinvestment plan	10	5
Balance at 30 June	**411**	**401**

Chorus Limited has 411,001,665 fully paid ordinary shares (30 June 2016: 400,799,739 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.

On 7 October 2016 and 4 April 2017 a fully imputed interim dividend of 8.5 cents per share and 12 cents per share respectively was paid to shareholders. These two dividend payments totalled $83 million (30 June 2016: $32 million).

Eligible shareholders (those resident in New Zealand or Australia) can choose to have Chorus Limited reinvest all or part of their dividends in additional Chorus Limited shares. For the year ended 30 June 2017, 10,201,926 shares (30 June 2016: 4,429,972) with a total value of $40 million (30 June 2016: $17 million) were issued in lieu of dividends.

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 is expected to be taxable as Chorus Limited had zero available subscribed capital on demerger.

Employee share plans

Employee equity building scheme

Chorus operates an employee equity building scheme to provide employees the opportunity to become familiar with the shareholder experience. Chorus and eligible employees contribute together to purchase shares on market. The shares are then held by the Trustee (Trustees Executors Limited) and vest to participating employees after a three year period.

A total of 776 employees (30 June 2016: 638 employees) participated in the scheme, 100,415 shares (30 June 2016: 125,290 shares) were purchased at an average price of $3.74 per share

Note 15 – Equity (cont.)

(30 June 2016: $2.67 per share). At 30 June 2017 the scheme holds 362,909 shares on behalf of 776 employees.

Long-term performance share scheme

Chorus operates a long-term performance share scheme for selected key management personnel.

The August 2015 issue featured two grants. The shares relating to the first grant have a vesting date of two years from 30 June 2015 (2 year grant), and the shares relating to the second grant have a vesting date of three years from 30 June 2015 (3 year grant). Each grant is made up of two tranches, the first with a relative performance hurdle (Chorus' actual Total Shareholder Return (TSR) compared to other members of the NZX50) and the second with an absolute performance hurdle (Chorus' actual TSR being greater than 10.8% per annum compounding).

The August 2016 issue consisted of one three year grant. The shares have a vesting date of 22 September 2019 and an expiry date of 22 September 2020. The grant has an absolute performance hurdle (Chorus' actual TSR equalling or being greater than 9.8% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period (noting that the TSR continues to increase through this period).

The shares are held by a nominee (Chorus LTI Trustee Limited) on behalf of the participants, until after the shares vest when the nominee is directed to transfer or sell the shares. Or if the shares do not vest they may be held or sold by the nominee. The shares carry the same rights as all other shares.

Participants have been provided with interest-free limited recourse loans to fund the 580,104 shares purchased under the LTI scheme (30 June 2016: 446,016 shares). The shares were purchased on market at an average price of $2.95. 192,020 shares vested on 30 June 2017 but are not eligible for transfer until 25 August 2017.

The LTI scheme is an equity settled scheme and treated as an option plan for accounting purposes. Each tranche of each grant was valued separately. The tranche with a relative performance hurdle was valued using a Monte Carlo simulation while the tranche with the absolute performance hurdle was valued using the Black Scholes valuation model.

The combined option cost for the year ended 30 June 2017 of $312,000 has been recognised in the income statement (30 June 2016: $218,000).

Significant assumptions used in the valuation models are: 1) a volatility of the Chorus share price of 33%, 2) that dividends will be paid over the term of the scheme, and 3) an absolute TSR performance threshold of 9.8%.

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:

	2017 $M	2016 $M
Opening balance	26	3
Ineffective portion of changes in fair value of cash flow hedges	(12)	(7)
Effective portion of changes in fair value of cash flow hedges	7	29
Amortisation of de-designated cash flow hedges transferred to income statement	1	1
Closing balance	**22**	**26**

Note 15 – Equity (cont.)

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

AS AT 30 JUNE 2017	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	–	–	12
Interest rate swaps	–	–	31	–	–	–
Forward exchange contracts	2	–	–	–	–	–
Electricity contracts	–	–	–	–	–	–
	2	**–**	**44**	**–**	**–**	**12**

AS AT 30 JUNE 2016	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	–	–	–	(6)	–	–
Interest rate swaps	1	–	7	45	–	–
Forward exchange contracts	3	1	–	–	–	–
Electricity contracts	–	–	–	–	–	–
	4	**1**	**7**	**39**	**–**	**–**

As at 30 June 2017 the cash flow reserve contained $36 million of non-cash amounts (30 June 2016: $25 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.

To hedge the foreign currency risk on the EUR EMTN Chorus used Cross Currency Interest Rate Swaps. For hedge accounting purposes these swaps were aggregated and designated as two cash flow hedges and a fair value hedge. Chorus hedges a portion of the EUR EMTN for Euro fixed rate interest to Euro floating rate interest via a fair value hedge. In this case the change in the fair value of the fair value hedging instrument is also attributed to the carrying value of the EMTN (refer to note 3).

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

Note 16 – Earnings per share

The calculation of basic earnings per share at 30 June 2017 is based on the net earnings for the year of $113 million (30 June 2016: $91 million), and a weighted average number of ordinary shares outstanding during the period of 406 million (30 June 2016: 397 million), calculated as follows:

BASIC EARNINGS PER SHARE	2017	2016
Net earnings attributable to ordinary shareholders ($ millions)	113	91
Denominator – weighted average number of ordinary shares (millions)	406	397
Basic earnings per share (dollars)	**0.28**	**0.23**
Diluted earnings per share		
Net earnings attributable to ordinary shareholders ($ millions)	113	91
Weighted average number of ordinary shares (millions)	406	397
Ordinary shares required to settle CFH equity securities (millions)	72	69
Ordinary shares required to settle CFH warrants (millions)	8	7
Denominator – diluted weighted average number of shares (millions)	486	473
Diluted earnings per share (dollars)	**0.23**	**0.19**

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 that we have transactions with in the normal course of business. A number of Directors are also non-executive Directors of other companies. Any transactions undertaken with these entities are in the ordinary course of business.

Chorus has loans to employees and nominees receivable at 30 June 2017 of $1.6 million (30 June 2016: $1.2 million) as outlined in the employee share plan section of note 15. All loans outstanding are interest-free limited recourse loans.

Key management personnel compensation

	2017 $000's	2016 $000's
Short term employee benefits	7,532	7,197
Post employment benefits	–	–
Termination benefits	–	–
Other long term benefits	–	872
Share based payments	274	218
	7,806	**8,287**

This table above includes remuneration of $1,083,000 (30 June 2016: $1,012,000) 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 2017 amortisation of $4 million was recognised in finance income (30 June 2016: $4 million) and $3 million was recognised in finance expense (30 June 2016: $3 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 non-cash ineffectiveness arising from the EMTN hedge relationship. Following the close out of the interest rate swaps relating to the GBP EMTN the hedge relationship was reset in December 2013 with a fair value of $49 million. The balance at 30 June 2017 is $15 million (30 June 2016: $21 million). As long as the hedge remains effective any future gains or losses will be processed through the hedge reserve, however the ineffectiveness will flow 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. For the year ended 30 June 2017 ineffectiveness of $6 million was recognised in the income statement (30 June 2016: $9 million).

In November 2016, Chorus repaid the Syndicated Bank Facility and the associated Interest Rate Swaps expired. One Interest Rate Swap (IRS) has been maintained and is not in a designated hedging relationship. The fair value remeasurement non-cash gains or losses on this IRS are recognised immediately in finance expense in the income statement. For the period to 30 June 2017 $6 million was recognised in finance expense (30 June 2016: nil).

In conjunction with the EUR EMTN 500 million issued on 18 October 2016, Chorus entered into Cross Currency Interest Rate Swaps to hedge the foreign currency and foreign interest rate risks on the EUR EMTN. These swaps have an aggregate principal of EUR 500 million and NZD 785 million. Chorus will pay New Zealand Dollar floating interest rates and receive EUR denominated fixed interest which match the underlying notes. For the period to 30 June 2017 $11 million of non-cash charges relating to the change in fair value of this hedge relationship was recognised in finance expense.

Note 18 – Derivative financial instruments (cont.)

	2017 $M	2016 $M
Current derivative assets		
Cross currency interest rate swaps	1	1
	1	**1**
Non-current derivative assets		
Cross currency interest rate swaps	–	–
	–	**–**
Current derivative liabilities		
Interest rate swaps	18	18
Cross currency interest rate swaps	25	2
Forward exchange rate contracts	3	4
Electricity contracts	–	–
	46	**24**
Non-current derivative liabilities		
Interest rate swaps	31	57
Cross currency interest rate swaps	200	133
Forward exchange rate contracts	–	1
	231	**191**

The notional values of contract amounts outstanding are as follows:

	CURRENCY	MATURITY	2017 $M	2016 $M
Interest rate swaps	NZD	2019-2020	926	1,141
Cross currency interest rate swaps	NZD:GBP	2020	677	677
	NZD:EUR	2023	785	–
Forward exchange rate contracts	NZD:AUD	2017-2018	1	1
	NZD:EUR	2017-2018	3	1
	NZD:USD	2017-2019	42	52
	NZD:SEK	2017-2018	11	19
Electricity contracts	NZD	2017-2019	5	6
			2,450	**1,897**

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 facility, EMTN, fixed rate NZD bonds, 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 and cross currency interest rate swaps to manage the foreign exchange exposure.

Chorus has issued GBP 260 million and EUR 500 million foreign currency debt in the form of EMTN. For the GBP 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. For the EUR EMTN Chorus has in place cross currency interest rate swaps under which Chorus receives EUR 500 million principal and EUR fixed coupon payments for $785 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 2017, Chorus did not have any significant unhedged exposure to currency risk (30 June 2016: 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 as 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. Where appropriate, 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 entire GBP cross currency interest rate swaps and a portion of the EUR cross currency interest rate swaps have been hedged using interest rate swaps.

Note 19 – Financial risk management (cont.)

Interest rate repricing analysis

AS AT 30 JUNE 2017	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	170	–	–	–	–	–	170
Debt (after hedging)	535	–	–	–	–	–	535
Fixed rate							
Debt (after hedging)	–	250	677	400	–	–	1,327
CFH securities	–	–	–	–	–	203	203
Finance lease (net settled)	(5)	(5)	(5)	(1)	2	168	154
	700	**245**	**672**	**399**	**2**	**371**	**2,389**

AS AT 30 JUNE 2016	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	102	–	–	–	–	–	102
Debt	–	–	200	–	–	–	200
Fixed rate							
Debt (after hedging)	–	–	465	677	400	–	1,542
CFH securities	–	–	–	–	–	152	152
Finance lease (net settled)	(4)	(4)	(5)	(4)	(1)	150	132
	98	**(4)**	**660**	**673**	**399**	**302**	**2,128**

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:

	2017 $M PROFIT OR (LOSS)	2017 $M EQUITY	2016 $M PROFIT OR (LOSS)	2016 $M EQUITY
100 basis point increase	4	20	(4)	1
100 basis point decrease	(4)	(20)	4	(2)

Credit risk

In the normal course of business, we incur 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 us or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2017 no collateral was posted.

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

	NOTES	2017 $M	2016 $M
Cash and call deposits	13	170	102
Trade and other receivables	9	122	146
Derivative financial instruments	18	1	1
Finance lease receivable	14	5	4
Maximum exposure to credit risk		**298**	**253**

Refer to individual notes for additional information on credit risk.

Note 19 – Financial risk management (cont.)

Liquidity risk

Liquidity risk is the risk that we 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 2017	CARRYING AMOUNT $M	CONTRACTUAL CASHFLOW $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	268	268	268	–	–	–	–	–
Finance lease (net settled)	154	450	9	8	9	13	18	393
Debt	1,609	1,867	59	59	520	425	9	797
CFH securities	203	320	–	–	–	–	–	320
Derivative financial liabilities								
Interest rate swaps	49	55	23	19	13	–	–	–
Cross currency interest rate swaps								
Inflows	–	(1,397)	(40)	(40)	(502)	(9)	(9)	(797)
Outflows	225	1,840	67	73	757	43	45	855
Electricity contracts	–	1	1	–	–	–	–	–
Forward exchange contracts								
Inflows	–	(54)	(45)	(9)	–	–	–	–
Outflows	3	57	48	9	–	–	–	–

AS AT 30 JUNE 2016	CARRYING AMOUNT $M	CONTRACTUAL CASHFLOW $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	274	274	274	–	–	–	–	–
Finance lease (net settled)	132	412	8	8	7	9	12	368
Debt	1,540	1,841	76	76	739	534	416	–
CFH securities	152	265	–	–	–	–	–	265
Derivative financial liabilities								
Interest rate swaps	75	82	22	22	21	17	–	–
Cross currency interest rate swaps								
Inflows	–	(617)	(33)	(33)	(33)	(518)	–	–
Outflows	135	817	35	34	35	713	–	–
Electricity contracts	–	5	3	2	–	–	–	–
Forward exchange contracts								
Inflows	–	(67)	(50)	(17)	–	–	–	–
Outflows	5	73	54	19	–	–	–	–

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 had available $350 million under the syndicated bank facilities (30 June 2016: $260 million).

Capital risk management

Chorus manages its capital considering shareholders' interests, the value of our assets and 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.

Note 19 – Financial risk management (cont.)

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. Hedge accounting is discontinued 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

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 2016: 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.

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

	CARRIED AT COST OR AMORTISED COST 2017 $M	CARRIED AT FAIR VALUE 2017 $M	CARRIED AT COST OR AMORTISED COST 2016 $M	CARRIED AT FAIR VALUE 2016 $M
Loans and receivables				
Cash and call deposits	170	–	102	–
Trade receivables	100	–	126	–
Other receivables	22	–	20	–
Designated in a hedging relationship				
Derivative financial assets	–	1	–	1
Derivative financial liabilities	–	(277)	–	(215)
Other financial liabilities				
Trade accounts payable	(86)	–	(98)	–
Joint arrangements	–	–	–	–
Accruals	(182)	–	(176)	–
Finance lease (net settled)	(154)	–	(132)	–
Debt	(1,609)	–	(1,540)	–
CFH securities	(203)	–	(152)	

Note 20 – Post balance date events

Dividends

On 28 August 2017 Chorus declared a dividend in respect of year ended 30 June 2017. The total amount of the dividend is $51.4 million, which represents a fully imputed dividend of 12.5 cents per ordinary share.

Crown Fibre Holdings renamed

During July 2017 the New Zealand government repurposed Crown Fibre Holdings (CFH) and changed the name to Crown Infrastructure Partners (CIP). The repurpose will have no material impact on Chorus' relationship.

Governance and disclosures

Corporate governance and disclosures

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

Corporate governance framework

Our governance practices and policies:

- Reflect, are consistent with, and during the year ended 30 June 2017 did not materially differ from, the NZX Main Board Listing Rules and NZX Corporate Governance Best Practice Code; and
- Take the new NZX Corporate Governance Code and ASX Corporate Governance Council's Corporate Governance Principles and Recommendations into account.

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

More detail on our corporate governance is available in our Corporate Governance Statement available at www.chorus.co.nz/governance.

Our Board

Patrick Strange

BE (Hons), PhD

Chairman
Director since 6 April 2015; independent

Patrick has spent 30 years working as a senior executive and director in both private and listed companies, including 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 Mercury NZ, NZX Limited, Auckland International Airport and is also on the board of Essential Energy Australia. He is a former director of WorkSafe New Zealand.

Patrick is chairman of our Nominations and Corporate Governance Committee.

Jon Hartley

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

Deputy 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, deputy chairman of ASB Bank, 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 Sovereign Assurance Company, chairman of VisionFund International and the Wellington City Mission and a trustee of World Vision New Zealand. Jon is also a shareholder advisor to Kaingaroa Timberlands, a member of the Ministry of Business Innovation and Employment's Risk Advisory Committee, and a member of the Ministry of Foreign Affairs and Trade International Development Commercial Advisory Panel.

Jon is a member of our Audit and Risk Management and Nominations and Corporate Governance Committees.

Anne Urlwin

BCom, FCA, CFInstD, MAICD, FNZIM, ACIS

Director since 1 December 2011; independent

Anne has extensive directorship experience across many sectors, including energy, health, construction, regulatory services, internet infrastructure, research, banking, forestry and the primary sector, as well as education, sports administration and the arts.

She is chairman of commercial construction group Naylor Love Enterprises and a director of Southern Response Earthquake Services, Steel & Tube Holdings, OnePath Life (NZ), Summerset Group and City Rail Link. Anne is also independent chairman of the Ngāi Tahu Te Rūnanga Audit and Risk Committee, the former chairman of Lakes Environmental, the New Zealand Blood Service, internet domain name registry operator NZRS and a former director of Meridian Energy.

Anne is chairman of our Audit and Risk Management Committee.

Kate McKenzie

BA, LLB

Managing Director since 20 February 2017; non-independent

Kate has an extensive communications infrastructure background, most recently as Telstra Australia's Chief Operations Officer, responsible for Telstra's field services, IT and network architecture and operations. Prior to that, Kate also held other senior positions at Telstra including Group Managing Director, Innovation, Products and Marketing, Group Managing Director, Wholesale, and Group Managing Director, Regulatory, Public Policy and Communications.

Prior to joining Telstra, Kate was a CEO in the NSW Government of the Departments of Commerce, Industrial Relations and the Workcover Authority.

Kate is currently on the board of Allianz, having previously been on the boards of Foxtel, Sydney Water, Reach, CSL and Workcover. She is also a member of Chief Executive Women and has had a long history of involvement in promoting the interests of indigenous communities.

Keith Turner

BE (Hons), ME, PhD, DistFIPENZ

Director since 1 December 2011; independent

Keith was CEO of New Zealand electricity generator and retailer Meridian Energy for nine years from its establishment. He is currently chairman of Fisher & Paykel Appliances and Damwatch, a former chairman of Emirates Team New Zealand, deputy chairman of Auckland International Airport and director of Spark Infrastructure (an Australian listed company).

Keith has taken part in much of the electricity sector reform, including the separation of Transpower from Electricity Corporation of New Zealand (ECNZ), the separation of Contact Energy from ECNZ and the eventual break up of ECNZ into three companies.

Keith is a member of our Human Resources and Compensation Committee and on the UFB Steering Committee.

Jack Matthews

BA Philosophy, College of William and Mary

Director since 1 July 2017; independent

Jack is an experienced director who has held a number of senior leadership positions within the media, telecommunications and technology industries in Australia and New Zealand.

Most recently, Jack was CEO of Fairfax Media's Metro Division where he was responsible for managing and integrating the print, online and mobile assets of The Sydney Morning Herald, The Age and The Canberra Times. Prior to that, Jack was CEO of Fairfax Digital, Chief Operating Officer of Jupiter TV (Japan) and CEO of TelstraSaturn based in Wellington.

Jack is currently the chairman of MediaWorks and a director of Trilogy International, The Network for Learning and APN Outdoor Group and a former director of Crown Fibre Holdings Limited.

Mark Cross

BBS, CA

Director since 1 November 2016; independent

Mark has extensive corporate finance experience, both as a professional director and consultant, and during his earlier investment banking career.

Mark has held senior positions with Deutsche Bank in London and Australia, and prior to that at Lloyds Corporate Finance/Southpac Corporation in Australia and New Zealand.

Mark is currently chairman of Milford Asset Management, MFL Mutual Fund and Superannuation Investments, and a director of Z Energy, Argosy Property and Genesis Energy. He is also a board member of Triathlon NZ.

Mark is a member of Chartered Accountants Australia and New Zealand and the New Zealand Institute of Directors.

Mark is a member of our Audit and Risk Management Committee.

Murray Jordan

MProp

Director since 1 September 2015; independent

Murray has extensive experience in the management of highly customer focused organisations and in navigating extremely complex stakeholder environments, including, as Managing Director of Foodstuffs North Island, one of New Zealand's largest companies.

Murray has also previously held various general manager positions at Foodstuffs and management roles in the property investment and development sectors. He is a director of Metcash Limited, an ASX listed company, SkyCity and Stevenson Group, and a board Trustee of Starship Foundation.

Murray is a member of our Human Resources and Compensation Committee.

Prue Flacks

LLB, LLM

Director since 1 December 2011; independent

Prue is a director of Bank of New Zealand and Mercury NZ.

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 chairman of our Human Resources and Compensation Committee and a member of our Nominations and Corporate Governance Committee.

Our Board's role and delegation of authority

Our Board is appointed by shareholders and has overall responsibility for strategy, culture, health and safety, governance and performance.

The Board Charter sets out our Board's roles and responsibilities.

Our Board has delegated its authority, in part, to our CEO. Our CEO in turn sub-delegates authority to other Chorus people. Formal policies and procedures govern the parameters and operation of these delegations.

There are three standing Board committees to assist our Board in carrying out its responsibilities. Some Board responsibilities, powers and authorities are delegated to those committees. Other ad-hoc Board sub-committees or standing committees may be established and specific responsibilities, powers and authorities delegated to those committees and/or to particular Directors.

Board and Board committee charters and other key governance documents are available on our website at www.chorus.co.nz/governance.

Board membership

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

As at 30 June 2017 we had eight Directors (seven independent Directors and the Managing Director). Jack Matthews joined the Board on 1 July 2017. One of our longer serving Directors, Keith Turner, has indicated he intends to stand down at this year's annual shareholders' meeting.

Our Board has a broad range of managerial, financial, accounting and industry experience.

Independence

For a Director to be considered independent our Board must affirmatively determine he or she does not have a disqualifying relationship as set out in the Board Charter.

Board committees

Board committees assist our Board by focusing on specific responsibilities in greater detail than is possible for the Board as a whole. Each standing Board committee has a Board approved charter and chairman. All standing Board committee members are independent Directors.

Audit and Risk Management Committee (ARMC)

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

Members: Anne Urlwin (chairman), Jon Hartley and Mark Cross.

Human Resources and Compensation Committee (HRCC)

Our HRCC assists our Board in overseeing people policies and strategies, including:

- Remuneration frameworks; and
- Developing and annually reviewing and assessing diversity and its reporting.

Members: Prue Flacks (chairman), Keith Turner and Murray Jordan.

Nominations and Corporate Governance Committee (NCGC)

Our NCGC assists our Board in promoting and overseeing continuous improvement of good corporate governance including:

- Identifying and recommending suitable candidates for nomination as Directors and members of Board committees; and
- Establishing, developing and overseeing a process for our Board to annually review and evaluate the performance of our Board, its committees and individual Directors.

Members: Patrick Strange (chairman), Jon Hartley and Prue Flacks.

Board and Board committee meeting attendance in the year ended 30 June 2017

	REGULAR BOARD MEETINGS	OTHER BOARD MEETINGS[1]	ARMC	HRCC	NCGC	DDC[7]
Total number of meetings held	8	4	4	6	3	1
Patrick Strange[2]	8	4	2		3	1
Jon Hartley	8	4	4		3	
Anne Urlwin	8	3	4			1
Kate McKenzie[3]	3	2				
Keith Turner	8	3		6		
Mark Cross[4]	6	3	2			
Murray Jordan	8	4		6		
Prue Flacks	8	4		6	3	1
Clayton Wakefield[5]	2			1		
Mark Ratcliffe[6]	5					1

1 Includes dedicated Board health and safety, education, strategy and business planning, meetings. Directors also have at least one health and safety site visit each year.
2 Patrick Strange was a member of our ARMC until 1 January 2017 and attended all ARMC meetings until then.
3 Kate McKenzie joined our Board on 20 February 2017 and attended all Board meetings after that date.
4 Mark Cross joined our Board on 1 November 2016 and attended all Board meetings after that date. Mark joined our ARMC on 1 January 2017 and attended all ARMC meetings after that date.
5 Clayton Wakefield stepped down from our Board and HRCC on 1 November 2016.
6 Mark Ratcliffe stepped down as CEO and from our Board on 20 February 2017.
7 Due diligence ad-hoc Board sub-committee established to oversee our EUR500 million EMTN issue.

Kate McKenzie is not a member of any Board committee but attended all committee meetings as CEO and an observer from her appointment date.

Director attendances at committee meetings of which they are not members are not recorded above.

Managing risk

We have a Managing Risk Policy to:

- Ensure our Board sets the risk appetite and regularly reviews principal risks;
- Integrate risk management in line with our Board's risk appetite into structures, policies, processes and procedures; and
- Deliver regular principal risk reviews, reporting and monitoring.

Our Board sets and reviews our risk management framework.

Our ARMC oversees and monitors risk and compliance with our risk management framework. Regular reporting on risk management, including the management of material business risks and the effectiveness of our internal controls, supports this.

Robust risk assessment processes are carried out in addition to the above including:

- Annual strategic risk assessment with a longer time horizon;
- Annual principal risk assessment within a business plan horizon;
- Quarterly reporting to the ARMC and specific project reporting; and
- Ongoing strategic risk assessment by our Board.

Codes of ethics

Directors and employees are expected to act honestly and with high standards of personal integrity. Codes of ethics for our Directors and employees set the expected minimum standards for professional conduct. These codes facilitate behaviour and decisions that are consistent with our values, business goals and legal and policy obligations.

Trading in Chorus securities

Under our insider trading policy:

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

Director induction and education

Our Director induction programme ensures new Directors are appropriately introduced to management and our business.

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

Independent advice

A Director may, with our chairman's prior approval (or in the chairman's absence deputy chairman's approval), take independent professional advice (including legal advice) and request the attendance of such advisers at Board and Board committee meetings.

Review and evaluation of Board performance

Our chairman meets with Directors to discuss individual performance. Our Board has carried out, in the reporting period, an external review of our Board's performance, that of individual Directors and standing Board committees using the evaluation process developed and overseen by our NCGC.

Market disclosures

We are committed to providing timely, consistent and credible information to promote orderly market behaviour and investor confidence. We believe disclosure should be evenly balanced during good times and bad, and that all parties in the investment community have fair access to information.

We have a Board approved Disclosure Policy and a CEO approved Market Disclosure Policy setting out our disclosure responsibilities and processes in more detail. Both policies are regularly reviewed.

Diversity and inclusion

Belonging at Chorus

As a core part of our business strategy, we are committed to providing equal opportunity to all of our employees. We believe this will maximise our collective capability, allow us to leverage diversity of thought, better reflect and understand our diverse customer base and, as a result, lead to better decision making and higher shareholder value.

We recognise that women and ethnic minorities are still under-represented in the leadership of New Zealand businesses, including Chorus, and that proactive programmes are necessary to correct this.

Our Board approved Diversity and Inclusiveness (D&I) Policy addresses this issue.

Our policy is implemented through a D&I framework including Executive Steering and Employee Working Groups. We are currently focused on four strategic initiatives:

- Flexible working
- Diverse leadership
- Gender pay equity
- Career transition planning

Our D&I programme is integrally linked with our values and wellbeing programme under the pillar of "Belonging at Chorus". It emphasises educating and developing our people leaders, alongside employee lifecycle initiatives and internal communications to celebrate D&I, such as "Humans of Chorus" stories and local and global cultural events.

We are focused on refreshing and improving awareness in key policies to increase work arrangements that enable our people to balance their work and personal lives at every career stage.

Under-representation of women in senior roles is a key issue. In December 2016, we commissioned an independent review on gender pay equity. We have more men than women in senior positions at Chorus, which means that we pay more of our total remuneration budget to men than women. We have carried out in depth analysis and on a like for like basis, there is no discernible gender pay gap in almost all roles, but the opportunity exists to increase the number of women in senior roles.

To help with this, we have been piloting a new leadership programme for our senior women leaders called "UP". Participants in UP are also partnered with other female leaders in the business, to connect, share learning and extend the benefits of the programme. We are a support partner for the Global Women organisation and have two more female leaders on the Global Women Breakthrough Leaders programme in 2017.

Our CEO is the only female CEO in the NZX50 at this time. Our chairman and CEO are part of the Champions for Change initiative in New Zealand.

We adjusted our approach to ethnicity reporting this year. There is significant under-representation of Asian and Pacific people leaders. People who identify in these ethnic groups are among our newest employees in our customer services teams. This presents an opportunity for ongoing focus in talent management and development plans.

Diversity metrics and objectives as at 30 June 2017

Based on the annual review of effectiveness of our D&I Policy and our measurable diversity metrics and objectives, our Board considers that overall we are making progress towards achieving our D&I objectives and that we have performed satisfactorily against the policy generally. We do not have the balance of diversity we aspire to and we continue to consciously focus on this. Our current measurable metrics and objectives set by the Board on recommendation of the HRCC are summarised below:

METRIC	DESCRIPTION	OBJECTIVE (BENCHMARK)	AS AT 30 JUNE 2017	AS AT 30 JUNE 2016
Age profiles	Median age	42.7 years (Statistics New Zealand National Labour Force Projections 2016)	41.8 years	42.2 years
Employee satisfaction	Response to the diversity question "This organisation values differences in education, experience, ideas, work styles, and perspectives"	85% Aon Hewitt Best Employer Standard of 2017	87%	85%
Ethnicity by role[1]	Organisational groupings by ethnicity (A different approach was used for self-reporting in 2017)	People leader population distribution = total company population distribution.	Total Pop'n / People Leaders African 1% 1% Asian 7% 1% European 8% 11% Latin American 0% 0% Māori 2% 3% Middle Eastern 0% 1% New Zealand European 59% 75% Other 2% 2% Pacific Peoples 14% 4% Did not disclose 7% 3%	Total Pop'n / People Leaders Africa 1% 1% Asia 17% 3% Europe 8% 12% South America 0% 1% Māori 3% 3% Australia 1% 0% New Zealand 64% 79% Pacific Island 5% 1% Unknown/ not disclosed 1% 0%
Flexible working arrangements	Percentage of the population utilising flexible working arrangements	No objective – for information.	Focus on refreshing policy and education into our employee lifecycle and culture to support successful and sustainable flexible working arrangements[2]	n/a
Gender by role	Organisational groupings by gender	People leader population distribution = total company population distribution	♀ ♂ 40% 60% All 34% 66% People Leaders[3] 33% 67% Officers/Senior Executives[4] 38% 62% Board[5] 29% 71% Non-executive Board[6]	♀ ♂ 39% 61% All 34% 66% People Leaders[3] 22% 78% Officers/Senior Executives[4] 25% 75% Board[5] 29% 71% Non-executive Board[6]
Rookie ratio	New employees by age, ethnicity and gender	No objective – for information	Average age 35.4 years Gender ♀ 43% ♂ 57% African 1% Asian 9% European 8% Latin American 0% Maori 2% Middle Eastern 0% New Zealand European 47% Other 0% Pacific Peoples 34% Unknown/not disclosed 0%	Average age 37.3 years Gender ♀ 43% ♂ 57% Africa 2% Asia 19% Australia 7% Europe 15% Māori 1% New Zealand 54% Pacific Island 2% Unknown/not disclosed 0%
Internal hire rate	New appointments identifying internal vs external hire rate	66% of roles in layers 1-3	55% of all appointments have been internal. 65% of roles in layers 1-3 were appointed from internal candidates.	47% of all appointments have been internal. 20% of roles in layers 1-3 were appointed from internal candidates[7].

1 Ethnicity is self-reported, this year fresh data was gathered with a question added to the end of the Engagement Survey to align with Statistics NZ Level 2 Classifications. We have seen a switch in the way that employees have chosen to identify themselves in FY17 as a result. Using this methodology employees can identify with up to 3 (out of 22) different ethnicities versus only one choice.

2 Flexible working arrangements haven't been recorded on an ongoing basis to date. Instead we are focused on refreshing policy and education into our employee lifecycle and culture to support successful and sustainable flexible working arrangements.

3 People Leaders have management and leadership roles within Chorus and other Chorus people formally reporting to them.

4 Chorus' Officers/Senior Executives are its Chief Executive and her leadership team other than the Executive Assistant. As at 30 June 2017, Chorus had 3 female and 6 male Officers/Senior Executives (30 June 2016: 2 female, 7 male).

5 As at 30 June 2017, Chorus had 3 female and 5 male directors (30 June 2016: 2 female, 6 male).

6 As at 30 June 2017, Chorus had 2 female and 5 male non-executive directors (30 June 2016: 2 female, 5 male).

7 Due to a data error this was reported as 13% in our 2016 Annual Report. That error is now corrected.

Remuneration and performance

Remuneration model

Our remuneration model is designed to align employee and shareholder interests and to be simple, clear and fair. It aims to attract, retain and motivate high-calibre employees to all levels of the Company, at the same time driving performance, customer focus and personal development. Our Board regularly reviews our remuneration design.

All employees have fixed remuneration, targeted at the market median, and the potential to earn a Short Term Incentive (STI).

The CEO and members of the executive leadership team also have the potential to earn a Long Term Incentive (LTI). Both STI and LTI are variable elements of remuneration and are only paid if both Company and individual performance goals have been met.

Fixed remuneration

Fixed remuneration is adjusted each year based on data from independent remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current position when compared to the market. We have updated our job evaluation system in 2017 to improve accuracy and transparency of job matching to the most relevant market data.

Short term incentive

STI values are set as a percentage of fixed remuneration, from 5% to 33% based on the complexity of the role (the CEO's STI is a higher percentage of fixed remuneration as set out later in this report). STI payments are determined following a review of Company and individual performance and paid out at a multiplier of between 0x and 1.75x for the CEO and executive leadership team, and between 0x and 2.8x for all other employees.

Company performance goals are set and reviewed annually by our Board to align with shareholder value. If Company goals are not met, including a "gateway" goal, no STI is payable. In the year ended 30 June 2017, the Company goals were:

- 40% based on EBITDA;
- 40% based on completion of fibre connections; and
- 20% based on progress against key strategic initiatives as assessed by our Board.

Individual performance goals for all employees are tailored to their role, with 70% of the goals based on 'what' they achieve and 30% based on 'how' they perform their role, which includes a health and safety component for all people leaders.

As an example of how STI is calculated, an employee with fixed remuneration of $80,000 and an STI element of 10% may receive between $0 and $22,400 (0x to 2.8x their STI percentage) depending on the level of Company performance and their individual performance.

Long term incentives

We offer long term incentives under an executive LTI share scheme to reward and retain key executives, align the interests of executives and shareholders and encourage longer term decision making. The LTI is described in more detail in Note 15 of the financial statements on page 48.

Employee equity building scheme

We have an employee equity building scheme to encourage employees to think and act as shareholders. The shares under the scheme are held by a trustee and assessed against performance criteria generally after a three year period. For more details, refer to Note 15 of the financial statements.

CEO remuneration

CEO remuneration consists of fixed remuneration, an STI and an LTI. CEO remuneration is reviewed annually by the HRCC and Board after reviewing Chorus' performance, the CEO's individual performance and advice from external remuneration specialists.

Kate McKenzie took over from Mark Ratcliffe as CEO on 20 February 2017. Their remuneration for the periods they were CEO is set out below.

As Mark Ratcliffe stood down as CEO part way through FY17, the Board agreed that his LTI for FY17 should be replaced with a cash payment subject to performance measures designed to reflect the value added through that year.

Kate McKenzie's remuneration is structured on the same basis as Mark Ratcliffe's except that, in addition to participating in the Executive LTI scheme, the Board granted a one-time LTI ("Extended LTI") to recognise and reward the potential to add significant shareholder value through an increase in total shareholder return over the next few years over and above that rewarded by the Executive LTI scheme.

CEO remuneration for performance periods ending 30 June 2017 and 30 June 2016

Mark Ratcliffe (CEO to 20 February 2017):

	FIXED REMUNERATION			PAY FOR PERFORMANCE					TOTAL REMUNERATION
	SALARY	NON-TAXABLE BENEFITS[1]	SUBTOTAL	STI	STI EXTENSION[4]	LTI	LTI REPLACEMENT	SUBTOTAL	
FY17	820,595	19,120	839,715	567,000[2]	-	278,272	297,000	1,142,272	1,981,987
FY16	895,868	20,800	916,668	772,200[3]	371,029	189,379[5]	-	1,332,608	2,249,276

Kate McKenzie (CEO from 20 February 2017):

	FIXED REMUNERATION			PAY FOR PERFORMANCE			TOTAL REMUNERATION
	SALARY	NON-TAXABLE BENEFITS	SUBTOTAL	STI	LTI	SUBTOTAL	
FY17	475,385	-	475,385	370,233[2]	-	370,233	845,618

1 Accommodation allowance in place of hotel/meal costs in Auckland (CEO Wellington based).
2 STI for FY17 performance period (paid FY18)
3 STI for FY16 performance period (paid FY17)
4 STI Extension for performance period FY14 to FY16 in place of LTI (scheme has now ended)
5 LTI for performance period FY13 to FY15 (vested FY16)

Other benefits paid to Mark Ratcliffe:
Company KiwiSaver contributions: FY17: $47,860 (FY16: $65,806)
Medical insurance: FY17: $4,253 (FY16: $7,064)

Other benefits paid to Kate McKenzie:
Company KiwiSaver contributions: FY17: $14,261 (FY16: n/a)

Five Year Remuneration Summary

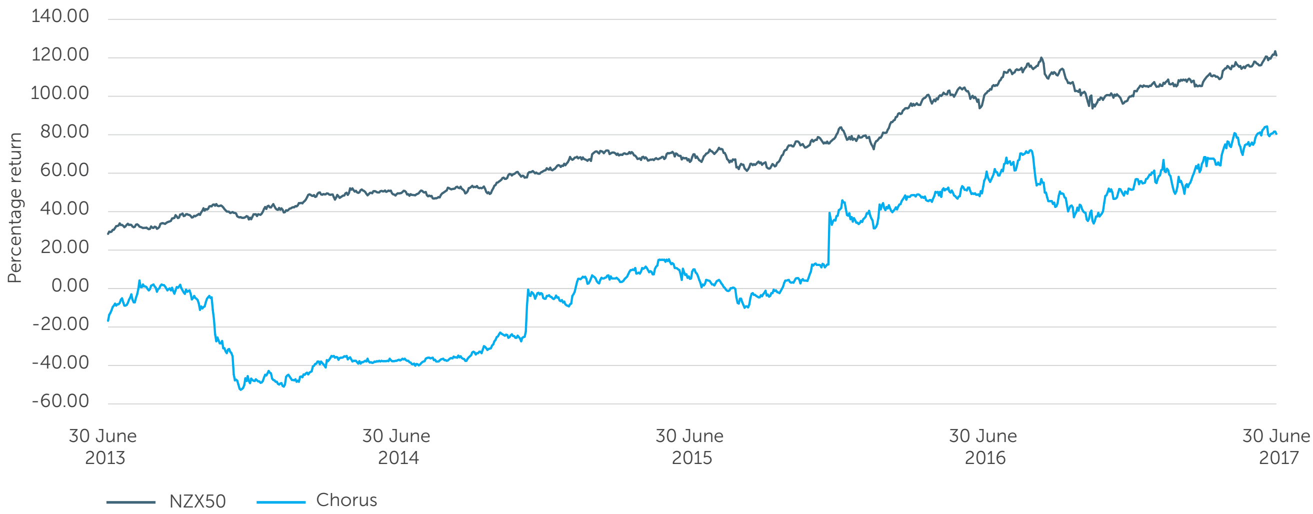
Mark Ratcliffe (CEO to 20 February 2017):

	TOTAL REMUNERATION	% STI AWARDED AGAINST MAXIMUM	% STI EXTENSION AWARDED AGAINST MAXIMUM	% LTI AWARDED AGAINST MAXIMUM	% LTI REPLACEMENT AWARDED AGAINST MAXIMUM	SPAN OF LTI PERFORMANCE PERIOD
FY17	1,981,987	48%	-	100%	100%	FY15 – FY17
FY16	2,249,276	75%	100%	70%	-	FY13 – FY15
FY15	1,877,143	57%	100%	69%	-	FY12 – FY14
FY14	1,696,507	40%	-	107%	-	FY11 – FY13
FY13	1,227,419	34%	-	-	-	-

Kate McKenzie (CEO from 20 February 2017):

	TOTAL REMUNERATION	% STI AWARDED AGAINST MAXIMUM
FY17	845,618	60%

Five Year Summary – Total Shareholder Return (TSR) Performance



The TSR summary above shows the performance of Chorus' shares against the NZX50 between 30 June 2013 and 30 June 2017.

Description of former CEO STI, LTI Replacement and LTI schemes for performance period ending 30 June 2017[1]

Mark Ratcliffe (CEO to 20 February 2017):

SCHEME	DESCRIPTION	PERFORMANCE MEASURES	PERCENTAGE OF MAXIMUM AWARDED
STI	Set at 75% of base remuneration for FY17 on-plan performance, up to a maximum of 1.75x or 131% of base remuneration where the highest levels of both company and individual performance measures are achieved.	Company performance measures: • 40% on EBITDA • 40% on Fibre connections; and • 20% on progress against key strategic initiatives as assessed by our Board Individual performance measures: • Health & Safety performance • Regulatory environment and funding • Brand profile and trust • Business plan delivery • Customer experience and culture	48%
LTI – loan to shares scheme	Two-year grant made 1 July 2015, equivalent to 33% of base remuneration on entry ($278,272), divided into two tranches of $139,136 each.	**Tranche 1:** Relative TSR performance against NZX50 (fixed at date of grant) with 50% available at 50th percentile and 100% available at 75th percentile (pro-rata in between). **Tranche 2:** TSR performance over grant period must exceed 10.8% on an annualised basis, compounding.	100% (both tranches)
Extended LTI - cash	Replacement cash incentive for the FY17 year, due to CEO standing down. Set at a maximum value of 33% of base remuneration.	• Business plan delivery • Total Shareholder return • 'Good Leaver' standards met	100%

1 The STI, LTI and LTI replacement payments for FY17 were paid in FY18.

Grants made, but not yet vested, to Mark Ratcliffe under the LTI scheme

SCHEME	DESCRIPTION	MEASURES	VESTING
LTI – loan to shares scheme	Three-year grant made 1 July 2015, equivalent to 33% of base remuneration on entry ($278,272), divided into two tranches of $139,136 each.	**Tranche 1:** Relative TSR performance against NZX50 (fixed at date of grant) with 50% available at 50th percentile and 100% available at 75th percentile (pro-rata in between). **Tranche 2:** TSR performance over grant period must exceed 10.8% on an annualised basis, compounding.	Due to vest FY18

Description of current CEO STI, LTI schemes for performance period ending 30 June 2017[1]

Kate McKenzie (CEO from 20 February 2017):

SCHEME	DESCRIPTION	PERFORMANCE MEASURES	PERCENTAGE OF MAXIMUM AWARDED
STI	Set at 75% of base remuneration for FY17 on-plan performance (pro-rated), up to a maximum of 1.75x or 131% of base remuneration where the highest levels of both company and individual performance measures are achieved.	Company performance measures: • 40% on EBITDA • 40% on Fibre connections; and • 20% on progress against key strategic initiatives as assessed by our Board Individual performance measures: • Business plan • Connections and customer service • Strategic Review	60%

1 The STI, LTI and LTI replacement payments/shares transferred for FY17 were paid in FY18.

Grants made, but not yet vested, to Kate McKenzie under the LTI scheme

SCHEME	DESCRIPTION	MEASURES	PAYMENT
Cash	One-time four-year grant with an amount payable calculated by reference to the increase in TSR over and above that rewarded by the executive LTI scheme capped at NZ$2,000,000	Annualised TSR performance over grant period must exceed average cost of equity over the period plus 1%	February 2021, with possible retesting up to February 2022

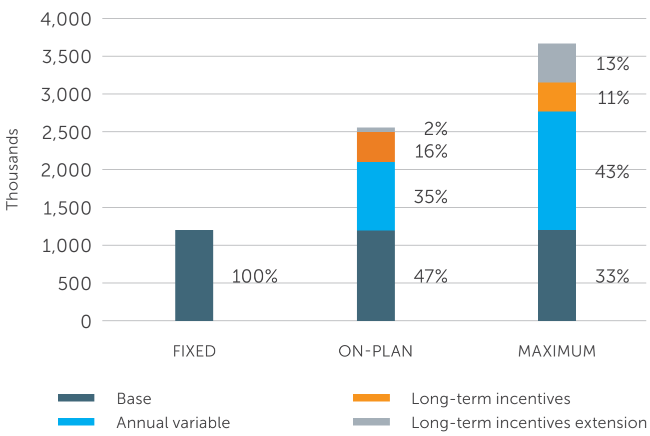
Current CEO remuneration performance pay

The Board has elected, in the interests of transparency, to disclose in advance the structure and package that will apply for FY18.

	FIXED REMUNERATION			PAY FOR PERFORMANCE				TOTAL REMUNERATION
	SALARY	NON-TAXABLE BENEFITS	SUBTOTAL	STI	LTI GRANTED[2]	EXTENDED LTI[3]	SUBTOTAL	
FY18	1,200,000	-	1,200,000	900,000	396,000	500,000	1,796,000	2,996,000

2 This LTI is granted in FY18 and if hurdles are met, paid in shares in FY21.
3 The maximum payable per annum, if the cap were reached at the end of the four year vesting period, for the four year Extended LTI.

The following table demonstrates the elements of CEO remuneration for FY18.



Employee remuneration range during the year ended 30 June 2017

The table below shows the number of employees and former employees who received remuneration and other benefits in excess of $100,000 during the year ended 30 June 2017.

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.

The remuneration paid to, and other benefits received by, Mark Ratcliffe in his capacity as CEO for the period to 20 February 2017, and Kate McKenzie in her capacity as CEO from 20 February 2017, are detailed on pages 64 to 67, and are excluded from the table below.

REMUNERATION RANGE $ (GROSS)	NUMBER OF EMPLOYEES IN THE YEAR ENDED 30 JUNE 2017 (BASED ON ACTUAL PAYMENTS)
870,001-880,000	1
590,001-600,000	1
560,001-570,000	1
540,001-550,000	2
460,001-470,000	1
430,001-440,000	1
360,001-370,000	2
350,001-360,000	1
340,001-350,000	2
330,001-340,000	3
320,001-330,000	1
310,001-320,000	1
290,001-300,000	5
280,001-290,000	3
270,001-280,000	5
260,001-270,000	5
250,001-260,000	7
240,001-250,000	9
230,001-240,000	7
220,001-230,000	9
210,001-220,000	7
200,001-210,000	9
190,001-200,000	16
180,001-190,000	14
170,001-180,000	26
160,001-170,000	35
150,001-160,000	38
140,001-150,000	49
130,001-140,000	49
120,001-130,000	45
110,001-120,000	57
100,000-110,000	61

Median pay gap

The median pay gap represents the number of times greater the CEO remuneration is to an employee paid at the median of all Chorus employees. At 30 June 2017, the CEO's base salary at $1,200,000, (on an annualised basis) was 13.8 times that of the median employee at $86,857 per annum.

The CEO's total remuneration on an annualised basis, including STI, was 25.8 times the total remuneration of the median employee (including STI) at $96,436.

Director remuneration

Our Director fee structure is below. Total remuneration available to non-executive Directors in the year ended 30 June 2017 was fixed at our 2016 annual shareholders' meeting at $1,149,500.

Our HRCC reviews the remuneration of Directors annually based on criteria developed by that committee.

ANNUAL FEE STRUCTURE	YEAR ENDED 30 JUNE 2017 $	YEAR ENDED 30 JUNE 2016 $
Base fees:		
Board chairman	223,650	214,000
Deputy chairman	167,750	160,500
Non-executive Director	111,850	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	22,470	21,500
Member	11,500	11,000
Nominations and Corporate Governance Committee		
Chairman	16,720	16,000
Member	8,880	8,500
UFB Steering Committees		
Member	33,450	32,000

The Board chairman and deputy chairman receive base fees only. Other Directors receive committee fees in addition to their base fee.

Directors (except the CEO) do not participate in a bonus or profit-sharing plan, do not receive compensation in share options, and do not have superannuation or any other scheme entitlements or retirement benefits.

Directors may be paid an additional daily rate of $2,400 for additional work as determined and approved by our chairman and where the payment is within the total fee pool available. No such fees were paid in the year ended 30 June 2017.

Remuneration paid to Directors (in their capacity as such) in the year ended 30 June 2017

DIRECTOR	TOTAL FEES $	BASE FEES	ARMC	HRCC	NCGC	UFB STEERING COMMITTEES
Patrick Strange[1]	223,650	223,650	-		-	
Jon Hartley[2]	167,750	167,750	-		-	
Anne Urlwin	143,850	111,850	32,000			
Kate McKenzie	-					
Keith Turner	156,800	111,850		11,500		33,450
Mark Cross[3]	82,567	74,567	8,000			
Murray Jordan	123,350	111,850		11,500		
Prue Flacks	143,200	111,850		22,470	8,880	
Clayton Wakefield[4]	41,459	37,594		3,865		
Mark Ratcliffe	-					
Total	**1,082,626**	**950,961**	**40,000**	**49,335**	**8,800**	**33,450**

1 Patrick Strange was a member of our ARMC until 1 January 2017. As Board chairman he did not receive any fees for being an ARMC or NCGC member.
2 As deputy chairman Jon Hartley did not receive any fees for being an ARMC or NCGC member.
3 Mark Cross joined our Board on 1 November 2016 and our ARMC on 1 January 2017.
4 Clayton Wakefield stepped down from our Board and HRCC on 1 November 2016.

Notes:

Amounts are gross and exclude GST (where applicable).

Neither Mark Ratcliffe as former CEO, nor Kate McKenzie as current CEO, received any remuneration in his/her capacity as a Director.

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

Directors are entitled to be reimbursed for travel and incidental expenses incurred in performance of their duties in addition to the above fees.

Disclosures

Directors

Director changes during the year ended 30 June 2017

Clayton Wakefield stepped down as a Director at our annual shareholders' meeting on 1 November 2016.

Mark Ratcliffe stepped down as a Director on 20 February 2017.

Mark Cross was appointed as a Director at our annual shareholders' meeting on 1 November 2016.

Kate McKenzie was appointed as a Director from 20 February 2017.

Subsequent changes

Jack Matthews was appointed as a Director from 1 July 2017. Keith Turner has indicated that he intends to step down as a Director at our 2017 annual shareholders' meeting.

Indemnities and insurance

We have 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, directors of subsidiaries or as directors of non-Chorus companies in which Chorus holds interests.

We have 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 shares

As at 30 June 2017, Directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.017% of shares as follows:

Current Directors

	AS AT 30 JUNE 2017		TRANSACTIONS DURING THE REPORTING PERIOD			
DIRECTOR	SHARES	INTEREST	NUMBER OF SHARES	NATURE OF TRANSACTION	CONSIDERATION	DATE
Patrick Strange	25,000	Beneficial interest	15,000	On-market acquisition	$65,250.00	1 September 2016
Anne Urlwin	13,256	Director and shareholder of registered holder	254	Acquisition under Chorus' dividend reinvestment plan	$1,027.25	4 April 2017
			2,500	On-market acquisition	$10,050.00	9 March 2017
			310	Acquisition under Chorus' dividend reinvestment plan	$1,138.23	7 October 2016
Keith Turner	6,418	Legal and beneficial interest	123	Acquisition under Chorus' dividend reinvestment plan	$497.45	4 April 2017
			186	Acquisition under Chorus' dividend reinvestment plan	$682.94	7 October 2016
Murray Jordan	12,220	Beneficial interest	12,220	On-market acquisition	$49,857.60	21 February 2017
Prue Flacks	11,117	Legal and beneficial interest	213	Acquisition under Chorus' dividend reinvestment plan	$861.44	4 April 2017
			322	Acquisition under Chorus' dividend reinvestment plan	$1,182.29	7 October 2016
Total	**68,011**					

Former Directors[1]

FORMER DIRECTOR	NUMBER OF SHARES	NATURE OF TRANSACTION	CONSIDERATION	DATE	INTEREST
Clayton Wakefield	642	Acquisition under Chorus' dividend reinvestment plan	$2,357.23	7 October 2016	Beneficial interest
Mark Ratcliffe	4,500	Acquisition under Chorus' dividend reinvestment plan	$16,522.65	7 October 2016	Beneficial interest

1 Trading while a Director.

Changes in Director interests

Current Directors

Patrick Strange	Ceased as director of: Ausgrid; Endeavour Energy.
Jon Hartley	Became: a shareholder advisor to Kaingaroa Timberlands Limited; a member of the Ministry of Business Innovation and Employment's Risk Advisory Committee; a member of the Ministry of Foreign Affairs and Trade International Development Commercial Advisory Panel. Ceased as deputy chairman of: ASB Bank Limited.
Anne Urlwin	Became a director of: City Rail Link Limited.[1]
Kate McKenzie	Director of: Allianz Australia Insurance Limited (NZ); Allianz Australia Limited (Aus) and its related companies (Allianz Australia Life Insurance Limited; Allianz Australia Insurance Limited; CIC Allianz Insurance Limited); MCK Consulting Pty Limited; New Zealand Telecommunications Carrier Forum. Director and shareholder of: MCK Family Holdings Pty Limited. Member of: Mahuki Advisory Board.[2]
Keith Turner	Became a director of: Damwatch Holdings Limited; Damwatch Engineering Limited. Ceased as director of: Spark Infrastructure RE Ltd.
Mark Cross	Director of: Argosy Property Limited; Genesis Energy Limited; Z Energy Limited and subsidiaries. Director and shareholder of: Alpha Investment Partners Limited; Aspect Productivity Technology Limited; Emcee Squared Limited; MFL Mutual Fund Limited; Milford Asset Management Limited (and a director of its subsidiaries including: Milford Capital Investments Limited; Milford Private Equity Limited; MPE II GP Limited); Superannuation Investments Limited; Virsae Group Limited. Trustee of: Cross Family Trust; Triathlon Youth Foundation New Zealand. Board member of: Triathlon New Zealand Incorporated.
Murray Jordan	Became a director of: SKYCITY Entertainment Group Limited; Stevenson Group Limited.

1 From 1 July 2017.

2 From 3 July 2017.

Former Directors[3]

Clayton Wakefield	Became a director of: The Cooperative Bank. Became a shareholder of: Commercial Information Systems New Zealand Limited. Ceased as director of: Columbus Financial Services Limited; Consumer Finance Limited; Consumer Insurance Services Limited; Fisher & Paykel Finance Holdings Limited; Fisher & Paykel Finance Limited; Fisher & Paykel Financial Services Limited; and Retail Financial Services Limited.
Mark Ratcliffe	Became a director and shareholder of: Te Awanga Investments Limited. Became a beneficial shareholder of: Vocus Communications Limited; Trustpower Limited. Became a trustee and beneficiary of: Ratcliffe Barker Family Trust. Ceased as beneficial shareholder of: Telstra Corporation Limited. Ceased as a trustee and beneficiary of: Matapouri Family Trust.

3 Changes in interests while a Director.

Director restrictions

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 a waiver to allow this restriction to be included in our Constitution.

External audit

The non-audit related fees paid to our external auditor during the year ended 30 June 2017 (as detailed in Note 8 to the Financial Statements) were permitted non-audit services under our External Auditor Independence Policy.

Securities and security holders

Stock exchange listings and American Depositary Receipts

Chorus Limited's shares are quoted on the NZX Main Board and on the ASX and trade under the 'CNU' ticker.

American Depositary Shares, each representing five 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' with Bank of New York Mellon as depositary bank.

Chorus Limited has also issued:

- $400 million of bonds quoted on the NZX debt market (the NZDX);
- EUR500 million EMTNs quoted on the ASX; and
- GBP260 million EMTNs quoted on the Luxembourg Stock Exchange.

NZX waivers

A summary of all waivers granted and published by NZX in the 12 months ending 30 June 2017 and relied on is available on our website at www.chorus.co.nz/investor-centre.

ASX disclosures

Chorus Limited and its subsidiaries are incorporated in New Zealand.

Chorus Limited 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).

Our Constitution contains limitations on the acquisition of securities, as described below.

For the purposes of ASX listing rule 1.15.3 Chorus Limited continues to comply with the NZX listing rules.

Registration as a foreign company

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

Quoted shares

As at 30 June 2017 there were 411,001,665 shares on issue.

Each 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 Limited because of the ownership restrictions in our Constitution (described below).

Constitutional ownership restrictions

Ownership restrictions carried through at demerger and incorporated into our Constitution in agreement with the Crown prohibit any person:

- From having a relevant interest in 10% or more of 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 shares, unless the prior written consent of the New Zealand Government is obtained.

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

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

We were advised by the Crown in 2012 that AMP Capital Holdings Limited 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 shares.

Unquoted securities

SECURITY	NUMBER OF SECURITIES ISSUED IN THE YEAR ENDED 30 JUNE 2017	TOTAL NUMBER OF SECURITIES ON ISSUE AS AT 28 JULY 2017	HOLDER	PERCENTAGE HELD
CFH1 equity securities	54,628,834	324,633,660	Crown Fibre Holdings Limited	100%
CFH1 debt securities	54,628,834	324,633,660	Crown Fibre Holdings Limited	100%
CFH1 equity warrants	2,730,758	8,627,317	Crown Fibre Holdings Limited	100%

The terms of issue for the CFH1 securities are set out in the subscription agreement with CFH and summarised in Note 4 of the Financial Statements and on Chorus' website at www.chorus.co.nz/financial-results.

Shareholder distribution as at 28 July 2017

SHAREHOLDING	NUMBER OF HOLDERS	% OF HOLDERS	TOTAL NUMBER OF SHARES HELD	% OF SHARES ISSUED
1 to 1,000	16,083	63.1%	5,805,036	1.41%
1,001 to 5,000	6,249	24.52%	15,443,393	3.76%
5,001 to 10,000	1,728	6.78%	12,510,313	3.04%
10,001 to 100,000	1,339	5.25%	30,202,094	7.35%
100,001 and over	91	0.36%	347,040,829	84.44%
Total	**25,490**	**100%**	**411,001,665**	**100%**

Bondholder distribution as at 28 July 2017

BONDHOLDING	NUMBER OF HOLDERS	% OF HOLDERS	TOTAL NUMBER OF BONDS HELD	% OF BONDS ISSUED
1,001 to 5,000	156	8.37%	780,000	0.20%
5,001 to 10,000	381	20.44%	3,659,000	0.91%
10,001 to 100,000	1,182	63.41%	42,905,000	10.73%
100,001 and over	145	7.78%	352,656,000	88.16%
Total	**1,864**	**100%**	**400,000,000**	**100%**

Substantial holders

We have received notice of substantial product holders as follows:

	AS AT 30 JUNE 2017		AS AT 28 JULY 2017	
	NUMBER OF ORDINARY SHARES HELD	% OF SHARES ON ISSUE	NUMBER OF ORDINARY SHARES HELD	% OF SHARES ON ISSUE
L1 Capital Pty Ltd	30,102,405	7.32%	30,102,405	7.32%
Macquarie Group Limited	28,508,613	6.93%	28,508,613	6.93%
Allan Gray Australia Pty Ltd	25,007,837	6.085%	25,007,837	6.085%

Chorus Limited had 411,001,665 shares on issue on 30 June and 28 July 2017.

Twenty largest shareholders as at 28 July 2017

RANK	HOLDER NAME	HOLDING	%
1	New Zealand Central Securities Depository Limited *	127,461,232	31.01%
2	JP Morgan Nominees Australia Limited	44,412,525	10.80%
3	HSBC Custody Nominees (Australia) Limited	33,208,377	8.07%
4	National Nominees Limited	27,105,591	6.59%
5	Citicorp Nominees Pty Limited	26,715,979	6.50%
6	L1 Capital Pty Ltd <Special Situations 14 A/C>	9,337,955	2.27%
7	BNP Paribas Nominees Pty Ltd <Agency Lending Drp A/C>	8,761,413	2.13%
8	Bond Street Custodians Limited <Macq High Conv Fund A/C>	8,242,300	2.00%
9	FNZ Custodians Limited	7,273,643	1.76%
10	HSBC Custody Nominees (Australia) Limited <A/C 2>	7,156,447	1.74%
11	Ronald James Woodrow	4,857,495	1.18%
12	Netwealth Investments Limited <Wrap Services A/C>	2,591,632	0.63%
13	Talston Pty Ltd <The Talston A/C>	2,394,466	0.58%
14	New Zealand Depository Nominee Limited <A/C 1> Cash Account	2,380,779	0.57%
15	Custodial Services Limited <A/C 3>	2,085,998	0.50%
16	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	1,935,994	0.47%
17	PT (Booster Investments) Nominees Limited	1,612,061	0.39%
18	Investment Custodial Services Limited <A/C C>	1,521,984	0.37%
19	JBWere (NZ) Nominees Limited <NZ Resident A/C>	1,399,947	0.34%
20	Bond Street Custodians Limited <Macquarie Smaller Co's A/C>	1,396,363	0.33%

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

Net tangible assets per security

As at 30 June 2017, consolidated net tangible assets per share was $1.95 (30 June 2016: $1.77). 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 2017:

- Revenue from ordinary activities increased 3% to $1,040 million; and
- Profit from ordinary activities after tax, and net profit, attributable to shareholders increased 24% to $113 million.

Subsidiaries

Chorus New Zealand Limited

Directors as at 30 June 2017: Kate McKenzie (chairman), Andrew Carroll, Nick Woodward, Vanessa Oakley and Lucy Riddiford (as alternate director for Vanessa Oakley).

Mark Ratcliffe resigned as a Chorus New Zealand Limited director on 20 February 2017. Kate McKenzie was appointed a director from that date.

No other Chorus New Zealand Limited directors resigned or were appointed in the year ended 30 June 2017.

Director remuneration

The directors of Chorus New Zealand Limited during the year ended 30 June 2017 were all employees and did not receive any remuneration in their capacity as directors.

Changes in director interests

Kate McKenzie	Director of: Allianz Australia Insurance Limited (NZ); Allianz Australia Limited (Aus) and its related companies (Allianz Australia Life Insurance Limited; Allianz Australia Insurance Limited; CIC Allianz Insurance Limited); MCK Consulting Pty Limited; New Zealand Telecommunications Carrier Forum. Director and shareholder of: MCK Family Holdings Pty Limited. Member of: Mahuki Advisory Board.[1]
Mark Ratcliffe[2]	Became a director and shareholder of: Te Awanga Investments Limited. Became a beneficial shareholder of: Vocus Communications Limited; Trustpower Limited. Became a trustee and beneficiary of: Ratcliffe Barker Family Trust. Ceased as beneficial shareholder of: Telstra Corporation Limited. Ceased as a trustee and beneficiary of: Matapouri Family Trust.

1 From 3 July 2017.
2 Changes in interests while a director.

Chorus LTI Trustee Limited

Chorus LTI Trustee Limited was incorporated on 11 December 2014 as trustee for our long term incentive plan.

Directors: Prue Flacks, Murray Jordan and Keith Turner.

Clayton Wakefield resigned as a director of Chorus LTI Trustee Limited effective 1 November 2016. Murray Jordan was appointed as a director of Chorus LTI Trustee Limited from 10 November 2016.

Director remuneration

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

Other subsidiaries

Chorus Limited 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.
Backhaul	Is the portion of the network that links local exchanges to other exchanges or retail service provider networks.
Bandwidth fibre access	A fibre service that provides dedicated bandwidth (up to 10Gbps download speed) between customers 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.
Board	Chorus Limited's Board of Directors.
Building block model	Refers to a methodology used for regulating monopoly utilities. Under BBM a regulated supplier's allowed revenue is equal to the sum of the underlying components or 'building blocks', consisting of the return on capital, depreciation, operating expenditure and various other components such as tax.
CFH	Crown Fibre Holdings Limited, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure. CFH was renamed Crown Infrastructure Partners in July 2017.
Chorus	Chorus Limited and subsidiaries.
Commission	Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.
Constitution	Chorus Limited's Constitution.
CPI	Consumers Price Index (inflation).
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.
Director	A director of Chorus Limited.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.
EMTN	European Medium Term Note.
FY	Financial year – twelve months ended 30 June. e.g. FY17 is from 1 July 2016 to 30 June 2017.
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.
Mbps	Megabits per second – a measure of the average rate of data transfer.
Naked copper	Broadband only connections, where the customer does not also take an analogue voice service.
RAB	Regulatory Asset Base refers to the value of total investment by a regulated utility in the assets which will generate revenues over time.
RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas between 2011 and 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.
TSO	Telecommunications Services Obligation – a universal service obligation under which Chorus must maintain certain coverage and service on the copper network.
TSR	Total shareholder return.
UBA	Unbundled Bitstream Access – regulated service that enables retail service providers to use Chorus equipment to deliver broadband to customers.
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 about 85% of New Zealanders. UFB1 refers to the original phase of the rollout to 75% of New Zealanders. UFB2 was a subsequent phase announced in January 2017.
VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides data transmission up to about 100Mbps downstream and 50Mbps upstream.

Forward looking statements and disclaimer

This annual report:

- May contain forward looking statements. These statements are not guarantees or predictions of future performance. They 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.
- Includes statements relating to past performance. These should not be regarded as reliable indicators of future performance.
- Is current at its release date. Except as required by law or the NZX Main Board and ASX listing rules, Chorus is not under any obligation to update this annual report or the information in it at any time, whether as a result of new information, future events or otherwise.
- Contains non-GAAP financial measures, including EBITDA and "adjusted EBITDA". These measures may differ from similarly titled measures used by other companies because they are not defined by GAAP or IFRS. Although Chorus considers those measures provide useful information they should not be used in substitution for, or isolation of, Chorus' audited financial statements. Refer to Appendix one on page 23 for further detail relating to EBITDA measures.
- May contain information from third parties Chorus believes reliable. However, no representations or warranties are made as to the accuracy or completeness of such information.
- Should be read in the wider context of material previously published by Chorus and released through the NZX and ASX.
- Does not constitute investment advice or an offer or invitation to purchase Chorus securities.

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Chorus

Chorus Limited	
Results for announcement to the market	
Reporting Period	Year ended 30 June 2017
Previous Reporting Period	Year ended 30 June 2016

	Amount (000s)	Percentage change
Revenue from ordinary activities	$1,040,000	Up 3%
Profit (loss) from ordinary activities after tax attributable to security holders.	$113,000	Up 24%
Net profit (loss) attributable to security holders.	$113,000	Up 24%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final dividend	12.5 cps	4.86 cps

Record Date	26 September 2017
Dividend Payment Date	10 October 2017

Comments:	This announcement should be read in conjunction with the attached annual report, audited financial statements for the year ended 30 June 2017 contained in that report, media release and investor presentation.

Dividends

A fully imputed final dividend for the 2017 financial year of 12.5 cents per ordinary share will be paid on 10 October 2017. The total dividend will be $51,375,208.

Dividend Reinvestment Plan

Chorus' dividend reinvestment plan will operate for the dividend payable on 10 October 2017.

Under the Plan eligible shareholders can choose to reinvest all or part of their dividend entitlements in additional Chorus shares (rather than receiving cash payments). There are no charges for participation in the Plan.

The price of the shares to be issued under the Plan will be the volume weighted average sale price of Chorus shares calculated on all price setting trades taking place through the NZX over a period of five trading days commencing on the ex-dividend date less a 3% discount and subject to adjustment in accordance with the Plan offer document.

Shares issued under the Plan will rank equally with Chorus' existing ordinary shares.

Election notices to participate in the Plan (for the dividend due for payment on 10 October 2017), must be received by 5pm (NZ time) 27 September 2017.

Net tangible assets per security

There are $1.95 net tangible assets per security (30 June 2016: $1.77).

Audit

This report is based on financial statements which have been audited. Chorus' auditors have issued an unqualified audit opinion. A copy of the audit report is included in the attached annual report.

Accounting policies

There have been no changes in accounting policies. All policies have been consistently applied throughout the period.

APPENDIX 7 – NZSX Listing Rules

EMAIL: announce@nzx.com

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one (Please provide any other relevant details on additional pages): 1

Full name of Issuer	CHORUS LIMITED
Name of officer authorised to make this notice	ANDREW CARROLL
Authority for event, e.g. Directors' resolution	DIRECTORS' RESOLUTION
Contact phone number	(04) 896 4003
Contact fax number	(04) 471 0013
Date	28 / 8 / 2017

Nature of event
Tick as appropriate

Bonus Issue	☐
If ticked, state whether: *Taxable*	☐
/ Non Taxable	☐
Conversion	☐
Interest	☐
Rights Issue Renouncable	☐
Rights Issue non-renouncable	☐
Capital change	☐
Call	☐
Dividend	√
If ticked, state whether: Interim	☐
Full Year	√
Special	☐
DRP Applies	√

EXISTING securities affected by this

If more than one security is affected by the event, use a separate form.

Description of the class of securities	ORDINARY SHARES
ISIN	NZCNUE0001S2

If unknown, contact NZX

Details of securities issued pursuant to this event

If more than one class of security is to be issued, use a separate form for each class.

Description of the class of securities	
ISIN	
Number of Securities to be issued following event	
Minimum Entitlement	
Ratio, e.g 1 for 2	for
Conversion, Maturity, Call Payable or Exercise Date	
Treatment of Fractions	
Strike price per security for any issue in lieu or date Strike Price available.	
Tick if pari passu	☐
OR provide an explanation of the ranking	

If unknown, contact NZX

Enter N/A if not applicable

Monies Associated with Event

Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.

In dollars and cents

Amount per security (does not include any excluded income)	$0.125
Source of Payment	RETAINED EARNINGS
Excluded income per security (only applicable to listed PIEs)	
Currency	NZD
Total monies	$51,375,208

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	$0.022059
Date Payable	10 October, 2017

Taxation

Amount per Security in Dollars and cents to six decimal places

In the case of a taxable bonus issue state strike price	$
Resident Withholding Tax	$0.008700
Imputation Credits (Give details)	$0.048600
Foreign Withholding Tax	$
FDP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	26 September, 2017
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date.*	10 October, 2017
Notice Date *Entitlement letters, call notices, conversion notices mailed*	
Allotment Date *For the issue of new securities. Must be within 5 business days of application closing date.*	10 October, 2017

OFFICE USE ONLY
Ex Date:
Commence Quoting Rights:
Cease Quoting Rights 5pm:
Commence Quoting New Securities:
Cease Quoting Old Security 5pm:

Security Code:

Security Code:

NZX

Corporate Governance Statement

This statement outlines the key aspects of our corporate governance framework and was approved by our Board on 28 August 2017.

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

Our Board

Our Board is appointed by shareholders and has overall responsibility for strategy, culture, health and safety, governance and performance.

Role of our Board and management

Roles and responsibilities are set out in our Board charter available at www.chorus.co.nz/governance. They include:

- Setting the strategy, culture and expectations in relation to health and safety.
- Overall responsibility for developing, approving, and monitoring performance against, strategy, business plans and budgets.
- Approving major capital expenditure and business activities outside the limits delegated to management.
- Ensuring an appropriate risk management framework has been established, setting risk appetite, regularly reviewing principal risks and overseeing the management of material business risks.
- Monitoring the integrity of, and where appropriate approving, financial and corporate reporting (including external audit).
- Setting, monitoring and reviewing an internal audit plan.
- Overseeing corporate governance, including reviewing key governance documents.
- Reviewing and evaluating Board, Board Committee and individual Director performance.
- Reviewing and approving remuneration and people strategies, structures and policies.
- Assessing the measurable objectives set for, and progress towards achieving, our diversity and inclusiveness goals.
- Appointing and removing our CEO, CFO and General Counsel & Company Secretary.
- Monitoring compliance with our continuous disclosure obligations.
- Appointing members to Board Committees.
- Carrying out the functions specifically reserved to our Board and its Committees under Board approved policies and Committee charters.

Delegation of authority

Our Board has delegated authority, in part, to our CEO through the Delegated Authority (DA) Policy to allow for Chorus' effective day to day management and leadership, including the implementation of our strategic objectives, within the risk appetite set by our Board.

In accordance with the DA Policy, our CEO has sub-delegated authority to other members of management, and certain other Chorus people, within specified financial and non-financial limits.

Our Board reviews our DA Policy at least once every two years.

Three standing Board Committees assist our Board in carrying out its responsibilities. Some Board responsibilities, powers and authorities are delegated to those Committees. More information on those Committees is set out below.

Other ad-hoc Board sub-committees or standing committees may be established and specific responsibilities, powers and authorities delegated to those committees and/or to particular Directors.

Management are responsible for providing accurate, timely and clear information to our Board to enable it to discharge its obligations and responsibilities.

Health and safety

We are committed to taking all reasonably practicable steps to ensure a healthy, safe and secure environment for our people and anyone who is in the vicinity of our workplaces.

We have a strong and visible commitment to an open reporting culture and focus on maturing to a resilient culture of zero tolerance for major injuries or fatalities. No business objective will be prioritised over the health and safety of any person.

Our Board has set a terms of reference setting out its roles and responsibilities in relation to health and safety at Chorus. The terms of reference is reviewed every two years.

Our Board ensures appropriate policies and procedures are adopted and implemented and reviews the monitoring, identification, reporting and management of significant health and safety risks.

Health and safety is discussed at all Board meetings with our Board receiving reports from management containing comprehensive summaries of health and safety activity and outcomes, including data on all actual health and safety incidents, near misses, breaches, subsequent investigations (including assessment of root causes) and remedial actions.

Our Board receives additional quarterly reports on progress against our annual health and safety plan and all Directors carry out at least one health and safety site visit each year.

Board membership

Our Constitution provides for a minimum of five and maximum of 12 Directors.

We currently have nine Directors (eight independent Directors and the Managing Director) with a broad range of skills and experience. One of our longer serving Directors has indicated he intends to stand down at our 2017 annual shareholders' meeting (ASM) after which we will have eight Directors (seven independent Directors and the Managing Director).

More information on the skills and experience of our Directors is set out below, in our annual report and on our website at www.chorus.co.nz/governance.

No person who is an 'associated person' of a telecommunication services provider in New Zealand may be appointed or hold office as a Director.

Chairman

Our chairman is an independent Director.

Our chairman's role is to provide leadership and manage our Board effectively. Our chairman and CEO ensure they have a strong and effective working relationship to facilitate effective working relationships between our Board and management.

Our CEO cannot also be chairman.

Deputy chairman

Our Board has appointed an independent deputy chairman to assist our chairman and undertake other duties required by our Board (including leading the annual review of our chairman's performance).

Appointment

Subject to the limits on Board size noted above, our Board may appoint additional Directors to our Board or to fill a casual vacancy.

Candidates are identified based on a range of factors including the independence, qualification, skills and experience needs of our Board at the time.

To be eligible for selection, candidates must demonstrate appropriate qualities and satisfy our Board they will commit the time needed to be fully effective in their role.

Our Board reviews the skills and competencies needed for the future and those of existing Board members before appointing a new Director.

External advisors are also engaged to identify potential candidates.

Shareholders may also nominate candidates for appointment to our Board. In addition, under the agreements entered into with Crown Fibre Holdings (CFH) relating to our UFB fibre upgrades, CFH is entitled to nominate one person as an independent Director (they have never used this right).

Should this occur, our Board must consider this nomination in good faith, but the appointment (and removal) of any such person as a Director is to be made by shareholders in the same way as other Directors.

Appropriate checks are undertaken before a candidate is appointed by our Board or recommended for election as a Director, including as to the person's character, experience, education, criminal record and bankruptcy history.

We have written agreements with each non-executive Director setting out the terms of their appointment, including obligations and responsibilities, compliance with our policies (including codes of ethics and securities trading), continuing education, and commitment.

We also have written agreements with the Managing Director and each of our senior executives setting out the terms and conditions of their employment.

Term and tenure

Directors are not appointed for specified terms. However, our Constitution and the NZX Listing Rules require at least one third of our Directors to retire at each ASM (those holding office the longest since last standing for election/re-election being those required to retire).[1]

Kate McKenzie, as Managing Director, is exempt from the above requirements but must stand for re-election at least once every five years.

Our Board has an ongoing focus on succession planning. A Director appointed by our Board as an additional Board member, or to fill a casual vacancy, must stand for election at the following ASM.

We include, in our notices of meeting for each ASM, all material information in our possession relevant to a decision on whether or not to elect or re-elect a Director.

DIRECTOR	APPOINTED	LAST ELECTED AT ASM
Anne Urlwin	2011	2016
Keith Turner	2011	2016
Mark Cross	2016	2016
Jon Hartley	2011	2015
Prue Flacks	2011	2015
Murray Jordan	2015	2015
Patrick Strange	2015	2015
Kate McKenzie	2017	
Jack Matthews	2017	

Keith Turner has signalled his intention to stand down as a Director at our 2017 ASM. Jon Hartley and Prue Flacks are retiring by rotation and standing for re-election at that meeting. Having been appointed by our Board during the year, Kate McKenzie and Jack Matthews are also standing for election at the 2017 ASM.

1 Retiring directors may stand for re-election.

Director induction and education

Our induction programme for new Directors is designed to introduce management and our business, acquaint Directors with relevant industry knowledge and familiarise them with key governance documents and stakeholder relationships.

Directors are expected to continuously educate themselves to ensure they maintain appropriate expertise to effectively perform their duties.

In addition, visits to our operations, briefings from key management, industry experts and key advisers, together with educational and stakeholder visits, briefings and meetings are arranged for our Board.

Director skills and experience

A summary of current Directors' skills, experience and qualifications is set out in our annual report and our website at www.chorus.co.nz/governance.

The Board has adopted a refreshed skills matrix. This matrix is regularly reviewed to ensure it remains aligned with Chorus' strategic direction. The Board, supported by the Nominations and Corporate Governance Committee (NCGC), utilises the skills matrix and annual board evaluation processes to ensure that there is diversity of thought, skills, backgrounds, experience and expertise of Directors.

As the Chorus business evolves, so too will the Board. Chorus' beginnings were initially heavily focused on infrastructure build and project management. With the success of the build, we are now increasingly focused on connecting customers and their experience as well as future connectivity and innovation opportunities. The Board considers that it is important to balance both specialist expertise and the ongoing need for strong general commercial expertise.

The following table reflects the strengths of the current Board based on a mix of key skills and experiences as are currently relevant for Chorus. The table includes Jack Matthews who joined the Board on 1 July 2017, Kate McKenzie who joined the Board as Managing Director and Keith Turner who has indicated he will step down at the next ASM.

The Board recognises that women and ethnic minorities are still under-represented in the leadership of New Zealand businesses and remains actively conscious of this in its Director succession planning.

CAPABILITY CATEGORY	SUBSTANTIAL EXPERIENCE	MODERATE EXPERIENCE
Capital markets and investment community	***	*****
Communications connectivity and technology	**	**
Governance – financial, audit, legal, listed company	*****	****
Physical infrastructure and operations including contracting, safety and risk	****	***
Governance – executive experience in large businesses	*****	****
Infrastructure regulation	****	***
End customer experience	***	**

Stars represent an aggregated view of the Board and each individual star does not necessarily represent one Director.

TENURE	
0–3 years	5 Directors
3–6 years	4 Directors
6+ years	0 Directors

* The skills matrix and tenure is as at 1 July 2017 including Jack Matthews.

Board performance

Our chairman meets with Directors to discuss individual performance.

Our Board has carried out, in the reporting period, an external review of its performance, that of individual Directors and of standing Board Committees utilising evaluation processes developed and overseen by our NCGC.

Our Board also formally engages in annual:

- Reviews of our chairman and deputy chairman of the Board, and chairmen of standing Board Committees;
- Confirmations of our Board chairman and deputy chairman, and chairmen of all standing Board Committees; and
- Performance discussions of individual Directors standing for re-election.

Our Board has used either externally facilitated or internally facilitated performance processes and continues to evolve its approach over time utilising annual Board evaluation processes overseen by our NCGC.

In addition to Board performance reviews, our Board also takes a forward focused approach to future Board capability, composition and the potential contribution of each existing Director.

Independence

To be considered independent, our Board must affirmatively determine that a Director does not have a disqualifying relationship as set out in our Board Charter (other than solely as a consequence of being a Director).

Our Board has not set financial materiality thresholds for determining independence but considers the materiality basis of all relationships having regard to the materiality to Chorus, the Director and the relevant person or organisation (e.g. customer, supplier or adviser) with which the Director is related. Materiality is assessed in the context of each relationship and from the perspective of both parties to that relationship.

Our Board considers that all Directors are independent Directors other than the Managing Director Kate McKenzie.

Independent advice

A Director may, with the chairman's prior approval (or in the chairman's absence, the deputy chairman's prior approval), take independent professional advice (including legal advice) and request the attendance of such advisers at Board and Board Committee meetings where this is necessary to fulfil their role and responsibilities. The costs of any such advisers are paid by Chorus.

Managing performance

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

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

Performance plans are developed after 'Line of Sight' sessions, which enable our people to connect our 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 our people. As part of this, people leaders seek feedback and participate in peer review and moderation sessions, resulting in an overall performance rating and remuneration recommendation that determines an individual's total pay (fixed remuneration and variable).

A similar process is undertaken each year for our executive team, with our CEO making recommendations to our Human Resources and Compensation Committee (HRCC) for executive team members, and our HRCC leading the performance review of our CEO, making recommendations to our Board.

These processes are consistent with those set out in our HRCC Charter, allow our Board to provide input into individual performance outcomes, total reward approvals (fixed and variable) and development plans and were undertaken in the year ended 30 June 2017.

Board committees

Each standing Board Committee has a Board approved charter and chairman. Board Committees assist our Board by focusing on specific responsibilities in greater detail than is possible for our Board as a whole. Committee recommendations are reported to our Board by Committee chairmen. Committee members are appointed by our Board.

Audit and Risk Management Committee (ARMC)

Role	The ARMC assists our Board in ensuring oversight of all matters relating to risk management, financial management and controls and financial accounting, audit and reporting.
Members	Anne Urlwin (chairman), Jon Hartley, Mark Cross.
Independence	All Committee members are independent Directors.
Responsibilities	• Overseeing the quality and integrity of external financial reporting. • Considering the adequacy of internal controls. • Regularly reviewing principal risks and risk, compliance and fraud reporting. • Recommending to our Board the appointment, and if necessary removal, of the external auditor. • Assessing the adequacy of the external audit and independence of the external auditor. • Reviewing and monitoring the internal audit plan and reporting. • Overseeing the independence and objectivity of the internal audit function. • Reviewing compliance with applicable laws, regulations and standards.

Human Resources and Compensation Committee (HRCC)

Role	The HRCC assists our Board in overseeing people policies and strategies, including remuneration and performance frameworks.
Members	Prue Flacks (chairman), Keith Turner, Murray Jordan.
Independence	All Committee members are independent Directors.
Responsibilities	• Reviewing remuneration and human resources strategy, structure and policies. • Approving annual remuneration increase guides and budgets. • Approving the employment terms of our CEO's executive direct reports. • Approving, on the recommendation of our CEO, the appointment of our CEO's executive direct reports (except our CFO and General Counsel & Company Secretary whose appointment is approved by our Board). • Reviewing candidates for, and the performance and remuneration of, our CEO. • Developing and annually reviewing and assessing diversity and its reporting. • Reviewing our CEO's performance evaluation of our CEO's executive direct reports. • Overseeing recruitment, retention and termination policies and procedures for senior management. • Making recommendations (including proposing amendments) to our Board with respect to senior executive (including CEO) incentive remuneration plans.

Nominations and Corporate Governance Committee (NCGC)

Role	The NCGC assists our Board in promoting and overseeing continuous improvement of good corporate governance.
Members	Patrick Strange (chairman), Jon Hartley, Prue Flacks.
Independence	All Committee members are independent Directors.
Responsibilities	• Identifying and recommending suitable candidates for appointment to our Board and Board Committees. • Considering the size, skills mix and composition of our Board. • Developing, reviewing and making recommendations to our Board on corporate governance principles. • Establishing, developing and overseeing a process for the annual review and evaluation of Board, Board Committee, and individual Director performance. • Developing and reviewing Board succession planning (including for the chairman). • Monitoring compliance with codes of ethics and managing breaches of the Director Code of Ethics. • Reviewing and overseeing the induction of new Directors and the continuous education of our Board.

We also have a takeovers protocol setting out the procedure to be followed if there is a takeover offer, including managing communications between insiders and the bidder. The protocol includes the option of establishing an independent takeover committee, and the likely composition and implementation of that committee.

Managing risk

We have a Managing Risk Policy that mandates one framework for the management of risk to:

- Ensure our Board sets the risk appetite and regularly reviews principal risks;
- Integrate risk management in line with our Board's risk appetite into structures, policies, processes and procedures; and
- Deliver regular principal risk reviews and monitoring.

A copy of our Managing Risk Policy is available at www.chorus.co.nz/governance.

Our Board also sets, and reviews, our risk management framework.

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

Before it approves the financial statements, our Board requires our CEO and CFO to provide a certificate as to the appropriateness of those financial statements.

Internal audit

We operate a co-sourced internal audit model with our Manager Risk & Business Assurance supported by external advisors (principally PricewaterhouseCoopers) to provide additional resource and specialist expertise as required.

The responsibilities of our internal audit function include:

- Assisting our ARMC and Board in their assessment of internal controls and risk management;
- Developing an audit plan for review and approval by the ARMC each year;
- Undertaking the plan and reporting progress against it, significant changes, results and issues identified; and
- Escalating issues as appropriate (including to our ARMC and/or Board chairmen).

Our Manager Risk & Business Assurance has a management reporting line to our General Counsel & Company Secretary and a direct reporting line to our ARMC. Our ARMC reviews the remuneration and incentive arrangements of our Manager Risk & Business Assurance each year.

External auditor

Our Board and ARMC monitor the ongoing independence and quality of our external auditor. Our ARMC also meets with our external auditor without management present prior to our half year and annual financial statements being finalised.

Our ARMC Charter and External Auditor Independence Policy amongst other things:

- Prohibit the provision of certain non-audit services by our external auditor;
- Require ARMC pre-approval of all audit and permitted non-audit services;
- Require our external auditor lead/engagement partner to be rotated every five years (with a five year cooling off period) and other audit partners to be rotated every seven years (with a two year cooling off period);
- Require our ARMC to review our external auditor's fees half yearly (including the ratio of fees for audit vs. non-audit services); and
- Impose restrictions on the employment of former external audit personnel.

The non-audit services undertaken by our external auditor KPMG in the year to 30 June 2017 are set out in our annual report. Those services were provided in accordance with our ARMC Charter and External Auditor Independence Policy and did not affect KPMG's independence, including because:

- They were approved only where we were satisfied they would not have a material bearing on KPMG's external audit procedures;
- They did not involve KPMG acting in a managerial or decision-making capacity; and
- KPMG confirm their independence via independence declarations every six months.

Our external auditors attend our ASM each year.

Our challenges and opportunities

As a network business, the core of what we do is fundamentally simple. Our purpose is to bring better broadband to New Zealanders through ongoing investment and innovation and the more people that connect to our network, the better the returns on our network investment should be. However, we operate in a complex environment, in part because much of our business is heavily regulated. This is further complicated by the unique dynamics of New Zealand's telecommunications market, built around structural separation of the historical incumbent vertically integrated retail operator (i.e. Telecom New Zealand, now Spark) from its wholesale only network arm (i.e. Chorus), and the continuing evolution of technology and customer demand.

Bearing in mind these complexities, the following are the material challenges and opportunities we're currently focused on.

Regulatory environment

Current regulatory framework

We currently operate within the regulatory framework established by the Telecommunications Act. This framework was amended in 2011 to facilitate our demerger from Telecom New Zealand. Approximately 65% of our FY17 revenues were from copper services with pricing and terms regulated by the Commerce Commission (the Commission) under the Act. As we saw with the copper price reviews conducted by the Commission between early 2012 and late 2015, changes to copper pricing can have a significant impact on our business. At the conclusion of its price review process in December 2015, the Commission set a five-year schedule of pricing for our regulated copper services.

Our fibre services aren't currently regulated. Most are instead subject to contractual pricing and terms agreed with the Government as part of our UFB1 and UFB2 contracts. The UFB1 contract applies through to the end of the UFB1 rollout in December 2019. The UFB2 contract applies through to the end of that rollout.

While there is a lot of oversight from the regulator and the Crown contract, since December 2015 we have been able to be increasingly focused on customer experience and ongoing investment and innovation for the future.

We're also subject to the requirements of the Commerce Act 1986, Fair Trading Act 1986 and four open access deeds of undertaking for copper, fibre and Rural Broadband Initiative services. These deeds represent a series of legally binding obligations focused on the provision of services on a non-discriminatory or equivalent basis. The Commission can recommend to the Communications Minister that services not currently regulated be regulated and vice versa.

This regime will remain in place after 2020 except for matters that are dealt with in the revised utility model.

Figure 1:

Regulation: moving to a utility model

(Final regulatory framework policy decisions announced by Government on 1 June)

Fibre – post 2020 utility framework

- Regulated asset base (RAB) to be set by Commerce Commission:
  - depreciated historical cost for pre 2011 assets
  - depreciated actual cost for post 2011 assets and
  - increased by unrecovered losses incurred pre 2020
  - no retrospective efficiency review
- Revenue cap with commercial geographically averaged pricing except for:
  - two anchor products (voice only + entry level broadband – 100/20Mbps fibre) at 2019 prices + CPI
  - similar price cap for direct fibre access
  - after 2023 the Commission can review the revenue cap model, as well as the anchor products subject to specified conditions & statutory criteria

Copper – post 2020 legacy framework

WHERE FIBRE IS AVAILABLE:

- Copper network to be deregulated and Telecommunications Service Obligation (TSO) removed
- Chorus can withdraw copper service, subject to minimum consumer protection requirements

WHERE FIBRE IS NOT AVAILABLE:

- Copper remains regulated and TSO applies
- Copper pricing capped at 2019 levels with CPI adjustments
- Commission required to review pricing framework no later than 2025

Moving to a utility model

The pricing and terms on which we deliver copper and fibre access services from 2020 onwards has been the subject of a government regulatory framework review. The Government released its final policy decisions from this review on 1 June 2017.

The Government has decided that our newer fibre investment will be regulated under a utility style building block model framework. This model is already used to regulate other New Zealand utility businesses such as electricity lines and gas networks. It is recognised as supporting efficient private sector investment to meet network upgrades and increasing consumer demands through ongoing incentives to innovate, invest and improve efficiency for the long term benefit of customers. The copper network will be deregulated in areas where fibre is available, but will remain regulated where fibre is not available. Key features of the proposed regime are summarised in Figure 1.

The Government will need to pass legislation to implement these proposed changes. A Bill was introduced to Parliament on 8 August 2017. The legislative process won't be completed until after the general election scheduled for September 2017. If and when legislation is passed, it will be subject to interpretation and implementation by the Commission.

Legislative detail will be important to ensure the Commission implements a smooth transition to the new regime in time for 2020 without shocks for anyone. The Commission will need to determine key input methodologies that will set the rules for then setting the starting value of our regulated asset base, the regulatory weighted average cost of capital, cost allocations, expenditure allowances and our maximum allowable revenue. There is the possibility that in exercising discretion the Commission sets the initial regulated asset base and our revenue cap, for example, at lower than expected levels. There will also be information disclosure requirements. The Commission's input methodologies and price/quality determination process will be subject to the different forms of merits review by the Courts.

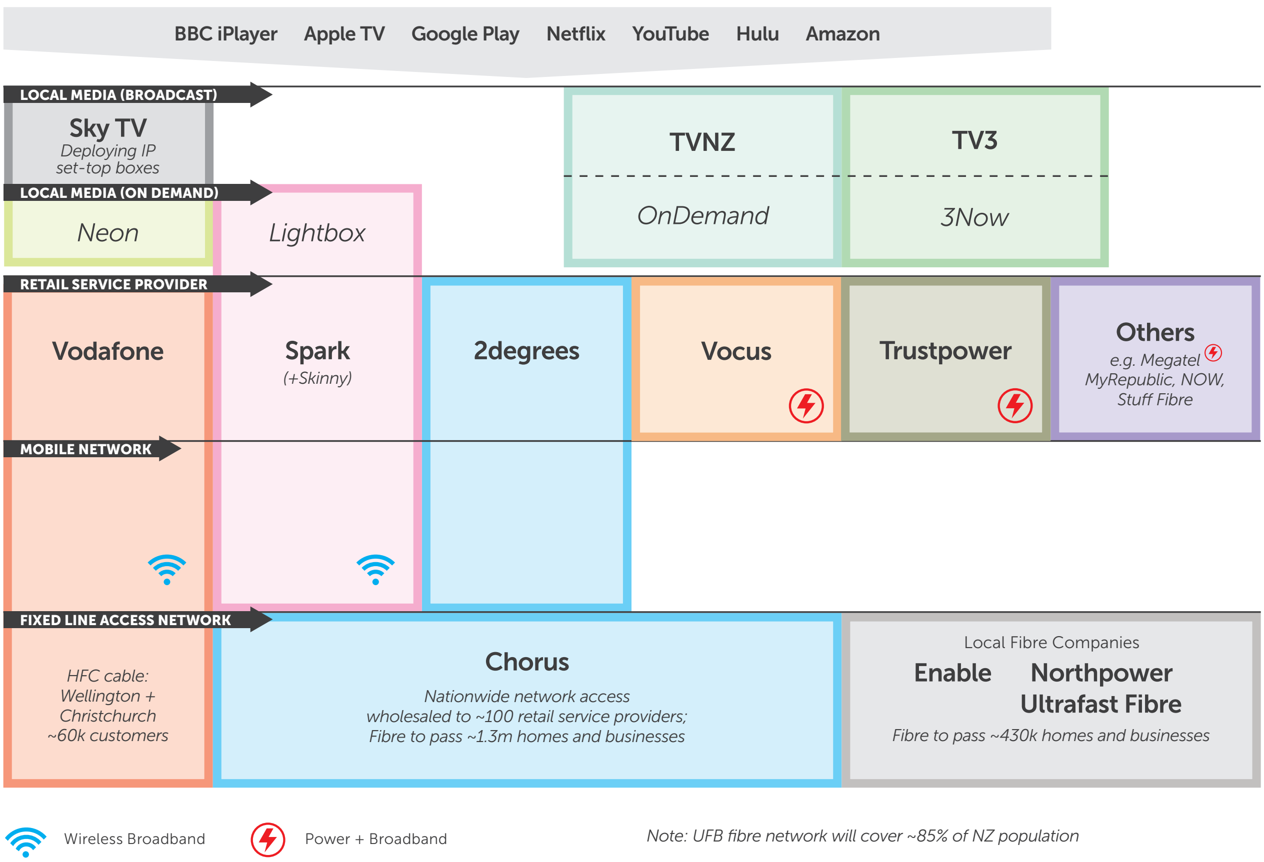
In the event that the Commission doesn't complete its process by 2020, the Government proposal is that key fibre and copper prices will be frozen at the then existing pricing levels, adjusted for inflation, for up to 24 months.

We'll continue to be an active participant in the ongoing legislative and regulatory process outlined above. There is a clear need for the framework to strike a balance between providing the broadband innovation and quality customers want with the need for investors to receive a fair return on the significant network investments they've made. Many investors have made their own submissions to this effect through the earlier phases of the regulatory review. We welcome the Government's progress to date towards a refreshed regulatory framework that supports efficient investment without costly duplication of utility infrastructure.

Figure 2:

The New Zealand fixed line market

Rationalisation, new entrants and new business models are disrupting the NZ market.



Network demand and substitution

The New Zealand broadband market has been growing consistently for many years, fuelled by the emergence of broadband as the fourth utility and ongoing premises growth. In Auckland, for example, about 400,000 new homes are forecast to be needed by 2040.

Against this backdrop, the total number of fixed line connections on our network reduced from 1,727,000 to 1,602,000 during FY17. This reflects three significant competitive dynamics:

- **Fixed line competition**, primarily in those areas where the Government's three other fibre network partners – Northpower (Whangarei area), Ultra-Fast Fibre (central North Island), and Enable (Christchurch area) – are building fibre to the premises networks. They had connected approximately 140,000 customers by the end of June 2017, up from an estimated 85,000 customers at the end of June 2016. We also face competition from Vodafone's hybrid fibre coaxial cable network in Wellington and Christchurch which it has been marketing as a fibre alternative. In addition, there are metro and backhaul fibre networks operated by providers including Vector, Citylink, Unison, Vocus, Vodafone and Spark in some areas.
- **Fixed wireless competition** from large vertically integrated retailers seeking to leverage their mobile network investments. Spark, for example, has announced an intention to reduce its Chorus network costs and increase margins by encouraging 20-25% of its copper broadband customers to move to fixed wireless.
- **Ongoing reduction in voice only lines** as customer demand declines. This reflects a combination of changing demographics, households switching to mobile only voice connections and consolidation of multiple lines.

Enabling and promoting better broadband

A reduction in connections has consequences for our revenues and profitability, as does customers shifting from higher cost services to alternative lower cost services. To mitigate these risks we're continually investing in our copper and fibre services and working with retailers to enhance the customer experience.

We made a lot of enhancements to our network during the year to provide customers with better broadband options. This work included:

- extending fibre past 106,000 more premises for the UFB rollout
- making gigabit services available across our fibre footprint
- increasing the entry level 30Mbps fibre service to 50Mbps
- deploying new Dynamic Line Management technology to automatically improve the stability of copper broadband connections, resulting in a significant improvement in average speeds
- upgrading 125 rural broadband cabinets with fibre optic cable and VDSL broadband capability.

As a structurally separated wholesaler, we've tended to rely on retailers to promote our network services to their existing and potential customers. However, we don't believe it's in customers' interests to switch to potentially inferior wireless networks, especially when they aren't fully aware of the potential consequences for their existing home network set-up or their broadband experience as data needs increase. Given these considerations and the changing market dynamics, we decided to take steps to raise awareness of the better broadband options already available to customers on our network.

Our initiatives have included making more network information about VDSL and fibre availability public via the address checker on our website (see **www.chorus.co.nz/broadband-checker**) and launching our first ever mainstream advertising campaign in May 2017. The campaign encouraged New Zealanders to ask for better (see **www.askforbetter.co.nz**) and generated a strong response, with about 83,000 website visitors and 31,000 address checks. We also worked directly with retailers to encourage them to upgrade their customers to better broadband by providing contributions to their upgrade costs.

Peak time data demand favours fixed line broadband

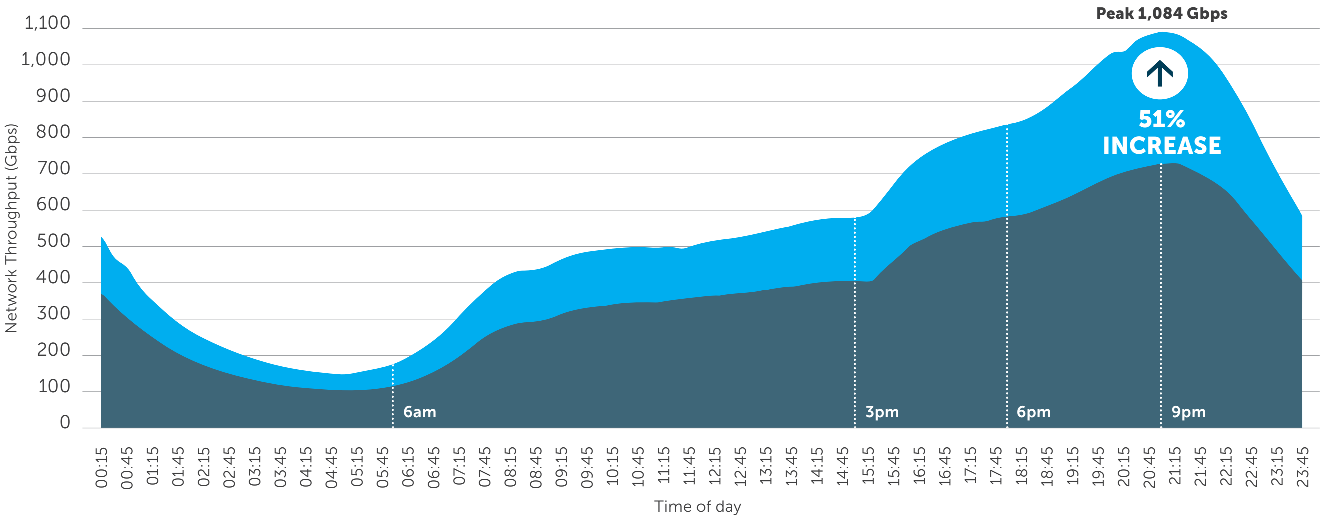
Our promotion of better broadband has been supported by growing awareness of the importance of reliable broadband at peak demand times. As Figure 3 shows, between June 2016 and June 2017 we saw a 51% increase in the average amount of data traffic through our network at the peak time around 9pm each evening. This trend is continuing as more and more New Zealanders use their broadband connection to stream video content on demand. Where feasible, we design our fixed line network, whether copper or fibre, to support peak time demand and provide a reliable and consistent performance. In contrast, fixed wireless networks share capacity and are more prone to congestion at peak times.

This congestion results in service degradation when most people are online in the evening, illustrated by independent testing by Truenet. Figure 4 shows wireless median best speed performance reducing at peak times to almost 75% in urban areas and below 60% in rural areas. In contrast, copper and fibre fixed line performance remains stable at around 95% or better. Another consequence of peak time congestion is the significant increase in buffering, where video content pauses because of delays in content downloading, as shown in Figure 5.

There are customers who do not use much data and for whom wireless networks may provide a viable network alternative. However, our view is that ever increasing data demands and the evolution of new data hungry devices and applications, such as 4K televisions and virtual reality, will only continue to fuel the demand for bandwidth. More than 60% of New Zealand households are thought to be on unlimited broadband plans and average monthly bandwidth demand on our network has reached 155 gigabytes per customer. We're forecasting average monthly data usage of 680GB per customer by 2020 based on historical growth rates. Currently, wireless broadband retailers have monthly datacaps of up to 120GB and only offer unlimited data on fixed line plans.

Figure 3:

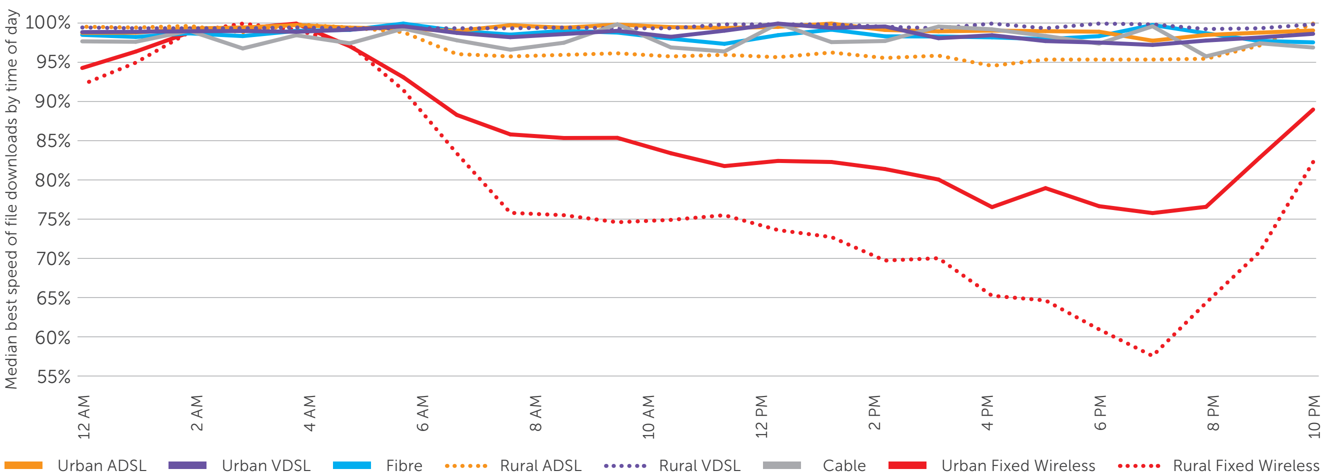
Peak hour – an ever growing mountain of data



Note: data represents average of traffic across all days in June, excluding corporate traffic.

Figure 4:

June 2017: Peak speed



Source: *TrueNet Urban and Rural Broadband Reports – April–June 2017*

Fixed line and 5G – a complementary future

While there is much speculation and marketing hype about the potential speeds and performance of so-called 5G mobile developments, the transmission and capacity characteristics of fibre optic technology give us confidence that fibre broadband will continue to outperform mobile technology. Global 5G standards aren't expected to be agreed before 2020. This means 5G deployments are unlikely to occur until later in 2020 unless network operators risk deploying non-standard equipment. We already offer 1 gigabit per second connections into New Zealand homes and these have no datacap constraints. By 2020 we'll have completed our UFB1 fibre rollout in large cities and towns and we'll be well advanced on our UFB2 rollout to smaller centres.

There is also uncertainty about the economic case for mobile network operators to undertake the small cell 5G deployments needed to deliver higher mobile speeds. A multitude of sites will be required for transmission purposes and each small cell site will only serve a very limited number of customers due to line of sight requirements. This is in addition to the spectrum and fibre backhaul assets likely to be required. We, therefore, envisage a potentially important and complementary future for shared infrastructure operators such as us in a 5G future.

The UFB rollout

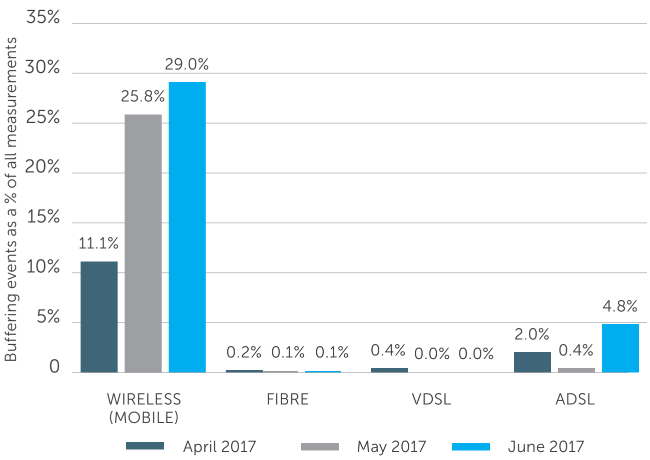
We're a cornerstone partner in phases 1 and 2 of the Government's UFB initiative. This initiative is building a fibre to the home network to approximately 85% of New Zealanders. Our network rollout began in 2011 and will pass about one million premises. An estimated 1.3 million customers will be able to connect to this network. Building the fibre network past these homes and businesses is estimated to cost more than $2 billion. This amount excludes the significant additional cost of connecting each customer, the total cost of which will depend on the level of uptake over time.

The Government, through Crown Fibre Holdings (CFH), is providing up to $1.22 billion in financing. This financing was agreed to help make the business case for building the UFB network ahead of demand and acknowledging the significant risks involved. We receive the Government financing as the network is built past premises according to our agreed deployment plan. We issue debt and equity securities in return. The debt will be redeemed in tranches from 2025 to 2036, while an increasing portion of the equity securities attract dividend payments from 2025 onwards.

Given the large funding requirements related to the UFB rollout, it's critical that we maintain an appropriate capital structure for our financial profile. The Board considers that a 'BBB' or equivalent credit rating is appropriate for a company such as ours. If our credit rating falls below investment grade we would require CFH approval to pay a dividend on our ordinary shares and, after 2019, to continue accessing Government financing for the UFB2 rollout.

Figure 5:

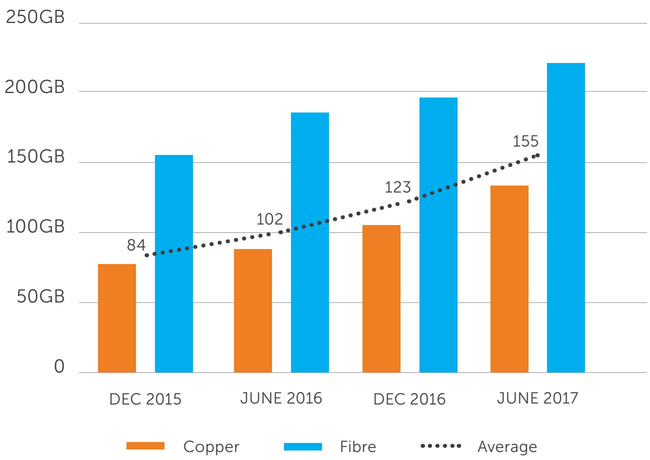
Buffering average vs peak hours (8-9pm)



Source data: TrueNet Urban Broadband Report – April-June 2017

Figure 6:

Average monthly data usage per connection on our network



Source data: Chorus

Figure 7:

UFB rollout summary

	UFB1	UFB2	TOTAL
PREMISES TO BE PASSED	up to 830,900	up to 168,200	**up to ~1 million**
ESTIMATED COMMUNAL CAPEX TO PASS PREMISES	$1.75 to $1.80 billion	$370 to $410 million (includes rights of way with more than 10 premises)	**$2.12 to $2.21 billion**
CFH FUNDING	up to $929 million 50% CFH debt, 50% CFH equity	up to $291 million 35% CFH debt, 65% CFH equity	**up to $1.22 billion**
CUSTOMERS ABLE TO CONNECT BY ROLLOUT END	~1.1 million	~203,000	**~1.3 million**
CONNECTION CAPEX	subject to demand		

If we breach our design, build, delivery or operational obligations under the UFB contract, the Government may be entitled to remedies such as default payments, financial penalties, liquidated damages and management step in and termination rights. We are, therefore, very focused on ensuring the UFB rollout progresses smoothly. Our confidence in our delivery of the UFB1 rollout is reflected in our UFB2 agreement with the Government announced in January 2017, which will extend fibre to about 200,000 more customers.

Like any large scale, long duration infrastructure construction project, the UFB rollout could be subject to unforeseen costs. To mitigate this risk we have fixed contracts in place for the communal network deployment (i.e. past homes and businesses), as well as the connections to customers. These contracts are with third party suppliers including Visionstream, Broadspectrum, Downer and Universal Communications Group. Our agreements with these third parties generally contain binding service level requirements and provide for remedies for failure. We're working closely with our service company partners on the installation experience because poor customer experience entails potential reputational risk for us. We've made good progress this year, but there's still work to be done and we need to balance fluctuations in demand with the need to maintain our workforce at sustainable levels.

Network assets and cybersecurity

Our network infrastructure may be damaged or interrupted by a range of factors. These include equipment or power failure, cable cuts, and damage caused by weather, earthquake, fire or third parties. Network damage or interruption could result in lost revenue, higher capital expenditure and operating costs, liabilities to retailers and reputational consequences.

We have a comprehensive insurance programme typical of large scale infrastructure utilities and we utilise modelling from GNS Science to undertake probability based loss estimate modelling.

Earthquakes

In recent years we've had several major earthquakes that have demonstrated the resilience of our network.

- The Christchurch earthquakes of 2010 and 2011 resulted in limited damage to our network despite the largest quake of 7.1 magnitude. Despite the ground acceleration forces experienced, damage to our exchange buildings was minimal and instead tended to be to localised cables.
- The Kaikoura earthquakes in November 2016, with the largest quake of 7.8 magnitude, also resulted in limited damage to our network. The greatest impact was on the coastal fibre routes owned by other network providers.

Cybersecurity

As a lifeline utility provider we have a strong focus on avoiding network disruption and mitigating potential cybersecurity risks. This focus includes security governance through policies, processes, and registers to ensure that cybersecurity risks are contemplated and addressed through technology selection, delivery practices, and ongoing operations of IT systems. Regular external reviews provide assurance and feedback on our cybersecurity risk assessments and controls. These include external audits and ad-hoc reviews.

As a wholesale network operator our risks are different from those of retail-facing network operators. Our insurances cover key cybersecurity risks and potential liabilities from cybersecurity events are limited through our customer contracts.

Acting ethically and responsibly

Codes of ethics

Directors and employees are expected to act honestly and with high standards of personal integrity. Codes of ethics for our Directors and employees set the minimum expected standards for professional conduct. These codes facilitate behaviour and decisions that are consistent with our values, business goals and legal and policy obligations, setting out the standards required in respect of:

- Conflicts of interest;
- Gifts and personal benefits;
- Use of property and corporate opportunities;
- Confidentiality;
- Compliance with laws and policies; and
- Reporting unethical behaviour.

We have communicated our codes of ethics to Directors and employees and have provided training to employees. Our people are encouraged to report any unethical behaviour. All breaches of our codes of ethics are investigated.

A whistle blowing policy allows for confidential reporting of serious misconduct or wrongdoing and a fraud policy for the reporting of suspected fraud or corruption. We did not receive any reports of serious instances of unethical behaviour in the year to 30 June 2017.

Trading in Chorus securities

All non-executive Directors are encouraged to hold Chorus shares.

All trading in Chorus securities by Directors and employees must be in accordance with our Insider Trading Policy. That policy prohibits dealing in Chorus securities while in possession of inside information and requires, amongst other things:

- Directors to notify, and obtain consent from, the chairman (or in the chairman's case, the chair of our ARMC) before dealing; and
- Employees identified as coming across, or potentially coming across, information which may be market sensitive, to obtain consent from our General Counsel & Company Secretary (or in our General Counsel & Company Secretary's case, our Board chairman) before dealing.

All changes in interests in Chorus shares held by Directors are disclosed to our Board, the NZX and ASX. All changes in interests by 'senior managers' are disclosed to the NZX.

Timely and balanced disclosures

We are committed to providing timely, consistent and credible information to promote orderly market behaviour and investor confidence. We believe 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.

Our Board approved Disclosure Policy is available on our website at www.chorus.co.nz/governance.

We also have a CEO approved Market Disclosure Policy setting out our disclosure responsibilities and processes in more detail.

Our disclosure policies are designed to ensure:

- Roles of Directors, executives and employees are clearly set out.
- Appropriate reporting and escalation mechanisms are established to ensure potentially material matters are escalated appropriately.
- There are robust and documented confidentiality protocols in place where appropriate.
- Only authorised spokespersons comment publicly, within the bounds of information which is either already publicly known or non-material.
- Only publicly available or non-material information is disclosed in analyst briefings and in response to investor questions.

Our Disclosure Officer is responsible for authorising the release of information to the market, monitoring our share register, price and media and promoting awareness of our disclosure obligations.

Shareholder communications and meetings

We are committed to fostering constructive relationships with shareholders that encourage them to engage with us, including by:

- Communicating clearly and effectively with them;
- Giving ready access to balanced and understandable information;
- Making it easy for shareholders to participate in general meetings; and
- Maintaining an up to date website providing information about our business and affairs.

Our investor relations programme is designed to further facilitate two-way communication with shareholders, provide them and other market participants with an understanding of our business, governance and performance and an opportunity to express their views. As part of this programme we enable investors and other interested parties to ask questions and obtain information, meet with investors and analysts and undertake formal investor presentations.

Annual meetings are held in main centres and webcast to enable shareholders to view and hear proceedings online.

Our annual and half year results presentations are also webcast.

We enable shareholders to vote by proxy ahead of meetings without having to physically attend or participate in those meetings.

Shareholders are also able to ask questions of, and express their views in respect of, our Board, management and our auditors (including via appointed proxies) at and before our annual meetings.

We encourage shareholders to communicate with us and our share registrar electronically, including by providing email communication channels and online contact details and instructions on our website.

We adopt the one share one vote principle, conducting voting at shareholder meetings by poll. Because of the ownership restrictions contained in our Constitution, there may be rare circumstances where, in the event that the restriction is breached, our Board may prohibit the exercise of voting rights. See our annual report and Constitution for more information on our ownership restrictions.

We consider that shareholders should be entitled to vote on decisions which would change the essential nature of our business.

Dear Investors

We made substantial progress this year in our drive to bring better broadband to more New Zealanders. We're now more than two-thirds of the way towards our original goal of bringing ultra-fast broadband (UFB) within reach of more than one million customers by 2020. By the end of June 2017 we'd already achieved 35% uptake, connecting more than 275,000 customers to fibre broadband in our UFB areas. That's a significant increase from the 24% uptake at the start of FY17 and well ahead of our initial contractual target of 20% uptake by 2020. Our employee engagement score of 81% shows our people believe strongly in the contribution they're making to New Zealand's future through the rollout of this critical infrastructure.

The strength of demand for fibre broadband gave us the confidence in January to announce an extension of our UFB partnership with the Government. This time to extend fibre to approximately 200,000 more customers. More than half of New Zealand's population will be able to connect to our fibre network when the rollout is complete. When you combine our areas with those to be served by the Government's other fibre partners, fibre broadband has been committed to about 85% of the population with just $1.5 billion in Government financing. It's little wonder that New Zealand's rollout is now cited by other countries as an example of success for both model and cost.

Network investment also requires financial and regulatory stability. During the year the Government took some significant steps that will see us transition to a utility-type regulatory framework from 2020. This promises to allow UFB network providers the opportunity to earn normal returns over the lifetime of their investments. Our evolution towards a utility model continued to encourage shareholder interest out of Australia, leading to our inclusion in the S&P/ASX 200 Index in May 2017. During FY17, our market capitalisation increased from $1.7 billion to $1.9 billion and total shareholder returns were 18% for the period.

A fully imputed final dividend of 12.5 cents per share will be paid on 10 October 2017, bringing total dividends for FY17 to 21 cents per share. The dividend reinvestment plan has been popular with shareholders and will be available again so we may retain cash for network investment purposes (please see over the page for details).

We achieved net profit after tax of $113 million and delivered a good financial performance for the year with EBITDA[1] of $652 million. This was underpinned by a strong focus on costs as we streamlined copper provisioning processes and began capitalising more labour expenses relating to certain fibre provisioning service desk costs. However, FY17 EBITDA declined relative to adjusted[2] EBITDA of $677 million for FY16. This reflects a reduction in revenue as other fibre companies gain connections in their fibre rollout areas and large vertically integrated retailers encourage their customers on to their own wireless broadband networks. In response, we launched a campaign in May to promote the benefits and availability of better fixed line broadband and this has had positive early results.

We undertook a strategic review during the year to consider technology and industry developments. New Zealand is very different from most other countries where fibre networks haven't been built. Fibre is clearly the best technology to meet the ever increasing and changing data demands of customers and retailers. Given the likely infrastructure requirements and service characteristics of future wireless technology, and the extensive nature of our fibre to the home network, we believe wireless will continue to be a largely complementary access technology. We believe our assets can potentially also support a number of future uses that are still in their infancy.

If you'd like more detail on our full year result, our 2017 annual report and a recorded webcast of our results briefing will be available on our website at **www.chorus.co.nz/financial-results**.

Thank you for your support of Chorus.

Kind regards

Patrick Strange

Chairman

1 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of the business.

2 Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed. Refer to Appendix one on page 23 of the 2017 annual report for the detailed calculation.

Dividend reinvestment plan for shareholders

A dividend reinvestment plan is available to our Australian and New Zealand resident shareholders with a discount rate of 3% for the 10 October 2017 dividend payment. If you haven't previously registered to participate and wish to do so, you'll need to have registered your participation by **5:00pm (NZ time) on 27 September 2017**.

You can register by logging into your Computershare profile at **www.investorcentre.com/nz** or downloading the Participation Notice at **www.chorus.co.nz/dividends** and returning it to Computershare.

The full terms of the reinvestment plan can be read in our Offer Document dated February 2016 at **www.chorus.co.nz/dividends**, or you can request a copy free of charge. Our audited financial statements, and auditor's report, are included in our 2017 annual report.

Do you require a printed annual report?

As a result of recent law changes, any previous instructions you have given us for sending printed copies of our annual and half year reports no longer apply. In line with these changes, we're letting you know that:

- our 2017 annual report has been published on our website at **www.chorus.co.nz/financial-results**
- we'll make future annual reports and half year reports available on our website
- these annual reports and half year reports will remain available for at least five years
- shareholders may, at any time, request a free printed copy of the most recent and future annual reports and half year reports.

If you wish to receive a printed copy of our 2017 annual report and our future annual reports and half year reports (including shareholders who have previously requested and received a printed copy), please confirm this with Computershare by:

Online: go to **www.investorcentre.com/nz**
Existing users should login, select 'My Profile' and click on the 'Update' button on the 'Communication Preferences' title. For new users, click on 'Create login' and follow the steps to create your User ID and password.

Email: **ecomms@computershare.co.nz**
(Please use "Chorus Annual Report" as the subject line for easy identification).

Phone: Computershare on + 64 9 488 8777.

Post: write to Computershare Investor Services Limited, Private Bag 92119, Auckland 1142, New Zealand.

FY17 result overview

FIXED LINE CONNECTIONS

FY17 **1,602,000** ↓ 7% FY16 1,727,000

BROADBAND CONNECTIONS

FY17 **1,186,000** ↓ 3% FY16 1,226,000

FIBRE CONNECTIONS

FY17 **305,000** ↑ 69% FY16 180,000

EBITDA[1]

FY17 **$652m** FY16 $594m

NET PROFIT AFTER TAX

FY17 **$113m** FY16 $91m

ADJUSTED[2] EBITDA

FY17 **$652m** FY16 $677m[2]

DIVIDEND

FY17 **21cps** FY16 20cps

EMPLOYEE ENGAGEMENT SCORE

FY17 **81%** FY16 83%

1 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of the business.

2 Adjusted to reflect the change in regulated copper pricing from 16 December 2015 and the effect of capitalisation of certain labour and IT costs previously expensed. Refer to Appendix one on page 23 of the 2017 annual report for the detailed calculation.