Chorus Limited
Level 10, 1 Willis Street
P O Box 632
Wellington 6140
New Zealand

Email: company.secretary@chorus.co.nz

STOCK EXCHANGE ANNOUNCEMENT

26 February 2018

Chorus 2018 half year result & report

The following are attached in relation to Chorus' half year result and report for the period to 31 December 2017:

1. Media Release
2. Investor Presentation
3. Half Year Report
4. NZX Appendix 1
5. NZX Appendix 7
6. Letter to investors

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

ENDS

For further information:

Nathan Beaumont
Media and PR Manager
Phone: +64 4 896 4352
Mobile: +64 (21) 243 8412
Email: nathan.beaumont@chorus.co.nz

Brett Jackson
Investor Relations Manager
Phone: +64 4 896 4039
Mobile: +64 (27) 488 7808
Email: brett.jackson@chorus.co.nz

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MEDIA RELEASE

26 February 2018

Chorus half year result

Tracking to top end of full year EBITDA guidance with implementation of strategic review underway

- Net profit after tax $47m (HY17: $66m)
- EBITDA $329m (HY17: $335m)
- FY18 EBITDA guidance reiterated, tracking to top end
- Operating revenue of $499m (HY17: $529m)
- Total fixed line connections down 3% to 1,559,000
- Broadband connections stable at 1,181,000
- Interim fully imputed dividend 9 cents per share
- 70,000 new fibre connections and 76,000 new VDSL connections

Chorus has today reported a net profit after tax (NPAT) of $47m and earnings before interest, tax, depreciation and amortisation (EBITDA) of $329m for the half year ended 31 December 2017.

Operating revenue for the period was $499m (HY17: $529m) and operating expenses were $170m (HY17: $194m).

Depreciation and amortisation for the period was $192m (HY17: $164m), delivering earnings before interest and tax (EBIT) of $137m (HY17: $171m).

Operating performance

Chorus CEO Kate McKenzie said the company now expected to track towards to the top end of the full year EBITDA guidance range provided.

“While the impact on revenue of lost lines from previous periods was apparent in the financial results this period, it was pleasing that the line loss trend showed signs of abating during the half.

“During the half year we continued our campaign to promote better broadband and this, coupled with an expanded field force, helped drive a strong increase in fibre and VDSL uptake while also slowing connection losses to other networks significantly,” said Kate.

"Losing just 5,000 broadband connections over six months, largely as anticipated to other local fibre companies, is a positive outcome.

"Ensuring line loss trends continue to improve will be strongly influenced by the improvements we continue to make in customer experience. For example, we are aiming to consistently deliver one day installs for fibre by the end of next financial year.

"In that context, I was pleased to see average lead times for fibre reduce from 22 days to 14 days during the half year, despite record order volumes.

"Further, despite the pressures in the New Zealand construction industry, we've kept our fibre rollout costs within plan and we're maintaining a tight focus on other costs.

"We will also continue to be an active wholesaler, aiming to stimulate competition amongst retailers in the market," she said.

Strategic review

Chorus is now underway with the implementation of a range of initiatives identified through the strategic review it undertook in the second half of the previous financial year.

The review considered the longer term outlook and opportunities for the business, canvassed Chorus' response to increased network competition, the need for careful management of costs, the potential regulatory requirements under a utility style framework and the need to continue improving the end-to-end experience for customers.

"One of the major initiatives flowing from the strategic review was a new operating model for the company," said Kate. "Wider retailer adoption of automated fibre provisioning, together with other process improvements, has allowed us to review our internal structure with an expected 10% reduction in headcount now well progressed.

"As such, we anticipate further benefits to labour costs and other cost lines in the second half as we continue to focus on ensuring our cost base is sustainable. We also anticipate that improvements will have a commensurate positive impact on the customer experience," she said.

Network investment

The long term UFB capital expenditure programme remains on track.

During the half year Chorus announced a further agreement with the Crown to extend its UFB rollout by another 54,500 premises. In total this means more than 87% of the population will have fibre available to them by 2022, with Chorus responsible for around 75% of that footprint.

In addition Chorus is continuing to invest in the performance of its copper network. This includes a $20m programme to deploy VDSL vectoring technology in rural and other local fibre company areas, which has the potential to improve broadband performance for a further 260,000 premises.

"Chorus is investing around 60% of its revenues in rolling out fibre broadband infrastructure for New Zealand. In that context, certainty for investors is clearly of paramount importance, and we urge the Government to progress the legislation underpinning the sector's regulatory framework.

"The timeframe that is currently indicated suggests the vast majority of the network will be built before investors are able to gain any certainty about the treatment of their investment, so naturally we will be seeking timely passage through the House and implementation," she said.

FY18 guidance

EBITDA: $625 - $650 million (tracking towards the top end)
Capital expenditure: $780 - $820 million (tracking towards the top half)
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 half year 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:

Nathan Beaumont
Stakeholder Communications Manager
Phone: +64 4 896 4352
Mobile: +64 (21) 243 8412
Email: nathan.beaumont@chorus.co.nz

Brett Jackson
Investor Relations Manager
Phone: +64 4 896 4039
Mobile: +64 (27) 488 7808
Email: brett.jackson@chorus.co.nz

FY18 Half Year Result

26 February 2018

Chorus

Disclaimer

This presentation:

- Is provided for general information purposes and does not constitute investment advice or an offer of or invitation to purchase Chorus securities.
- Includes 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 contained in this presentation.
- Includes statements relating to past performance which should not be regarded as reliable indicators of future performance.
- Is current at the date of this presentation, unless otherwise stated. Except as required by law or the NZX Main Board and ASX listing rules, Chorus is not under any obligation to update this presentation, whether as a result of new information, future events or otherwise.
- Should be read in conjunction with Chorus’ audited consolidated financial statements for the year to 30 June 2017 and NZX and ASX market releases.
- Includes non-GAAP financial measures including "EBITDA”. These measures do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. They should not be used in substitution for, or isolation of, Chorus' audited consolidated financial statements. We monitor EBITDA as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of our business. Refer to the appendices of this presentation and Chorus’ FY17 results investor presentation for further detail relating to EBITDA measures.
- Has been prepared with due care and attention. However, Chorus and its directors and employees accept no liability for any errors or omissions.
- Contains information from third parties Chorus believes reliable. However, no representations or warranties are made as to the accuracy or completeness of such information.

Business performance overview

Kate McKenzie, Chief Executive Officer

AGENDA

Half year result overview

FIXED LINE CONNECTIONS

HY18 1,559,000 — ↓ 3% — FY17 1,602,000

BROADBAND CONNECTIONS

HY18 1,181,000 — ↓ 0.4% — FY17 1,186,000

FIBRE CONNECTIONS

HY18 375,000 — ↑ 23% — FY17 305,000

NET PROFIT AFTER TAX

HY18 $47m — HY17 $66m

EBITDA[1]

HY18 $329m — HY17 $335m

ADJUSTED EBITDA[2]

HY18 $329m — HY17 $361m[2]

DIVIDEND

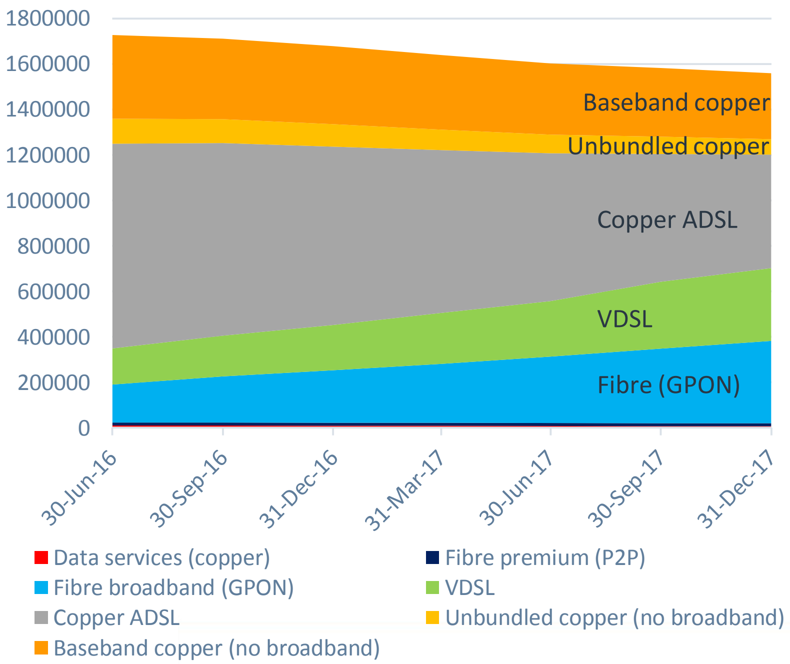
HY18 9cps — HY17 8.5cps

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 our business.

2 Adjusted to reflect the effect new NZ IFRS accounting standards adopted in HY18 would have had if they had applied in HY17.

BETTER BROADBAND GAINING GROUND

> **Total connections reduced by 43,000 to 1,559,000** (FY17: -125k)
- a reduction of **37,000** copper lines with no broadband (FY17: -83k)
- a decrease of **5,000** total broadband connections to **1,181,000** (FY17: -40k)



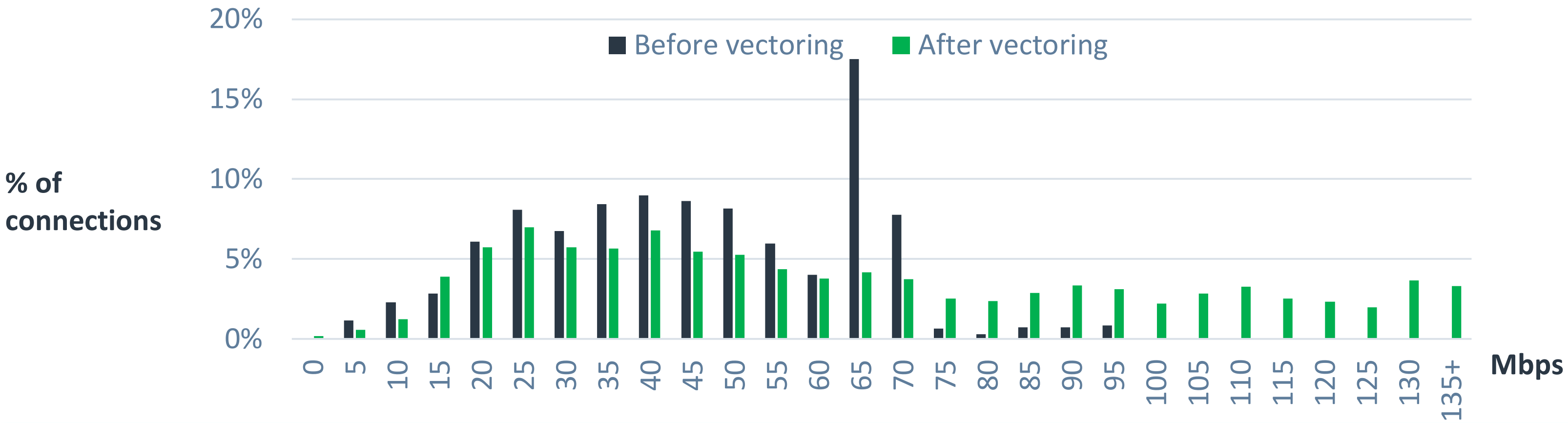
> **Key trends**
- local fibre companies gaining share as expected
- baseband copper decline reflects mobile/wireless loss, line consolidation and shift to broadband
  - unbundled connections shifting to fibre
- **active wholesaler approach achieving results**
  - VDSL and fibre connections now 58% of broadband base (FY17:45%)
  - incentives for retailers linked to volume targets and offnet connections
- **retail market driving broadband uptake**
  - bundling of electricity and broadband
  - promoting 1 gigabit service for <$100

ENABLING BETTER BROADBAND

> **VDSL vectoring upgrade**

- equipment deployment in non Chorus fibre areas has been completed; rural areas underway
- trial completed across ~30 cabinets in Christchurch show ~4,000 VDSL customers benefitting with:
  - ~60% able to achieve 50Mbps+
  - ~20% able to achieve 100Mbps+
  - top download speed increased to ~135Mbps

VDSL vectoring trial results

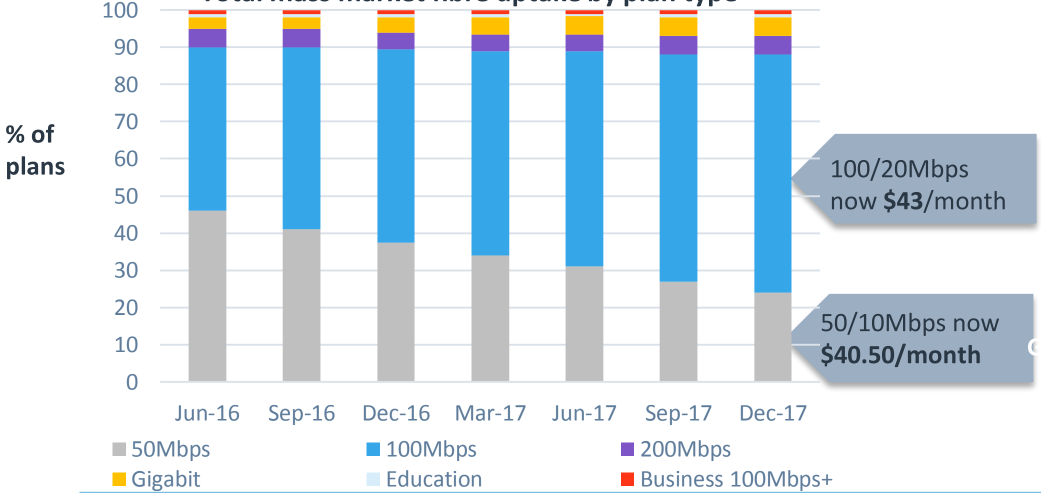


DATA DEMAND GROWS AS CUSTOMERS SHIFT TO BETTER

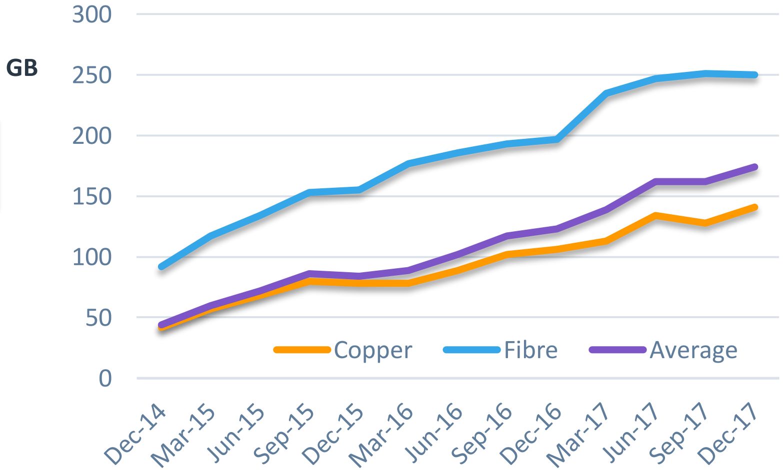
- **76%** of mass market fibre plans now >100Mbps (FY17:69%)
  - 64% of mass market fibre connections on 100Mbps
  - less than ¼ of fibre connections on entry level 50Mbps
  - 20,000 connections on gigabit plans

- monthly average data usage per connection on our network grew to **174GB** (Dec) from 162GB in June
  - 250GB on fibre
  - 141GB on copper

Total mass market fibre uptake by plan type



Monthly average data usage per connection on our network

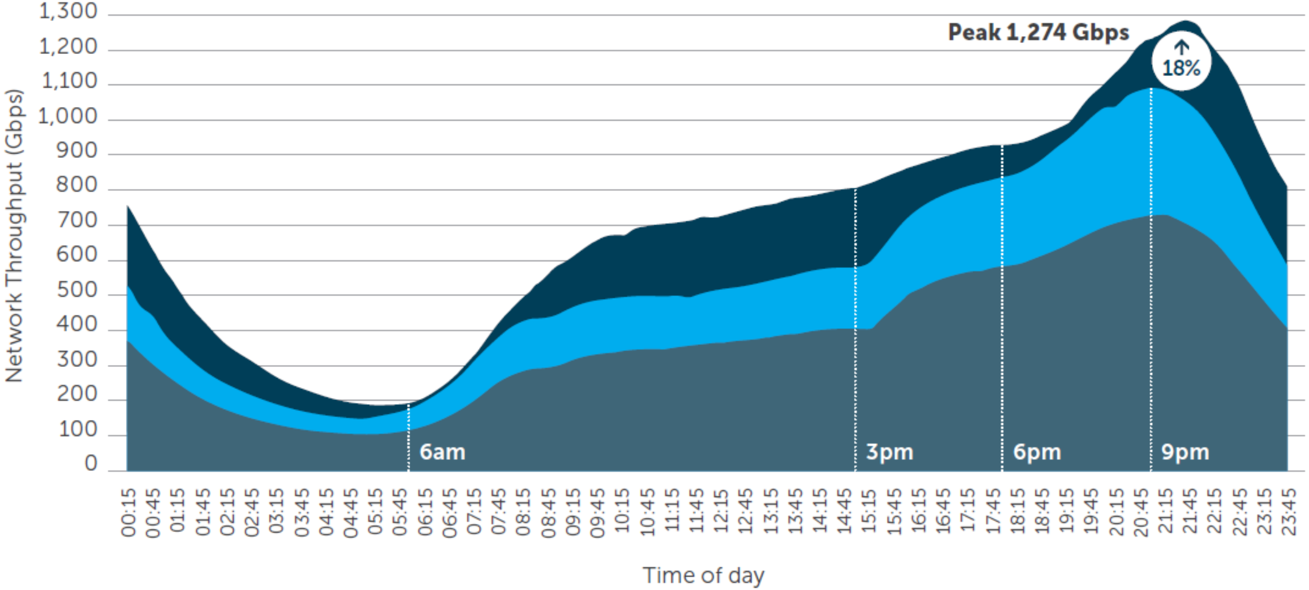


PEAK DEMAND KEEPS SETTING RECORDS

> **Streaming video on demand is driving peak hour consumption**

- 1.2 million Kiwis (434k households) now access Netflix; TVNZ On Demand has 1.8m subscribers
- 1 February: new traffic record on Chorus network of 1,449 Gbps

Chorus network traffic by time of day



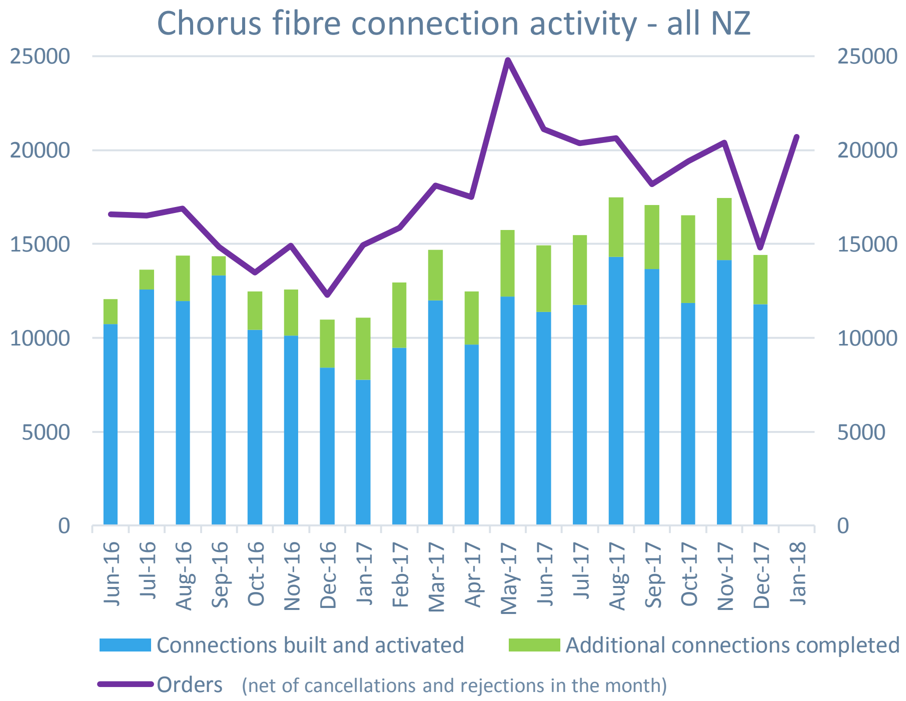
June 2016 June 2017 Jan 2018

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

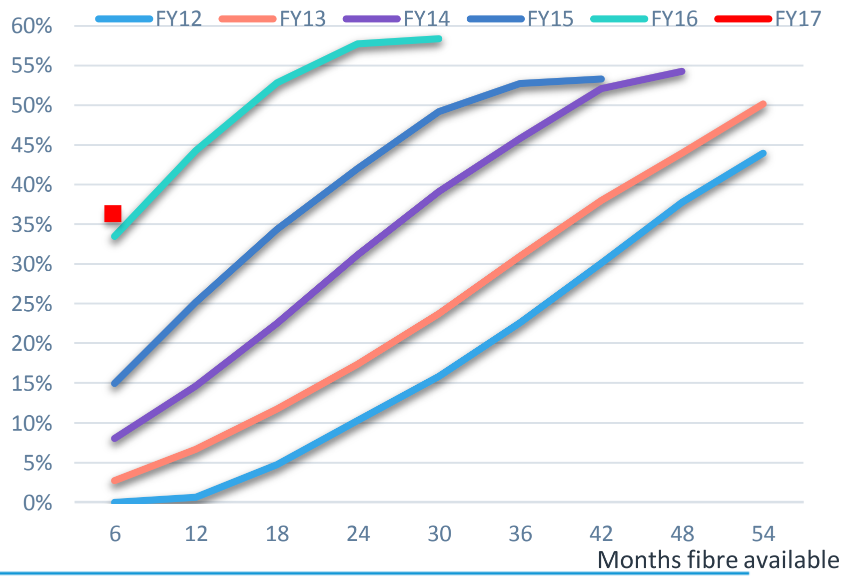
- HD TV uses **3GB** per hour
- 4K TV uses **7GB** per hour

TRANSFORMING CUSTOMER EXPERIENCE & COST

> **77,000 installations completed in H1;** weighted average lead times down to 14 days
  - field crews increased from 615 to 700
  - work in progress reduced to 25,000 from 32,000



First time fibre orders received over time (as a % of capable addresses by rollout year)



STILL PLENTY OF ROOM FOR IMPROVEMENT

THE GOOD

Shaun Fisher
@ShaunFisherNZ
Follow

Only the third day in our new house and @ChorusNZ is already installing our fibre. Impressed!

"Ordered fibre on a sunny December afternoon. Scope and install dates confirmed on Saturday morning. Working fibre service 12pm Monday....Didn't have to speak to Spark once! Router turned up 10mins before the installer arrived lol...." source:Geekzone

> **Customer satisfaction flat at ~7.4/10**
- technician rating consistent at 8.3/10

> **'Batched' migrations show higher results**
- ~4,000 installations completed
- 8.6/10 where Chorus-led (e.g. Hokitika)
- 7.7 for RSP-led migrations
- ramping up activity across more UFB2 build areas and dedicated 1-day installation teams for retailer campaigns

THE BAD

J @JamesHalcrow · Feb 7

Don't you just love it when @ChorusNZ schedule a time for a technician to come over and then they don't bother showing up. I have to take half days off work and have had two no-shows now. What an incredibly cavalier attitude they appear to have towards their customers' time.

OUR GOAL: REDUCE CUSTOMER EFFORT TO LESS THAN 1 DAY

STREAMLINING INSTALLATION PROCESSES

> **'SIMPLE' INSTALLATIONS**

- currently require customers be at home for 2 visits (scope and inside connection work)
- this adds scheduling complexity and opportunities for failure between multiple parties
- industry move to automated provisioning platforms paves way to integrate 2 visits into 1

> **'COMPLEX' INSTALLATIONS**

- high potential for cancellation of work due to absence of consent drove stop-start process
- improved likelihood of success under new regime favours running consent and backbone build in parallel

SCOPING VISIT: AGREE INSTALLATION

+

CONNECTION VISIT: INSIDE INSTALLATION WORK

BACKBONE DESIGN

CONSENT PROCESS

in parallel

+

BACKBONE BUILD

Financial performance

Andrew Carroll, Chief Financial Officer

INCOME STATEMENT

	H1 FY18 $m	H2 FY17 (adjusted) $m	H1 FY17 (adjusted) $m
Operating revenue	499	519	529
Operating expenses	(170)	(170)	(168)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**329**	**349**	**361**
Depreciation and amortisation	(192)	(185)	(174)
Earnings before interest and income tax	137	164	187
Net interest expense	(70)	(77)	(79)
Net earnings before income tax	67	88	109
Income tax expense	(20)	(25)	(31)
Net earnings for the year	**47**	**62**	**77**

Note: H1 and H2 FY17 have been adjusted to show the illustrative impact if NZ IFRS 15 and NZ IFRS 16 had applied in FY17.

> D&A increasing post IFRS adoption

> ineffectiveness has not been removed from H1 and H2 FY17 to reflect NZ IFRS 9 changes

REVENUE

	H1 FY18 $m	H2 FY17 (adjusted) $m	H1 FY17 $m
Copper line	69	80	83
Copper based broadband	219	238	263
Data services copper	14	15	17
Fibre broadband (GPON)	90	69	54
Fibre premium (P2P)	40	40	39
Value Added Network Services	17	17	17
Field Services	35	42	42
Infrastructure	12	12	11
Other	3	6	3
Total	**499**	**519**	**529**

Note: H2 FY17 adjusted to show the illustrative impact if NZ IFRS 15 and NZ IFRS 16 had applied in FY17.

> copper line and broadband revenues declining as customers migrate to Chorus fibre or competing networks

> legacy revenues declining as customers migrate to fibre services

> rapidly growing fibre services

> revenue declining as copper provisioning reduces and fibre connections are capitalised. H2 FY17 adjusted to reflect $8m of broadband promotion credits that would now be capitalised

EXPENSES

	H1 FY18 $m	H2 FY17 (adjusted) $m	H1 FY17 (adjusted) $m
Labour costs	39	33	36
Provisioning	4	6	10
Network maintenance	43	45	42
Other network costs	15	12	15
IT costs	27	26	24
Rents, rates and property maintenance	11	13	9
Regulatory levies	7	6	7
Electricity	8	7	7
Consultants	3	9	1
Insurance	1	1	2
Other	12	12	15
Total	**170**	**170**	**168**

Note: H1 and H2 FY17 have been adjusted to show the illustrative impact if NZ IFRS 15 and NZ IFRS 16 had applied in FY17.

- staff peak in Aug 2017; 10% reduction in staff across FY18
- reducing as activity shifts to fibre services
- proactive maintenance and weather offsetting copper/fibre mix and volume effects
- rates increasing as fibre network expands
- one-off strategic review in FY17; ongoing regulatory spend

CAPEX SUMMARY: COPPER & COMMON

- Total capex of **$391m** (H1 FY17: $325m on an adjusted basis) includes $34m of customer retention costs following adoption of NZ IFRS 15

Copper capex	H1 FY18	H2 FY17 (adjusted)	H1 FY17 (adjusted)	Note: H1 and H2 FY17 have been adjusted to show the illustrative impact if NZ IFRS 15 and NZ IFRS 16 had applied in FY17.
Network sustain	16	20	9	increase in roadworks activity, proactive maintenance and pole spend
Copper connections	1	2	2	
Copper layer 2	16	32	12	halfway through VDSL vectoring upgrade (~$20m programme)
Product	2	1	1	
Customer retention	29	24	22	reflects adoption of IFRS 15
Subtotal	**64**	**79**	**46**	

Common capex	H1 FY18	H2 FY17	H1 FY17	
Information technology	14	18	16	
Building & engineering services	9	12	7	
Other	3	2	2	
Subtotal	**26**	**32**	**25**	

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CAPEX SUMMARY: FIBRE

- **UFB1 cost per premises passed** (CPPP):
  - **$1,623** vs $1,500 - $1,600 guidance
  - 32,000 premises passed (HY17: 31,000)

Fibre capex	H1 FY18	H2 FY17 (adjusted)	H1 FY17 (adjusted)	Note: H1 and H2 FY17 have been adjusted to show the illustrative impact if NZ IFRS 15 and NZ IFRS 16 had applied in FY17.
UFB communal	113	92	91	UFB2 ~25% of H1 FY18 spend
Fibre connections & layer 2	145	124	134	77,000 connections completed in H1 FY18 (H1 FY17: 67k)
Fibre products & systems	10	9	8	
Other fibre connections & growth	28	25	20	increase in greenfields, UFB2 and other backhaul, poles
Customer retention	5	3	1	reflects adoption of IFRS 15 - in line with $10m indicated for FY18
Subtotal	**301**	**253**	**254**	

FIBRE CONNECTIONS CAPEX

> **UFB1 Cost per premises connected** (CPPC): **$1,102*** vs $1,050 - $1,200 guidance
*excludes layer 2 and includes standard installations, some non-standard single dwellings and service desk costs

Fibre connections & layer 2 capex	H1 FY18	H2 FY17	H1 FY17
Layer 2 (long run programme average of $100 per connection)	$16m	$12m	$8m
Premium business fibre connections	$6m (800)	$9m (900)	$10m (1,100)
Single dwelling units and apartments connections	$84m (77,000)	$67m (62,200)	$77m (66,800)
Backbone build: multi-dwelling units and rights of way	$39m (5,800)	$36m (5,000)	$39m (6,200)
TOTAL	**$145m**	**$124m**	**$134m**

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

GUIDANCE SUMMARY

	H1 FY18 update	Prior FY18 guidance
FY18 EBITDA	No change however we are tracking towards the top end of guidance.	**$625 – 650m**
FY18 Gross capex	No change however we are tracking towards the top half of guidance.	**$780m – $820m**
Fibre connections & layer 2 capex	No change however we are tracking towards the top end of guidance due to continued demand.	**$260m – $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)
Fibre capex	No change however we are tracking towards the top end of guidance.	**$590m-$625m**
Copper capex	No change	**$125m-$145m**
Common capex	No change	**$50m-$65m**
UFB1 Cost Per Premises Passed (CPPP)	No change	**$1,500 - $1,600**
UFB1 Cost Per Premises Connected (CPPC)	No change	**$1,050 - $1,200** (excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs)

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CAPITAL MANAGEMENT & DIVIDEND

> Interim dividend of **9 cps**, fully imputed
  - supplementary dividend of 1.6cps payable to non-resident shareholders
  - **record date**: 20 March 2018
  - **payment date**: 17 April 2018
  - **Dividend Reinvestment Plan** applies with 3% discount to prevailing market price; open to New Zealand and Australian resident shareholders
  - no DRP underwrite proposed

> FY18 dividend guidance of **22 cps,** 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 31 Dec 2017 $m	As at 30 June 2017 $m
Borrowings	1,932	1,862
+ PV of CIP debt securities (senior)	107	99
+ Net Finance leases	205*	154
Sub total	2,244	2,115
- Cash	(40)	(170)
Total net debt	**2,204**	**1,945**
Net debt/EBITDA	3.41 times	2.98 times

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

* Reflects adoption of NZ IFRS 16

> After adjusting for the timing of receipt of customer payments, Net debt/EBITDA would have been 3.33 times at 31 December

> NZ IFRS changes added $49m to net finance leases and increased EBITDA, with a net increase in leverage metric of around 0.05 times

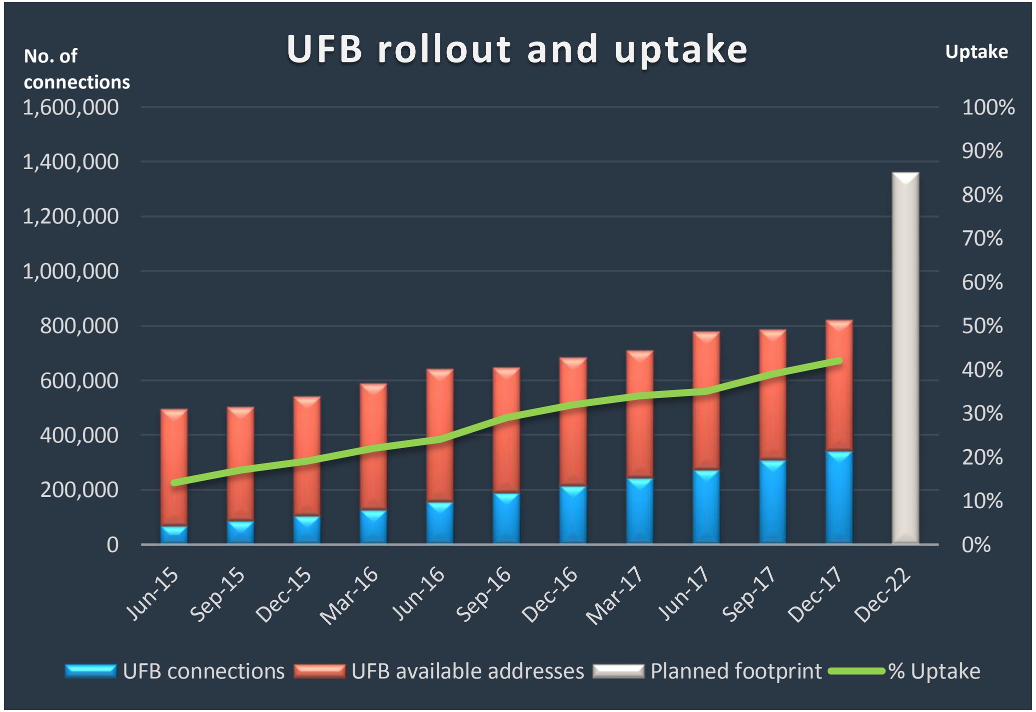
> At 31 Dec, borrowing of $1,932m comprised:
- Long term bank facilities $70m
- NZ bond $400m
- Euro Medium Term Notes $1,462m (NZ$ equivalent at hedged rates)

Other areas of focus

Kate McKenzie, Chief Executive Officer

DELIVERING THE FUTURE BROADBAND NETWORK

- > **42% uptake at 31 Dec (FY17: 35%)**
  - **343,000** connections
  - **821,000** customers able to connect
  - **613,000** premises passed



Premises to pass by Dec 2022	**~1,054,000***
Customers able to connect	**~1.36 million**
Estimated communal capex to pass premises	**$2.26 to 2.37 billion**
Crown funding (57:43 equity/debt)	**up to $1.33 billion**

NEW REGULATORY FRAMEWORK

1. Government review began in 2013
2. Draft Bill tabled August 2017
3. Select Committee report due March 2018
4. Revised Bill then expected to pass into law
5. Commerce Commission applies new regime

> **A smooth transition requires**:
- key RAB components (e.g. initial valuation and regulatory WACC) and copper deregulation delivered **by 1 January 2020**
- price capped services moving forward at 2019 prices with CPI
- ability to recover actual costs incurred with a fair regulatory return
- improved direction on treatment of Crown financing and financial losses

> **A durable framework requires the flexibility to**:
- accommodate changes to TSO in non-UFB areas
- include next generation technologies and innovative non-telco wholesale customers

FUTURE OPPORTUNITIES

> **Fibre and our existing assets (exchanges, cabinets, poles) are opening up new possibilities**

- school community wi-fi trial with Network for Learning
- LoRaWAN *Internet of Things* trial with Vianet
- potential support for TV delivery

Appendices

Appendix A: ADJUSTED 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	Adjusted H1 17 $m		H2 17 Statutory results $m	IFRS impact $m	Adjusted 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)	6	(24)		(30)	4	(26)
Rent and rates	(8)	4	(4)		(9)	4	(5)
Other operating expenses	(94)	-	(94)		(100)	-	(100)
Total operating expenses	(194)	26	(168)		(194)	24	(170)
EBITDA	**335**	**26**	**361**		**317**	**32**	**349**

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* updated from Appendix B.3 in FY17 results presentation to reflect timing difference

Appendix A.1: ADJUSTED FY17 CAPEX 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	Adjusted H1 17 $m		H2 17 Statutory results $m	IFRS impact $m	Adjusted H2 17 $m
UFB communal	91		91		92		92
Fibre connections & layer 2	134		134		124		124
Fibre products & systems	8		8		9		9
Other fibre connections & growth	20		20		25		25
Customer retention	-	1	1		-	3	3
Total fibre capex	**253**	**1**	**254**		**250**	**3**	**253**

Continued on next page

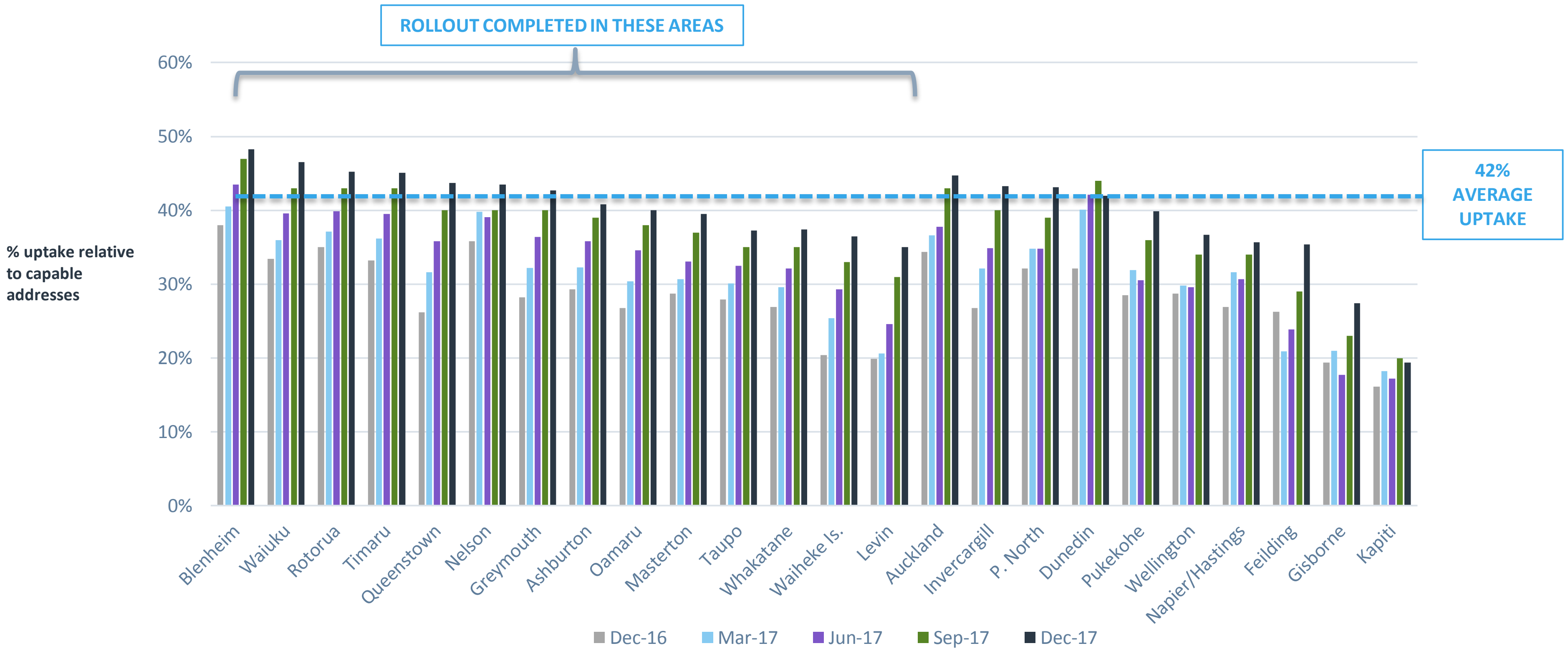
Appendix A.1: ADJUSTED FY17 CAPEX H1 vs H2 (cont.)

	H1 17 Statutory results $m	IFRS impact $m	Adjusted H1 17 $m		H2 17 Statutory results $m	IFRS impact $m	Adjusted H2 17 $m
Network sustain	9		9		20		20
Copper connections	2		2		2		2
Copper layer 2	12		12		32		32
Product	1		1		1		1
Customer retention		22	22			24	24
Total copper capex	**24**	**22**	**46**		**55**	**24**	**79**
Information technology	16		16		18		18
Building & engineering services	7		7		12		12
Other	2		2		2		2
Total common capex	**25**	**0**	**25**		**32**	**0**	**32**
TOTAL GROSS CAPEX	**302**	**23**	**325**		**337**	**27**	**364**

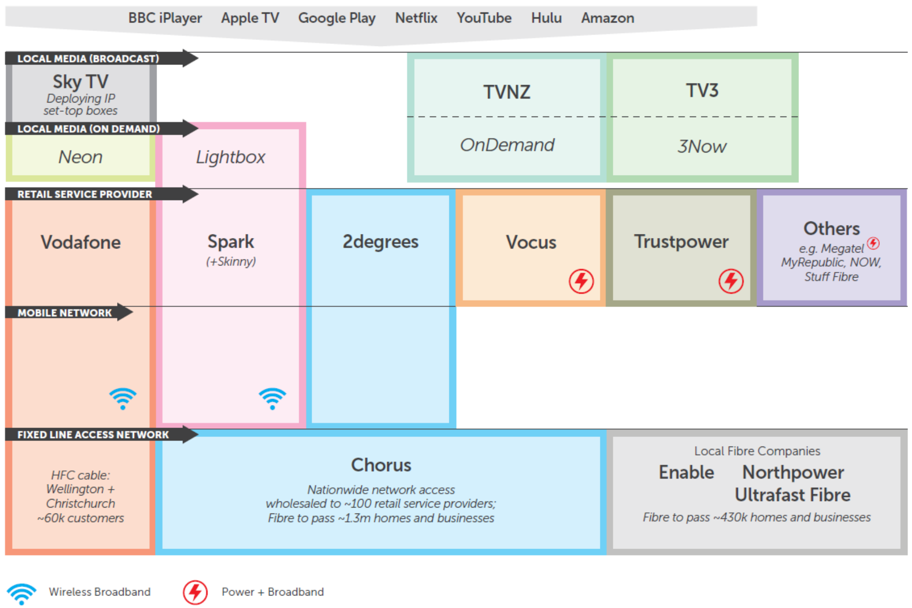
Appendix B: CONNECTIONS SUMMARY

	30 Sept 2016	31 Dec 2016	31 March 2017	30 June 2017	30 Sept 2017	31 Dec 2017
Unbundled copper	105,000	99,000	90,000	82,000	76,000	68,000
Baseband copper (no broadband)	354,000	343,000	328,000	313,000	302,000	290,000
Fibre broadband (GPON)	203,000	231,000	259,000	292,000	328,000	362,000
VDSL (includes naked)	179,000	199,000	224,000	244,000	294,000	320,000
Copper ADSL (includes naked)	847,000	784,000	716,000	650,000	562,000	499,000
Data services (copper)	10,000	9,000	9,000	8,000	7,000	7,000
Fibre premium (P2P)	13,000	13,000	13,000	13,000	13,000	13,000
Total connections	1,711,000	1,678,000	1,639,000	1,602,000	1,582,000	1,559,000

Appendix C: UFB UPTAKE BY REGION

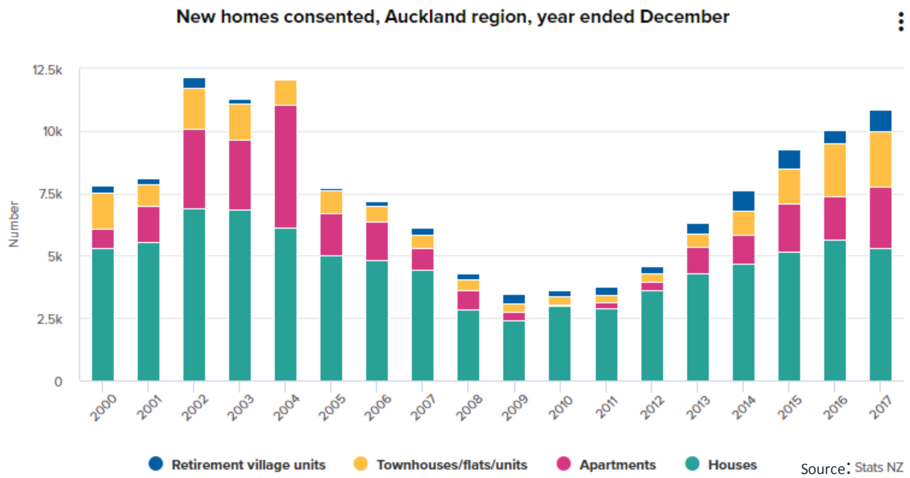


Appendix D: NZ BROADBAND MARKET



Population and premises growth supporting ongoing broadband uptake

- ~31,000 new dwellings consented in NZ in 2017 (up 3.4% from 2016
  - ~11,000 new homes consented in Auckland
  - Auckland projected to account for over half of NZ population growth to 2040 with 400,000 homes



Source: Stats NZ

APPENDIX E: REGULATORY FRAMEWORK

> **New regulatory framework bill introduced to Parliament 8 August 2017**

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.

Chorus

Half Year Report

For the six months ended 31 December 2017

Chorus

Half year result overview

FIXED LINE CONNECTIONS

HY18 1,559,000	↓ 3%	FY17 1,602,000

BROADBAND CONNECTIONS

HY18 1,181,000	↓ 0.4%	FY17 1,186,000

FIBRE CONNECTIONS

HY18 375,000	↑ 23%	FY17 305,000

NET PROFIT AFTER TAX

HY18 $47m	HY17 $66m

EBITDA[1]

HY18 $329m	HY17 $335m

ADJUSTED EBITDA[2]

HY18 $329m	HY17 $361m[2]

DIVIDEND

HY18 9cps	HY17 8.5cps

Contents

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 our business.

2 Adjusted to reflect the effect new NZ IFRS accounting standards adopted in HY18 would have had if they had applied in HY17.

Chorus Board and Management overview

KATE MCKENZIE
Chief Executive

PATRICK STRANGE
Chairman

Dear Investors

Our focus in the first six months of the financial year has been on implementing a range of initiatives originating from the strategic review we talked about in the 2017 Annual Report. That review considered the longer term outlook and opportunities for our business, increased competition from wireless technologies, ongoing careful management of costs, the potential regulatory requirements under a utility style framework and the need to continue improving the end-to-end experience for customers.

We continued our campaign to promote better broadband and this, coupled with an expanded field force, helped drive a strong increase in fibre and VDSL uptake while also slowing connection losses to other networks significantly. Wider retailer adoption of automated fibre provisioning, together with other process improvements, allowed us to review our internal structure and we expect to reduce our internal workforce by 10% from August 2017 levels over the course of FY18. Despite the pressures in the New Zealand construction industry, we've kept our fibre rollout costs within plan and we're maintaining a tight focus on other costs.

We achieved net profit after tax of $47 million and EBITDA of $329 million. This was down from EBITDA of $361 million for same period last year when adjusted to allow for new accounting standards.[1] A fully imputed interim dividend of 9 cents per share will be paid on 17 April 2018 and the dividend reinvestment plan is available for New Zealand and Australian shareholders who register their intention to participate by 5:00pm (NZ time) on 21 March 2018.

1. Operating update

An increase in the number of fibre field crews from 615 in June to about 700 in December helped us complete fibre network installations

1 The adoption of three new accounting standards has affected results for the current period with changes in the treatment of operating leases and capitalisation of some costs which were expensed in HY17.

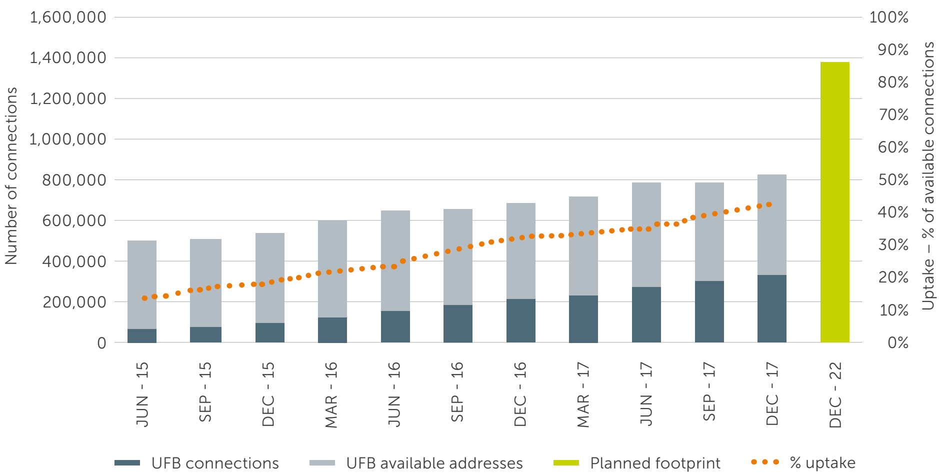
for a record 77,000 customers, up from about 62,000 in the prior six months. Importantly, from a customer experience perspective, national weighted average lead times reduced from 22 days to 14 days despite the record order volumes. Customer satisfaction remained flat at an average of 7.4 out of 10 across the period. However, our ongoing trials of alternative migration methods, including localised campaigns, both on our own and in conjunction with retailers, showed that customer satisfaction scores of up to 8.6 are achievable.

We're pleased that our long-term ultra-fast broadband (UFB) capital expenditure programme remains on track and budget. In August 2017 we announced a further agreement with the Government to extend our UFB rollout to about 54,500 more premises across about 200 towns and rural communities. This is expected to result in further communal rollout investment of between $135 million and $155 million. The Government will provide financing of $2,000 per premises passed, or up to $109 million in Crown Infrastructure Partners equity securities, equating to approximately 75% of the expected communal rollout investment. We also agreed to complete our current UFB2 rollout in December 2022, two years earlier than initially planned. When we've finished this work, more than 1.3 million customers will be able to connect to our fibre. That's about three-quarters of the 87% of New Zealanders to be covered by the UFB programme, with the balance provided by other local fibre companies.

Our shift to being a more active wholesaler through our *ask for better* campaign and related efforts to support retailers helped slow line loss significantly, from a decline of 76,000

Figure 1:

UFB rollout and uptake



connections in the six months to 30 June 2017, to 43,000 in the period to 31 December 2017. Total connections reduced from 1,602,000 to 1,559,000 for the period. Within this total, the number of customers taking a broadband service from us reduced by 5,000 connections. As expected, most line loss is occurring in those areas where the other local fibre companies have partnered with the Government under the UFB initiative, followed by those areas where vertically integrated fixed wireless retailers are promoting their networks.

The addition of 68,000 fibre connections in our UFB areas grew our overall fibre uptake from 35% to 42% in our completed rollout areas, even as we built the fibre network past another 40,000 potential customers. That's more than double the 2020 uptake target of 20% included in our original UFB contract with the Government.

We experienced strong growth in VDSL copper-based broadband with 76,000 connections added as some retailers began migrating their existing customers from ADSL to VDSL. This is a great outcome for customers because, as we've noted before, many were unaware a better VDSL service was already widely available and often at no extra cost because we charge the same rate for ADSL and VDSL broadband services. The combination of fibre and VDSL uptake means 58% of our broadband connections are on better broadband, up from 45% at the end of June 2017.

We continued to invest in improving the performance of our copper network for customers. A $20 million programme to deploy VDSL vectoring technology began in rural and local fibre company areas. This has the potential to improve VDSL broadband performance for up to 260,000 addresses in these areas, including about 37,000 rural addresses where connections could be capable of speeds above 50Mbps.

2. Operating results

2.1 Operating revenue

Revenues of $499 million were down compared to revenue of $529 million for the six months to 31 December 2016. This largely reflects the reduction in total connections over the last year, particularly the reduction in copper based voice and broadband lines as customers migrated to competing fibre and wireless networks. The number of copper-based data services connections also continued to decline as retailers transitioned customers from these legacy services to cheaper fibre services either on our UFB network, or on other local fibre company networks.

These declines in connections revenue were partially offset by the strong growth in fibre broadband (GPON) connections, with revenues increasing $36 million relative to the first six months of FY17, and increases in regulated copper pricing applicable in December each year. Fibre revenues have been supported by the uptake of higher speed services. The total number of customers on entry level 50Mbps fibre services has begun to reduce and, by 31 December 2017, 100Mbps fibre services made up about 64% of our GPON fibre connections, up from 52% at 31 December 2016. There were approximately 20,000 customers on gigabit services, including about 10,000 in the Dunedin 'gigatown' area where we are currently providing sponsored pricing at the equivalent of entry level pricing.

Fibre premium (P2P) revenues were up slightly, although the make-up of these revenues continues to change as customers migrate from legacy services to lower cost inputs.

Figure 2:

Chorus connections summary

	CONNECTIONS 31 DEC 2016	CONNECTIONS 30 JUNE 2017	CONNECTIONS 31 DEC 2017
Unbundled copper	99,000	82,000	68,000
Baseband copper	343,000	313,000	290,000
Fibre broadband (GPON)	231,000	292,000	362,000
Copper VDSL	199,000	244,000	320,000
Copper ADSL	784,000	650,000	499,000
Data services (copper)	9,000	8,000	7,000
Fibre premium (P2P)	13,000	13,000	13,000
Total fixed line connections	**1,678,000**	**1,602,000**	**1,559,000**

Field services revenue was down $7 million relative to the same period in FY17. This largely reflects a continued reduction in chargeable copper provisioning work as more customers migrate to fibre services, where first time connections are treated as capital expenditure.

Other revenue categories were flat.

2.2 Operating expenses

Expenses of $170 million for the six months to 31 December 2017 were $2 million higher than adjusted expenses[2] of $168 million for the six months to 31 December 2016 reflecting slight increases in labour, IT and consultancy costs. Management has been implementing a series of initiatives in the period that should become evident in financial results in the second half of FY18.

Labour costs

Labour costs of $39 million represent staff costs that are not capitalised. At 31 December 2017 we had 971 permanent and fixed term employees, up from 963 employees at 31 December 2016. However, wider retailer adoption of automated fibre provisioning, together with other process improvements, allowed us to review our internal structure and we expect to reduce our internal workforce by 10% from August 2017 levels over the course of FY18. There were one-off restructuring costs of about $1 million in the period. A review of business support functions is currently underway.

Network maintenance costs

Network maintenance costs were largely flat compared to the same period in FY17. This was despite the total number of connections on our network having decreased and reflects a continuing programme of proactive fault management to ensure good quality of service for customers, a period of particularly wet weather, a higher incidence of underground faults leading to a higher average cost per fault than the prior period, and inflation related increases for service company costs.

Information Technology

IT costs remained flat when NZ IFRS 15 adjustments that applied for the first time in HY18 are excluded. Increasing costs from inflation are being offset by ongoing tight cost control.

Provisioning costs

Provisioning costs are incurred where we provide new or changed service to our customers. Field provisioning costs have declined as fibre uptake increases and fewer truck rolls are required for copper services. In addition, NZ IFRS 15 provides for the capitalisation of costs associated with customer acquisition and retention which resulted in $12 million of copper based provisioning costs being capitalised for the period.

2.3 Depreciation and amortisation

Depreciation continues to increase slightly, reflecting the net effect of significant new investment and the very long lives of these assets. Capitalisation of costs relating to NZ IFRS 15 and NZ IFRS 16 resulted in $3 million additional depreciation and $21 million additional amortisation for the period. The amortisation of Crown funding against these assets continues to increase and partially offset the increase in depreciation.

2 To reflect the effect of the adoption of NZ IFRS 15 and 16 on the prior year.

2.4 Finance expenses

Interest on debt (EMTN, fixed rate NZD bonds and syndicated bank facilities) has decreased in the current period, reflecting the move to cheaper funding.

The adoption of NZ IFRS 9 has resulted in accounting hedging relationships more closely matching the economic relationships. This means that much of the ineffectiveness which was previously accounted for through finance expense is now flowing through the hedging reserves, which will reduce the volatility of finance expense.

2.5 Capital expenditure

Gross capital expenditure for the six months to 31 December 2017 was $391 million, an increase of $89 million above the same period in FY17. This mostly reflected additional UFB deployment work to include UFB2 areas, the growth in fibre connection volumes and $34 million of costs that are now capitalised following the adoption of NZ IFRS 15. The latter included $5 million of fibre-related spend and $29 million of copper-related expenditure.

We invested $113 million in the rollout of the UFB communal network, with a further 32,000 premises passed at an average cost of $1,623. The average cost is expected to reduce to within our guidance range of $1,500 to $1,600 by the end of FY18 as significantly more premises are completed in the second half.

Fibre connections and layer 2 spend was $145 million. We built new fibre connections to 77,000 customers nationwide in the six month period. The average cost per premises connected for standard residential premises, including service desk costs and some non-standard single dwelling unit connections, was $1,102, excluding the long run average cost of layer 2 equipment. This was in the lower half of the FY18 guidance range of $1,050 to $1,200.

Spend on other fibre connections and growth was up by $8 million on the six months to 31 December 2016 as we began work on UFB2 backhaul and a pole replacement programme in UFB areas, and we saw a continued increase in greenfields work.

Copper capital expenditure was $64 million for the period, an increase of $40 million on the prior comparative period, with $29 million reflecting the accounting changes mentioned above. Network sustain spend increased by $7 million as a result of more proactive maintenance and roadworks related projects, with the latter undertaken on a cost recovery basis. Copper layer 2 spend was up by $4 million as we undertook a significant programme of work to enhance copper broadband performance in selected areas through the deployment of VDSL vectoring technology.

Common capex was in line with the same period in FY17.

3. Dividends, equity and capital management

We will pay an interim dividend of 9.0 cents per share on 17 April 2018 to all holders registered at 5:00pm 20 March 2018. The dividends paid will be fully imputed, at a ratio of 28/72, in line with the corporate income tax rate. A supplementary dividend of 1.6 cents per share will be payable to shareholders who are not resident in New Zealand.

The dividend reinvestment plan will apply for the interim 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 21 March 2018.

A final dividend of 13.0 cents per share is expected to be declared in August 2018, subject to no material adverse changes in circumstances 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 policies and financial policies consistent with these credit ratings. At 31 December 2017, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

4. Outlook

4.1 Regulatory framework transition and market reviews

A key focus in the next six months and beyond will be the Government's steps towards implementing a utility style regulatory framework for fibre. There has been widespread support to move to a building block regulatory model, as used for electricity and gas networks, through extensive policy development since the Telecommunications Act Review began in 2013. Draft legislation was introduced to Parliament in August 2017 and a parliamentary Select Committee is scheduled to report back on the Bill in late March. When the framework is passed into law, it will be subject to interpretation and implementation by the Commerce Commission.

We support the Bill and have made a submission recommending amendments to help achieve its policy aims, support prompt implementation by 2020 and ensure the new regulatory regime is durable. Some of our key proposals include:

- reducing the maximum transition period to six months from 24 months and ensuring key elements of the new regime such as copper deregulation, the determination of the initial regulated asset base and weighted average cost of capital, are prioritised
- avoiding potential complexity, delay and unnecessary shocks for consumers or investors by providing greater guidance on the treatment of Crown financing under the UFB contracts and the approach to determining financial losses
- incentivising ongoing network innovation and investment by enabling next generation technology neutral services, other than fibre-to-the-premises access, to be included within the regulatory framework and made available to innovative non-telco wholesale customers
- ensuring the regime has flexibility to accommodate future policy decisions and/or modernisation of our Telecommunications Services Obligations affecting the 13% of New Zealanders where fibre is not planned

The Commission is currently consulting industry on the scope of a planned study of the mobile market in New Zealand, to look at the competitive landscape and any emerging competition issues. We consider the relative pricing between mobile and fixed wireless services, the comparatively low penetration of mobile virtual network operators, and the potential for shared open access infrastructure and spectrum to benefit the rollout of 5G networks, are some of the topics worthy of further analysis.

In addition, the Commission announced in January 2018 that it was restarting its study of the backhaul market to explore whether the current regulation for backhaul is fit for purpose.

4.2 Customer and cost focus

Our strategic review identified the clear need to continue improving the end-to-end experience for customers, as well as to reduce overall costs. This means we need to develop our build tactics, systems and industry processes in a way that streamlines customer effort. These are not necessarily simple or quick changes, but we expect to start seeing the benefits of our initial programme of work in our end of year results.

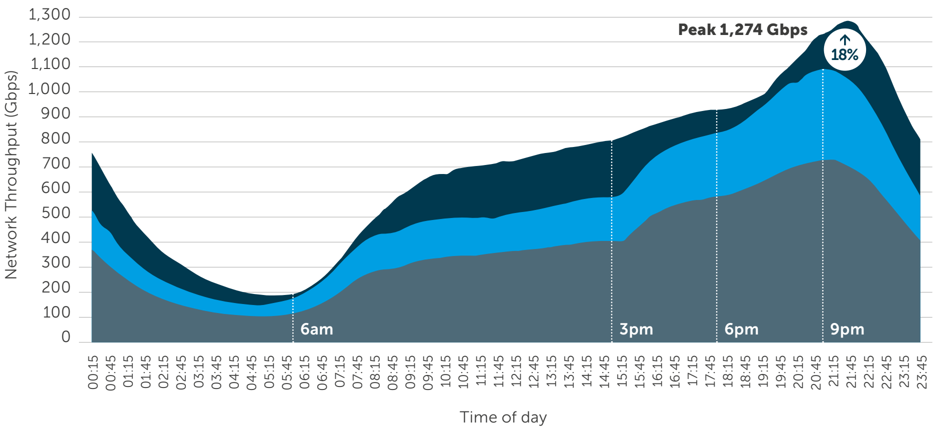
Recent changes to land access legislation provided an opportunity for us to revisit our processes for multi-dwelling and rights of way connections. These types of connections often result in the lowest customer satisfaction results because of the time and complexity involved for both us and customers.

Our goal is to reduce the customer effort involved in the transition to a simple fibre connection to less than a day. We want to achieve this within 18 months and although our initial trials of different migration approaches have shown early promise, there's a long way to go.

The extension and acceleration of our UFB rollout also demands that we consider our longer term cost structure in the context of the likely future regulatory environment and a much reduced copper network footprint. Focused fibre migration activities will make even more economic sense in smaller population centres and should help realise cost benefits earlier through reduced copper maintenance activity.

Figure 3:

Chorus network throughput by time of day (monthly average)



June 2016 June 2017 Jan 2018

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

4.3 Market developments

Industry commentators have highlighted the importance of fixed line networks to connect and power the substantial increase in wireless base stations likely to be needed by 5G networks.

Looking to the future, we began trialling new ways we may be able to use our network to provide new technology solutions for customers. This included a trial with government organisation Network for Learning to extend a low decile school's managed internet service to local homes by using wireless technology mounted on our poles, powered via existing copper cabling and connected by VDSL and fibre backhaul. In December we started a proof of concept trial for a Long Range Wide Area Network to enable Internet of Things services, again using our existing copper network to power a pole-mounted access point that can monitor hard-to-access locations, such as underground wastewater or sewage pumping stations.

We remain in the midst of a very clear global trend, the thirst for data. Average monthly usage per household on our network was 174 Gigabytes in December compared to about 155 Gigabytes in June. On 10 December 2017 about 1,328 gigabits per second, or the equivalent of about 260,000 HD video streams being watched simultaneously, was used on our network at 9:25pm.

This was a new record for traffic on our network and reflects customers using more data, both as a natural consequence of moving to better broadband services and as smart TVs and other devices make it easier to stream video online. TVNZ On Demand, for example, reportedly has 1.8 million subscribers and recent Nielsen research suggests Netflix access has grown to about 1.2 million New Zealanders. The ability to access streamed content continues to grow with Vodafone launching a fibre-based TV service in October 2017.

We expect data usage to continue to grow as more smart home devices connect to the internet, enabled by new generation Wi-Fi mesh systems, smart speakers and personal assistants. These trends explain why a growing number of retailers are choosing to only sell unlimited data plans. This includes Contact Energy, the largest electricity retailer to now enter the broadband market. Retail competition has tended to focus on 100Mbps services to date, but there are signs this may be changing with some retailers now promoting gigabit unlimited fibre services for less than $100 per month.

We look forward to continuing to work with retailers to grow the broadband market and develop new ways in which our network assets can benefit New Zealanders.

PATRICK STRANGE
Chairman

KATE MCKENZIE
Chief Executive

26 February 2018

Half Year Report

Financial Statements

For the six months ended 31 December 2017

Condensed consolidated **income statement**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

(DOLLARS IN MILLIONS)	NOTE	SIX MONTHS ENDED 31 DEC 2017 UNAUDITED $M	SIX MONTHS ENDED 31 DEC 2016 UNAUDITED $M	YEAR ENDED 30 JUNE 2017 AUDITED $M
Copper based voice		69	83	163
Copper based broadband		219	263	501
Data services copper		14	17	32
Fibre broadband (GPON)		90	54	123
Fibre premium (P2P)		40	39	79
Value added network services		17	17	34
Infrastructure		12	11	23
Field services products		35	42	76
Other		3	3	9
Total operating revenue		**499**	**529**	**1,040**
Labour costs		(39)	(38)	(74)
Provisioning		(4)	(24)	(43)
Network maintenance		(43)	(42)	(87)
Other network costs		(15)	(15)	(27)
Information technology costs		(27)	(30)	(60)
Rent and rates		(5)	(8)	(17)
Property maintenance		(6)	(5)	(13)
Electricity		(8)	(7)	(14)
Insurance		(1)	(2)	(3)
Consultants		(3)	(1)	(10)
Regulatory levies		(7)	(7)	(13)
Other		(12)	(15)	(27)
Total operating expenses	1	**(170)**	**(194)**	**(388)**
Earnings before interest, income tax, depreciation and amortisation		**329**	**335**	**652**
Depreciation	2	(139)	(132)	(274)
Amortisation	3	(53)	(32)	(65)
Earnings before interest and income tax		**137**	**171**	**313**
Finance income		4	6	10
Finance expense	1, 9	(74)	(84)	(164)
Net earnings before income tax		**67**	**93**	**159**
Income tax expense		(20)	(27)	(46)
Net earnings for the period		**47**	**66**	**113**

Earnings per share			
Basic earnings per share (dollars)	**0.12**	**0.17**	**0.28**
Diluted earnings per share (dollars)	**0.10**	**0.14**	**0.23**

Condensed consolidated statement of comprehensive income

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

(DOLLARS IN MILLIONS)	NOTE	SIX MONTHS ENDED 31 DEC 2017 UNAUDITED $M	SIX MONTHS ENDED 31 DEC 2016 UNAUDITED $M	YEAR ENDED 30 JUNE 2017 AUDITED $M
Net earnings for the period		**47**	**66**	**113**
Other comprehensive income				
Items that will be reclassified subsequently to profit and loss when specific conditions are met				
Ineffective portion of changes in fair value of cash flow hedges	9	2	(1)	12
Effective portion of changes in fair value of cash flow hedges	9	-	9	(7)
Amortisation of de-designated cash flow hedges transferred to income statement	9	(1)	(1)	(1)
Movement in cost of hedging reserve	9	1	-	-
Other comprehensive income net of tax		**2**	**7**	**4**
Total comprehensive income for the period net of tax		**49**	**73**	**117**

Condensed consolidated **statement of financial position**

AS AT 31 DECEMBER 2017

(DOLLARS IN MILLIONS)	NOTES	31 DEC 2017 UNAUDITED $M	31 DEC 2016 UNAUDITED $M	30 JUNE 2017 AUDITED $M
Current assets				
Cash and call deposits		40	155	170
Income tax receivable		11	-	1
Trade and other receivables		211	173	139
Derivative financial instruments	9	1	-	1
Finance lease receivable		5	4	5
Total current assets		**268**	**332**	**316**
Non-current assets				
Derivative financial instruments	9	32	-	-
Trade and other receivables		7	10	7
Software and other intangibles	3	185	143	142
Network assets	2	4,195	3,811	3,973
Total non-current assets		**4,419**	**3,964**	**4,122**
Total assets		**4,687**	**4,296**	**4,438**
Current liabilities				
Trade and other payables		341	345	346
Income tax payable		-	7	-
Finance lease payable	1	10	-	-
Derivative financial instruments	9	1	58	46
Total current liabilities excluding Crown funding		**352**	**410**	**392**
Current portion of Crown funding	6	20	18	19
Total current liabilities		**372**	**428**	**411**
Non-current liabilities				
Derivative financial instruments	9	203	214	231
Finance lease payable	1	200	150	159
Debt	4	1,781	1,597	1,609
Deferred tax payable		215	194	202
Total non-current liabilities excluding CIP and Crown funding		**2,399**	**2,155**	**2,201**
Crown Infrastructure Partners (CIP) securities	5	219	165	203
Crown funding	6	684	629	679
Total non-current liabilities		**3,302**	**2,949**	**3,083**
Total liabilities		**3,674**	**3,377**	**3,494**
Equity				
Share capital		571	504	520
Reserves		(27)	(19)	(22)
Retained earnings		469	434	446
Total equity		**1,013**	**919**	**944**
Total liabilities and equity		**4,687**	**4,296**	**4,438**

Condensed consolidated statement of changes in equity

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

(DOLLARS IN MILLIONS)	NOTE	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGING RELATED RESERVES $M	TOTAL $M
Balance at 30 June 2017 (AUDITED)		**520**	**446**	**(22)**	**944**
Impact of adopting NZ IFRS 9 at 1 July 2017	1	-	7	(7)	-
Impact of adopting NZ IFRS 15 at 1 July 2017	1	-	20	-	20
Balance at 1 July 2017		**520**	**473**	**(29)**	**964**
Comprehensive income					
Net earnings for the period		-	47	-	47
Other comprehensive income					
Ineffective portion of changes in fair value of cash flow hedges		-	-	2	2
Amortisation of de-designated cash flow hedges transferred to income statement		-	-	(1)	(1)
Movement in cost of hedging reserve		-	-	1	1
Total comprehensive income		**-**	**47**	**2**	**49**
Contributions by and (distributions to) owners:					
Dividends		-	(51)	-	(51)
Supplementary dividends		-	6	-	6
Tax credit on supplementary dividends		-	(6)	-	(6)
Dividend reinvestment plan		28	-	-	28
Issue of new shares		23			23
Total transactions with owners		**51**	**(51)**	**-**	**-**
Balance at 31 December 2017 (UNAUDITED)		**571**	**469**	**(27)**	**1,013**

(DOLLARS IN MILLIONS)	SHARE CAPITAL $M	RETAINED EARNINGS $M	HEDGING RELATED RESERVES $M	TOTAL $M
Balance at 30 June 2016 (AUDITED)	**481**	**416**	**(26)**	**871**
Comprehensive income				
Net earnings for the period	-	66	-	66
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	(1)	(1)
Effective portion of changes in fair value of cash flow hedges	-	-	9	9
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	**-**	**66**	**7**	**73**
Contributions by and (distributions to) owners:				
Dividends	-	(48)	-	(48)
Supplementary dividends	-	5	-	5
Tax credit on supplementary dividends	-	(5)	-	(5)
Dividend reinvestment plan	23	-	-	23
Total transactions with owners	**23**	**(48)**	**-**	**(25)**
Balance at 31 December 2016 (UNAUDITED)	**504**	**434**	**(19)**	**919**

Balance at 1 July 2016	**481**	**416**	**(26)**	**871**
Comprehensive income				
Net earnings for the period	-	113	-	113
Other comprehensive income				
Ineffective portion of changes in fair value of cash flow hedges	-	-	12	12
Effective portion of changes in fair value of cash flow hedges	-	-	(7)	(7)
Amortisation of de-designated cash flow hedges transferred to income statement	-	-	(1)	(1)
Total comprehensive income	**-**	**113**	**4**	**117**
Contributions by and (distributions to) owners:				
Dividends	-	(83)	-	(83)
Supplementary dividends	-	9	-	9
Tax credit on supplementary dividends	-	(9)	-	(9)
Dividend reinvestment plan	40	-	-	40
Employee share plan	(1)	-	-	(1)
Total transactions with owners	**39**	**(83)**	**-**	**(44)**
Balance at 30 June 2017 (AUDITED)	**520**	**446**	**(22)**	**944**

Condensed consolidated **statement of cash flows**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

(DOLLARS IN MILLIONS)	SIX MONTHS ENDED 31 DEC 2017 UNAUDITED $M	SIX MONTHS ENDED 31 DEC 2016 UNAUDITED $M	YEAR ENDED 30 JUNE 2017 AUDITED $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers	448	548	1,070
Finance income	2	4	6
Payment to suppliers and employees	(204)	(226)	(397)
Taxation paid	(25)	(20)	(38)
Interest paid	(63)	(56)	(117)
Net cash flows from operating activities	**158**	**250**	**524**
Cash flows applied to investing activities			
Cash was provided from/(applied to):			
Purchase of network assets and software and intangible assets	(384)	(307)	(638)
Capitalised interest paid	(1)	(2)	(4)
Net cash flows applied to investing activities	**(385)**	**(309)**	**(642)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net proceeds from finance leases	2	2	3
Crown funding (including CIP securities)	25	20	117
Issuance of share capital	23	-	-
Proceeds from debt	70	780	785
Repayment of debt	-	(665)	(675)
Dividends paid	(23)	(25)	(44)
Net cash flows from financing activities	**97**	**112**	**186**
Net cash flow	**(130)**	**53**	**68**
Cash at the beginning of the period	170	102	102
Cash at the end of the period	**40**	**155**	**170**

Notes to the financial statements

Reporting entity and statutory base

Chorus includes Chorus Limited together with its subsidiaries as at and for the six months ended 31 December 2017.

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

Chorus Limited is a profit-oriented 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.

The condensed consolidated interim financial statements have been prepared in accordance with the New Zealand equivalent to International Accounting Standard No. 34: "Interim Financial Reporting" and Generally Accepted Accounting Practice in New Zealand (NZ GAAP). These financial statements are prepared in New Zealand dollars. These condensed consolidated interim financial statements do not include all of the information required for the full annual financial statements and should be read in conjunction with the consolidated financial statements of Chorus as at and for the year ended 30 June 2017.

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 disclosed in the notes to the consolidated financial statements for the year ended 30 June 2017 and described in note 9 to these condensed consolidated interim financial statements.

Accounting policies and standards

The accounting policies adopted and methods of computation have been applied consistently throughout the periods presented in these condensed consolidated interim financial statements, except for the three new accounting standards applied only in the six month period ended 31 December 2017.

A number of 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 has elected to early adopt these standards from 1 July 2017. Further information is detailed below and comparative information is presented in note 1.

NZ IFRS 9 Financial Instruments

Chorus has early adopted NZ IFRS 9 with a date of initial application of 1 July 2017. As a result, Chorus has changed its accounting policy for certain financial instruments. Chorus has elected to apply NZ IFRS 9 on a retrospective basis, however elected not to restate comparative information. This means NZ IFRS 9 is applied retrospectively, however the valuation of impacted financial instruments is reflected in opening equity on initial application date, as opposed to previous accounting periods.

NZ IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, the impairment of financial assets and hedge accounting. The only material impact on Chorus of adopting this standard is in relation to hedge accounting, where new rules more closely align hedge accounting with Chorus' risk management activities, with the result being less reported volatility in the income statement. Changes in the fair value of the cost to convert foreign currency to NZD of Chorus' cross currency interest rate swaps are now separately accounted for as a cost of hedging and recognised within a new reserve within equity (cost of hedging reserve).

This accounting treatment was not possible under the previous accounting rules, where such changes in fair value were recognised within the income statement.

NZ IFRS 15 Revenue from Contracts with Customers

Chorus has early adopted NZ IFRS 15 with a date of initial application of 1 July 2017. As a result, Chorus has changed its accounting policy for revenue recognition and certain customer costs as detailed below.

Chorus has applied NZ IFRS 15 using the cumulative effect method (by recognising the cumulative effect of initially applying NZ IFRS 15 as an adjustment to the opening balance of equity at 1 July 2017). Comparative information has not been restated and continues to be reported under NZ IAS 18. The details of this change are set out below.

Customer retention costs

Chorus previously recognised costs when acquiring or retaining customers as expenses when they were incurred. Under NZ IFRS 15, Chorus capitalises these as costs of obtaining a contract, including customer incentives, when they are incremental and, if they are expected to be recovered, it amortises them consistently with the pattern of revenue for the related contract.

NZ IFRS 16 Leases

Chorus has early adopted NZ IFRS 16 with a date of initial application of 1 July 2017. As a result, Chorus has changed its accounting policy for lease contracts as described below.

Chorus applied NZ IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2017.

As a lessee

As a lessee, Chorus previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to Chorus. Under NZ IFRS 16, Chorus recognises right of use assets and lease liabilities on balance sheet for most leases.

i) Leases classified as operating leases under NZ IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at Chorus' incremental borrowing rate as at 1 July 2017.

Right of use assets were measured at an amount equal to the lease liability, Chorus applied this approach to all leases. The right of use asset is subsequently depreciated using the straight line method over the shorter of the estimated useful lives of the right of use asset or the remaining estimated lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property and equipment.

Chorus presents right of use assets in Network Assets (note 2) and finance lease liabilities separately on the face of the statement of financial position.

Chorus used the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under NZ IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics; and

- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term.

ii) Leases previously classified as finance leases under NZ IAS 17

For leases that were classified as finance leases under NZ IAS 17, the carrying amount of the right of use asset and the lease liability at 1 July 2017 are determined at the lease asset and lease liability under NZ IAS 17 immediately before that date.

As a lessor

Chorus is not required to make any adjustments on transition to NZ IFRS 16 for leases in which it acts as a lessor.

Reclassification and re-statement of comparatives

The condensed consolidated interim financial statements for the six months ended 31 December 2017, and comparative information for six months ended 31 December 2016 are unaudited. The presentation of information for the year ended 30 June 2017 is audited.

Management have reclassified the revenue streams from prior periods in order to simplify reporting and align with the products and services of Chorus, to provide greater transparency and accuracy to readers. This exercise was completed to recognise the evolving nature of the industry from being copper to fibre based. This is consistent with internal management reporting provided to senior management and the Board.

Crown Fibre Holdings renamed

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

Accounting estimates and judgements

In preparing the condensed consolidated interim 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.

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying Chorus' accounting policies and the key source of uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017, except for those associated with the adoption of the three new accounting standards described above and in note 1.

Note 1 – Comparative information for transition to new NZ IFRS standards

To provide further information and increased transparency, adjusted comparative totals are disclosed below.

NZ IFRS 9 Financial Instruments

On transition to NZ IFRS 9, Chorus recognised a cost of hedging reserve within equity of $6 million (net of tax) and an adjustment to the cash flow hedge reserve of $1 million (net of tax). Opening retained earnings was also adjusted accordingly. Had NZ IFRS 9 applied to the comparative periods presented, $5 million (pre tax) for the period ended 31 December 2016 (30 June 2017: $10 million) of hedge ineffectiveness (recorded within finance expense) would have gone to the cost of hedging reserve (within equity).

NZ IFRS 15 Revenue from Contracts with Customers

On transition to NZ IFRS 15, Chorus recognised an additional $27 million of customer retention assets (included within 'software and other intangibles') relating to open contracts on transition date. This was adjusted for tax and booked directly to retained earnings. These costs, including additional costs incurred and capitalised post-transition date, are amortised over the life of the contract, which management have assessed as three years in tenure.

The following table summarises the impact of adopting NZ IFRS 15 on Chorus' condensed consolidated interim financial statements for the period ended 31 December 2017.

	SIX MONTHS ENDED 31 DEC 2017		
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	AS REPORTED $M	NZ IFRS 15 ADJUSTMENTS $M	BALANCES WITHOUT ADOPTION OF NZ IFRS 15 $M
Retained earnings (net of tax) – 1 July 2017	473	(20)	453
Customer retention costs – 1 July 2017	27	(27)	-
Customer retention costs – 31 December 2017	40	(40)	-
Deferred tax – 31 December 2017	215	(11)	204
CONSOLIDATED INCOME STATEMENT			
Amortisation – 31 December 2017	(53)	21	(32)
Operating expenses – 31 December 2017	(170)	(34)	(204)

Had NZ IFRS 15 applied to comparative periods presented, operating expenses would have decreased by $23 million for the period ended 31 December 2016 (30 June 2017: $42 million), with a corresponding increase to 'software and other intangibles', and an associated increase in amortisation over time.

NZ IFRS 16 Leases

On transition to NZ IFRS 16, Chorus recognised $200 million of right of use assets and lease liabilities. There was no difference to recognise in retained earnings. Included in this was right of use assets previously relating to finance leases under NZ IAS 17 of $151 million.

When measuring lease liabilities, Chorus discounted lease payments using its incremental borrowing rates at 1 July 2017. The weighted average rate applied is 6.06%. Interest expense recognised on lease liabilities for the period (recognised in finance expense) was $1 million.

Had NZ IFRS 16 applied to comparative periods presented, the depreciation charge would have increased by $3 million for the period ended 31 December 2016 (30 June 2017: $6 million), and finance expense would have increased by $1 million for the period ended 31 December 2016 (30 June 2017: $3 million). Offsetting these increases would have been a corresponding decrease in rent and rates of $4 million for the period ended 31 December 2016 (30 June 2017: $8 million).

Note 2 – Network assets

(DOLLARS IN MILLIONS)	31 DEC 2017 UNAUDITED $M	31 DEC 2016 UNAUDITED $M	30 JUNE 2017 AUDITED $M
Cost			
Opening balance	8,891	8,342	8,342
NZ IFRS 16 opening balance adjustment (note 1)	49	-	-
Additions	323	287	592
Other	-	10	15
Disposals	(17)	(1)	(58)
Closing balance	9,246	8,638	8,891
Accumulated depreciation			
Opening balance	(4,918)	(4,686)	(4,686)
Depreciation	(150)	(143)	(295)
Other	-	2	56
Disposals	17	-	7
Closing balance	(5,051)	(4,827)	(4,918)
Net carrying amount	**4,195**	**3,811**	**3,973**

Network assets comprise owned and leased assets.

(DOLLARS IN MILLIONS)	31 DEC 2017 UNAUDITED $M
Network assets owned	4,001
Right of use assets	194
Net carrying amount	**4,195**

Right of use assets

(DOLLARS IN MILLIONS)	DUCTS AND MANHOLES $M	PROPERTY $M	TOTAL $M
Balance 1 July 2017	21	179	200
Depreciation charge	(1)	(5)	(6)
Balance at 31 December 2017	**20**	**174**	**194**

Additions to right of use assets during the period to 31 December 2017 were nil.

There are no restrictions on Chorus network assets or any network assets pledged as security for liabilities.

Other – property exchanges

Chorus has leased exchange space and commercial co-location space owned by Spark which is subject to finance lease arrangements (included within right of use assets). Chorus in turn leases exchange space and commercial co-location space owned by Chorus to Spark under a finance lease arrangement.

For sites that it does not own, Chorus recognises its share of the assets based on occupancy percentage, as well as a liability for the future payments due. For sites that it does own, Chorus derecognises the share of the asset used by Spark, as well as recognising a receivable for the future receipts due.

The 'other' cost and accumulated depreciation movement in the six months to 31 December 2017 is nil (31 December 2016: $12 million; 30 June 2017: $7 million) as no reassessment of the extent of Spark's use of Chorus owned sites and Chorus' use of Spark's sites has occurred within the period.

Additions

Additions also includes the net movement within capital work in progress in the period.

Capital commitments

At 31 December 2017 the contractual commitment for acquisition of network assets was $529 million (31 December 2016: $321 million; 30 June 2017: $507 million).

Depreciation

The Crown funding released against depreciation for the six months ended 31 December 2017 was $11 million (31 December 2016: $11 million; 30 June 2017: $21 million).

Note 3 – Software and other intangibles

(DOLLARS IN MILLIONS)	31 DEC 2017 UNAUDITED $M	31 DEC 2016 UNAUDITED $M	30 JUNE 2017 AUDITED $M
Cost			
Opening balance	681	634	634
NZ IFRS 15 opening balance adjustment (note 1)	27	-	-
Additions	69	15	47
Closing balance	777	649	681
Accumulated amortisation			
Opening balance	(539)	(474)	(474)
Amortisation	(53)	(32)	(65)
Closing balance	(592)	(506)	(539)
Net carrying amount	**185**	**143**	**142**

There are no restrictions on Chorus software and other intangible assets or any software and other intangible assets pledged as security for liabilities.

Customer retention costs

Management expects that incremental costs incurred in acquiring or retaining customers are recoverable. Chorus has therefore capitalised these as customer retention assets, $40 million at 31 December 2017. In the comparative period such costs were recognised as operating expenses when incurred. Capitalised customer retention assets are amortised over the life of the contract (estimated to be three years) when related revenues are recognised. In the period to 31 December 2017, the amount of amortisation was $21 million and there was no impairment in relation to the costs capitalised.

Capital commitments

At 31 December 2017 the contractual commitment for acquisition of software and other intangible assets was $12 million (31 December 2016: $29 million; 30 June 2017: $13 million).

Note 4 – Debt

(DOLLARS IN MILLIONS)	31 DEC 2017 UNAUDITED $M	31 DEC 2016 UNAUDITED $M	30 JUNE 2017 AUDITED $M
Syndicated bank facility C – May 2020	70	-	-
Euro medium term notes GBP – Apr 2020	495	461	462
Euro medium term notes EUR – Oct 2023	829	751	762
Fixed rate NZD Bonds – May 2021	400	400	400
Less: facility fees	(13)	(15)	(15)
	1,781	**1,597**	**1,609**
Current	**-**	**-**	**-**
Non-current	**1,781**	**1,597**	**1,609**

As at 31 December 2017 Chorus had $350 million committed syndicated facilities on market standard terms and conditions (31 December 2016: $250 million; 30 June 2017: $350 million). The amount undrawn of the syndicated bank facility that is available for future operating activities is $280 million (31 December 2016: $250 million; 30 June 2017: $350 million). The syndicated bank facility is held with bank and institutional counterparties rated - A to AAA, based on rating agency Standard & Poor's ratings.

The Euro Medium Term Note debt of GBP 260 million has been swapped to $677 million (31 December 2016: $677 million; 30 June 2017: $677 million), and the Euro Medium Term Note debt of EUR 500 million has been swapped to $785 million (31 December 2016: $785 million; 30 June 2017: $785 million), both using cross currency interest rate swaps (see note 9).

Note 5 – CIP securities

(DOLLARS IN MILLIONS)	31 DEC 2017 UNAUDITED $M	31 DEC 2016 UNAUDITED $M	30 JUNE 2017 AUDITED $M
Fair value on initial recognition			
Opening balance	170	132	132
Additional securities recognised at fair value	8	7	38
Closing balance	178	139	170
Accumulated notional interest			
Opening balance	33	20	20
Notional interest	8	6	13
Closing balance	41	26	33
Total CIP securities	**219**	**165**	**203**

Note 6 – Crown funding

(DOLLARS IN MILLIONS)	31 DEC 2017 UNAUDITED $M	31 DEC 2016 UNAUDITED $M	30 JUNE 2017 AUDITED $M
Fair value on initial recognition			
Opening balance	759	679	679
Additional funding recognised at fair value	17	19	80
Closing balance	776	698	759
Accumulated amortisation			
Opening balance	(61)	(40)	(40)
Amortisation	(11)	(11)	(21)
Closing balance	(72)	(51)	(61)
Total Crown funding	**704**	**647**	**698**
Current	**20**	**18**	**19**
Non-current	**684**	**629**	**679**

Ultra-Fast Broadband

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. During the period Chorus has recognised funding for 21,655 premises passed (31 December 2016: 19,784; 30 June 2017: 98,884) where user acceptance testing was complete at 31 December 2017. This brings the total number of fully completed and paid for premises passed at 31 December 2017 to approximately 594,000 (31 December 2016: 494,000; 30 June 2017: 573,000).

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 compliance with certain specifications under user acceptance testing by Crown Infrastructure Partners. Performance targets to date have been met.

Note 7 – 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.

Note 8 – Equity

Dividends

On 10 October 2017 a fully imputed final dividend of 12.5 cents per share, $51 million, was paid to shareholders (31 December 2016: 12 cents per share, $48 million; 30 June 2017: 20.5 cents per share, $83 million). There was an issue of 13,692,543 new shares under a Dividend Reinvestment plan offered to shareholders, which was underwritten to the value of $51 million.

Net tangible assets per security

Net tangible assets per security for the period to 31 December 2017 was $1.95 (31 December 2016: $1.91; 30 June 2017: $1.95).

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 vested on 30 June 2017 (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). The three year grant is made up of two tranches, the first with a relative performance hurdle (Chorus' actual total shareholder return compared to other members of the NZX50) and the second with an absolute performance hurdle (Chorus' actual total shareholder return 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 total shareholder return 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 total shareholder return continues to increase through this period).

The August 2017 issue consisted of one three year grant. The shares have a vesting date of 8 September 2020 and an expiry date of 8 September 2021. The grant has an absolute performance hurdle (Chorus' actual total shareholder return equalling or being greater than 10.6% per annum compounding) ending on the vesting date, with provision for monthly retesting in the following twelve month period (noting that the total shareholder return continues to increase through this period).

The combined option cost for the period ended 31 December 2017 of $158,000 has been recognised in the income statement (31 December 2016: $131,000; 30 June 2017: $312,000).

Note 9 – Derivative financial instruments

Finance expense includes any unrealised ineffectiveness arising from the Euro Medium Term Notes (EMTN) hedge relationship. Following the close out of the cross currency interest rate swaps and interest rate swaps relating to the EMTN (GBP) the hedge relationship was reset in December 2013 with a fair value of $49 million. The unamortised balance of this original fair value at 31 December 2017 is $12 million (31 December 2016: $22 million; 30 June 2017: $15 million). As long as the hedge remains effective any future gains or losses will be processed through the hedge reserve, however the initial fair value will flow to finance expense in the income statement at some time over the life of the derivatives as ineffectiveness. Neither the direction, nor the rate of the impact on the income statement can be predicted. Due to the complex nature of this instrument, practical expedients as introduced by NZ IFRS 9 have not been applied for the EMTN (GBP), thus the designation remains unchanged. For the six months to 31 December 2017 a debit of $3 million ineffectiveness was recognised within finance expense in the income statement (31 December 2016: $1 million credit; 30 June 2017: $6 million debit).

In November 2016, Chorus repaid the Syndicated Bank Facility and the associated interest rate swaps expired, except one that has been maintained and is not in a designated hedging relationship. The fair value re-measurement of unrealised gains or losses on the interest rate swaps that are not held in a hedging relationship are recognised immediately in finance expense in the income statement. For the period to 31 December 2017 $1 million credit was recognised in finance expense (31 December 2016: $6 million; 30 June 2017: $6 million). In addition to this, forward dated interest rate swaps have been entered into during the reporting period. These are all held in effective hedging relationships and their unrealised gains or losses are recognised in the cash flow hedge reserve.

In conjunction with the EMTN (EUR) 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 EMTN (EUR). These swaps have an aggregate principal of EUR 500 million on the receive leg and NZD 785 million on the pay leg. Using the cross currency interest rate swap, Chorus will pay New Zealand Dollar floating interest rates and receive EUR nominated fixed interest with coupon payments matching the underlying notes. Chorus designated the EMTN and cross currency interest rate swaps into three part-hedging relationships; a fair value hedge of EUR benchmark interest rates, a cash flow hedge of margin and a cash flow hedge on the principal exchange. For the period to 31 December 2017, there were no unrealised losses recognised in finance expense (31 December 2016: $1 million; 30 June 2017: $1 million). The cost of hedging (the fair value of the change in currency basis spread) was recognised in the cost of hedging reserve in the Statement of Changes in Equity (refer note 1).

Note 10 – Related party transactions

The gross remuneration of directors and key management personnel during the period was $6.5 million (31 December 2016: $4.5 million; 30 June 2017: $7.8 million).

The Company has loans to employees and nominees (Chorus LTI Trustee Limited) receivable at 31 December 2017 of $1.6 million (31 December 2016: $1.6 million; 30 June 2017: $1.6 million) as outlined in the long-term performance share scheme section of note 8. All loans outstanding are interest-free limited recourse loans.

Note 11 – Post balance date events

Dividends

On 26 February 2018 Chorus declared an interim dividend in respect of the six month period ending 31 December 2017. The total amount of the dividend is $38.2 million, which represents a fully imputed dividend of 9.0 cents per ordinary share.

CIP Securities and Crown funding

There were three call notices issued since December 2017 to CIP in respect to premises which had not completed user acceptance testing before 31 December 2017. The first call on 17 January was for 1,303 premises, the second call on 25 January for 2,553 premises and the third call on 19 February was for 13,918 premises, with a total aggregate issue price of $19.9 million. There was no accrual in the financial statements.

Auditors' review report

KPMG

To the shareholders of Chorus Limited

Report on the condensed consolidated interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Chorus Limited and its subsidiaries ("the Group") on pages 11 to 27 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2017 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying condensed consolidated interim financial statements which comprise:

- the condensed consolidated statement of financial position as at 31 December 2017;
- the condensed consolidated income statement, statements of other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of condensed consolidated interim financial statements in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the Group in relation to regulatory audit services, tax compliance services and other assurance services. The Group sponsor an award at the KPMG Innovation Council. These matters have not impaired our independence as reviewer of the Group. The firm has no other relationship with, or interest in, the Group.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Review 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 review work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the condensed consolidated interim financial statements

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

- the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of condensed consolidated interim 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 review of the condensed consolidated interim financial statements

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these condensed consolidated interim financial statements.

This description forms part of our Independent Review Report.

KPMG

KPMG, Wellington, 26 February 2018

Glossary

Backhaul	The portion of the network that links local exchanges to other exchanges or retail service provider networks.
Building block model	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.
CIP	Crown Infrastructure Partners, formerly Crown Fibre Holdings Limited, the Government organisation that manages New Zealand's rollout of Ultra-Fast Broadband infrastructure.
Commission	Commerce Commission – the independent Crown Entity whose responsibilities include overseeing the regulation of the telecommunications sector.
Direct fibre	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.
FY	Financial year – twelve months ended 30 June. e.g. FY18 is from 1 July 2017 to 30 June 2018.
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.
GPON	Gigabit Passive Optical Network.
HY	Half year – six months ended 31 December. e.g. HY18 is from 1 July 2017 to 31 December 2017.
Layer 2	The data link layer, including broadband electronics, within the Open Systems Interconnection model. Layer 1 is physical cables and co-location space.
Mbps	Megabits per second – a measure of the average rate of data transfer.
NZ IFRS	International Financial Reporting Standards – the rules that the financial statements have to be prepared by.
P2P	Where two parties, or devices, are connected point-to-point via fibre.
UFB	Ultra-Fast Broadband – refers to the Government programme to build a fibre to the premises network to about 87% of New Zealanders by the end of 2022.
VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides a better broadband connection than ADSL.

ARBN 152 485 848

Chorus Limited	
Results for announcement to the market	
Reporting Period	Six months ended 31 December 2017
Previous Reporting Period	Six months ended 31 December 2016

	Amount (000s)	Percentage change
Revenue from ordinary activities	$499,000	Down 6%
Profit (loss) from ordinary activities after tax attributable to security holders.	$47,000	Down 29%
Net profit (loss) attributable to security holders.	$47,000	Down 29%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final dividend	9.0 cps	3.50 cps

Record Date	20 March 2018
Dividend Payment Date	17 April 2018

Comments:	This announcement should be read in conjunction with the attached half year report, financial statements for the six months ended 31 December 2017 contained in that report, media release and investor presentation.

Dividends

A fully imputed interim dividend for the 2018 financial year of 9.0 cents per ordinary share will be paid on 17 April 2018. The total interim dividend will be $38.2 million.

Dividend Reinvestment Plan

Chorus' dividend reinvestment plan will operate for the interim dividend.

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.

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

Election notices to participate in the Plan must be received by 5pm (NZ time) 21 March 2018.

Net tangible assets per security

There are $1.95 net tangible assets per security (31 December 2016: $1.91).

Audit

This report is based on financial statements which have been reviewed. Chorus' auditors have issued a clear review report. A copy of the review report is included in the attached half year report.

Accounting policies

There have been no changes in accounting policies and all policies have been consistently applied throughout the period, except for the adoption of three new NZ IFRS' from 1 July 2017:

- *NZ IFRS 9 Financial Instruments*
- *NZ IFRS 15 Revenue from Contracts with Customers*
- *NZ IFRS 16 Leases*

Refer financial statements for the six month period ended 31 December 2017 for more details.

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	26 / 2 / 2018

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

If unknown, contact NZX

Number of Securities to be issued following event

Minimum Entitlement

Ratio, e.g 1 for 2 _ *for* _

Conversion, Maturity, Call Payable or Exercise Date

Enter N/A if not applicable

Treatment of Fractions

Tick if pari passu ☐ *OR* *provide an explanation of the ranking*

Strike price per security for any issue in lieu or date Strike Price available.

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)	$0.090
Excluded income per security (only applicable to listed PIEs)	
Currency	NZD
Total monies	$38,222,479
Source of Payment	RETAINED EARNINGS

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	$0.015882
Date Payable	17 April, 2018

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	$0.006300
Imputation Credits (Give details)	$0.035000
Foreign Withholding Tax	$
FDP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	20 March, 2018
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date.*	17 April, 2018
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.*	17 April, 2018

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

Dear Investors

Our focus in the first six months of the financial year has been on implementing a range of initiatives originating from the strategic review we talked about in the 2017 Annual Report. That review considered the longer term outlook and opportunities for our business, increased competition from wireless technologies, ongoing careful management of costs, the potential regulatory requirements under a utility style framework and the need to continue improving the end-to-end experience for customers.

We continued our campaign to promote better broadband and this, coupled with an expanded field force, helped drive a strong increase in fibre and VDSL uptake while also slowing connection losses to other networks significantly. Wider retailer adoption of automated fibre provisioning, together with other process improvements, allowed us to review our internal structure and we expect to reduce our internal workforce by 10% from August 2017 levels over the course of FY18. Despite the pressures in the New Zealand construction industry, we've kept our fibre rollout costs within plan and we're maintaining a tight focus on other costs.

Fibre uptake grew from 35% to 42% in our completed rollout areas, even as we built the fibre network past another 40,000 potential customers. That's more than double the 2020 uptake target of 20% included in our original ultra-fast broadband (UFB) contract with the Government. Importantly, from a customer experience perspective, national weighted average lead times reduced from 22 days to 14 days despite the record order volumes. Customer satisfaction remained flat at an average of 7.4 out of 10 across the period. However, our ongoing trials of alternative migration methods, including localised campaigns, both on our own and in conjunction with retailers, showed that customer satisfaction scores of up to 8.6 are achievable.

HY18 result overview

	HY18	Change	Comparison
FIXED LINE CONNECTIONS	1,559,000	↓ 3%	FY17 1,602,000
BROADBAND CONNECTIONS	1,181,000	↓ 0.4%	FY17 1,186,000
FIBRE CONNECTIONS	375,000	↑ 23%	FY17 305,000
NET PROFIT AFTER TAX	$47m		HY17 $66m
EBITDA[1]	$329m		HY17 $335m
ADJUSTED EBITDA[2]	$329m		HY17 $361m[2]
DIVIDEND	9cps		HY17 8.5cps

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 17 April 2018 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 21 March 2018**.

You can register by logging into our 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 most recent audited financial statements, and auditor's report, are included in our 2017 annual report, which is available free of charge on request and at **www.chorus.co.nz/financial-results**.

Our shift to being a more active wholesaler through our *ask for better* campaign and related efforts to support retailers helped slow line loss significantly, from a decline of 76,000 connections in the six months to 30 June 2017, to 43,000 in the period to 31 December 2017. As expected, most line loss is occurring in those areas where the other local fibre companies have partnered with the Government under the UFB initiative

Against this backdrop, we achieved net profit after tax of $47 million and EBITDA of $329 million. This was down from EBITDA of $361 million for the same period last year, when adjusted to allow for new accounting standards.[3] A fully imputed interim dividend of 9 cents per share will be paid on 17 April 2018. The dividend reinvestment plan will be available again for New Zealand and Australian shareholders at a 3% discount.

Taking fibre further

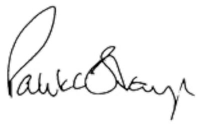
We're pleased that our long-term UFB capital expenditure programme remains on track and on budget. In August 2017 we announced a further agreement with the Government to extend our UFB rollout to about 200 more towns and rural communities. We also agreed to complete our current UFB2 rollout in December 2022, two years earlier than initially planned. When we've finished this work, more than 1.3 million customers will be able to connect to our fibre. That's about three-quarters of the 87% of New Zealanders to be covered by the UFB programme, with the balance provided by other local fibre companies.

The extension and acceleration of our UFB rollout demands that we consider our longer term cost structure in the context of the likely future regulatory environment and, eventually, a much reduced copper network footprint. A key focus is, therefore, the Government's steps towards implementing a utility style regulatory framework for fibre. A parliamentary Select Committee is scheduled to report back in late March on the draft legislation, introduced in August 2017. We support the Bill and have made a submission recommending amendments to help achieve its policy aims, support its prompt implementation and ensure the new regulatory regime is durable.

If you'd like more detail on our financial results, the half year report and a recorded webcast of our results briefing will be made available on our website at **www.chorus.co.nz/financial-results**.

Thank you for your support of Chorus.

Kind regards

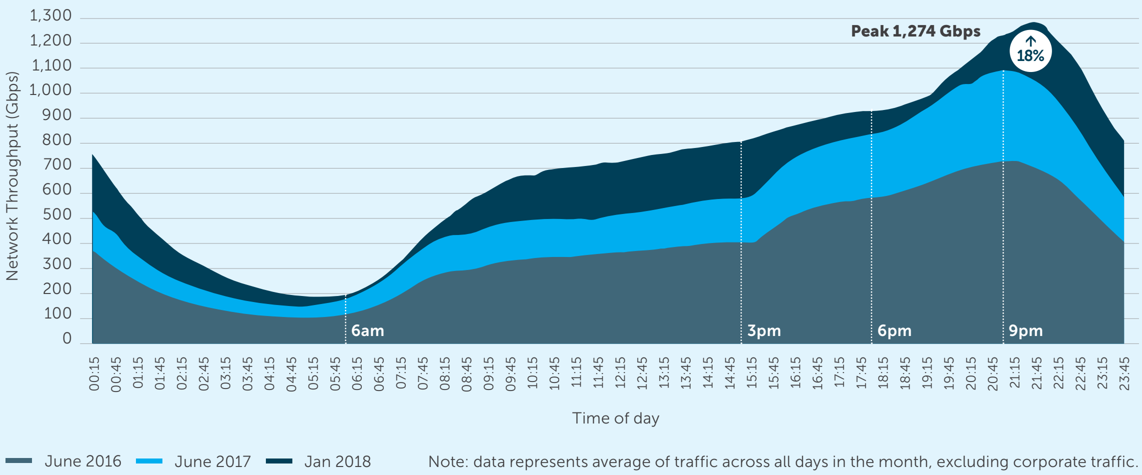


Patrick Strange
Chairman

The thirst for data

We remain in the midst of a very clear global trend, the thirst for data. Average monthly usage per household on our network was 174 Gigabytes in December compared to about 155 Gigabytes in June. On 10 December 2017 about 1,328 gigabits per second, or the equivalent of about 260,000 HD video streams being watched simultaneously, was used on our network at 9:25pm. This was a new record for traffic on our network and reflects customers using more data, both as a natural consequence of moving to better broadband services and as smart TVs and other devices make it easier to stream video online. TVNZ On Demand, for example, reportedly has 1.8 million subscribers and recent Nielsen research suggests Netflix access has grown to about 1.2 million New Zealanders. The ability to access streamed content continues to grow with Vodafone launching a fibre-based TV service in October 2017.

Chorus network throughput by time of day (monthly average)



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 our business.

2 Adjusted to reflect the effect new NZ IFRS accounting standards adopted in HY18 would have had if they had applied in HY17.

3 The adoption of three new accounting standards has affected results for the current period with changes in the treatment of operating leases and capitalisation of some costs which were expensed in HY17.