CHORUS

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STOCK EXCHANGE ANNOUNCEMENT

27 August 2018

Chorus 2018 full year result & annual report

The following are attached in relation to Chorus' FY18 full year result and annual report:

1. Media Release
2. Investor Presentation (including FY19 outlook and guidance)
3. Annual Report (including audited financial statements)
4. NZX Appendix 1
5. NZX Appendix 7
6. Corporate Governance Statement
7. Letter to investors

Chief Executive Officer Kate McKenzie, and Chief Financial Officer Andrew Carroll, will discuss the FY18 full year result by webcast at 10.00am New Zealand time today. The webcast will be available at www.chorus.co.nz/webcast.

ENDS

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MEDIA RELEASE

27 August 2018

Chorus full year result for FY18

Strategic initiatives see EBITDA above guidance

- Net profit after tax $85m (FY17: $113m)
- EBITDA $653m (FY17: $652m)
- Operating revenue of $990m (FY17: $1,040m)
- Final dividend 13 cents per share
- 156,000 fibre installs in FY18, a 20 percent increase on FY17
- Fibre uptake increased from 35 percent to 45 percent
- Total fixed line connections down 5 percent to 1,526,000
- Broadband connections increased by 1,000 to 1,187,000

Chorus has today reported a net profit after tax (NPAT) of $85m and earnings before interest, tax, depreciation and amortisation (EBITDA) of $653m for the year ended 30 June 2018, modestly above the top end of its FY18 guidance range of $625 million to $650 million.

Operating revenue for the period was $990m (FY17: $1,040m) and operating expenses were $337m (FY17: $388m). Depreciation and amortisation for the period was $387m (FY17: $339m), delivering earnings before interest and tax (EBIT) of $266m (FY17: $313m).

Chorus' financial results for the year to 30 June 2018 show the company's shift to becoming an active wholesaler and concentration on tight cost management, delivered on financial and operational targets.

Speaking about the results, Chorus' CEO Kate McKenzie said, "It's easy to overlook the scale and pace of the technological change that we're bringing to New Zealand communities.

"Demand for fibre was stronger than ever, and our ongoing fibre rollout means there are now more than 900,000 homes and businesses with our fibre available at their door. During the financial year, we completed a record 156,000 fibre installations and this helped grow our fibre uptake from 35 percent to 45 percent.

During FY18 Chorus invested $20m in a project to upgrade copper broadband performance for about 270,000 addresses across rural and local fibre company areas. The deployment of vectoring and new VDSL broadband electronics saw a more than 40 percent average increase in download speed for customers already on VDSL and a further 85,000 rural addresses who could benefit from improved broadband performance.

"Investing to promote better broadband that's already available to many New Zealanders – our role as an active wholesaler – has succeeded in slowing the pace of connection decline. Continuing competition from wireless and other fibre networks saw our total fixed line connections reduce, but the pace reduced considerably with 76,000 connections lost compared to 125,000 last year," said Kate.

"By June 2018, 64 percent of our broadband connections were on high performing VDSL or fibre services, up nearly 20 percent on the previous year.

"In the same time, we've seen the average monthly bandwidth demand on our network grow from 155 gigabytes per customer to 210 gigabytes. For fibre customers this was greater still at 297 gigabytes per month.

"Much of this demand is occurring in the evening as more and more New Zealanders shift to streaming video on demand services. We've seen the peak usage on our network grow by nearly 40 percent at peak viewing times."

Customer experience

Chorus' number one operational priority remains a high quality connection experience for customers connecting to fibre for the first time.

"We know we need to make things better if we're to continue to encourage customers to make the effort to upgrade to fibre," said Kate. "While customer satisfaction measures improved over the financial year achieving 7.5 we fell short of hitting our target of 7.8 by the end of FY18.

"We need to keep improving our fibre installation process with initiatives like 'fibre in a day' for simple installs so we can both increase our productivity and customers' satisfaction with the experience.

"Given our essential role in the broadband ecosystem, achieving this in advance of the online broadcast of sports events like the 2019 Rugby World Cup, will require us to work even more collaboratively with our service company partners and our retailers to get our processes and systems working in concert."

Signalling a return to EBITDA growth

The strategic changes Chorus started in FY18, which continue through FY19, are focused on achieving the company's objective of a return to modest EBITDA growth in FY20.

"Our return to broadband connection growth in FY18, together with strong forecasts for urban housing development and underlying broadband trends, such as fibre uptake and the demand for streamed video content, give us added confidence in our strategy," said Kate.

“By innovating for growth and optimising today's business, we believe our infrastructure will continue to help make New Zealand better well into the future.”

Innovation focus

In FY18 Chorus began trialling new ways to use our network to provide compelling technology solutions for customers.

A successful ‘future of TV’ trial demonstrated the ability to broadcast live 4K quality TV content, via the fibre network to customers’ TVs. With New Zealand’s fibre footprint coverage exceeding that of terrestrial broadcasting by the end of 2022, this proved to be of strong interest to local broadcasters.

A proof of concept initiative took advantage of Chorus' existing network assets to build an Internet of Things (IoT) network. Powered using re-purposed copper cables with wireless access points on telephone poles, the network demonstrated that localised, deep network coverage for a sensor network was feasible.

Progress towards the regulated utility model

Regulatory clarity remains critical to Chorus' focus on long-term shareholder value. Chorus has worked throughout the year to assist the passage of the utility style regulatory framework through Parliament and is now awaiting a revised Bill for passage into legislation.

"We're looking forward to working with the Commerce Commission on a smooth and timely transition to a framework that aligns the interests of customers and investors through recognition of a fair return on investment", said Kate.

Dividend

Chorus will pay a final dividend of 13 cents per share, fully imputed, on 09 October 2018 to all shareholders registered at 5pm on 25 September 2018. A supplementary dividend will be paid to non-resident shareholders. A dividend reinvestment plan will apply for the final dividend at a discount rate of 3%. Applications to participate must be received by 5pm (NZ time) on 26 September 2018.

FY19 guidance

EBITDA: $625 - $645 million
Capital expenditure: $820 - $860 million
Dividend: 23 cents per share, subject to no material adverse changes in circumstances or outlook.

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

ENDS

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CHORUS

FY18 FULL YEAR RESULT

27 August 2018

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 2018 and NZX and ASX market releases.
- Includes non-GAAP financial measures including "EBITDA" and "adjusted 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' FY18 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 (express or implied) are made as to the accuracy or completeness of such information.

Agenda

FY18 results overview

Fixed line connections
FY18 **1,526,000**
FY17 1,602,000

Broadband connections
FY18 **1,187,000**
FY17 1,186,000

EBITDA[1]
FY18 **$653m**
FY17 $652m

Adjusted[2] EBITDA
FY18 **$653m**
FY17 $710m[2]

Fibre connections
FY18 **445,000**
FY17 305,000

Net profit after tax
FY18 **$85m**
FY17 $113m

Dividend
FY18 **22cps**
FY17 21cps

Employee engagement score
FY18 **57%**
FY17 81%

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 the NZ IFRS accounting standards adopted in FY18 would have had if they had applied in FY17.

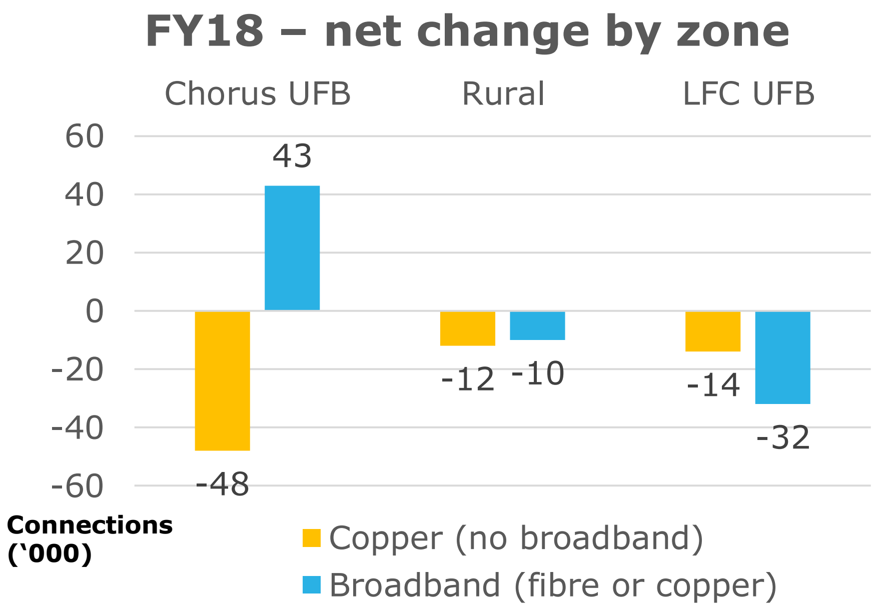
FY18 connections overview

Broadband demand grew strongly, slowing overall line loss from FY17 levels

- broadband growth in Chorus UFB zone largely offset loss to alternative networks in rural and LFC zones
- voice only disconnections driving most of decline (includes UCLL migration to fibre in our UFB zone)
- 64% of broadband connections on fibre or VDSL; fibre connections now exceed ADSL

INDICATIVE CONNECTIONS BY ZONE	Chorus UFB zone*	Rural (non-UFB) zone	Local Fibre Company UFB zone	TOTAL
TOTAL CONNECTIONS	1,123,000	194,000	191,000	1,508,000**
Copper connections: no broadband	206,000	51,000	64,000	321,000
Broadband: copper + fibre	917,000	143,000	127,000	1,187,000

* Includes planned UFB1, 2 and 2+ coverage
**Excludes the 18k fibre premium and data services (copper) connections



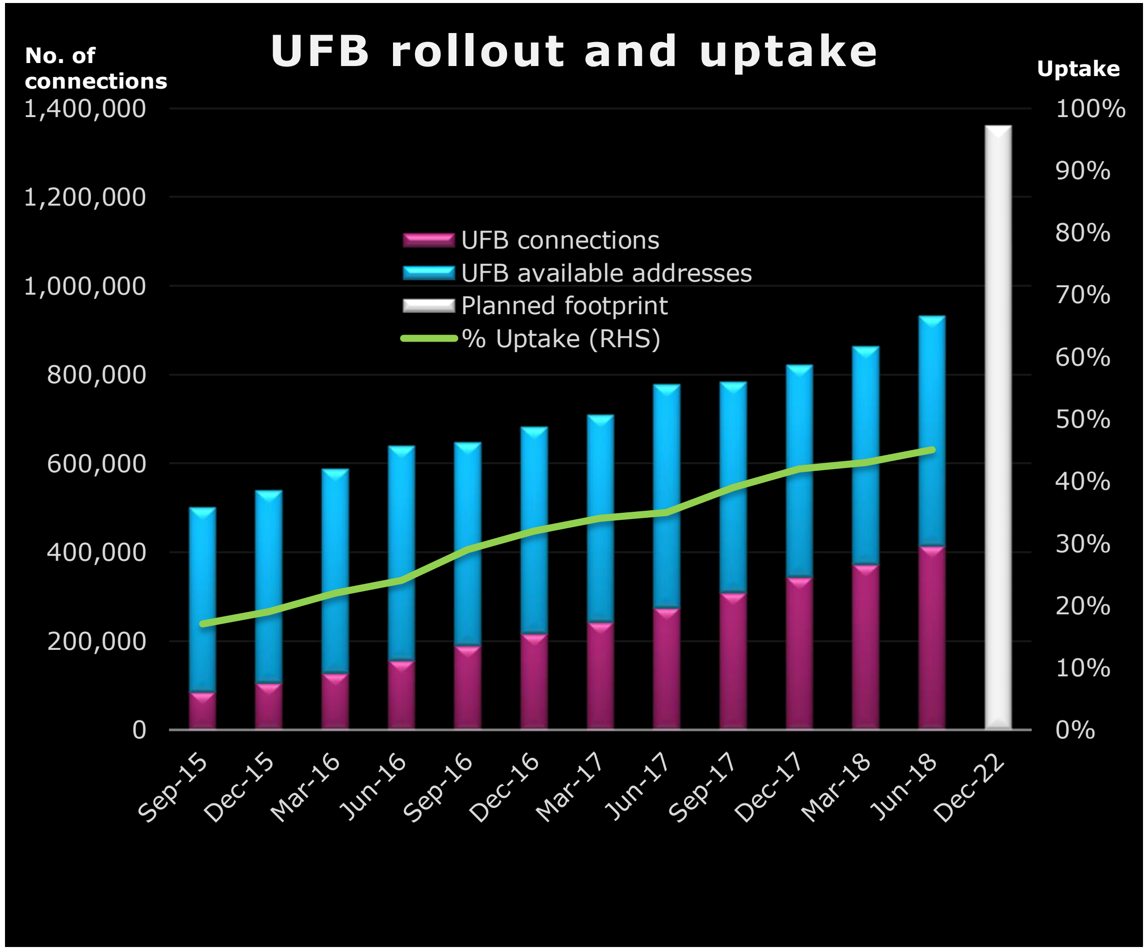
See Appendix B for FY18 connection movements by category

Fibre rollout: 66% complete

> **45% UFB uptake at 30 June (FY17: 35%)**
- **415,000** connections
- **932,000** customers able to connect
- **700,000** premises passed (15k greenfields, 6k UFB2)

Premises to pass by Dec 2022	**~1,054,000***
Customers able to connect	**~1.36 million**

*Includes estimated 43k greenfields premises for UFB1



Surging fibre demand

20% lift in fibre installations YOY

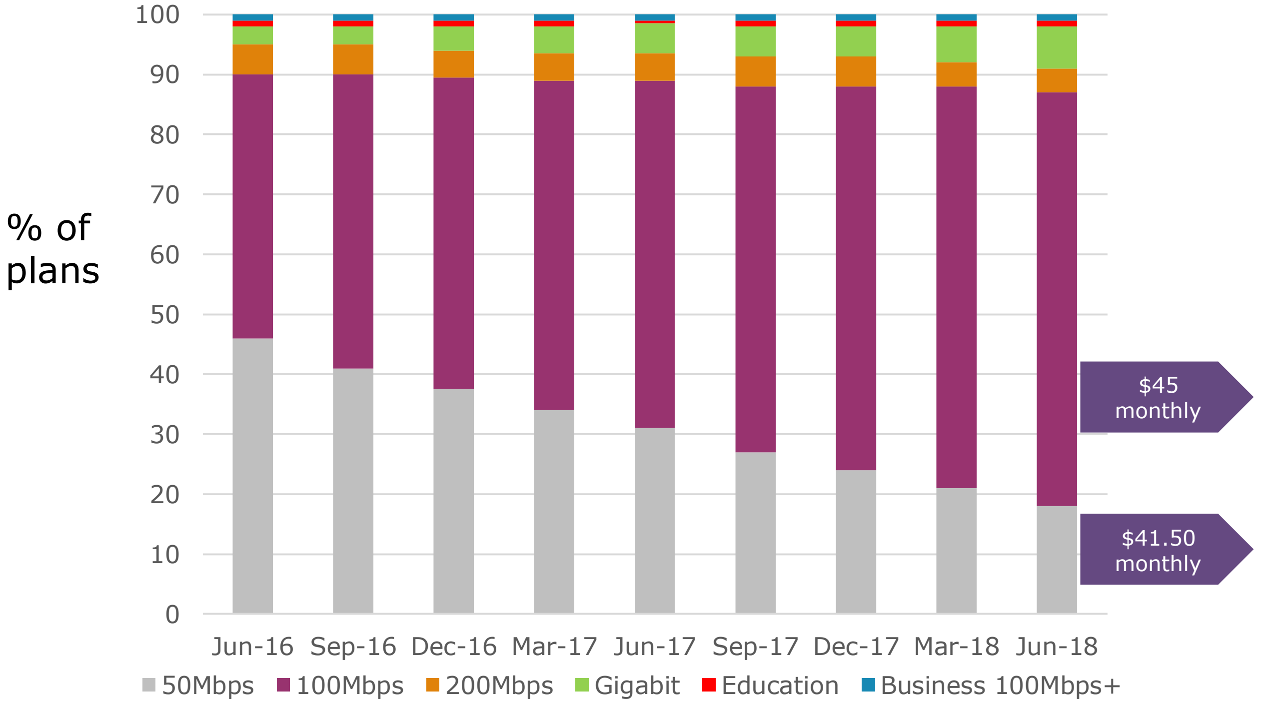
- **185** installation crews added
- work in progress stable at ~**30k**
- disappointing lift in customer satisfaction to **7.5**
- achieving “fibre in a day” for **25%** of regular installations
- **12k** managed migration installations

Fibre uptake and usage

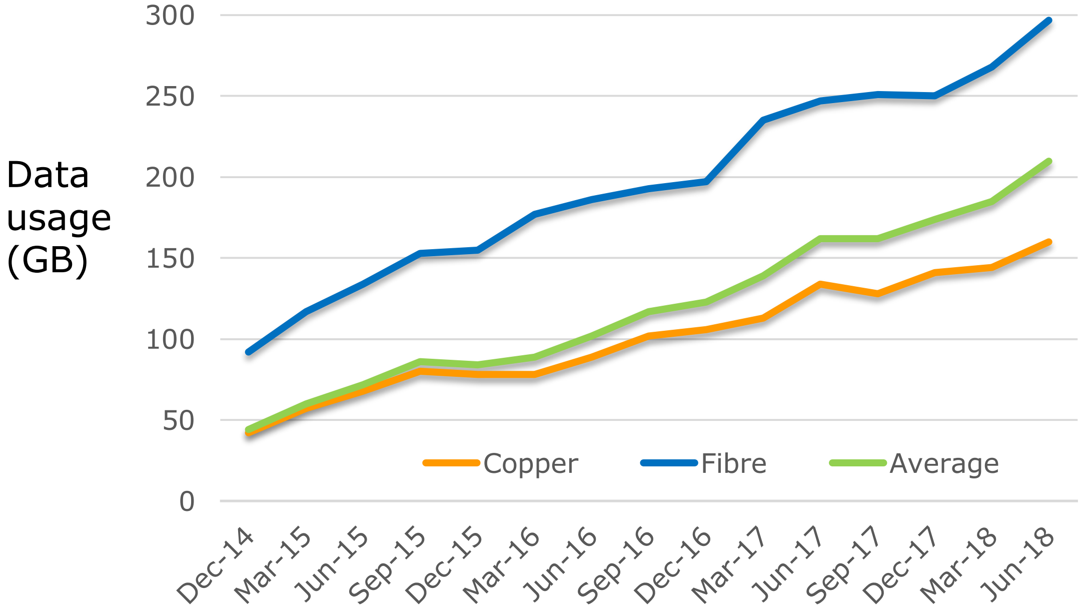
- 30,000 connections now on gigabit plans
- 69% of mass market fibre connections on 100Mbps
- 100/20Mbps pricing increased to $45 monthly from 1 July

> Monthly average data usage per connection on our network grew to **210GB** from **155GB** (FY17)
- **297GB** on fibre (FY17: 222GB)
- **160GB** on copper (FY17:134GB)

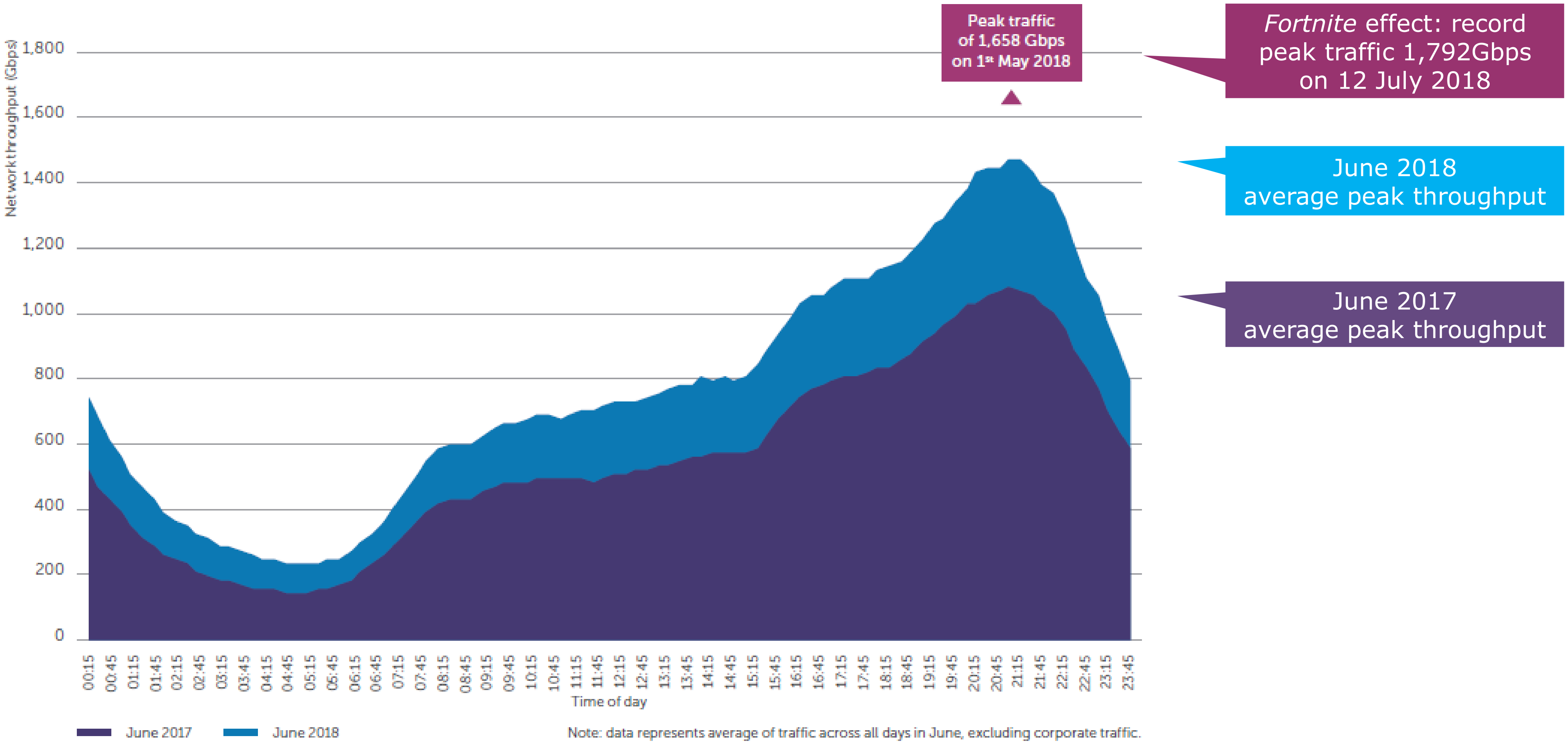
Total mass market fibre uptake by plan type



Monthly average data usage per connection on our network



Streaming and gaming driving data growth



Financial performance

Andrew Carroll, Chief Financial Officer

Income statement

	FY18 $m	FY17 (adjusted) $m
Operating revenue	990	1,048
Operating expenses	(337)	(338)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**653**	**710**
Depreciation and amortisation	(387)	(379)
Earnings before interest and income tax	266	331
Net interest expense	(144)	(147)
Net earnings before income tax	122	184
Income tax expense	(37)	(39)
Net earnings for the year	**85**	**145**

- FY17 adjusted to show the illustrative impact if NZ IFRS 9, 15 and 16 had applied

Revenue

	FY18 $m	FY17 (adjusted) $m
Fibre broadband (GPON)	198	123
Fibre premium (P2P)	78	79
Copper based voice	133	163
Copper based broadband	421	501
Data services copper	27	32
Field Services	70	84
Value added network services	33	34
Infrastructure	23	23
Other	7	9
Total	**990**	**1,048**

- FY17 adjusted to show the illustrative impact if NZ IFRS 15 and 16 had applied

> Revenue growing as fibre uptake increases

> Movement from legacy services to lower price UFB services

Copper revenues declining as customers migrate to Chorus fibre or competing fibre/wireless networks

> Decline in copper installation, subdivision and 3rd party maintenance revenues

Expenses

	FY18 $m	FY17 (adjusted) $m
Labour	73	69
Provisioning	6	11
Network maintenance	87	87
Other network costs	34	27
IT	54	55
Rents, rates and property maintenance	24	22
Regulatory levies	13	13
Electricity	15	14
Consultants	5	10
Insurance	3	3
Other	23	27
Total	**337**	**338**

- FY17 adjusted to show the illustrative impact if NZ IFRS 15 and 16 had applied

> 12% reduction in staff from Aug 2017 peak but most impact in capex. Labour includes $5m of one-off costs

> Provisioning reflects a smaller scope of activity and cessation of FY17 install support costs

> Proactive maintenance and weather events offset volume reduction and changed copper/fibre mix

> Increases in network costs reflects increased focus on proactive maintenance and cost of maintaining network spares

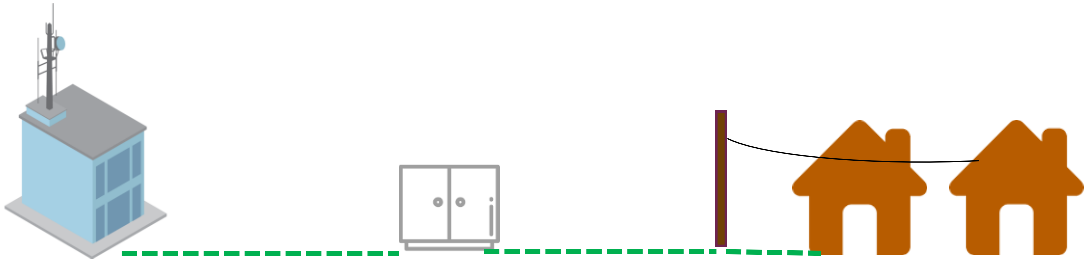
> Reduced following FY17 strategic review

> Other costs declined with initiatives around travel and other corporate expenses

Understanding network maintenance

Fibre uptake initially reduces variable copper costs only

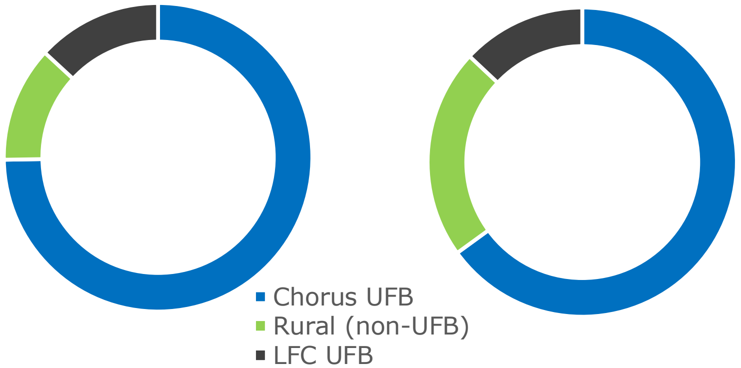
- Rural areas are disproportionately more expensive to maintain than urban areas
- Copper costs don't reduce in proportion to the number of connections – there is a significant fixed element
- Fibre share of maintenance will grow, but at a lesser rate than copper because variable fault rate is lower on fibre (although costlier to fix)
- In the long run, we think there is around an annual $10m saving from full copper to fibre migration in Chorus UFB areas



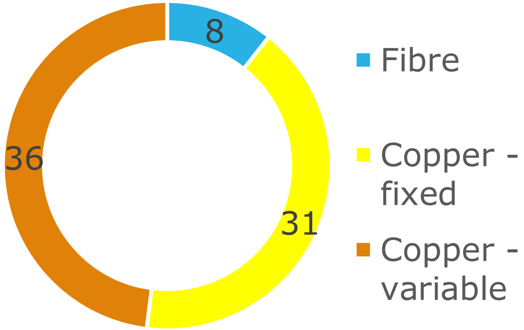
Copper maintenance: urban (indicative)	Exchange + feeder cable	Cabinet to street boundary	In boundary (excludes home wiring)
Fixed	30%	70%	0%
Variable	20%	40%	40%

% FY18 lines

% FY18 reactive maintenance cost



FY18 reactive maintenance spend $m



Capex: Fibre

Total capex of **$810m** vs FY18 guidance of $780-$820m

Fibre capex	FY18 $m	FY17 (adjusted) $m	
UFB communal	231	183	> increase reflects $60m UFB2 rollout; $77m work in progress (FY17: $41m)
Fibre connections & layer 2	294	258	> 156,000 installations vs 129,000 in FY18
Fibre products & systems	17	17	
Other fibre connections & growth	65	45	> growth in greenfields and backhaul (UFB2) spend, pole replacement
Customer retention costs	13	4	> reflects a full year of retention activity
Subtotal	**620**	**507**	

- **Cost per UFB1 premises passed (CPPP): ~$1,568** vs $1,500 - $1,600 guidance (FY17:$1,651)
- Crown funding now claimed for ~15k greenfields premises (10k in FY18) representing capex to date of ~$17m recognised in prior years 'Other fibre connections & growth'

Capex: Fibre connections & layer 2

Connections capex of **$294m** vs FY18 guidance of $260-$290m

- **Cost per UFB1 premises connected (CPPC): $1,037*** vs $1,050 - $1,200 guidance (FY17: $1,122)
  * excludes layer 2 and includes standard installations, some non-standard single dwellings and service desk costs
- strong uplift in fibre demand year on year with more installations and backbone completed than forecast
- increased layer 2 spend for UFB2/2+ rollout and bandwidth demand

Fibre connections & layer 2 capex	FY18 spend	FY17 spend
Layer 2 (long run programme average of $100 per connection)	**$32m**	**$20m**
Premium business fibre connections	**$11m**: 1,400 connections (FY18 estimate: 2,500)	**$19m**: 2,000 connections
Single dwelling units and apartments connections	**$163m**: 156,000 connections (FY18 estimate: 152,000)	**$144m**: 129,000 connections
Backbone build: multi-dwelling units and rights of way	**$88m**: 13,100 completed (FY18 estimate: 12,000)	**$75m**: 11,300 completed
TOTAL SPEND	**$294m**	**$258m**

Note: we estimate ~50-55% of MDUs and RoWs requiring backbone build have been completed

Capex: Copper and Common

Copper capex	FY18 $m	FY17 (adjusted) $m
Network sustain	45	29
Copper connections	2	4
Copper layer 2	34	44
Product	4	2
Customer retention costs	47	46
Subtotal	**132**	**125**

- **network sustain** reflects investment in poles, proactive maintenance and roadworks projects
- **copper layer 2** included ~$20m VDSL vectoring rollout completed in FY18
- **customer retention costs** capitalised as per NZ IFRS 15

Common capex	FY18 $m	FY17 (adjusted) $m
Information technology	35	34
Building & engineering services	20	19
Other	3	4
Subtotal	**58**	**57**

- continued to invest in own IT platforms/technology and upgrading exchanges for power/regulatory requirements

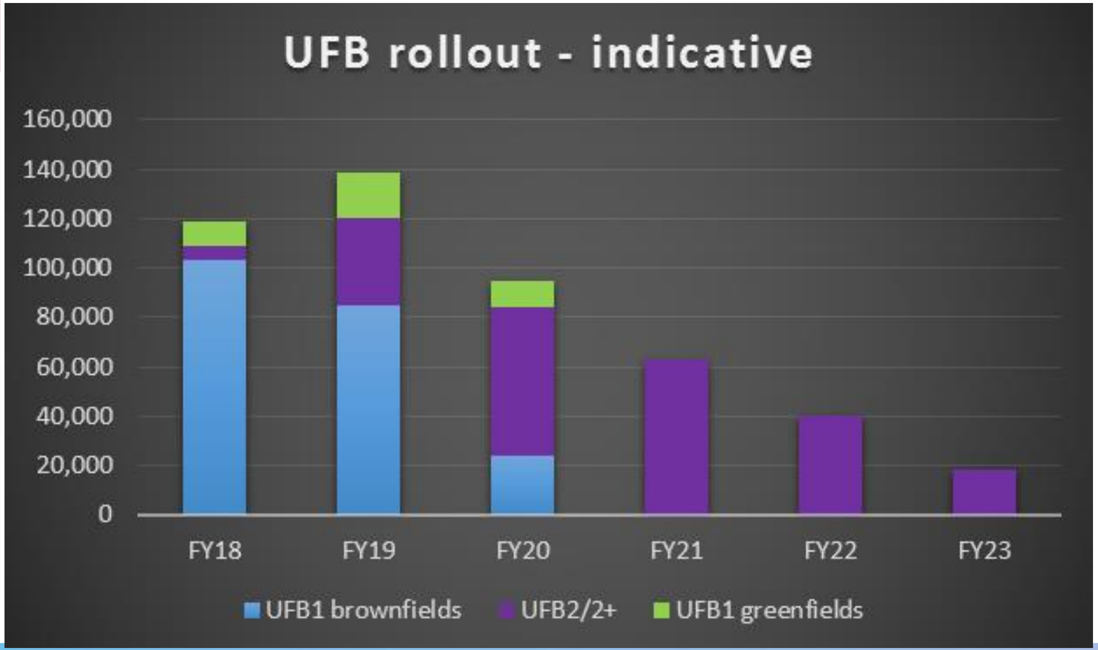
UFB rollout – programme guidance recap

FY19 is peak communal build year

- ~120,000 brownfields premises across UFB1 and UFB2
- expect to claim another ~18k UFB1 greenfields premises already passed in prior years

Programme guidance		Notes
UFB1 communal	$1.75 - $1.8 billion	Tracking towards the top end of guidance and excludes growth (e.g. additional splitter investment)
UFB1 cost to connect (CPPC)	$1,050 - $1,250	For a standard residential connection, including layer 2 and service desk costs, and in 2011 dollars. Tracking towards the top half of the range.
UFB2* communal	$505 - $565 million	Combined guidance range for UFB2 and 2+
UFB2* cost to connect	$1,650 - $1,850	In 2017 dollars and including layer 2, backbone costs for MDUs and rights of way with 10 or fewer premises and service desk costs

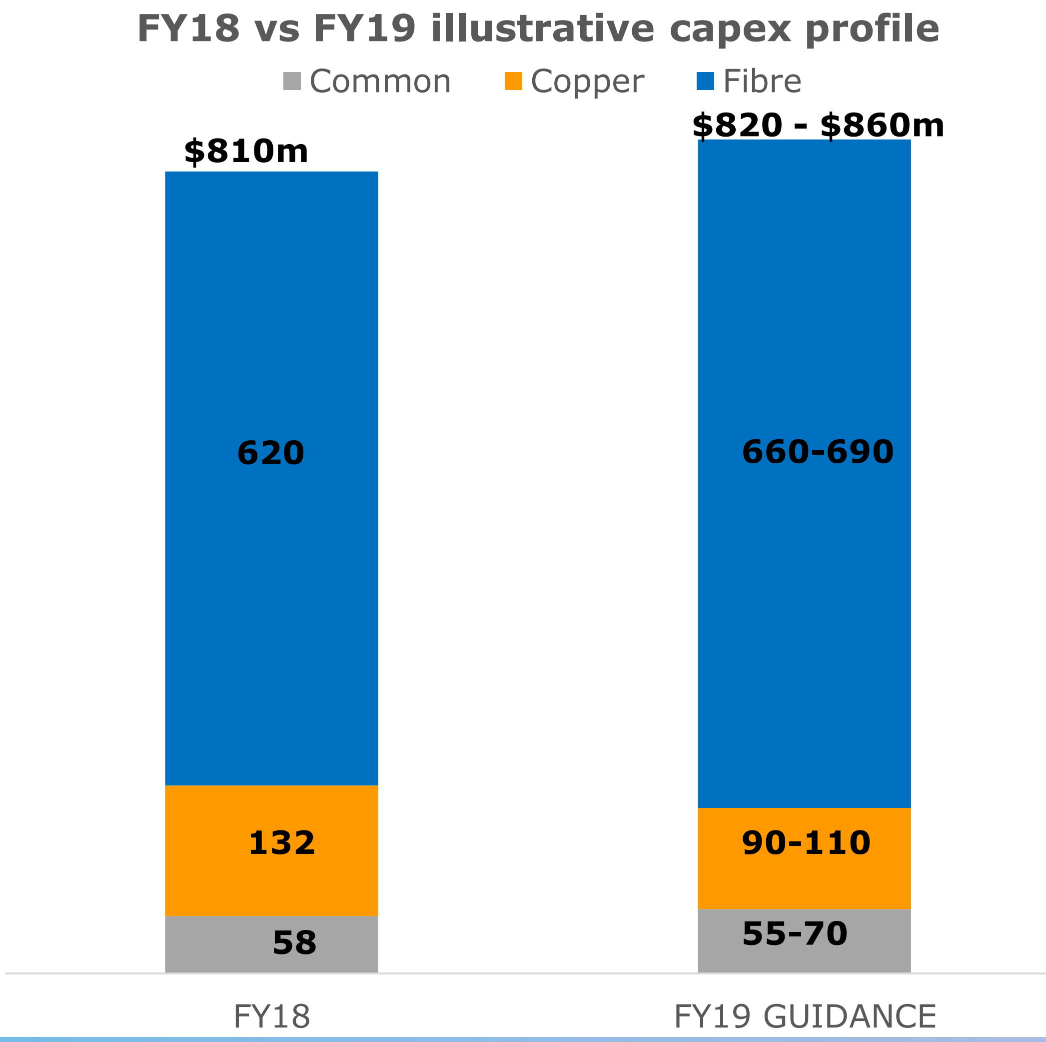
* combined UFB2 and 2+ rollout plans



FY19 gross capex guidance

> **$820m - $860m** gross capex reflects:

- **Fibre $660m-$690m**
  - $280-310m fibre connections & layer 2
  - $90-110m spend forecast for UFB2/2+ communal
  - continued greenfields and transport (UFB2) spend
  - ~$10m pole programme continues
  - customer retention mix weighted more to fibre
- **Copper $90m-$110m**
  - vectoring rollout complete
  - ~$10m pole programme continues
- **Common**: **$55m-$70m**
  - includes potential innovation spend



FY19 EBITDA guidance

$625m to $645m EBITDA reflects:

- expectations of market growth in broadband, plus continued slowing in overall line loss
- Incremental spend (above FY18 levels) of $10 - $15 million on innovation activity, regulatory processes, branding and other transformation-related one-off costs. Excluding this, we expect total costs to be broadly consistent with FY18.

FY19 guidance summary

	FY19 guidance	FY18 result
UFB1 Cost Per Premises Passed (CPPP)	**$1,500 - $1,600**	$1,568
UFB2/2+ communal capex	**$90m - $110m** (based on estimated starting premises of 45,000 to 55,000 and premises handed over of 25,000 to 35,000)	$61m
UFB1 Cost Per Premises Connected (CPPC)	**$1,000 - $1,150** (excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs)	$1,037
Fibre connections & layer 2 capex	**$280 – $310m** (based on mass market 155,000 – 175,000 fibre connections, and 14,000 backbone builds and including service desk costs)	$294m
FY19 Gross capex	**$820 – $860m**	$810m
FY19 EBITDA	**$625 – 645m**	$653m

Capital management & FY19 dividend

FY18 final dividend of **13 cps**, fully imputed

- supplementary dividend of **2.2 cps** payable to non-resident shareholders
- **record date**: 25 September 2018
- **payment date**: 9 October 2018
- **Dividend Reinvestment Plan** applies with 3% discount to prevailing market price; open to New Zealand and Australian resident shareholders

> 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.

> **FY19 dividend guidance of 23 cps**, subject to no material adverse changes in circumstances or outlook.

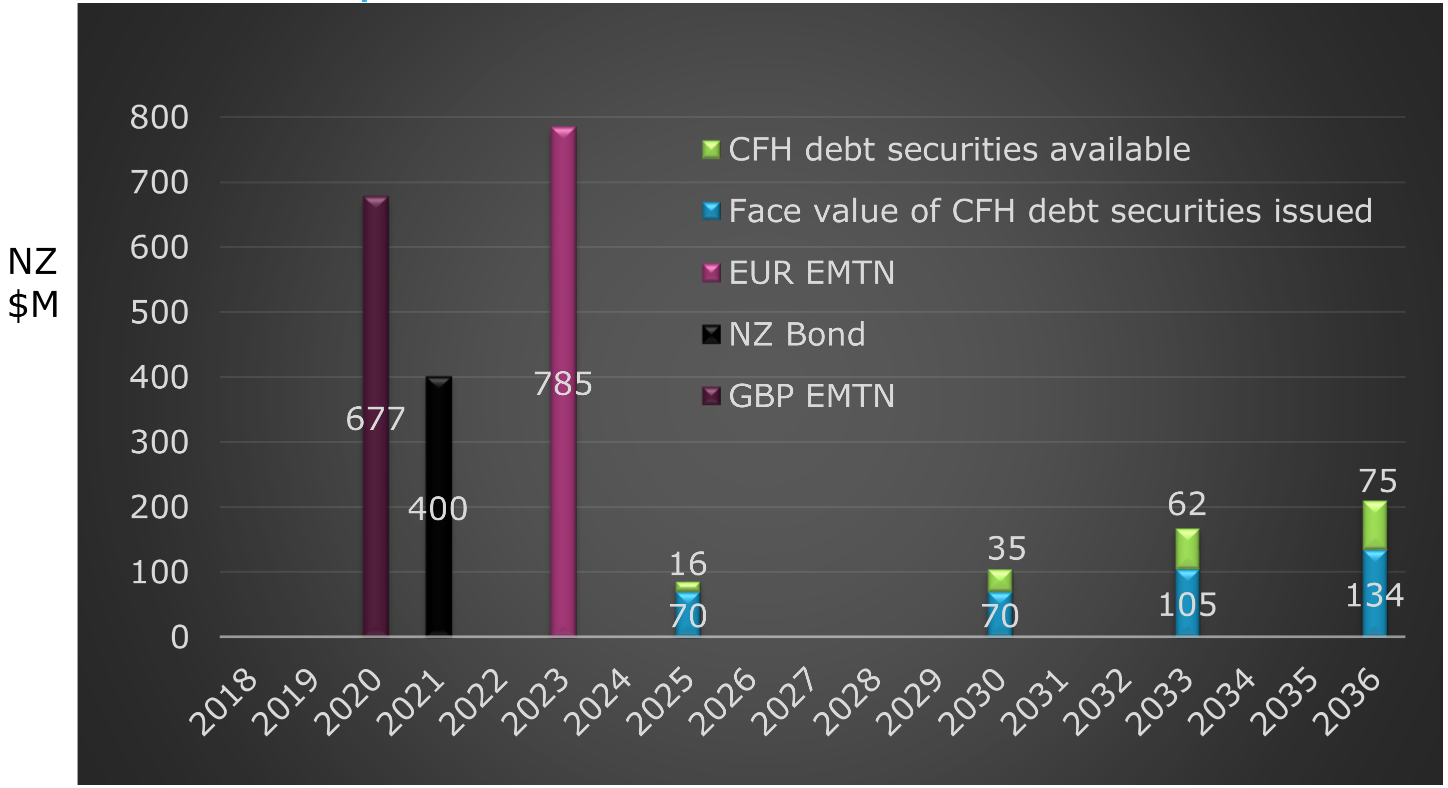
Debt

	As at 30 June 2018 $m
Borrowings	1,922
+ PV of CFH debt securities (senior)	129
+ Net leases payable	238
Sub total	2,289
- Cash	(50)
Total net debt	**2,239**
Net debt/EBITDA	3.43 times

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

> At 30 June, debt of $1,922m comprised:
- Long term bank facilities $290m undrawn; $60m drawn
- NZ bond $400m
- Euro Medium Term Notes $1,462m (NZ$ equivalent at hedged rates)

Term debt profile



Shaping our future

Kate McKenzie, Chief Executive Officer

WE'RE GOING TO

KEEP NEW ZEALAND NEW

WE'LL GET THERE BY

Creating an environment for our customers and our people that optimises today's business and allows us to innovate for growth

BECAUSE WE WANT TO

MAKE NEW ZEALAND BETTER

WE'RE FOCUSSED ON

CUSTOMER

Transform customer experience

DIGITAL

Nothing happens if it's not digital

PEOPLE

We're committed to enabling our people

OPTIMISATION

We improve by getting better at what we do

INNOVATION

New revenue opportunities

Our objective is to...

OPTIMISE TODAY'S BUSINESS

Return to modest EBITDA growth in FY20*

INNOVATE FOR GROWTH

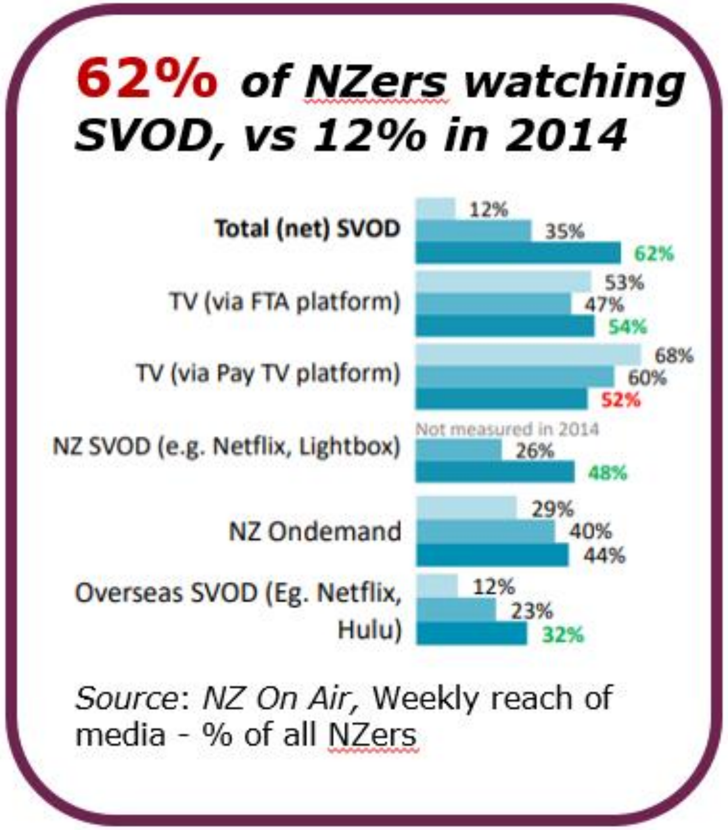
*subject to no material changes in expected regulatory environment or competitive outlook

Innovation focus

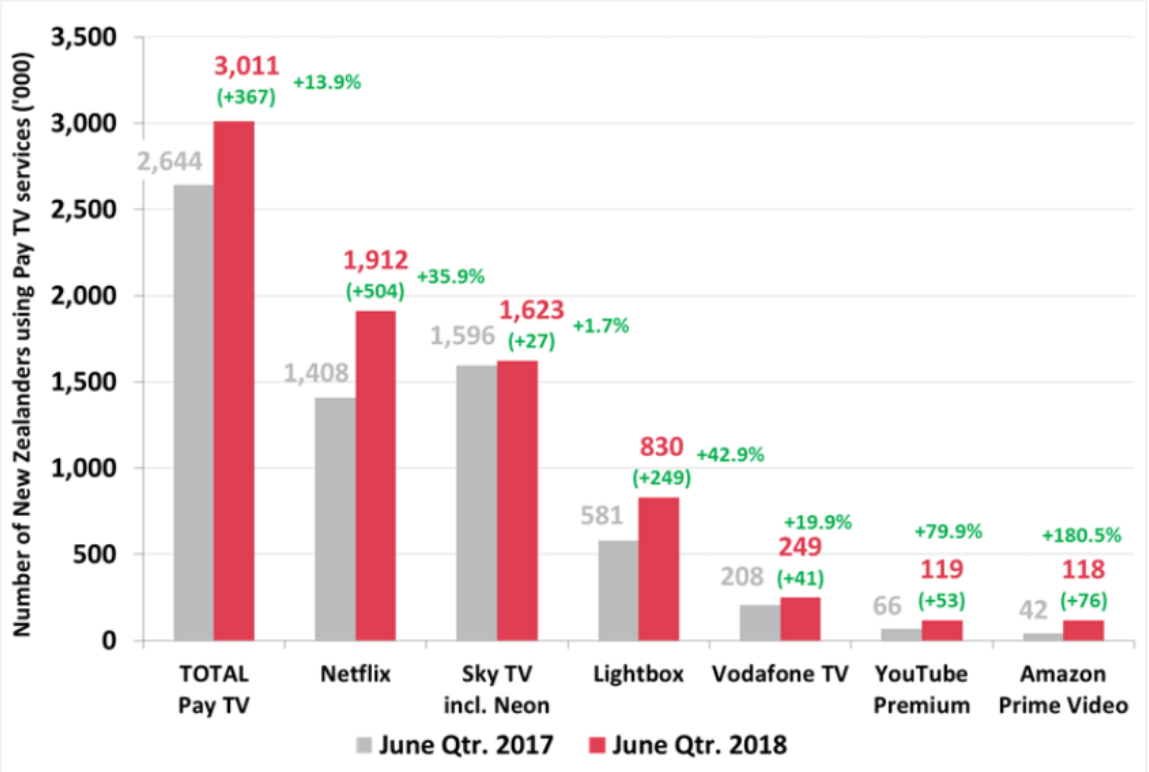
Pipeline of opportunities identified

- infrastructure re-use trialled for **IoT** delivery and moving to commercialisation
- school trials proving **wi-fi** potential to bridge digital divide
- **network edge computing**: clear global trend favouring exchange co-location; Wellington and Christchurch sites under development for Q3 FY19
- **4K TV** trial: clear medium term potential for broadcasting role; pathway to other opportunities as streaming accelerates data demands

Live sports to drive streaming uptake



New Zealand users of Pay TV/Subscription TV services – June 2018 Qtr. cf. June 2017 Qtr.



Source: Roy Morgan Single Source (New Zealand), April – June 2017, n=1,581 New Zealanders aged 14+ and April – June 2018, n=1,586 New Zealanders aged 14+.

Growing our broadband base

Strong premises growth

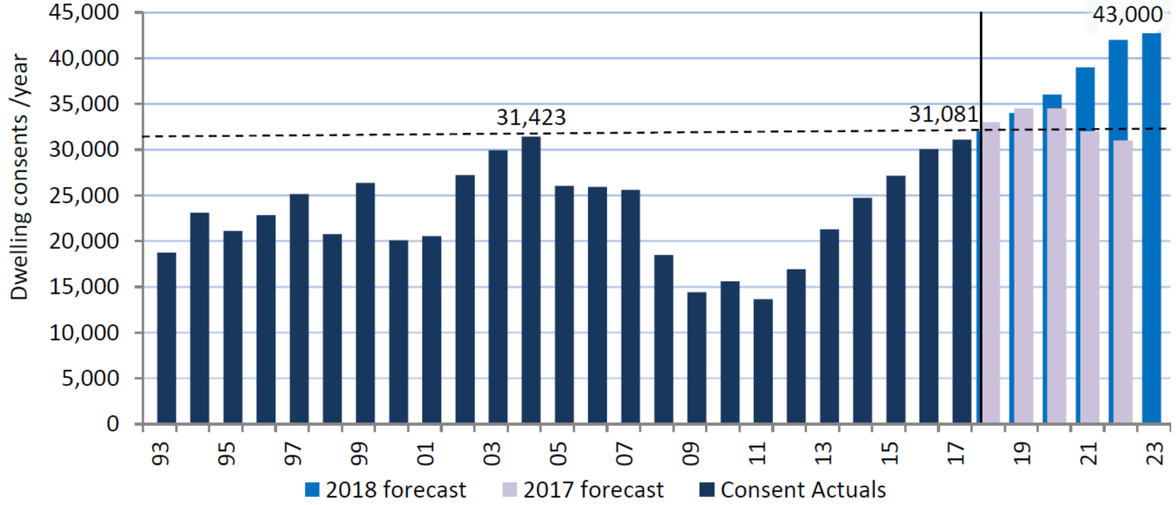
- government forecasts suggest 39% growth in consents
- we've redesigned processes for property developers
- ~3,000 premises pre-connected with fibre in FY18

Competitive network effects ebbing

- LFC UFB1 rollouts complete
- wireless customers returning as fibre rollout expands, data demands grow
- Wellington rollout entering significant off-net HFC suburbs
- leveraging our vectoring VDSL rollout in LFC and rural areas

MBIE National Construction Pipeline Report forecasts 39% growth in consents

Figure 5-3 Dwelling units consented nationally, 2017 and 2018 comparison



Source: BRANZ/Statistics New Zealand

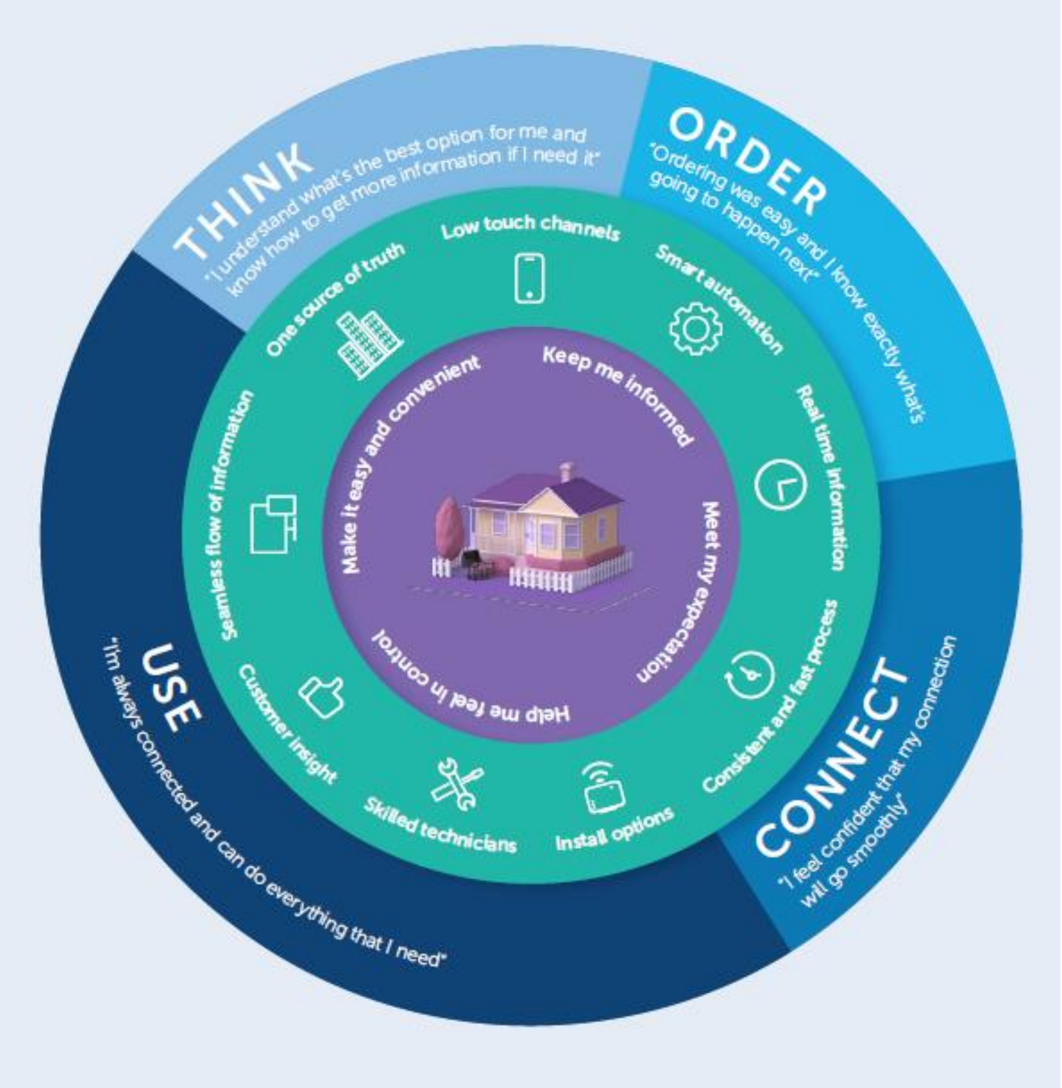
Connecting fibre faster

Targeting up to 50% "fibre in a day" by Xmas

- systems pre-identification of 'simple' connections to remove customer scoping visit
- installation only visit will improve customer experience
- need to work in concert with retailers to reduce reschedules

Migration campaigns ongoing

- trials to support fibre in a day and future copper migration



Reschedules drive significant industry activity

"I need to reschedule my install date"

Manual processing of basic scenarios in Chorus & Service Companies

This takes time and could lead to wasted truck rolls and customer frustration

"I pick a new date with my RSP"

"Thanks for the info but I knew that ages ago"

RSP

1. RSP requests date change via B2B

5. Confirmation of date change sent to RSP

B2B

Fibre order mgmt. (COM)

2. Provisioning manually updates order

3. Dispatch manually transfers updated info into their system

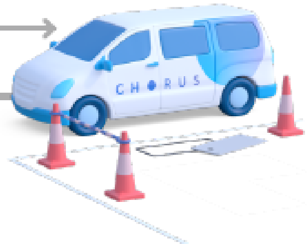
4. Dispatch amends Tech work list based on updated order

Old, legacy systems

Provisioning

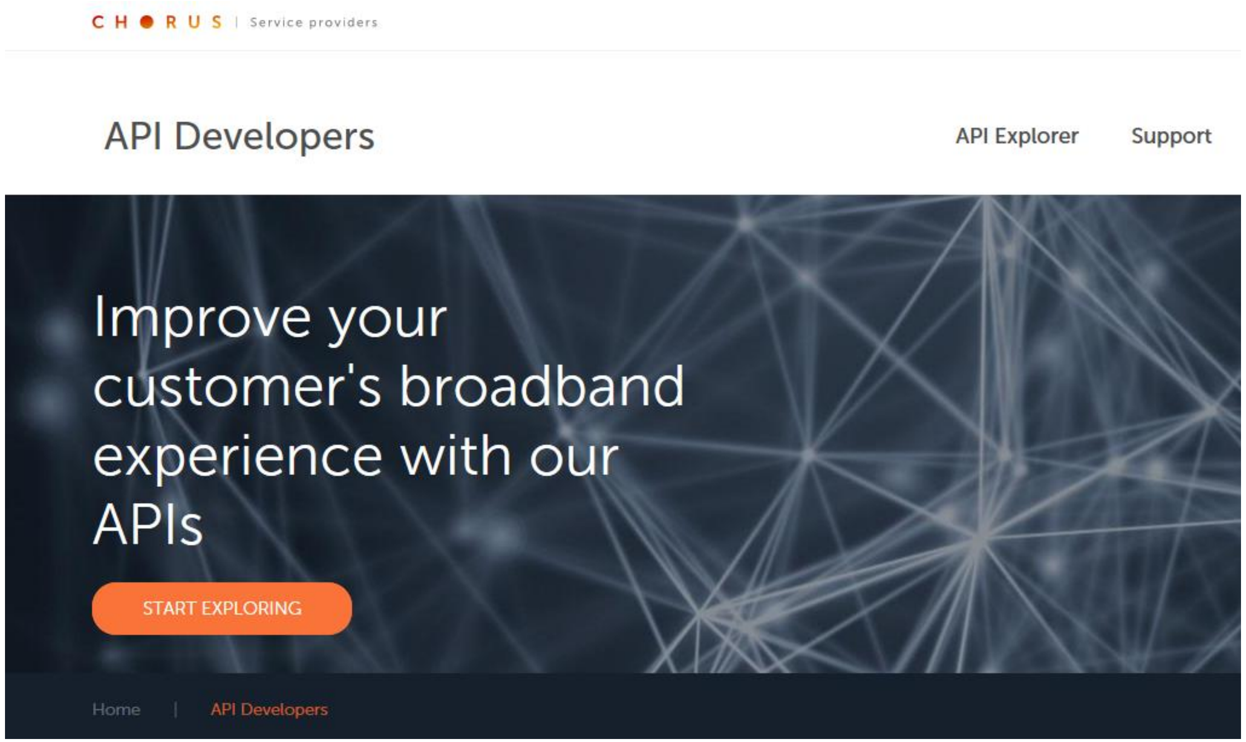
Dispatch

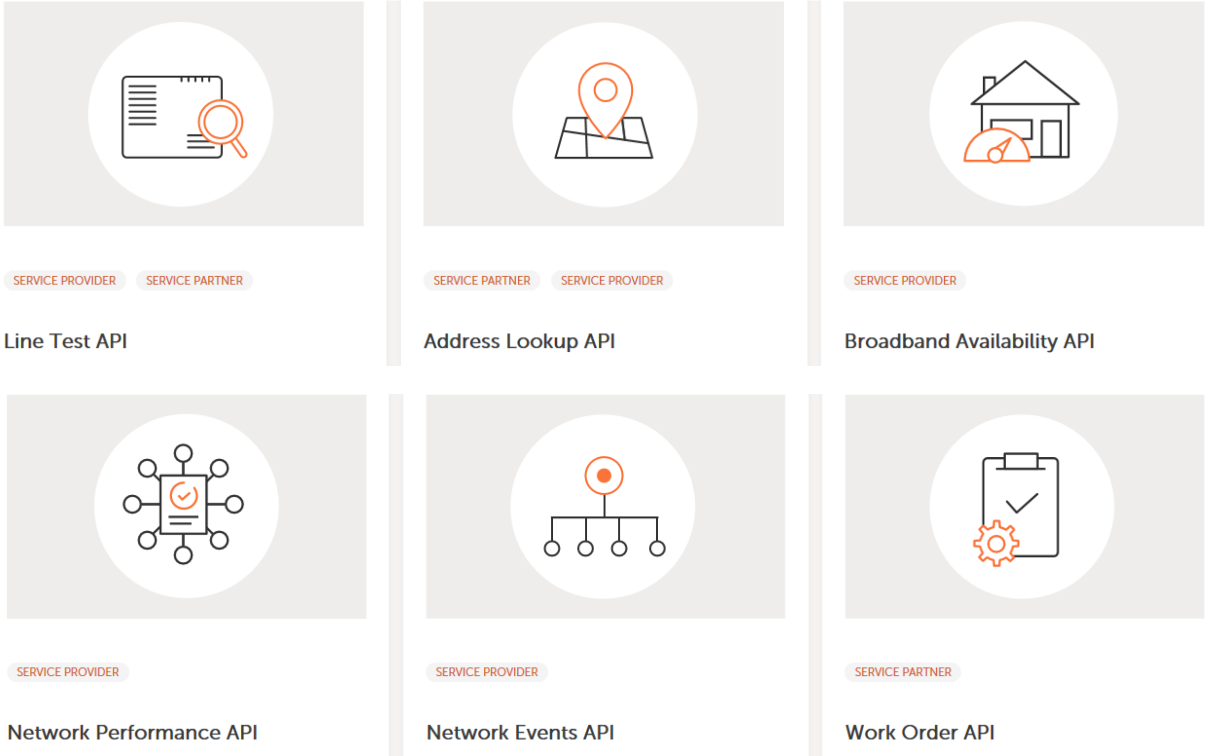
Service Company WMS



Automating open access information flows

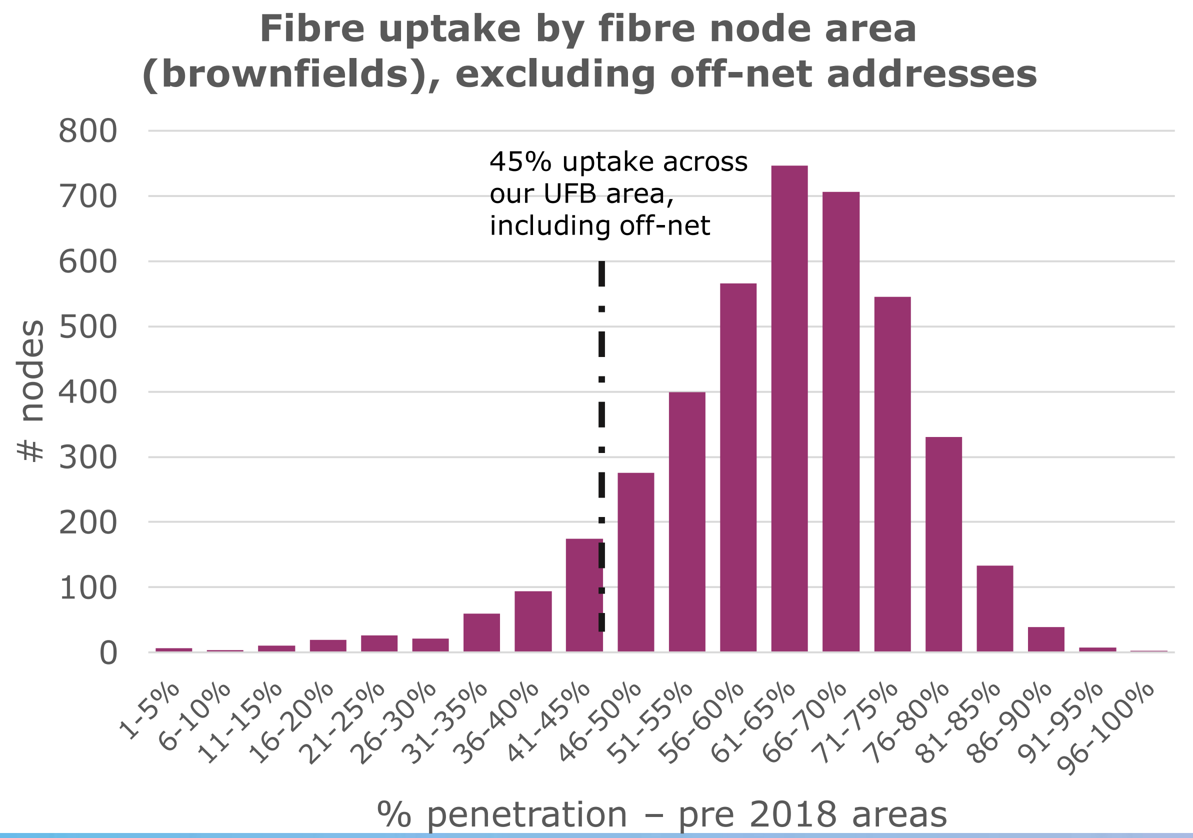
API channel established: 6 APIs launched





Planning for copper to fibre migration

- average UFB uptake of 45% understates actual penetration given ongoing network expansion and off-net connections
- fibre penetration is >70% across 1,000 nodes when exclude off-net connections
- draft legislation contemplates copper withdrawal in areas where fibre is available
- withdrawal code to be developed in consultation with industry and Commission



Shaping our future

For 2020 and beyond

- utility style framework expected soon
- copper>fibre migration
- refining our product portfolio
- review of service company model
- evolving company culture
- the rise of wholesale only networks

AUTHENTIC COLLABORATIVE COURAGEOUS CURIOUS

Appendices

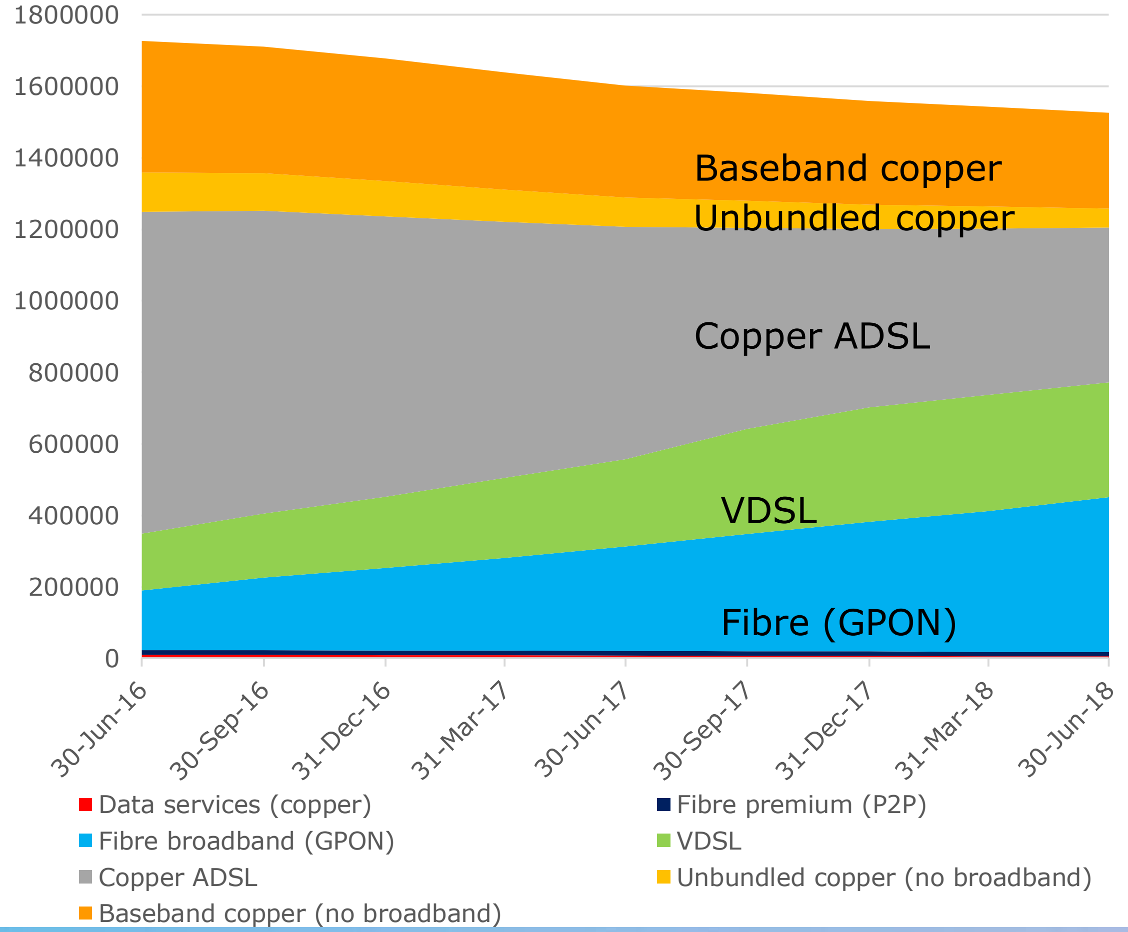
Appendix A: Pro forma FY17 net earnings

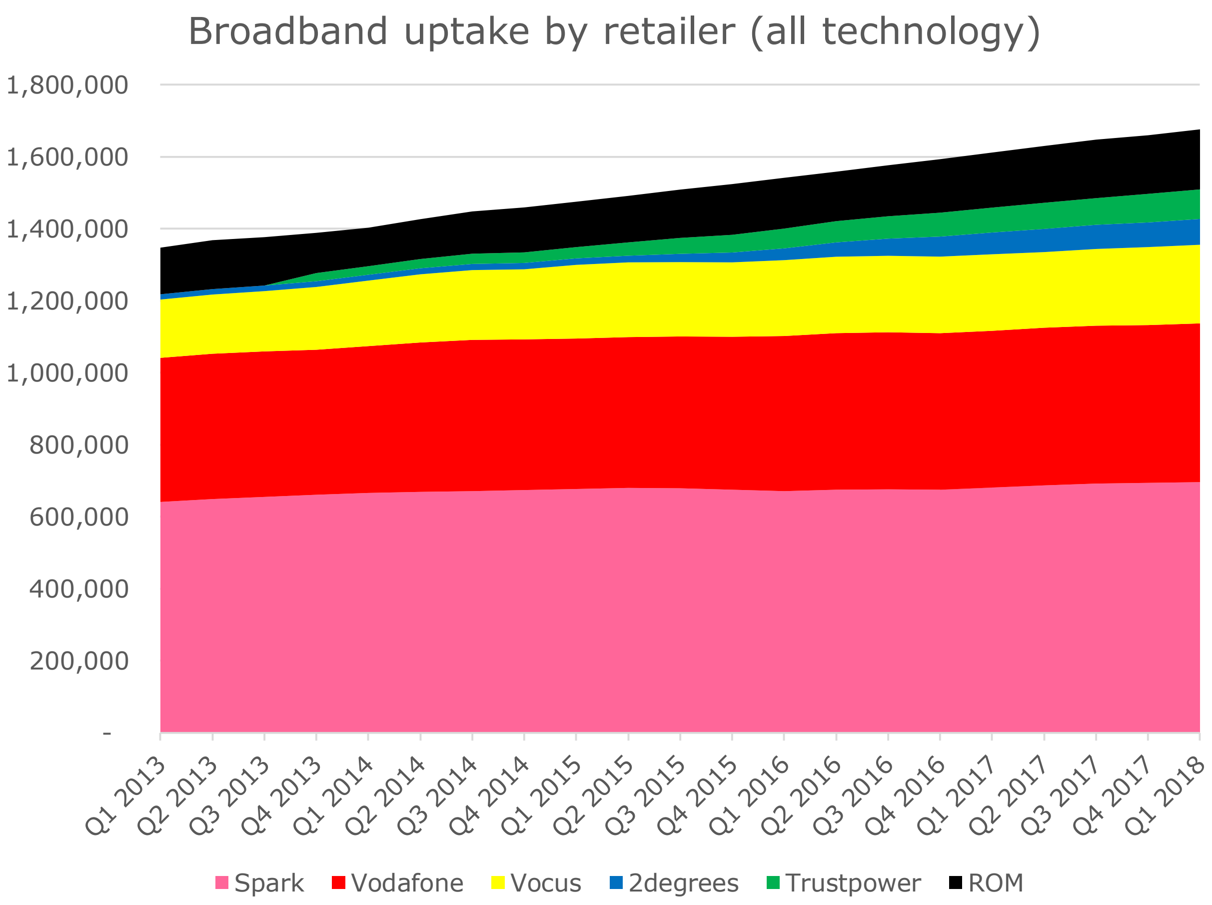
For information purposes only. This appendix provides an approximate translation of FY17 to show the illustrative impact if NZ IFRS 9, 15 and 16 had applied in FY17.

Income statement	FY17 results $m	NZ IFRS impact $m	FY17 (adjusted) $m	Notes
Operating revenue	1,040	8	1,048	Broadband modem upgrade costs incurred in FY17, in FY18 these are now capitalised and amortised in accordance with NZ IFRS 15
Operating expenses	(388)	50	(338)	$42m costs incurred in acquiring and retaining customers (provisioning $32m, Labour $5m and IT $5m). These costs are now capitalised and amortised in accordance with NZ IFRS 15 and disclosed as separate items in fibre and copper capex. $8m rent and rates are now recognised as a right of use asset with the value capitalised and depreciated over the life of the lease.
EBITDA	**652**	**58**	**710**	
Depreciation and amortisation	(339)	(40)	(379)	Increase in depreciation and amortisation in line with NZIFRS 15 and 16.
Net interest expense	(154)	7	(147)	NZ IFRS 9 and 16 impact to account for change in accounting treatment for ineffectiveness and capitalisation of leases.
Income tax expense	(46)	7	(39)	Net tax impacts associated with NZ IFRS changes.
Net earnings for the year	**113**	**32**	**145**	

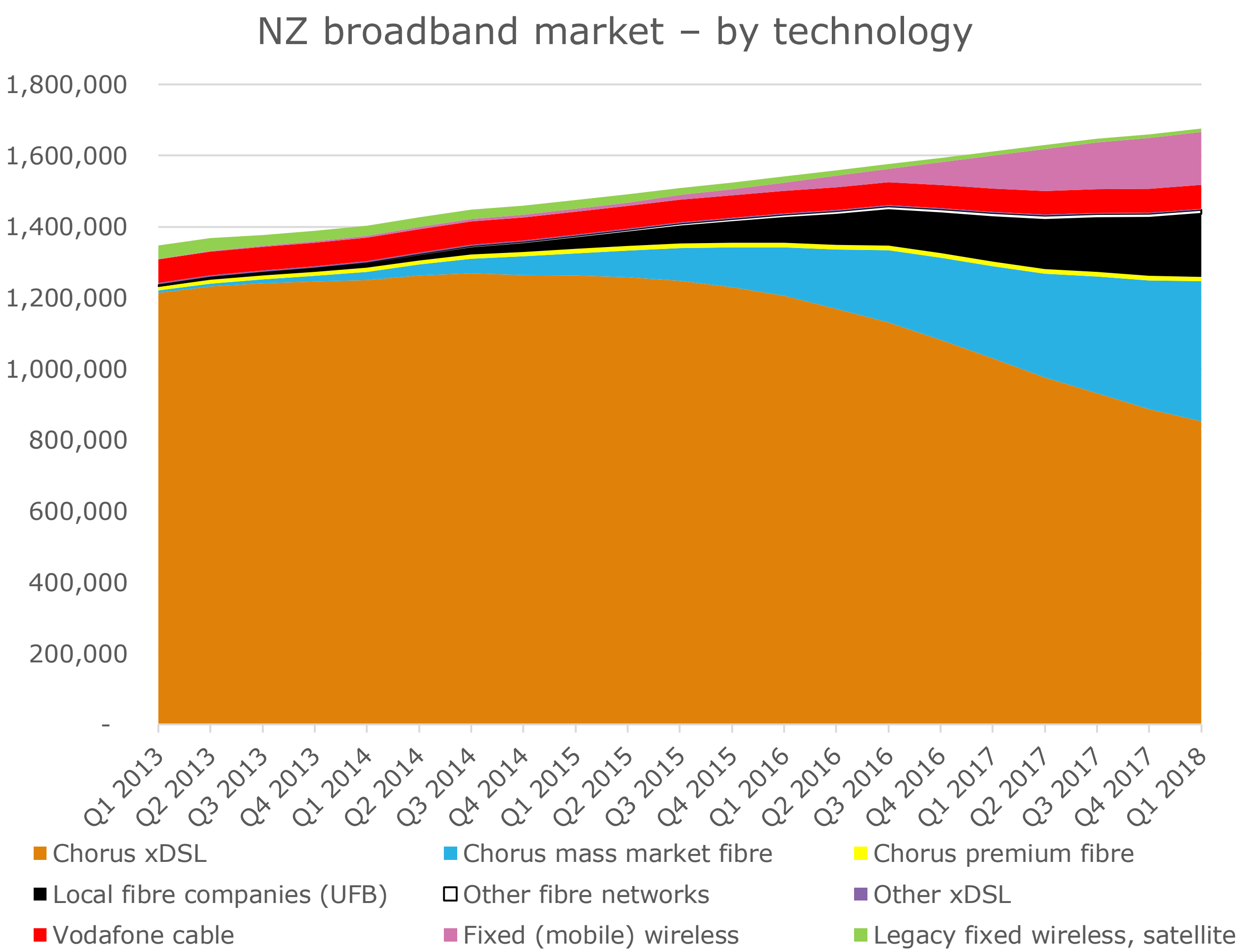
Appendix B: Connection and market trends

	30 June 2017	30 Sept 2017	31 Dec 2017	31 March 2018	30 June 2018
Unbundled copper	82,000	76,000	68,000	62,000	53,000
Baseband copper (no broadband)	313,000	302,000	290,000	279,000	268,000
Fibre broadband (GPON)	292,000	328,000	362,000	394,000	433,000
VDSL (includes naked)	244,000	294,000	320,000	325,000	321,000
Copper ADSL (includes naked)	650,000	562,000	499,000	465,000	433,000
Data services (copper)	8,000	7,000	7,000	6,000	6,000
Fibre premium (P2P)	13,000	13,000	13,000	12,000	12,000
Total connections	1,602,000	1,582,000	1,559,000	1,543,000	1,526,000





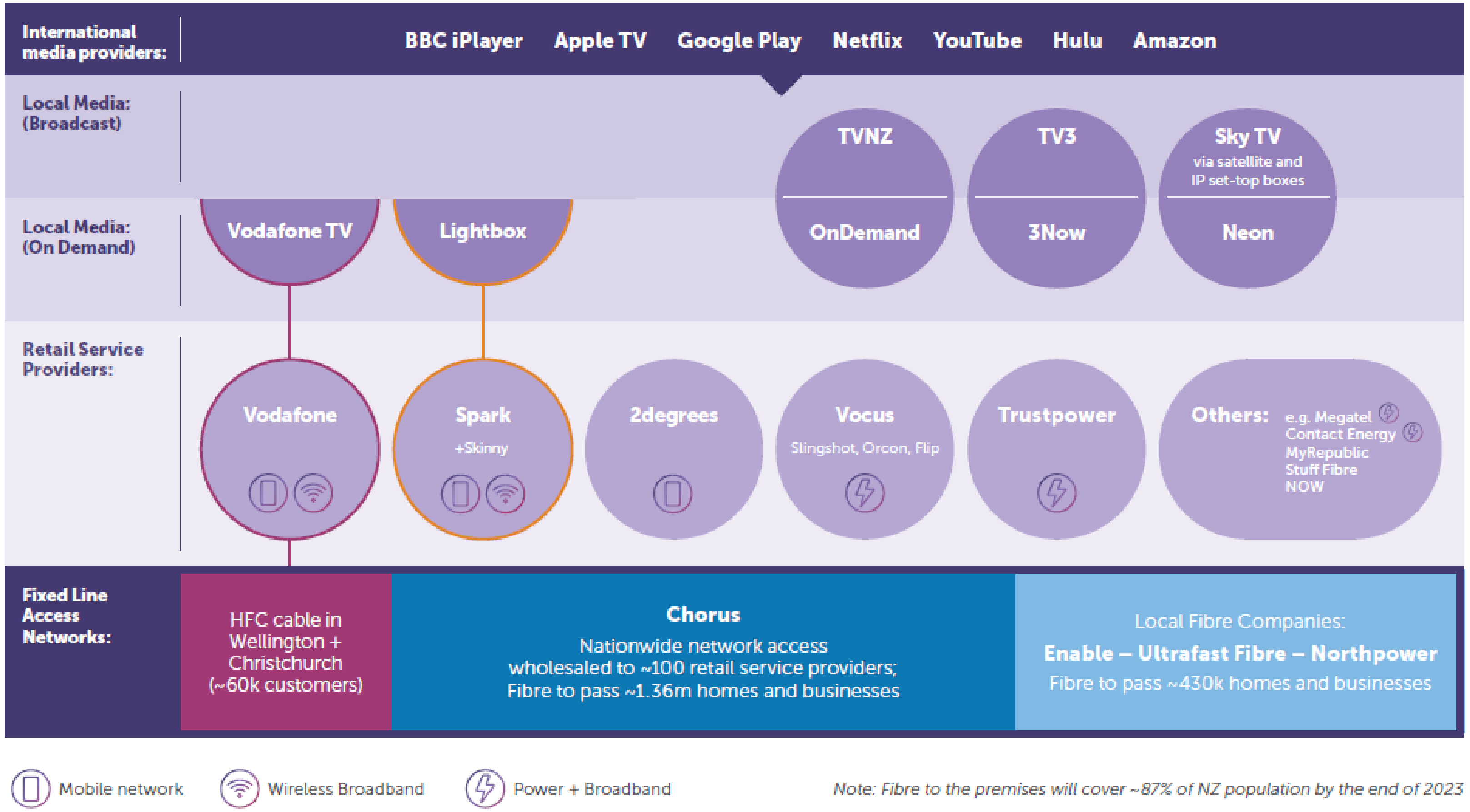
Source: IDC



Source: IDC

Appendix C: Market structure

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



Note: Fibre to the premises will cover ~87% of NZ population by the end of 2023

Fibre – proposed utility framework

- Regulated asset base (RAB) with revenue cap, to be set by Commerce Commission within two years
- Two anchor products (voice only + entry level broadband – 100/20Mbps fibre) at 2019 prices + CPI and a price cap for direct fibre access
- Three years after the new regime commences, the Commission can review the revenue cap model, as well as the anchor products, subject to specified conditions and statutory criteria

Copper – proposed legacy framework

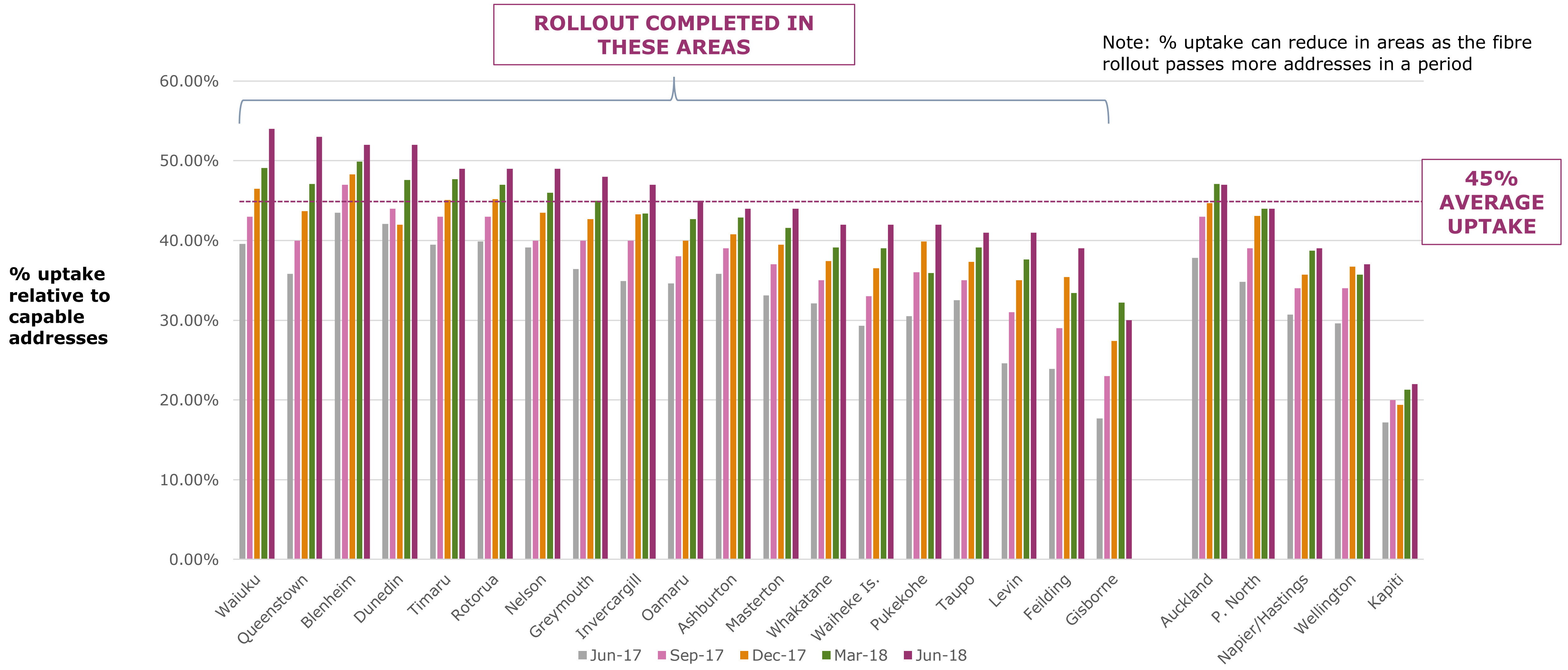
Where fibre is available:

- 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

Appendix D: UFB1 uptake by area



Annual Report 2018

CHORUS

FY18 results overview

Fixed line connections

	FY18	FY17
Fixed line connections	1,526,000	1,602,000

Broadband connections

	FY18	FY17
Broadband connections	1,187,000	1,186,000

Fibre connections

	FY18	FY17
Fibre connections	445,000	305,000

Net profit after tax

	FY18	FY17
Net profit after tax	$85m	$113m

EBITDA[1]

	FY18	FY17
EBITDA[1]	$653m	$652m

Adjusted[2] EBITDA

	FY18	FY17
Adjusted[2] EBITDA	$653m	$710m[2]

Dividend

	FY18	FY17
Dividend	22cps	21cps

Employee engagement score

	FY18	FY17
Employee engagement score	57%	81%

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 the NZ IFRS accounting standards adopted in FY18 would have had if they had applied in FY17.

Dear investors

Kate McKenzie
Chief Executive

Patrick Strange
Chair

We've made strong progress this year in our quest to keep New Zealand new.

It is easy to overlook the scale and pace of the technological change we're bringing to New Zealand communities. More than 900,000 homes and businesses now have fibre at their gate and uptake has surged from 35% to 45% during FY18. This has been achieved through our focus on the more visible and challenging part of our broadband rollout – the connection from the street into customers' homes and businesses. We didn't get it right every time, but we've continued to improve the experience for customers while completing 156,000 fibre installations. That's a 20% lift in productivity from the previous year.

We ended the year with 64% of our broadband connections on either fibre or high-speed VDSL broadband, up from 45% last year. This was driven by our shift to being an active wholesaler, investing to promote awareness of the better broadband options already available to many New Zealanders through advertising, collaborative campaigns with retailers and our own door knocking initiatives. This new approach, combined with underlying demand for broadband, helped us to turn last year's decline of 40,000 broadband connections into a gain of 1,000 connections for FY18. Although competition from wireless and other fibre networks meant our total fixed line connections continue to reduce, the pace slowed to 76,000 connections compared to 125,000 connections in FY17. This reduction in connections was predominantly copper lines outside of our fibre network areas.

Against this backdrop of declining connection numbers, we took steps to implement a range of cost management initiatives identified in our FY17 strategic review. This included reducing our internal workforce by 12%, from peak August 2017 levels, as part of broader organisational change. We achieved net profit after tax of $85 million and EBITDA of $653 million, modestly above the top end of our initial FY18 EBITDA guidance of $625 million to $650 million. This compares with adjusted[1] FY17 EBITDA of $710 million, reflecting the effect of fewer connections on our revenues.

A fully imputed final dividend of 13 cents per share will be paid on 9 October 2018, bringing total dividends for FY18 to 22 cents per share.

Our focus on tight cost management meant we met our fibre capital expenditure forecasts for another year, despite a record year for fibre connections and inflation in the wider construction market. Our commitment to investing in a fibre future was evident in our August 2017 UFB2+ agreement with the Government to take fibre even further. By the end of 2022 we'll have extended fibre to about three-quarters of the 87% of New Zealanders to be covered by the UFB programme. In the meantime, our investment in VDSL broadband upgrades has helped narrow the digital divide, improving potential broadband speeds for up to 85,000 rural addresses.

We invested in bridging the digital divides within urban communities too. We worked with Network for Learning, a government education group, to trial the extension of a school wifi network to students in the surrounding community, using our street poles and copper cables in new ways. This was part of our innovation initiatives, focused on identifying opportunities to use our network assets to develop future products and services. We've also run trials to develop connectivity options for the Internet of Things, network edge computing and television broadcasting. The success of these trials has increased our belief in the potential socio-economic benefits our infrastructure can bring to New Zealanders, while providing future alternative sources of revenue for our business.

Regulatory clarity remains critical to our focus on long-term shareholder value. We worked through the year to assist the progress of the utility style regulatory framework, as initially set out in draft legislation in August 2017, through Select Committee and revised legislation is expected before Parliament in FY19. We look forward to working with the Commerce Commission on a smooth and timely transition to a framework that aligns the interests of customers and investors through recognition of a fair return on investment.

1 Adjusted to reflect the effect the NZ IFRS accounting standards adopted in FY18 would have had if they had applied in FY17.

This report is dated 27 August 2018 and is signed on behalf of the Board of Chorus Limited.

Keeping New Zealand new

As a utility network operator, we take a long term view. We want to make New Zealand better, keeping it at the cutting edge through our network infrastructure and the connectivity we can provide. Our network of fibre and copper cables connects homes and businesses nationwide, via our exchange buildings and cabinets. About 100 retailers use our network to deliver their services to their customers. This includes using our fibre network for backhaul connections to mobile network towers.

Demand for broadband has been growing very strongly, fuelled by the emergence of broadband as the fourth utility, together with the rollout of fibre and ongoing premises growth, particularly in New Zealand's largest city, Auckland. However, the continuing evolution of technology, market dynamics and industry regulation means we operate in an ever changing environment. To ensure we maintain our leading network position and a sustainable business well into the future, we're focused on creating an environment for our customers and our people that optimises today's business and allows for us to innovate for growth.

1.1 Transforming customer experience

It's our belief that once a home or business owner has connected to fibre, its technological superiority will ensure they remain connected. This means we need to make it as easy as possible for customers to connect to our fibre network. Fibre installations can be challenging because of the variability in conditions between every home and business, as well as the layers of communication and coordination required between us, our service companies, retailers and their customers. We've made significant progress in streamlining processes with our investment in automated platforms, but we know we need to make things better if we're to continue to encourage customers to make the effort to upgrade to fibre.

This is why our number one operational priority remains a high quality connection experience for customers connecting to our fibre network for the first time. We set ourselves a customer satisfaction target of 7.8 out of 10 by the end of FY18, up from 7.4 in FY17, based on a rolling three month average of scores from a survey of newly connected customers each month from across a range of retail service providers.

Although we ended the year with an improved score of 7.5, this was below our target. However, the less than desired improvement was achieved in the context of a year of unprecedented demand where we recruited 185 additional field crews to deal with strong fibre demand and complete 20% more fibre installations than the prior year. The passing of new land access legislation in the first half of FY18 also meant we've been connecting a backlog of orders where the customers had gone through a drawn out and potentially unsatisfactory experience.

Further, results varied widely between retailers, reflecting the multiple customer touchpoints involved in the connection process. Customer satisfaction levels can be influenced by everything from the quality of initial communication between customers and their retailer, through to our communication and technicians turning up when expected, as well as the quality of the installation itself. Some retailers achieved customer satisfaction scores of more than 8 out of ten, reflecting a focus on clear expectation setting with their customers and well developed processes. Our technicians are completing more than 700 installations a day and typically achieve 8 out of ten on customer satisfaction surveys.

There's clearly still more we can do to improve the experience for customers and we have an extensive programme of initiatives underway including:

- streamlining the connection process for simple fibre connections so customer effort is reduced to one visit, rather than two. In June 2018 we were already achieving this goal of "fibre in a day" for about 25% of customers connected. Our goal is to reach 100% by the end of FY19.
- increasing our joint targeted marketing campaigns with retailers so we better coordinate service company resources.
- running more of our own door knocking campaigns so we better align our fibre installation work with initial network rollout activity.
- continuing to clear the backlog of complex multi-dwelling and rights of way connections following changes to the land access legislation.
- reducing rescheduling and cancellations by proactively managing fibre orders to better identify missing information and complex installations.
- improving customer expectation setting with enhanced installation and consent information.

Fibre installation crews

JUNE 16		JUNE 17		JUNE 18
524	↑	615	↑	800

Completed installations

JUNE 16		JUNE 17		JUNE 18
93k	↑	129k	↑	156k

National weighted average lead times

JUNE 16		JUNE 17		JUNE 18
17	↑	22	↓	13 DAYS

Technician reschedules

JUNE 16		JUNE 17		JUNE 18
14%	↓	4%	↑	5%

Customer escalations

JUNE 16		JUNE 17		JUNE 18
7%	↓	4%	—	4% OF WORK IN PROGRESSS

Customer satisfaction

JUNE 16		JUNE 17		JUNE 18
6.9	↑	7.4	↑	7.5 OUT OF 10 (TARGET 7.8)

1.2 Upgrading customers to better broadband

A reduction in the number or value of our connections impacts our revenue and profitability. To mitigate these risks, we've become an active wholesaler. This means we are investing to raise consumer awareness of our network footprint and service quality through advertising campaigns and www.askforbetter.co.nz. We're also working with retailers to encourage them to upgrade their customers to better broadband options on our network. By the end of FY18, 64% of our broadband connections were on VDSL or fibre technology, up from 45% at the start of the period.

Customer recognition of the premium benefits of fibre broadband speeds and consistent throughput capability is our strongest competitive network advantage. We've seen early evidence of customers returning to our network from wireless alternatives as fibre becomes available. To that end, our ongoing rollout of the UFB network remains by far the biggest and most important investment we're making in delivering a better broadband experience for customers. We extended our fibre footprint past another 150,000 homes and businesses during the year and demand for fibre was stronger than ever, with UFB uptake growing from 35% to 45%.

At the same time, we increased VDSL uptake by 77,000 connections. This was a positive outcome for customers given the enhanced broadband speeds typically provided by VDSL and the fact we charge the same rate for VDSL and ADSL services. We invested $20 million in a project to upgrade broadband performance for about 270,000 addresses across rural and local fibre company areas through the deployment of vectoring technology and new VDSL broadband electronics. We've seen a more than 40% average increase in download speed performance for those customers who are now on VDSL broadband plans and the upgrade could benefit about 85,000 rural addresses with improved broadband speeds.

1.3 Leveraging our technology advantage

Today, we can provide dedicated 1 gigabit per second (Gbps) connections with no datacap constraints to more than 900,000 customers across New Zealand's largest urban centres. By the end of 2022 we'll have extended that footprint to more than 1.3 million customers and we've begun trialling the delivery of 10Gbps capability. In contrast, mobile networks rely on shared capacity and are more prone to congestion at peak times.

This difference is becoming all the more important as data demand grows. More than 60% of New Zealand households are estimated to be on unlimited broadband plans and average monthly bandwidth demand on our network grew from 155 gigabytes (GB) per customer to 210GB in the 12 months to the end of FY18. Usage for fibre customers was higher again at an average of 297GB per month. Moreover, much of this demand is occurring in the evening as more New Zealanders shift to streaming video on demand services. We've seen average peak usage on our network grow 37% from 1,084Gpbs at 9pm in June 2017 to 1,480Gbps at 9pm in June 2018. Record peak usage for FY18 occurred just before 9pm on May 1st with 1,658Gbps, following the release of an update for the online game Fortnite.

There are customers who do not currently use much data and for whom wireless networks may provide a viable network alternative. However, ever increasing data demands and the evolution of new data hungry devices and applications, particularly 4K television, are continuing to fuel the demand for bandwidth. Currently, wireless broadband retailers have monthly datacaps limited to 240GB and only offer these services in very specific areas.

There has been much speculation about the potential future performance of 5G technology and what it means for fixed line networks. We are monitoring developments and have visited international telecommunications operators to learn more about their 5G plans. Where deployments are occurring overseas they tend to be in areas where fibre to the premises networks aren't available. Some operators have questioned the economic viability of 5G deployments in areas where a superior fibre service is already available. A multitude of new wireless base stations would be required to extend 5G capability to lower density suburban areas. This is because of the distance and line of sight limitations for each base station.

The timeframes for the development of global 5G standards and consumer equipment, together with spectrum requirements, suggests 5G deployments in New Zealand are unlikely until 2020. These initial deployments are likely to be limited to existing cell towers or sites. We see a complementary future with 5G, because fixed line infrastructure will also be needed for backhaul and power to base stations. This may create new revenue opportunities for our business over time.

Figure 1:

Monthly average data usage per connection on our network

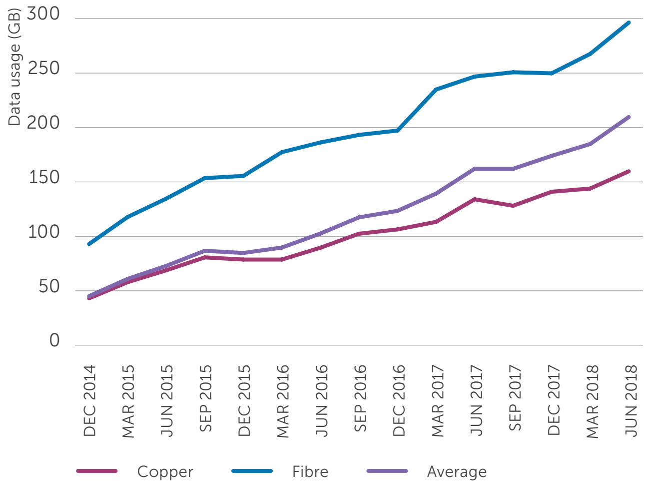
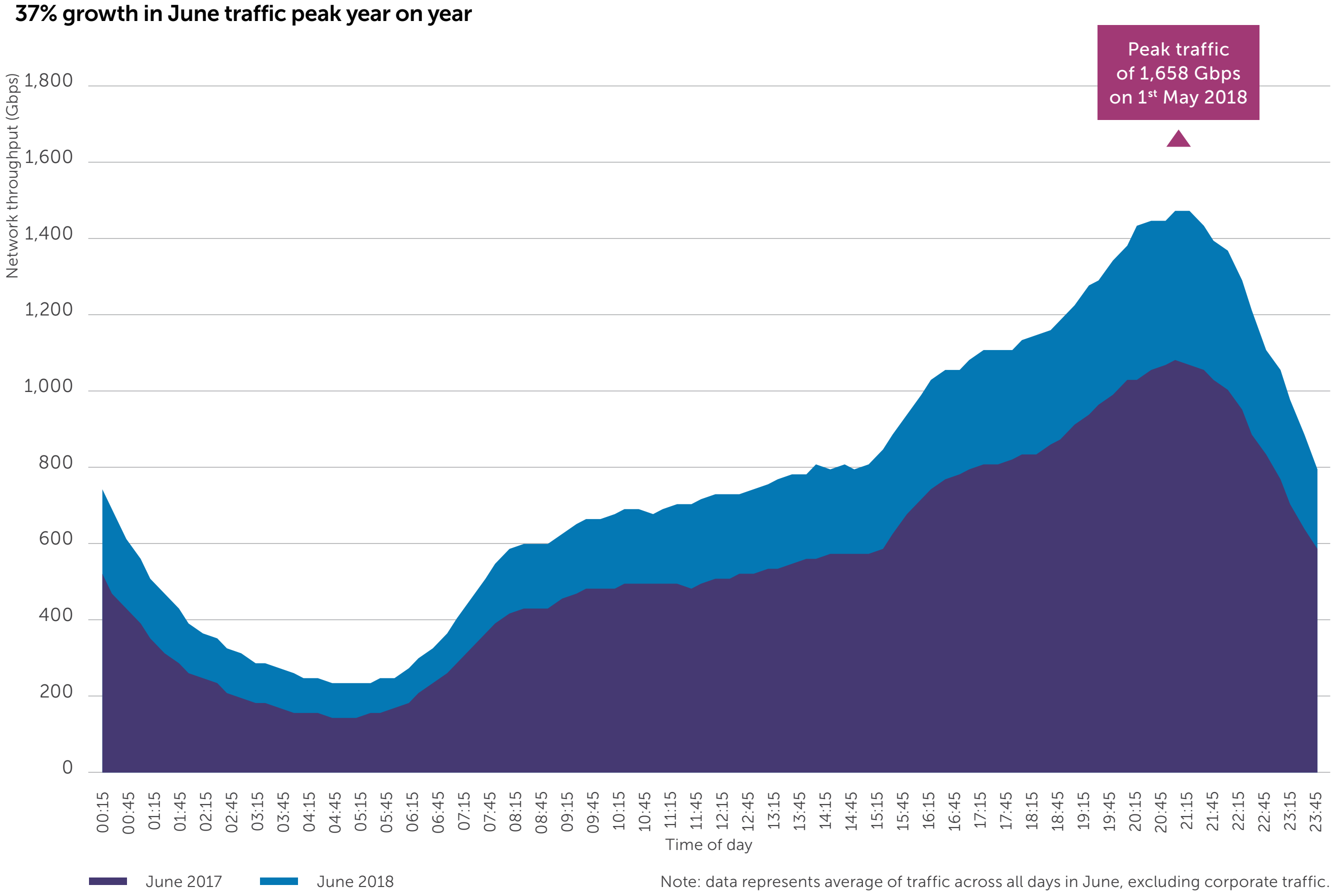


Figure 2:

37% growth in June traffic peak year on year



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

1.4 Identifying new uses for our infrastructure

During the year we began trialling new ways to use our network to provide new technology solutions for customers. We ran a successful trial that showed we can broadcast live 4K quality TV content, via our fibre network, to customers' televisions. This is of strong interest to local broadcasters as an alternative, higher quality and more interactive option than traditional broadcast mechanisms. By the end of 2022, New Zealand's fibre footprint will have greater coverage of the population than terrestrial broadcasting.

This broadcasting capability will also potentially require a dispersed content distribution network. Based on the success of our earlier data centre trial and the growth in demand for network edge computing capability, we've already begun expanding our data centre footprint to more exchanges.

We've started exploring the potential uses of our network assets to meet the expected needs for low-powered monitoring of sensors as the Internet of Things evolves. This included a proof of concept trial for a Long Range Wide Area Network. Our solution used a pole-mounted wireless access point, powered by our copper network, to enable monitoring of hard to access locations such as underground wastewater or sewage pumping stations.

Figure 3:

Summary of key market trends

Our market drivers	What we're doing about these drivers
Strong population and premises growth, particularly in Auckland.	We've increased our subdivision capability and are focused on installing fibre so it's available when customers move into their new homes.
Local fibre companies (Enable, Ultra-Fast Fibre, Northpower) are overbuilding our existing copper network with fibre as part of the Government's UFB programme.	We've invested in the deployment of VDSL vectoring capability to improve the performance of our copper broadband network and we continue to provide services on our pre-existing fibre network in these areas.
Large vertically integrated retailers are encouraging some of their customers to use their own fixed wireless, cable and legacy fibre networks to reduce their wholesale network costs.	We've become an active wholesaler, promoting awareness of the fibre and VDSL options already available to many New Zealanders through advertising, collaborative campaigns with retailers and our own door knocking initiatives.
Traditional voice only connections are declining as demographics and service options evolve, while legacy business connections are migrating to new lower cost inputs on our own or alternative provider networks.	We have an extensive innovation programme underway to identify potential new uses for our network infrastructure, including broadcasting capability, data centres and Internet of Things connectivity.
Communications technology is evolving, potentially increasing the capability of mobile/wireless technologies as a fixed line alternative for some customers.	We're taking fibre to about three-quarters of the 87% of New Zealanders to be covered by the UFB programme by the end of 2022 and we're extending our VDSL footprint. Our network provides dedicated capacity for customers at times of peak data consumption.

The UFB rollout

We're the major cornerstone partner in the Government's UFB initiative that will see a fibre to the premises network available to approximately 87% of New Zealanders by the end of 2022. Our part in the network rollout began in 2011 and will reach an estimated 1.36 million homes and businesses.

Building the communal fibre network past these homes and businesses is estimated to cost $2.26 billion to $2.37 billion, excluding the significant cost avoided by re-using our existing network assets such as ducts and poles. In addition to communal network costs, we're investing significant capital expenditure to connect each customer to the fibre network. The total cost of this will depend on the level of uptake over time.

The Government is providing up to $1.33 billion in financing. This financing was agreed to help make the business case for building the UFB network ahead of demand and acknowledging the significant risks involved, including our delivery and operational obligations, as well as the financial and step-in management remedies available to the Government.

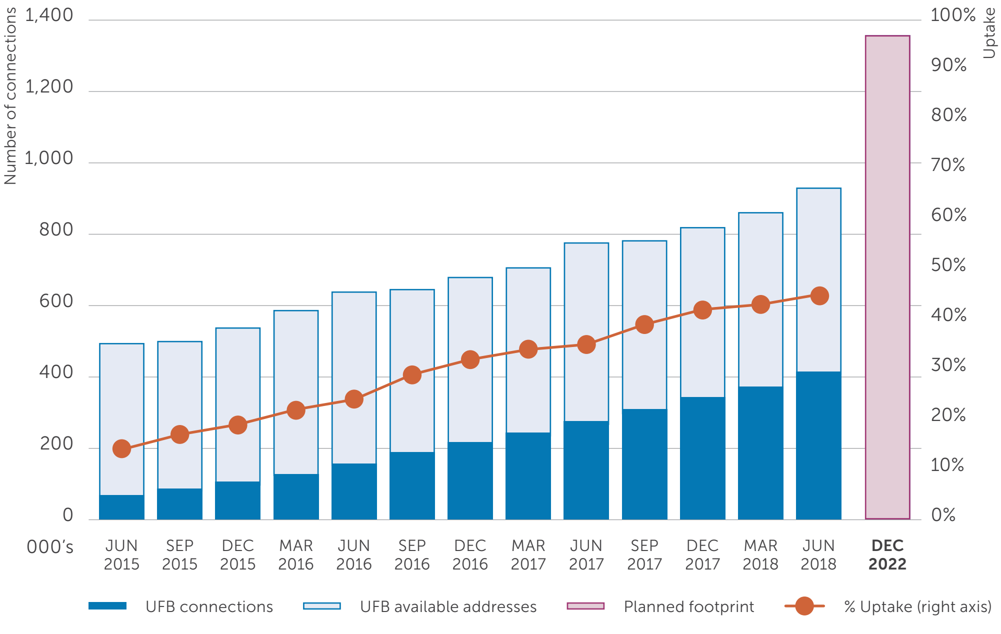
We receive the Government financing as the network is built past premises according to our agreed deployment plan and we issue debt and equity securities in return. The debt will be redeemed in tranches from 2025 to 2036, while an increasing portion of the equity securities attract dividend payments from 2025 onwards. In the event that our credit rating fell below investment grade we would require Crown Infrastructure Partners approval to pay a dividend on our ordinary shares and, after 2019, to continue accessing Government financing for the UFB2 rollout.

We have fixed price contracts in place for the communal network deployment and for subsequent connections to customers. These contracts are with our third party service company suppliers including Visionstream, Broadspectrum, Downer and Universal Communications Group. We work closely with our service company partners to maintain our workforce at sustainable levels so we can meet customer demand for fibre connections and deliver a good customer experience. Technicians must undergo induction training, including health and safety, before conducting any work on our behalf. We also undertake regular spot checks to ensure work meets our quality standards and customer experience expectations.

During the year there were suggestions of isolated instances in which some service company subcontractors may have employed workers on a voluntary basis. We investigated the claims and a service company subsequently ended a subcontractor relationship. Our supplier contracts clearly require workers to be employed according to New Zealand law and we're continuing to monitor compliance with our supply chain requirements with all service companies.

Figure 4:

UFB rollout and uptake



Premises to pass by end of 2022 **~1,054,000***
Customers able to connect **~1.36 million**
Estimated communal capital expenditure to pass premises **$2.26 to 2.37 billion**
Crown funding (57:43 equity/debt) **up to $1.33 billion**
Capital expenditure required to connect premises **Subject to demand**

* Includes estimated 43,000 greenfields premises for UFB1

Regulatory environment

We operate our wholesale only network within the regulatory framework established by the Telecommunications Act. The Act was amended in 2011 to facilitate our demerger from Telecom New Zealand (now Spark). We're also subject to the requirements of four open access deeds of undertaking for copper, fibre and Rural Broadband Initiative services that focus on the provision of services on a non-discriminatory or equivalent basis. This regime will remain in place after 2020 except for matters that are dealt with by the revised utility model now being implemented by the Government.

Approximately 55% of our FY18 revenues were from copper services with pricing and terms regulated by the Commerce Commission (the Commission) under the Act. The Commission set a five-year schedule of pricing for our regulated copper services in December 2015, following a detailed price review process.

Our fibre services aren't currently regulated and most are instead subject to contractual pricing and terms agreed with the Government as part of our UFB contracts.

3.1 Moving to a regulated utility model

The pricing and terms on which we deliver copper and fibre access services from 2020 onwards has been the subject of a lengthy regulatory framework review. Final policy decisions from this review were released on 1 June 2017 and a Bill was introduced to Parliament on 8 August 2017. The Bill has been reviewed by a Select Committee and we're now awaiting a revised Bill for passage into legislation.

Under the proposed new framework our recent fibre investment would be regulated according to a utility style building block model from 2020. This model is already used to regulate other New Zealand utility businesses, such as electricity lines and gas networks. It is recognised as supporting private sector investment to meet network upgrades and increasing consumer demands through ongoing incentives to innovate, invest and improve efficiency for the long term benefit of customers. Moody's Investor Services has noted in a credit opinion that the transition to a regulated utility model could support a higher leverage profile within Chorus' Baa2 credit rating.

Key features of the proposed regime are:

- deregulation of the copper network from 1 January 2020 in areas where fibre is available and withdrawal of copper services subject to a consumer code.
- continued regulation of the copper network in areas where fibre is not available, with copper pricing adjusted for inflation.
- the regulated asset base for fibre will include unrecovered losses incurred before 2020, with pre 2011 assets valued at depreciated historical cost and post 2011 assets at depreciated actual cost. Crown financing will be treated according to its actual cost to Chorus.
- confirmation of the 100/20 Mbps fibre service as the main anchor product with a price cap to start at the 2019 level and adjusted annually for CPI for the first regulatory period – currently 2023.
- unbundling of the fibre network to be made available on a commercial basis from 2020.

We're now working with the Commission to facilitate a smooth and timely transition to the new regime. The Commission is required to establish the key input methodologies that will determine the starting value of our regulated asset base, the regulatory weighted average cost of capital, cost allocations, expenditure allowances and our maximum allowable revenue. If this process extends beyond 1 January 2020, key fibre and copper prices will be frozen at the then existing pricing levels, adjusted for inflation, for up to 24 months.

3.2 Other regulatory reviews

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 topics worthy of further analysis to include 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.

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.

Figure 5:

Regulation: moving to a utility model

(Regulatory framework as set out in draft legislation)

Fibre – proposed utility framework

- Regulated asset base (RAB) with revenue cap, to be set by Commerce Commission within two years
- Two anchor products (voice only + entry level broadband – 100/20Mbps fibre) at 2019 prices + CPI and a price cap for direct fibre access
- Three years after the new regime commences, the Commission can review the revenue cap model, as well as the anchor products, subject to specified conditions and statutory criteria

Copper – proposed 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

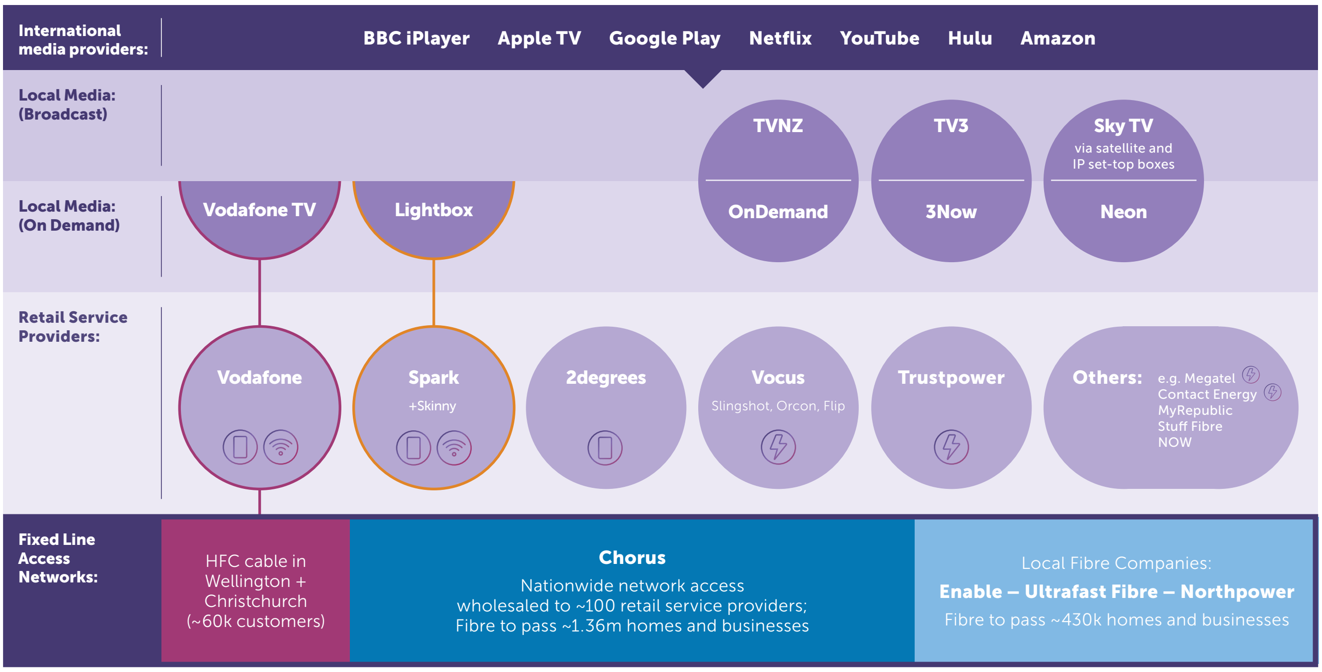
Where fibre is not available:

- 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

Figure 6:

The New Zealand fixed line market

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



Mobile network Wireless Broadband Power + Broadband

Note: Fibre to the premises will cover ~87% of NZ population by the end of 2022

Keeping communities connected

We recognise the reliance New Zealanders place upon our network both as a utility service for their daily lives and businesses, as well as a critical lifeline service in times of emergency. A large part of our everyday work is to ensure the 1.5 million connections on our network receive stable and reliable service. Our people and technicians often go the extra mile to keep communities connected when extreme events occur.

We have a comprehensive insurance programme typical of large scale infrastructure utilities and we undertake probability based loss estimate modelling. Our network has proven resilient, despite several earthquakes above a 7 magnitude on the Richter scale in recent years, with damage largely restricted to localised cables and minimal damage to our exchange buildings.

Weather events can affect our network, through faults generated by water entering copper cables, lightning strikes, and wind damage to poles and aerial cabling. We consider the potential near to medium term financial impact of climate change effects to be low. Our newer fibre network will provide greater resiliency because it is less susceptible to water and lightning related faults. However, fibre faults are likely to cost more to repair on average due to the network architecture and work required.

Despite the challenges of some extreme weather events and damage to cables by third parties, we managed to keep the average duration of network interruptions to 21 hours across our fibre and copper network in FY18. We met our fibre service level targets as contracted with the Crown:

- Layer 1: actual downtime of 63 minutes vs limit of 120 minutes
- Layer 2: actual downtime of 6 minutes vs limit of 30 minutes

As a wholesale network operator our cybersecurity risks are different from those of retail-facing network operators. We have policies, processes, and registers to ensure cybersecurity is contemplated and addressed through technology selection, delivery practices, and ongoing operations of our IT systems. Our insurances cover key cybersecurity risks and we undertake regular reviews, including external audits and ad-hoc reviews, to provide assurance and feedback on our assessments and controls.

Our people, communities and the environment

5.1 Health and safety

We place the utmost importance on keeping our people healthy and safe. This includes our 933 employees and the more than 4,000 people working on our behalf to build, connect and maintain our network. Our health and safety focus extends to anyone who is in, or in the vicinity of, our workplaces.

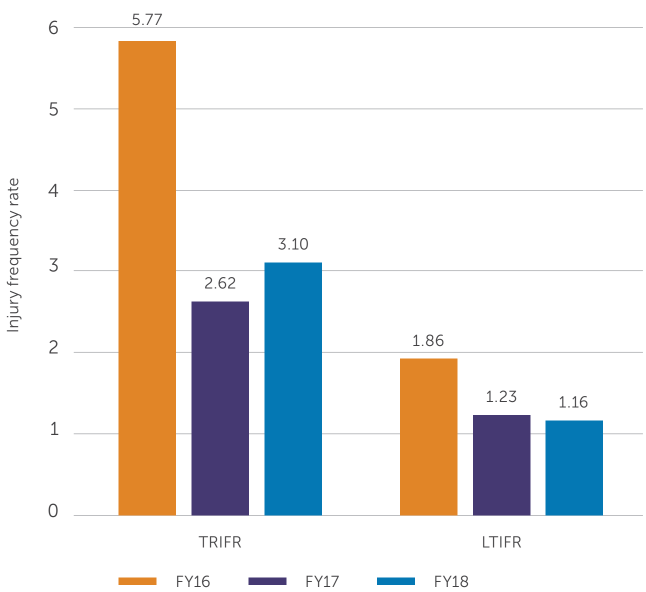
We've established an open reporting culture and regularly screen our contractors and suppliers to ensure their systems and procedures meet our health and safety expectations. New service company technicians must complete a work training competency programme for field work, endorsed by the New Zealand Qualifications Authority, before they can work on our network.

The number of hours worked, including our service companies, remained the same at 13 million for FY18. There was a slight reduction in the number of lost time injuries, while minor injuries increased slightly. This meant the Lost Time Injury Frequency Rate (LTIFR) reduced from 1.23 in FY17 to 1.16 and the Total Recorded Injury Frequency Rate (TRIFR) increased from 2.62 in FY17 to 3.10.

For FY19 we're focusing our efforts on greater collaboration and innovation with our service company partners to enhance health and safety practices, as well as continued development of our support for people working alone in our offices and in the field.

Figure 7:

Injury frequency rates FY17 – FY18



LTIFR: number of lost time injuries + medical treatment injuries + restricted work injuries divided by total work hours × 1,000,000

TRIFR: number of lost time injuries divided by total work hours × 1,000,000

5.2 Our people

As a core part of our business strategy, we're committed to providing an environment where all of our employees feel enabled and have a sense of belonging. We believe greater diversity within our business will maximise our collective capability, allow us to leverage diversity of thought, and better reflect and understand our diverse customer base. This should in turn lead to better decision making and higher shareholder value.

We invest in recruitment, development and wellbeing programmes supporting a diverse and inclusive, safe, transparent and rewarding workplace. We offer flexible work options and 75% of employees believe they have access to flexible working arrangement that meet their lifestyle needs. We also provide volunteer days for employees to help in their local community, through activities such as delivering lunches to schools, native tree planting and assisting in local hospices.

While 82% of employees feel that Chorus values diversity, we were disappointed that overall employee engagement reduced from 81% to 57%.[1] While this is closer to the New Zealand norm, we believe this reflects a period of uncertainty for our people as we implemented organisational changes to shift our business to a more cost effective and customer focused culture. We're working hard to increase engagement in the year ahead.

We announced some changes to our executive team during the year as we prepare for a future where the fibre build will be largely complete and we seek to innovate for growth. In September 2017, Shaun Philp joined us as the new General Manager of People and Culture. In March 2018, Vanessa Oakley transferred from General Counsel and Company Secretary to lead our regulatory and business transformation functions in the new role of General Manager of Strategy and Business Operations. Ed Hyde, previously CEO of Spark Ventures, started as our Chief Customer Officer in July 2018. In August 2018, Elaine Campbell joined as the new General Counsel and Company Secretary and our Chief Financial Officer, Andrew Carroll, transferred to the role of General Manager Network and Field Management.[2]

1 Based on our annual Aon Hewitt engagement survey.
2 He will remain as CFO until a new appointment is made.

5.3 Socio-economic benefits of broadband

Fibre optic networks are compared to the advent of electricity in terms of the potential transformative effects for communities and economies. We take a long-term view of our network investments and are committed to delivering an asset for New Zealand's ongoing social and economic development. This is aligned with the infrastructure-related elements of the United Nations Sustainable Development Goals, including sustainable communities, work and economic growth, education and health.

As our fibre rollout reaches more suburban and remote communities we're already seeing the socio-economic benefits grow. Fibre connections to schools and hospitals around New Zealand were a rollout priority under our urban and rural rollout contracts with Government. This has reduced the digital divide for rural students, enabling access to new learning resources and experiences. However, as technology-based learning becomes more prevalent in schools it has highlighted the divide that exists within communities between those students that have broadband at home and those who don't.

We've begun working with Network for Learning, a government education group, to explore the use of our network infrastructure to solve the issue of students who are unable to access high-quality broadband at home. Our first trial in Christchurch showed wifi terminals mounted on our poles could be used to extend the reach of the Haeata Community Campus' learning network to students in surrounding homes. Based on this initial success, we're expanding the trial to Rata Street School in Lower Hutt. This will involve us and Network for Learning working with the school, the Te Awakairangi Access Trust, Hutt City Council and the Ministry of Education, to connect 150 homes to fibre. A wifi access point in the home will enable students to bring their Chromebook device home from school and access the school's online learning network.

$32.8B

In 2012 Alcatel Lucent's Bell Labs found the UFB rollout could contribute $32.8 billion in economic benefits to New Zealand over 20 years.

$3.3B

In 2017 Sapere Research Group estimated wider social benefits from maximum UFB uptake at about $2 billion annually, on top of a $3.3 billion annual contribution to New Zealand's Gross Domestic Product from uptake by businesses.

Health is another area in which better broadband is helping bridge divides. Medical practitioners, for example, are using improved video conferencing capability to provide telemedicine consultations to their regional diabetic patients. This is reducing travel demands on doctors and patients, as well as improving the quality of patient monitoring.

Other groups or initiatives we've supported during the year include:

- Digital Journey, a social enterprise that delivers digital projects and initiatives to support the opportunity to use, understand and benefit from digital services.
- the New Zealand Innovation Partnership, a network of organisations that support digital innovation in New Zealand across business, education and government.
- sponsorship of residential gigabit broadband services at entry level wholesale prices through to July 2019 for Dunedin city, as part of winning of our Gigatown competition prize.
- a GigStart Fund for Dunedin entrepreneurs and innovators to deliver new fibre-based services.
- the GigCity Dunedin Community Fund, for groups using fibre broadband to benefit their community.
- working with councils, business associations and community beautification groups, such as Keep New Zealand Beautiful, to have more than 100 of our street cabinets illustrated by local artists.
- a range of community support, learning and art organisations which receive subsidised space within our exchange buildings.
- a range of industry and government organisations – TUANZ, InternetNZ, NZTech and the Local Government New Zealand conference – that are focused on bridging the digital divide and extending the reach of broadband.

5.4 A low carbon business

Better broadband networks help establish a platform for low carbon communities, enabling communications options that enhance social interaction and change the way businesses operate, including teleworking and less car or plane travel. We've embraced the use of our own technology, installing enhanced video conferencing capability in meeting rooms throughout our regional offices. This is fostering employee collaboration and contributed to a 28% reduction in air travel in FY18.

We're committed to a sustainable operating model and we report our carbon emissions annually to CDP, a global organisation that collects self-reported environmental information. Our benchmarking shows we're a low carbon business compared to businesses internationally both within and beyond the telecommunications industry.

This year's emissions were 29% lower than the base year. Annual reductions achieved in the last six years have avoided a net cumulative 44 kilotonnes of carbon dioxide equivalent emissions (CO2e). These reductions include 3 kilotonnes of Scope 1 direct emissions due to lower diesel use for generators, 29 kilotonnes of Scope 2 electricity emissions, and 12 kilotonnes of Scope 3 value chain emissions. The net reductions in Scope 2 and 3 emissions are mainly due to a greening national electricity grid and energy efficiency improvements.

204 Tonnes of metal recovered for recycling

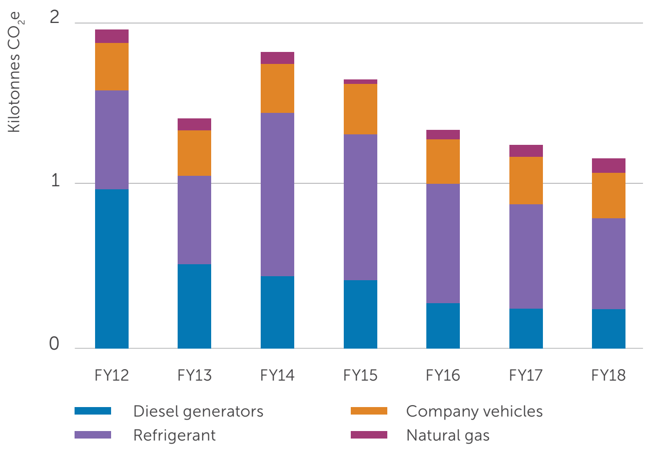
208 Tonnes of ducting recovered for recycling

Our total emissions were 25 kilotonnes-CO2e in FY18, up 8% from FY17 due to an increase in thermal electricity generation. The national grid was 83% renewable compared to 85% last year. Network electricity consumption and our field service vehicle fleet accounted for around 90% of our emissions.

We have an extensive waste minimisation process for network activities. Waste ducting from our fibre rollout is collected and re-used in the local manufacturing of new duct. E-waste is processed to extract precious metals and redundant network is recycled. We've almost completed our programme to replace more than 850 air conditioning units that relied on ozone depleting refrigerant. No significant environmental incidents were recorded during FY18.

Figure 8:

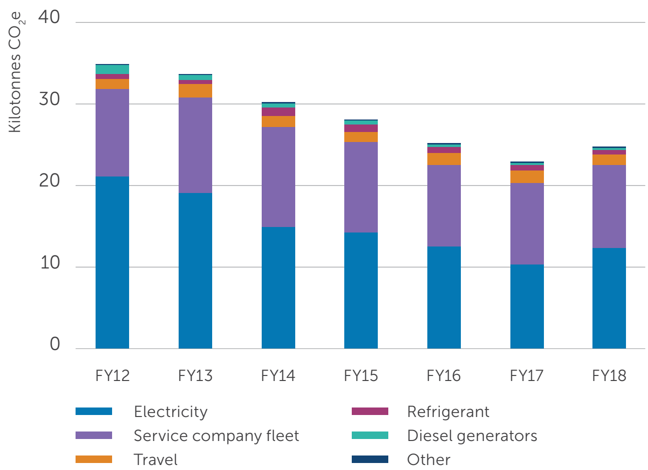
Direct emissions



Note: Service company fleet emissions are included in Scope 3 value chain emissions because the vehicles are owned and operated by third parties.

Figure 9:

Carbon emissions



Note: FY18 emissions have been estimated in advance of the release of official Government data and guidance on emission factors. Service company fleet data excludes those vehicles operated by subcontractors to service companies. Detailed data is unavailable for these vehicles, but we estimate they account for between 5 to 10 kilotonnes-CO_2e.

6.0

Outlook

It's more than a decade since Chorus was first set up as a business unit within Telecom New Zealand. We decided it's time to speak a little more loudly about our place in the world and have refreshed our brand, as well as our company purpose. This heralds the transformation going on within our business. With a new regulatory regime to apply from 2020 and the end of our UFB rollout shortly thereafter, we've begun reshaping the way we operate with an eye to the future.

This financial year, FY19, will be the peak year of our fibre rollout with a large step up in the number of premises to be passed. Auckland and Wellington are expected to be largely complete by the end of the financial year, while the UFB2 rollout will see us bridging the digital divide in a growing number of smaller towns and communities. We need to maintain our relentless focus on keeping the rollout on time and on budget, so that we deliver on our contractual commitments and the expectations of customers keenly awaiting access to fibre.

We expect customer demand for fibre connections to maintain its strong momentum. In larger centres where we are approaching the end of the UFB1 rollout, awareness of fibre is already high and there are a lot of people keen to connect after seven years of waiting. For smaller communities, the rollout of fibre is a high profile event that generates strong interest of its own accord, as well as an opportunity for retailers to compete in areas they may not have previously marketed to. We need to keep improving the fibre installation process so we both increase our productivity and customers' satisfaction with the experience. We've already raised the bar by setting ourselves the target of reducing customer effort to a single visit for a large proportion of customers. Achieving this requires us to work even more collaboratively with our service company partners and retailers to get our processes and systems working in concert.

At the same time, retailers and broadcasters are continuing to raise New Zealanders' awareness of online viewing options. Spark, for example, plans to broadcast the 2019 Rugby World Cup online. Compelling content means the utility value of our network will grow, along with peak time data demand.

62%

of New Zealanders now stream video on demand, up from 12% in 2014 – NZ On Air

Increasing uptake of 4K televisions and ultra-high definition programming will only add to the scale of this nightly peak in traffic. This gives us confidence that our fixed line network, whether copper or fibre, will remain a superior service than wireless for most customers. While talk of 5G and wireless technology advances will no doubt continue in FY19, the reality is that the business case for deploying small suburban cell sites looks even more challenging when fibre is already available to most premises and we provide dedicated capacity to customers at a lower cost per gigabit.

We're not alone in this view. Fibre continues to be acknowledged globally as the most desirable form of network connectivity. In Europe, we're seeing fibre to the premises deployments gain unprecedented momentum as network operators, governments and infrastructure investors seek to make gigabit services a reality for their markets. As we've found, a long-term infrastructure focus drives a different investment model to that typical of incumbent telecommunications retailers, especially when the network can leverage multiple retailers. It's little wonder that the New Zealand model of wholesale network access is now regularly cited internationally as a leading example of how to bridge the economic challenges of fibre investment.

Our network infrastructure is an amazing asset for New Zealand and its uses are only beginning to be tapped into. The rise of the Internet of Things and network edge computing will keep driving the need for more connectivity options and data capacity. Our challenge is to now turn these emerging opportunities into commercial reality. This may mean collaborating with entirely new classes of wholesale customers, whether broadcasters or infrastructure service providers, as technology advances and our open access network create a platform for the delivery of innovative new solutions for New Zealand homes and businesses.

The strategic changes we started making in FY18 and are continuing through FY19 are focused on achieving our objective of a return to modest EBITDA growth in FY20. This aspiration is subject to no material changes in the expected regulatory environment or competitive outlook. Our return to broadband connection growth in FY18, together with strong forecasts for urban housing development and the underlying broadband trends identified above – such as fibre uptake and the demand for streamed video content – give us added confidence in our strategy. By innovating for growth and optimising today's business, we believe our infrastructure will continue to help make New Zealand better well into the future.

Shaping our future

WE'RE GOING TO

KEEP NEW ZEALAND NEW

WE'LL GET THERE BY

Creating an environment for our customers and our people that optimises today's business and allows us to innovate for growth

BECAUSE WE WANT TO

MAKE NEW ZEALAND BETTER

WE'RE FOCUSSED ON

CUSTOMER

Transform customer experience

DIGITAL

Nothing happens if it's not digital

PEOPLE

We're committed to enabling our people

OPTIMISATION

We improve by getting better at what we do

INNOVATION

New revenue opportunities

Management commentary

Management commentary

	2018 $M	2017 $M
Operating revenue	990	1,040
Operating expenses	(337)	(388)
Earnings before interest, income tax, depreciation and amortisation	**653**	**652**
Depreciation and amortisation	(387)	(339)
Earnings before interest and income tax	**266**	**313**
Net interest expense	(144)	(154)
Net earnings before income tax	**122**	**159**
Income tax expense	(37)	(46)
Net earnings for the year	**85**	**113**

In summary

We report earnings before interest, income tax, depreciation and amortisation (EBITDA) of $653 million for the year ending 30 June 2018 (FY18), an increase of $1 million on the prior year (FY17). Net earnings decreased by $28 million year on year.

Results for FY18 largely reflect the annualised revenue impact of declining connections from FY17, the adoption of three new accounting standards (NZ IFRS 9, 15, and 16), and costs incurred as part of an organisational transformation programme.

Capital expenditure of $810 million was at the top end of the FY18 guidance range of $780 million to $820 million.

The increase from FY17 capital expenditure of $639 million reflected growing demand for connections to our fibre network, with about 76% of our capital spend fibre related, as well as capitalisation of customer retention costs and operating leases under the new accounting standards.

We will pay a final dividend of 13 cents per share on 9 October 2018 and the dividend reinvestment plan will be available. We expect to pay a dividend of 23 cents per share for FY19, subject to no material adverse changes in circumstances or outlook.

	Connections 30 Jun 2018	Connections 31 Dec 2017	Connections 30 Jun 2017
Fibre broadband (GPON)	433,000	362,000	292,000
Fibre premium (P2P)	12,000	13,000	13,000
Copper VDSL	321,000	320,000	244,000
Copper ADSL	433,000	499,000	650,000
Data services over copper	6,000	7,000	8,000
Unbundled copper	53,000	68,000	82,000
Baseband copper	268,000	290,000	313,000
Total fixed line connections	**1,526,000**	**1,559,000**	**1,602,000**

Revenue commentary

	2018 $M	2017 $M
Fibre broadband (GPON)	198	123
Fibre premium (P2P)	78	79
Copper based voice	133	163
Copper based broadband	421	501
Data services over copper	27	32
Value added network services	33	34
Infrastructure	23	23
Field services products	70	76
Other	7	9
Total revenue	**990**	**1,040**

Revenue overview

Our product portfolio encompasses a broad range of wholesale broadband, data and voice services across a mix of regulated and commercial products. Revenues of $990 million were down compared to revenue of $1,040 million for the prior period. This largely reflects the continued reduction in total fixed line connections from FY17, albeit at a slower rate in FY18, as customers migrated to alternative fibre and wireless networks.

Fibre broadband (GPON)

Fibre broadband revenues continue to grow as customers migrate to our growing fibre network and broadband penetration increases. Connections grew by 48% to 433,000, with about 69% of connections now on 100/20 Mbps plans.

Demand for 1 Gbps plans doubled during the year, reflecting a shift in retailer marketing, and we ended the period with about 30,000 connections. About half of these customers are in the Dunedin 'gigatown' area where we are providing sponsored pricing at entry level fibre prices until July 2019.

Fibre premium (P2P)

Fibre premium (point to point) revenues reduced slightly as connection numbers declined, reflecting the migration of customers from legacy HSNS Premium and Bandwidth Fibre Access Service connections to lower cost inputs, or alternative fibre networks. Direct Fibre Access Service and other backhaul connections increased modestly.

Copper based voice

Copper based voice revenues continue to decline as customers migrate from copper to either a fibre based connection on our network, or to alternative fibre and wireless networks. This technology driven change saw baseband copper connections reduce by 45,000 lines during the period and unbundled copper connections decline by 29,000.

Data services over copper

Data services over copper connections continued to decline as retailers transition business customers from legacy services to cheaper fibre based services, either on our fibre network, or on alternative local and CBD fibre networks.

Copper based broadband

Copper based broadband revenues are declining as customers migrate from our ADSL and VDSL broadband services to either our fibre network, or alternative fibre and wireless networks. ADSL connections reduced significantly during the period as we encouraged retailers to upgrade customers to better VDSL or fibre services. VDSL connections increased for much of the period as a result of our initiatives, although much of this increase was in the first half of the year. Total VDSL connections began to decline towards the end of FY18 as retailer migrations of their ADSL customers slowed and our ongoing fibre rollout enabled more VDSL customers to upgrade to fibre.

Value added network services

There was a slight decline in value added network services revenue. The main driver for this category is national data transport services, which provides network connectivity across legacy backhaul links and aggregation handover links.

Infrastructure

Infrastructure revenues remain flat year on year and relate to services that provide access to our network assets, such as renting exchange space, both for unbundled copper and commercial co-location purposes. There was ongoing growth in demand for commercial access to our exchanges, but this was offset by a reduction in access space for unbundled copper. This reflected the decrease in unbundled copper connections.

Field services

Field services revenue was down $6 million relative to 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. Field services revenues also include subdivision work, chargeable cable location services, maintaining retailer networks and relocating our network on request. Revenue in this category is more difficult to forecast as a portion of it is dependent on third party demand or cost recovery for damage to our network.

Other

Other income largely consists of revenue generated from the provision of billing and network management services to Spark, which has decreased from FY17 in line with a reduction in services provided. Other items include dividends received from electricity trusts that supply us with electricity and any other minor income.

Expenditure commentary

Operating expenses

	2018 $M	2017 $M
Labour	73	74
Provisioning	6	43
Network maintenance	87	87
Other network costs	34	27
Information technology	54	60
Rent and rates	9	17
Property maintenance	15	13
Electricity	15	14
Insurance	3	3
Consultants	5	10
Regulatory levies	13	13
Other	23	27
Total operating expenses	**337**	**388**

Operating expenditure of $337 million is lower than FY17 largely due to the adoption of NZ IFRS 15 and 16, which resulted in provisioning ($27 million), information technology ($10 million), labour ($6 million) and rental expenses ($6 million) being capitalised as assets and subsequently depreciated or amortised in accordance with the appropriate asset life.

Labour

Labour of $73 million represent staff costs that are not capitalised. At 30 June 2018 we had 933 permanent and fixed term employees, a 12% reduction from peak August 2017 levels and down from 1,032 employees at 30 June 2017. The reduction in employees followed greater retailer adoption of automated fibre provisioning, together with other process and system improvements, and a wider review of our business support function requirements. There were one-off restructuring costs of around $5 million in FY18.

Provisioning

Provisioning costs reduced significantly during the year. This is because less truck rolls are required to provision changes in service once homes and businesses are connected to the fibre network and the adoption of NZ IFRS 15 resulted in the capitalisation of $27 million in costs associated with customer acquisition and retention.

Network maintenance

Network maintenance costs were flat compared to FY17. This was despite the total number of faults on our network decreasing as total connections declined and customers moved to the new fibre network. The level of spend reflected more investment in proactive fault management during the year, a series of extreme weather events, a higher incidence of underground faults leading to a higher average cost per fault and inflation related increases for service company costs.

Other network costs

Other network costs relate to costs associated with service partner contracts, engineering services, fibre access costs from third parties, warehousing costs, fibre order cancellation costs and the cost of network spares. The nature of other network costs tends to be more variable in nature, with the value incurred in the year dependent on various project related activities incurred. For FY18 there has been an increased focus on proactive fault management which has increased network spares costs from the prior year. We have also seen an increase in costs for fibre access from third parties to support an expanded backhaul product portfolio.

Information technology

Information technology costs were $54 million and have reduced slightly from FY17. This is mainly due to changes in capitalisation due to NZ IFRS 15 and a tight cost control focus to offset increasing costs from inflation. Maintenance and support costs were largely consistent, with Spark shared systems continuing to be replaced and offset by our own solutions.

Rent and rates

Rent and rates costs relate to the operation of our network estate including exchanges, radio sites and roadside cabinets. These costs include rates that are levied on network assets both above and below ground. The adoption of NZ IFRS 16 means most rental leases are now capitalised as a right of use asset and subsequently depreciated over the life of the lease, and rental payments are recognised between interest expenses and repayment of lease liability.

Property maintenance

Property maintenance costs have continued to increase consistent with the trend in FY17 as we complete previously deferred maintenance activity.

Electricity

Electricity costs were slightly higher in FY18 due to increased consumption across the electronic equipment within our network sites. About 50% of our electricity requirements have been hedged, with a current end date of March 2019.

Consultant

Consultant costs decreased following a one-off cost in FY17 for a strategic review of the company.

Regulatory levy

Regulatory levy reflects the amount paid for the Telecommunications Development Levy and the Telecommunications Regulation Levy. The expense for the current year reflects the estimated liability for FY18.

Other

Other costs includes expenditure on general costs such as advertising, telecommunications, travel, training and legal fees. A programme of tight cost control was implemented across areas such as travel and general corporate expenses.

Depreciation and amortisation

	2018 $M	2017 $M	Estimated useful life (years)	Weighted average useful life (years)
Depreciation				
Fibre cables	78	72	20	20
Ducts and manholes	42	39	20–50	49
Copper cables	51	53	10–30	22
Cabinets	41	45	5–20	14
Property	15	19	5–50	25
Network electronics	65	67	2–25	9
Right of use assets	13	–	10–50	28
Other	–	–	2–10	6
Less: Crown funding	(22)	(21)		
Total depreciation	**283**	**274**		
Amortisation				
Software	61	65	2–8	4
Customer retention	43	–	0–3	2
Other intangibles	–	–	6–21	21
Total amortisation	**104**	**65**		

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

During the year ended 30 June 2018, $810 million of expenditure on network assets and software was capitalised, along with $33 million of additional leases. The 'UFB communal' and 'Fibre connections and fibre layer 2' included in 'fibre' capital expenditure was largely capitalised against the network assets categories of fibre cables (43%) and ducts and manholes (40%). The average depreciation rate for UFB communal infrastructure spend is based on an estimated life of 39 years, reflecting the very high proportion of long life assets being constructed.

Software and other intangibles largely consist of the software components of billing, provisioning and operational systems, including spend on Spark-owned systems and customer retention assets capitalised under NZ IFRS 15.

Chorus expects that incremental costs incurred in acquiring new contracts with new and existing customers are recoverable, and capitalised these as customer retention assets. In the comparative period, such costs were recognised as operating expenses when incurred. Capitalised customer retention assets are amortised when related revenues are recognised either upfront or over the life of the contract (currently estimated to be within a maximum of three years). In the period to 30 June 2018, the amount of amortisation was $43 million and there was no impairment in relation to the costs capitalised.

Our depreciation profile is expected to continue to change, reflecting the greater mix of longer dated assets for the UFB and RBI rollouts, while our amortisation profile is expected to remain consistent. The amortisation of Crown funding is expected to increase over time and will continue to offset depreciation.

Finance income and expense

(Income)/expense	2018 $M	2017 $M
Finance income	**(7)**	**(10)**
Finance expense		
Interest on syndicated bank facility	4	16
Interest on EMTN – GBP	53	53
Interest on EMTN – EUR	39	27
Interest on fixed rate NZD bonds	18	18
Other interest expense	22	18
Capitalised interest	(4)	(4)
Interest costs	**132**	**128**
Fair value adjustment on interest rate swaps not in hedge relationship	(3)	6
Ineffective portion of changes in fair value of cash flow hedges	5	17
Total finance expenses excluding CIP securities (notional) interest	**134**	**151**
CIP securities (notional) interest	17	13
Total finance expense	**151**	**164**

Interest costs increased by $4 million year on year. The increase is due to a full year of interest being incurred for the EUR EMTN issued during FY17. This increase was largely offset by a reduced syndicated bank facility debt held during the course of the year and a decreased weighted effective interest rate on debt at 5.96% (30 June 2017: 6.1%).

Other interest expense includes lease interest of $18 million (30 June 2017: $14 million) due to the change in treatment of leases under NZ IFRS 16, and $3 million amortisation (30 June 2017: $3 million) arising from the difference between fair value and proceeds realised from the GBP EMTN interest rate swap reset.

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

Ineffectiveness

The decrease in total finance expense is mainly due to the change in accounting treatment under NZ IFRS 9 of currency basis risk, arising from the EUR EMTN hedging arrangements. During FY17 (under NZ IAS 39), the expense associated with this (2017: $10 million pre-tax) flowed through ineffectiveness in finance expense – whereas in FY18 this expense ($4 million pre-tax) is moved to the cost of hedging reserve in equity.

The foreign exchange exposure on the EUR EMTN has been fully hedged and interest rate exposure partially hedged. For hedge accounting purposes the hedging relationship consists of a fair value hedge and two cash flow hedges.

The GBP EMTN hedging relationship was reset with a fair value of $49 million on 9 December 2013 following the close out of the interest rate swaps relating to the EMTN. This amount is being amortised over the life of the derivative and flows as ineffectiveness in the income statement. As at 30 June 2018 a further $8 million remains in the hedge reserve to be amortised in relation to this reset. In FY18, ineffectiveness of $7 million (30 June 2017: $6 million) flowed through interest expense relating to the amortisation of this reset. This was offset by a $2 million credit from a risk adjustment on the EUR EMTN, following the NZ IFRS 9 transition.

Taxation

The 2018 effective tax rate of 28% equates to the statutory rate of 28%. There are no material permanent differences between net earnings before income tax and what is, or will be, taxable for the year to 30 June 2018.

Capital expenditure commentary

	2018 $M	2017 $M
Fibre	620	503
Copper	132	79
Common	58	57
Gross capital expenditure	**810**	**639**

Gross capital expenditure for the year to 30 June 2018 was $810 million. This was in the top half of the FY18 guidance range of $780 million to $820 million because of strong demand for fibre connections. The additional step up in gross capital expenditure from FY17 was the result of the capitalisation of $60 million in customer retention costs following the adoption of NZ IFRS 15.

Chorus expects that incremental costs incurred in acquiring new contracts with new and existing customers are recoverable, and capitalised these as customer retention assets. In the comparative period, such costs were recognised as operating expenses when incurred.

Fibre capital expenditure

	2018 $M	2017 $M
UFB communal	231	183
Fibre connections and fibre layer 2[1]	294	258
Fibre products and systems	17	17
Other fibre connections and growth	65	45
Customer retention costs	13	–
Total fibre capital expenditure	**620**	**503**

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

Fibre capital expenditure includes spend specifically focused on fibre assets and represents about 76% of our FY18 gross capital expenditure.

The cost of the deployment of the UFB communal network for the year was $231 million. This included $77 million for communal network scheduled to be submitted to CIP for testing in FY19. About $60 million was spent on UFB2 deployment in FY18. The average cost per UFB1 premises passed during the year was about $1,570. This was in the top half of FY18 guidance for an average cost of $1,500 to $1,600.

Fibre connections and layer 2 spend was $294 million with fibre connections installed for 156,000 customers nationwide. This was an increase of 27,000 installations year on year, reflecting the addition of more fibre field crews to support the strong demand for fibre as our fibre footprint continues to expand.

About $89 million was upfront investment for 'backbone' network to enable the connection of multiple customers located along rights of way or in multi dwelling units.

The average UFB1 cost per premises connected for standard residential premises and some non-standard single dwelling unit installations and service desk costs was $1,037, excluding the long run average cost of layer 2 equipment. This was below the lower end of the expected FY18 cost range of $1,050 to $1,200, reflecting service desk costs spread across a higher volume of connections. Only a small number of UFB2 connections have been completed to date.

Investment in other fibre connections and growth increased by $20 million as we undertook a pole replacement programme in UFB areas, backhaul fibre was deployed to UFB2 communities and demand for greenfields fibre connectivity continued to grow.

Copper capital expenditure

	2018 $M	2017 $M
Network sustain	45	29
Copper connections	2	4
Copper layer 2	34	44
Product fixed	4	2
Customer retention	47	–
Total copper capital expenditure	**132**	**79**

Copper capital expenditure during the year was $132 million. The increase of $53 million from FY17 was largely the result of $47 million of customer retention costs being capitalised following the adoption of NZ IFRS 15.

Network sustain expenditure increased by $16 million to $45 million as a result of more proactive maintenance, a pole replacement programme outside our fibre areas and roadworks related projects undertaken on a cost recovery basis.

Capital expenditure on copper connections has reduced markedly as customer demand shifts to our fibre network or alternative networks.

Copper layer 2 spend included an approximately $20 million programme of work to enhance copper broadband performance in selected areas through the deployment of VDSL vectoring technology.

Common capital expenditure

	2018 $M	2017 $M
Information technology	35	34
Building and engineering services	20	19
Other	3	4
Total common capital expenditure	**58**	**57**

Common capital expenditure of $58 million was consistent with spend for FY17. Information technology spend increased slightly from FY17 as we continue to invest in establishing our own supporting platforms and technologies. Building and engineering services was also at similar levels to FY17 as we continued to upgrade certain exchanges to meet increasing power and regulatory requirements. 'Other' common capital expenditure includes items such as office accommodation and equipment and was slightly down on FY17.

Contributions to capital expenditure

We received $6 million in contributions towards our gross capital expenditure in FY18 for instances where central or local government authorities asked us to relocate or rebuild existing network. These contributions are included as part of Crown funding.

Long term capital management

We will pay a final dividend of 13.0 cents per share on 9 October 2018 to all holders registered at 5.00pm 25 September 2018. The shares will be quoted on an ex-dividend basis from 24 September 2018. The dividends paid will be fully imputed, at a ratio of 28/72, in line with the corporate income tax rate. In addition, a supplementary dividend of 2.2 cents per share will be payable to shareholders who are not resident in New Zealand.

The dividend reinvestment plan will remain in place for the final dividend at a discount rate of 3%. Shareholders who have previously elected to participate in the dividend reinvestment plan do not need to take any further action. For those shareholders who wish to participate, election notices to participate must be received by 5.00pm (NZ time) on 26 September 2018.

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

For FY19, Chorus expects to pay a dividend of 23 cents per share, subject to no material adverse changes in circumstance or outlook.

The Board considers that a 'BBB' or equivalent credit rating is appropriate for a company such as Chorus. It intends to maintain capital management and financial policies consistent with these credit ratings. At 30 June 2018, we had a long term credit rating of BBB/stable outlook by Standard & Poor's and Baa2/stable by Moody's Investors Service.

Financial statements

Independent auditor's report

To the shareholders of Chorus Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Chorus Limited (the company) and its subsidiaries (the Group) on pages 31 to 63:

i. present fairly in all material respects the Group's financial position as at 30 June 2018, its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2018;

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

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

Basis for opinion

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

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

Our responsibilities under ISAs (NZ) are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to regulatory audit services, tax compliance services and other assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $7.7 million, determined with reference to a benchmark of Group profit before tax. We chose this benchmark because, in our view, this is a key measure of the Group's performance.

Key audit matters

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

The key audit matter	How the matter was addressed in our audit
Capitalisation of assets	
Refer to Note 2 to the Financial Statements. During the year ended 30 June 2018 the Group has spent $721 million in network asset additions as it continues with its purpose of bringing better broadband to New Zealanders. Capitalisation of these costs and useful lives assigned to these assets are a key audit matter due to the significance of network assets to the Group's business, and due to the judgement involved in the:	Our audit procedures included: — Examining that the controls to recognise capital projects in the fixed asset register are effective and the approval of the asset life annual review. — Assessing the nature of costs incurred in capital projects by checking a sample of costs to invoice to determine whether the description of the expenditure met the capitalisation criteria.

The key audit matter	How the matter was addressed in our audit
Capitalisation of assets (continued)	
— decision to capitalise or expense costs relating to the network. This decision depends on whether the expenditure is considered to enhance the network (and therefore capital), or to maintain the current operating capability of the network (and therefore an expense); — estimation of the stage of completion of assets under construction; and — estimation of the useful life of the asset once the costs are capitalised. There is also judgment when estimating asset lives due to the uncertainty of the impact of technological change.	— Evaluating a sample of assets under construction in which no costs had been incurred in the final three months of the financial reporting period. We challenged the status of those assets under construction to determine whether they remained appropriately capitalised. — Assessing, on a sample basis, whether the accruals recorded for assets under construction were calculated in accordance with the progress of construction and the arrangements with external suppliers. — Assessing the useful economic lives of the assets, by comparing to industry benchmarks and our knowledge of the business and its operations.
Chorus funding	
Refer to Notes 4, 6, 7 and 19 to the Financial Statements. The CIP securities and interest rate derivatives are a key audit matter due to their significance to the Group's consolidated statement of financial position. There is complexity and judgement involved in determining the appropriate valuation and accounting treatment for the interest rate derivatives and the CIP securities, including consideration of transition and disclosure impacts following Chorus' early adoption of NZ IFRS 9 Financial Instruments.	Our audit procedures to assess the valuation and accounting treatment for the Group's interest rate derivatives and CIP securities included: — Our financial instrument specialists re-valuing all interest rate derivatives using valuation models and inputs independent from those utilised by management. The valuations considered new accounting requirements following Chorus' transition to NZ IFRS 9. — Evaluating the hedge effectiveness of the interest rate derivatives hedging the GBP and EUR denominated Euro Medium Term Notes. In both instances, our financial instrument specialists assessed the effectiveness of these hedges, following NZ IFRS 9 requirements, by independently modelling the future changes in the value of these instruments to assess whether the underlying derivatives were effective. — Our financial instrument specialists reviewing the adjustment to opening retained earnings and new disclosure requirements following Chorus' transition to NZ IFRS 9. — Assessing the accounting treatment of the CIP securities. We read the underlying loan agreement and analysed the various features of the loan agreement to determine whether the CIP securities were a debt or equity instrument. — Evaluating the valuation of the CIP securities. Our valuation specialists assessed the methodology used by management for determining the amounts allocated to debt and government grant. — Assessing the inputs used in the valuation of the CIP securities. On a sample basis we compared interest rates and credit spreads to independent sources of information to determine an acceptable range of valuation inputs.
Revenue recognition	
Refer to Note 9 to the Financial Statements. Accuracy of revenue is considered to be a key audit matter due to the nature of the underlying billing processes that existed following the Chorus demerger from Spark in 2011. There are certain legacy products where the billing is based on network consumption which cannot be easily linked to a physical end user connection. There is a risk that revenue billed on this basis may be disputed by Chorus' customers who have a different view of their consumption of the Chorus network. Due to the legacy nature of these products, the volumes are decreasing each year and are approximately 13% of revenue in the current financial year. In the year ended 30 June 2018 Chorus has early adopted NZ IFRS 15 Revenue from Contracts with Customers. The early adoption of this standard has impacted how Chorus treat certain costs to obtain/fulfil customer contracts. Incremental costs incurred to obtain/fulfil a customer contract are now capitalised and amortised over the expected life of the relationship with that customer. Previously these costs were expensed as incurred.	Our audit procedures included: — Evaluating the Group's recognition of revenue by assessing any revenue disputes recorded in the industry's dispute reporting tool by Chorus customers. We compared the disputes raised by Chorus customers to the revenue recorded by Chorus and checked a sample of settled disputes to the final settlement agreements. — Independently confirming the accuracy of a sample of outstanding debtor balances with Chorus customers. — Agreeing a sample of revenue adjustments recorded during the year to authorised credit notes. With respect to incremental costs incurred to obtain/fulfil a customer contract, our sample testing included: — Agreeing these costs to invoice and other supporting documentation to ensure that the costs were incremental in nature and incurred in the process of obtaining/fulfilling a customer contract; — Assessing whether incremental costs are appropriately amortised over the expected life of the relationship with the customer; and — Evaluating the appropriateness of the expected life of the relationship with the customer by observing historical customer information.

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of consolidated financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

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

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at: **http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/**

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Ed Louden.

For and on behalf of

KPMG
Wellington
27 August 2018

Income statement

For the year ended 30 June 2018

(Dollars in millions)	Notes	2018 $M	2017 $M
Operating revenue	9	990	1,040
Operating expenses	1,10	(337)	(388)
Earnings before interest, income tax, depreciation and amortisation		**653**	**652**
Depreciation	1,2	(283)	(274)
Amortisation	1,3	(104)	(65)
Earnings before interest and income tax		**266**	**313**
Finance income		7	10
Finance expense	1,4	(151)	(164)
Net earnings before income tax		**122**	**159**
Income tax expense	14	(37)	(46)
Net earnings for the year		**85**	**113**
Earnings per share			
Basic earnings per share (dollars)	17	**0.20**	**0.28**
Diluted earnings per share (dollars)	17	**0.16**	**0.23**

Statement of comprehensive income

For the year ended 30 June 2018

(Dollars in millions)	Notes	2018 $M	2017 $M
Net earnings for the year		**85**	**113**
Other comprehensive income			
Items that will be reclassified subsequently to the income statement when specific conditions are met			
Ineffective portion of changes in fair value of cash flow hedges	19	(3)	12
Effective portion of changes in fair value of cash flow hedges	19	–	(7)
Amortisation of de-designated cash flow hedges transferred to income statement	19	(1)	(1)
Movement in cost of hedging reserve	19	(3)	–
Other comprehensive income net of tax		**(7)**	**4**
Total comprehensive income for the year net of tax		**78**	**117**

The accompanying notes are an integral part of these financial statements.

Statement of financial position

As at 30 June 2018

(Dollars in millions)	Notes	2018 $M	2017 $M
Current assets			
Cash and call deposits	15	50	170
Income tax receivable	14	12	1
Trade and other receivables	11	154	139
Derivative financial instruments	19	3	1
Finance lease receivable	5	5	5
Total current assets		**224**	**316**
Non-current assets			
Derivative financial instruments	19	74	–
Trade and other receivables	11	7	7
Software and other intangibles	3	182	142
Network assets	2	4,439	3,973
Total non-current assets		**4,702**	**4,122**
Total assets		**4,926**	**4,438**
Current liabilities			
Trade and other payables	12	370	346
Lease payable	5	6	–
Derivative financial instruments	19	19	46
Total current liabilities excluding Crown funding		**395**	**392**
Current portion of Crown funding	7	21	19
Total current liabilities		**416**	**411**
Non-current liabilities			
Derivative financial instruments	19	210	231
Lease payable	5	237	159
Debt	4	1,807	1,609
Deferred tax payable	14	224	202
Total non-current liabilities excluding CIP and Crown funding		**2,478**	**2,201**
Crown Infrastructure Partners (CIP) securities	6	273	203
Crown funding	7	737	679
Total non-current liabilities		**3,488**	**3,083**
Total liabilities		**3,904**	**3,494**
Equity			
Share capital	16	590	520
Reserves	19	(36)	(22)
Retained earnings		468	446
Total equity		**1,022**	**944**
Total liabilities and equity		**4,926**	**4,438**

The accompanying notes are an integral part of these financial statements.

The financial statements are approved and signed on behalf of the Board.

Patrick Strange
Chair

Kate McKenzie
Chief Executive Officer and Managing Director

Authorised for issue on 27 August 2018

Statement of changes in equity

For the year ended 30 June 2018

(Dollars in millions)	Notes	Share capital $M	Retained earnings $M	Hedging-related reserves $M	Total $M
Balance at 1 July 2016		**481**	**416**	**(26)**	**871**
Comprehensive income					
Net earnings for the year		–	113	–	113
Other comprehensive income					
Ineffective portion of changes in fair value of cash flow hedges	19	–	–	12	12
Effective portion of changes in fair value of cash flow hedges	19	–	–	(7)	(7)
Amortisation of de-designated cash flow hedges transferred to income statement	19	–	–	(1)	(1)
Total comprehensive income		**–**	**113**	**4**	**117**
Contributions by and (distributions to) owners:					
Dividends	16	–	(83)	–	(83)
Supplementary dividends		–	9	–	9
Tax credit on supplementary dividends		–	(9)	–	(9)
Dividend reinvestment plan	16	40	–	–	40
Employee share plan	16	(1)	–	–	(1)
Total transactions with owners		**39**	**(83)**	**–**	**(44)**
Balance at 30 June 2017		**520**	**446**	**(22)**	**944**
Impact of adopting NZ IFRS 9 at 1 July 2017 (net of tax)	1	–	7	(7)	–
Impact of adopting NZ IFRS 15 at 1 July 2017 (net of tax)	1	–	20	–	20
Balance at 1 July 2017		**520**	**473**	**(29)**	**964**
Comprehensive income					
Net earnings for the year		–	85	–	85
Other comprehensive income					
Ineffective portion of changes in fair value of cash flow hedges	19	–	–	(3)	(3)
Amortisation of de-designated cash flow hedges transferred to income statement	19	–	–	(1)	(1)
Movement in cost of hedging reserve	19	–	–	(3)	(3)
Total comprehensive income		**–**	**85**	**(7)**	**78**
Contributions by and (distributions to) owners:					
Dividends	16	–	(90)	–	(90)
Supplementary dividends		–	10	–	10
Tax credit on supplementary dividends		–	(10)	–	(10)
Dividend reinvestment plan	16	47	–	–	47
Issue of new shares	16	23	–	–	23
Total transactions with owners		**70**	**(90)**	**–**	**(20)**
Balance at 30 June 2018		**590**	**468**	**(36)**	**1,022**

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

For the year ended 30 June 2018

(Dollars in millions)	Notes	2018 $M	2017 $M
Cash flows from operating activities			
Cash was provided from/(applied to):			
Cash received from customers		1,002	1,070
Finance income		3	6
Payment to suppliers and employees		(350)	(397)
Taxation paid	14	(30)	(38)
Interest paid		(117)	(117)
Net cash flows from operating activities		**508**	**524**
Cash flows applied to investing activities			
Cash was applied to:			
Purchase of network and intangible assets		(766)	(638)
Capitalised interest paid		(4)	(4)
Net cash flows applied to investing activities		**(770)**	**(642)**
Cash flows from financing activities			
Cash was provided from/(applied to):			
Net inflow/(outflow) from leases		(15)	3
Crown funding (including CIP securities)		117	117
Issuance of share capital		23	–
Proceeds from debt		70	785
Repayment of debt		(10)	(675)
Dividends paid		(43)	(44)
Net cash flows from financing activities		**142**	**186**
Net cash flow		**(120)**	**68**
Cash at the beginning of the year		170	102
Cash at the end of the year	15	**50**	**170**

The accompanying notes are an integral part of these financial statements.

Reconciliation of net earnings to net cash flows from operating activities

	2018 $M	2017 $M
Net earnings for the year	**85**	**113**
Adjustment for:		
Depreciation charged on network assets	305	295
Amortisation of Crown funding	(22)	(21)
Amortisation of software and other intangible assets	104	65
Deferred income tax	21	6
Ineffective portion of changes in fair value of cash flow hedges (pre-tax)	5	17
Movement in cost of hedging reserve	3	–
Other	5	27
	506	**502**
Change in current assets and liabilities:		
Increase in trade and other receivables	15	19
Increase in trade and other payables	(24)	1
Increase in income tax receivable	11	2
	2	**22**
Net cash flows from operating activities	**508**	**524**

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Debt $M	Crown funding $M	CIP securities $M	Lease payable $M	Share capital $M	Retained earnings $M
Balance at 1 July 2017	**1,609**	**698**	**203**	**159**	**520**	**473**
Movements from cash flows						
Payment of lease liabilities	–	–	–	(15)	–	–
Proceeds from funding	70	76	41	–	–	–
Proceeds from repayment of borrowings	(10)	–	–	–	–	–
Proceeds from issue of share capital	–	–	–	–	23	–
Dividends paid	–	–	–	–	–	(43)
Total changes from financing cash flows	**60**	**76**	**41**	**(15)**	**23**	**(43)**
Non-cash movements						
Movements in fair value (including foreign exchange rates)	135	–	–	–	–	–
Transaction costs and amortisation related to financing	3	(22)	17	–	–	–
Accruals	–	6	12	–	–	–
Dividend reinvestment plan	–	–	–	–	47	(47)
Impact of adopting NZ IFRS 9, 15, 16	–	–	–	47	–	–
Lease additions	–	–	–	52	–	–
Net earnings for the year	–	–	–	–	–	85
Balance at 30 June 2018	**1,807**	**758**	**273**	**243**	**590**	**468**

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

Reporting entity and statutory base

Chorus includes Chorus Limited together with its subsidiaries.

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

Chorus Limited is a profit-orientated company registered in New Zealand under the Companies Act 1993 and a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. Chorus Limited was established as a standalone, publicly listed entity on 1 December 2011, upon its demerger from Telecom Corporation of New Zealand Limited (Telecom), now known as Spark New Zealand Limited (Spark). The demerger was a condition of an agreement with Crown Infrastructure Partners Limited (previously Crown Fibre Holdings) to enable Chorus Limited to provide the majority of the Crown's Ultra-Fast Broadband (UFB). Chorus Limited is listed and its ordinary shares quoted on the NZX main board equity security market (NZX Main Board) and on the Australian Stock Exchange (ASX) and has bonds quoted on the NZX debt market. American Depositary Shares, each representing five ordinary shares (and evidenced by American Depositary Receipts), are not listed but are traded on the over-the-counter market in the United States.

These financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and part 7 of the Financial Markets Conduct Act 2013. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and with International Financial Reporting Standards.

These financial statements are expressed in New Zealand dollars. All financial information has been rounded to the nearest million, unless otherwise stated.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of financial instruments as identified in the specific accounting policies below and the accompanying notes.

Accounting policies and standards

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

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.

The accounting policies adopted and methods of computation have been applied consistently throughout the periods presented in these financial statements, except for the three new accounting standards.

NZ IFRS 9 Financial Instruments

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 in 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.

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 (as if the new standard always existed), however has not restated comparative information. Instead, the impact of adopting the new standard on financial instruments is reflected in opening equity on 1 July 2017.

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 customer retention costs as detailed below.

Chorus has recognised 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.

Customer retention costs

Chorus previously recognised costs when acquiring new contracts with new and existing customers as expenses when they were incurred. Under NZ IFRS 15, Chorus capitalises these as costs of obtaining a contract (collectively referred to as customer retention costs) 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 and has not restated comparative information. As a result, Chorus has changed its accounting policy for lease contracts as described below.

As a lessee

As a lessee, Chorus previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially 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 previously classified as operating leases under NZ IAS 17: Leases

On 1 July 2017, lease liabilities were measured at the present value of the remaining lease payments, discounted at Chorus' incremental borrowing rate at that date.

Right of use assets were measured at an amount equal to the lease liability. 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 lease liabilities (note 5) separately on the face of the Statement of financial position.

Chorus used the following practical expedients when applying the new lease standard 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: Leases

For leases that were previously 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 (transition date) 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

Management have reclassified the revenue streams (note 9) from prior periods to simplify reporting and align with the products and services of Chorus, and provide greater transparency to readers. This recognises the evolving nature of the industry from being copper to fibre based, and is consistent with internal management reporting provided to Senior Management and the Board.

Crown Fibre Holdings renamed

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

Accounting estimates and judgements

In preparing the financial statements management has made estimates and assumptions about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

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

Network assets (note 2)

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

Software and other intangibles (note 3)

Assessing the appropriateness of the period over which customer retention costs are amortised requires a number of factors to be considered such as the product the customer retention costs relate to, technological advances, retail service provider activities and regulation.

Leases (note 5)

Chorus assesses at lease commencement whether it is reasonably certain to exercise extension options where included in the contract, and where it is reasonably certain, the extension period has been included in the lease liability calculation.

CIP securities (note 6)

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

Crown funding (note 7)

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

Financial risk management (note 20)

Credit valuations are adjusted to reflect credit risk as required by NZ IFRS 9: Financial Instruments. The effect of credit risk is quantified using an expected future exposure methodology where credit default swap prices are used to represent the probability of default.

Note 1 – 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, $10 million for the year ended 30 June 2017 of hedge ineffectiveness (recorded within finance expense) would have gone to the new cost of hedging reserve within equity, pre-tax.

	Cost of hedging reserve $M	Cashflow hedge reserve $M	Total NZ IFRS 9 adjustments $M
Transfer from FY17 interest expense	8	2	10
Tax at 28%	(2)	(1)	(3)
Net NZ IFRS 9 adjustment to retained earnings on 1 July 2017	**6**	**1**	**7**

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 up to three years in tenure.

The following tables summarise the impact of adopting NZ IFRS 15 on Chorus' consolidated financial statements for the period ended 30 June 2018.

Recognised on 1 July 2017:

	$M
Prior periods customer retention assets (note 2)	38
Amortisation of prior periods customer retention assets (note 2)	(11)
Customer retention costs net of amortisation	**27**
Tax at 28%	(7)
Net NZ IFRS 15 adjustment to retained earnings on 1 July 2017	**20**

Impacts for the year ended 30 June 2018:

	As reported $M	NZ IFRS 15 adjustment $M	Balance without adoption of NZ IFRS 15 $M
Income statement:			
Amortisation	(104)	43	(61)
Operating expenses	(337)	(60)	(397)
Tax expense	(37)	–	(37)
Note 10 – Operating expenses:			
Labour	(73)	(6)	(79)
Provisioning	(6)	(27)	(33)
Information technology costs	(54)	(10)	(64)
Other (modem upgrades)	–	(17)	(17)
Balance sheet:			
Deferred tax	224	(12)	212
Software and other intangibles	182	(42)	140

Had NZ IFRS 15 applied to comparative periods presented, operating expenses would have decreased by $50 million for the year ended 30 June 2017 with a corresponding increase to 'Software and other intangibles', and an increase to amortisation of approximately $34 million.

NZ IFRS 16 Leases

On transition to NZ IFRS 16, Chorus recognised $206 million (net of amortisation) 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 $157 million.

Note 1 – Comparative information for transition to new NZ IFRS standards (cont.)

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%.

The following table reconciles the value of right of use assets that came on to the balance sheet at 1 July 2017:

	$M
Operating leases	
Commitment – 30 June 2017	64
Discounted value – 1 July 2017	**49**
Finance leases	
Finance Lease Liability – 30 June 2017	159
Lease reset	(2)
Discounted value – 1 July 2017	**157**
Total lease liabilities recognised at 1 July 2017 (net of amortisation)	**206**

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

Note 2 – Network assets

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

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

Estimating useful lives and residual values of network assets

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

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

Where the remaining useful lives or recoverable values have diminished due to technological, regulatory or market condition changes, depreciation is accelerated. The assets' residual values, useful lives, and methods of depreciation are reviewed annually and adjusted prospectively, if appropriate.

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

Fibre cables	20 years
Ducts, manholes and poles	20–50 years
Copper cables	10–30 years
Cabinets	5–20 years
Property	5–50 years
Network electronics	2–25 years
Right of use assets	10–50 years
Other	2–10 years

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

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

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

Leased assets and corresponding liabilities are recognised as 'right of use' assets, and depreciated over the life of the lease.

Note 2 – Network assets (cont.)

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

Land and work in progress are not depreciated.

30 June 2018	Fibre cables $M	Ducts, manholes, and poles $M	Copper cables $M	Cabinets $M	Property $M	Network electronics $M	Right of use assets $M	Other $M	Work in progress $M	Total $M
Cost										
Balance at 30 June 2017	1,566	2,007	2,369	583	564	1,673	–	5	124	8,891
Transfers due to adoption of NZ IFRS 16 at 1 July 2017	(6)	–	–	–	(173)	–	179	–	–	–
Additions due to adoption of NZ IFRS 16 at 1 July 2017	–	–	–	–	–	–	49	–	–	49
Additions	–	–	–	–	–	–	–	–	721	721
Disposals	–	(4)	–	(2)	(6)	(30)	–	–	–	(42)
Transfers from work in progress	222	225	15	39	17	92	28	–	(638)	–
Other	–	–	–	–	2	–	5	–	–	7
Balance at 30 June 2018	**1,782**	**2,228**	**2,384**	**620**	**404**	**1,735**	**261**	**5**	**207**	**9,626**
Accumulated depreciation										
Balance at 30 June 2017	(460)	(515)	(1,883)	(354)	(261)	(1,443)	–	(2)	–	(4,918)
Transfers due to adoption of NZ IFRS 16 at 1 July 2017	–	–	–	–	22	–	(22)	–	–	–
Depreciation	(78)	(42)	(51)	(41)	(15)	(65)	(13)	–	–	(305)
Disposals	–	–	–	–	5	33	–	–	–	38
Other	–	–	–	–	(2)	–	–	–	–	(2)
Balance at 30 June 2018	**(538)**	**(557)**	**(1,934)**	**(395)**	**(251)**	**(1,475)**	**(35)**	**(2)**	**–**	**(5,187)**
Net carrying amount	**1,244**	**1,671**	**450**	**225**	**153**	**260**	**226**	**3**	**207**	**4,439**

30 June 2017	Fibre cables $M	Ducts, manholes and poles $M	Copper cables $M	Cabinets $M	Property $M	Network electronics $M	Other $M	Work in progress $M	Total $M
Cost									
Balance at 1 July 2016	1,336	1,835	2,353	537	540	1,638	4	99	8,342
Additions	–	–	–	–	–	–	–	592	592
Other	–	–	–	–	7	–	–	8	15
Disposals	–	–	–	(3)	(2)	(53)	–	–	(58)
Transfers from work in progress	230	172	16	49	19	88	1	(575)	–
Balance at 30 June 2017	**1,566**	**2,007**	**2,369**	**583**	**564**	**1,673**	**5**	**124**	**8,891**
Accumulated depreciation									
Balance at 1 July 2016	(388)	(476)	(1,830)	(311)	(250)	(1,429)	(2)	–	(4,686)
Depreciation	(72)	(39)	(53)	(45)	(19)	(67)	–	–	(295)
Disposals	–	–	–	2	1	53	–	–	56
Other	–	–	–	–	7	–	–	–	7
Balance at 30 June 2017	**(460)**	**(515)**	**(1,883)**	**(354)**	**(261)**	**(1,443)**	**(2)**	**–**	**(4,918)**
Net carrying amount	**1,106**	**1,492**	**486**	**229**	**303**	**230**	**3**	**124**	**3,973**

There are no restrictions on Chorus' network assets or any network assets pledged as securities for liabilities. At 30 June 2018 the contractual commitment for acquisition and construction of network assets was $448 million (30 June 2017: $507 million).

Note 2 – Network assets (cont.)

Depreciation

	2018 $M	2017 $M
Depreciation charged on network assets	305	295
Less: Crown funding – Ultra-Fast Broadband	(12)	(11)
Crown funding – Rural Broadband Initiative	(8)	(8)
Crown funding – Other	(2)	(2)
Total depreciation	**283**	**274**

Chorus receives funding from the Crown to finance the capital expenditure associated with the development of the UFB network, rural broadband services and other services. Funding is offset against depreciation over the life of the assets the funding is used to construct.

Refer to note 7 for information on Crown funding.

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' asset and accumulated depreciation movement in the year to 30 June 2018 is $5 million (30 June 2017: $7 million) mainly reflecting consumer price index adjustments on Spark's use of Chorus owned sites.

Impairment

The carrying amounts of non-financial assets including network assets, software and other intangibles are reviewed at the end of each reporting period for any indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised in earnings whenever the carrying amount of an asset exceeds its estimated recoverable amount. Should the conditions that gave rise to the impairment loss no longer exist, and the assets are no longer considered to be impaired, a reversal of an impairment loss would be recognised immediately in earnings.

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

Capitalised interest

Finance costs are capitalised on qualifying items of network assets and software assets at an annualised rate of 6.00% (30 June 2017: 6.50%). Interest is capitalised over the period required to complete the assets and prepare them for their intended use. In the current year finance costs totalling $4 million (30 June 2017: $4 million) have been capitalised against network assets and software assets.

Right of use assets

	Fibre cables	Ducts, manholes, and poles	Property	Total
Balance 1 July 2017 (net)	6	21	179	206
Additions	3	7	23	33
Depreciation charge	–	(2)	(11)	(13)
Balance at 30 June 2018	**9**	**26**	**191**	**226**

Right of use assets are the present value of leases held by Chorus as a lessee, as defined in the accounting policies (previously recognised as finance and operating leases). Leases are capitalised at the present value of the minimum lease payments at inception of the lease.

Chorus has used a single discount rate to a portfolio of leases across the two main portfolios of leases ('Property' and 'Ducts, manholes, and poles') due to the long term usage nature of the underlying assets used to service the same network. This is reflective of the longer term nature of infrastructure assets. The nature of these assets are similar enough that borrowing rates on commercial debt would not change asset to asset. The incremental borrowing rate is reviewed annually.

Note 3 – Software and other intangibles

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

Software	2–8 years
Customer retention	0–3 years
Other intangibles	6–21 years

Customer retention costs

Chorus expects that incremental costs incurred in acquiring new contracts with new and existing customers are recoverable, and capitalised these as customer retention assets. In the comparative period, such costs were recognised as operating expenses when incurred. Customer retention assets are amortised when related revenues are recognised upfront or over the life of the contract (currently estimated to be within a maximum of three years). In the period to 30 June 2018, the amount of amortisation was $43 million and there was no impairment in relation to the costs capitalised.

Other intangibles mainly consist of land easements.

At each reporting date, Chorus reviews the carrying amounts of its software and other intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. For impairment policy and process refer to note 2.

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

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

30 June 2018	Software $M	Customer retention $M	Other intangibles $M	Work in progress $M	Total $M
Cost					
Balance at 30 June 2017	639	–	6	36	681
Adjustments at 1 July 2017 (on adoption of NZ IFRS 15)	–	38	–	–	38
Additions	–	–	–	117	117
Disposals	(12)	–	–	–	(12)
Transfers from work in progress	67	58	–	(125)	–
Balance at 30 June 2018	**694**	**96**	**6**	**28**	**824**
Accumulated amortisation					
Balance at 30 June 2017	(538)	–	(1)	–	(539)
Adjustments at 1 July 2017 (on adoption of NZ IFRS 15)	–	(11)	–	–	(11)
Amortisation	(61)	(43)	–	–	(104)
Disposals	12	–	–	–	12
Balance at 30 June 2018	**(587)**	**(54)**	**(1)**	**–**	**(642)**
Net carrying amount	**107**	**42**	**5**	**28**	**182**

30 June 2017	Software $M	Other intangibles $M	Work in progress $M	Total $M
Cost				
Balance at 1 July 2016	597	6	31	634
Additions	–	–	47	47
Transfers from work in progress	42	–	(42)	–
Balance at 30 June 2017	**639**	**6**	**36**	**681**
Accumulated amortisation				
Balance at 1 July 2016	(473)	(1)	–	(474)
Amortisation	(65)	–	–	(65)
Balance at 30 June 2017	**(538)**	**(1)**	**–**	**(539)**
Net carrying amount	**101**	**5**	**36**	**142**

At 30 June 2018 the contractual commitment for acquisition of software and other intangible assets was $11 million (30 June 2017: $13 million).

Note 4 – Debt

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

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

The weighted effective interest rate on debt including the effect of derivative financial instruments was 5.96% (30 June 2017: 6.06%).

	Due date	2018 $M	2017 $M
Syndicated bank facility C	May 2020	60	–
Euro medium term notes GBP	Apr 2020	507	462
Euro medium term notes EUR	Oct 2023	852	762
Fixed rate NZD Bonds	May 2021	400	400
Less: facility fees		(12)	(15)
Total debt		**1,807**	**1,609**
Current		**–**	**–**
Non-current		**1,807**	**1,609**

Syndicated bank facilities

As at 30 June 2018 Chorus had $350 million committed syndicated facilities on market standard terms and conditions (30 June 2017: $350 million). The amount undrawn of the syndicated bank facility that is available for future operating activities is $290 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.

Euro Medium Term Notes (EMTN)

Face value	Interest rate	2018 $M	2017 $M
GBP 260 million	6.75%	507	462
EUR 500 million	1.125%	852	762

Chorus has EUR 500 million of Euro Medium Term Notes issued at a fixed rate of 1.125% (30 June 2017: EUR 500 million, 1.125%). They will mature in October 2023 and have been swapped back to $785 million (30 June 2017: $785 million) using cross currency interest rate swaps (see note 19).

Chorus has in place cross currency interest rate swaps to hedge the foreign currency exposures to the EMTN. The cross currency interest rate swaps entitle Chorus to receive GBP and EUR principal and GBP and EUR fixed coupon payments for NZD principal and NZD floating interest payments. For the GBP cross currency interest rate swaps the floating interest rate exposure on the NZD interest payments has been hedged using interest rate swaps. The EUR cross currency interest rate swaps are partially hedged for the NZD interest payments using interest rate swaps (notional amount $450 million).

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

	2018 EUR $M	2017 EUR $M	2018 GBP $M	2017 GBP $M
EMTN (at spot rates)	852	762	507	462
Impact of fair value hedge	12	17	–	–
Impact of hedged rates used	(79)	6	170	215
EMTN at hedged rates	**785**	**785**	**677**	**677**

The fair value of EMTN, calculated based on the present value of future principal and interest cash flows, discounted at market interest rates at balance date, was $558 million (30 June 2017: $526 million) compared to a carrying value of $507 million (30 June 2017: $462 million) for the GBP EMTN, and $875 million (30 June 2017: $776 million) compared to a carrying value of $852 million (30 June 2017: $762 million) for the EUR EMTN. This fair value has been determined using Level 2 of the fair value hierarchy as described in note 19.

Note 4 – Debt (cont.)

Fixed rate NZD Bonds

	Interest rate	2018 $M	2017 $M
Fixed rate NZD Bonds	4.12%	400	400

Chorus has $400 million of unsecured, unsubordinated debt securities that have been issued at a fixed rate of 4.12% (30 June 2017: $400 million, 4.12%). The maturity date is May 2021.

Schedule of maturities

	2018 $M	2017 $M
Due 1 to 2 years	567	–
Due 2 to 3 years	400	462
Due 3 to 4 years	–	400
Due over 5 years	852	762
Total due after one year	**1,819**	**1,624**
Less: facility fees	(12)	(15)
	1,807	**1,609**

No debt has been secured against assets. However, there are financial covenants and event of default triggers, as defined in the various debt agreements. During the current year Chorus fully complied with the requirements set out in its financing agreements (30 June 2017: full compliance).

Refer to note 20 for information on financial risk management.

Finance expense

	2018 $M	2017 $M
Interest on syndicated bank facility	4	16
Interest on EMTN – GBP	53	53
Interest on EMTN – EUR	39	27
Interest on fixed rate NZD bonds	18	18
Fair value adjustment on interest rate swap not in hedge relationship	(3)	6
Ineffective portion of changes in fair value of cash flow hedges	5	17
Other interest expense	22	18
Capitalised interest	(4)	(4)
Total finance expense excluding CIP securities (notional) interest	**134**	**151**
CIP securities (notional) interest	17	13
Total finance expense	**151**	**164**

Other interest expense includes $18 million lease interest expense (30 June 2017: $14 million) and $4 million of amortisation arising from the difference between fair value and proceeds realised from the swaps reset (30 June 2017: $3 million) (refer to note 19).

The GBP EMTN hedging relationship was reset with a fair value of $49 million on 9 December 2013 following the close out of the interest rate swaps relating to the EMTN. This amount is being amortised over the life of the derivative and flows as ineffectiveness in the income statement. As at 30 June 2018 a further $8 million remains in the hedge reserve to be amortised in relation to this reset (30 June 2017: $15 million). In FY18, ineffectiveness of $7 million (30 June 2017: $6 million) flowed through interest expense relating to the amortisation of this reset. This was offset by a $2 million credit from a risk adjustment following NZ IFRS 9 adjustments on the EUR EMTN (30 June 2017: $2 million debit).

Note 5 – Leases

Chorus is a lessee and lessor of certain network assets under lease arrangements. On adoption of NZ IFRS 16, from 1 July 2017 Chorus recognises lease liabilities on balance sheet for all leases except those determined short-term or low value. On inception of a new lease, the lease payable is measured at the present value of the remaining lease payments, discounted at Chorus' incremental borrowing rate at that date. Practical expedients within the standard have been applied to allow a single discount rate to a portfolio of leases with similar characteristics. Lease costs are recognised through interest expense over the life of the lease. The corresponding right of use asset incurs depreciation over the estimated useful life of the asset.

In the prior period, lease costs relating to operating leases were recognised on a straight-line basis over the life of the lease. Finance leases, which effectively transferred substantially all the risks and benefits of ownership of the leased assets, were capitalised at the lower of the leased asset's fair value or the present value of the minimum lease payments at inception of the lease.

Lease liabilities

	2018 $M	2017 $M
Liabilities		
Maturity analysis – contractual discounted cash flows		
Less than one year	6	–
Between one and five years	23	–
More than five years	214	159
Total lease payable	**243**	**159**
Current	**6**	**–**
Non-Current	**237**	**159**

Operating lease rental commitments that were payable in the prior period, at 30 June 2017 were as follows: less than one year $8 million; between one and five years $26 million; more than five years $30 million.

	2018 $M
Amounts recognised in Income statement:	
Interest on lease payable	18
Expenses relating to short-term leases	–
Expenses relating to leases of low-value assets	–
Amounts recognised in Statement of cash flows:	
Principle payments (net)	(15)
Lease interest	(15)

Lease interest in the above table is included in the interest paid expense in the cashflow statement.

Extension options

Most leases contain extension options exercisable by Chorus up to one year before the end of the non-cancellable contract period. Where practicable, Chorus seeks to include extension options in new leases to provide operational flexibility.

The extension options held are exercisable only by Chorus and not by the lessors. Chorus assesses at lease commencement whether it is reasonably certain to exercise the extension options, and where it is reasonably certain, the extension period has been included in the lease liability calculation. Chorus reassesses whether it is reasonably certain to exercise the options if there is a significant event of significant change in circumstances within its control.

	Lease liabilities recognised (discounted) $M	Potential future lease payments not included in lease liabilities (discounted) $M
Fibre cables	9	–
Ducts, manholes and poles	28	1
Property	206	–
Total lease payable	**243**	

Note 5 – Leases (cont.)

Other leases

Chorus also leases IT equipment with contract terms of one to three years. These leases are of low value. The Group has elected not to recognise right of use assets and lease liabilities for these leases.

Lease receivable

Chorus has leased exchange space and commercial colocation space owned by Spark. Chorus in turn leases exchange space and commercial co-location space to Spark under finance lease arrangements. The term of the leases vary from three years to ten years and include rights of renewal.

The full term has been used in the calculation of finance lease receivables as it is likely due to the specialised nature of the buildings that the leases will be renewed to the maximum term. The payable and receivable under these finance lease arrangements are net settled in cash.

Lease income from lease contracts in which Chorus acts as a lessor is as below:

	2018 $M	2017 $M
Finance leases		
Finance income on the net investment in the lease	8	8

Finance lease income of $8 million received in FY18 is offset against the lease cash outflow.

The following table sets out a maturity analysis of lease receivable:

	2018 $M	2017 $M
Less than one year	5	8
One to four years	15	20
Total lease payments	**20**	**28**

Non-current lease payables is shown net of non-current lease receivable.

Note 6 – CIP Securities

Ultra-Fast Broadband (UFB)

Chorus receives funding from the Crown to finance construction costs associated with the development of the UFB network. For the first phase of the UFB network build (UFB1) Chorus receives funding at a rate of $1,118 for every premises passed (as certified by CIP), in return Chorus issues CIP equity securities, CIP debt securities and CIP warrants. The equity and debt securities have an issue price of $1 and are issued on a 50:50 basis. For each premises passed, $559 of equity securities and $559 of debt securities are issued and Chorus receives $1,118 funding in return. CIP warrants are issued for nil value. The total committed funding available for Chorus over the period of UFB1 network construction is expected to be $929 million.

In January 2017 Chorus was contracted to build 84% of the second phase of the UFB network build (UFB2), amounting to 168,240 premises.

In August 2017 Chorus was contracted to build an expansion to the second phase of the UFB network build (UFB2+), amounting to an additional 54,500 premises. The funding terms are the same as UFB2 announced in January 2017, detailed further below. The rollout will be completed by 2022.

For UFB2 and UFB2+ there are five different funding rates applied, at an average rate of $1,828 for every premise passed (as certified by CIP). In return for the CIP funding, CIP equity and debt securities will be issued on very similar terms as UFB1 securities. Chorus can elect the mix of securities to be issued (up to a maximum of $189 million equity securities for UFB2). There are no CIP warrants in relation to UFB2 and UFB2+ funding. The total committed funding available for Chorus for the second phase is expected to be $407 million.

The CIP equity and debt securities are recognised initially at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. The fair value is derived by discounting the equity securities and debt securities per premises passed by the effective rate based on market rates. The difference between funding received and the fair value of the securities is recognised as Crown funding (note 7). Over time, the CIP debt and equity securities increase to face value and the Crown funding is released against depreciation and reduces to nil.

CIP equity securities

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

Dividends will become payable on a portion of the CIP equity securities from 2025 (2030 for UFB2 and UFB2+) onwards, with the portion of CIP equity securities that attract dividends increasing over time.

Note 6 – CIP Securities (cont.)

CIP equity securities can be redeemed by Chorus at any time by payment of the issue price or issue of new ordinary shares (at a 5% discount to the 20-day volume weighted average price) to the holder. In limited circumstances CIP equity securities may be converted by the holder into voting preference or ordinary shares.

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

CIP debt securities

CIP debt securities are unsecured, non-interest bearing and carry no voting rights at meetings of holders of Chorus ordinary shares. Chorus is required to redeem the CIP debt securities in tranches from 2025 (2030 for UFB2 and UFB2+) to 2036 by repaying the face value to the holder.

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

CIP warrants

Chorus issues CIP warrants to CIP for nil consideration along with each tranche of CIP equity securities. Each CIP warrant gives CIP the right, on a specified exercise date, to purchase at a set strike price a Chorus share to be issued by Chorus. The strike price for a CIP warrant is based on a total shareholder return of 16% per annum on Chorus shares over the period December 2011 to June 2036.

At balance date Chorus had issued a total 10,705,346 warrants which had a fair value and carrying value that approximated zero (30 June 2017: 8,496,986 warrants issued). The number of fibre connections made by 30 June 2020 impacts the number of warrants that could be exercised. Because fibre connections already exceed 20% before 30 June 2020, the number of warrants that would be able to be exercised is 10,705,346 (30 June 2017: 8,496,986).

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

	2018			2017		
	CIP debt securities $M	CIP equity securities $M	Total CIP securities $M	CIP debt securities $M	CIP equity securities $M	Total CIP securities $M
Fair value on initial recognition						
Balance at 1 July	102	68	170	81	51	132
Additional securities recognised at fair value	30	23	53	21	17	38
Balance at 30 June	**132**	**91**	**223**	**102**	**68**	**170**
Accumulated notional interest						
Balance at 1 July	18	15	33	11	9	20
Notional interest	8	9	17	7	6	13
Balance at 30 June	**26**	**24**	**50**	**18**	**15**	**33**
Total CIP securities	**158**	**115**	**273**	**120**	**83**	**203**

The fair value of CIP debt securities at balance date was $187 million (30 June 2017: $137 million) compared to a carrying value of $158 million (30 June 2017: $120 million). The fair value of CIP equity securities at balance date was $145 million (30 June 2017: $102 million) compared to a carrying value of $115 million (30 June 2017: $83 million). The fair value has been calculated using discount rates from market rates at balance date and using Level 2 of the fair value hierarchy as described in note 20.

Key assumptions in calculations on initial recognition

On initial recognition, the discount rate between 5.16% to 9.84% (30 June 2017: 7.22% to 10.26%) for the CIP equity securities and 4.62% to 6.84% (30 June 2017: 5.08% to 7.52%) for the CIP debt securities used to discount the expected cash flows is based on the NZ swap curve. The swap rates were adjusted for Chorus specific credit spreads (based on market observed credit spreads for debt issued with similar credit ratings and tenure). The discount rate on the CIP equity securities is capped at Chorus' estimated cost of (ordinary) equity.

Note 7 – Crown funding

Funding from the Crown is recognised at fair value where there is reasonable assurance that the funding is receivable and all attached conditions will be complied with. Crown funding is then recognised in earnings as a reduction to depreciation expense on a systematic basis over the useful life of the asset the funding was used to construct.

	2018				2017			
	UFB $M	RBI $M	Other $M	Total $M	UFB $M	RBI $M	Other $M	Total $M
Fair value on initial recognition								
Balance at 1 July	471	242	46	759	398	242	39	679
Additional funding recognised at fair value	77	–	5	82	73	–	7	80
Balance at 30 June	**548**	**242**	**51**	**841**	**471**	**242**	**46**	**759**
Accumulated amortisation of funding								
Balance at 1 July	(29)	(22)	(10)	(61)	(18)	(14)	(8)	(40)
Amortisation	(12)	(8)	(2)	(22)	(11)	(8)	(2)	(21)
Balance at 30 June	**(41)**	**(30)**	**(12)**	**(83)**	**(29)**	**(22)**	**(10)**	**(61)**
Total Crown funding	**507**	**212**	**39**	**758**	**442**	**220**	**36**	**698**
Current				**21**				**19**
Non-current				**737**				**679**

Ultra-Fast Broadband (UFB)

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 114,077 (UFB1 112,124; UFB2 1,953) premises passed (30 June 2017: UFB1 98,884; UFB2 nil) where the premises was passed and tested by CIP as at 30 June 2018.

This brings the total number of premises passed and tested by CIP at 30 June 2018 to approximately 685,000 (30 June 2017: 573,000). The total number of premises passed (including those that have not been tested by CIP) was approximately 700,000 at 30 June 2018.

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 8 – Segmental reporting

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

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

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

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

Three Chorus customers met the reporting threshold of 10 percent of Chorus' operating revenue in the year to 30 June 2018. The total revenue for the year ending 30 June 2018 from these customers was $489 million (30 June 2017: $541 million), $203 million (30 June 2017: $212 million) and $116 million (30 June 2017: $117 million).

Note 9 – Operating revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Chorus recognises revenue when it transfers control over a product or service to a customer. In practice, there is no significant change to Chorus' revenue recognition as a result of transition to NZ IFRS 15.

Chorus services provided to customers	Nature, performance obligation and timing of revenue
Fibre and copper connections	Providing access to the Chorus fixed lines network to enable connections to the internet. Chorus recognises revenue as it provides this service to its customers. Revenue from installations of connections are recognised upon completion of the connection at a point in time. Unbilled revenues from the billing cycle date to the end of each month are recognised as revenue during the month the service is provided. Revenue is deferred in respect of the portion of fixed monthly charges that have been billed in advance.
Value added network services	Providing enhanced access to the Chorus fixed lines network to enable internet access, through backhaul and handover links services to connect across wider areas and to higher quality levels. Recognition is same as described for fibre and copper connections above.
Infrastructure	Providing physical storage and site-sharing rental services for co-location of third party or shared assets. This is billed and recognised on a monthly basis.
Field services	Providing services in the field to protect, strengthen, and increase the available network – for example, installation services, wiring and consultation services. This is billed and recognised as the service is provided.

Revenue by service

	2018 $M	2017 $M
Fibre broadband	198	123
Fibre premium	78	79
Copper based voice	133	163
Copper based broadband	421	501
Data services copper	27	32
Value added network services	33	34
Infrastructure	23	23
Field services products	70	76
Other	7	9
Total operating revenue	**990**	**1,040**

Note 10 – Operating expenses

	2018 $M	2017 $M
Labour	73	74
Provisioning	6	43
Network maintenance	87	87
Other network costs	34	27
Information technology	54	60
Rent and rates	9	17
Property maintenance	15	13
Electricity	15	14
Insurance	3	3
Consultants	5	10
Regulatory levies	13	13
Other	23	27
Total operating expenses	**337**	**388**

Labour

Labour of $73 million (30 June 2017: $74 million) represents employee costs related to non-capital expenditure.

Pension contributions

Included in labour are payments to the New Zealand Government Superannuation Fund of $0.36 million (30 June 2017: $0.32 million) and contributions to KiwiSaver of $3.3 million (30 June 2017: $2.9 million). At 30 June 2018 there were 18 employees in New Zealand Government Superannuation Fund (30 June 2017: 21 employees) and 877 employees in KiwiSaver (30 June 2017: 962 employees). Chorus has no other obligations to provide pension benefits in respect of employees.

Charitable and political donations

Other costs include charitable donations to Consumer Foundation of $89,000 (30 June 2017: Manaiakalani Education Trust $75,000; the Consumer Foundation $12,550; and smaller contributions to three other charities $2,313). Chorus has not made any political donations (30 June 2017: nil).

Auditor remuneration

Included in other expenses are fees paid to auditors:

	2018 $000's	2017 $000's
Audit and review of statutory financial statements	**504**	**493**
Regulatory audit and assurance work	308	308
Tax compliance services	40	–
Other assurance services[1]	4	30
Other services[2]	–	46
Total other services	**352**	**384**
Total fees paid to the auditor	**856**	**877**

1 Relates to attendance at the Annual Shareholders Meeting (30 June 2017: Relates to attendance at the Annual Shareholders Meeting and assurance relating to EUR EMTN comfort letters).
2 Other services were nil (30 June 2017: Other services included preparation and presentation of hedge accounting training and sponsorship of an award category at the New Zealand Innovation Awards, run by the New Zealand Innovation Council, which was previously owned by KPMG).

Note 11 – Trade and other receivables

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

	2018 $M	2017 $M
Trade receivables	98	100
CIP receivable	18	–
Other receivables	23	22
	139	**122**
Prepayments	22	24
Trade and other receivables	**161**	**146**
Current	**154**	**139**
Non-current	**7**	**7**

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

CIP receivable is for premises passed and tested by CIP for which funding has not been received. Refer subsequent events for details of payments received since 30 June (note 21).

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

The ageing profile of trade receivables is as follows:

	2018 $M	2017 $M
Not past due	92	94
Past due 1–30 days	5	5
Past due 31–60 days	1	1
	98	**100**

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

Any disputes arising that may affect the relationship between the parties will be raised by relationship managers and follow a dispute resolution process. Chorus has $6 million of accounts receivable that are past due but not impaired (30 June 2017: $6 million). The carrying value of trade and other receivables approximate the fair value. The maximum credit exposure is limited to the carrying value of trade and other receivables.

There is no change to recognition of receivables as a result of NZ IFRS 15.

Note 12 – Trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs (if any). They are subsequently measured at amortised cost using the effective interest method. Trade and other payables are non-interest bearing and are normally settled within 30 day terms. The carrying value of trade and other payables approximate their fair values.

	2018 $M	2017 $M
Trade payables	89	86
Accruals	198	182
Personnel accrual	20	20
Revenue billed in advance	63	58
Trade and other payables	**370**	**346**
Current	**370**	**346**
Non-current	**–**	**–**

Note 13 – Commitments

Network infrastructure project agreement

Chorus is committed to deploying infrastructure for premises in the UFB candidate areas awarded to Chorus, to be built according to annual build milestones and to be complete by no later than December 2019 for UFB1 and December 2022 for UFB2 and 2+. In total it is expected that the communal infrastructure will pass an estimated 1,053,600 premises. Chorus has estimated that it will cost $2.3 to $2.4 billion to build the communal UFB network by the end of 2022.

Capital expenditure

Refer to note 2 and note 3 for details of capital expenditure commitments.

Lease commitments

Refer to note 5 for details of lease commitments.

In March 2017 Chorus and Vodafone entered into a fibre swap agreement relating to an RBI settlement. This resulted in a ten year fibre lease commitment of $3 million with Chorus as the lessee. This lease has commenced as expected during the year ended 30 June 2018, and has been captured in the leases payable total.

Note 14 – Taxation

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

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

Current tax expense

	2018 $M	2017 $M
Recognised in income statement		
Net earnings before tax	122	159
Tax at 28%	(35)	(45)
Tax effect of adjustments		
Other non-taxable items	(2)	(1)
Tax expense reported in income statement	**(37)**	**(46)**
Comprising:		
Current tax expense		
– Current year	(11)	(40)
– Adjustments in respect of prior periods	(5)	–
Deferred tax expense		
– Current year	(25)	(6)
– Adjustments in respect of prior periods	4	–
	(37)	**(46)**
Recognised in other comprehensive income		
Movement in hedging related reserves	(10)	6
Tax at 28%	3	(2)
Tax expense reported in other comprehensive income	**3**	**(2)**
Comprising:		
Deferred tax expense	3	(2)
	3	**(2)**

Note 14 – Taxation (cont.)

Opening equity tax expense

Current and deferred tax arising on the adoption of NZ IFRS 9 and NZ IFRS 15 which have been recognised directly in opening equity rather than the income statement or other comprehensive income.

	2018 $M	2017 $M
Recognised in opening equity		
Opening retained earnings	37	–
Opening other comprehensive income	(10)	–
Net earnings before tax	**27**	**–**
Tax at 28%	(7)	–
Income tax expense reported in opening equity	**(7)**	**–**
Current	**(3)**	**–**
Deferred	**(4)**	**–**

Current tax payable / (receivable)

	2018 $M	2017 $M
Balance at 1 July	(1)	(3)
Prior period adjustment	5	–
Opening equity adjustment	3	–
Tax liability for the year	11	40
Tax paid	(30)	(38)
Balance at 30 June	**(12)**	**(1)**

Deferred tax payable

	Fair value portion of derivatives $M	EMTN debt securities $M	Changes in fair value of hedging reserves $M	Network assets, software and other intangibles $M	Finance leases $M	Other $M	Total $M
Balance at 1 July 2016	(5)	7	(9)	238	(37)	–	194
Recognised in the income statement	1	(2)	–	16	(5)	(4)	6
Recognised in other comprehensive income	–	–	2	–	–	–	2
Balance at 30 June 2017	**(4)**	**5**	**(7)**	**254**	**(42)**	**(4)**	**202**
Balance at 1 July 2017	(4)	5	(7)	254	(42)	(4)	202
Recognised in opening equity	–	–	(3)	7	–	–	4
Recognised in the income statement	1	(2)	–	40	(23)	5	21
Recognised in other comprehensive income	–	–	(3)	–	–	–	(3)
Balance at 30 June 2018	**(3)**	**3**	**(13)**	**301**	**(65)**	**1**	**224**

Imputation credits

There are $137 million (30 June 2017: $154 million) of imputation credits available for subsequent reporting periods. The imputation credit balance represents the balance of the imputation credit account at the end of the reporting year, adjusted for imputation credits that will arise from the payment of provisional tax relating to the year ended 30 June 2018.

Note 15 – Cash and call deposits

Cash and call deposits are held with bank and financial institutions counterparties rated at a minimum of A+, based on rating agency Standard & Poor's ratings.

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

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

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

Cash flow

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

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

Note 16 – Equity

Share capital

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

	2018 Number of shares (millions)	2017 Number of shares (millions)
Balance 1 July	411	401
Dividend reinvestment plan	12	10
Issue of new shares	6	–
Balance at 30 June	**429**	**411**

Chorus Limited has 429,641,197 fully paid ordinary shares (30 June 2017: 411,001,665 fully paid ordinary shares). The issued shares have no par value. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of Chorus Limited. Under Chorus Limited's constitution, Crown approval is required if a shareholder wishes to have a holding of 10% or more of Chorus Limited's ordinary shares, or if a shareholder who is not a New Zealand national wishes to have a holding of 49.9% or more of ordinary shares.

On 10 October 2017 and 16 April 2018 fully imputed dividends of 12.5 cents per share and 9 cents per share respectively was paid to shareholders. These two dividend payments totalled $90 million (30 June 2017: 20.5 cents, $83 million).

Eligible shareholders (those resident in New Zealand or Australia) can choose to have Chorus Limited reinvest all or part of their dividends in additional Chorus Limited shares. For the year ended 30 June 2018, 12,333,060 shares (30 June 2017: 10,201,926) with a total value of $47 million (30 June 2017: $40 million) were issued in lieu of dividends. In the October issue the dividend reinvestment plan was underwritten to the value of $51 million for 13,692,543 new shares, of which 6,306,472 new shares were issued for $23 million.

Chorus Limited issues securities to CIP based on the number of premises passed. CIP securities are a class of security that carry no right to vote at meetings of holders of Chorus Limited ordinary shares but carry a preference on liquidation. Refer to note 6 for additional information on CIP securities.

Should Chorus Limited return capital to shareholders, any return of capital that arose on demerger is expected to be taxable as Chorus Limited had zero available subscribed capital on demerger.

Employee share plans

Employee equity building scheme

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

No new scheme was started in the year ended 30 June 2018 so there were nil shares purchased for the employee share plan this year (30 June 2017: 100,415 shares, $3.74 per share). At 30 June 2018 the scheme holds 176,978 shares on behalf of 636 employees (30 June 2017: 776 employees), as part of existing plans.

Long-term performance share scheme

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

Note 16 – Equity (cont.)

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 vested on 30 June 2018 (3 year grant). The 3 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 shares are held by a nominee (Chorus LTI Trustee Limited) on behalf of the participants, until after the shares vest when the nominee is directed to transfer or sell the shares. Or if the shares do not vest they may be held or sold by the nominee. The shares carry the same rights as all other shares.

Participants have been provided with interest-free limited recourse loans to fund the 481,907 shares purchased under the LTI scheme (30 June 2017: 580,104 shares). There were 107,336 shares for the 2017 issue purchased on market at an average price of $4.03, with 80,767 shares which had been forfeited being included in the 2017 issue. 165,358 shares vested on 30 June 2018 but are not eligible for transfer until 27 August 2018.

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

The combined option cost for the year ended 30 June 2018 of $268,000 has been recognised in the income statement (30 June 2017: $312,000).

Significant assumptions used in the valuation models are:

1) a volatility of the Chorus share price of 33%,
2) that dividends will be paid over the term of the scheme, and
3) an absolute TSR performance threshold percentage.

Reserves

Refer note 19 for information on the cash flow hedge reserve and cost of hedging reserve.

Note 17 – Earnings per share

The calculation of basic earnings per share at 30 June 2018 is based on the net earnings for the year of $85 million (30 June 2017: $113 million), and a weighted average number of ordinary shares outstanding during the period of 422 million (30 June 2017: 406 million), calculated as follows:

	2018	2017
Basic earnings per share		
Net earnings attributable to ordinary shareholders ($ millions)	85	113
Denominator – weighted average number of ordinary shares (millions)	422	406
Basic earnings per share (dollars)	**0.20**	**0.28**
Diluted earnings per share		
Net earnings attributable to ordinary shareholders ($ millions)	85	113
Weighted average number of ordinary shares (millions)	422	406
Ordinary shares required to settle CIP equity securities (millions)	94	72
Ordinary shares required to settle CIP warrants (millions)	11	8
Denominator – diluted weighted average number of shares (millions)	527	486
Diluted earnings per share (dollars)	**0.16**	**0.23**

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

Net tangible assets per security

Net tangible assets per security for the period 30 June 2018 was $1.78 (30 June 2017: $1.95).

Note 18 – Related party transactions

Transactions with related parties

Certain Chorus Directors have relevant interests in a number of companies that we have transactions with in the normal course of business. A number of Directors are also non-executive Directors of other companies. Any transactions undertaken with these entities are in the ordinary course of business. Chorus has loans to employees and nominees receivable at 30 June 2018 of $1.6 million (30 June 2017: $1.6 million) as outlined in the employee share plan section of note 16. All loans outstanding are interest-free limited recourse loans.

Key management personnel compensation

	2018 $000's	2017 $000's
Short term employee benefits	8,013	7,532
Termination benefits	1,539	–
Other long term benefits	590	–
Share based payments	268	274
	10,410	**7,806**

This table includes gross remuneration of $1.1 million (30 June 2017: $1.1 million) paid to Directors and $9.3 million (30 June 2017: $6.7 million) paid to key management personnel for the year.

Note 19 – Derivative financial instruments

Chorus uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange rates, interest rates and the spot price of electricity. The use of hedging instruments is governed by the treasury policy approved by the Board. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value with an adjustment made for credit risk in accordance with NZ IFRS 9: Financial Instruments. The fair values are estimated on the basis of the quoted market prices for similar instruments in an active market or quoted prices for identical or similar instruments in inactive markets. Where quoted prices are not available, the fair value of financial instruments is valued using models where all significant inputs are observable.

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

During the year ended 30 June 2014 interest rate swaps with a face value of $676 million and fair value of $31 million were reset at the prevailing market interest rates. These transactions realised $30 million of cash and resulted in an $11 million gain being recorded in the cash flow hedge reserve to be amortised over the period to 2020. During the year ended 30 June 2018 amortisation of $4 million was recognised in finance income (30 June 2017: $4 million) and $3 million was recognised in finance expense (30 June 2017: $3 million). New swaps that hedge the same underlying exposure and risk profile were entered into on the same date, but at a higher effective borrowing cost (4.89% compared to 3.99% prior to the transaction).

Finance expense includes any 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 30 June 2018 is $8 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 interest expense in the income statement at some time over the life of the derivatives as ineffectiveness. It will be a non-cash charge. 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 been applied for the EMTN (GBP), thus the designation remains unchanged. For the year to 30 June 2018 a debit of $7 million ineffectiveness was recognised within finance expense in the income statement (30 June 2017: $6 million debit).

In November 2016, Chorus repaid the Syndicated Bank Facility B 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 is recognised immediately in finance expense in the income statement. For the period to 30 June 2018 $3 million credit was recognised in finance expense (30 June 2017: $6 million debit).

Note 19 – Derivative financial instruments (cont.)

In conjunction with the EMTN (EUR) 500 million issued on 18 October 2017, 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 NZD 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 of the principal exchange. For the period to 30 June 2018, there was $2 million credit from a risk adjustment following NZ IFRS 9 adjustments on the EUR EMTN, recognised in ineffectiveness (30 June 2017: $2 million debit). 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).

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.

Hedge accounting

Chorus designates certain derivatives as either:

- Fair value hedges (of the fair value of recognised assets or liabilities or firm commitments); or
- Cash flow hedges (of highly probable forecast transactions).

At inception each hedge relationship is formalised in NZ IFRS 9 compliant hedge documentation.

Chorus has a 1:1 hedge ratio and sources of ineffectiveness are driven by credit value adjustment of derivatives, except for the GBP EMTN relationship as explained above.

Cash flow hedges

For cash flow hedges the effective part of the changes in fair value of the hedging derivative are deferred in other comprehensive income and are transferred to the income statement when the hedged item affects the income statement. Any gain or loss relating to the ineffective portion of the hedging instrument in cash flow hedge relationships are recognised in the income statement.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting.

Once hedging is discontinued, any cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss either:

- at the same time as the forecast transaction; or
- immediately if the transaction is no longer expected to occur.

Cash flow hedge reserve

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

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

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

	2018 $M	2017 $M
Opening balance	22	26
Impact of adopting NZ IFRS 9 at 1 July 2017 (net of tax)	1	–
Opening balance at 1 July	**23**	**26**
Ineffective portion of changes in fair value of cash flow hedges	4	(15)
Effective portion of changes in fair value of cash flow hedges	–	9
Amortisation of de-designated cash flow hedges transferred to income statement	1	1
Tax expense	(1)	1
Closing balance	**27**	**22**

Note 19 – Derivative financial instruments (cont.)

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

30 June 2018	Within 1 year $M	1–2 years $M	2–3 years $M	3–4 years $M	4–5 years $M	Greater than 5 years $M
Cross currency interest rate swaps	–	20	–	–	–	2
Interest rate swaps	–	23	–	–	–	13
Forward exchange contracts	2	1	–	–	–	–
	2	**44**	**–**	**–**	**–**	**15**
30 June 2017						
Cross currency interest rate swaps	–	–	13	–	–	12
Interest rate swaps	–	–	31	–	–	–
Forward exchange contracts	2	–	–	–	–	–
	2	**–**	**44**	**–**	**–**	**12**

Fair value hedges

Under a fair value hedge, the hedged item is revalued at fair value in respect of the hedged risk. This revaluation is recognised in the income statement to offset the mark-to-market revaluation of the hedging derivative.

Once hedging is discontinued, the fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised through the Income statement from that date through to maturity of the hedged item. If the hedged item is derecognised any corresponding fair value hedge adjustment is immediately recognised in the income statement.

To hedge the interest rate risk and foreign currency risk on the EUR EMTN, Chorus uses cross currency interest rate swaps. For hedge accounting purposes these swaps were aggregated and designated as two cash flow hedges and a fair value hedge. Chorus hedges a portion of the EUR EMTN for Euro fixed rate interest to Euro floating rate interest via a fair value hedge. In this case the change in the fair value of the hedged risk is also attributed to the carrying value of the EMTN (refer to note 4).

Cost of hedging reserve

The cost of hedging reserve captures changes in the fair value of the cost to convert foreign currency to NZD of Chorus' cross currency interest rate swaps on the EUR EMTN. This is a new accounting treatment since the adoption of NZ IFRS 9 on 1 July 2017 (refer note 1). These changes were previously recognised as ineffectiveness in finance expenses.

A reconciliation of movements in the cost of hedging reserve follows:

	2018 $M
Opening balance	–
Impact of adopting NZ IFRS 9 at 1 July (net of tax)	6
Opening balance at 1 July	**6**
Change in currency basis spreads (when excluded from the designation)	4
Tax expense	(1)
Closing balance	**9**

Note 19 – Derivative financial instruments (cont.)

Hedging instruments used (pre-tax):

				Life to date values as at 30 June 2018					Year to date values recognised during the year ended 30 June 2018			
					Carrying amount of the hedging instrument				Hedge effectiveness in reserves		Hedge effectiveness	Hedge ineffectiveness
	Currency	Maturity years	Average rate	Nominal amount of the hedging instrument $M	Assets $M	Liabilities $M	Change in value used for calculating hedge ineffectiveness $M	Cost of hedging reserve $M	Cash flow hedge (OCI) $M	Cash flow hedge reclassified to the Income statement $M	Fair value hedge (Income statement gain) $M	Recognised in the Income statement loss $M
Cash flow hedges												
Cross currency interest rate swaps	NZD:GBP	5	Floating	677	2	(150)	(34)	–	(38)	46	–	(7)
Interest rate swaps	NZD	2	4.89%	676	–	(33)	(33)	–	(11)	–	–	–
Interest rate swaps (including forward dated)	NZD	1–8	3.25%	1,150	–	(18)	(18)	–	18	–	–	–
Forward exchange rate contracts	NZD:USD	1–2	0.7189	54	–	–	–	–	–	–	–	–
Forward exchange rate contracts	NZD:SEK	1–2	5.8288	87	5	–	5	–	5	2	–	–
Fair value and cash flow hedges												
Cross currency interest rate swaps	NZD:EUR	5	Floating	785	70	(25)	60	(12)	(85)	84	(5)	2
Total hedged derivatives				**3,429**	**77**	**(226)**	**(20)**	**(12)**	**(111)**	**132**	**(5)**	**(5)**
Unhedged derivatives												
Interest rate swap	NZD	1	3.68%	250	–	(3)	–	–	–	–	–	–
Total derivatives				**3,679**	**77**	**(229)**	**(20)**	**(12)**	**(111)**	**132**	**(5)**	**(5)**
Current				**–**	**3**	**19**	**–**	**–**				
Non-current				**–**	**74**	**210**	**–**	**–**				

All hedging instruments can be found in the derivative finance assets and liabilities in the Statement of financial position. Items taken to the Income statement have been recognised in finance expenses (refer note 4).

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

Note 20 – Financial risk management

Chorus' financial instruments consist of cash, short-term deposits, trade and other receivables (excluding prepayments), investments and advances, trade payables and certain other payables, syndicated bank facility, EMTN, fixed rate NZD bonds, derivative financial instruments and CIP securities. Financial risk management for currency and interest rate risk is carried out by the treasury function under policies approved by the Board. Chorus' risk management policy approved by the Board, provides the basis for overall financial risk management.

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

Currency risk

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

Chorus has issued GBP 260 million and EUR 500 million foreign currency debt in the form of EMTN. For the GBP EMTN Chorus has in place cross currency interest rate swaps under which Chorus receives GBP 260 million principal and GBP fixed coupon payments for $677 million principal and floating NZD interest payments. For the EUR EMTN Chorus has in place cross currency interest rate swaps under which Chorus receives EUR 500 million principal and EUR fixed coupon payments for $785 million principal and floating NZD interest payments. The exchange gain or loss resulting from the translation of EMTN denominated in foreign currency to NZD is recognised in the income statement. The movement is offset by the translation of the principal value of the related cross currency interest rate swap.

As at 30 June 2018, Chorus did not have any significant unhedged exposure to currency risk (30 June 2017: no significant unhedged exposure to currency risk). A 10% increase or decrease in the exchange rate, with all other variables held constant, has minimal impact on profit and equity reserves of Chorus.

Electricity price risk

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

A 10% increase or decrease in the spot price of electricity, with all other variables held constant, has minimal impact on profit and equity reserves of Chorus.

Interest rate risk

Chorus has interest rate risk arising from the cross currency interest rate swap converting the foreign debt into a floating rate NZD obligation. Where appropriate, Chorus aims to reduce the uncertainty of changes in interest rates by entering into interest rate swaps to fix the effective interest rate to minimise the cost of net debt and manage the impact of interest rate volatility on earnings. The interest rate risk on the entire GBP cross currency interest rate swaps and a portion of the EUR cross currency interest rate swaps have been hedged using interest rate swaps.

Interest rate repricing analysis

30 June 2018	Within 1 year $M	1–2 years $M	2–3 years $M	3–4 years $M	4–5 years $M	Greater than 5 years $M	Total $M
Floating rate							
Cash and deposits	50	–	–	–	–	–	50
Debt	–	–	–	–	–	535	535
Fixed rate							
Debt (after hedging)	250	677	400	–	–	–	1,327
CIP securities	–	–	–	–	–	273	273
Leases (net settled)	(5)	(5)	(1)	2	2	170	163
	295	**672**	**399**	**2**	**2**	**978**	**2,348**
30 June 2017							
Floating rate							
Cash and deposits	170	–	–	–	–	–	170
Debt	535	–	–	–	–	–	535
Fixed rate							
Debt (after hedging)	–	250	677	400	–	–	1,327
CIP securities	–	–	–	–	–	203	203
Leases (net settled)	(5)	(5)	(5)	(1)	2	168	154
	700	**245**	**672**	**399**	**2**	**371**	**2,389**

Note 20 – Financial risk management (cont.)

Sensitivity analysis

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

	2018 $M Profit or (loss)	2018 $M Equity (increase) or decrease	2017 $M Profit or (loss)	2017 $M Equity (increase) or decrease
100 basis point increase	3	(50)	4	20
100 basis point decrease	(3)	45	(4)	(20)

Credit risk

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

Chorus has certain derivative transactions that are subject to bilateral credit support agreements that require us or the counterparty to post collateral to support the value of certain derivatives. As at 30 June 2018 no collateral was posted.

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

	Notes	2018 $M	2017 $M
Cash and call deposits	15	50	170
Trade and other receivables	11	139	122
Derivative financial instruments	19	77	1
Finance lease receivable	5	5	5
Maximum exposure to credit risk		**271**	**298**

Refer to individual notes for additional information on credit risk.

Chorus enters into derivative transactions under the International Swaps and Derivatives Association (ISDA) master agreements. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because Chorus does not currently have any legally enforceable right to offset recognised amounts. Under the ISDA agreements the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events. The potential net impact of this offsetting is shown below. Chorus does not hold and is not required to post collateral against its derivative positions.

Net derivatives after applying rights of offset under ISDA agreements:

	2018 $M	2017 $M
Derivative assets	77	1
Derivative liabilities	(229)	(271)
Net amount	**(152)**	**(270)**

Note 20 – Financial risk management (cont.)

Liquidity risk

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

30 June 2018	Carrying amount $M	Contractual cashflow $M	Less than 1 year $M	1–2 Years $M	2–3 Years $M	3–4 Years $M	4–5 Years $M	5+ Years $M
Non derivative financial liabilities								
Trade and other payables	370	370	370	–	–	–	–	–
Leases (net settled)	243	451	9	9	13	16	16	388
Debt	1,807	1,973	66	573	431	12	12	879
CIP securities	273	383	–	–	–	–	–	383
Derivative financial liabilities								
Interest rate swaps	54	55	23	19	13	–	–	–
Cross currency interest rate swaps:								
Inflows	–	(1,498)	(44)	(551)	(10)	(10)	(10)	(873)
Outflows	101	1,575	67	520	38	38	38	874
Electricity contracts	–	1	1	–	–	–	–	–
Forward exchange contracts:								
Inflows	–	(89)	(68)	(21)	–	–	–	–
Outflows	4	92	70	22	–	–	–	–

30 June 2017	Carrying amount $M	Contractual cashflow $M	Less than 1 year $M	1–2 Years $M	2–3 Years $M	3–4 Years $M	4–5 Years $M	5+ Years $M
Non derivative financial liabilities								
Trade and other payables	268	268	268	–	–	–	–	–
Finance leases (net settled)	154	450	9	8	9	13	18	393
Debt	1,609	1,867	59	59	520	425	9	797
CIP securities	203	320	–	–	–	–	–	320
Derivative financial liabilities								
Interest rate swaps	49	55	23	19	13	–	–	–
Cross currency interest rate swaps:								
Inflows	–	(1,397)	(40)	(40)	(502)	(9)	(9)	(797)
Outflows	225	1,840	67	73	757	43	45	855
Electricity contracts	–	1	1	–	–	–	–	–
Forward exchange contracts:								
Inflows	–	(54)	(45)	(9)	–	–	–	–
Outflows	3	57	48	9	–	–	–	–

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

Chorus manages liquidity risk by ensuring sufficient access to committed facilities, continuous cash flow monitoring and maintaining prudent levels of short term debt maturities.

At balance date, Chorus had available $290 million under the syndicated bank facilities (30 June 2017: $350 million).

Capital risk management

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

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

Note 20 – Financial risk management (cont.)

Hedge accounting

Chorus designates and documents the relationship between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. At hedge inception (and on an ongoing basis), hedges are assessed to establish if they are effective in offsetting changes in fair values or cash flows of hedged items. Hedge accounting is discontinued if:

(a) the hedging instrument expires or is sold, terminated, or exercised;

(b) the hedge no longer meets the criteria for hedge accounting; or

(c) the hedge designation is revoked.

Hedges are classified into two primary types: cash flow hedges and fair value hedges. Refer to note 19 for additional information on cash flow and fair value hedge reserves.

Fair value

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

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

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

Level 2: Valuation techniques using observable inputs – financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets. Where quoted prices are not available, the fair value of financial instruments is valued using models where all significant inputs are observable.

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

The relevant financial assets and financial liabilities and their respective fair values are outlined in note 19 and are all Level 2 (30 June 2017: Level 2).

Cross currency interest rate swaps, interest rate swaps and forward-dated interest rate swaps

Fair value is estimated by using a valuation model involving discounted future cash flows of the derivative using the applicable forward price curve (for the relevant interest rate and foreign exchange rate) and discount rate.

Electricity swaps

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

Note 21 – Post balance date events

Dividends

On 27 August 2018 Chorus declared a dividend in respect of year ended 30 June 2018. The total amount of the dividend is $56 million, which represents a fully imputed dividend of 13 cents per ordinary share.

CIP securities and Crown funding

There was one call notice issued on 29 June 2018 for 8,040 premises (UFB1) for which $9 million funding was received on 4 July 2018. This call notice was accrued for in these financial statements. Additional to this, one call notice was issued since 30 June 2018 to CIP in respect to 7,528 premises (UFB1), with a total aggregate issue price of $8 million. Of these, 5,676 premises had been passed and tested by CIP before 30 June 2018 so were also accrued for in these financial statements ($6 million). A further 1,953 premises (UFB2) were passed and tested by CIP by 30 June 2018 and were also accrued for in these financial statements ($3 million), and will be called for by September 2018.

Governance and disclosures

Our Board

Patrick Strange
BE (Hons), PhD

Chair
Director since 6 April 2015; Independent

Patrick has spent 30 years working as a senior executive and director in both private and listed companies, including more than six years as Chief Executive of Transpower where he oversaw Transpower's $3.8 billion of essential investment in the National Grid. Patrick is currently a director of Mercury NZ, NZX Limited, Auckland International Airport and on the board of Essential Energy Australia.

Patrick is chair of our Nominations and Corporate Governance Committee.

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

Deputy Chair
Director since 1 December 2011; Independent

Jon is a Chartered Accountant and Fellow of the Australian Institute of Company Directors.

He has held senior roles across a diverse range of commercial and not for profit organisations in several countries, including as chair of SkyCity, deputy chair of ASB Bank and Sovereign Assurance Company, director of Mighty River Power, CEO of Brierley New Zealand and Solid Energy, and CFO of Lend Lease in Australia.

Jon is currently chair of Timberlands, VisionFund International and the Wellington City Mission and a trustee of World Vision New Zealand.

Jon is on our Audit and Risk Management Committee and our Nominations and Corporate Governance Committee.

Mark Cross
BBS, CA

Director since 1 November 2016; Independent

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

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

Mark is currently chair of Milford Asset Management, MFL Mutual Fund and Superannuation Investments, and a director of Z Energy, Argosy Property and Genesis Energy.

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

Mark is on our Audit and Risk Management Committee.

Prue Flacks
LLB, LLM

Director since 1 December 2011; Independent

Prue is a professional director with experience across a range of industries.

Prue was formerly a commercial lawyer and a partner in the national law firm Russell McVeagh for 20 years. Her expertise included corporate and regulatory matters, corporate finance, capital markets and business restructuring.

Prue is currently a director of Bank of New Zealand and Mercury NZ, and chair of Queenstown Airport Corporation. She is a chartered member of the New Zealand Institute of Directors.

Prue is chair of our Human Resources and Compensation Committee and on our Nominations and Corporate Governance Committee.

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

Murray Jordan
MProp

Director since 1 September 2015; Independent

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

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

Murray is on our Human Resources and Compensation Committee.

Jack Matthews
BA Philosophy, College of William and Mary

Director since 1 July 2017; Independent

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

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

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

Jack is on our Human Resources and Compensation Committee.

Kate McKenzie
BA, LLB

Managing Director since 20 February 2017; Non-independent

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

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

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

Anne Urlwin
BCom, FCA, CFInstD, MAICD, FNZIM, ACIS

Director since 1 December 2011; Independent

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

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

Anne is chair of our Audit and Risk Management Committee.

Corporate governance framework

As a New Zealand company listed on the NZX our corporate governance policies and practices meet or exceed the standards of that market. We have adopted and fully followed the recommendations set out in the NZX Corporate Governance Code following its implementation.

Although we have an ASX "foreign exempt" listing status[1] we also continue to take into account the ASX Corporate Governance Code in our governance practices and policies.

Our Board regularly reviews and assesses our governance policies, processes and practices to identify opportunities for enhancement.

Our corporate governance practices are outlined below and in our Corporate Governance Statement available at **www.chorus.co.nz/governance**.

Key corporate governance documents are also available at **www.chorus.co.nz/governance**.

Our Board's role

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

Board membership

Our Board's skills, experience and composition supports effective governance and decision making, positioning it to add value.

Supported by the Nominations and Corporate Governance Committee (NCGC) our Board regularly assesses its composition utilising a skills matrix and annual evaluation processes. Training is provided or recruitment undertaken if new or additional skills or experience are required. This ensures there is diversity of thought, skills and expertise and that our Board remains aligned with our strategic direction.

As at 30 June 2018 we had eight Directors (seven independent Directors and the Managing Director).

Directors are not appointed for specified terms. However, our Constitution and the NZX listing rules require at least one third of our Directors to retire at each annual shareholders meeting (ASM).[2]

We recognise that women and ethnic minorities are still under-represented in the leadership of New Zealand businesses and our Board remains actively conscious of this in its succession planning. More information on our approach to diversity is set out later in this report.

Our Board Charter sets out our Board's roles and responsibilities. They include:	
Strategy & performance	• Developing strategy • Approving and reviewing performance against strategy, business plans and budgets
Financial oversight & reporting	• Monitoring the integrity of, and where appropriate approving, financial and corporate reporting (including external audit) • Setting, monitoring and reviewing our internal audit plan
Risk management	• Ensuring an appropriate risk management framework has been established, setting risk appetite, regularly reviewing principal risks and overseeing the management of material business risks
Health & safety	• Setting the strategy, culture and expectations in relation to health and safety
Board composition & performance	• Reviewing and evaluating Board, Board committee and individual Director performance • Board succession planning • Appointing members to Board committees
Governance	• Overseeing corporate governance, including reviewing key governance documents • Carrying out the functions specifically reserved to our Board and its committees under Board approved policies and committee charters • Monitoring compliance with our continuous disclosure obligations
People	• Reviewing and approving remuneration and people strategies, structures and policies • Appointing and removing our CEO, CFO and General Counsel & Company Secretary • Assessing the measurable objectives set for, and progress towards achieving, our diversity and inclusiveness goals
Significant transactions	• Approving major capital expenditure and business activities outside the limits delegated to management

1 An ASX foreign exempt listing is based on the principle of "substituted compliance". This means our primary obligation is to comply with the NZX listing rules (as our "home exchange"). As a result we do not need to follow or report against compliance with the ASX Corporate Governance Code.
2 Directors holding office the longest since last standing for election/re-election are those required to retire. Retiring Directors may stand for re-election. Kate McKenzie, as Managing Director, is exempt from these requirements but must stand for re-election at least once every five years.

Figure 10:

Director tenure

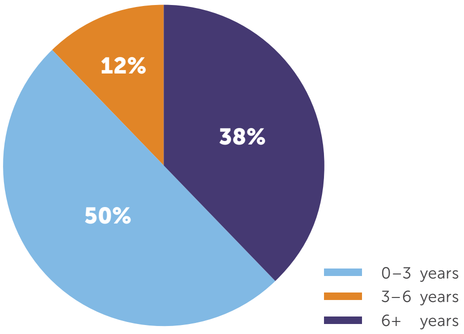
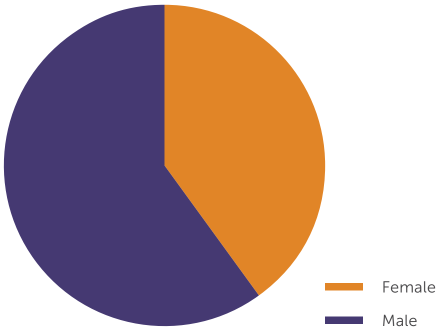
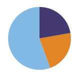
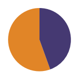
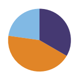
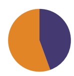
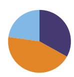
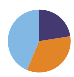


Figure 11:

Board gender diversity



Our Board has determined that collectively its Directors have a broad range of managerial, financial, accounting and industry skills and experience in the key areas set out below.

Skill/experience	Description	Combined Board
Capital markets and investment	Experience in, and understanding of, capital markets, market regulation, capital investment and the investor experience	
Communications connectivity and technology	Understanding, expertise and/or experience in communications connectivity, adopting new technologies, leveraging and implementing technologies	
Governance – financial, audit, legal, listed company	Experience with, and a commitment to, high corporate governance standards including in listed companies Understanding financial business drivers, and/or experience implementing or overseeing financial accounting, external reporting and internal financial controls	
Physical infrastructure and operations including contracting, safety and risk	Experience in leading, and/or understanding of, physical infrastructure operations, including contracting Commitment and experience in management of workplace safety Experience anticipating and identifying key risks and monitoring the effectiveness of risk management frameworks and controls	
Governance – executive experience in large businesses	Executive experience in leading large businesses, developing and implementing strategy and strategic objectives, assessing business plans and driving execution	
Infrastructure regulation	Understanding the current and developing regulatory environment, complexities and actual and potential impacts Expertise identifying and managing legal, regulatory, public policy and corporate affairs issues	
Customer experience	Experience in customer-led transformation, customer focus and/or customer centric organisations	

Substantial experience   Moderate experience   Some experience

Appointment

Our Board may appoint additional Directors to our Board or to fill a casual vacancy.

The independence, qualification, skills and experience needed for the future and those of existing Board members are reviewed before appointing new Directors. External advisors are also engaged to identify potential candidates.

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

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

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

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

Director induction and education

Our Director induction programme ensures new Directors are appropriately introduced to management and our business, acquaints Directors with relevant industry knowledge and familiarises them with key governance documents and stakeholder relationships.

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

We hold dedicated Board education sessions covering a range of topical matters, which this year included:

- Technical, industry and regulatory developments domestically and internationally;
- Innovation and disruptive technologies;
- Current and emerging business and technology trends; and
- Culture, ways of working and working preferences.

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

Review and evaluation of Board performance

Our Board uses internally and externally facilitated performance and evaluation processes overseen by our NCGC. As part of this process our chair meets with Directors individually to discuss performance.

Our Board also formally engages in annual:

- Reviews of our Board chair and deputy chair, and chairs of our standing Board committees;
- Confirmations of our Board chair and deputy chair, and chairs of our standing Board committees; and
- Performance discussions of individual Directors standing for re-election.

Our Board has carried out, in the reporting period, an internal review of its performance, that of individual Directors and standing Board committees using the evaluation process developed and overseen by our NCGC.

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

Independent advice

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

Independence

All our Directors are independent directors except for Kate McKenzie, our CEO and Managing Director.

For a Director to be considered independent our Board must affirmatively determine he or she does not have a disqualifying relationship as set out in our Board Charter. These disqualifying relationships reflect those set out in the NZX listing rules and ASX Corporate Governance Code.

Our Board has not set financial materiality thresholds for determining independence but considers materiality in the context of each relationship and from the perspective of the parties to that relationship.

Delegation of authority

Our Board has overall responsibility for strategy, culture, health and safety, governance and performance. Implementation of our Board approved strategy, business plan and governance frameworks, and responsibility for developing our culture and health and safety practices, is delegated by the Board to management through the CEO.

As such our CEO (with the support of her executive team) is responsible for Chorus' day-to-day management and operations and reports to the Board on key performance, management and operational matters.

Our CEO sub-delegates authority to her executive team and they sub-delegate their authority to other Chorus employees within specified financial and non-financial limits. Formal policies and procedures govern the parameters and operation of these delegations.

Three standing Board committees also assist our Board in carrying out its responsibilities. Some Board responsibilities, powers and authorities are delegated to those committees. Other committees may be established and specific responsibilities, powers and authorities delegated to those committees and/or to particular Directors.

Board committees

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

Audit and Risk Management Committee (ARMC)

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

Human Resources and Compensation Committee (HRCC)

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

Nominations and Corporate Governance Committee (NCGC)

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

Board and Board committee meeting attendance in the year ended 30 June 2018

	Regular Board meetings	Other Board meetings[1]	ARMC	HRCC	NCGC
Total number of meetings held	8	6	4	5	2
Patrick Strange	8	6			2
Jon Hartley	8	6	4		2
Mark Cross	7	6	4		
Prue Flacks	8	6		5	2
Murray Jordan	8	5		5	
Jack Matthews[2]	8	6		4	
Anne Urlwin	8	6	4		
Kate McKenzie[3]	8	6			
Keith Turner[4]	2	1		1	

Notes:

1 Includes dedicated Board education, and strategy and business planning, meetings. Directors also have at least one health and safety site visit each year.
2 Jack Matthews joined our HRCC on 10 November 2017.
3 Kate McKenzie is not a member of any Board committee but attended all committee meetings as CEO and an observer.
4 Keith Turner stepped down from our Board and HRCC on 1 November 2017.

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

Managing risk

Like all businesses, we are exposed to a range of risks. Our risk management activities aim to ensure we identify, prioritise and manage key risks so we can execute our strategies and achieve our goals.

Risk management

No business can thrive without taking risk. Effective risk management is about informed risk taking and appropriate and active risk management.

We seek to understand and respond to our current and future business environment, actively and robustly evaluating opportunities and initiatives which protect and achieve our business strategies. We strive to understand, meet and appropriately balance stakeholders' expectations to deliver value to shareholders and a sustainable environment for Chorus in the long term.

Our Board

Our Board is ultimately responsible for risk management governance:

- Annually setting risk appetite and tolerances and reviewing principal risks;
- Approving and regularly reviewing our Managing Risk Policy and risk management framework;
- Promoting a culture of proactively managing risk; and
- Through our ARMC, providing risk oversight and monitoring.

Risk appetite

Our risk appetite sets our tolerable levels of risk and forms a dynamic link between strategy, target setting and risk management. It draws together risk metrics and management to set boundaries for day-to-day decision making and reporting.

Principal risks

Principal risks are our key risks. These are assessed on a risk profile identifying likelihood of occurrence and potential severity of impact. Current principal risk categories are identified via a comprehensive enterprise risk management framework encompassing financial and non-financial risks. They include:

- Business risk: e.g. network quality and availability; customer; competitive environment; IT; suppliers; technological change;
- People & culture: e.g. health & safety; engagement; capability; talent;
- Regulatory risk: e.g. regulatory environment; legal compliance; and
- Financing risk: e.g. capital management.

Risk management processes

Our Managing Risk Policy mandates one framework for risk management to:

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

Principal risks are owned by relevant executives. This promotes integration into operations and planning and a culture of proactive risk management. Notwithstanding individual ownership, our CEO and executive hold collective responsibility for considering how risk and events inter-relate and for managing our overall risk profile.

Principal risks are reported to our ARMC quarterly and as required by exception. Our ARMC reports to our Board. Principal risks are assessed with each responsible executive

The risk and control environment

Assurance
Management assurance
Independent assurance
(including internal audit, external audit)

1. Risk identification and description
- Risk identification and description
- Recording principal risks

2. Risk assessment and ratings
- Risk assessment (likelihood and impact)
- Risk ratings (critical, high, medium, low)

3. Risk mitigations
- Risk responses
- Mitigating controls
- Action plans

4. Regular risk reporting
- Mitigation status
- Risk trends
- Current and potential risks
- Action plan status

5. Annual risk reviews
- Completeness, accuracy and validity of principal risks
- Effectiveness of the risk management process

and collectively with the executive team before being reported to the ARMC. This allows for constructive challenge and debate. Project and functional area risk assessment and monitoring is undertaken by each responsible executive with assistance from our Manager Risk & Business Assurance.

Our Board also receives management and other internal and external reporting over risk positions and risk management operation (including from internal audit plans approved by the ARMC) through our overall governance framework.

Our risks are not static. Our CEO and executive regularly seek to identify emerging risks in line with our strategic direction and risk management framework.

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

Internal audit

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

The responsibilities of our internal audit function include:

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

Our executive team and ARMC monitor key outstanding internal audit issues and recommendations as part of regular quarterly reporting and review.

Our ARMC has direct and unrestricted access to our internal audit function, including meeting them without management.

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

External auditor

Our Board and ARMC monitor the ongoing independence and quality of our external auditor. Our ARMC also meets with our external auditor without management present.

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

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

The non-audit services undertaken by our external auditor KPMG in the year to 30 June 2018 are set out in note 10 of the financial statements in this report. Those services were provided in accordance with our ARMC Charter and External Auditor Independence Policy and did not affect KPMG's independence, including because:

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

KPMG confirm their independence via independence declarations every six months.

Our external auditors attend our ASM each year.

Acting ethically

Codes of ethics

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

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

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

Other policies reinforce the behaviours we expect at Chorus, including:

- Bribery & gifts: Acceptance of bribes, or gifts/other benefits which could be perceived as influencing decisions, are prohibited under our People Code of Ethics Policy. Our Acceptance of Gifts Policy sets out the parameters within which gifts and entertainment may be accepted and our approval processes for gifts and entertainment over $150.
- Anti-bullying, Harassment and Discrimination: Our Anti-bullying, Harassment and Discrimination Policy reinforces our commitment to a psychologically and physically safe working environment including our zero tolerance approach to bullying, harassment and discrimination.
- Whistle blowing and fraud: Our Whistle Blowing and Fraud policies allow for confidential reporting of serious misconduct or wrongdoing and suspected fraud or corruption.

We did not receive any reports of serious instances of unethical behaviour in the year to 30 June 2018.

Trading in Chorus securities

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

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

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

Trading in Chorus shares or NZX listed bonds by Directors is disclosed to our Board, the NZX and ASX. Trading by "senior managers" is disclosed to the NZX.

Market disclosures

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

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

Our disclosure policies are designed to ensure:

- Roles of Directors, executives and employees are clearly set out.
- Appropriate reporting and escalation mechanisms are established to ensure potentially material matters are escalated appropriately.
- There are robust and documented confidentiality protocols in place where appropriate.
- Only authorised spokespersons comment publicly, within the bounds of information which is either already publicly known or non-material.

Our approach to tax

We take our tax obligations seriously and work closely with Inland Revenue to ensure we meet our tax obligations. We obtain external advice and Inland Revenue's views (through informal correspondence, determinations or rulings) in respect of unusual or material transactions.

As we operate only in New Zealand all our tax is paid in New Zealand at the prevailing corporate tax rate (currently 28%). We have paid all taxes we owe and all tax compliance obligations are up to date.

Shareholder communications and meetings

We are committed to fostering constructive relationships with shareholders that encourage engagement with us, including by:

- Communicating clearly and effectively with them;
- Giving ready access to balanced and understandable information;
- Making it easy for shareholders to participate in general meetings; and
- Maintaining an up to date website providing information about our business and affairs.

Our investor relations programme is designed to further facilitate two-way communication with shareholders, provide them and other market participants with an understanding of our business, governance and performance and an opportunity to express their views. As part of this programme we enable investors and other interested parties to ask questions and obtain information, meet with investors and analysts and undertake formal investor presentations. Our annual and half year results presentations are made available to all investors via webcast.

Annual meetings are held in main centres and webcast to enable shareholders to view and hear proceedings online.

We enable shareholders to vote by proxy ahead of meetings without having to physically attend or participate in those meetings and adopt the one share one vote principle, conducting voting at shareholder meetings by poll.

Shareholders are also able to ask questions of, and express their views in respect of, our Board, management and auditors (including via appointed proxies) at and before annual meetings.

We encourage shareholders to communicate with us and our share registrar electronically, including by providing email communication channels and online contact details and instructions on our website.

Diversity and inclusion

81% of our employees see evidence that we are committed to being a fully inclusive workplace for all employees.

Our business purpose is to keep New Zealand new. This is a purpose fundamentally about people. If we're to truly deliver on this, we know we need the best people, in the best environment, in which the best ideas can grow. We value the differences our people bring to Chorus. We believe greater diversity and inclusion within our business will maximise our collective capability, allow us to leverage diversity of thought, and better reflect and understand our diverse customer base. This in turn should lead to better decision making and higher shareholder value.

Diversity and Inclusion at Chorus is about *Belonging*. Our strategy to promote *Belonging* is focused on building an inclusive culture which strengthens our collective capability. We aim to attract, identify and retain diverse talent and leverage the diversity of our people.

Belonging is brought to life at Chorus through four focus areas:

1 Flexible and adaptable workforce

As the world of work rapidly changes our employees will need to continuously adapt and evolve to succeed. In turn, we also need to be flexible in the way we ask our people to work to get the best out of them. We're committed to offering flexible work options that suit a variety of roles and personal circumstances. We're working on more initiatives to support this, including trialling new workspaces, reviewing leave policies and challenging traditional ways of working. We offer change and resilience workshops to our employees, with 75% of our people leader community and 50% of our employee population participating to date.

2 Diverse leadership

Our objective is for gender and ethnic diversity in our leadership population equal to the gender and ethnic distribution of Chorus.

We had five male and three female directors at 30 June 2018, consistent with the prior year. Non-executive directors were also the same at the end of FY18 with five male and two female non-executive directors. Our executive (officers or senior managers), comprising our chief executive and her leadership team, had six male and four female members as at 30 June 2018 (30 June 2017: six male, three female).

Figure 12:

Gender by age

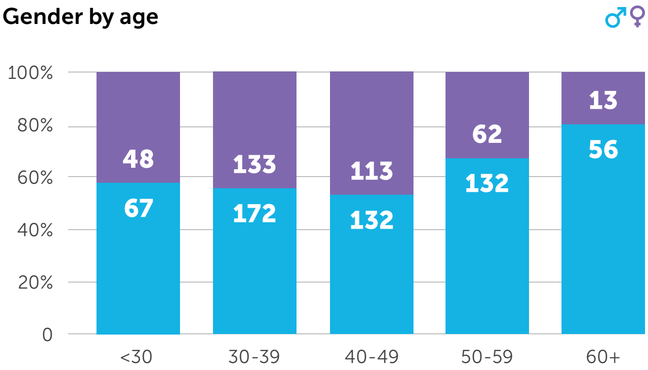


Figure 13:

Gender by length of service

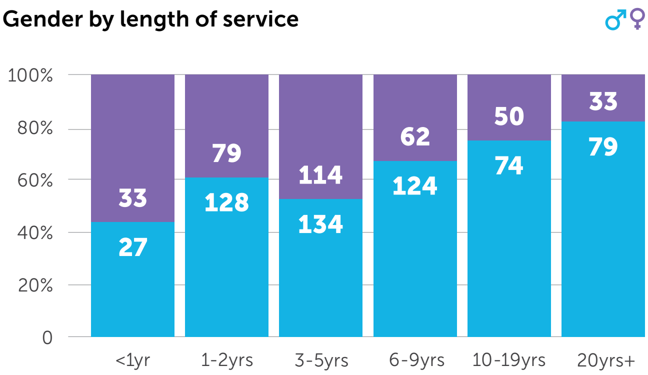
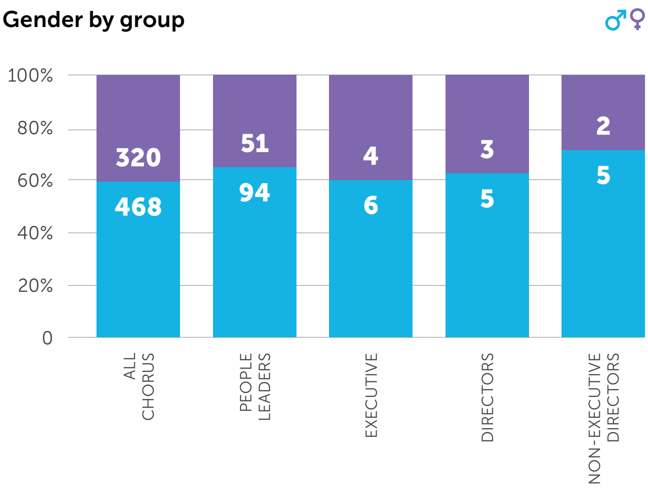


Figure 14:

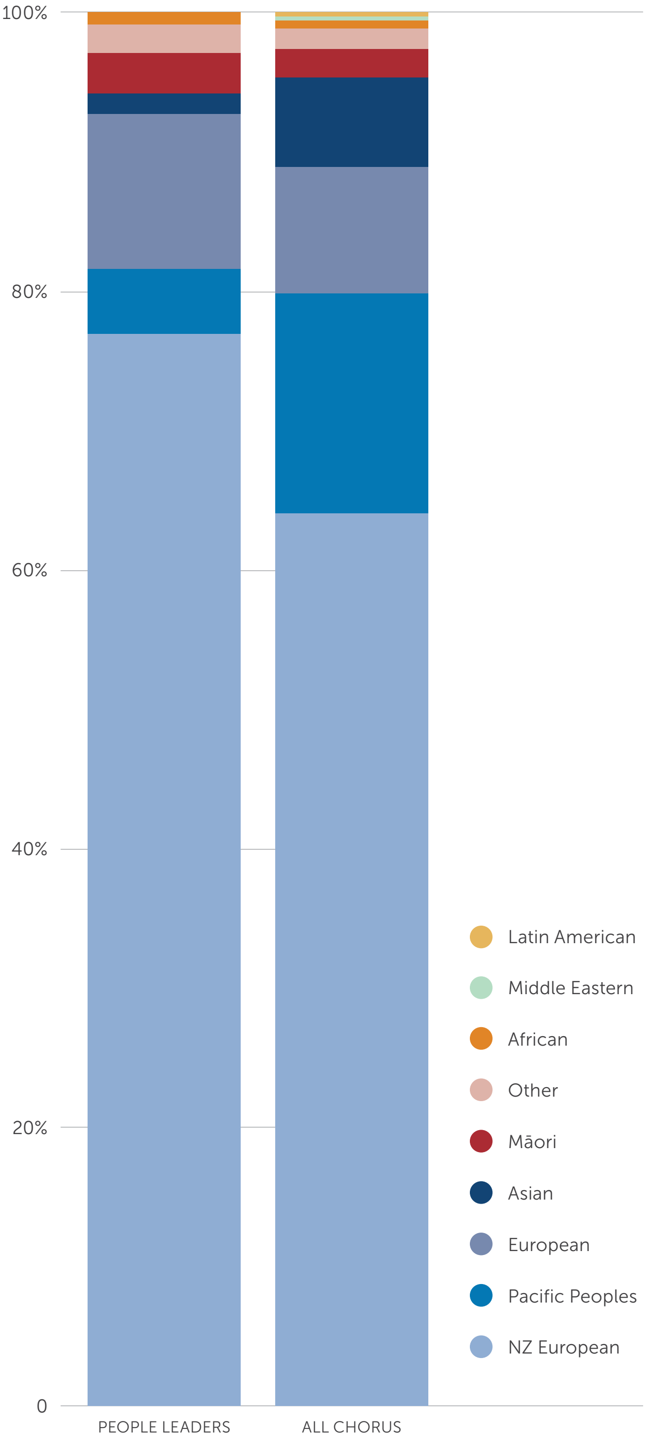
Gender by group



78% of our employees agree we have practices and programmes that support them to maintain or adopt a healthy lifestyle.

Figure 15:

Ethnicity by group



We're committed to increasing the representation of women and ethnic groups at leadership levels in our organisation. We're in the second year of our women in leadership programme, UP, with a further fifteen senior women leaders participating. The 2017 programme resulted in nine of the attendees taking new roles within our business.

We currently have two of our leaders participating in an external Pasifika leadership programme.

All directors have completed a Team Management Profile (TMP) and participated in the TMP workshop. The TMP profile is used by all teams at Chorus to understand different working styles. This enables our teams, including the Board, to appreciate the importance of having a team of individuals working together who all have different experiences, views and self-reflections.

Pay equity analysis has been completed as part of our annual remuneration review and action taken to address identified anomalies. Our commitment to pay equity and addressing any gender pay inequity is ongoing.

3 Wellbeing

We take a holistic approach to wellbeing, providing education and programmes to support physical, emotional, career and financial wellbeing. Employees have participated in nutrition seminars and recently completed a 10,000 steps a day challenge in teams across the organisation.

4 Inclusive culture

Creating a culture where everyone feels they belong is at the heart of our strategy. We're working towards Rainbow Tick accreditation to ensure our workplace is supportive for members of the Rainbow community. Another significant initiative was the celebration of Pink Shirt Day, marking our commitment to a bullying, harassment and discrimination free workplace. An updated anti-bullying, harassment and discrimination policy has been implemented along with training for all people leaders to support our zero tolerance stance.

Diversity metrics and objectives as at 30 June 2018

Based on the annual review of effectiveness of our D&I policy and our measurable diversity metrics and objectives, our Board considers that overall we are making progress towards achieving our D&I objectives and that we have performed well against the policy generally. We continue to consciously focus on this as we support a culture of inclusion at Chorus.

Average age of employees

FY17	FY18	BENCHMARK STATISTICS NZ
41.8	42.3 ↑	42.00

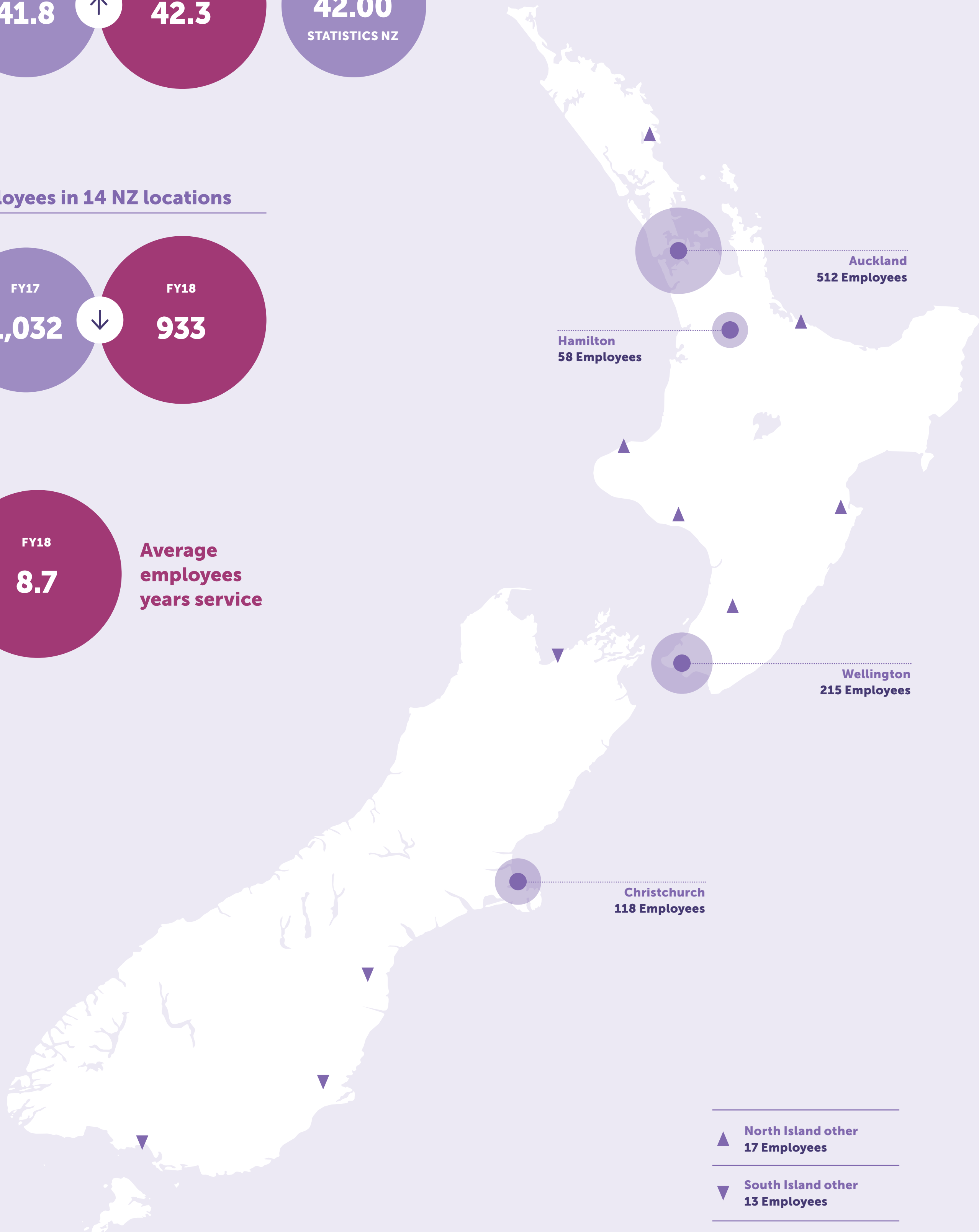
Employees in 14 NZ locations

FY17	FY18
1,032	933 ↓

FY18

8.7

Average employees years service



▲ North Island other
17 Employees

▼ South Island other
13 Employees

Remuneration and performance

Our remuneration model

Our remuneration model is designed to enable the achievement of our strategy, whilst ensuring that remuneration outcomes align employee and shareholder interests.

Remuneration is governed through the Board, assisted by our Human Resources and Compensation Committee (HRCC). Our HRCC supports the Board by overseeing our remuneration strategy and policy. See figure 16.

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

The CEO and members of her executive leadership team also have the potential to earn a Long Term Incentive (LTI). Both STI and LTI are deemed at risk because the outcome is determined by performance against a combination of financial and non-financial objectives.

Fixed remuneration

Fixed remuneration (not at risk) consists of base salary and other benefits including KiwiSaver. Fixed remuneration is adjusted each year based on data from independent remuneration specialists. Employees' fixed remuneration is based on a matrix of their own performance and their current position when compared to the market.

Short term incentive

Short term incentive (STI) payments are an at risk component, that are set as a percentage of fixed remuneration, from 5% to 30% based on the complexity of the role (the CEO's STI is a higher percentage of fixed remuneration as set out later in this report). STI payments are determined following a review of Company and individual performance and if payable, are paid out at a multiplier of between 0x and 1.75x for the CEO and her executive leadership team, and between 0x and 2.8x for other employees.

Company performance goals are set and reviewed annually by our Board to align with shareholder value. A greater focus on customer experience was introduced for FY18 STI measures.

FY18 STI company goals:

- 30% based on EBITDA;
- 30% based on customer experience (keeping customers connected and meeting customer expectations);
- 20% based on broadband connections; and
- 20% based on progress against key strategic initiatives as assessed by our Board.

Fundamental to our STI structure is a gateway goal. The philosophy of the gateway goal is to provide a preliminary threshold of financial success and affordability, before any other measures can be considered. If the gateway goal is not achieved, no STI is payable.

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

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

Figure 16:

Our remuneration policy is designed around five guiding principles:

1	**Fair** to all — employees and shareholders, sharing in Chorus' success.	=	Commitment to pay equity, alignment with our shareholders' expectations, and we will ensure we are not overpaying or underpaying our people through robust market analysis.
2	Supports a **Performance** focused culture.	=	Rewards aligned with performance.
3	**Valued** — by our people.	=	We have a diverse workforce and aim to provide an appropriate suite of rewards that provide value, now and in the future.
4	**Simple** — to understand and administer.	=	Simplicity promotes understanding, clarity and perception of fairness.
5	**Point of difference** — how we know it is Chorus.	=	Supports our vision, mission, values, purpose and employee value proposition.

Long term incentives

Our LTI scheme aims to reward and retain key executives. The LTIs are at risk payments designed to align the interests of executives and shareholders and encourage longer term decision making.

Our LTI is described in more detail in note 16 of the financial statements.

Employee equity building scheme

We've previously had an employee equity building scheme to encourage employees to think and act as shareholders. The shares under the scheme are held by a trustee for a three-year period. For more details, refer to note 16 of the financial statements.

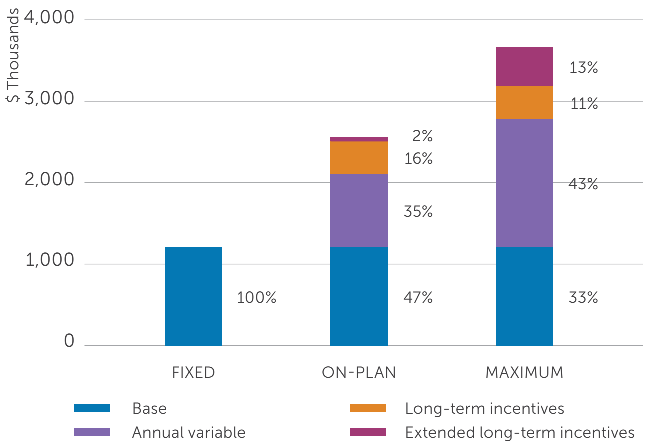
In FY18, the employee equity scheme was placed on hold. The catalyst for this was the pending (and now confirmed) tax legislation changes that could have negatively impacted the employee equity scheme.

Chief Executive remuneration

CEO remuneration consists of fixed remuneration, STI and LTI. In addition to participating in the Executive LTI scheme, on her appointment the Board granted Kate McKenzie a one time LTI ('Extended LTI') to recognise and reward the potential to add significant shareholder value through an increase in total shareholder return over and above that rewarded by the executive LTI scheme. Our CEO continues to have a significant portion of her remuneration linked to performance and at risk. Total remuneration for our CEO continues to be determined using a range of external factors, including advice from external remuneration specialists and is reviewed annually by our HRCC and Board.

CEO remuneration performance pay

The scenario chart below demonstrates the elements of the CEO remuneration design in the year ended 30 June 2018.



CEO remuneration for FY17 and FY18 was:

		Fixed remuneration	Pay for performance		Total remuneration
		Salary	STI	LTI	
Kate McKenzie	FY18	1,200,000	1,019,475[1]	–	2,219,475
	FY17[2]	475,385	370,233[3]	–	845,618

1 STI for FY18 performance period (paid FY19).
2 Kate McKenzie became CEO on 20 February 2017.
3 STI for FY17 performance period (paid FY18).

Other benefits paid to Kate McKenzie:Company Kiwisaver contributions: FY18: $47,220 (FY17: $14,261)

Five year summary of CEO remuneration:

CEO		Total remuneration	% STI awarded against maximum	% STI extension awarded against maximum	% LTI awarded against maximum	% LTI replacement awarded against maximum	Span of LTI performance period
Kate McKenzie	FY18	2,219,475	65%	–	–	–	–
	FY17	845,618	60%	–	–	–	–
Mark Ratcliffe	FY18	–	–	–	89%	–	FY15 – FY18[1]
	FY17	1,981,987	48%	–	100%	100%	FY15 – FY17
	FY16	2,249,276	75%	100%	70%	–	FY13 – FY15
	FY15	1,877,143	57%	100%	69%	–	FY12 – FY14
	FY14	1,696,507	40%	–	107%	–	FY11 – FY13

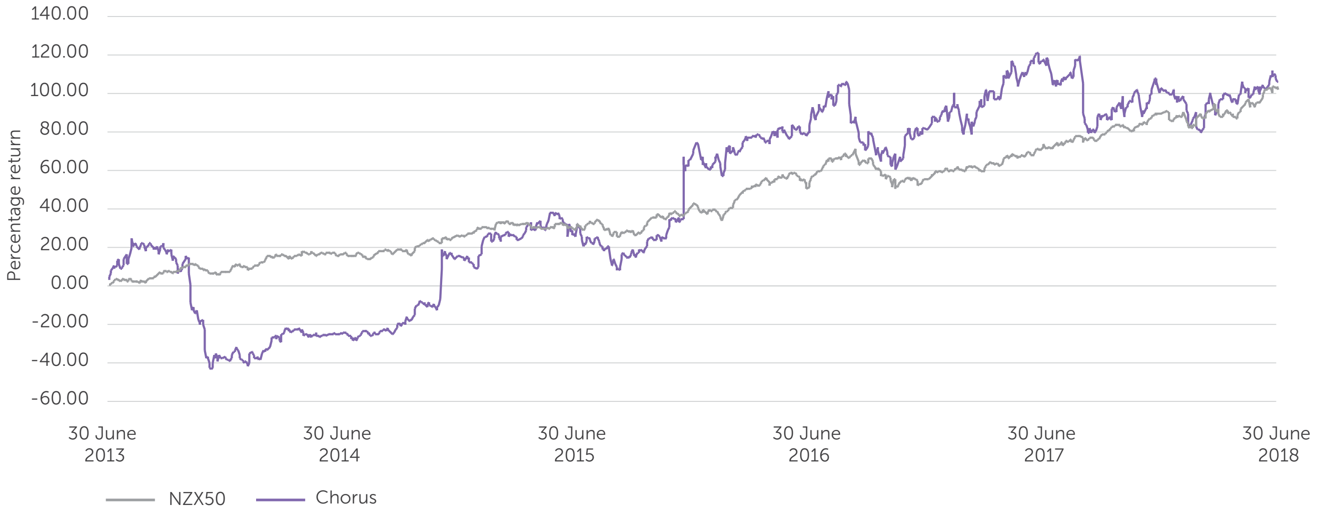
1. Three year grant made 1 July 2015.

The table below outlines the CEO's STI, LTI and extended LTI schemes for the performance period ending 30 June 2018[1]:

	Description	Performance measures	Percentage achieved
STI	Set at 75% of base remuneration. Based on key financial and non-financial performance measures.	• Company performance – see FY18 STI Company goals table on page 80 for weightings. • Individual performance – based on business fundamentals (both financial and non-financial), connections, customer experience and strategic initiatives.	65%
LTI – loan to shares scheme	Three-year grant made September 2017, equivalent to 33% of base remuneration.	Chorus TSR performance over grant period must exceed 10.6% on an annualised basis, compounding.	Assessed September 2020 with possible retesting up to September 2021.
Extended LTI	One-time four-year grant calculated by reference to the increase in TSR over and above that rewarded by the executive LTI scheme capped at NZ$2,000,000.	Annualised Chorus TSR performance over grant period must exceed average cost of equity over the period plus 1%.	Assessed February 2021, with possible retesting up to February 2021.

1 The STI payments for FY18 will be paid in FY19.

Total Shareholder Return (TSR) performance



The graph above shows Chorus' TSR performance against the NZX50 between 30 June 2013 and 30 June 2018.

Median pay gap

The median pay gap represents the number of times greater CEO remuneration is to an employee paid at the median of all our employees. At 30 June 2018, the CEO's base salary at $1,200,000 was 13.1 times that of the median employee at $91,000 per annum.

Our CEO's total remuneration, including STI, was 20.9 times the total remuneration of the median employee (including STI) at $100,068.

The current Living Wage is $20.55 per hour. We do not have any permanent Chorus employee earning less than the current living wage or the $20-an-hour minimum wage, which the Government has recently signalled it plans to adopt by 2021.

Employee remuneration range for the year ended 30 June 2018

The following table shows the number of employees and former employees who received remuneration and other benefits, including redundancy payments, in excess of $100,000 during the year ended 30 June 2018.

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

The remuneration paid to, and other benefits received by, Kate McKenzie in her capacity as CEO, are detailed on pages 81 to 82, and are excluded from the following table.

Remuneration range $ (Gross)	Number of employees in the year ended 30 June 2018 (based on actual payments)
1,070,001–1,080,000	1
840,001–850,000	1
680,001–690,000	1
660,001–670,000	1
620,001–630,000	1
600,001–610,000	1
490,001–500,000	1
390,001–400,000	1
370,001–380,000	1
360,001–370,000	4
350,001–360,000	2
340,001–350,000	1
330,001–340,000	1
310,001–320,000	2
300,001–310,000	4
290,001–300,000	4
280,001–290,000	4
270,001–280,000	4
260,001–270,000	7
250,001–260,000	8
240,001–250,000	7
230,001–240,000	9
220,001–230,000	11
210,001–220,000	6
200,001–210,000	13
190,001–200,000	22
180,001–190,000	29
170,001–180,000	30
160,001–170,000	30
150,001–160,000	43
140,001–150,000	49
130,001–140,000	54
120,001–130,000	44
110,001–120,000	61
100,001–110,000	84
Grand Total	**542**

Director remuneration

Fee structure for the year to 30 June 2018

Our Director fee structure for the year to 30 June 2018 is below. Total remuneration available to Directors (in their capacity as such) in the year ended 30 June 2018 was fixed at our 2016 annual shareholders' meeting at $1,149,500.

Annual fee structure	Year ended 30 June 2018 $	Year ended 30 June 2017 $
Board fees:		
Board chair	223,650	223,650
Deputy chair	167,750	167,750
Non-executive Director	111,850	111,850
Board committee fees:		
Audit and Risk Management Committee		
Chair	32,000	32,000
Member	16,000	16,000
Human Resources and Compensation Committee		
Chair	22,470	22,470
Member	11,500	11,500
Nominations and Corporate Governance Committee		
Chair	16,720	16,720
Member	8,880	8,880
UFB Steering Committees		
Member	33,450	33,450

Notes:

1 Directors ceased sitting on the UFB Steering Committees from December 2017.
2 The Board chair and deputy chair receive Board fees only. Other Directors receive committee fees in addition to their Board fees.
3 Directors (except the CEO) do not participate in a bonus or profit-sharing plan, do not receive compensation in share options, and do not have superannuation or any other scheme entitlements or retirement benefits.
4 Directors may be paid an additional daily rate of $2,400 for additional work as determined and approved by our chair and where the payment is within the total fee pool available. No such fees were paid in the year ended 30 June 2018.

Fees paid to Directors (in their capacity as such) in the year ended 30 June 2018

Director	Total fees $	Board fees	ARMC	HRCC	NCGC	UFB Steering Committees
Patrick Strange	223,650	223,650				
Jon Hartley	167,750	167,750				
Mark Cross	127,850	111,850	16,000			
Prue Flacks	143,200	111,850		22,470	8,880	
Murray Jordan	123,350	111,850		11,500		
Jack Matthews	119,160	111,850		7,310		
Anne Urlwin	143,850	111,850	32,000			
Kate McKenzie	–	–				
Keith Turner	55,689	37,769		6,625		11,295
Total	**1,104,499**	**988,419**	**48,000**	**47,905**	**8,880**	**11,295**

Notes:

1 Amounts are gross and exclude GST (where applicable).
2 Jack Matthews was appointed to our HRCC from 10 November 2017.
3 Kate McKenzie as CEO did not receive any remuneration in her capacity as a Director.
4 Keith Turner stepped down from our Board and HRCC, and the UFB Steering Committees, on 1 November 2017.
5 Directors (other than the CEO) did not receive any other benefits.
6 Directors are entitled to be reimbursed for travel and incidental expenses incurred in performance of their duties in addition to the above fees.

Fee structure from 1 July 2018

Our HRCC reviews the remuneration of non-executive Directors annually based on criteria developed by that committee. Based on that committee's recommendation the Board has approved the following fee structure from 1 July 2018. Total Director remuneration will remain within the limit fixed by shareholders in 2016.

Annual fee structure	From 1 July 2018 $
Board fees:	
Board chair	223,650
Deputy chair	167,750
Non-executive Director	114,000
Board committee fees:	
Audit and Risk Management Committee	
Chair	32,600
Member	16,300
Human Resources and Compensation Committee	
Chair	22,900
Member	11,750
Nominations and Corporate Governance Committee	
Chair	16,720
Member	8,880

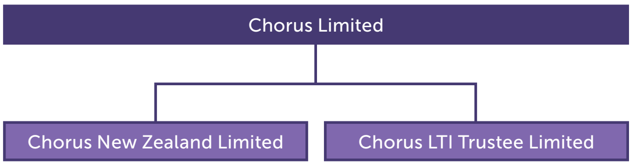
Notes:

1 The Board chair and deputy chair will receive Board fees only. Other Directors will receive committee fees in addition to their Board fees.
2 Directors (except the CEO) will not participate in a bonus or profit-sharing plan, receive compensation in share options, or have superannuation or any other scheme entitlements or retirement benefits.
3 Directors may be paid an additional daily rate of $2,400 for additional work as determined and approved by our chair and where the payment is within the total fee pool available.

Disclosures

Group structure

Chorus Limited has two wholly owned subsidiaries: Chorus New Zealand Limited (CNZL) and Chorus LTI Trustee Limited (CLTL).



Chorus Limited is the entity listed on the NZX, ASX and Luxembourg stock exchanges. It is also the borrowing entity under the group's main financing arrangements and the entity which has partnered with the Crown for the UFB build.

CNZL undertakes (and is the contracting entity for) Chorus' operating activities and is the guarantor of Chorus Limited's borrowing. CNZL also employees all Chorus people. CNZL has its own constitution but its Board is the same as the Chorus Limited Board.

CLTL was incorporated in December 2014 as trustee for our long term incentive plan.

Disclosures in respect of CNZL and CLTL are set out in the "Subsidiaries" section below.

Indemnities and insurance

Chorus indemnifies Directors under our Constitution for liabilities and costs they may incur for their acts or omissions as Directors (including costs and expenses of defending actions for actual or alleged liability) to the maximum extent permitted by law. We have also entered into deeds of indemnity with each Director under which:

- Chorus indemnifies the Director for liabilities incurred in their capacity as a Director and as officers of other Chorus companies.
- Directors are permitted to access company records while Directors and after they cease to hold office (subject to certain conditions).

Deeds of indemnity have also been entered into on similar terms with certain senior employees for liabilities and costs they may incur for their acts or omissions as employees, directors of subsidiaries or as directors of non-Chorus companies in which Chorus holds interests.

We have a directors' and officers' liability insurance policy in place covering Directors and senior employees for liability arising from their acts or omissions in their capacity as Directors or employees on commercial terms. The policy does not cover dishonest, fraudulent, malicious or wilful acts or omissions.

Directors

Director changes during the year ended 30 June 2018

Jack Matthews was appointed as a Director from 1 July 2017.

Keith Turner stepped down as a Director at our annual shareholders' meeting on 1 November 2017.

Director interests and trading in shares

As at 30 June 2018, Directors had a relevant interest (as defined in the Financial Markets Conduct Act 2013) in approximately 0.035% of shares as follows:

Current Directors

	Interest as at 30 June 2018		Transactions during the reporting period			
Director	Shares	Interest	Number of shares	Nature of transaction	Consideration	Date
Patrick Strange	25,000	Beneficial interest	–	–	–	–
Mark Cross	12,000	Beneficial owner of ordinary shares as beneficiary of Alpha Investment Trust; power to exercise voting rights and acquire/dispose of financial products as director of trustee	12,000	On market acquisition	$46,800	11 October 2017
Prue Flacks	11,714	Registered holder and beneficial owner	254	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$960.12	17 April 2018
			343	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$1,292.15	10 October 2017
Murray Jordan	21,306	Registered holder and beneficial owner of ordinary shares as trustee and beneficiary of Endeavour Trust	462	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$1,746.36	17 April 2018
			624	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$2,350.73	10 October 2017
			8,000	On market acquisition	$31,200	8 September 2017
Anne Urlwin	13,968	Director and shareholder of registered holder	302	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$1,141.56	17 April 2018
			410	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$1,544.55	10 October 2017
Kate McKenzie	65,862	Beneficial interest under Chorus' long term incentive plan[1]	65,862	Off market purchase of shares granted under Chorus' long term incentive plan	$265,320	25 September 2017

1 Shares held by trustee and vest subject to certain performance targets being met over performance period.

Former Directors[1]

	Transactions during the reporting period			
Director	Number of shares	Nature of transaction	Consideration	Date
Keith Turner	147	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$555.66	17 April 2018
	198	Acquisition of shares on reinvestment of dividends under Chorus' Dividend Reinvestment Plan	$745.91	10 October 2017

1 Trading while a Director.

Changes in Director interests

Patrick Strange	Ceased as director of New Zealand Clearing and Depository Corporation Limited
Jon Hartley	Became chair of Timberlands Limited
	Ceased as director of VisionFund Myanmar Limited and Mission Foods Limited
	Ceased as a member of the Ministry of Business and Innovation and Employment's Risk Advisory Committee
	Ceased as a member of Foreign Affairs and Trade International Development Commercial Advisory Panel
	Ceased as deputy chair of Sovereign Assurance Company Limited
Mark Cross	Ceased as director of Aspect Productivity Technology Limited
	Ceased as director of Challenge Petroleum Limited
	Ceased as board member of Triathlon New Zealand Incorporated
Prue Flacks	Became chair of Queenstown Airport Corporation Limited
	Ceased as consultant to Russell McVeagh
Jack Matthews	Chair of MediaWorks Holdings Limited and director of MediaWorks Finance Limited, MediaWorks Investments Limited, MediaWorks Kiwi Radio Limited, MediaWorks Radio Limited, MediaWorks TV Limited, APN Outdoor Group Limited, Trilogy International Limited and The Network for Learning Limited
	Became a director of Bravo TV New Zealand Limited and a director and shareholder of PI Meson Limited
	Ceased as director of Trilogy International Limited
Anne Urlwin	Became a director of City Rail Link Limited and Tilt Renewables Limited
	Ceased as chair of Naylor Love Enterprises Limited and as director of Naylor Love Construction Limited, Naylor Love Limited, and Naylor Love Properties Limited
Kate McKenzie	Became a member of Mahuki Advisory Board

Director restrictions

No person who is an 'associated person' of a telecommunications services provider in New Zealand may be appointed or hold office as a Director. NZX has granted a waiver to allow this restriction to be included in our Constitution.

Securities and security holders

Ordinary shares

Chorus Limited's shares are quoted on the NZX Main Board and on the ASX and trade under the 'CNU' ticker. There were 429,641,197 ordinary shares on issue at 30 June 2018 and 31 July 2018. Each share confers on its holder the right to attend and vote at a shareholder meeting (including the right to cast one vote on a poll on any resolution).

Constitutional ownership restrictions

Ownership restrictions carried through at demerger and incorporated into our Constitution in agreement with the Crown require prior Crown approval for any person to:

- Have a relevant interest in 10% or more of our shares; or
- Other than a New Zealand national, have a relevant interest in more than 49.9% of our shares.

We were advised:

- In December 2017 that the Crown approved certain funds managed by L1 Capital Pty Ltd having a collective relevant interest in up to 15% of our shares.
- In 2012 that the Crown approved AMP Capital Holdings Limited and its related companies acquiring a relevant interest in up to 15% of our shares.

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

NZX has granted waivers allowing our Constitution to include the power of forfeiture, the restrictions on transferability of shares and our Board's power to prohibit the exercise of voting rights relating to these ownership restrictions. ASX has also granted a waiver in respect of the refusal to register a transfer of shares which is or may be in breach of the ownership restrictions.

Takeovers protocol

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

Shareholder distribution as at 31 July 2018

Holding	Number of holders	% of holders	Total number of shares held	% of shares issued
1 to 1,000	14,675	60.73%	5,438,755	1.27%
1,001 to 5,000	6,221	25.74%	15,665,491	3.65%
5,001 to 10,000	1,853	7.67%	13,408,286	3.12%
10,001 to 100,000	1,332	5.51%	29,803,361	6.94%
100,001 and over	85	0.35%	365,325,304	85.03%
Total	24,166	100%	429,641,197	100%

Substantial holders

We have received substantial product holder notices from shareholders as follows:

	Notices received as at 30 June 2018		Notices received as at 31 July 2018	
	Number of ordinary shares held	% of shares on issue	Number of ordinary shares held	% of shares on issue
L1 Capital Pty Ltd	63,601,466	14.80%	63,601,466	14.80%
Allan Gray Group	36,839,475	8.674%	36,839,475	8.674%
Accident Compensation Corporation	21,245,803	5.003%	21,245,803	5.003%

Twenty largest shareholders as at 31 July 2018

Rank	Holder name	Holding	%
1	New Zealand Central Securities Depository Limited	118,559,535	27.59
2	HSBC Custody Nominees (Australia) Limited	48,408,649	11.26
3	JP Morgan Nominees Australia Limited	43,088,429	10.02
4	HSBC Custody Nominees (Australia) Limited <A/C 2>	34,610,255	8.05
5	Citicorp Nominees Pty Limited	31,211,483	7.26
6	National Nominees Limited	23,184,169	5.39
7	L1 Capital Pty Ltd <Special Situations 14 A/C>	10,186,904	2.37
8	FNZ Custodians Limited	8,507,202	1.98
9	Forsyth Barr Custodians Limited <1-Custody>	4,306,257	1.00
10	New Zealand Depository Nominee Limited <A/C 1> Cash Account	4,018,988	0.93
11	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,729,156	0.86
12	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	3,110,277	0.72
13	JBWere (NZ) Nominees Limited <NZ Resident A/C>	2,989,460	0.69
14	Ronald James Woodrow	2,905,304	0.67
15	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	2,408,587	0.56
16	PT (Booster Investments) Nominees Limited	1,893,909	0.44
17	Investment Custodial Services Limited <A/C C>	1,602,697	0.37
18	Custodial Services Limited <A/C 3>	1,183,810	0.27
19	Custodial Services Limited <A/C 4>	973,830	0.22
20	Inter City Development Corporation Pty Ltd	930,000	0.21

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

American depositary receipts

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

Debt listings

Chorus Limited has issued:

- $400 million bonds traded on the NZX debt market (the NZDX);
- EUR 500 million EMTNs traded on the ASX; and
- GBP 260 million EMTNs traded on the Luxembourg Stock Exchange.

NZX bondholder distribution as at 31 July 2018

Holding	Number of holders	% of holders	Total number of bonds held	% of bonds issued
1,001 to 5,000	153	8.53%	765,000	0.19%
5,001 to 10,000	362	20.19%	3,480,000	0.87%
10,001 to 100,000	1,140	63.58%	41,168,000	10.29%
100,001 and over	138	7.7%	354,587,000	88.65%
Total	1,793	100%	400,000,000	100%

Unquoted securities

Crown Infrastructure Partners (CIP) Securities

The terms of issue for the CIP1 securities are set out in the subscription agreement between Chorus Limited and CIP. These terms are summarised in note 6 of our Financial Statements and on our website at **www.chorus.co.nz/reports**.

Security	Number issued in the year ended 30 June 2018	Total on issue at 31 July 2018	Holder	Percentage held
CIP1 equity securities	55,657,394	384,193,433	Crown Infrastructure Partners Limited	100%
CIP1 debt securities	55,657,394	384,193,433	Crown Infrastructure Partners Limited	100%
CIP1 equity warrants	2,079,401	10,826,093	Crown Infrastructure Partners Limited	100%

Other disclosures

NZX waivers

A summary of all waivers granted and published by NZX in the 12 months ending 30 June 2018 and relied on is available on our website at **www.chorus.co.nz/investor-info**.

Non-standard designation

NZX has attached a 'non-standard' designation to Chorus Limited because of the ownership restrictions in our Constitution (described above).

ASX disclosures

Chorus Limited and its subsidiaries are incorporated in New Zealand.

Chorus Limited is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial shareholdings and takeovers).

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

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

Registration as a foreign company

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

Net tangible assets per security

As at 30 June 2018, consolidated net tangible assets per share was $1.78 (30 June 2017: $1.95). Net tangible assets per share is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS.

Revenue from ordinary activities and net profit

In the year ended 30 June 2018:

- Revenue from ordinary activities decreased 5% to $990 million (30 June 2017 $1,040 million); and
- Profit from ordinary activities after tax, and net profit, attributable to shareholders decreased 25% to $85 million (30 June 2017 $113 million).

Subsidiaries

Chorus New Zealand Limited (CNZL)

Directors as at 30 June 2018: Patrick Strange, Jon Hartley, Mark Cross, Prue Flacks, Murray Jordan, Jack Matthews, Anne Urlwin, Kate McKenzie.

Patrick Strange, Jon Hartley, Mark Cross, Prue Flacks, Murray Jordan, Jack Matthews, Anne Urlwin and Keith Turner were appointed directors of CNZL with effect from 25 August 2017.

Andrew Carroll, Nick Woodward, Vanessa Oakley and Lucy Riddiford (as alternate director for Vanessa Oakley) resigned as CNZL directors effective from 25 August 2017.

Keith Turner resigned as a CNZL director effective from 1 November 2017.

Director remuneration

Current CNZL directors are also Chorus Limited directors and do not receive any remuneration in their capacity as CNZL directors.

Former CNZL directors were either directors of Chorus Limited or employees and did not receive any remuneration in their capacity as CNZL directors.

Chorus LTI Trustee Limited (CLTL)

Directors as at 30 June 2018: Prue Flacks, Murray Jordan and Jack Matthews.

Keith Turner resigned as a director of CLTL effective 1 November 2017. Jack Matthews was appointed as a director from 10 November 2017.

Director remuneration

Current and former directors of CLTL did not receive any remuneration in their capacity as directors of CLTL.

Other subsidiaries

Chorus Limited has no other subsidiaries.

Glossary

ASX Corporate Governance Code	ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition).
Backbone network	Fibre cabling and other shared network elements required either in the common areas of multi-dwelling units to connect individual apartments/offices, or to serve premises located along rights of way.
Backhaul	The portion of the network that links local exchanges to other exchanges or retail service provider networks.
Bandwidth fibre access	A fibre service that provides dedicated bandwidth between customers and their retail service provider's equipment in the local exchange.
Baseband	A technology neutral voice input service that can be bundled with a broadband product or provided on a standalone basis.
Board	Chorus Limited's Board of Directors.
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.
Chorus	Chorus Limited and subsidiaries.
CIP	Crown Infrastructure Partners, 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.
Constitution	Chorus Limited's Constitution.
CPI	Consumers Price Index (inflation).
Direct fibre access	Also known as 'dark' fibre, a fibre service that provides a point to point fibre connection and can be used to deliver backhaul connections to mobile sites.
Director	A director of Chorus Limited.
EBITDA	Earnings before interest, income tax, depreciation and amortisation.
EMTN	European Medium Term Notes.
FY	Financial year – twelve months ended 30 June. e.g. FY18 is from 1 July 2017 to 30 June 2018.
Gbps	Gigabits per second. A measure of the average rate of data transfer.
Gigabit	The equivalent of 1 billion bits. Gigabit Ethernet provides data transfer rates of about 1 gigabit per second.
GPON	Gigabit Passive Optical Network.
HSNS	High Speed Network Service – a high speed Layer 2 service with dedicated bandwidth on either copper or fibre.
IP	Internet Protocol.
IT	Information Technology.
Layer 2	The data link layer, including broadband electronics, within the Open Systems Interconnection model. Layer 1 is the physical cables and co-location space.
LFCs	Local Fibre Companies – refers to the three other organisations the Government has contracted with for the UFB rollout in non-Chorus areas.
Mbps	Megabits per second – a measure of the average rate of data transfer.
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.
RAB	Regulatory Asset Base refers to the value of total investment by a regulated utility in the assets which will generate revenues over time.
RBI	Rural Broadband Initiative – refers to the Government programme to improve and enhance broadband coverage in rural areas between 2011 and 2016.
share	Means an ordinary share in Chorus.
TSO	Telecommunications Services Obligation – a universal service obligation under which Chorus must maintain certain coverage and service on the copper network.
TSR	Total shareholder return.
UFB	Ultra-Fast Broadband refers to the Government programme to build a fibre to the premises network to about 85% of New Zealanders. UFB1 refers to the original phase of the rollout to 75% of New Zealanders. UFB2 and UFB2+ were subsequent phases announced in 2017.
VDSL	Very High Speed Digital Subscriber Line – a copper-based technology that provides a better broadband connection than ADSL.

Forward looking statements and disclaimer

This annual report:

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

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www.mybnymdr.com

ARBN 152 485 848

Chorus Limited	
Results for announcement to the market	
Reporting Period	Year ended 30 June 2018
Previous Reporting Period	Year ended 30 June 2017

	Amount (000s)	Percentage change
Revenue from ordinary activities	$990,000	Down 5%
Profit (loss) from ordinary activities after tax attributable to security holders.	$85,000	Down 25%
Net profit (loss) attributable to security holders.	$85,000	Down 25%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final dividend	13.0 cps	5.10 cps

Record Date	25 September 2018
Dividend Payment Date	9 October 2018

Comments:	This announcement should be read in conjunction with the attached annual report, audited financial statements for the year ended 30 June 2018 contained in that report, media release and investor presentation.

Dividends

A fully imputed final dividend for the 2018 financial year of 13.0 cents per ordinary share will be paid on 9 October 2018. The total dividend will be $55,853,356.

Dividend Reinvestment Plan

Chorus' dividend reinvestment plan will operate for the dividend payable on 9 October 2018.

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

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

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

Election notices to participate in the Plan (for the dividend due for payment on 9 October 2018), must be received by 5pm (NZ time) 26 September 2018.

Net tangible assets per security

There are $1.78 net tangible assets per security (30 June 2017: $1.95).

Audit

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

Accounting policies

There have been no changes in accounting policies 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 year ended 30 June 2018 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	27 / 8 / 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)	$0.130
Excluded income per security (only applicable to listed PIEs)	
Currency	NZD
Total monies	$55,853,356
Source of Payment	RETAINED EARNINGS

Supplementary dividend details - NZSX Listing Rule 7.12.7

Amount per security in dollars and cents	$0.022941
Date Payable	9 October, 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	$0.009000
Imputation Credits (Give details)	$0.050600
Foreign Withholding Tax	$
FDP Credits (Give details)	

Timing (Refer Appendix 8 in the NZSX Listing Rules)

Record Date 5pm *For calculation of entitlements -*	25 September, 2018
Application Date *Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date.*	9 October, 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.*	9 October, 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

corporate governance statement

Statement overview

This statement outlines the key aspects of our corporate governance framework and was approved by our Board on 27 August 2018.

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

Corporate governance framework

As a New Zealand company listed on the NZX our corporate governance policies and practices meet or exceed the standards of that market. We have adopted and fully followed the recommendations set out in the NZX Corporate Governance Code following its implementation.

Although we have an ASX "foreign exempt" listing status[1] we also continue to take into account the ASX Corporate Governance Code in our governance practices and policies.

Our corporate governance practices are outlined below. Key corporate governance documents are also available at www.chorus.co.nz/governance.

Our Board's role

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

Board membership

Our Board's skills, experience and composition supports effective governance and decision making, positioning it to add value.

Supported by the Nominations and Corporate Governance Committee (NCGC) our Board regularly assesses its composition utilising a skills matrix and annual evaluation processes. Training is provided or recruitment undertaken if new or additional skills or experience are required. This ensures there is diversity of thought, skills and expertise and that our Board remains aligned with our strategic direction.

Our Constitution provides for a minimum of five and maximum of 12 Directors. As at 30 June 2018 we had eight Directors (seven independent Directors and the Managing Director).

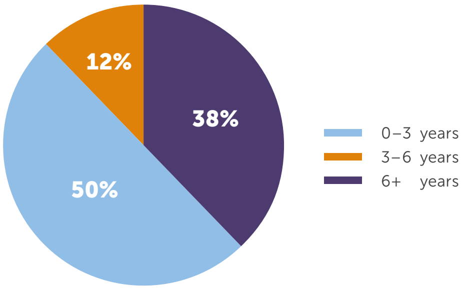
Directors are not appointed for specified terms. However, our Constitution and the NZX listing rules require at least one third of our Directors to retire at each annual shareholders meeting (ASM).[2]

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

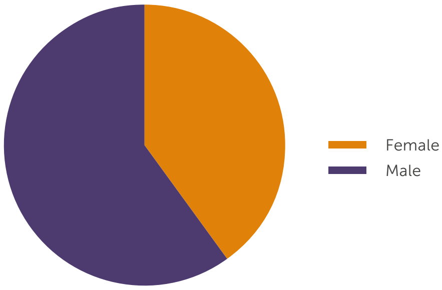
Our Board Charter sets out our Board's roles and responsibilities. They include:	
Strategy & performance	• Developing strategy • Approving and reviewing performance against strategy, business plans and budgets
Financial oversight & reporting	• Monitoring the integrity of, and where appropriate approving, financial and corporate reporting (including external audit) • Setting, monitoring and reviewing our internal audit plan
Risk management	• Ensuring an appropriate risk management framework has been established, setting risk appetite, regularly reviewing principal risks and overseeing the management of material business risks
Health & safety	• Setting the strategy, culture and expectations in relation to health and safety
Board composition & performance	• Reviewing and evaluating Board, Board committee and individual Director performance • Board succession planning • Appointing members to Board committees
Governance	• Overseeing corporate governance, including reviewing key governance documents • Carrying out the functions specifically reserved to our Board and its committees under Board approved policies and committee charters • Monitoring compliance with our continuous disclosure obligations
People	• Reviewing and approving remuneration and people strategies, structures and policies • Appointing and removing our CEO, CFO and General Counsel & Company Secretary • Assessing the measurable objectives set for, and progress towards achieving, our diversity and inclusiveness goals
Significant transactions	• Approving major capital expenditure and business activities outside the limits delegated to management

1 An ASX foreign exempt listing is based on the principle of "substituted compliance". This means our primary obligation is to comply with the NZX listing rules (as our "home exchange"). As a result we do not need to follow or report against compliance with the ASX Corporate Governance Code.
2 Directors holding office the longest since last standing for election/re-election are those required to retire. Retiring Directors may stand for re-election. Kate McKenzie, as Managing Director, is exempt from these requirements but must stand for re-election at least once every five years.

Director tenure



Board gender diversity



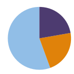
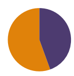
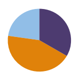
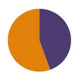
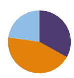
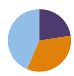
Director	Appointed	Last elected at ASM
Anne Urlwin	2011	2016
Mark Cross	2016	2016
Jon Hartley	2011	2017
Prue Flacks	2011	2017
Murray Jordan	2015	2015
Patrick Strange	2015	2015
Kate McKenzie	2017	2017
Jack Matthews	2017	2017

Patrick Strange, Murray Jordan and Anne Urlwin are retiring by rotation and standing for re-election at our 2018 ASM.

Our Board has determined that collectively its Directors have a broad range of managerial, financial, accounting and industry skills and experience in the key areas set out below. A summary of current Directors' skills, experience and qualifications is set out in our annual report and on our website at **www.chorus.co.nz/governance**.

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

The following table reflects the strengths of the current Board based on a mix of key skills and experiences as are currently relevant for Chorus.

Skill/experience	Description	Combined Board
Capital markets and investment	Experience in, and understanding of, capital markets, market regulation, capital investment and the investor experience	
Communications connectivity and technology	Understanding, expertise and/or experience in communications connectivity, adopting new technologies, leveraging and implementing technologies	
Governance – financial, audit, legal, listed company	Experience with, and a commitment to, high corporate governance standards including in listed companies Understanding financial business drivers, and/or experience implementing or overseeing financial accounting, external reporting and internal financial controls	
Physical infrastructure and operations including contracting, safety and risk	Experience in leading, and/or understanding of, physical infrastructure operations, including contracting Commitment and experience in management of workplace safety Experience anticipating and identifying key risks and monitoring the effectiveness of risk management frameworks and controls	
Governance – executive experience in large businesses	Executive experience in leading large businesses, developing and implementing strategy and strategic objectives, assessing business plans and driving execution	
Infrastructure regulation	Understanding the current and developing regulatory environment, complexities and actual and potential impacts Expertise identifying and managing legal, regulatory, public policy and corporate affairs issues	
Customer experience	Experience in customer-led transformation, customer focus and/or customer centric organisations	

Substantial experience   Moderate experience   Some experience

Appointment

Our Board may appoint additional Directors to our Board or to fill a casual vacancy.

The independence, qualification, skills and experience needed for the future and those of existing Board members are reviewed before appointing new Directors. External advisors are also engaged to identify potential candidates.

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

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

Shareholders may also nominate candidates for appointment to our Board. In addition, under the agreements entered into with Crown Infrastructure Partners Limited (CIP) relating to our UFB fibre upgrades, CIP is entitled to nominate one person as an independent Director (they have never used this right). Should this occur, our Board must consider this nomination in good faith, but the appointment (and removal) of any such person as a Director is to be made by shareholders in the same way as other Directors.

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

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

Director induction and education

Our Director induction programme ensures new Directors are appropriately introduced to management and our business, acquaints Directors with relevant industry knowledge and familiarises them with key governance documents and stakeholder relationships.

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

We hold dedicated Board education sessions covering a range of topical matters, which this year included:

- Technical, industry and regulatory developments domestically and internationally;
- Innovation and disruptive technologies;
- Current and emerging business and technology trends; and
- Culture, ways of working and working preferences.

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

Review and evaluation of Board performance

Our Board uses internally and externally facilitated performance and evaluation processes overseen by our NCGC. As part of this process our chair meets with Directors individually to discuss performance.

Our Board also formally engages in annual:

- Reviews of our Board chair and deputy chair, and chairs of our standing Board committees;
- Confirmations of our Board chair and deputy chair, and chairs of our standing Board committees; and
- Performance discussions of individual Directors standing for re-election.

Our Board has carried out, in the reporting period, an internal review of its performance, that of individual Directors and standing Board committees using the evaluation process developed and overseen by our NCGC.

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

Independent advice

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

Independence

All our Directors are independent directors except for Kate McKenzie, our CEO and Managing Director.

For a Director to be considered independent our Board must affirmatively determine he or she does not have a disqualifying relationship as set out in our Board Charter. These disqualifying relationships reflect those set out in the NZX listing rules and ASX Corporate Governance Code.

Our Board has not set financial materiality thresholds for determining independence but considers materiality in the context of each relationship and from the perspective of the parties to that relationship.

Delegation of authority

Our Board has overall responsibility for strategy, culture, health and safety, governance and performance. Implementation of our Board approved strategy, business plan and governance frameworks, and responsibility for developing our culture and health and safety practices, is delegated by the Board to management through the CEO.

As such our CEO (with the support of her executive team) is responsible for Chorus' day-to-day management and operations and reports to the Board on key performance, management and operational matters.

Our CEO sub-delegates authority to her executive team and they sub-delegate their authority to other Chorus employees within specified financial and non-financial limits. Formal policies and procedures govern the parameters and operation of these delegations.

Three standing Board committees also assist our Board in carrying out its responsibilities. Some Board responsibilities, powers and authorities are delegated to those committees. Other committees may be established and specific responsibilities, powers and authorities delegated to those committees and/or to particular Directors.

Board committees

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

Audit and Risk Management Committee (ARMC)

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

Human Resources and Compensation Committee (HRCC)

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

Nominations and Corporate Governance Committee (NCGC)

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

Board chair

Our Board chair is an independent Director.

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

Our CEO cannot also be Board chair.

Deputy chair

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

Health & Safety

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

We are commited to an open reporting culture and one of continuous improvement. We have zero tolerance for major injuries or fatalities. No business objective will be prioritised over the health and safety of any person.

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

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

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

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

People

Managing performance

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

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

Performance plans are developed after 'Line of Sight' sessions, which enable our people to connect our strategy with their functional plans and individual roles. Performance plans include outcome based objectives, behavioural measures and an individual development plan.

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

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

These processes are consistent with those set out in our HRCC Charter, allow our Board to provide input into individual performance outcomes, total reward approvals (fixed and variable) and development plans and were undertaken in the year ended 30 June 2018.

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

Managing risk

Like all businesses, we are exposed to a range of risks. Our risk management activities aim to ensure we identify, prioritise and manage key risks so we can execute our strategies and achieve our goals.

Risk management

No business can thrive without taking risk. Effective risk management is about informed risk taking and appropriate and active risk management.

We seek to understand and respond to our current and future business environment, actively and robustly evaluating opportunities and initiatives which protect and achieve our business strategies. We strive to understand, meet and appropriately balance stakeholders' expectations to deliver value to shareholders and a sustainable environment for Chorus in the long term.

Our Board

Our Board is ultimately responsible for risk management governance:

- Annually setting risk appetite and tolerances and reviewing principal risks;
- Approving and regularly reviewing our Managing Risk Policy and risk management framework;
- Promoting a culture of proactively managing risk; and
- Through our ARMC, providing risk oversight and monitoring.

Risk appetite

Our risk appetite sets our tolerable levels of risk and forms a dynamic link between strategy, target setting and risk management. It draws together risk metrics and management to set boundaries for day-to-day decision making and reporting.

Principal risks

Principal risks are our key risks. These are assessed on a risk profile identifying likelihood of occurrence and potential severity of impact. Current principal risk categories are identified via a comprehensive enterprise risk management framework encompassing financial and non-financial risks. They include:

- Business risk: e.g. network quality and availability; customer; competitive environment; IT; suppliers; technological change;
- People & culture: e.g. health & safety; engagement; capability; talent;
- Regulatory risk: e.g. regulatory environment; legal compliance; and
- Financing risk: e.g.: capital management.

The risk and control environment

Risk management processes

Our Managing Risk Policy mandates one framework for risk management to:

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

Principal risks are owned by relevant executives. This promotes integration into operations and planning and a culture of proactive risk management. Notwithstanding individual ownership, our CEO and executive hold collective responsibility for considering how risk and events inter-relate and for managing our overall risk profile.

Principal risks are reported to our ARMC quarterly and as required by exception. Our ARMC reports to our Board. Principal risks are assessed with each responsible executive and collectively with the executive team before being reported to the ARMC. This allows for constructive challenge and debate. Project and functional area risk assessment and monitoring is undertaken by each responsible executive with assistance from our Manager Risk & Business Assurance.

Our Board also receives management and other internal and external reporting over risk positions and risk management operation (including from internal audit plans approved by the ARMC) through our overall governance framework.

Our risks are not static. Our CEO and executive regularly seek to identify emerging risks in line with our strategic direction and risk management framework.

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

Internal audit

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

The responsibilities of our internal audit function include:

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

Our executive team and ARMC monitor key outstanding internal audit issues and recommendations as part of regular quarterly reporting and review.

Our ARMC has direct and unrestricted access to our internal audit function, including meeting them without management.

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

External auditor

Our Board and ARMC monitor the ongoing independence and quality of our external auditor. Our ARMC also meets with our external auditor without management present.

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

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

The non-audit services undertaken by our external auditor KPMG in the year to 30 June 2018 are set out in the notes to our financial statements in our annual report. Those services were provided in accordance with our ARMC Charter and External Auditor Independence Policy and did not affect KPMG's independence, including because:

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

KPMG confirm their independence via independence declarations every six months.

Our external auditors attend our ASM each year.

Acting ethically

Codes of ethics

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

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

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

Other policies reinforce the behaviours we expect at Chorus, including:

- **Bribery & gifts:** Acceptance of bribes, or gifts/other benefits which could be perceived as influencing decisions, are prohibited under our People Code of Ethics Policy. Our Acceptance of Gifts Policy sets out the parameters within which gifts and entertainment may be accepted and our approval processes for gifts and entertainment over $150.
- **Anti-bullying, Harassment and Discrimination:** Our Anti-bullying, Harassment and Discrimination Policy reinforces our commitment to a psychologically and physically safe working environment including our zero tolerance approach to bullying, harassment and discrimination.
- **Whistle blowing and fraud**: Our Whistle Blowing and Fraud policies allow for confidential reporting of serious misconduct or wrongdoing and suspected fraud or corruption.

We did not receive any reports of serious instances of unethical behaviour in the year to 30 June 2018.

Trading in Chorus securities

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

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

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

Trading in Chorus shares or NZX listed bonds by Directors is disclosed to our Board, the NZX and ASX. Trading by "senior managers" is disclosed to the NZX.

Market disclosures

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

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

Our disclosure policies are designed to ensure:

- Roles of Directors, executives and employees are clearly set out.
- Appropriate reporting and escalation mechanisms are established to ensure potentially material matters are escalated appropriately.
- There are robust and documented confidentiality protocols in place where appropriate.
- Only authorised spokespersons comment publicly, within the bounds of information which is either already publicly known or non-material.

Our approach to tax

We take our tax obligations seriously and work closely with Inland Revenue to ensure we meet our tax obligations. We obtain external advice and Inland Revenue's views (through informal correspondence, determinations or rulings) in respect of unusual or material transactions.

As we operate only in New Zealand all our tax is paid in New Zealand at the prevailing corporate tax rate (currently 28%). We have paid all taxes we owe and all tax compliance obligations are up to date.

Shareholder communications and meetings

We are committed to fostering constructive relationships with shareholders that encourage engagement with us, including by:

- Communicating clearly and effectively with them;
- Giving ready access to balanced and understandable information;
- Making it easy for shareholders to participate in general meetings; and
- Maintaining an up to date website providing information about our business and affairs.

Our investor relations programme is designed to further facilitate two-way communication with shareholders, provide them and other market participants with an understanding of our business, governance and performance and an opportunity to express their views. As part of this programme we enable investors and other interested parties to ask questions and obtain information, meet with investors and analysts and undertake formal investor presentations. Our annual and half year results presentations are made available to all investors via webcast.

Annual meetings are held in main centres and webcast to enable shareholders to view and hear proceedings online.

We enable shareholders to vote by proxy ahead of meetings without having to physically attend or participate in those meetings and adopt the one share one vote principle, conducting voting at shareholder meetings by poll. Because of the ownership restrictions contained in our Constitution, there may be rare circumstances where, in the event that the restriction is breached, our Board may prohibit the exercise of voting rights. See our annual report and Constitution for more information on our ownership restrictions.

We consider that shareholders should be entitled to vote on decisions which would change the essential nature of our business.

Shareholders are also able to ask questions of, and express their views in respect of, our Board, management and auditors (including via appointed proxies) at and before annual meetings.

We encourage shareholders to communicate with us and our share registrar electronically, including by providing email communication channels and online contact details and instructions on our website.

Letter to investors:
FY18 full year result

dear investors

We've made strong progress this year in our quest to keep New Zealand new.

It is easy to overlook the scale and pace of the technological change we're bringing to New Zealand communities. More than 900,000 homes and businesses now have fibre at their gate and uptake has surged from 35% to 45% during FY18. This has been achieved through our focus on the more visible and challenging part of our broadband rollout – the connection from the street into customers' homes and businesses. We didn't get it right every time, but we've continued to improve the experience for customers while completing 156,000 fibre installations. That's a 20% lift in productivity from the previous year.

We ended the year with 64% of our broadband connections on either fibre or high-speed VDSL broadband, up from 45% last year. This was driven by our shift to being an active wholesaler, investing to promote awareness of the better broadband options already available to many New Zealanders through advertising, collaborative campaigns with retailers and our own door knocking initiatives. This new approach, combined with underlying demand for broadband, helped us to turn last year's decline of 40,000 broadband connections into a gain of 1,000 connections for FY18. Although competition from wireless and other fibre networks meant our total fixed line connections continue to reduce, the pace slowed to 76,000 connections compared to 125,000 connections in FY17. This reduction in connections was predominantly copper lines outside of our fibre network areas.

Against this backdrop of declining connection numbers, we took steps to implement a range of cost management initiatives identified in our FY17 strategic review. This included reducing our internal workforce by 12%, from peak August 2017 levels, as part of broader organisational change. We achieved net profit after tax of $85 million and EBITDA of $653 million, modestly above the top end of our initial FY18 EBITDA guidance

FY18 results overview

	FY18	FY17
Fixed line connections	1,526,000	1,602,000
Broadband connections	1,187,000	1,186,000
Fibre connections	445,000	305,000
Net profit after tax	$85m	$113m
EBITDA[1]	$653m	$652m
Adjusted[2] EBITDA	$653m	$710m[2]
Dividend	22cps	21cps
Employee engagement score	57%	81%

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 9 October 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 26 September 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 2018 annual report, which is available free of charge on request and at **www.chorus.co.nz/financial-results.**

1 Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure. We monitor this as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of the business.
2 Adjusted to reflect the effect the NZ IFRS accounting standards adopted in FY18 would have had if they had applied in FY17.

of $625 million to $650 million. This compares with adjusted[1] FY17 EBITDA of $710 million, reflecting the effect of fewer connections on our revenues. A fully imputed final dividend of 13 cents per share will be paid on 9 October 2018, bringing total dividends for FY18 to 22 cents per share.

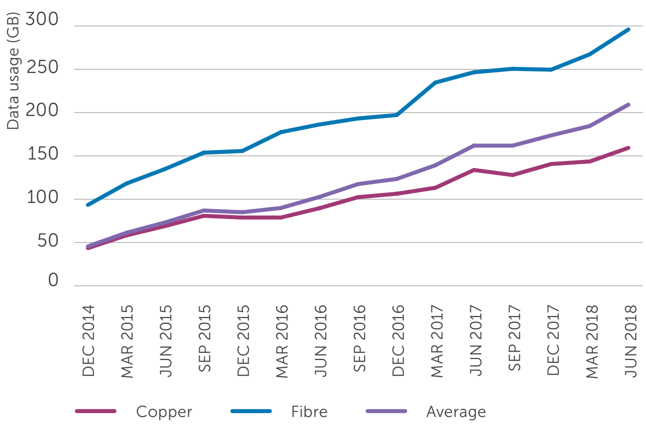
Our focus on tight cost management meant we met our fibre capital expenditure forecasts for another year, despite a record year for fibre connections and inflation in the wider construction market. Our commitment to investing in a fibre future was evident in our August 2017 UFB2+ agreement with the Government to take fibre even further. By the end of 2022 we'll have extended fibre to about three-quarters of the 87% of New Zealanders to be covered by the UFB programme. In the meantime, our investment in VDSL broadband upgrades has helped narrow the digital divide, improving potential broadband speeds for up to 85,000 rural addresses.

We invested in bridging the digital divides within urban communities too. We worked with Network for Learning, a government education group, to trial the extension of a school wi-fi network to students in the surrounding community, using our street poles and copper cables in new ways. This was part of our innovation initiatives, focused on identifying opportunities to use our network assets to develop future products and services. We've also run trials to develop connectivity options for the Internet of Things, network edge computing and television broadcasting. The success of these trials has increased our belief in the potential socio-economic benefits our infrastructure can bring to New Zealanders, while providing future alternative sources of revenue for our business.

Regulatory clarity remains critical to our focus on long-term shareholder value. We worked through the year to assist the progress of the utility style regulatory framework, as initially set out in draft legislation in August 2017, through Select Committee and revised legislation is expected before Parliament in FY19. We look forward to working with the Commerce Commission on a smooth and timely transition to a framework that aligns the interests of customers and investors through recognition of a fair return on investment.

Figure 1:

Monthly average data usage per connection on our network



More than 60% of New Zealand households are estimated to be on unlimited broadband plans and average monthly bandwidth demand on our network grew from 155 gigabytes (GB) per customer to 210GB in the 12 months to the end of FY18. Usage for fibre customers was higher again at an average of 297GB per month. Much of this demand is occurring in the evening as more New Zealanders shift to streaming video on demand services. We've seen average peak usage on our network grow 37%.

Outlook

This financial year, FY19, will be the peak year of our fibre rollout with a large step up in the number of premises to be passed. Auckland and Wellington are expected to be largely complete by the end of the financial year, while the UFB2 rollout will see us bridging the digital divide in a growing number of smaller towns and communities. We need to maintain our relentless focus on keeping the rollout on time and on budget, so that we deliver on our contractual commitments and the expectations of customers keenly awaiting access to fibre.

We expect customer demand for fibre connections to maintain its strong momentum. In larger centres where we are approaching the end of the UFB1 rollout, awareness of fibre is already high and there are a lot of people keen to connect after seven years of waiting. For smaller communities, the rollout of fibre is a high profile event that generates strong interest of its own accord, as well as an opportunity for retailers to compete in areas they may not have previously marketed to. We need to keep improving the fibre installation process so we both increase our productivity and customers' satisfaction with the experience. We've already raised the bar by setting ourselves the target of reducing customer effort to a single visit for a large proportion of customers. Achieving this requires us to work even more collaboratively with our service company partners and retailers to get our processes and systems working in concert.

62%

of New Zealanders now stream video on demand, up from 12% in 2014 – NZ On Air

The strategic changes we started making in FY18 and are continuing through FY19 are focused on achieving our objective of a return to modest EBITDA growth in FY20. This aspiration is subject to no material changes in the expected regulatory environment or competitive outlook. Our return to broadband connection growth in FY18, together with strong forecasts for urban housing development and underlying broadband trends – such as fibre uptake and the demand for streamed video content – give us added confidence in our strategy. By innovating for growth and optimising today's business, we believe our infrastructure will continue to help make New Zealand better well into the future.

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

Thank you for your support of Chorus.

Kind regards

Patrick Strange
Chair

1 Adjusted to reflect the effect of the new NZ IFRS accounting standards adopted in FY18 as if they had applied in FY17.