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STOCK EXCHANGE ANNOUNCEMENT

20 March 2013

Moody's Confirms Chorus' Baa2 ratings, with negative outlook

Please see attached an announcement from Moody's Investors Service, confirming Chorus' Baa2 issuer and senior unsecured ratings, with negative outlook.

ENDS

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MOODY'S
INVESTORS SERVICE

Rating Action: Moody's confirms Chorus' rating; Outlook negative

Global Credit Research - 20 Mar 2013

Approximately USD1.5 billion in debt affected

Sydney, March 20, 2013 -- Moody's Investors Service has confirmed Chorus Limited's ("Chorus") Baa2 issuer and senior unsecured rating. The rating outlook is negative.

This action concludes the review for downgrade of Chorus' rating which was initiated on December 3, 2012.

RATINGS RATIONALE

"The rating confirmation reflects our expectation that the final outcome in relation to the New Zealand Commerce Commission's ("NZCC") draft decision announced last December will likely now not be known in the near term and would be more difficult to predict following the acceleration of the New Zealand Government's industry review," said Maurice O'Connell, a Moody's Vice President and Senior Analyst.

Nevertheless, the negative outlook reflects the still high regulatory uncertainty in relation to the unbundled bitstream access (UBA) pricing determination. Moody's notes that the draft decision announced in December by the NZCC outlined a reduction in the UBA pricing, which if implemented, would reduce Chorus' annual EBITDA by around 20-25%. "A material reduction in the UBA price will be credit negative for Chorus, and outside expectations for the Baa2 rating", O'Connell says who is also Lead Analyst for the company.

The negative outlook also considers Chorus' recent announcement that capex associated with its ultra-fast broadband (UFB) rollout will be higher than originally forecast. An expected UFB deployment cost increase of around $300 million over the eight year roll-out period will be borne by Chorus and which we do not expect to be passed onto its wholesale customers under the current regulatory settings. Whilst Chorus has some flexibility to absorb the increase through its recently announced dividend reinvestment programme and potentially lower dividend payout ratio going forward, some additional increase in debt levels can be expected.

Furthermore, EBITDA levels are likely to be moderately lower in the future than forecast at the time of demerger following the Commerce Commission's final UCLL (Unbundled Copper Local Loop) decision and increased operational costs reflecting mainly ongoing growth in labour costs.

As a result, we expect that adjusted Debt/EBITDA will rise from around 3.1 times in FY2013 to around 4.0 times in FY2015 and that FFO interest cover will be around 4 times over the next two years in the absence of capital management inititiatives. With debt levels increasing over time as Chorus accesses Crown Fibre Holdings (CFH) funding to help finance the UFB rollout, debt metrics will weaken and headroom within the Baa2 rating will diminish in the absence of appropriate countermeasures, such as capital management initiatives.

A small uplift in revenue in 1H2013, a modest 1.1% increase in overall fixed line connections, no signs of any meaningful fixed to mobile substitution and confirmation that rollout targets are on track are supportive of the rating.

During the UFB rollout over the next 7 years, there is limited scope for a rating upgrade, due to the scale and complexity of Chorus Group's capex program. That said, the rating could face upward pressure if Chorus Group experiences greater than expected customer demand for higher priced fibre products, leading to higher free cash flow and more internal funding of capex. Debt/EBITDA dropping below 2.5 times on a consistent basis or FFO plus Interest/Interest exceeding 4.5 times on a consistent basis would be indicators of such trend.

The rating could face downward pressure if there are further overruns or if there are delays in the UFB rollout; there are issues complying with the requirements of key legal agreements with CFH; if Telecom Corporation of New Zealand (rated A3) is downgraded below Baa3; if Debt/EBITDA rises above 4.0 times (on an adjusted basis); or if FFO+Interest/Interest is below 3 times, on a consistent basis.

The principal methodology used in this rating was the Global Telecommunications Industry Methodology published in December 2010, Global Communications Infrastructure Rating Methodology published in June 2011, and Regulated Electric and Gas Networks published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Chorus Group is a New Zealand-based telecommunications utility group. It owns copper and fibre optic fixed-line telecommunications networks in New Zealand, together with exchanges, roadside cabinets, and associated infrastructure. It is a wholesaler of access to these networks. Chorus Limited is the parent company, and the issuer Chorus New Zealand Limited guarantees Chorus Limited and is the main operational entity in the Chorus Group.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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