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STOCK EXCHANGE ANNOUNCEMENT

11 March 2014

Chorus and Crown Fibre Holdings agree package of UFB improvements

Chorus today announced a package of improvements to the UFB initiative have been agreed with Crown Fibre Holdings that ensure the roll-out is more cost effective, provides better outcomes for end users and eliminates some barriers to take-up.

The initiatives do not require any additional funding from CFH, change the underlying contractual obligations to pass all premises in Chorus' coverage area before December 2019, or change the network requirements.

The two organisations have been working together, as requested by Communications and Information Technology Minister Amy Adams in December 2013, to take the lessons learned from the first two years of the UFB initiative and make a series of improvements that will benefit all parties.

"This initial set of initiatives will help Chorus to deliver UFB faster, smoother and more cost effectively," said Andrew Carroll, Chorus CFO. "While Chorus is firmly focused on managing its costs, both parties have worked on the basis that we need to find innovative ways to deliver better outcomes, and that would require a degree of give and take.

"We all want UFB to be an enormous success and these improvements are an important step towards that.

"They give Chorus a greater degree of flexibility to manage its own costs effectively while still achieving the same outcomes and also facilitating the uptake of UFB. In particular, this flexibility will enable Chorus to better manage its cash flow through the peak of the balance of the capital intensive period of the build, as well as addressing some of the \$1 billion funding gap.

"There is no one silver bullet that will address this issue, but several small incremental changes all help towards navigating a very challenging period. At this stage it is not possible to put a specific dollar value to Chorus on the changes as it is dependent on a range of factors, but we thank CFH for its flexibility in supporting Chorus.

"While some of these initiatives have been accelerated by the funding gap Chorus faces, several of them were already under discussion as both parties were looking to further streamline the build.

"We will continue to work closely with CFH to identify further improvements that enable both parties to deliver great outcomes for New Zealand," he said.

The changes are effective from 11 March 2014.

Summary of initiatives

Deployment Flexibility	While the agreed completion date for each candidate area does not change, Chorus now has greater flexibility in how it phases the rollout within those timeframes. Key deliverables of Minimum Annual Build and Priority Premises by Dec 2015 (100% of schools and hospitals, and at least 90% of business premises) will be met. For example, Chorus now has greater flexibility to manage the build programme in conjunction with local councils and other utilities to optimise cost and minimise any disruption in the community.
Better matching time of CFH investment to Chorus cost of build	CFH has agreed to subscribe for a portion of the CFH securities on a monthly basis as work is completed, better aligning receipt of Chorus' cash flows with its outgoings, with the balance paid on completion of stages and User Acceptance Testing. This will allow Chorus to manage its cash flow more effectively. So long as a number of conditions continue to be met regarding Chorus' financial position this will apply for an initial period to June 2015 and will be reviewed further after that.
Pre-fibred premises	In meeting the Priority User target of December 2015, Chorus will have greater flexibility in the deployment of UFB in areas where Chorus already has an extensive fibre footprint. This initiative defers UFB build in these areas to later in the programme and relates to around 12,000 premises. Chorus will continue to connect customers to existing fibre on demand.
Fibre to the Building (FTTB)	Chorus may deliver UFB services in Multi-Dwelling Units (MDUs) with common communications rooms using Fibre to the Premises (FTTP) and in-building reticulation where Cat 5e cabling exists. Where existing cabling isn't sufficient to deliver requested UFB services Chorus will continue to reticulate using fibre. This solution will reduce the cost of installations, including cost that may be chargeable to the building owner, while still delivering UFB services, and potentially eliminate some consent requirements that delay connection. The increased flexibility should lift UFB uptake.

Greenfields Reticulation	Chorus will charge developers for reticulation of Greenfields developments as it does in the non-UFB areas of the country to a maximum of \$900 per Premises. Chorus already charges for Greenfields Reticulation in non UFB areas.
NSI Fund Contribution	Chorus has agreed to increase its Non-Standard Installation Fund by \$8m. This will provide the industry with greater certainty regarding installation costs, giving them more confidence when marketing fibre services.
Marketing Fund	In line with the above increase in the Non Standard Installation fund contribution, Chorus will reduce its own fibre marketing spend from \$5m per annum to \$2.5m. Chorus will focus its marketing efforts into direct tangible marketing for the Network, such as Gigatown, which has proven extremely successful at raising awareness of the potential of NZ's fibre future.

ENDS

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