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STOCK EXCHANGE ANNOUNCEMENT

4 December 2014

Standard & Poor's revises Chorus outlook to stable

Please see attached an announcement from Standard & Poor's, regarding Chorus' outlook being revised to stable with 'BBB' ratings affirmed.

An incorrect cover was attached to the previous announcement.

ENDS

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RatingsDirect®

Research Update:

Chorus Ltd. Outlook Revised To Stable After Draft Regulatory Pricing Decision, 'BBB' Ratings Affirmed

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Chorus Ltd. Outlook Revised To Stable After Draft Regulatory Pricing Decision, 'BBB' Ratings Affirmed

Overview

- The New Zealand Commerce Commission (NZCC) has released its draft Final Pricing Principle (FPP) for the prices that Chorus can charge for use of its local copper lines and broadband services.
- Although the FPP remains subject to finalization, we believe that the announcement, together with a revision to the group's debt facility financial covenants in July 2014, has significantly reduced downward pressure on the group's 'BBB' rating;
- Accordingly, we have affirmed the 'BBB' rating on Chorus and revised the outlook to stable from negative.

Rating Action

On Dec. 4, 2014, Standard & Poor's Ratings Services affirmed its 'BBB' rating on Chorus Ltd. and related debt issues. At the same time, we revised the outlook to stable from negative.

Rationale

The ratings affirmation and outlook revision reflect our view that the NZCC's draft FPP has reduced downward pressure on the group rating. The outlook revision also reflects the amendments to the group's debt facility covenants in July 2014, which have materially improved forecast covenant headroom under a range of potential FPP outcomes. Importantly also, we consider that Chorus has the flexibility and willingness to manage its financial risk profile and debt facility covenant headroom in a manner consistent with the 'BBB' rating.

The NZCC has indicated that it expects the FPP regulatory determination to be finalized by April 2015. Although further pricing adjustments could occur, we consider the risk of an FPP outcome that cannot be accommodated within the 'BBB' rating to be very low. We also note that no guidance has been provided by the NZCC on the pricing of service transaction charges, which are the prices Chorus charges to connect customers to the network or change existing connection arrangements. However, we do not expect a review of these charges to have a material impact on the group's credit quality.

Under our base-case forecasts, which incorporate the impact of the draft FPP, we expect the company to maintain debt to EBITDA at less than 3.5x during the

peak of the Ultra-Fast Broadband (UFB) network build program over the next few years. Our base case assumes that the draft FPP is implemented as proposed from April 2015; the company manages dividends and other capital initiatives to maintain an adequate level of covenant headroom; and there is no material escalation in the UFB build costs beyond the group's publicly announced cost estimates.

Our ratings on Chorus reflect the group's strong market position as owner of the dominant fixed-line telecommunications access network in New Zealand and high capital barriers to competition. Tempering these strengths are regulatory risks associated with network pricing; cost escalation risks associated with the rollout of the proposed UFB fiber-to-the-home (FTTH) network, and network volume risks associated with fixed-to-mobile network substitution and competition from local fiber companies.

Liquidity

We consider Chorus' liquidity to be "adequate", reflecting our expectation that the group's sources of liquidity will cover its uses by more than 1.2x in the next 12 months. Our key liquidity assumptions in the next 12 months are:

Principal liquidity sources:

- Available cash of about NZ\$170 million;
- Funds from operations (FFO) of NZ\$410 million to NZ\$450 million;
- Funds received from Crown Fibre Holdings and other government grants of NZ\$150 million to NZ\$180 million; and
- Undrawn bank facilities of about NZ\$350 million.

Principal liquidity uses:

- Gross capital expenditure of NZ\$550 million to NZ\$650 million; and
- No dividend payments.

Chorus has no maturing debt in the next 12 months. The next major debt maturity is NZ\$575 million of the group's syndicated debt facility maturing in July 2016.

Outlook

The stable outlook reflects our expectation that Chorus' strong network position and prudent approach to capital management will offset risks at the 'BBB' rating level associated with future regulatory pricing decisions, the group's large and complex FTTH capital-expenditure program, and revenue risks associated with fixed-to-mobile substitution.

Downward rating pressure could occur if adverse regulatory pricing decisions or material additional costs in the UFB build process caused a material erosion in the group's financial risk profile. This would include a scenario where debt to EBITDA was sustained above 4x, or there was a material decline in the group's covenant headroom or liquidity. In the longer term, other

factors that could lead to a lower rating include higher-than-expected fixed-to-mobile substitution or line loss to local fiber companies that materially erodes the group's market position, revenues, and cash flows.

Upward ratings pressure is considered unlikely in the next few years, given the expected impact of the regulatory FPP decision and the group's capital management objectives. Nonetheless, upward ratings pressure could emerge if the group was able to sustain debt to EBITDA at less than 3x, while maintaining its market position and continuing to effectively manage the rollout of the UFB network.

Ratings Score Snapshot

Corporate Credit Rating: BBB/Stable/--

Business risk: Strong

- Country risk: Low
- Industry risk: Intermediate
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

Related Criteria And Research

Related Criteria

- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Group Rating Methodology, Nov. 19, 2013
- General: Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And

Research Update: Chorus Ltd. Outlook Revised To Stable After Draft Regulatory Pricing Decision, 'BBB' Ratings Affirmed

Insurers, Nov. 13, 2012

- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed

Chorus Ltd.
Senior Unsecured

BBB

Ratings Affirmed; CreditWatch/Outlook Action

To

From

Chorus Ltd.

Corporate Credit Rating

BBB/Stable/--

BBB/Negative/--

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