

MEDIA RELEASE

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Chorus half year result

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

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

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

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

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

Operating performance

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

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

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

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

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

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

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

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

Strategic review

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

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

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

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

Network investment

The long term UFB capital expenditure programme remains on track.

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

In addition Chorus is continuing to invest in the performance of its copper network. This includes a \$20m programme to deploy VDSL vectoring technology in rural and

other local fibre company areas, which has the potential to improve broadband performance for a further 260,000 premises.

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

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

FY18 guidance

EBITDA: \$625 - \$650 million (tracking towards the top end)

Capital expenditure: \$780 - \$820 million (tracking towards the top half)

Dividend: 22 cents per share, subject to no material adverse changes in circumstances or outlook.

ENDS

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

For further information:

Nathan Beaumont

Stakeholder Communications Manager

Phone: +64 4 896 4352

Mobile: +64 (21) 243 8412

Email: nathan.beaumont@chorus.co.nz

Brett Jackson

Investor Relations Manager

Phone: +64 4 896 4039

Mobile: +64 (27) 488 7808

Email: brett.jackson@chorus.co.nz