



Chorus Limited
Level 9 Datacom House
68-86 Jervois Quay
P O Box 632
Wellington
New Zealand

Email: company.secretary@chorus.co.nz

STOCK EXCHANGE ANNOUNCEMENT

3 December 2012

Commission decisions potentially undermine UFB

The Commission's final UCLL and draft UBA decisions were released this morning.

The Commission's final decision on UCLL sets a new monthly rental price for UCLL in urban areas of \$19.08 and non-urban areas of \$35.20, which will apply from today. A nationally averaged UCLL monthly rental price of \$23.52 will apply from December 2014. This will impact around 100,000 UCLL lines, based on June 2012 volumes. The Commission has also adjusted some UCLL connection charges downwards.

The new nationally averaged UCLL price of \$23.52 will immediately flow through to the UCLFS price. This will impact around 1.6 million lines, based on June 2012 volumes. UCLFS connection charges have not been adjusted as part of the UCLL decision.

The Commission's draft decision on UBA proposes a draft monthly rental price of \$8.93, or \$32.45 when combined with the UCLL price. This would impact around 1 million lines, based on June 2012 volumes. It is proposed that this pricing will take effect from 1 December 2014.

An initial analysis suggests:

- i) the annualised EBITDA impact of the final UCLL and UCLFS decision (including the changes in UCLL connection charges) is a reduction of around \$20m (based on connection numbers as at 30 June 2012). As the decision applies from 3 December 2012, for the year ended 30 June 2013 the EBITDA impact is expected to be approximately 7/12ths of this estimate (i.e. a \$11m - \$12m reduction); and
- ii) the annualised EBITDA impact of the UBA monthly rental prices (if the draft UBA decision were to become final, based on connection numbers as at 30 June 2012) could reduce annual EBITDA by a further \$150-160 million from December 2014.

Chorus has very serious concerns about the potential impact of these decisions.

While noting that the UBA decision is a draft, and there is a process to run, management expects that the collective impact of these two changes (if the draft

UBA decision were to become final) could require Chorus to fundamentally rethink its business model, capital structure and approach to dividends.

The Commission's decisions highlight the urgent need for a coherent and sustainable policy environment if New Zealand is to realise the Government's UFB vision and encourage investment domestically and internationally in New Zealand infrastructure. We note that the Commission's draft UBA decision referenced the limited data set upon which its analysis was based and implications for Chorus' revenue.

The world is watching to see if New Zealand's world-leading UFB policy and the demerger of Chorus as a wholesale-only company will be a success story. Investors do not understand the rationale for reducing copper-based prices at the same time that taxpayers are supporting a Government-backed generational change to fibre. This will significantly reduce fibre uptake.

Chorus CEO Mark Ratcliffe said "at a time when New Zealand needs economic efficiency, productivity and social progress enabled by public private partnerships, today's decisions are a significant step backward. The whole industry needs to be aligned to a transition to fibre if New Zealand is to get better broadband and new innovative services and applications. Shifting the relativity of copper and fibre pricing will discourage that transition. I have publicly expressed concern about this on a number of occasions, including the May investor briefing, our annual results and most recently our AGM."

"We note the Minister's comments and we will be talking to the Crown about the apparent policy disconnect, and Chorus' role in the UFB programme. At the very least, we believe that the Government should immediately look to bring forward the regulatory review already required by legislation in 2016, in order to bring about a sustainable framework next year that will support the UFB vision."

The final UBA decision is not expected until June 2013.

ENDS

For further information:

Melanie Marshall

Head of Communications & Brand

Mobile: +64 (27) 452 6231

Email: melanie.marshall@chorus.co.nz

Brett Jackson

Investor Relations Manager

Mobile: +64 (27) 488 7808

Email: brett.jackson@chorus.co.nz