STOCK EXCHANGE ANNOUNCEMENT

23 May 2012

Chorus issues capex guidance for FY12 and FY13

Chorus (CNU) today issues guidance for its capital expenditure programmes for FY12 and FY13. At a briefing to institutional investors this morning, Chorus CEO Mark Ratcliffe and other Chorus executives will outline the company's early progress towards achieving its business objectives.

"We're delivering on our short term goals, including the establishment of Chorus and we're on track to lay fibre past about 50,000 schools, homes and businesses by the end of July.

"Our focus now shifts to our longer term objectives. We are working closely with our customers to help them transition to a fibre world, while also building our fibre network and operating our copper network more efficiently," Ratcliffe said.

Chorus Chief Financial Officer Andrew Carroll will outline details on Chorus' capex investment for the Ultra Fast Broadband roll-out and the Rural Broadband Initiative.

"These are massive programmes of investment in New Zealand's network capability. We expect fibre related capex to account for about 80% of gross capex spend this year and next," Carroll said.

Chorus gross capex guidance:
FY12 (7 months) $335m to $355m
FY13 $560m to $610m

"Chorus' fibre investment alongside the Government is a real example of a public private partnership aligned to a common vision for New Zealand," says Ratcliffe. "The amount being invested underlines the need for certainty, so the industry can deliver compelling services to enable New Zealanders to benefit from fibre."

A copy of presentations to be delivered at the briefing are attached. The briefing will commence at 10:00am (NZ time) and can be viewed via the investor section of Chorus' website:
http://investors.chorus.co.nz/phoenix.zhtml?c=248160&p=irol-irHome

ENDS

For further information:
Robin Kelly
External Communications Manager
Mobile: +64 (27) 455 5139
Email: robin.kelly@chorus.co.nz

Brett Jackson
Investor Relations Manager
Mobile: +64 (27) 488 7808
Email: brett.jackson@chorus.co.nz

Chorus Investor Day

Auckland, May 2012

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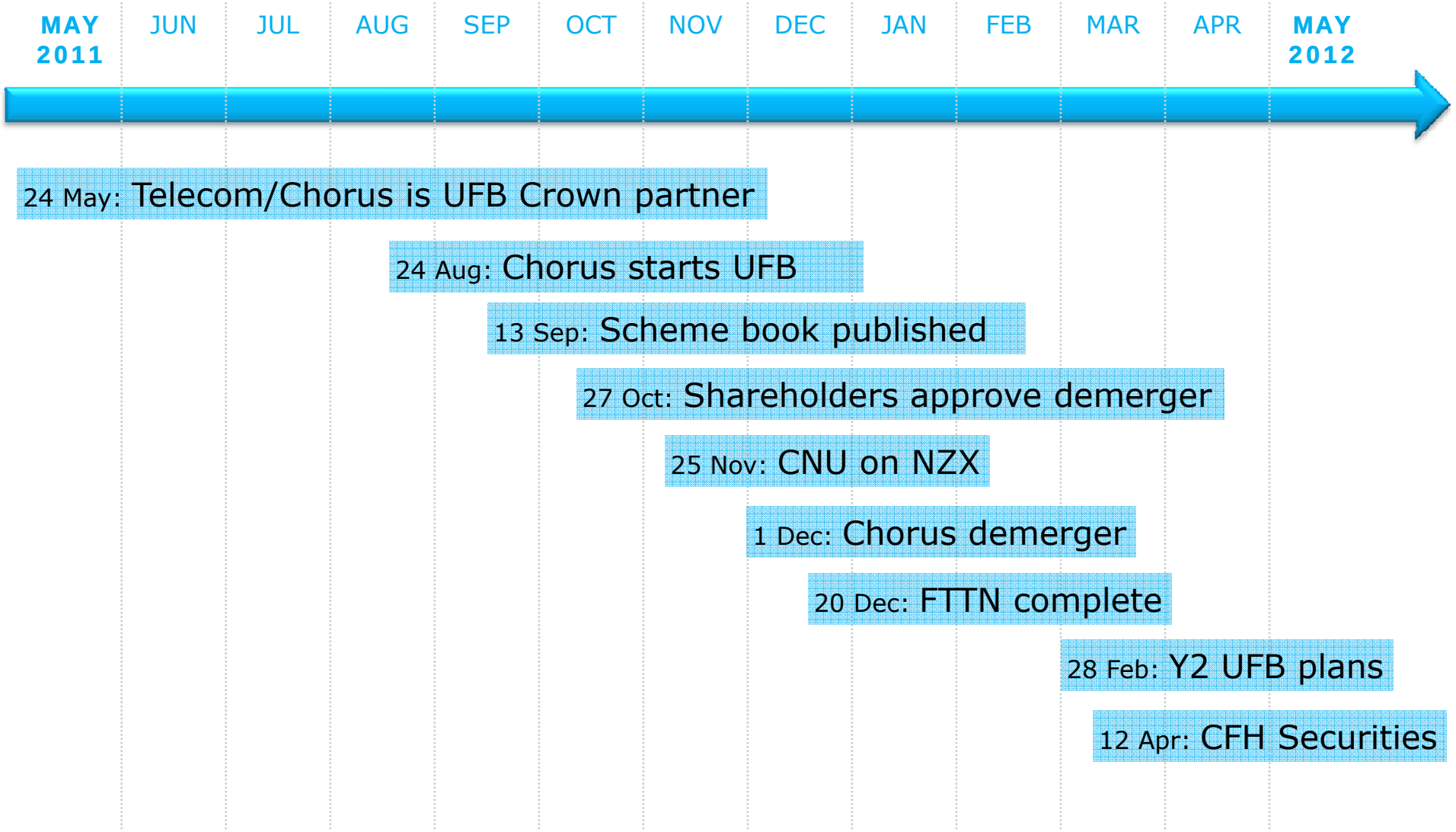
It’s been a busy year!



Agenda

- Capex Overview: Andrew Carroll, CFO
- UFB Update: Chris Dyhrberg, GM Network Build
- Market & Revenues: Victoria Crone, GM Marketing & Sales
- Overview: Mark Ratcliffe, CEO
- General Q&A
- Aim to finish at midday
- UFB site visit for those who have registered

CFO capex overview

Andrew Carroll, Chorus CFO

Overview of presentation

- Chorus capital expenditure
  - Fixed assets at demerger
  - Historical
  - Future
  - Capex by category

- UFB build programme

Chorus fixed assets at demerger

	$m
Copper cables	705
Fibre optic cables	272
Ducts and manholes	381
Cabinets	227
Property	277
Network equipment	301
Intangibles	236
Other	26
TOTAL	**2,425**

*

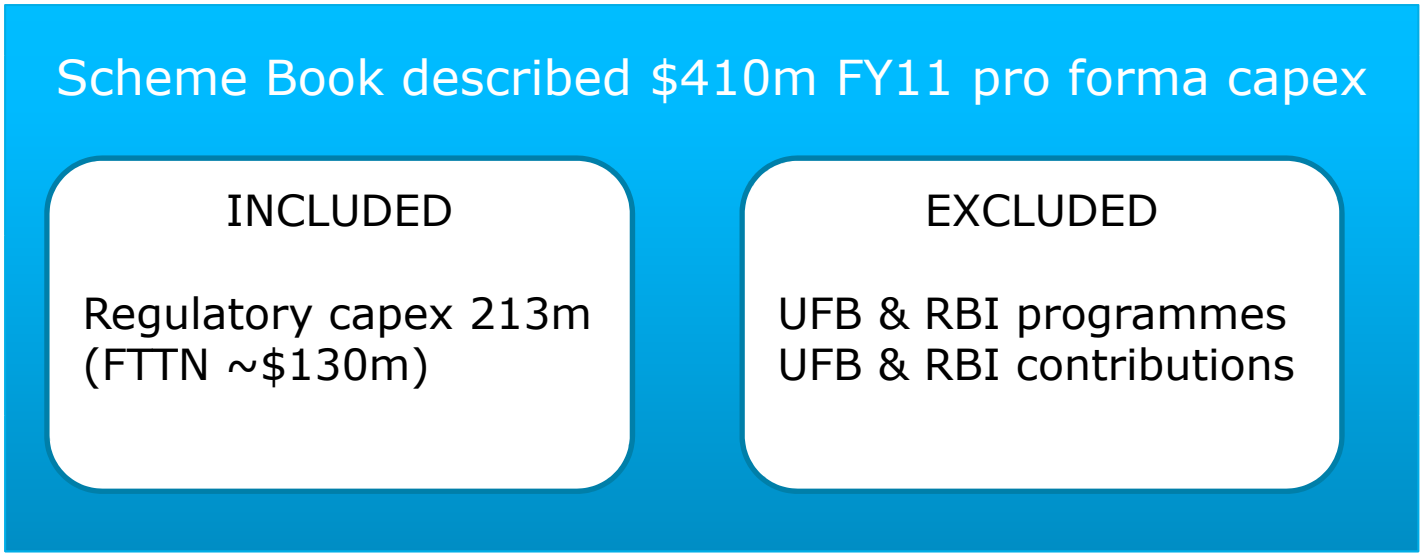
Summary of property, plant, equipment and intangible assets as per Scheme Book pro forma amount of $2,425m

Focus on building asset base to support and grow future earnings

Capex expected to be a very significant proportion of revenues until UFB build completed

Chorus capex: historical view

> Limited useful benchmarks for historical Chorus spend



Future capex make-up

Three main (asset-related) capex categories:

Fibre: includes spend specifically on fibre assets (e.g. layer 0 and 1 UFB network assets), assets to support the fibre network (e.g. IT delivering UFB products), and programmes largely focussed on fibre (e.g. RBI)

Copper: includes spend on copper-related network assets and supporting capability (e.g. layer 2 electronics)

Common & Other: includes a range of spend unrelated to network asset class, such as Chorus enterprise systems, buildings and other

Capex overview

	FY12 (7 months) $m	FY13 $m
Fibre capex	265 – 275	450 – 480
Copper capex	40 - 50	75 – 85
Common capex	25 – 35	35 – 45
Gross capex (guidance)	**335 – 355**	**560 – 610**
Less contributions		
CFH contribution	40 – 45	120 – 125
RBI grant	40 – 45	70 – 75
Other	5	10
Total contributions	**85 – 95**	**200 – 210**
Chorus funded ("net") capex	**240 – 260**	**360 – 400**

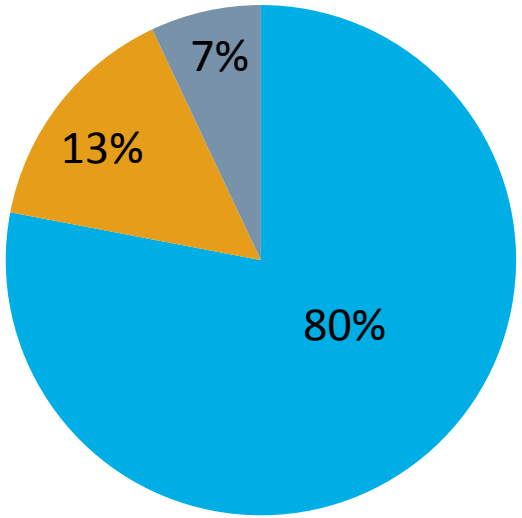
Future reporting will be on a gross capex basis. The recognition of contributions above is subject to a range of factors, including the verification of build milestones. This may result in some variability in the timing of these quantums, albeit that the total funding available under the UFB and RBI programmes is unchanged. Note also that the ranges presented here aren't necessarily additive.

FY13 gross capex by category

Indicative breakdown of FY13 gross capex
(mid points of range)

Common capex	7%
Information technology	4%
Building & engineering services	2%
Other	1%

Copper capex	13%
Network sustain	6%
Copper connections	3%
Copper layer 2	3%
Product	1%



Fibre capex	80%
UFB communal	48%
UFB connections & fibre layer 2	4%
Fibre products & systems	4%
Other fibre connections & growth	10%
RBI	14%

Fibre capex categories

UFB communal 48% of total	• Estimated $1.4 – 1.6 billion cost across UFB build period • Capex cost for ~ 100,000 premises to be commenced and completed in FY13, with additional WIP for around 10,000 premises
UFB connections & fibre layer 2 4% of total	• UFB connections are subject to demand via RSPs • Layer 2 electronics
Fibre products & systems 4% of total	• Fibre- related product and system development
Other fibre connections & growth 10% of total	• Demand driven by greenfield & business fibre growth. • Regional backhaul to enable RSP traffic • Fibre lifecycle investment
RBI 14% of total	• Layers 0, 1 - network duct and fibre; Layer 2 cabinet electronics • Expect total 5 year programme to cost around $270 - 280 million. Spend weighted to front end of programme

Copper capex categories

Network sustain 6%	• Upgrading or replacing plant (e.g. poles, cabinets, cables) where risk of failure or degraded service • Proactive network replacement more cost effective than reactive maintenance
Copper connections 3%	• Demand for copper connections for residential / business customers (e.g. infill housing, new buildings)
Copper layer 2 3%	• Demand driven layer 2 investment in broadband capacity and growth. Expected to reduce slowly as customers migrate to fibre
Product fixed 1%	• Largely RSP driven investment in copper-related products

Common capex categories

Information technology 4%	• Investment in future Chorus IT platforms, in part to meet June 2014 deadline to move from Telecom enterprise systems
Building and engineering services 2%	• Spend for growth and plant replacement (e.g. power, air conditioning) at Chorus exchange, building and remote sites
Other 1%	• Items such as office accommodation and equipment

Contributions to capex

UFB

- CFH contributes up to $929 million over course of programme, at a rate of $1,118 per premise

RBI

- Government grant funding of ~$225 million over 5 years to cover most layer 0 and 1 capex spend
- Layer 2 is not covered by the grant
- Grant is payable on completion of build work
- Annual grant around 80 - 85% of annual RBI capex spend

Other

- Central & local government contribute to cost (often 100%) when requesting Chorus to relocate or rebuild existing network.

UFB build metrics

Estimated cost of communal network	$1.4 to $1.6 billion
Less contribution from CFH	$929m
Estimated net Chorus contribution	$471m to $671m

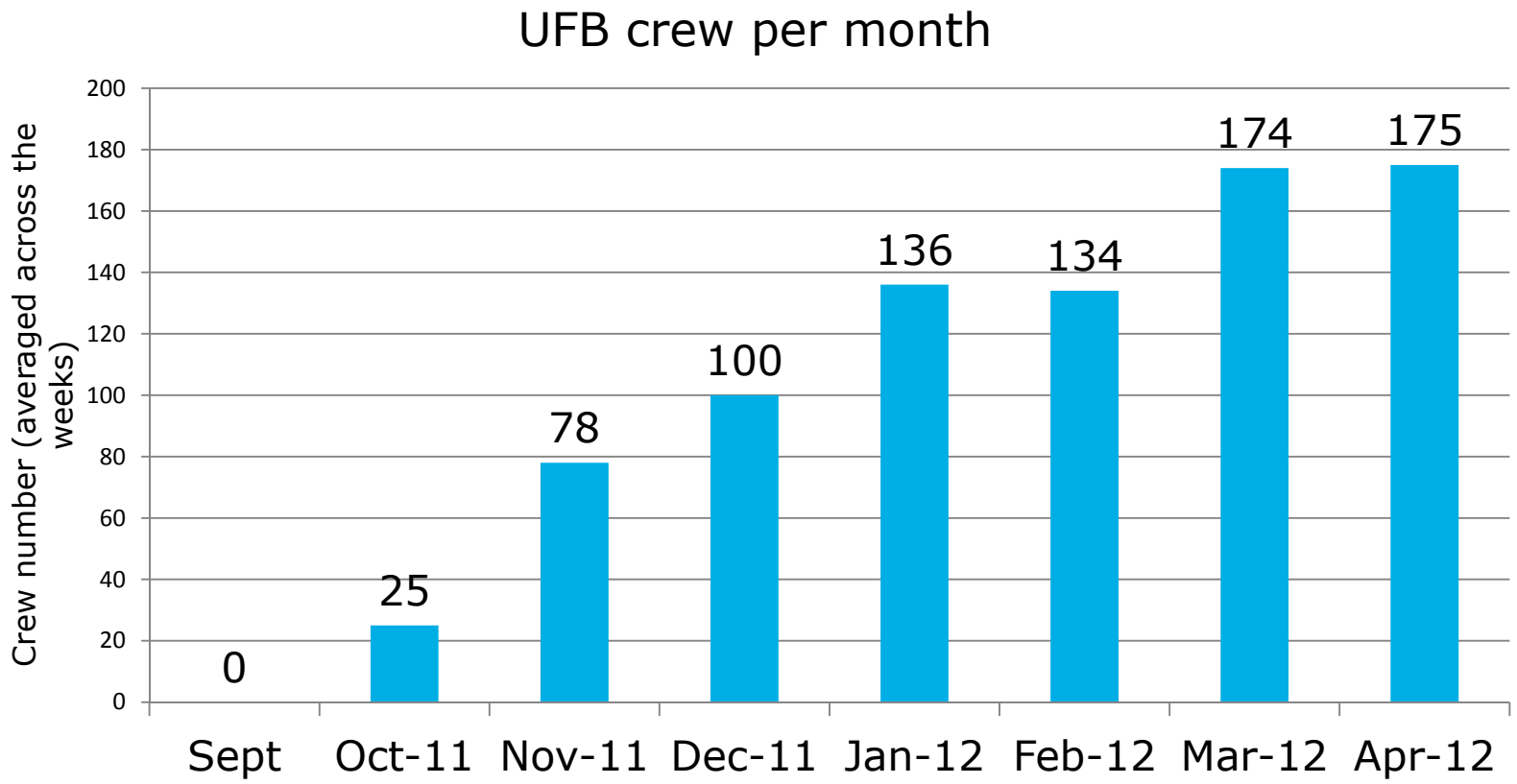
Estimated average cost per premise connected	$900 to $1,100 (real)
Estimated average cost per premise passed	$1,685 to 1,926

Cost per premises passed will vary yearly subject to:

- Mix of premises, with priority premises (e.g. businesses) typically more expensive (complete by FY15) than residential
- Architecture used for deployment (e.g. ability to reuse existing network vs deploying new) and geotype (e.g. CBD areas or open greenfields trench)
- Extent of efficiencies realised in optimising deployment approach

UFB field crews

- Rapid increase in number of UFB field crews since September
- Expect long run average of 180 to 190 field crews



UFB progress

- Build work expected to be complete for 40 - 42,000 premises by 30 June, across around 360 cabinets. Another 10 – 12,000 premises are expected to be recognised as work in progress, many substantially complete

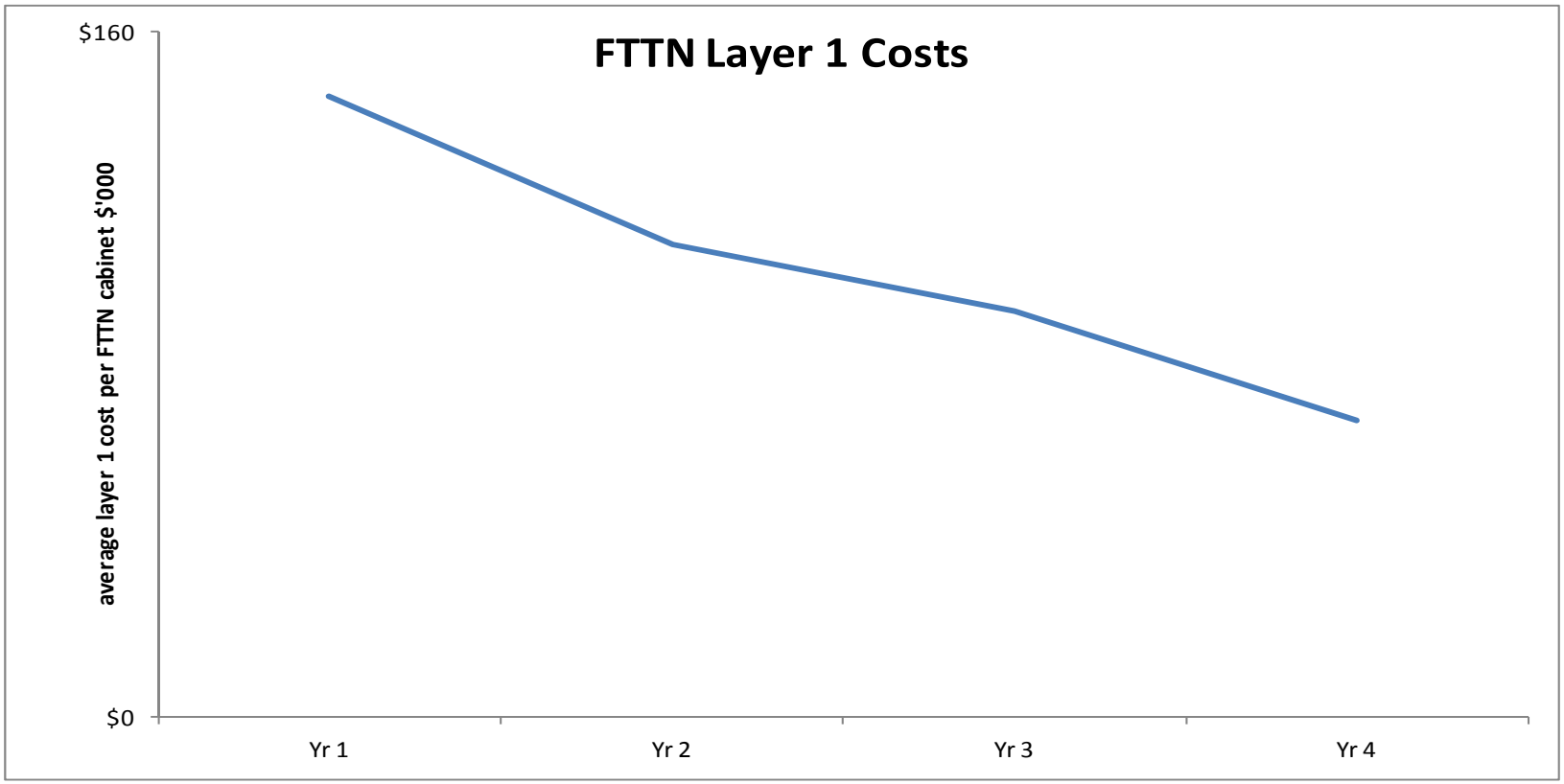
- Consistent with FTTN, we expected initial CPPP would be greater than long run average

- FY12 UFB communal build costs expected to be $160m to $165m (7 months), or around $3,300 CPPP, for those premises that have been completed or are work in progress

- Range of initiatives underway to deliver CPPP reductions for FY13 and beyond. Average CPPP expected to be $2,500 to $2,700 for build work commenced in FY13. Target CPPP of $1,200 to $1,500 by end of build

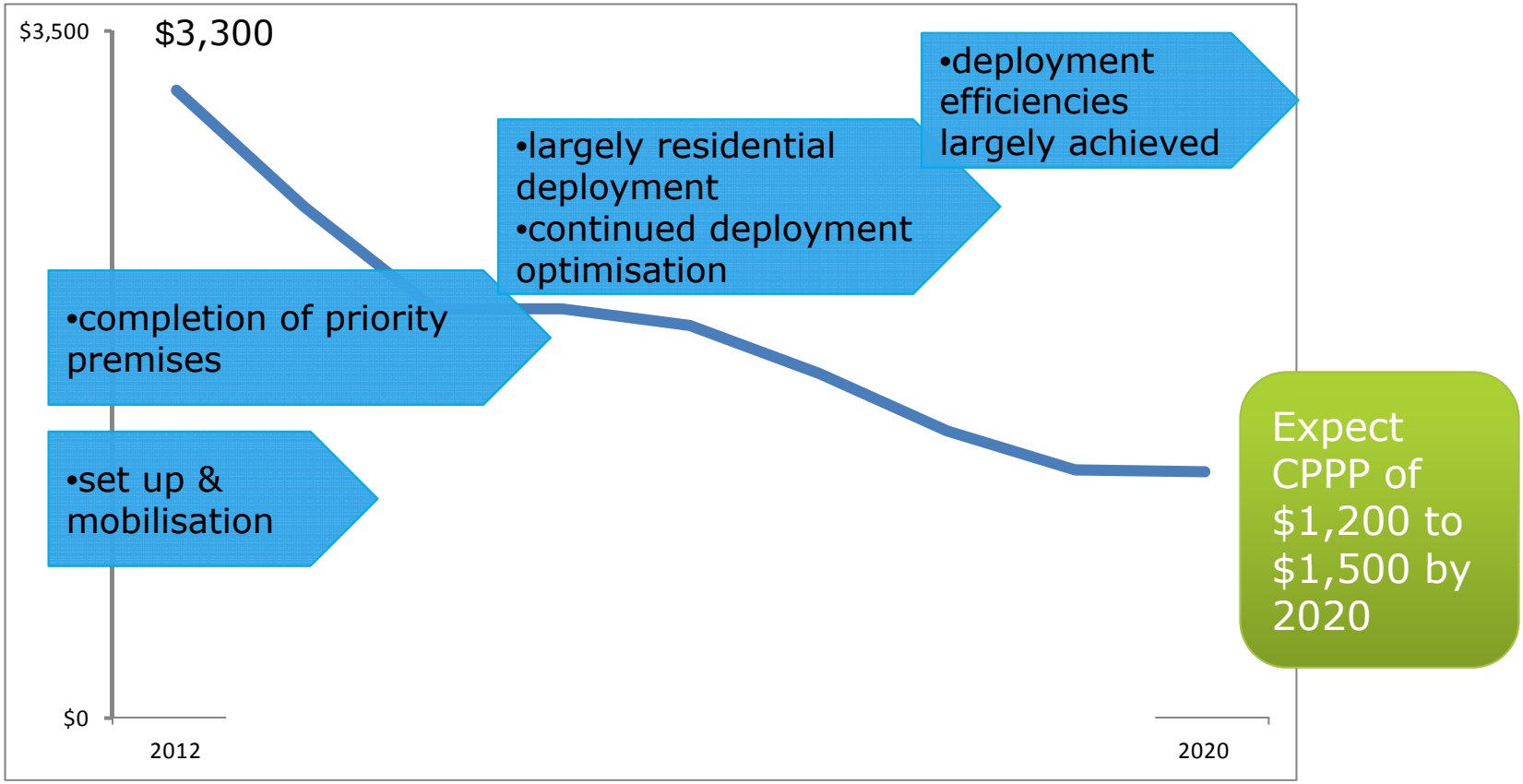
FTTN experience

> FTTN project demonstrated significant opportunities to improve efficiencies and reduce unit costs over the build programme



Expected CPPP profile

> CPPP to decrease as priority premises completed (around 2015) and deployment process is optimised, delivering expected UFB communal build cost of $1.4 – 1.6 billion



Evolution in build programme

FY12

- One-off start up costs
- Rapid mobilisation contributed to inefficiencies
  - Sub optimal design in places, compounded by compressed planning timeframes
  - Inefficient deployment practices
  - Reduced collaboration opportunities with councils
  - Competition for resource
- Process set up:
  - with partners, councils, etc
  - delayed approval of year 1 deployment plan
  - CFH reporting and sign off process
- Total focus on timelines

FY13

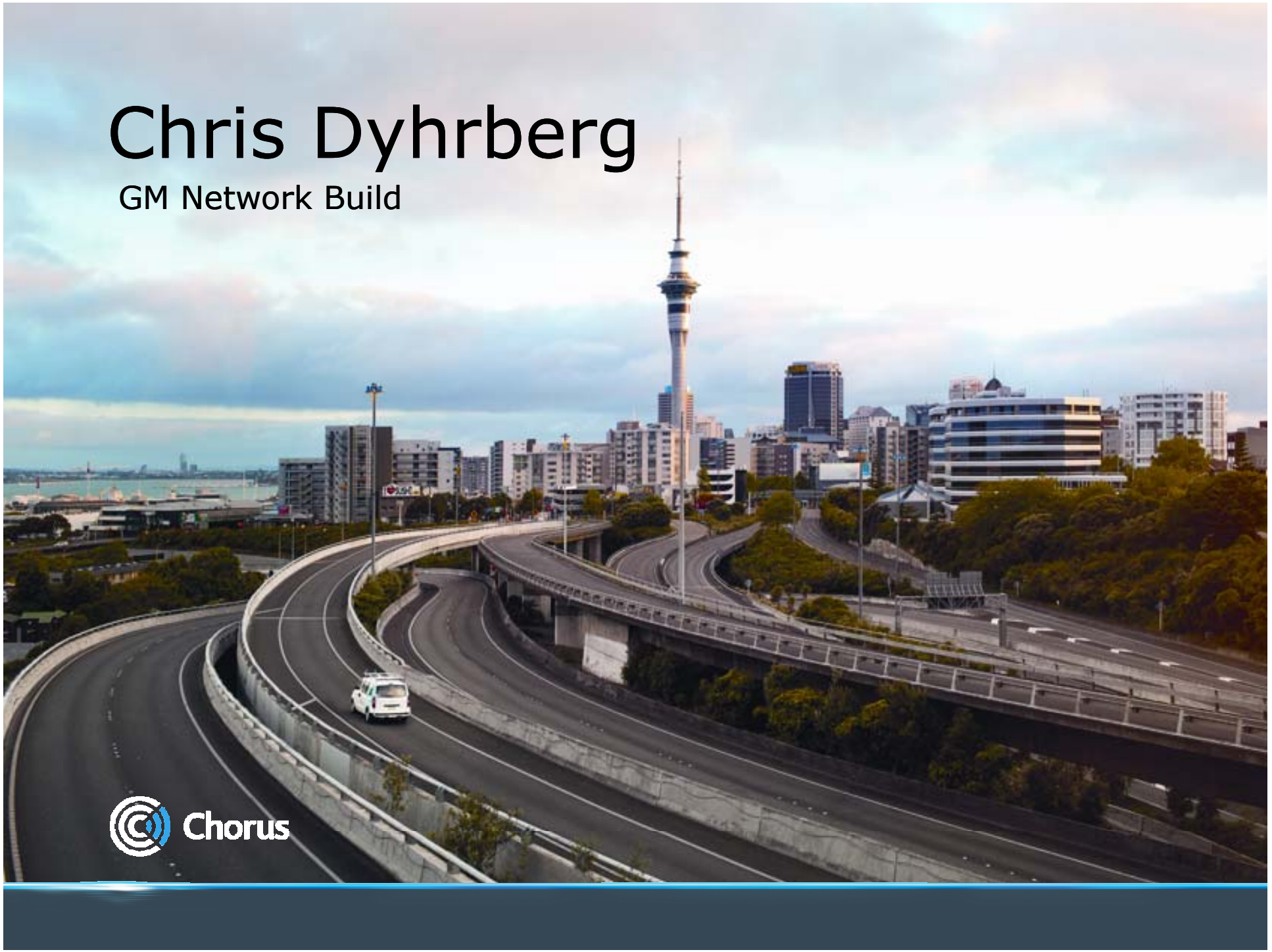
- Focus on opportunities for operational and deployment efficiencies
- Deployment teams in place - time to implement resourcing initiatives
- Working with councils and local partners to collaborate on build i.e. "one dig" policy
- Longer term supply arrangements to be implemented with greater certainty for all
- Advanced notice of subsequent year plans
  - More time to develop optimised plans & design
  - Starting to introduce process innovations

And another thing

- Expect FY13 dividend policy to be set by Board and outlined as part of full year result in late August

Chorus Investor Day

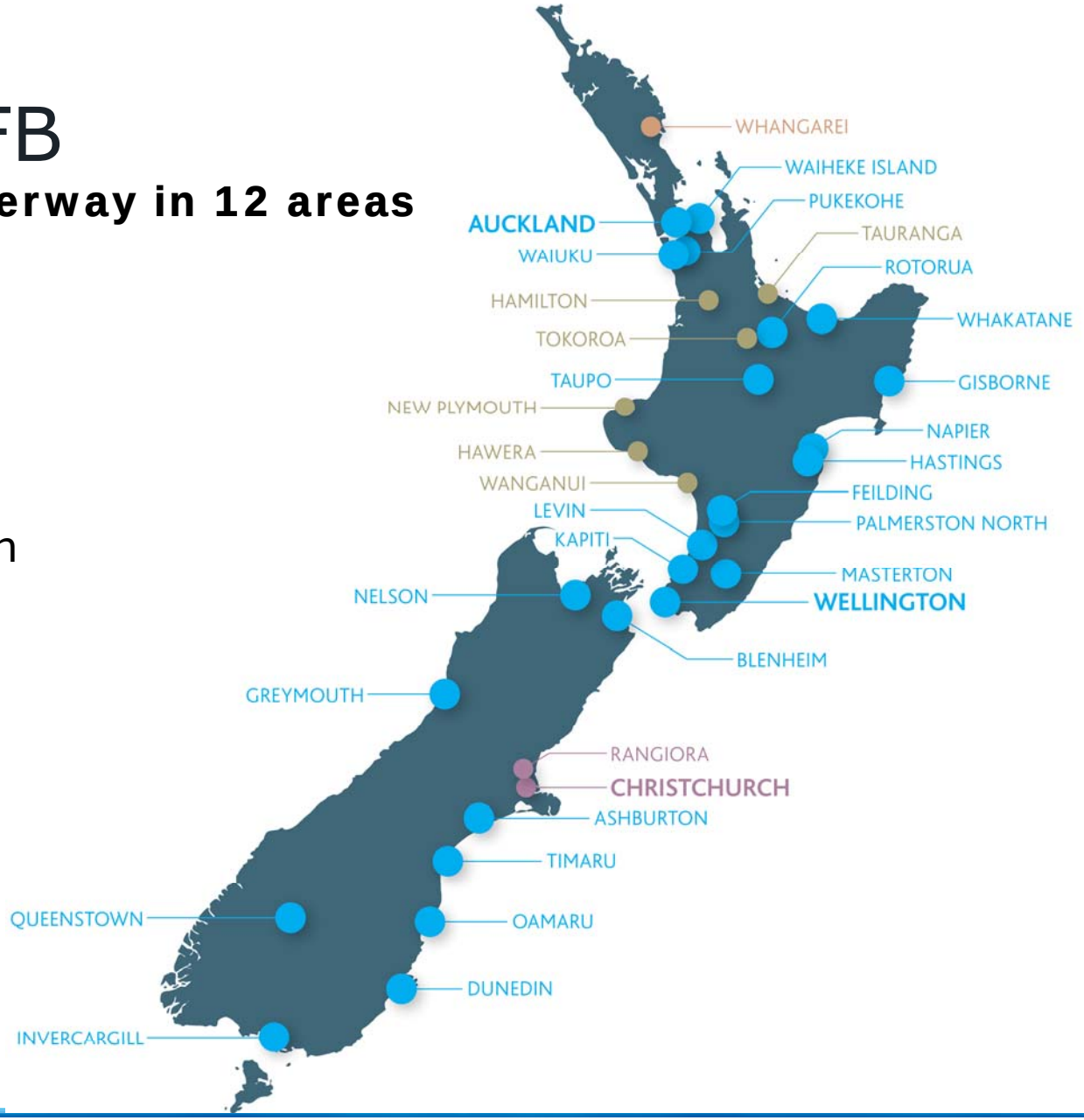
Auckland, May 2012


Chris Dyhrberg
GM Network Build
Chorus

Building UFB

Construction underway in 12 areas

- Auckland
- Rotorua
- Taupo
- Napier-Hastings
- Palmerston North
- Masterton
- Wellington
- Blenheim
- Ashburton
- Timaru
- Dunedin
- Invercargill



Working together with our service company partners

- UFB agreements leveraging existing 10 year relationship
- Gives certainty of work
- Enables flexibility to adapt and optimise efficiencies over time

We gain work efficiencies by:

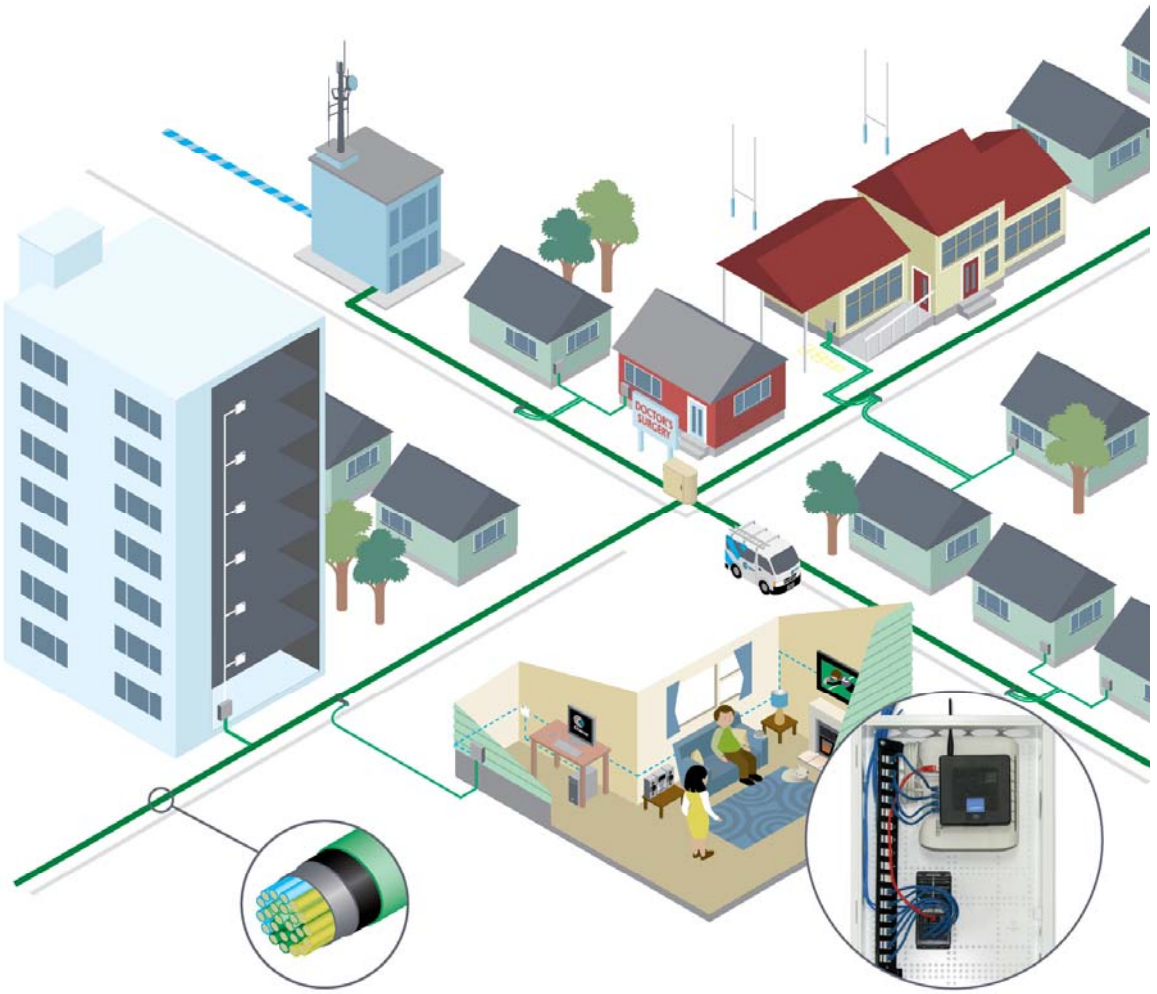
- Balancing work across regions and workforce
- Detailed cost database
- Efficiencies in supply chain, network design and civils
- Long term relationship efficiencies

Deployment principles

- Underground build for lowest total cost of ownership
- Built and designed efficiently to last
- Existing infrastructure
- One dig opportunities
- Innovative deployment technologies
- Areas of high demand and priority users
- Keeping community informed

Efficient deployment

- Estimate use 40% existing network
- Existing network 50% buried and 50% ducted
- Consistency across UFB and RBI



Efficient deployment

Fibre from central office to cabinet

- Some FTTN feeder fibre
- New passive cabinet
- Made in Christchurch
- Combined air blown and fixed fibre
- Splitters installed on demand
- No power required
- Flexibility for more capacity and P2P uptake

264 customers fixed fibre

160 customers air blown fibre

Efficient deployment

Fibre down the street

- Build on existing network
- Microduct or traditional fibre
- One or both sides of street
- Duct to fibre access point at boundary
- Microduct benefits
  - Air blown fibre delays investment until required
  - No unused asset to maintain

Innovations in play

- Already using
  - Micro/hydro trenching
  - Same fibre for aerial or buried
  - Blowing fibre from cabinet
- Progressively more efficient
  - Better re-use of existing network (ducts, fibre, poles)
  - Pre-cast cabinet plinth an example of FTTN optimisation
- Global thinking
  - Working with global partners on innovations
  - Co-creation /collaboration with vendors and operators

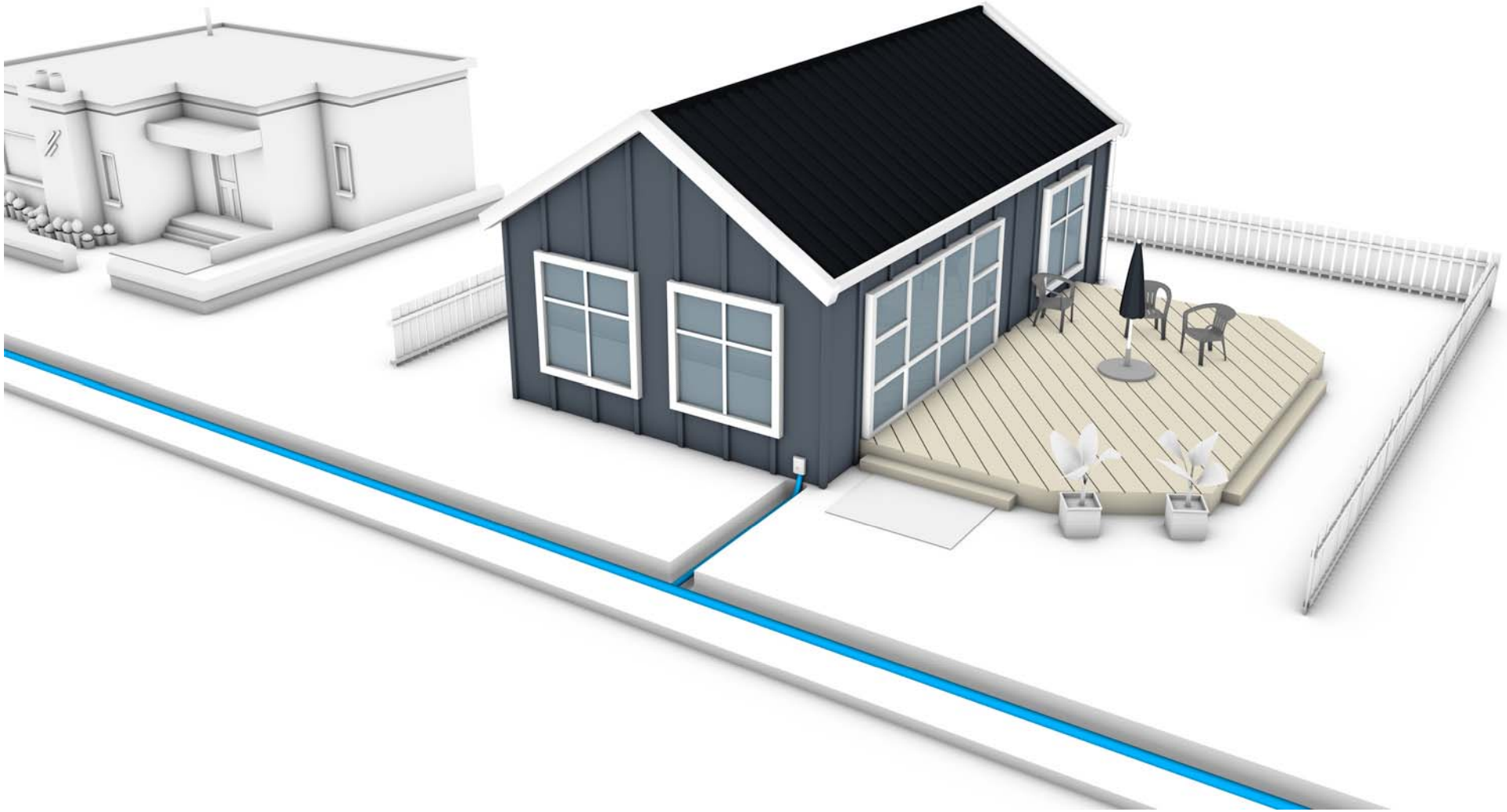
To the premises

Fibre to your home or business

- CFH area approval
- Retail orders a connection
  - Residential within 4 days
  - Business within 6 days
- Fibre via lead-in or trench to equipment in the home
- Charges for standard install
  - Residential no charge
  - Business up to 2 months
  - Working with CFH & industry on non-standard installs

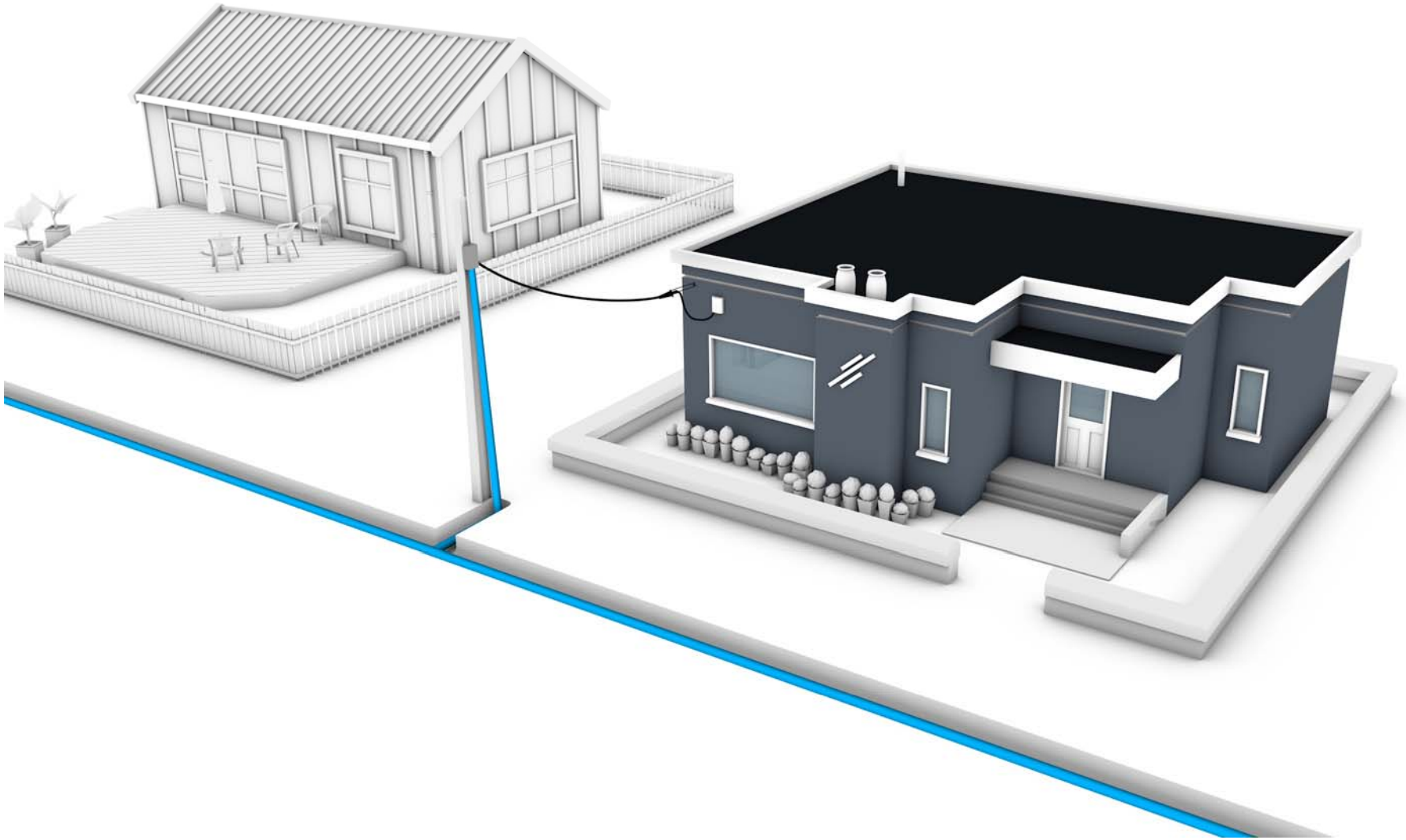
Standard connection: A

- 15m of new buried cable, 5m in the home
- Re-use lead-in duct where feasible



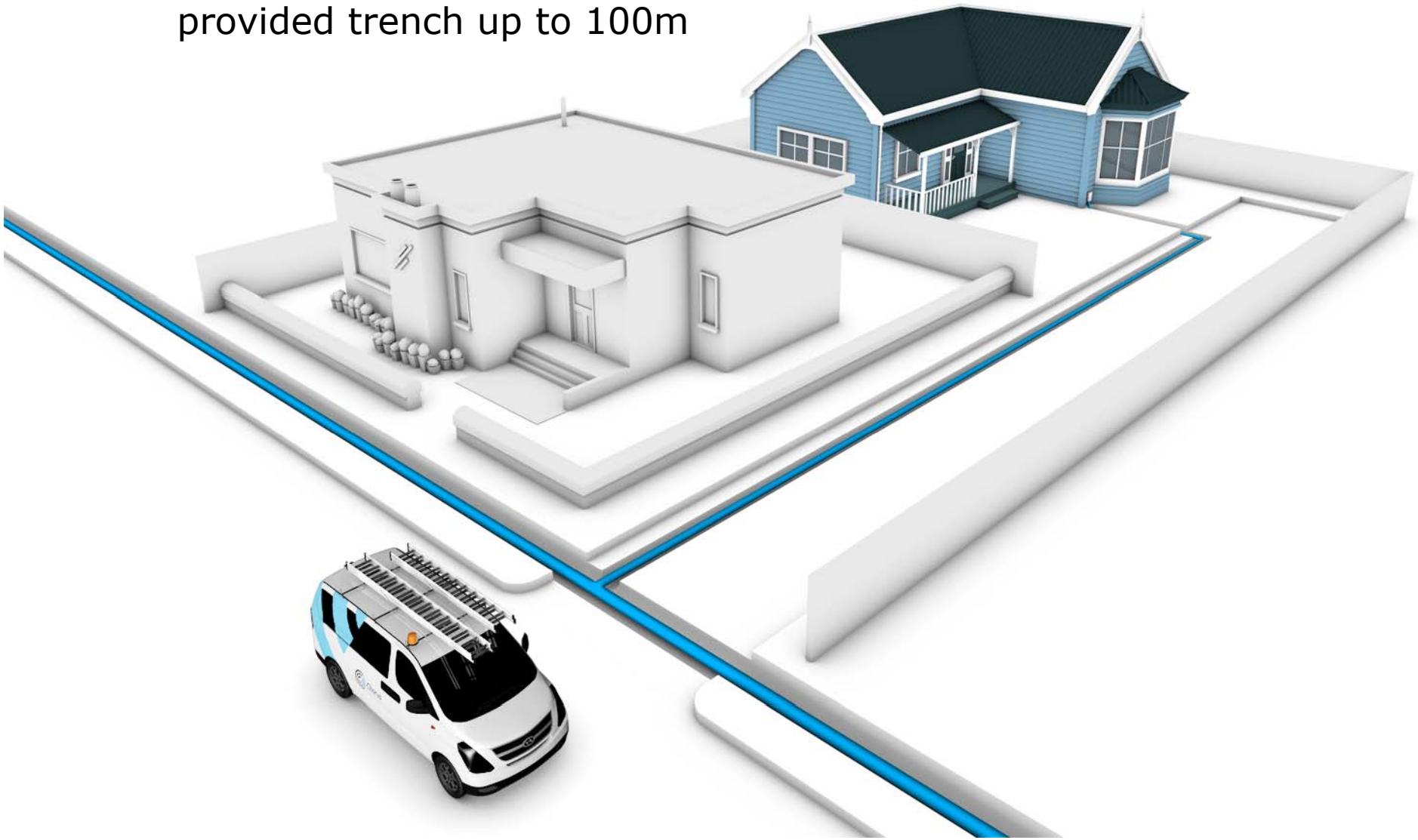
Standard connection: B

> One span of fibre using existing pole



Standard connection: C

> fibre in existing pipe or pipe in a provided trench up to 100m

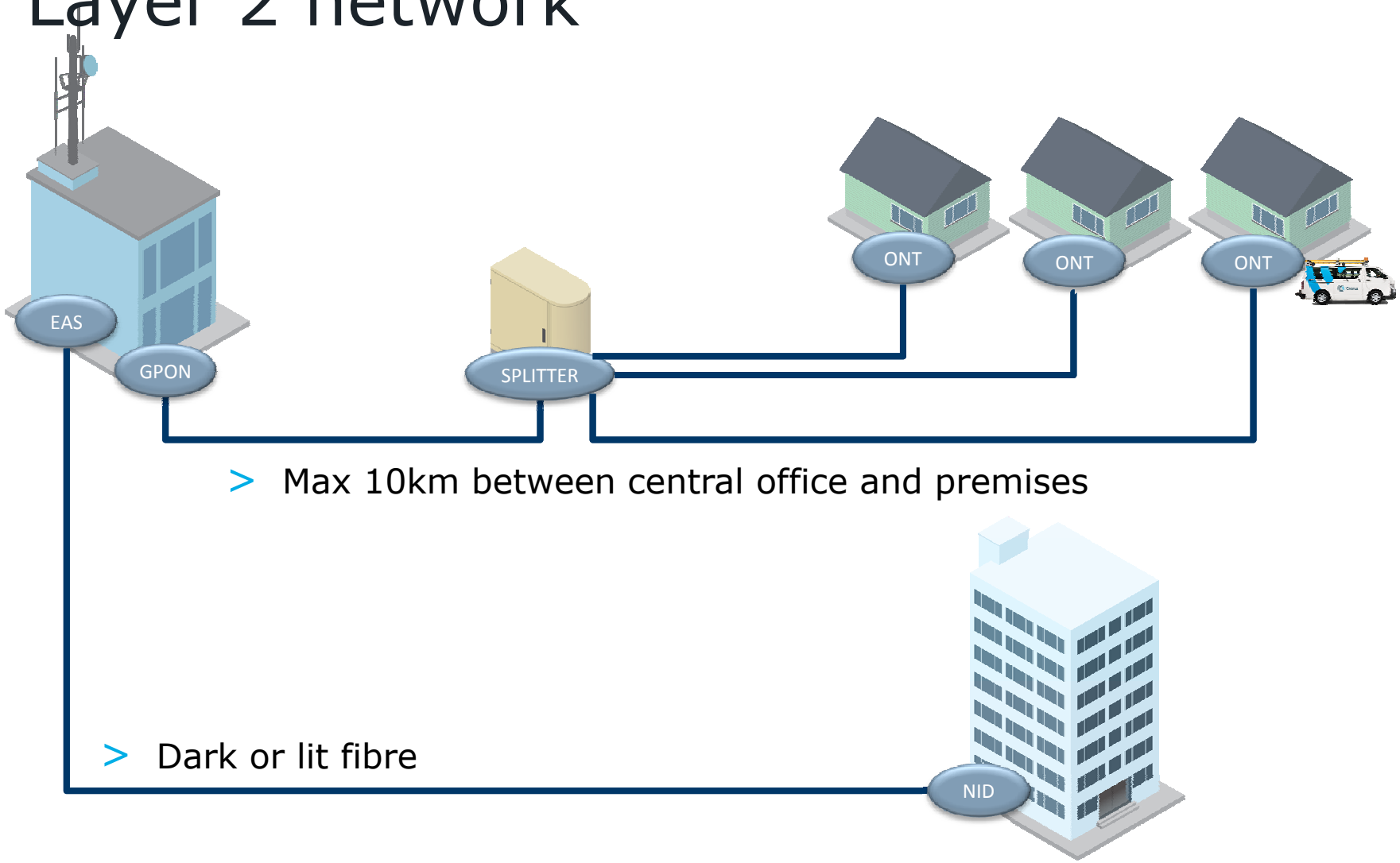


Inside the home

Chorus network ends at the ONT

- Installed direct to wall or protective cabinet
- Standard install 5m within home
  - 4 Ethernet ports
  - 2 ATA ports
  - A powered device

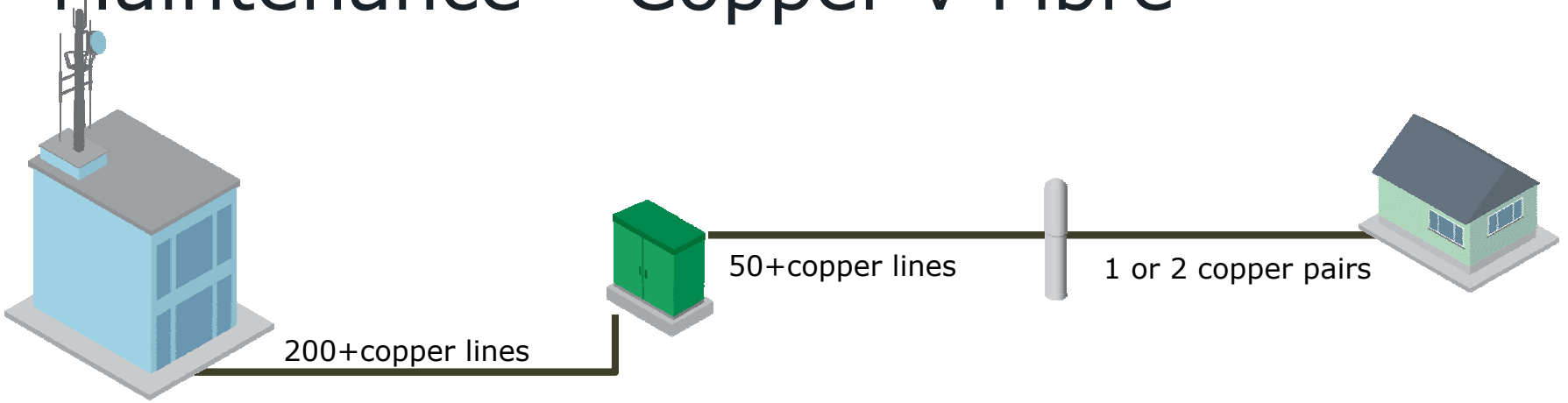
Layer 2 network



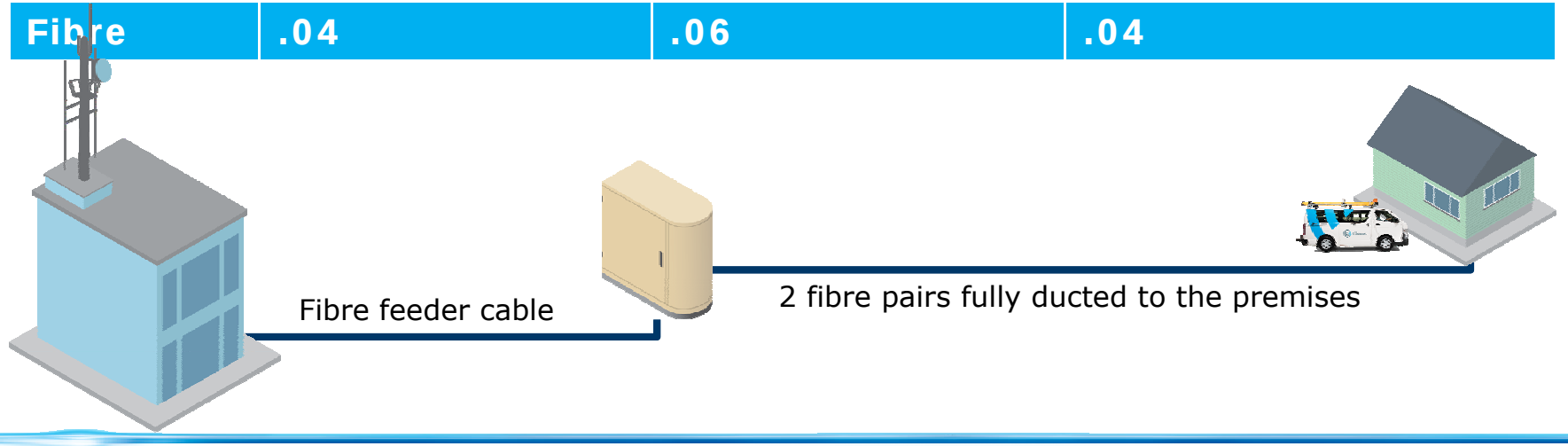
> Max 10km between central office and premises

> Dark or lit fibre

Maintenance – Copper v Fibre



Annual fault rates per line			
	Feeder	Distribution	Premises
Copper	**.05**	**.13**	**.04**
Fibre	**.04**	**.06**	**.04**



Source: Chorus and Analysys Mason data. Fibre figures assume underground distribution architecture

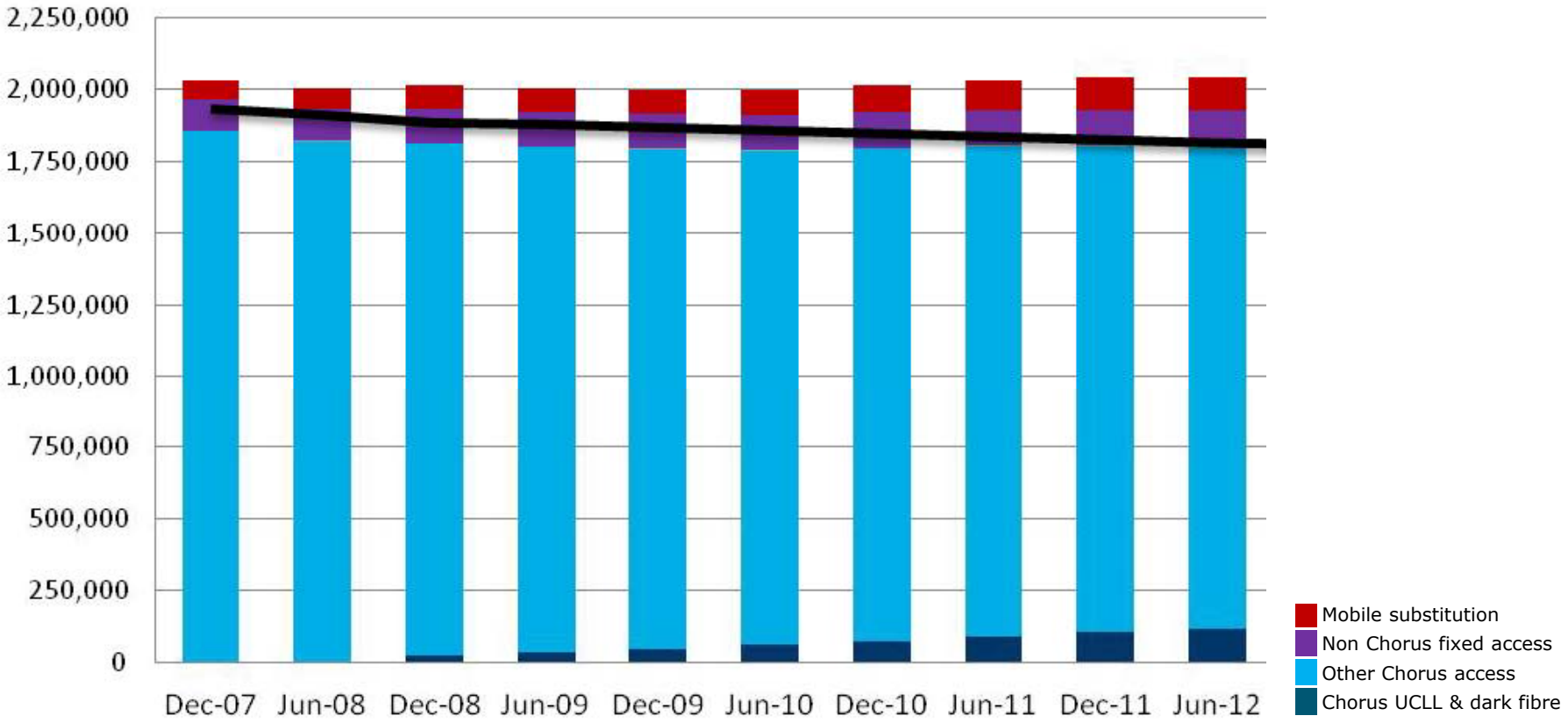

Victoria Crone
GM Marketing & Sales
Chorus

NZ market snapshot

- Static access market and revenues
- Slight decline in Chorus lines
- Limited mobile substitution
- UCLL growth tapering

NZ market snapshot

> Total access market is static



Source: Chorus Indicative Data 2012

NZ market snapshot

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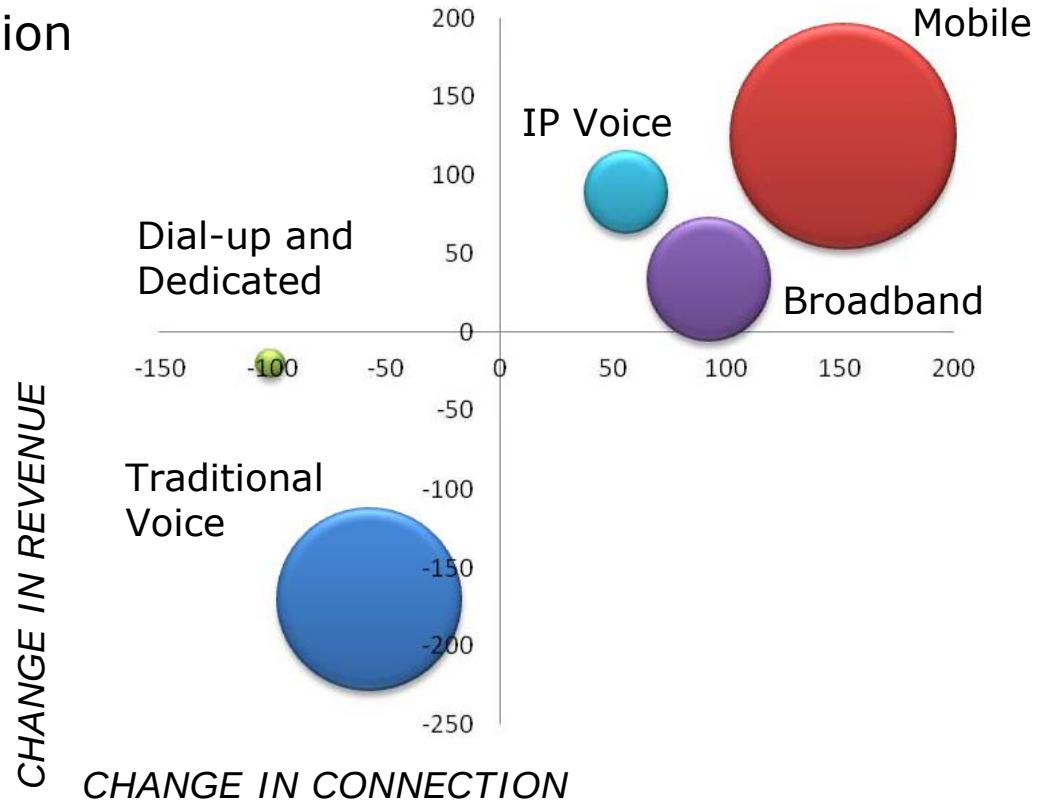
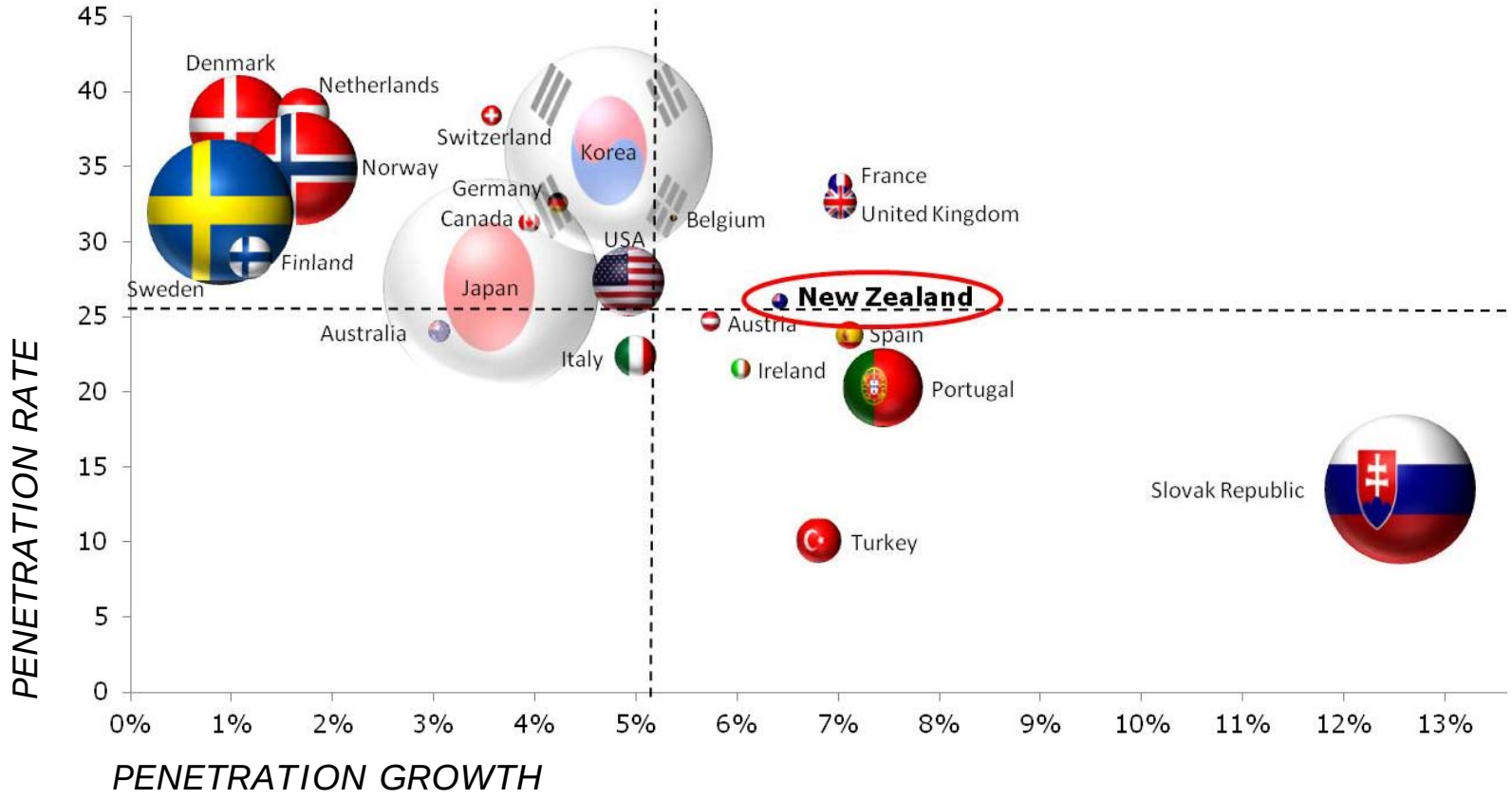


Source: IDC Telecommunications Tracker, Q3 2011

NZ market snapshot

> Broadband penetration 26% with room to grow

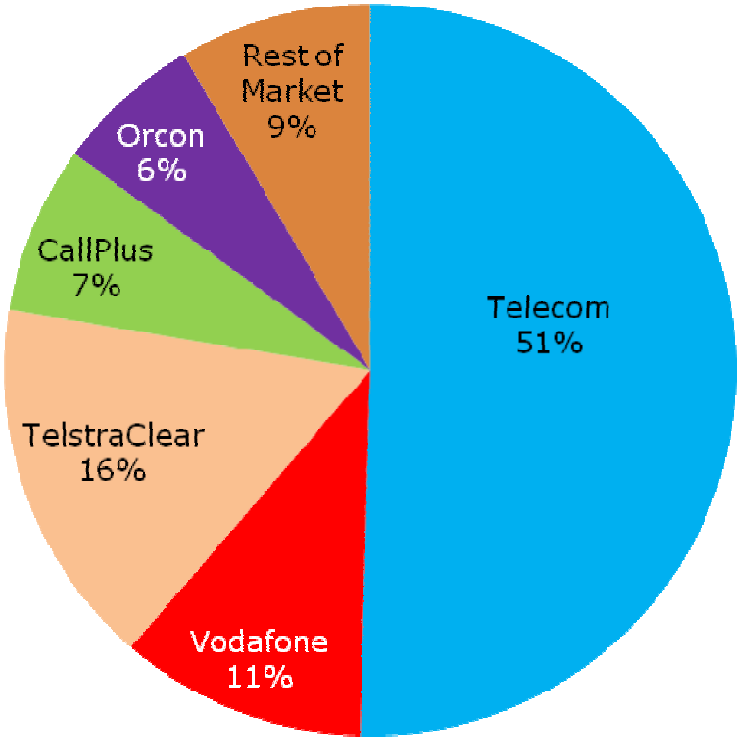


Source: OECD Broadband Portal, June 2011

NZ market snapshot

> Broadband penetration 26% with room to grow

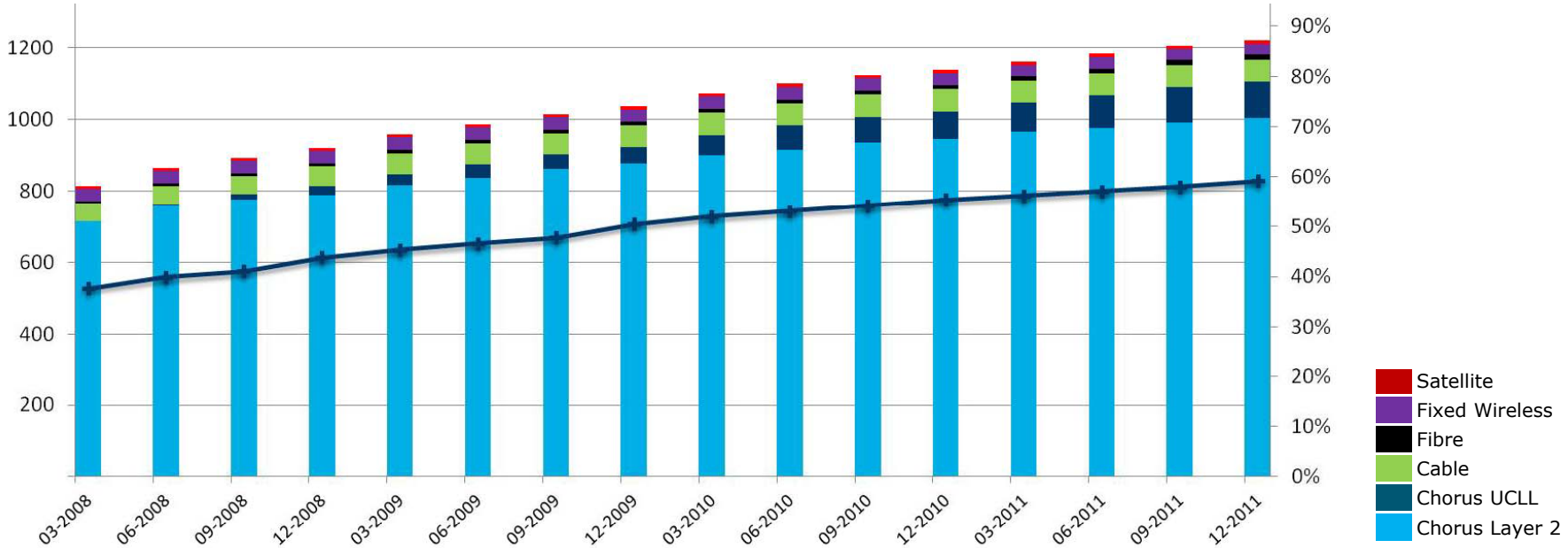
> Broadband connections market share:



Source: IDC Telecommunications Tracker, Q3 2011

NZ market snapshot

- Broadband penetration (26%) with room to grow
- Copper dominates broadband
  - Some fibre, wireless and satellite



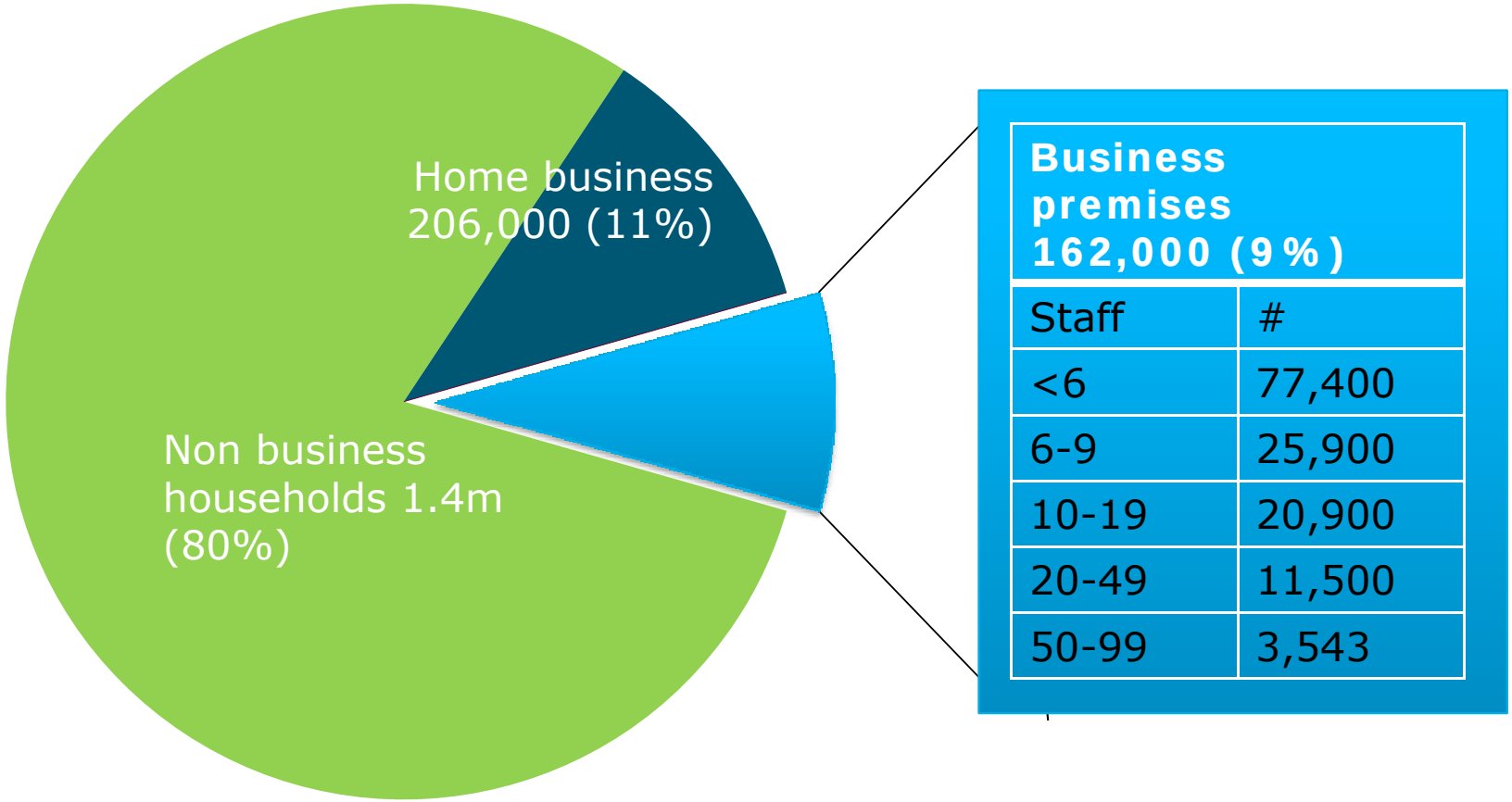
Source: IDC Telecommunications Tracker, Q3 2011

NZ fibre market today

- 1% penetration
- Fragmented market, predominantly business
- Uncertain demand
- Customers developing fibre business case
- Early moves in the fibre market
- Barriers are cost, coverage and consistency

NZ fibre market today

> Fibre business demand

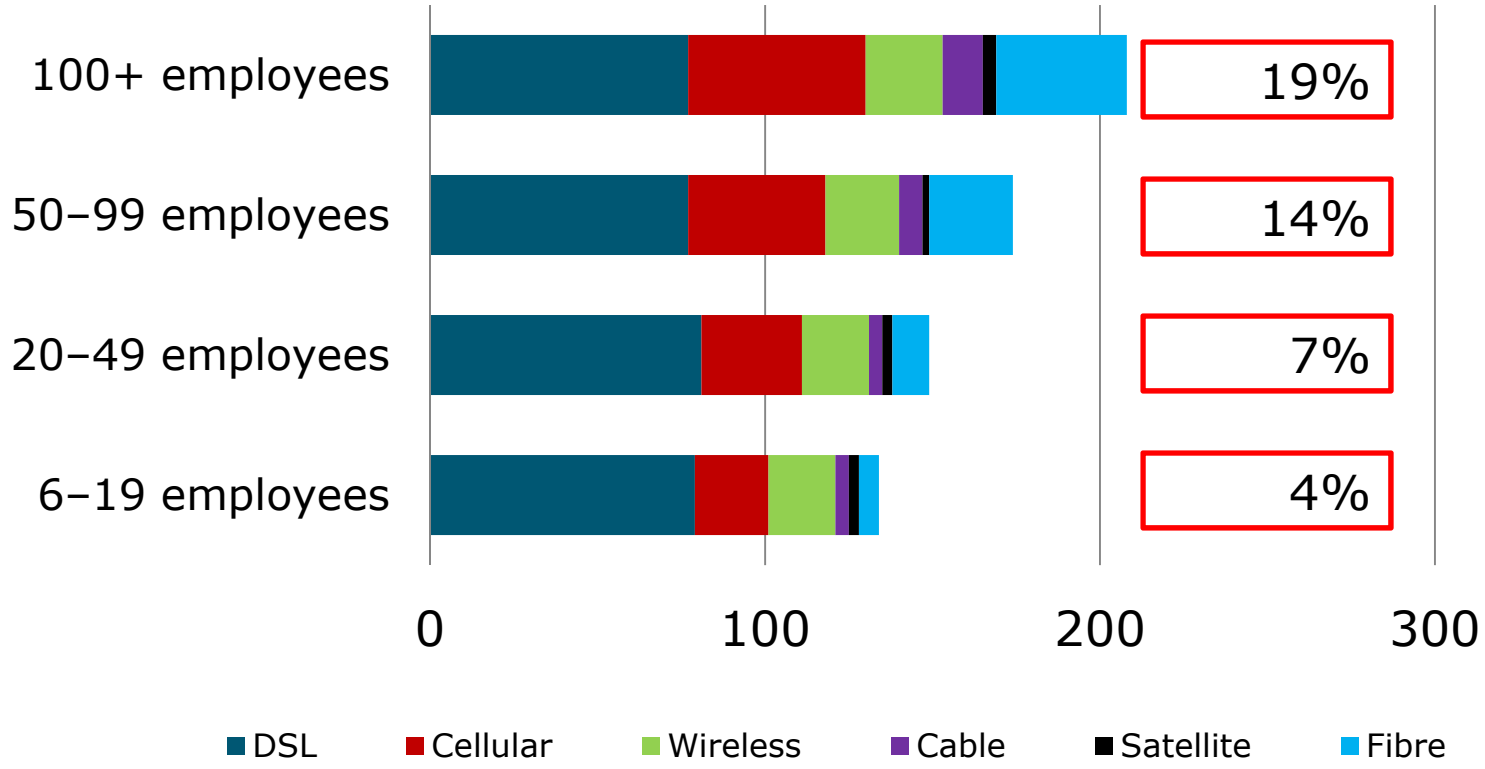


Business premises 162,000 (9%)	
Staff	#
<6	77,400
6-9	25,900
10-19	20,900
20-49	11,500
50-99	3,543

Source: NZ Stats 'NZ Business Use of ICT'

NZ fibre market today

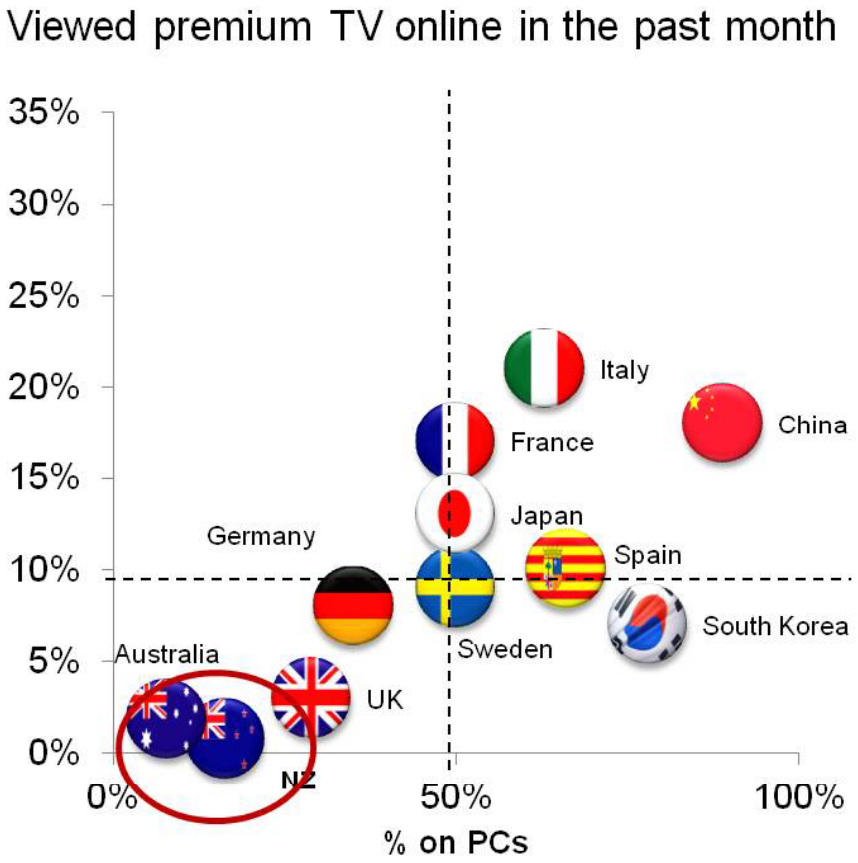
> Fibre connections by size of business



Source: NZ Stats 'NZ Business Use of ICT'

Global fibre trends

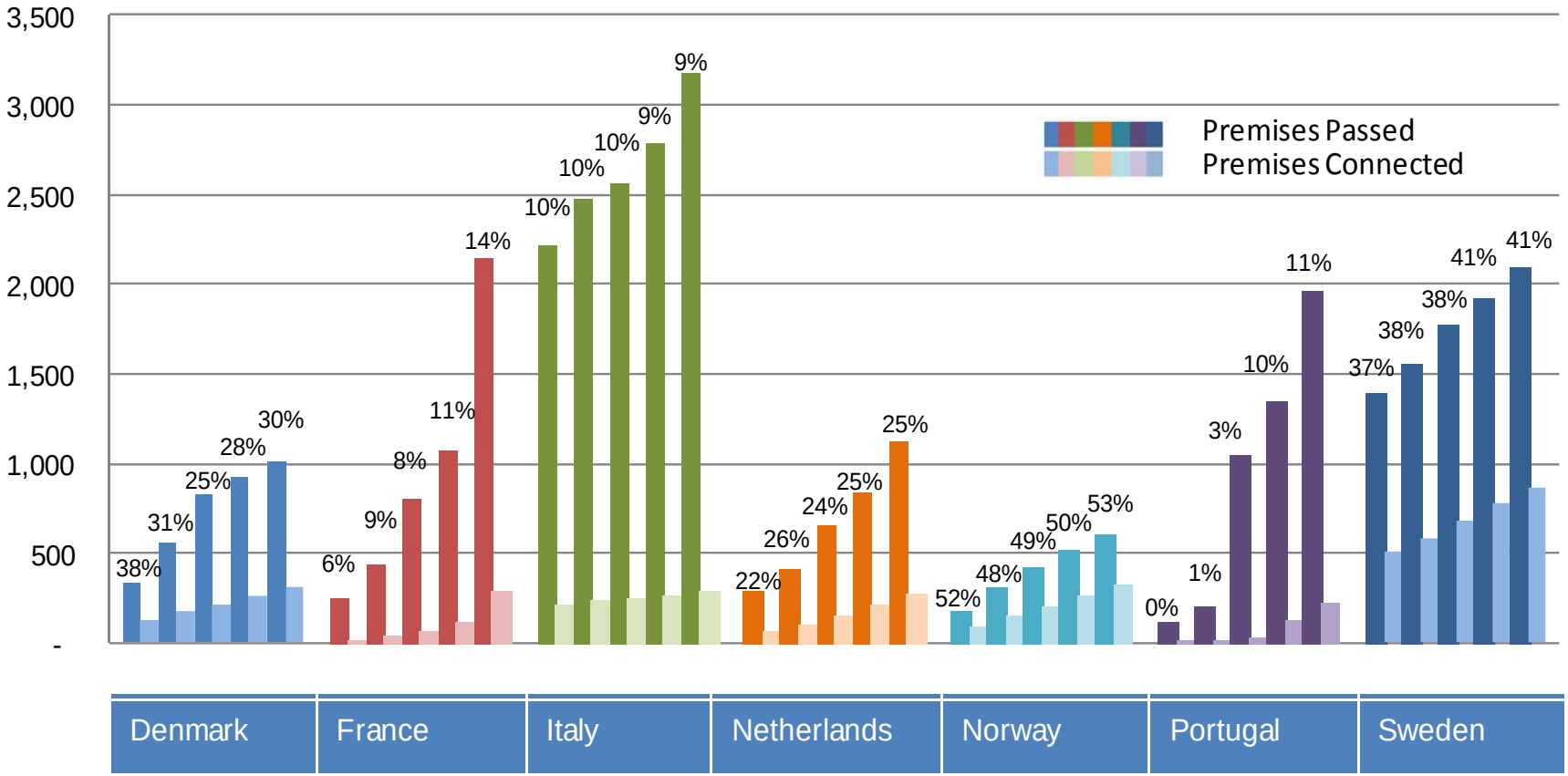
- Growth in data
- Fibre driver is content and bundling
- HD content on multiple devices
- Business reliance on network technologies
- Fibre build not demand driven
- Uptake lags fibre build
- Cost barrier to uptake



Source: IDC ConsumerScape Survey, 2011 **Dotted line equals average*

Global fibre trends

> Fibre uptake lags fibre build



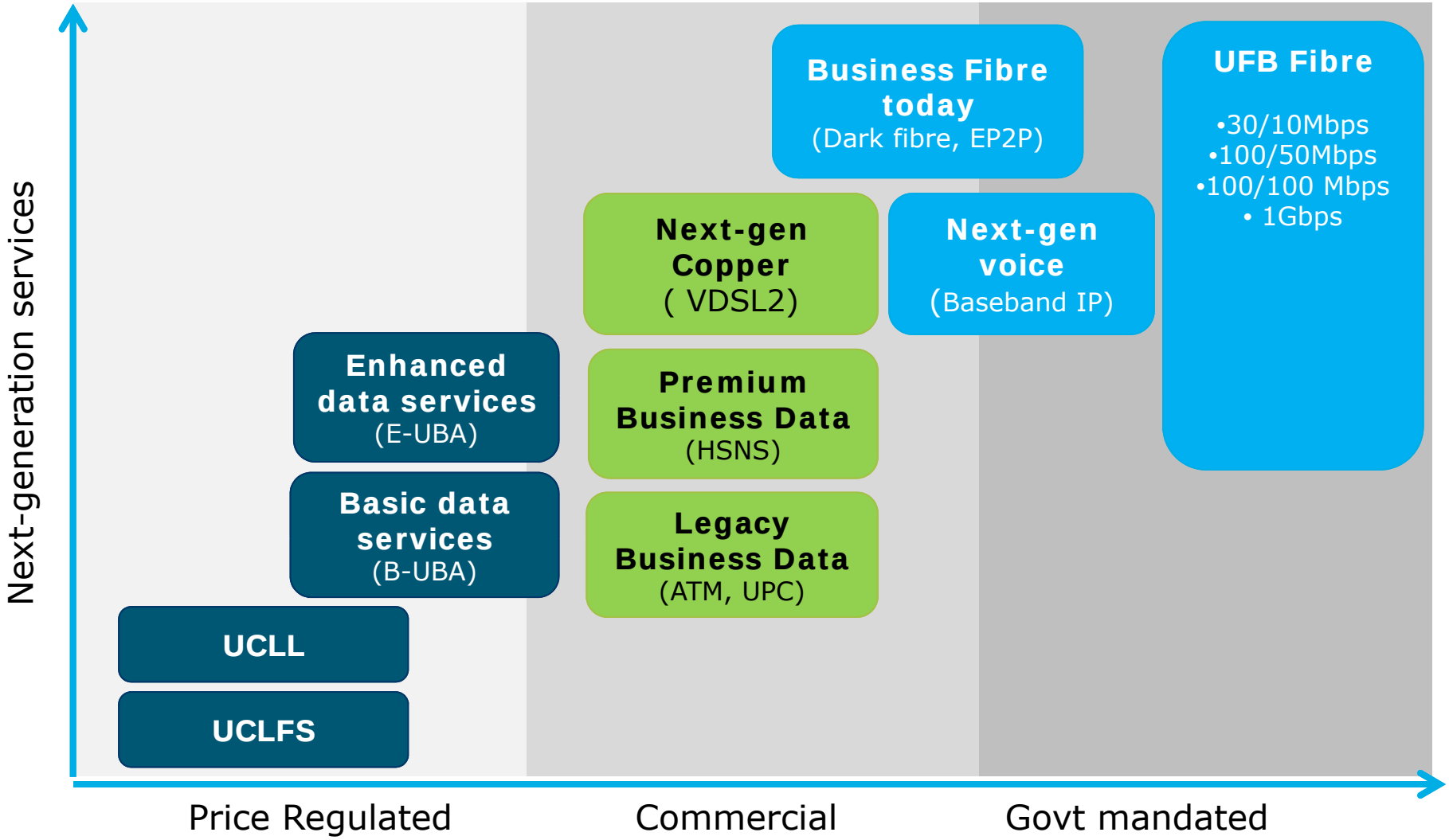
Source: IDC Next Generation Access Forecast 2011; IDC ConsumerScape Survey, 2011 **Dotted line equals average*

Chorus customer snapshot

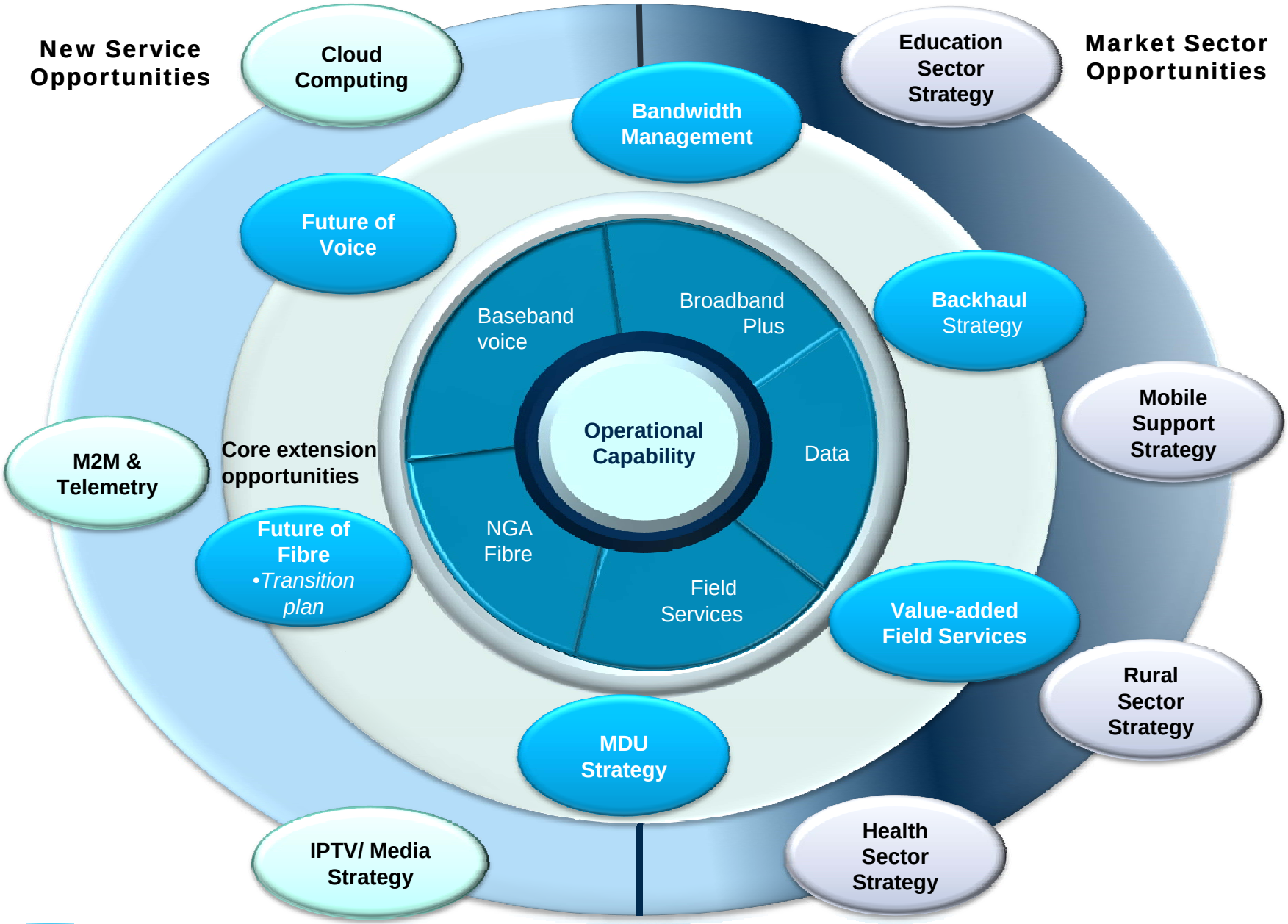
- Customers focused on ROIC
- Transition to new Chorus
- Positive customer feedback
- Understanding the implications of separation
- Looking to Chorus for fibre direction
- New business opportunities

Chorus market strategy

Our open access product set



Note: Doesn't include backhaul or co-location products


New Service Opportunities
Cloud Computing
Bandwidth Management
Education Sector Strategy
Market Sector Opportunities
Future of Voice
Baseband voice
Broadband Plus
Backhaul Strategy
Mobile Support Strategy
M2M & Telemetry
Core extension opportunities
Operational Capability
Data
Future of Fibre
•Transition plan
NGA Fibre
Field Services
Value-added Field Services
Rural Sector Strategy
MDU Strategy
IPTV/ Media Strategy
Health Sector Strategy

Our fibre plan

- A clear copper to fibre path
- Business fibre today
- VDSL as a stepping stone
- Support product development and readiness
- Create the ideal installation experience
- Marketing & education support
- Encourage high bandwidth Bitstream products

Home installation learning

- There are benefits in the ‘experience effect’
- Low cost, least disruption
- Fibre changes how Service Provider networks are built
- End-user expectations are high, but not specific
- What we’ve learned about installations
  - First fibre experience must be positive
  - Aesthetics are important
  - Moving modem from PC to TV
  - Simple is best

Mark Ratcliffe

Chorus CEO


A new company that brings together our infrastructure and service business
Building a bright fibre future for New Zealand


A highly engaged team committed to delivering our promises
85 %
ENGAGED

Our strategy – short term

Separation from Telecom

Successful demerger and NZX listing

Maintain efficient copper network business

Build UFB, RBI and promote fibre

Progressing UFB build

Working with customers on their fibre offering

Develop partnerships with LFC

Discussions with LFCs ongoing

Our strategy – longer term

Drive copper and fibre network efficiencies

Cost minimisation for efficient network operations

Deliver further capex optimisation

Transition to a fibre world

Improve service for customer loyalty and satisfaction

Fibre products that enable customers to move to high bandwidth technology

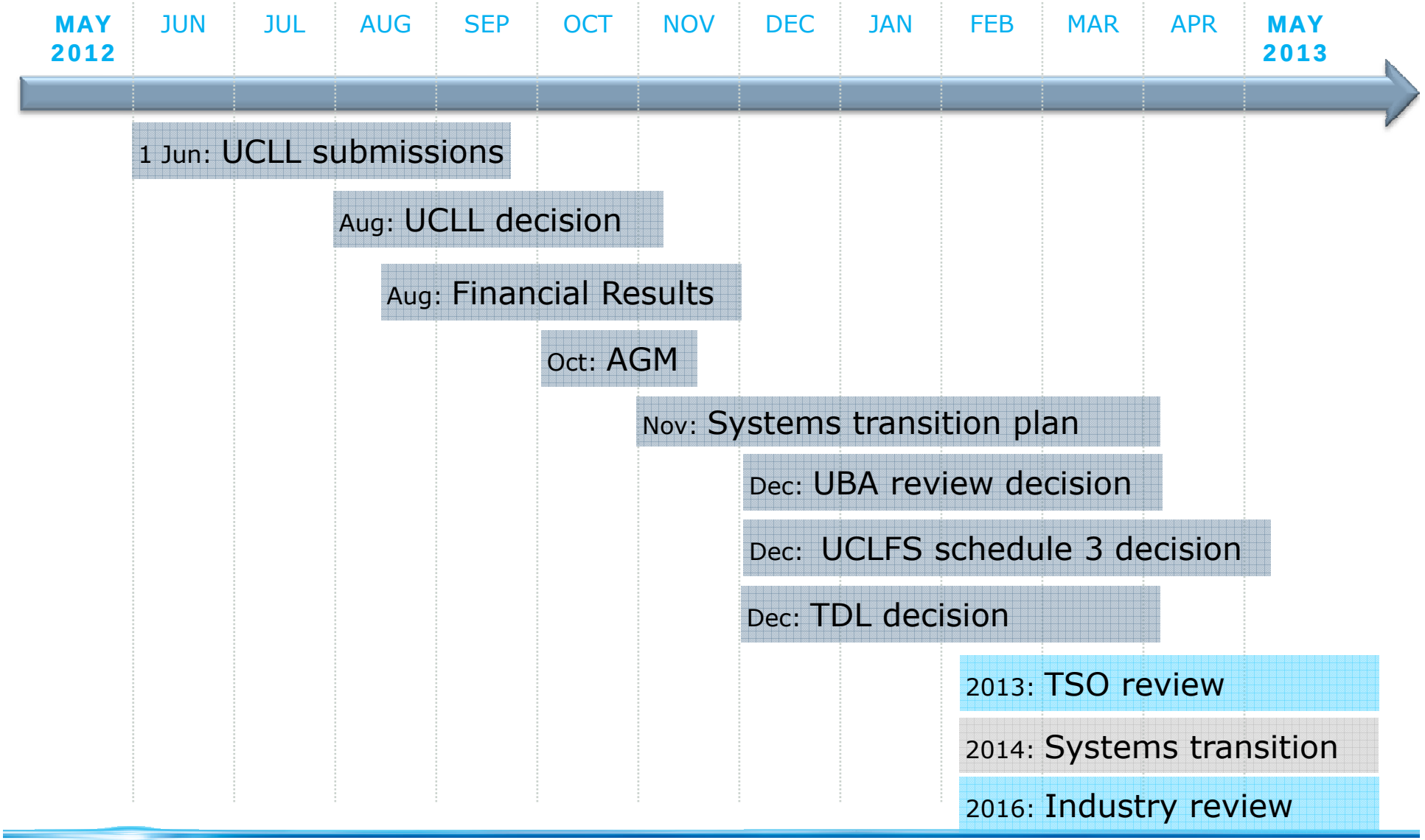
Deliver UFB and RBI agreements

Meet key performance thresholds for UFB and RBI

Deliver FTTP within UFB areas to ensure coverage reaches 75% of NZ by end of 2019


We want the regulatory certainty we worked to achieve

What's ahead….


MAY 2012
JUN
JUL
AUG
SEP
OCT
NOV
DEC
JAN
FEB
MAR
APR
MAY 2013
1 Jun: UCLL submissions
Aug: UCLL decision
Aug: Financial Results
Oct: AGM
Nov: Systems transition plan
Dec: UBA review decision
Dec: UCLFS schedule 3 decision
Dec: TDL decision
2013: TSO review
2014: Systems transition
2016: Industry review

Our challenges

- UFB and RBI roll out delivered on time, budget and quality standards.
- Removal of regulatory uncertainty caused by the draft UCLL decision
- Managing the financial implications of unclear fibre demand and assisting the Crown on its fibre uptake objectives
- Operating within static addressable access and broadband market

Ends