

NZ Corporate Day

Deutsche Bank
Sydney, 6 March 2012



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Introducing Chorus

29,000_{km}
OF FIBRE
AND COUNTING

- > **New Zealand's largest telecommunications utility**
 - ~1.8million lines connecting NZ homes and businesses
 - ~500 staff largely from 'old' Chorus and Telecom Wholesale business units
 - 2,000 service technicians from our service company partners: Downer, Transfield Services and Visionstream

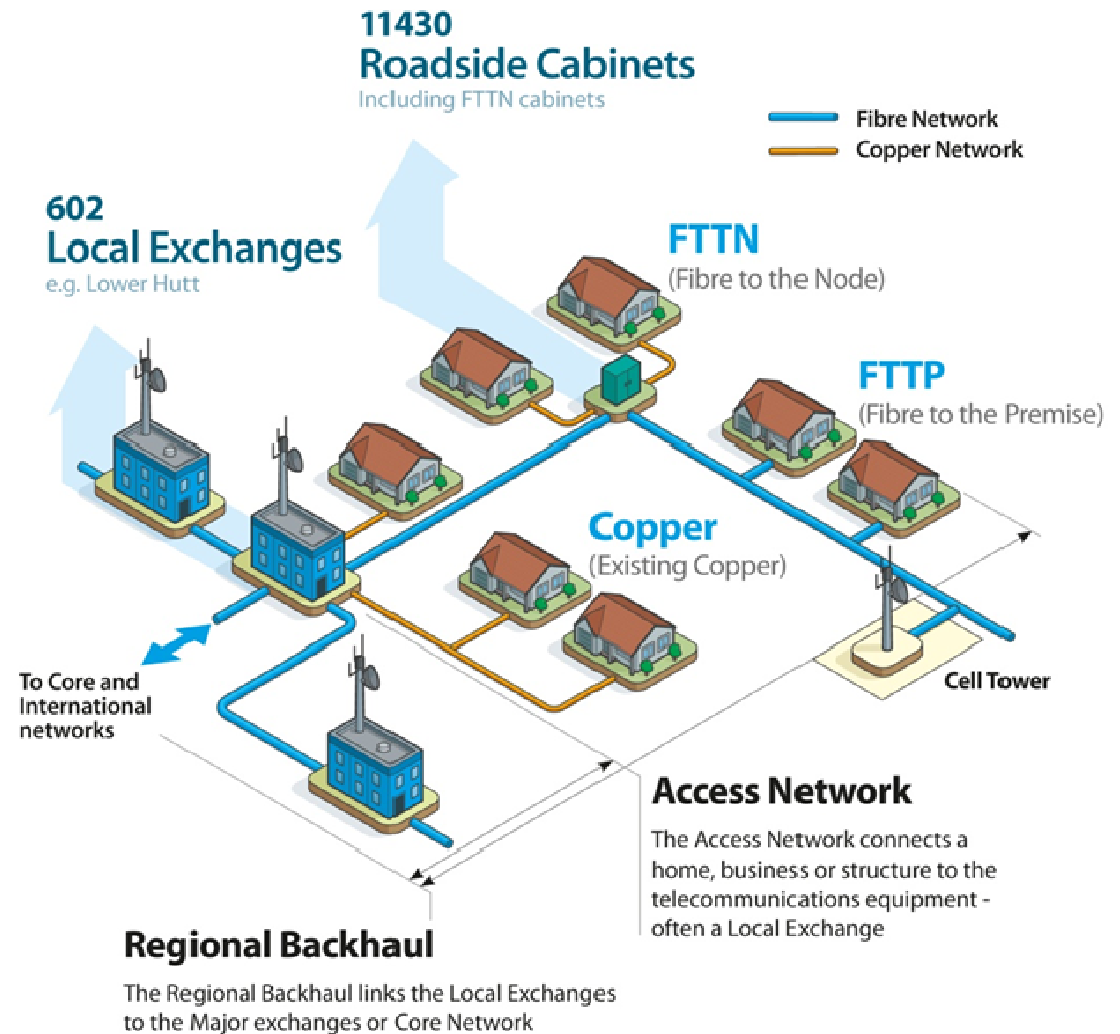
Building a fibre future

> Public-private partnership with Government to enhance New Zealand's broadband capability

- Cornerstone partner in ultra-fast broadband (UFB) initiative to build fibre past 830,900 premises by end 2019
- Government contributing \$929 million to UFB communal network build
- Government also funding programme to enhance rural broadband network

Our network

- > Chorus operates a world-class fibre-copper network
 - > ADSL2+ broadband available to 1.5m lines
 - > Extensive existing business fibre footprint
- 29,000km fibre
 - 130,000km copper
 - 602 telephone exchanges
 - 11,430 roadside cabinets



A strong customer base

- > Chorus provides products to a wide range of service providers on an open access basis
 - Layer 1: e.g. UCLL, dark fibre, backhaul, co-location
 - Layer 2: e.g. UBA, HSNS
- > Focus on making it simple for customers to use our nationwide scale and reach, for example:

New Zealand RSPs

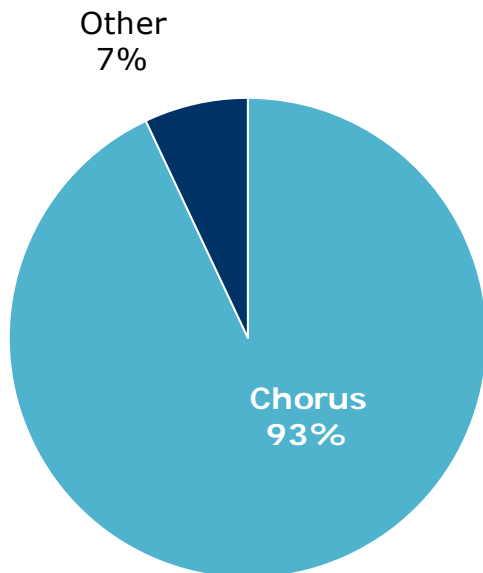


Other access network customers



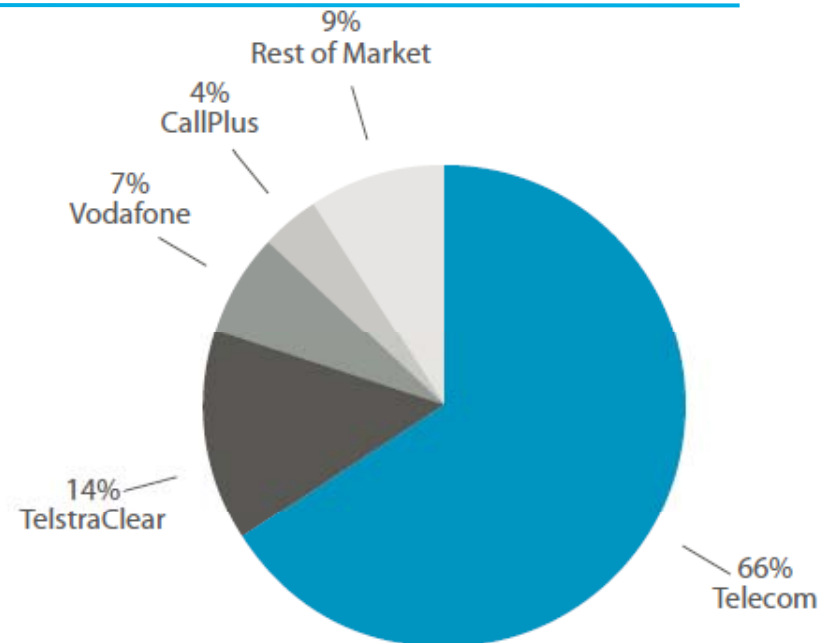
NZ market overview

New Zealand fixed line connections



Source: Management estimates

Fixed voice connections

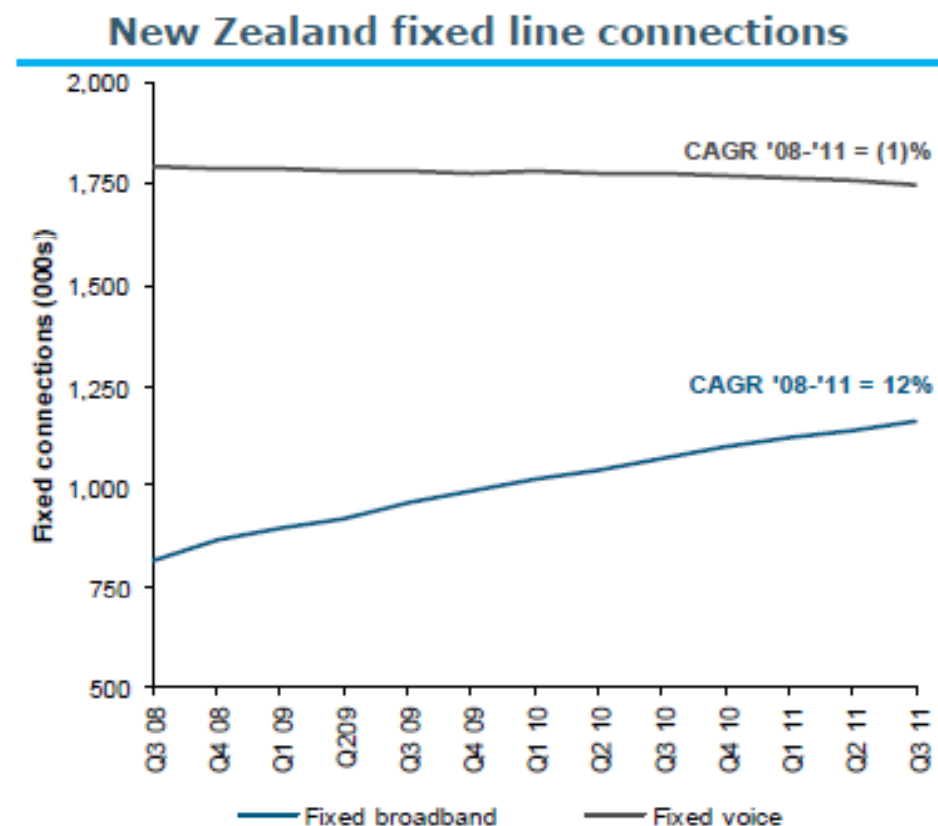


Source: IDC NZ Telco Tracker, March 2011

- Chorus currently has a market share of approximately 93% of NZ's fixed line access market. Other providers include TelstraClear's HFC network and localised fibre operators such as Citylink
- Telecom NZ accounts for ~84% of Chorus revenues based on FY11 pro formas

NZ fixed line market

- > Historically steady growth in fixed broadband connections
 - penetration ~65%
 - approx 200,000 dial-up users
- > Decrease in fixed line connections slow in NZ relative to comparable overseas markets
- > Fixed-to-mobile substitution relatively low:
 - free fixed line local calling
 - absence of 'unlimited' mobile usage plans



Source: IDC NZ Telco Tracker: March 2008 to March 2011

Regulatory environment

- > Regulation focused on copper products. Price and non-price terms largely regulated and governed by Standard Terms Determinations
- > Urban and non-urban UCLL prices averaged from Nov 2014
- > *Commerce Commission to complete benchmarking review of UCLL pricing mid 2012
- > UBA pricing fixed until 2014 then moves to cost-based

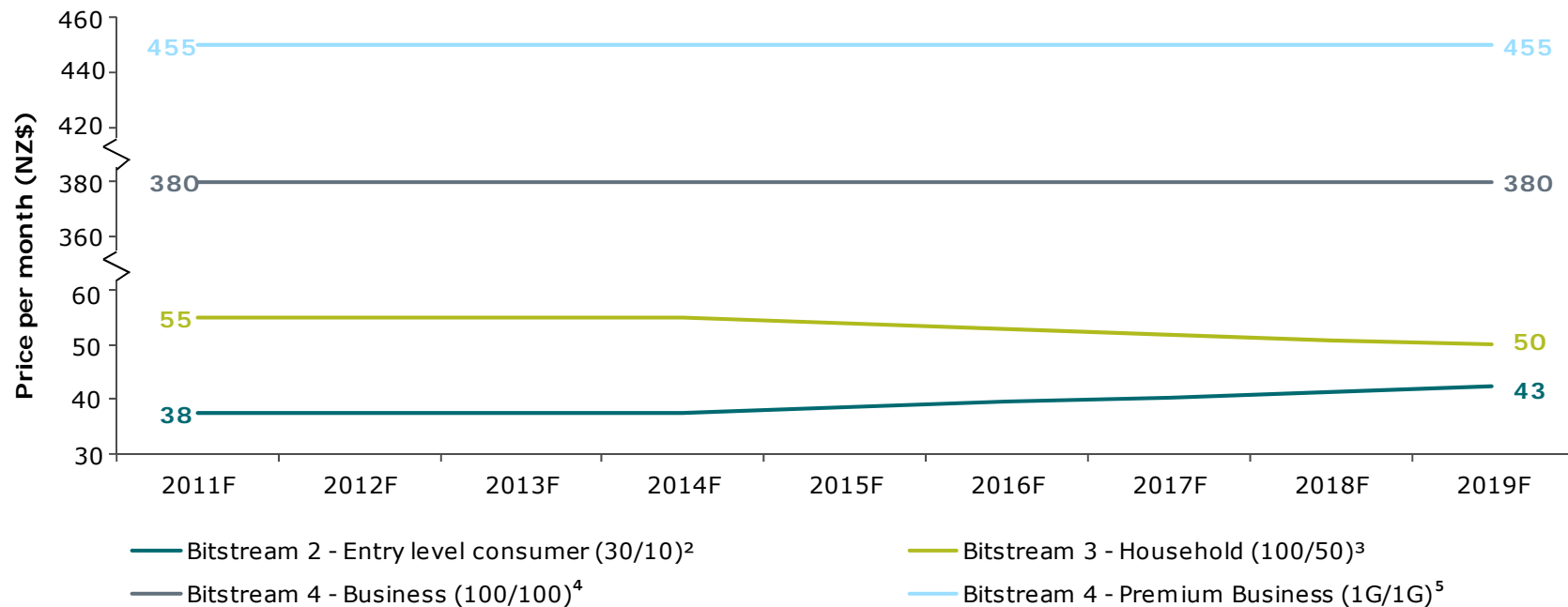
Service	From separation day		3 years post separation day
	Urban	Non-urban	Averaged
UCLL	\$19.84	\$36.63	\$24.46*

Service	Existing Lines (UBA)			New lines (UBA)	
	With POTS	without POTS (Urban)	Without POTS (Non-urban)	With POTS	Without POTS
Basic UBA	\$21.46	\$41.30	\$58.09	\$21.46	\$45.92

- > **Scheduled industry reviews**
 - Telecommunications Service Obligation review in 2013
 - Telecommunications industry review in 2016

Contracted UFB pricing

- > Pricing designed to enable convergence of product offerings over time to stimulate fibre uptake¹



¹ If the Commerce Commission regulates fibre prices below the contracted price paths, Chorus will be eligible to receive contractual compensation up to the value of NZ\$350 million by way of adjustments to the existing contractual arrangements, such as a deferral of repayments.

² Monthly price at commencement of \$37.50 (excl. GST). 30 Megabits per second downstream and 10 Megabits per second upstream.

³ Monthly price at commencement of \$55.00 (excl. GST). 100 Megabits per second downstream and 50 Megabits per second upstream.

⁴ Monthly price at commencement of \$380.00 (excl. GST). 100 Megabits per second downstream and 100 Megabits per second upstream.

⁵ Monthly price at commencement of \$455.00 (excl. GST). 1 Gigabit per second downstream and 1 Gigabit per second upstream.

Our focus: short term

#1

Manage separation from Telecom

- Deliver efficient stand-alone listed business
- Maintain efficient copper network business

#2

Build the UFB and RBI networks and promote fibre uptake

- Meet short term UFB priority roll out objectives
- Raise awareness about the benefits of migrating to fibre
- Develop new fibre-centric products with RSPs

#3

Develop partnerships with other Local Fibre Companies

- Engage in partnership discussions with local fibre companies to increase efficiencies across the UFB Initiative

Our focus: longer term

#1

Drive operating efficiencies in existing copper and new fibre networks



- Implement cost minimisation practices to drive efficient copper and fibre networks
- Deliver further capex optimisation

#2

Guide transition to a fibre centric world



- Enhance service to improve customer loyalty and satisfaction
- Develop new fibre based products and services that will allow RSPs to take advantage of higher bandwidth technology

#3

Comply with the UFB Agreements and Rural Broadband Initiative



- Deliver all aspects of the UFB agreements and RBI contracts and meet key performance thresholds
- Deliver FTTP within Chorus' UFB candidate areas by end of 2019

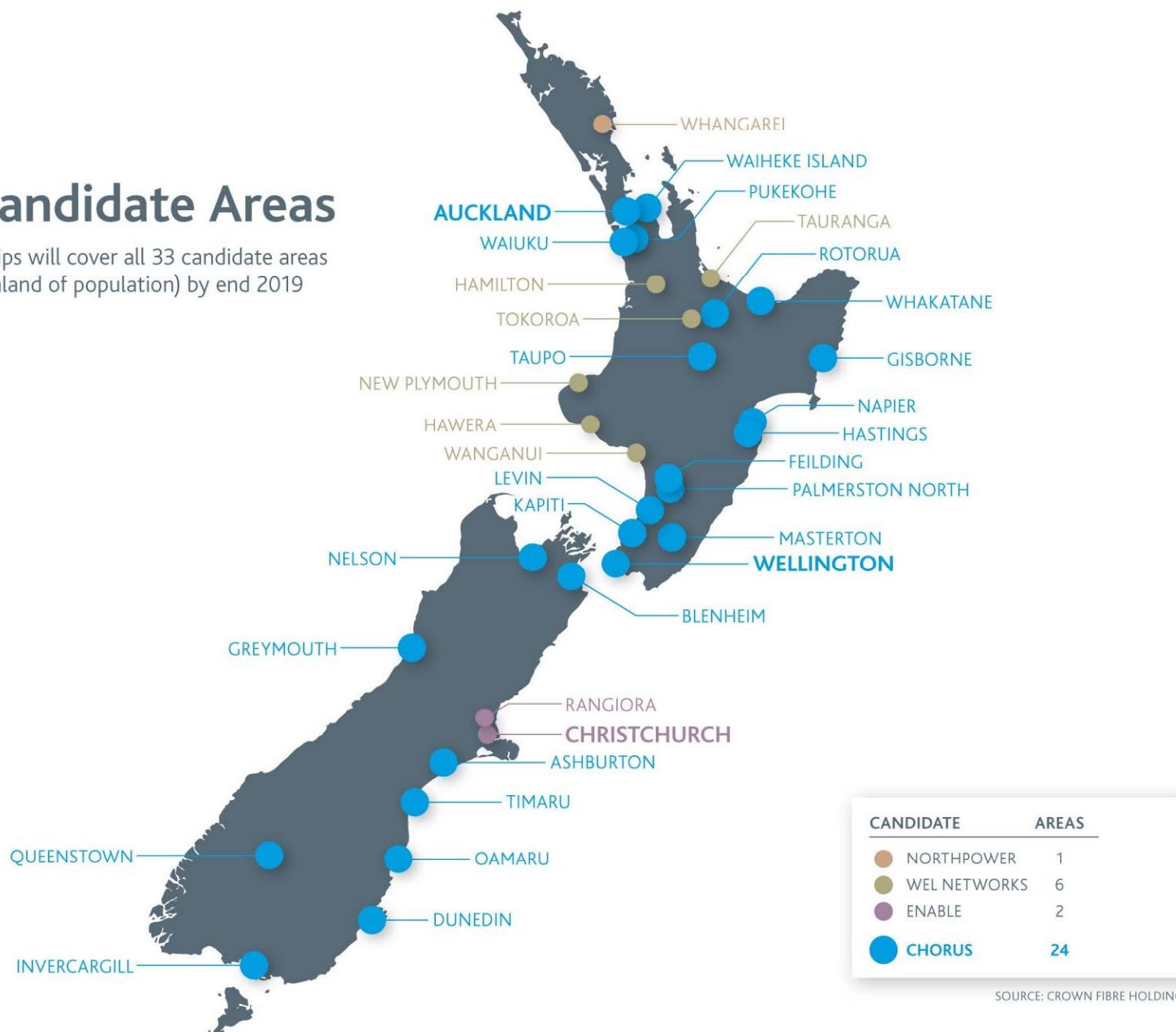
Experienced network builder

- > First fibre cable laid in 1983; ~29,000km today
- > 4-year \$500m FTTN programme completed Dec 2011, on time and under budget
 - 3,600 cabinets and 2,500km of fibre
 - one of NZ's largest ever telco build projects
- > Entrusted with building UFB network in 24 of 33 candidate areas by end of 2019
 - Chorus' UFB modelling independently reviewed by Analysys Mason
 - Building fibre subdivisions since 2008
- > Also selected by Government to deliver \$285m rural broadband programme by 2017 (joint project with Vodafone)



UFB Candidate Areas

UFB partnerships will cover all 33 candidate areas (75% New Zealand of population) by end 2019



Public private partnership

- > Government to contribute up to \$929 million for UFB build in Chorus areas: \$1,118 per premises passed
- > 50:50 split between CFH debt and equity securities
- > CFH will also be issued long term warrants per each tranche of equity securities with a strike price based upon cumulative TSR of 16% p.a.

CFH Debt Securities

Unsecured

Non-interest bearing

Redeemed by Chorus in tranches from 30 June 2025 to 30 June 2036 at the latest

If end-user fibre uptake in Chorus candidate areas is less than 20% at 30 June 2020, the repayments from 30 June 2025 will be accelerated

CFH Equity Securities

No right to vote at shareholder meetings

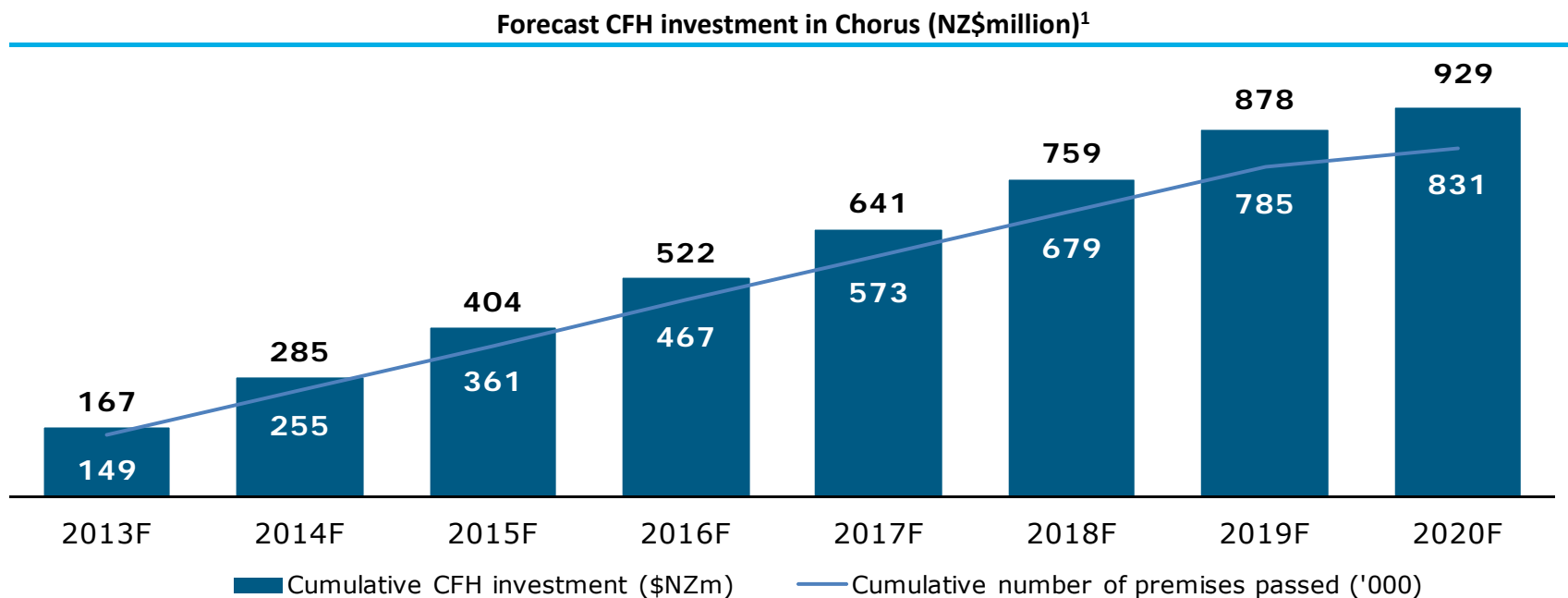
Attract no dividend payments before 2025

From 30 June 2025 onwards, an increasing portion of the CFH Equity Securities will attract dividend payments

If end-user fibre uptake is less than 20% at 30 June 2020, the portion of CFH Equity Securities that attract dividends increases at a faster rate

Chorus build programme

- > 43,000 premises committed for FY12. Build is underway
- > 830,900 premises target includes new subdivisions

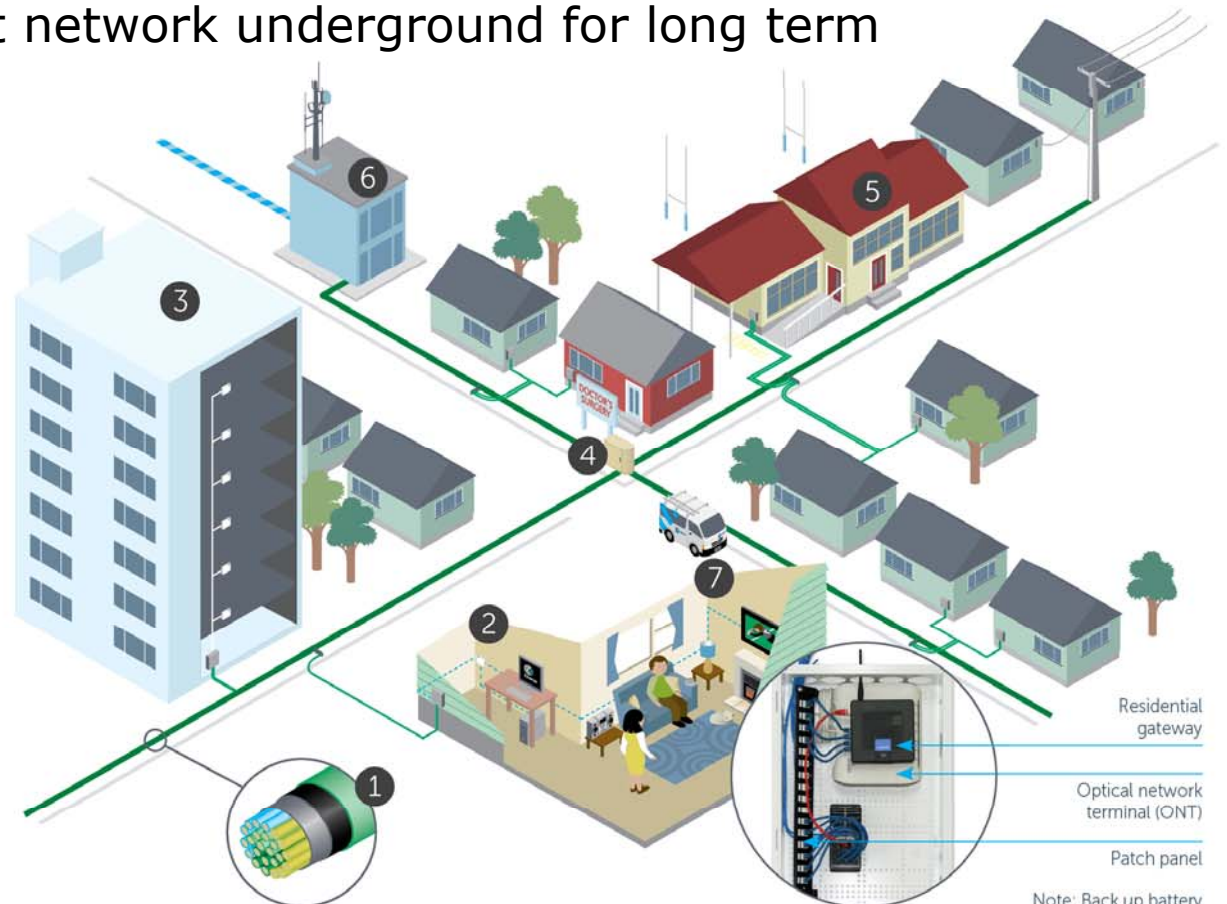


¹ Shows combined debt and equity CFH funding drawdown amounts. Note that warrants will also be issued with the equity component.

Building the UFB network

- > Using existing fibre and duct network wherever possible
- > 'On-demand' connection from street to home
- > Preference is to put network underground for long term protection

- 1 Microducts** These enable fibre to be blown along the street and to each property.
- 2 Optical Network Terminal** An electronic device that the fibre cable connects to inside your house.
- 3 Apartments** Fibre will need to run through the building to each apartment.
- 4 Cabinet** Contains equipment that joins the fibre from the exchange to the fibre connecting your place.
- 5 Priority** Priority is given to schools, health facilities and businesses.
- 6 Exchange** Your local telephone exchange houses the equipment that transmits data back to your service provider's network.
- 7 Wiring** You might need new wiring to extend high-speed capability to other rooms, or equipment such as TVs.

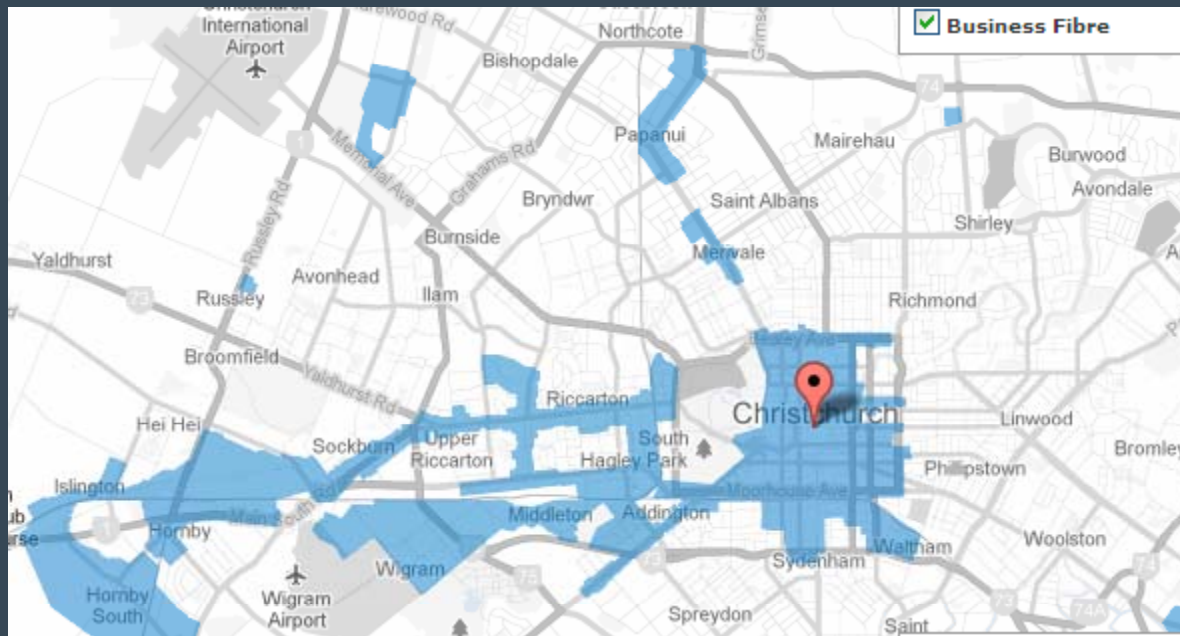


 Fibre Optic Cable

Note: Back up battery
(not shown) may be
installed in box or remotely

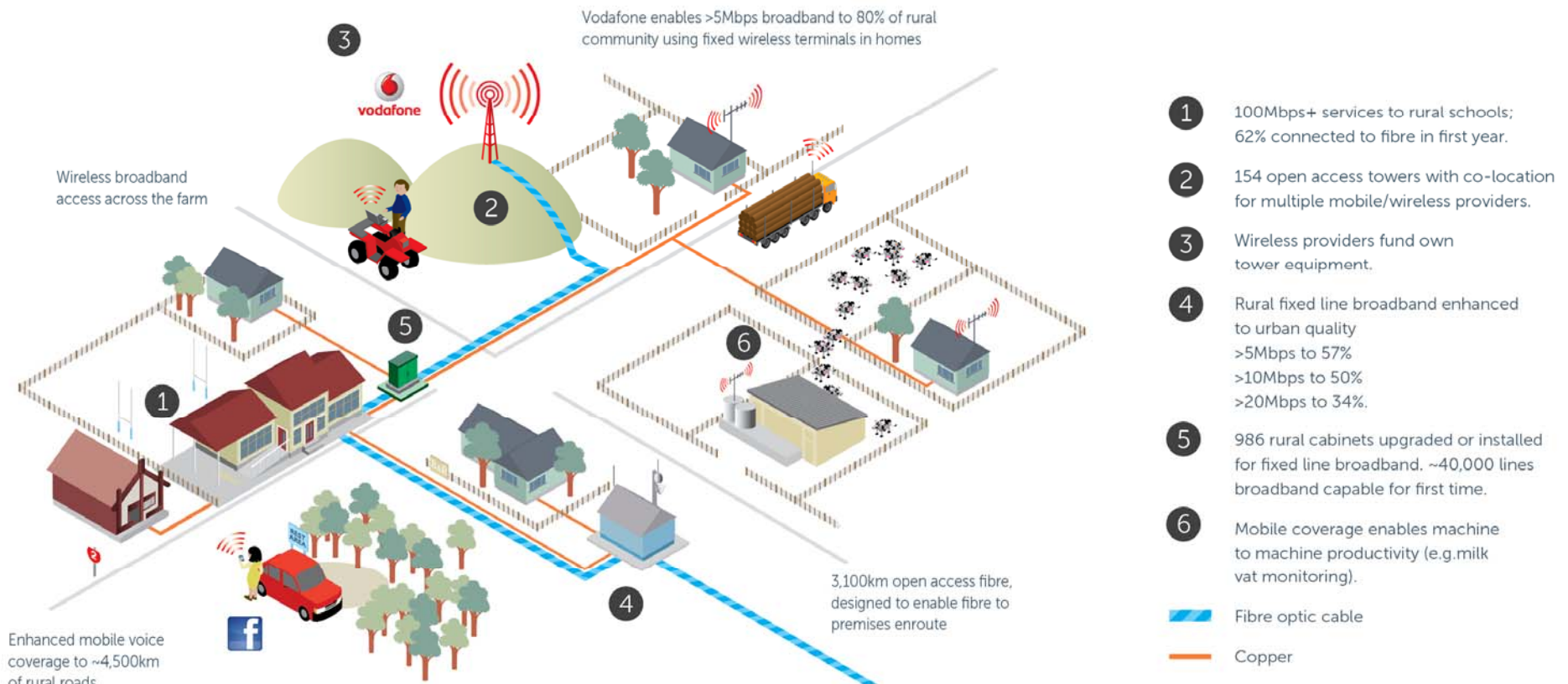
Business fibre footprint today

- > Most CBDs have point-to-point fibre; including non-Chorus UFB areas
- > Chorus has re-priced its existing business fibre at UFB prices
 - 100Mbps, 1Gbps and dark fibre services



Rural Broadband Initiative

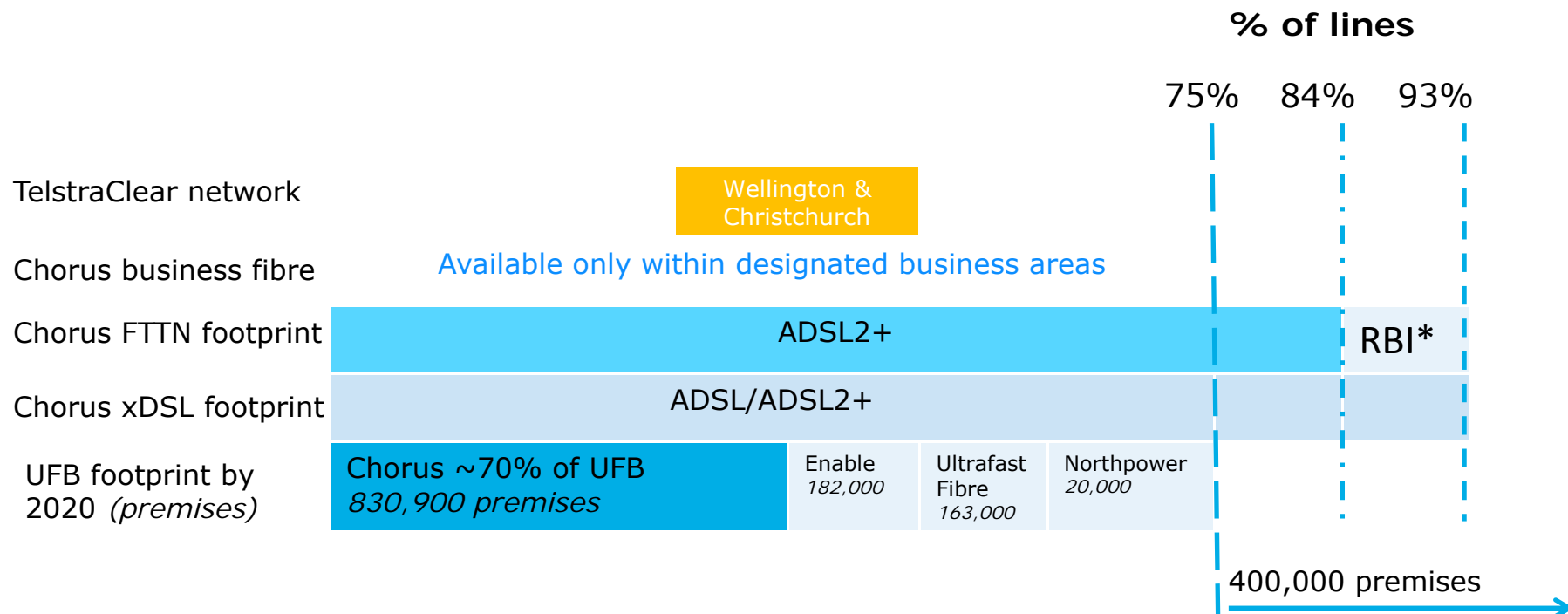
- > Six year Government programme, commenced July 2011
- > Chorus builds fibre to schools and wireless broadband towers
- > Chorus also extending FTTN footprint (from 84% to ~93%)



Rural roll-out schedule

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Schools	492 schools 62,000 pupils	122 schools 8,800 pupils	64 schools 4,000 pupils	22 schools 48 schools DMR 2,200 pupils		700 schools fibre 48 schools DMR 77,000 pupils
Hospitals	5 hospitals	1 hospital				6 hospitals
Fibre to RBI tower sites	21 sites	45 sites	52 sites	34 sites	2 sites	154 cell sites
FTTN 986 cabinets 5Mbps coverage	+17,400 lines 27%	+30,200 lines 37%	+25,000 lines 45%	+19,500 lines 52%	+12,600 lines 57%	+104,700 lines 57%

Network footprint



* Rural Broadband Initiative (RBI) to be completed by 2017

Chorus capital requirements

Network build

- UFB Network total cost of deployment is estimated at NZ \$1.4 – 1.6 billion
 - c.NZ\$929 million to be funded by the New Zealand Government
 - c.NZ\$470 - 670 million to be funded by Chorus
- UFB average premise connection cost expected to be c .NZ\$900 – 1,100, in real terms
- RBI funded through direct New Zealand Government contribution and a Telecommunications Development Levy

Business separation

- Investment in fibre based systems is required to support the operation of the UFB network
- Development of fibre based products and services will be required over the short to medium term

Business continuity

- On an ongoing basis Chorus will have to maintain both the nationwide copper and fibre networks
 - While the Chorus UFB Network will cover 830,900 premises by the end of 2019, a significant number of premises will maintain a copper fixed line connection over the medium to long term

Summary financial information

P&L and cashflow

	<u>Pro forma¹</u>
Y/E 30 June; NZ\$ million	2011
Operating revenues and other gains	1,050
Operating expenses	(444)
EBITDA	606
Depreciation and amortisation	(320)
EBIT	286
Net interest expense	(102)
Income tax expense	(56)
Net earnings	128
EBITDA	606
Add: UFB costs	6
Add: asset impairments	42
Add: natural disaster costs	22
Adjusted EBITDA	676
Funds from operations (FFO)²	518
Cash flow from investing activities	(428)

Balance sheet

	<u>Pro forma¹</u>
Y/E 30 June 2011; NZ\$ million	2011
ASSETS	
Receivables and prepayments	11
Total current assets	11
Property, plant, equipment and intangibles	2,425
Total non-current assets	2,425
Total assets	2,436
LIABILITIES AND EQUITY	
Accounts payable, accruals, provisions, short-term derivative liabilities & taxation payable	54
Short term debt	1,700
Total current liabilities	1,754
Deferred tax liability	163
Long-term payables and provisions	97
Total non-current liabilities	260
Total liabilities	2,014
Total invested capital	422
Total liabilities and invested capital	2,436

¹ Prepared on an unaudited condensed pro forma basis, under which certain adjustments have been applied to the audited Historical carve-out financial statements as of and for the financial year ended 30 June 2011 to reflect certain transactions that are expected to take place as part of or in association with the Demerger

² FFO calculated as adjusted EBITDA less income tax expense and net interest expense.

Chorus management team

Mark Ratcliffe <i>CEO & Executive Director</i>	<ul style="list-style-type: none">• CEO of Chorus since March 2008• 20 years experience within Telecom across finance, marketing, product development, product management and IT
Andrew Carroll <i>Chief Financial Officer</i>	<ul style="list-style-type: none">• Played key role in Ultra-Fast Broadband negotiations as Finance Lead• 9 years experience in the Telecom finance team and a further 10 years in investment banking
Chris Dyhrberg <i>General Manager, Network Build</i>	<ul style="list-style-type: none">• Significant experience in network deployment including the copper unbundling and FTTN network• Responsible within Chorus for network investment, planning, capital management and the roll out of the ultra-fast broadband and rural broadband initiatives
Sarah Broadhurst <i>General Manager, Human Resources</i>	<ul style="list-style-type: none">• Over 10 years experience in human resources in New Zealand and the UK in a wide range of industries• Responsible within Chorus for building organisational capability, culture and people management
Victoria Crone <i>General Manager, Sales & Marketing</i>	<ul style="list-style-type: none">• Over 15 years experience in sales and marketing of telecommunications products• Responsible within Chorus for responsible for managing the product portfolio, customer management, business development, marketing, brand and communications
Ed Beattie <i>General Manager, Property & Network Operations</i>	<ul style="list-style-type: none">• Over 30 years experience within Telecom building and maintaining fixed line and mobile telecommunications networks in New Zealand, including the recent deployment of the FTTN network• Responsible within Chorus for managing the performance of Chorus' fibre and copper network and maintaining its portfolio of network assets
Vanessa Oakley <i>General Counsel & Company Secretary</i>	<ul style="list-style-type: none">• Over 17 years experience in law and policy, mainly in relation to regulated telecoms infrastructure• Responsible within Chorus for legal and regulatory affairs, government relations, compliance, audit and risk
Ewen Powell <i>Chief Information Officer</i>	<ul style="list-style-type: none">• Over 18 years industry experience managing technology, services and partnerships that combined operate a national communications network• Responsible within Chorus for technology and enterprise infrastructure and managing the systems platforms to deliver business and customer operations.
Nick Woodward <i>General Manager, Customer Services</i>	<ul style="list-style-type: none">• Extensive experience across IT, sales and customer management roles in the financial and telecommunications industries throughout Europe and in the United States• Responsible within Chorus for managing operational business transactions between customers, suppliers and partners

Chorus board

Sue Sheldon CNZM <i>Chairman</i> <i>Non-Executive Director</i>	<ul style="list-style-type: none"> Member of the Telecom Board since June 2010. Current director of Contact Energy, Freightways, Paymark and the Reserve Bank of New Zealand Former director of Smiths City Group, Wool Grower Holdings and Wool Industry Network and former president of the New Zealand Institute of Chartered Accountants
Mark Ratcliffe <i>CEO & Executive Director</i>	<ul style="list-style-type: none"> CEO of Chorus since March 2008 20 years experience within Telecom across finance, marketing, product development, product management and IT
Prue Flacks <i>Non-Executive Director</i>	<ul style="list-style-type: none"> Current director of Bank of New Zealand and Mighty River Power and a trustee of the Victoria University Foundation Extensive specialist experience in commercial law and, in particular, banking and finance and securities law
John Hartley <i>Non-Executive Director</i>	<ul style="list-style-type: none"> Extensive experience across a range of industries in senior executive and non-executive positions including chairman of SkyCity, CEO of Brierley NZ and Solid Energy and CFO of Lend Lease Australia Current roles include Deputy Chair of ASB Bank, ASB Life and VisionFund International and is a director of Mighty River Power
Keith Turner <i>Non-Executive Director</i>	<ul style="list-style-type: none"> Extensive experience in the electricity sector. Current chairman of Fisher and Paykel Appliances, deputy chairman of Auckland International Airport and director of Spark Infrastructure Prior roles include CEO Meridian Energy for 9 years from its establishment in 1999
Anne Urlwin <i>Non-Executive Director</i>	<ul style="list-style-type: none"> Over 20 years directorship experience across the energy, health, construction, regulatory, internet, infrastructure and banking sectors Current Chairman of Lakes Environmental, Naylor Love Enterprises and a director of Meridian Energy and New Zealand Cricket
Clayton Wakefield <i>Non-Executive Director</i>	<ul style="list-style-type: none"> Over 30 years experience across the banking, financial services, telecommunications and technology sectors. Current executive director and owner of Techspace Consulting Limited Previous roles include Head of Technology and Operations at ASB Bank Limited, chairman and director of Electronic Transactions Services and chairman and director of Visa New Zealand

For further information

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