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Chorus to extend fibre to another 200,000 customers

Chorus today announced it has reached an agreement with Crown Fibre Holdings to extend its ultra-fast broadband (UFB) rollout to a further 169 areas extending from Taipa–Mangonui in Northland to Bluff in Southland. This will make fibre available to an additional 200,000-plus homes and businesses beyond the 1.1 million customers in Chorus' existing UFB rollout areas.

Chorus CEO Mark Ratcliffe said Chorus was delighted to be working with the Government to extend the reach of fibre broadband to so many new communities. "Fibre is undoubtedly the future of broadband. In the five and a half years that we've been building the UFB network and connecting homes and businesses to fibre we've seen a huge upsurge in demand.

"We're particularly pleased to see many of the towns and areas soon to benefit from fibre are within the Government's Regional Growth Programme, helping to increase jobs, income and investment in regional New Zealand.

"We're looking forward to working alongside local councils and lines companies as we finalise our deployment plans and we will also endeavour to make recent earthquake hit areas a priority".

At the end of 2016, the uptake of fibre across Chorus' current UFB deployment areas was at 32%, with areas completed earlier in the programme seeing uptake surpassing 40%.

Monthly household internet data consumption has also burgeoned in the last five years. In 2011, as the first phase of UFB was announced, the average household used about 13 gigabytes of internet data a month. This has grown to more than 120 gigabytes a month today with nearly half of all broadband customers having made the move to unlimited data plans.

"Fibre provides the broadband equivalent of an *autobahn* right to the door of homes and businesses, it will future-proof these communities for the anticipated continued growth in data consumption.

"With no signs of demand waning, we're forecasting average monthly usage of 680 gigabytes by 2020 as people access more and more online content and switch on to activities like video streaming," said Mr Ratcliffe.

The second phase of the UFB rollout is expected to commence in July 2017 and finish by December in 2024. A list of the Chorus towns and areas can be found at chorus.co.nz/ufb2.

Chorus estimates the cost of the UFB2 communal network will be \$370 million to \$410 million. The cost to connect each of the 203,000 potential customers within this footprint is estimated to average \$1,500 to \$1,700 (in 2017 dollars and including layer 2, backbone costs for MDUs and rights of way with 10 or fewer premises).

Today's agreement does not change Chorus' FY17 capital expenditure guidance or previous dividend guidance.

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Outline of UFB2 agreement key terms

The UFB2 agreement terms are materially similar to UFB1 and include:

- Pricing for services in UFB2 areas will be the same as for Chorus' existing UFB areas and subject to the prevailing regulatory regime from 2020. The UFB2 network includes backhaul from remote towns to UFB1 handover points.
- Until 1 January 2026, UFB2 residential customers will not be charged for connections up to a distance of 200 metres.
- Chorus must connect services on the date agreed with RSPs or credit them a month's rental. Service level payments to Crown Fibre Holdings (CFH) are triggered if less than 75% of agreed dates are met. There are a range of other service levels that include payments to RSPs and CFH.
- Unbundling of the UFB2 network is not contractually required before 2026, but in the event of a regulatory requirement to unbundle the UFB2 network earlier there would be no compensation provided to Chorus.

- Chorus must complete each UFB2 area 12 months from the agreed start date, but may start earlier provided the build takes no longer than 15 months. Communal network must be built in rights of way with more than 10 premises unless consent from affected persons is not granted.
- Overall, Chorus has greater control in UFB2 and the agreement is more outcomes focused. For example, while the key network requirements are described in the contract, CFH does not have an approval right over the network architecture. There is a liquidated damages regime for delays, but it is simpler than in UFB1. The risk of delays is reduced by the fact that the schedule will be agreed upfront for the entire programme. Chorus and CFH can agree changes to the schedule if something unexpected arises, for example relating to Council consents or the discovery of archaeological features.

- Chorus expects to receive \$291 million in CFH funding to build fibre past the 168,240 premises in UFB2 areas. There are three different funding rates – \$1,552 per premises for 112,433 premises to be passed by 2023, \$2,000 for 38,620 premises in the latter half of the rollout and \$2,300 for 17,187 other premises throughout the rollout.
- In return for the CFH funding, CFH equity and debt securities will be issued on very similar terms to UFB1. Chorus can elect the mix of securities to be issued (up to a maximum of \$189m equity securities) but expects to issue 65% equity securities and 35% debt securities, with equity securities likely to be issued first.
- Dividends are payable on the equity securities proportionately:
 - 18.46% from 30 June 2030
 - 55.38% from 30 June 2033
 - 100% from 30 June 2036
- The debt securities are to be proportionately redeemed from 2030:
 - 18.46% on 30 June 2030
 - 36.92% on 30 June 2033
 - 44.62% on 30 June 2036

- The CFH equity securities will not have any voting rights and will rank ahead of ordinary shares on liquidation. They may be converted to ordinary shares in certain circumstances, and Chorus may redeem them for cash or ordinary shares. The CFH debt securities will comprise a senior and a subordinated portion, on a similar basis as the existing CFH debt securities and may be accelerated in the event of a material breach by Chorus or on insolvency or cross-default.
- While CFH equity and debt securities are outstanding, Chorus cannot pay a dividend to ordinary shareholders without CFH consent if it does not have an investment grade rating.
- There are no CFH warrants or uptake targets.
- In order for CFH to provide funding: Chorus must not be in breach of the financial covenants in its banking facilities; from 2020 (or earlier if it does not have financial covenants in its bank facilities) Chorus must not have a sub-investment grade rating from both S&P and Moody's (or only one entity if that is the only rating entity) for a continuous period of four months; and there must not be a material breach of the UFB2 agreement or suspension of it for health and safety reasons.
- Material breach events include where Chorus fails to complete a build milestone within nine months, where Chorus fails to meet the same CFH service level for three consecutive months and then fails to remedy that service level within a further three months, Chorus becoming unable to fulfil its obligations or an insolvency type event or cross default occurs. If the material breach relates to build delays, CFH may elect to require Chorus to pay \$50,000 liquidated damages per day for up to 180 days and if the material breach is not remedied in that time, CFH may contract a third party to undertake the build. There is no management step in right.
- There is a suspension right following a death or serious injury or material breach of health and safety legislation and CFH may terminate the agreement if Chorus has been convicted of a serious offence under the Health and Safety at Work Act 2017.
- Chorus and CFH have also entered a conditional agreement giving Chorus the option to bring forward part of the CFH funding if Chorus' credit rating is below investment grade for a period of at least four months between 1 January 2020 and 31 December 2021. The funding is available on terms similar to those agreed with CFH in July 2014. As with the 2014 agreement, if Chorus chooses to use the facility, Chorus would be unable to pay a dividend on its ordinary shares before completing the UFB2 build without CFH approval, unless Chorus normalises the CFH funding profile.

The agreement is conditional on Chorus securing tax and ratings treatment consistent with UFB1, as well as competition law authorisations which were provided for UFB1.