

## **Announcement: Moody's reviews Chorus' Baa2 ratings for possible downgrade**

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Global Credit Research - 03 Dec 2012

### **Approximately USD 2000 million in debt affected**

Sydney, December 03, 2012 -- Moody's Investors Service has today placed the Baa2 issuer and senior unsecured ratings of Chorus Limited ("Chorus") on review for possible downgrade.

### **RATINGS RATIONALE**

"The rating action reflects today's announcement by Chorus of the potential impact upon its profitability and cash-flow should the New Zealand Commerce Commission ("NZCC") proceed with its draft decision - also announced today - with respect to pricing for the unbundled bitstream access ("UBA") ," says Maurice O'Connell, a Moody's Senior Analyst. "The Commission's draft decision based upon a new cost-based pricing model for Chorus' UBA service will, if implemented in line with the draft proposal, likely have a material impact on Chorus' credit profile and be inconsistent with a Baa2 profile," O'Connell added.

In its draft decision, NZCC has proposed a reduction from \$21.46 to \$8.93 for the basic service relating to the unbundled local copper loop ("UCLL") component of the UBA service from December 2014. This would reduce Chorus' annual EBITDA of around \$680 million (annualised 2012 results) by \$150-160 million p.a. This is in addition to the estimated \$20 million negative impact on EBITDA arising from the final wholesale pricing determination for UCLL.

"Chorus' existing Baa2 rating takes into account Moody's current expectation for gradually increasing debt and negative free cash flow until around 2019, due to the company's dividend policy and substantial capex programme. The NZCC draft proposal would, if implemented as announced, exacerbate Chorus' negative free cashflow position and lead to materially elevated leverage, putting significant pressure on the company's key financial metrics", says O'Connell.

"We note that the proposal in relation to the UBA service is currently in draft form and that it remains subject to "robust consultation with all parties". Nevertheless, at this stage, the potential for a final adverse outcome on Chorus' credit profile is meaningful."

The review will focus on i) the higher regulatory business risk to Chorus, ii) the impact on Chorus' credit profile of a final decision by the NZCC and iii) implications and impact of the final determination on Chorus' ultra fast broadband rollout.

Chorus Group is a New Zealand-based telecommunications utility group. It owns copper and fibre optic fixed-line telecommunications networks in New Zealand, together with exchanges, roadside cabinets, and associated infrastructure. It is a wholesaler of access to these networks. Chorus Limited is the parent company, and the issuer. Chorus New Zealand Limited guarantees Chorus Limited, and is the main operational entity in the Chorus Group.

As a wholesale, wireline network access provider, Chorus Group has characteristics similar to both a telco and a regulated utility. Therefore, Moody's has referenced the Global Telecommunications Industry, Communications Infrastructure and Regulated Utilities Networks methodologies in assigning its rating.

The principal methodology used in rating Chorus Limited was the Global Telecommunications Industry Methodology published in December 2010, Global Communications Infrastructure Rating Methodology published in June 2011, and Regulated Electric and Gas Networks published in August 2009. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

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Maurice O'Connell  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's Investors Service Pty. Ltd.  
Level 10  
1 O'Connell Street  
Sydney NSW 2000  
Australia  
JOURNALISTS: (612) 9270-8102  
SUBSCRIBERS: (612) 9270-8100

Terry Fanous  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: (612) 9270-8102  
SUBSCRIBERS: (612) 9270-8100

Releasing Office:  
Moody's Investors Service Pty. Ltd.  
Level 10  
1 O'Connell Street  
Sydney NSW 2000  
Australia  
JOURNALISTS: (612) 9270-8102  
SUBSCRIBERS: (612) 9270-8100



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