

Terms of Reference

The Government has committed to an investment of \$929 million in Chorus as an Ultra-Fast Broadband (UFB) partner, and is committed to rolling out the UFB programme given the significant benefits it offers to New Zealanders.

The Commerce Commission has recently made final decisions on prices for the Unbundled Copper Local Loop Service and the Unbundled Bitstream Access Service. Chorus has advised the market that the decisions will have a significant negative impact on its business and signalled that it wishes to engage with government about its capability to participate in the UFB programme.

The Government is seeking to appoint a reviewer to provide independent analysis and advice on Chorus' current and forecast financial position and its capability to deliver on its contractual obligations in light of the Commerce Commission's decisions.

The priority for the review is to:

1. Assess the impact of the final Commerce Commission decisions on prices for the Unbundled Copper Local Loop Service and the Unbundled Bitstream Access Service on key Chorus financial indicators, including EBITDA, net operating cash flow, debt ratios, borrowing limits and borrowing costs now and over the build period for the UFB and Rural Broadband Initiative (RBI) networks and to the end of the term of the Crown Fibre Holdings Securities. The impact of the Commission's decisions should be distinguished from the impact of Chorus' own strategic choices where, for example, such choices may have led to higher capital expenditure than initially forecast.
2. Then identify the financial capability of Chorus against its Telecommunications Service Obligations, Standard Terms Determinations, RBI and UFB contractual obligations, taking into account any actions that Chorus could take to increase financial flexibility including adjustments to:
 - a. operational costs
 - b. capital cost structures
 - c. debt facilities, and
 - d. the contribution that a change in dividend policy could make

This review will include direct engagement with Chorus and Crown Fibre Holdings. It is expected to involve assessing financial information and forecasts provided by them. The reviewer will provide a view on the robustness of the information and forecasts provided by Chorus.

We may also commission an additional piece of work from an investment bank on the likelihood of a successful capital raise by Chorus to meet its contractual obligations. This work will be informed by the financial analysis of Chorus set out above.

A draft report is to be delivered by 5pm Friday, 6 December 2013 to the Minister for Communications and Information Technology and a final report is to be delivered to the Minister for Communications and Information Technology by 5pm, 12 December 2013.

A copy of the final report will be made available to the public once the Minister has had the opportunity to consider it (with any commercially sensitive material redacted).