

FY23 RESULTS

21 August 2023

C H ● R U S

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JB Rousselot, CEO

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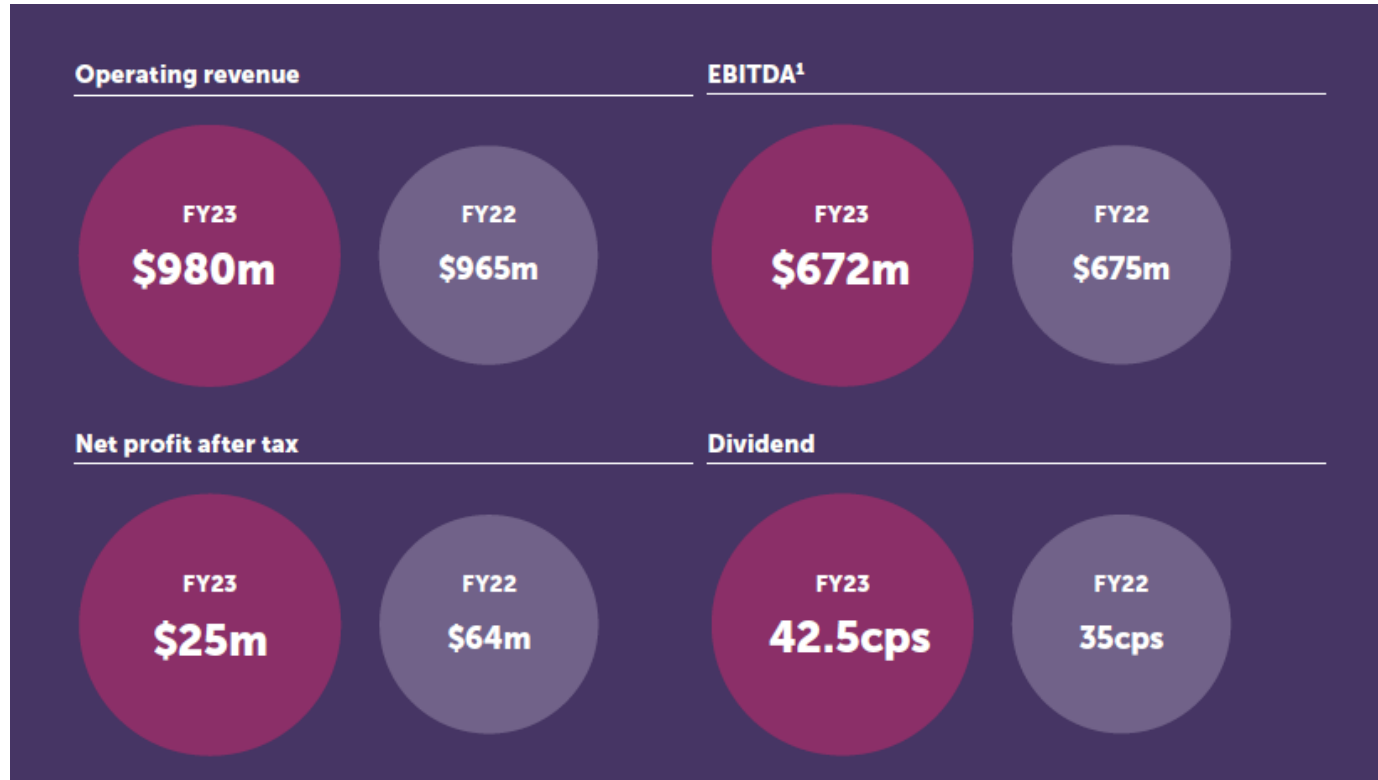
Mark Aue, CFO

JB Rousselot, CEO

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FY23 overview



	FY23	FY22
Fibre connections	1,031,000	959,000
Broadband connections	1,188,000	1,189,000
Fixed line connections	1,271,000	1,304,000
Data traffic (petabytes)	7,402	7,140
Employee engagement	8.7/10	8.5/10

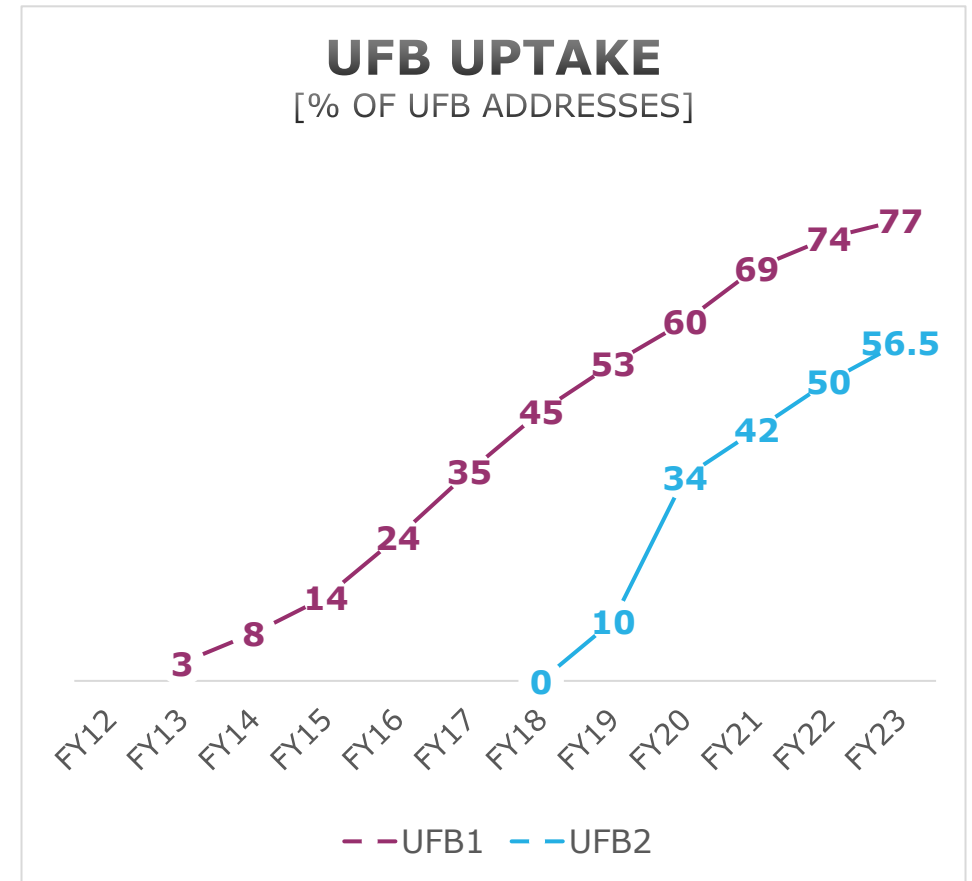
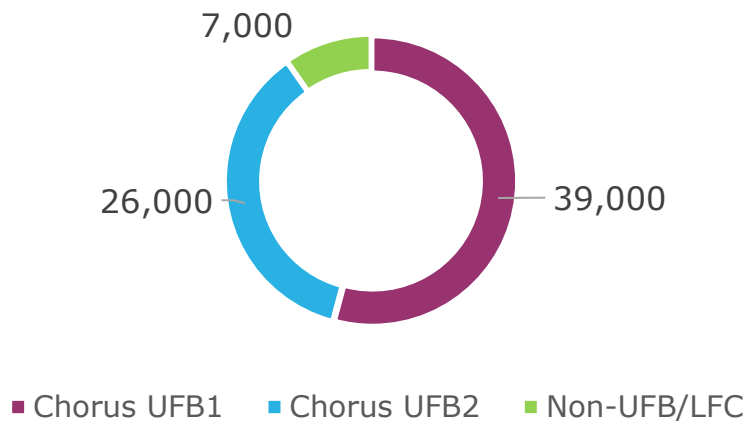
1. Earnings before interest, income tax, depreciation and amortisation (EBITDA) is a non-GAAP profit measure without a standardised meaning for comparison between companies. We monitor EBITDA as a key performance indicator and we believe it assists investors in assessing the performance of the core operations of our business.

Solid lift in fibre uptake despite workforce constraints

- > **73% uptake** within completed UFB footprint
 - UFB1 77% (+3%)
 - UFB2 56.5% (+6.5%)
 - 985,000 connections (FY22: 919,000)*
 - *includes business premium and partly subsidised education connections

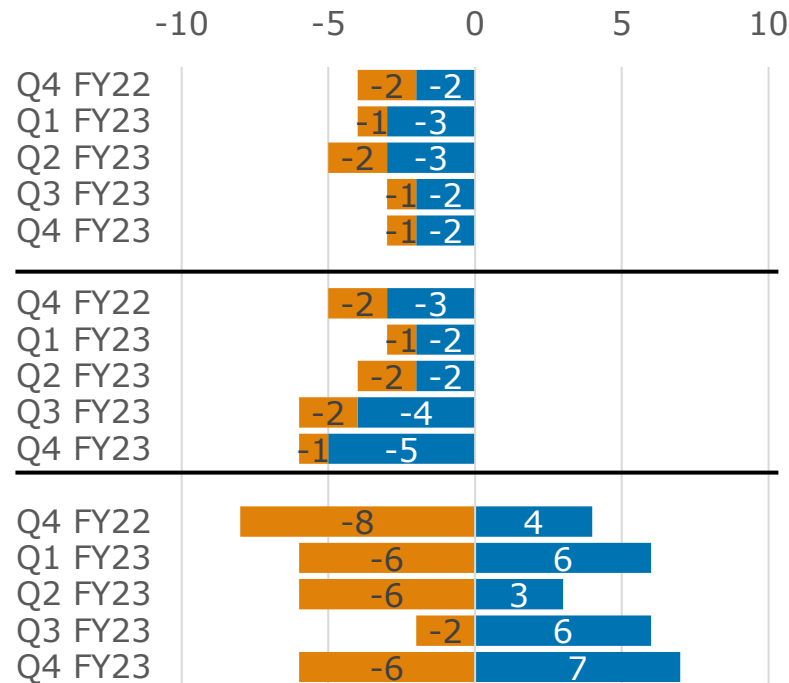
- > **10%** of fibre connection growth outside Chorus UFB zone

Connection growth +72k



Continued broadband growth in our UFB zone

Quarterly change ('000s) by zone*



- Broadband connections
- Copper (no broadband) connections

Other fibre company (LFC) zone	Broadband connections	25,000	Local Fibre Company and fixed wireless provider activity is driving a gradual decline in copper connections.
	Copper line (no broadband)	14,000	
	TOTAL	39,000	
Non-UFB zone	Broadband connections	129,000	Ongoing decline in copper connections due to mobile/fixed wireless/satellite footprint expansion. Partly offset by fibre connections growth for greenfield developments.
	Copper line (no broadband)	23,000	
	TOTAL	152,000	
Chorus UFB zone	Broadband connections	1,034,000	Chorus copper withdrawal programme resumed after a pause in Q3 following Cyclone Gabrielle. Increase in technician workforce enabled a resumption of proactive fibre migration activity.
	Copper line (no broadband)	35,000	
	TOTAL	1,069,000	

Data is indicative as at 30 June

* Excludes ~2k partly subsidised education connections and 11k fibre premium and data services (copper) connections

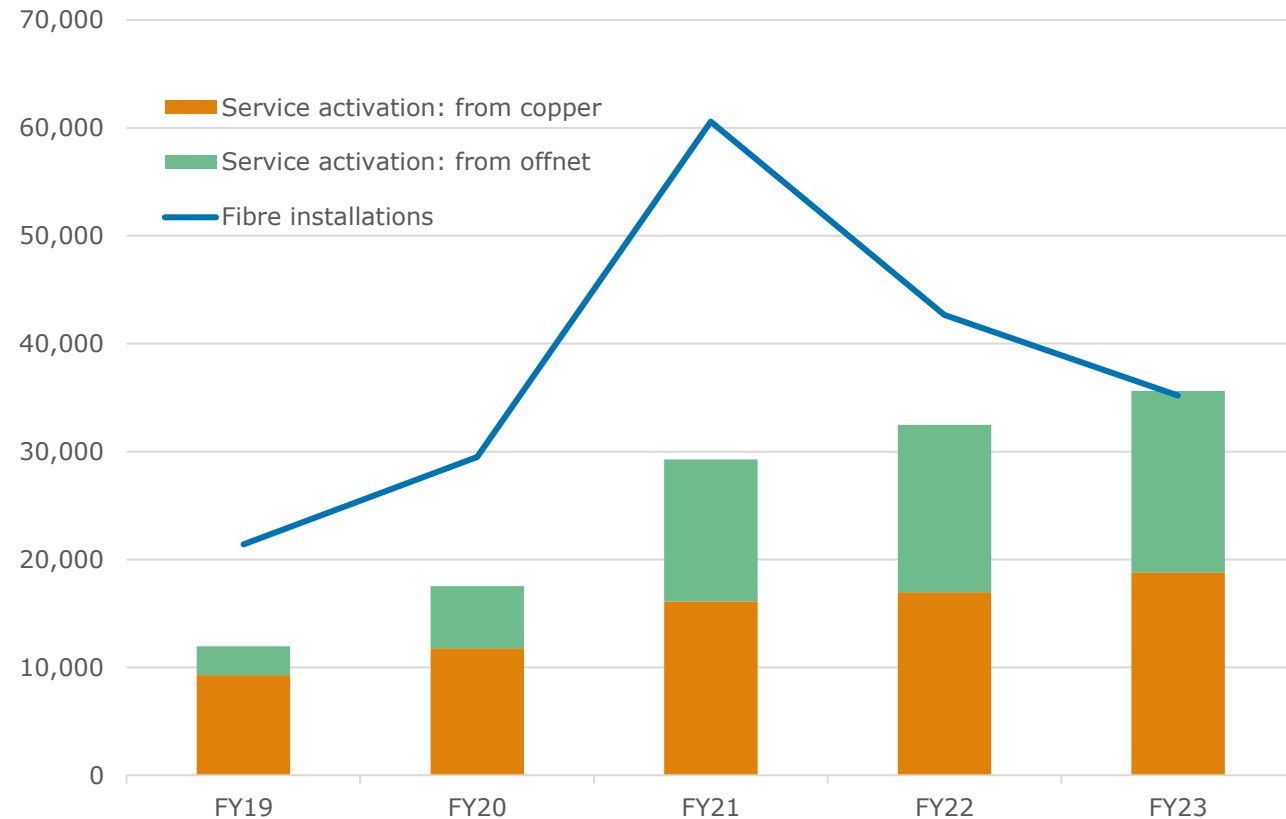
Workforce back to sustainable level

- > **92k fibre installations (FY22: 117k)**
 - at lower end of 90k to 110k guidance due to technician shortages
 - workforce constraints removed by end FY23

- > **Managed migration programme**
 - contributed 35k of the 92k installations
 - copper withdrawal drove activation of 19k managed installation addresses
 - 17k activations from offnet addresses

Customer experience	FY23	FY22
Fault restoration	7.8 out of 10 (target 8.2)	8.2 out of 10
Intact provisioning	7.3 out of 10 (target 7.6)	7.3 out of 10

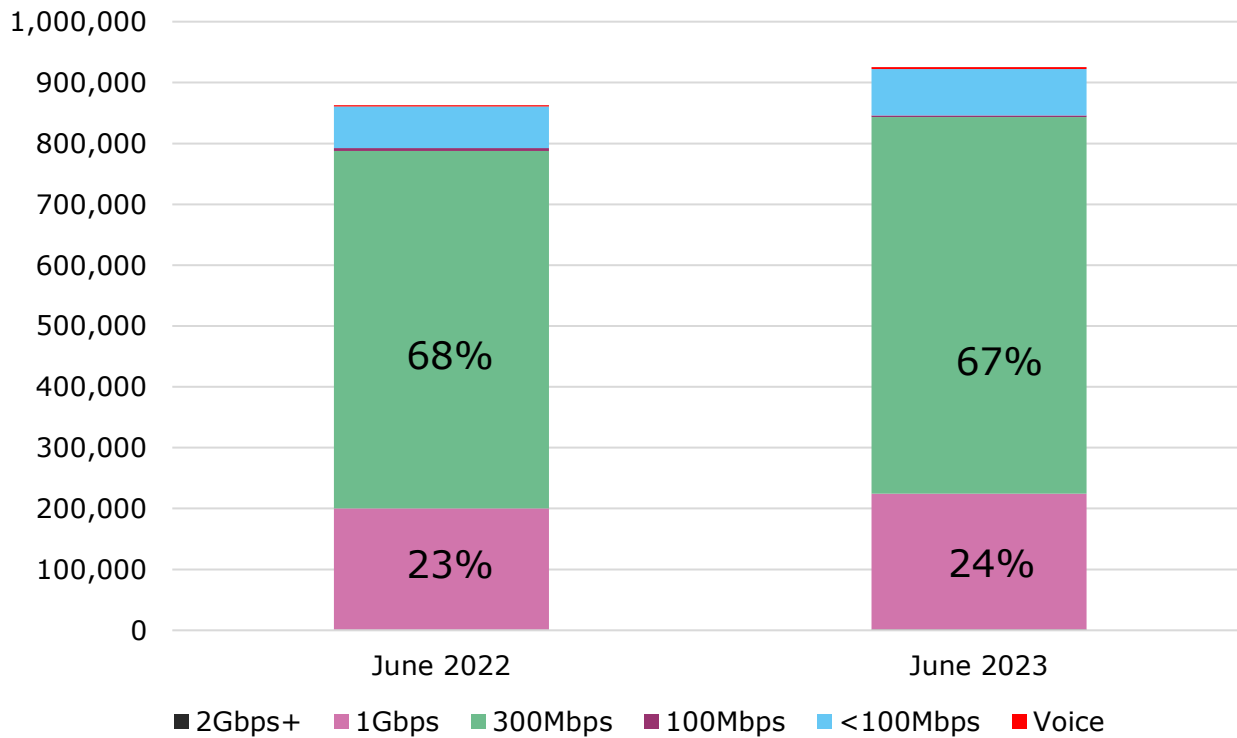
Managed migration: installations vs activations



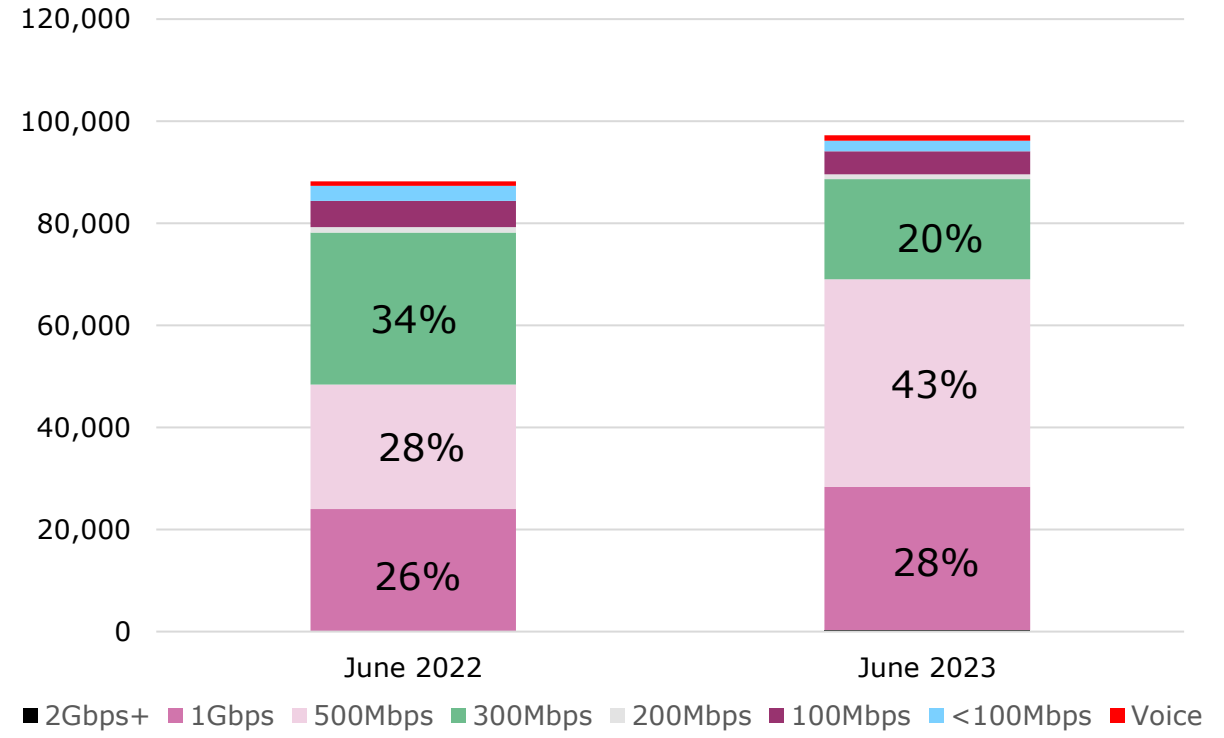
More residential consumers opting for 1 Gig plans

- > 1Gbps and Hyperfibre connections were 39% of residential connections growth in FY23
- > 300Mbps plans were 50% of residential connections growth
- > 91% of residential and business connections are on plans of 300Mbps and above

Residential



Business



Financial performance

Mark Aue, Chief Financial Officer

Income statement

	FY23 \$m	FY22 \$m
Operating revenue	980	965
Operating expenses	(308)	(290)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	672	675
Depreciation and amortisation	(446)	(427)
Earnings before interest and income tax	226	248
Net interest expense	(195)	(142)
Net earnings before income tax	31	106
Income tax expense	(6)	(42)
Net earnings	25	64

- > \$1m of consumer credits for extreme weather
- > \$9m of extreme weather and operating model change costs
- > underlying FY23 EBITDA of \$682m vs underlying FY22 EBITDA of \$660m (see slide 13)
- > \$15m of additional accelerated copper cable depreciation in fibre areas
- > weighted effective interest rate on debt increased from 3.77% to 5.4% (includes accounting adjustments)
- > one-off \$10m accounting adjustment for useful life of buildings

Revenue

	FY23 \$m	FY22 \$m
Fibre broadband (GPON)	622	548
Fibre premium (P2P)	68	66
Copper based broadband	117	153
Copper based voice	39	52
Data services copper	4	6
Field services	70	71
Value added network services	26	27
Infrastructure	31	30
Other	3	12
Total	980	965

> growing fibre uptake and ARPU: \$53.25 (June FY23) vs \$50.67 (June FY22)

> growing demand for direct fibre, mobile access and other backhaul

- copper revenues declining as customers migrate to Chorus fibre or competing fibre/wireless networks
- CPI increase of 7.2% applied to some services from mid-December

> greenfields revenue \$33m (FY22: \$29m); partly offset by reduced roadworks \$8m (FY22: \$10m)

> FY22 included \$6m property optimisation and \$3m legal settlement

Expenses

	FY23 \$m	FY22 \$m
Labour	76	64
Network maintenance	60	59
IT	42	50
Other network costs	37	29
Rent, rates and property maintenance	26	28
Electricity	19	17
Provisioning	1	1
Insurance	5	4
Consultants	9	8
Regulatory levies	9	9
Other	24	21
Total	308	290

- > CPI impact and increased employee numbers; FY22 included \$9m holiday pay benefit and \$2m COVID impact of reduced labour capitalisation
- > reduced fault volumes offset by \$3m of extreme weather costs, CPI impact and more expensive fault mix
- > savings from migration off legacy systems and release of \$2m software provision
- > \$3m extreme weather costs; \$3m network and property optimisation costs
- > \$1m extreme weather costs; FY22 included one-off costs for office relocation and rationalisation

- > advertising spend up \$2m with increased activity post-COVID

Underlying EBITDA & asset revaluation

	Adjustment	FY23 adjusted \$m	Adjustment	FY22 adjusted \$m
Reported operating revenue		980		965
	▪ Extreme weather credit	<u>1</u>	▪ Lease change ▪ Legal settlement	(3) <u>(3)</u>
Underlying operating revenue		981		959
Reported operating expenditure		308		290
	▪ Extreme weather costs ▪ Operating model change	(6) <u>(3)</u>	▪ Holiday pay provision	<u>9</u>
Underlying operating expenditure		299		299
UNDERLYING EBITDA		682		660
Reported EBITDA		672		675

Asset revaluation: Land & buildings

- > Land & buildings assets increased by \$282 million following adoption of revaluation policy
 - valuation increase from \$75m to \$357m
 - net effect on annual depreciation expected to be ~\$1m per annum

Gross capex: \$454 million (FY22 \$492m)

Sustaining capex of \$207m (FY22: \$161m) see p35 for summary

Fibre capex	FY23 \$m	FY22 \$m
UFB communal	5	77
Fibre installations & layer 2	193	195
Fibre products & systems	10	12
Other fibre & growth	105	79
Fibre sustain	12	13
Customer retention costs	30	27
Subtotal	355	403

- > UFB rollout ended Dec 2022
- > 92,000 installations (FY22: 117,000); \$32m backbone; \$51m layer 2
- > new property development \$68m; Fiordland fibre backhaul \$6m (largely grant funded)
- > fibre incentive spend varies subject to connection volumes and retailer activity

- **Average cost per UFB premises installation: \$1,067** vs \$1,000 - \$1,115 guidance*

*excludes layer 2 and includes standard installations, some non-standard single dwellings and service desk costs

Capex: Copper and Common

Copper capex	FY23 \$m	FY22 \$m
Network sustain	27	27
Copper connections	1	1
Copper layer 2	1	3
Customer retention costs	4	7
Subtotal	33	38

> FY23 included ~\$7m rural cabinet upgrade project (largely grant funded)

> reducing with stop sell now in place in fibre areas

Common capex	FY23 \$m	FY22 \$m
Information technology	44	32
Building & engineering services	22	19
Subtotal	66	51

> IT lifecycle projects and investment to support exit from legacy systems

> building projects resumed after COVID delays; FY22 included office relocation costs

FY24 guidance

> EBITDA: \$680m to \$700m

- subject to no material changes in circumstances or outlook
- objective of modest EBITDA growth
- expect costs to be ~\$10m higher given deferral of some costs into FY24, CPI increases, additional regulatory and compliance costs, and operating model changes due in Q2

> GROSS CAPEX: \$400m to \$440m

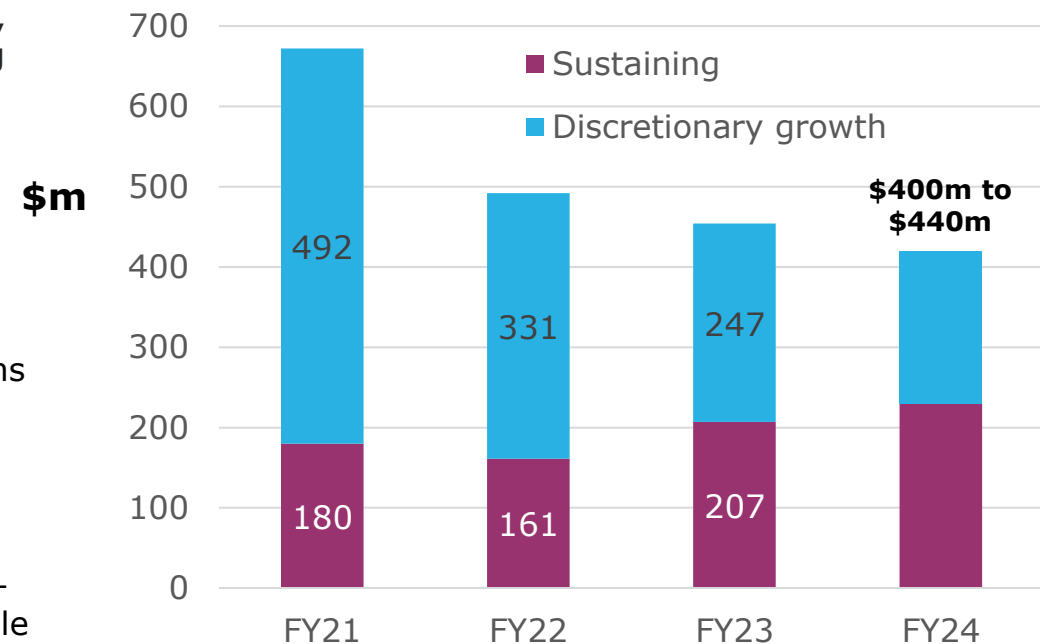
- **Copper** \$25m to \$35m
- **Common** \$55m to \$75m
- **Fibre** \$320m to \$340m: includes \$180m-\$190m fibre installations & layer 2 capex: based on mass market 80,000 – 100,000 fibre connections (cost per installation: \$1,100 - \$1,250*), and 1,500 – 2,500 backbone builds

Note: ranges are not necessarily additive

- **FY24 sustaining capex** lifts to **\$220m-\$240m** with CPI effects, catch-up on property projects delayed by COVID, equipment upgrades to enable Hyperfibre, increased transport spend to support greater capacity and rural layer 2 lifecycle replacement.

*excluding layer 2 and including standard installations and some non-standard single dwellings and service desk costs

Capital expenditure components



**Sustaining network capex is investment to maintain, replace or improve an existing copper or fibre asset.

Net debt/EBITDA

> **ND/EBITDA increased from 4.08x (FY22) to 4.39x**

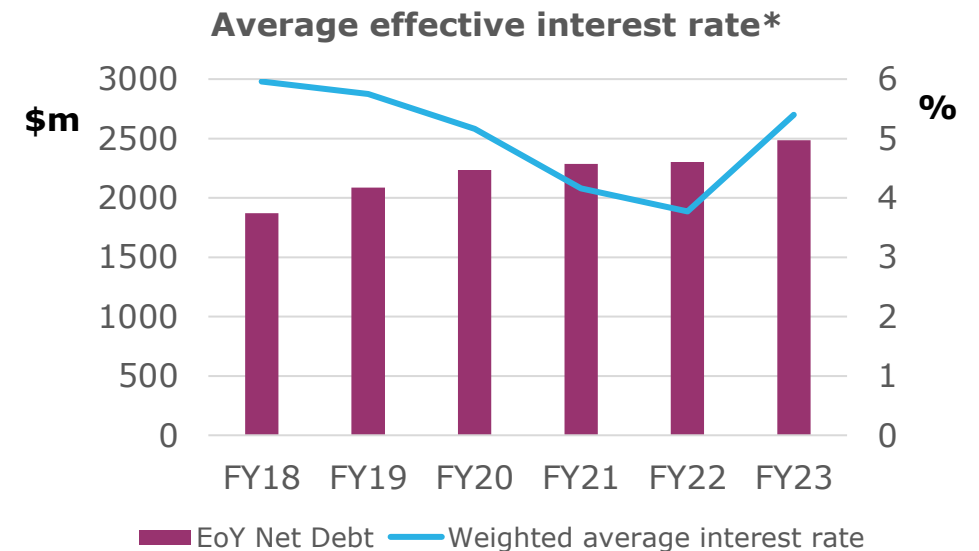
- borrowings increased from \$2,389 million (FY22)
- ratings agency thresholds: Moody's 5.25x, S&P 5.0x
- the Board considers that a 'BBB' credit rating or equivalent is appropriate for a company such as Chorus
- intention that in normal circumstances the ratio of net debt to EBITDA will not materially exceed 4.75x
- financial covenants require senior debt ratio to be no greater than 5.5x

	As at 30 June 2023 (\$m)
Borrowings	2,561
+ PV of CIP debt securities (senior)	279
+ Net leases payable	<u>181</u>
Sub total	3,021
- Cash	76
Total net debt	2,945
Net debt/EBITDA*	4.39x

*Based on S&P and bank covenant methodologies

> **~65% of CNU interest rate exposure was fixed at 30 June**

- expect to be ~70% fixed over next 3 years with net ~\$750m forward start fixed interest rate swaps starting in first half of FY24
- see slide 37 in Appendix for summary of bond rates

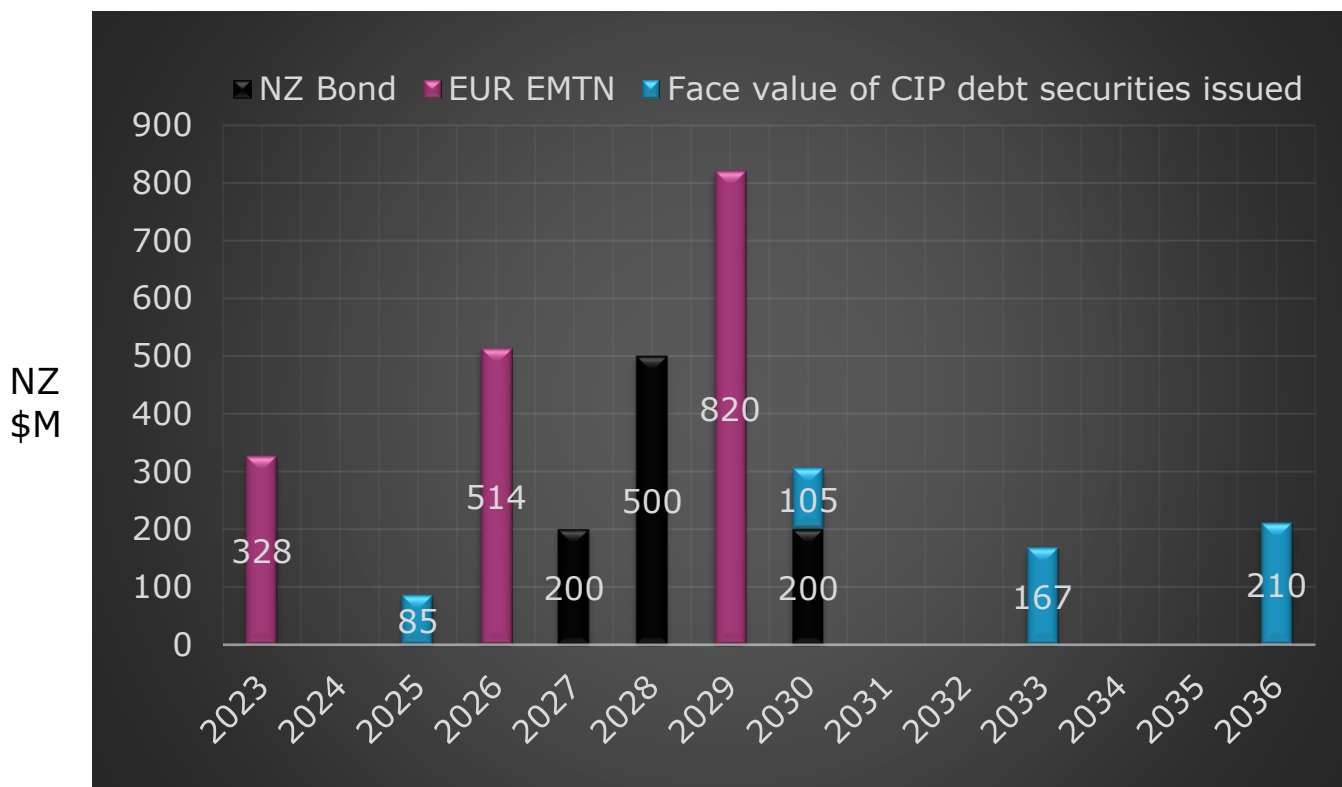


* includes all interest on borrowings, bank commitment fees and non-cash accounting adjustments related to financing

Crown financing and debt profile

> At 30 June, debt of \$2,561m comprised:

- Long term bank facilities of \$450m (Undrawn)
- NZ bonds: \$900m
- Euro Medium Term Notes \$1,661m (NZ\$ equivalent at hedged rates)



Crown securities \$m	30 June 2025	30 June 2030	30 June 2033	30 June 2036	TOTAL
Equity securities (cumulative total)	85.3	197.1	377.7	766.4	766.4
Debt securities (maturity profile)	85.3	104.7	166.7	210.2	566.9

Crown equity securities

- unique class of security with no voting rights but a repayment preference on liquidation
- an increasing portion attract dividend payments from 30 June 2025 onwards based on 180 day NZ bank bill rate, plus 6% p.a. margin
- redeemable by cash payment of total issue price or the issue of Chorus shares (at a 5% discount to the 20-day VWAP for Chorus shares)

Crown debt securities

- unsecured, non-interest bearing and carry no voting rights
- to be redeemed in tranches from 30 June 2025 to 2036 by repaying the issue price to the holder

Dividend and share buyback

> FY23 final dividend

- 25.5cps, unimputed
 - **record date:** 12 September 2023
 - **payment date:** 10 October 2023
 - no Dividend Reinvestment Plan available

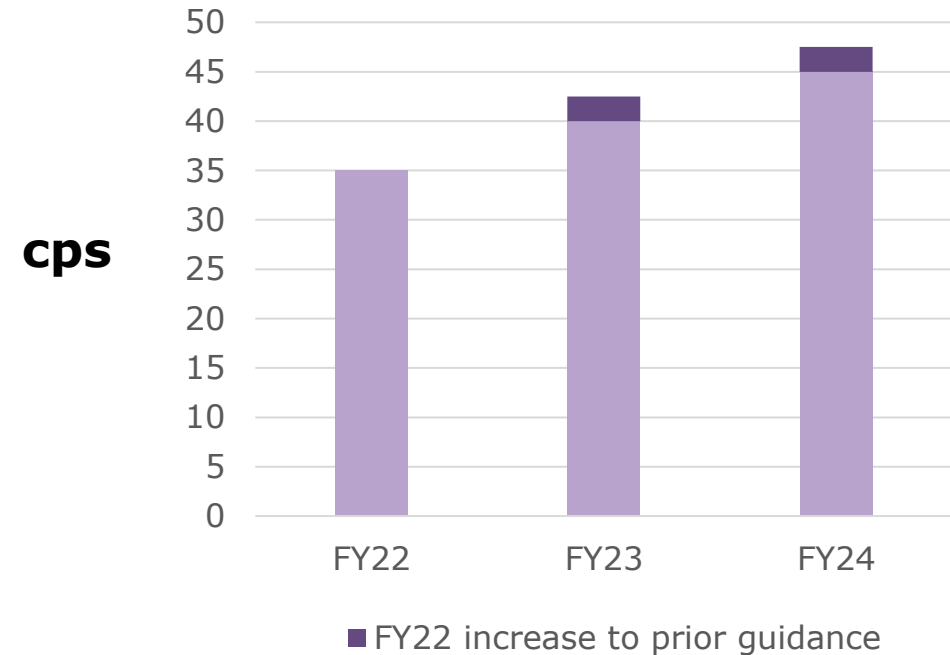
> FY24 dividend guidance*

- 47.5cps in FY24
 - dividends unimputed in medium term
- * subject to no material adverse changes in circumstances or outlook

> ~\$139m of \$150m share buyback complete

- 17.5m shares purchased since February 2022
- 435 million shares on issue at 30 June

Dividend guidance

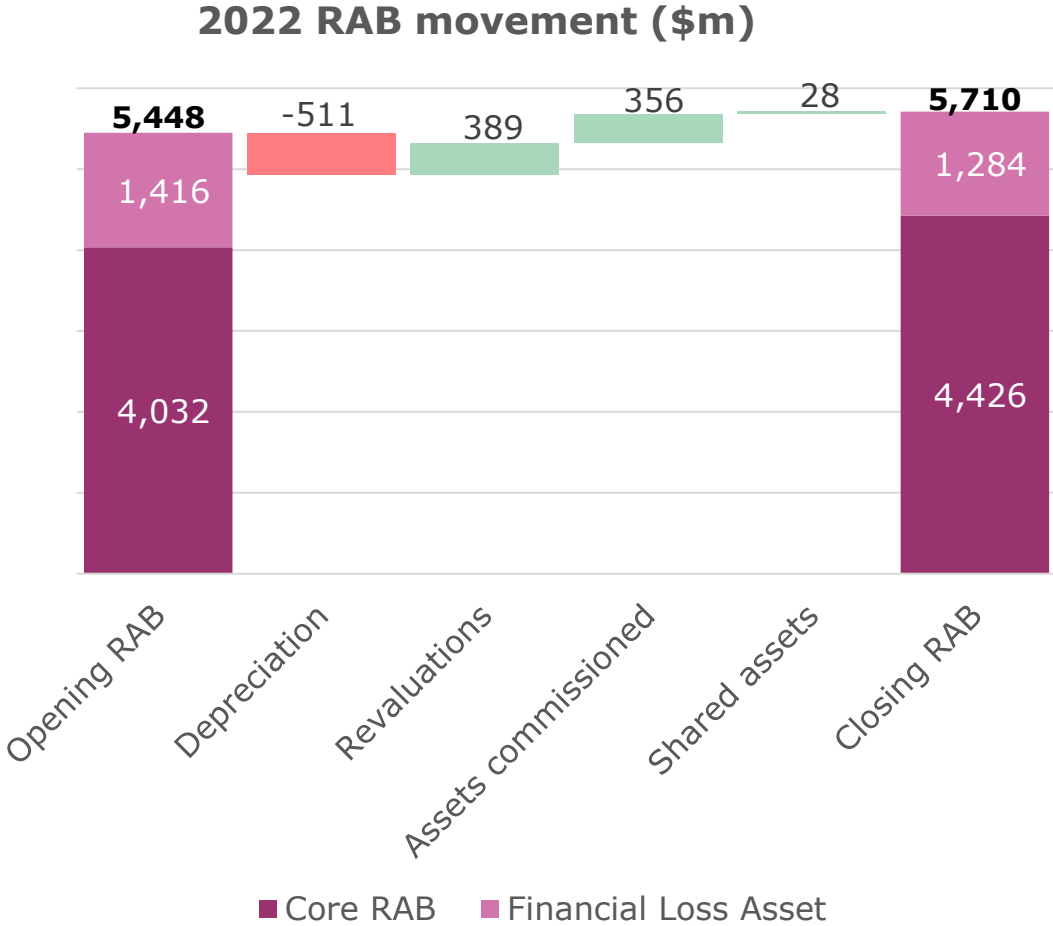


Chorus' policy is to pay an ordinary dividend of 60% to 80% of free cash flow (i.e. net cash flow from operating activities less sustaining capital expenditure)

Regulatory recap

- > **Information Disclosure in May 2023:**
 - **RAB** grew to **\$5,710m** in 2022 (calendar)
 - **MAR 2022** wash-up balance of ~\$47m carried forward to RP2

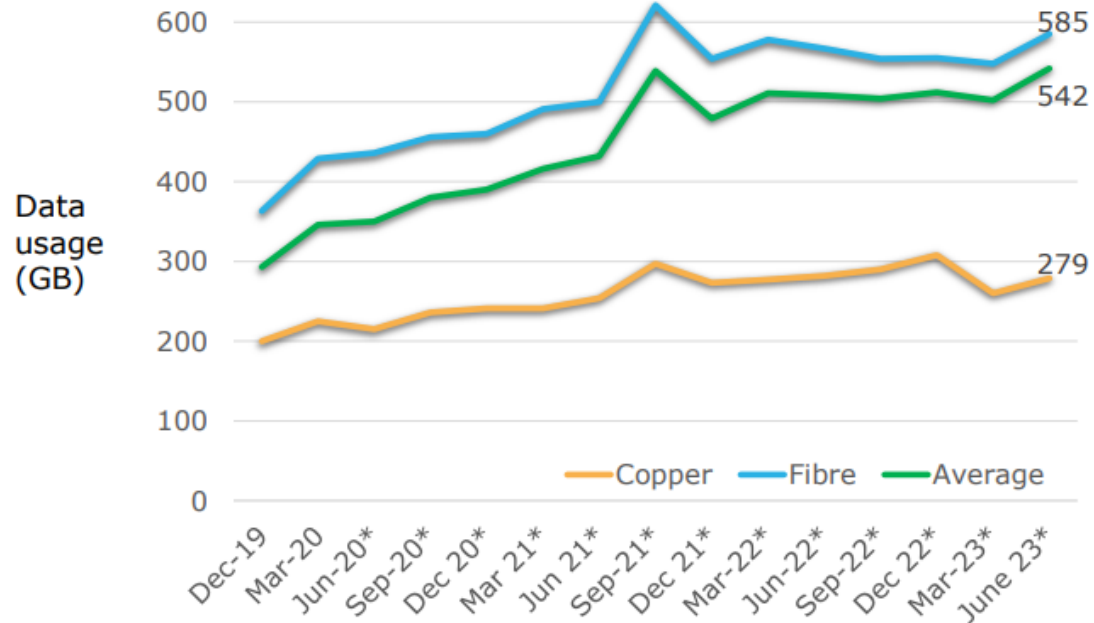
- > **Next regulatory period - RP2 (Jan 2025 to Dec 2028)**
 - Chorus expenditure proposal due 31 October
 - WACC due to be confirmed in July 2024



**NEW ZEALAND
RUNS ● ON FIBRE**
— C H ● R U S

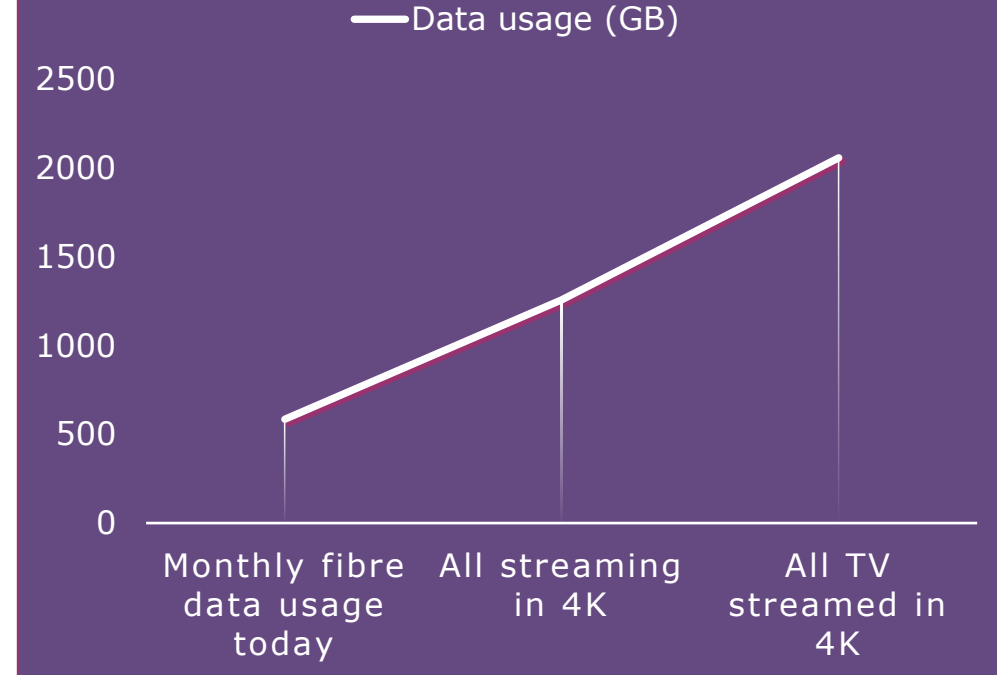
Data usage back at COVID levels; 4K to come

Monthly average data usage per connection on our network*



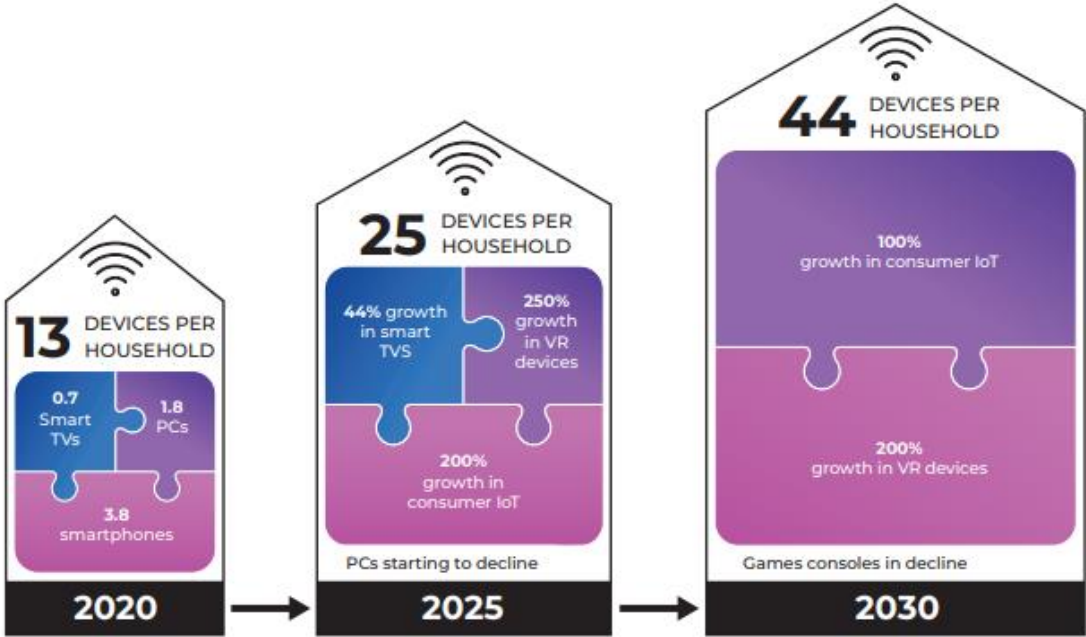
* includes upstream traffic from June 2020 onwards

4K EFFECT ON DATA DEMAND



Evolution of services driving greater data needs

- applications driving greater bursts of data download and upload (e.g. video, games, software updates)
- growing number of connected devices per household and multiple simultaneous users requires more bandwidth



Source: World Broadband Association, Omdia

	Today	Near term	Future
Residential speed	Up to 1Gbps	Up to 10Gbps	Up to 50Gbps
Enterprise speed	Up to 100Gbps	Up to 400-800Gbps	Up to 1.6-3.2Tbps
Intelligence	Conditionally autonomous	Highly autonomous, fast provisioning times	Fully autonomous
Reliability & Latency	99.999%/ 5ms consistent latency / low jitter	99.999% / 1ms latency (hard guarantee) / very low jitter	Deterministic reliability/ <1ms latency (hard guarantee) / very low jitter
Trustworthy & Green	5x better per bit energy efficient	10x better per bit energy efficient, fast problem detection and response (minutes)	10x-plus better per bit energy efficient, very fast problem detection and response (seconds)

A nimbler Chorus

Operating model transition from build to operate

> Unlocking value through a matrix model

- including three value streams with sharp strategies and end-to-end approaches



- historical functional units (Customer & Network Operations; Product, Sales & Marketing) realigned to drive strategic outcomes
- and enabling a thriving culture



WIN
IN CORE
FIBRE



Targeting 80% fibre uptake

> Market dynamics remain positive

- *Home Fibre Starter 50Mbps* traction: ~60% of July net adds from offnet
- 1Gig share of net adds ~40% vs 24% share of connections
- large retailers promoting *Hyperfibre* (2-8Gbps)
- continued winback in Wellington cable areas

> FY24 focus

- *NZ runs on fibre* campaign driving fibre awareness
- leveraging copper withdrawal programme for fibre demand
- increased emphasis on UFB2 uptake
- strategic approach to CPI adjustments from 1 October

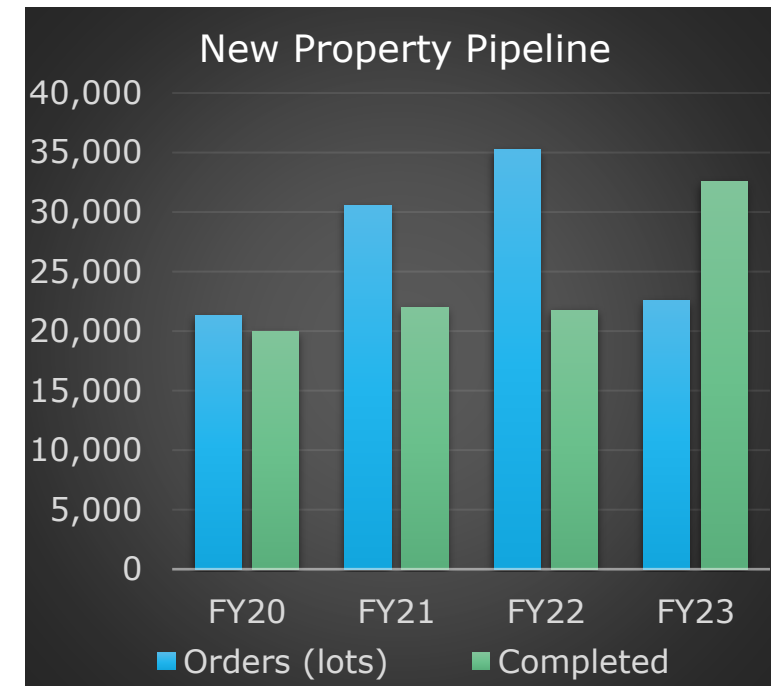


GROW
NEW
REVENUES



Bringing more focus to opportunity

- **PowerSense:** extreme weather events proved product value
- **Edge Centre:** strong pre-orders for extra Auckland capacity
- **Backhaul:** fibre nodes in 7 data centres; cellsite demand growing
- **Smart locations:** +19% growth in FY23 as smart city and utility requirements expand (e.g. traffic cameras, digital billboards)
- **New property development:** build completed (ready to connect) for 33k lots in FY23; current pipeline of work suggests slightly lower completions in FY24
- **Fibre expansion:** tender issued for 10k premises (~60% offnet) adjacent to UFB; decision in H1 FY24 with build expected FY25. Further expansion subject to business casing and regulatory and policy settings
- **Other opportunities:** exploring digital infrastructure options



OPTIMISE
NON-FIBRE
ASSET BASE



Becoming an all-fibre digital infrastructure company

Chorus UFB area

- 35k copper voice lines
- 55k copper broadband lines

- FY23: 544 cabinets closed and ~30k consumer notices
- FY24 target: 750+ cabinets closed, 30k+ consumer notices, 88% broadband retention rate

**Retired by
end 2026**

Local fibre co. area

- 14k copper voice lines
- 20k copper broadband lines

- targeted copper withdrawal where remaining connections are uneconomic
- first trial notices issued

Non-fibre area

- 23k copper voice lines
- 90k copper broadband lines

- Chorus market share <50%
- <50% of remaining connections are TSO qualifying
- testing satellite options
- regulatory review 2025

**Retired by
early 2030s**

Significant sustainability gains in FY23



Membership

of the Climate Leaders Coalition and Sustainable Business Council.

5% Reduction

in electricity use FY23 (77.4 GwH) FY22 (81 GwH).

First Electric Vehicles

introduced to the fleet in 2023.



24% Reduction

in Scope 1 and 2 emissions FY23 (10,661 tCO2e) FY22 (13,957 tCO2e)



Future Fit

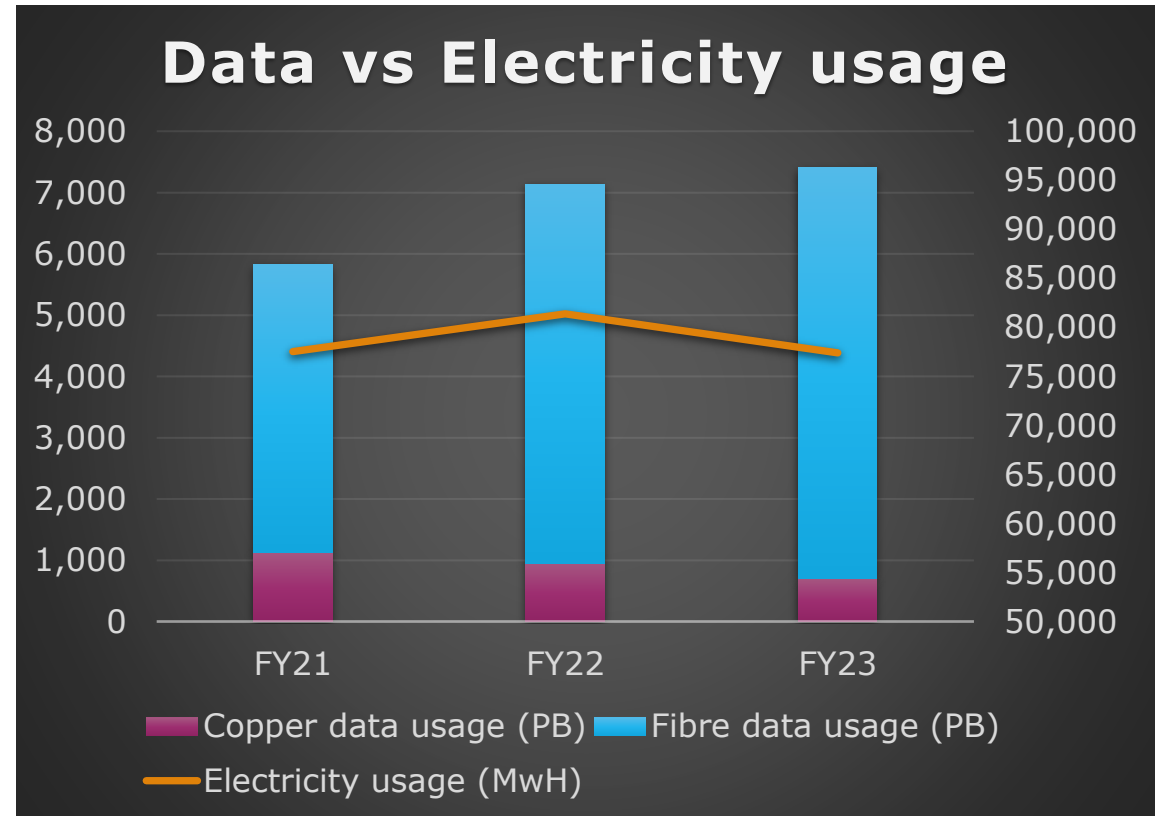
a tool to help employees track and reduce their emissions launched in 2023.



Chorus network

is now powered by Toitū climate-positive certified electricity with Ecotricity.

- Copper shut down is beginning to drive electricity reduction (target: 25% reduction by 2030)
- Record data traffic (7,400 petabytes) with 91% carried more energy efficiently by fibre



Questions?



21 August 2023

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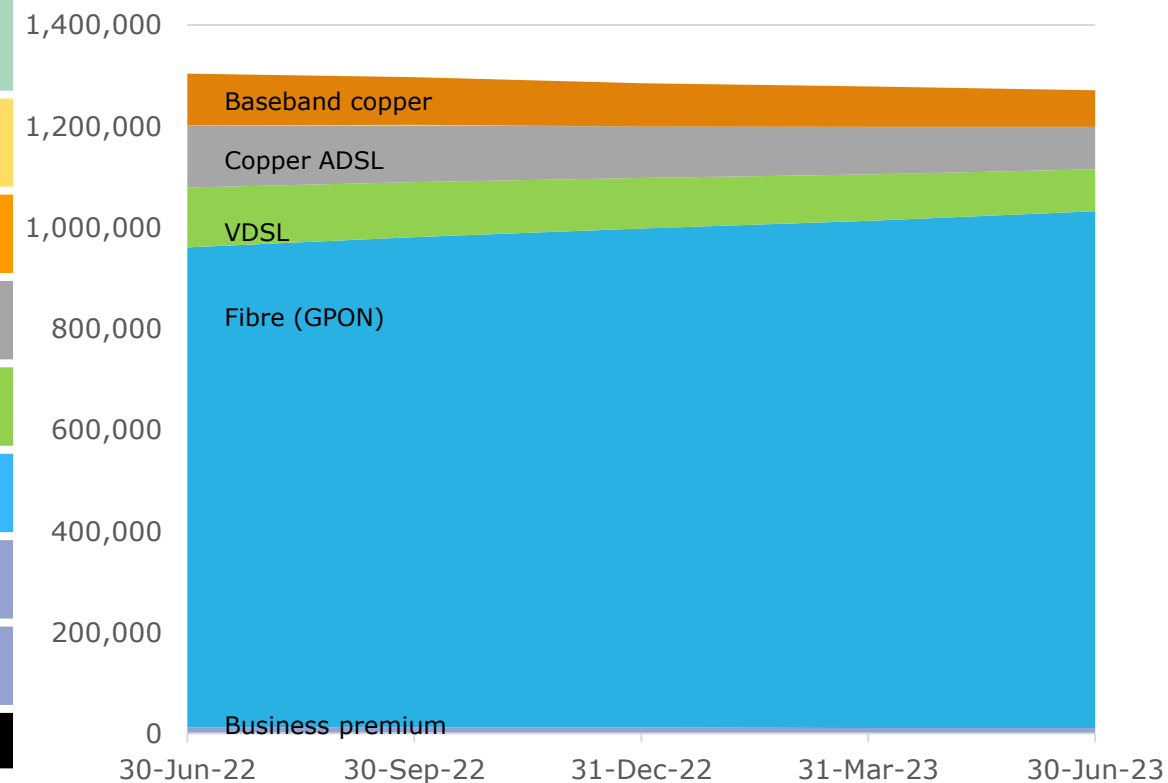
Appendix A: Pricing and market data

Fibre plan - consumer	Current wholesale price	Price from 1 Oct 2023	Notes
Voice line	\$27.45	\$29.11	
Home starter 50/10Mbps	\$35	\$35	Applies where retail price is \$60. Price reduced to \$35 from 1 Feb 2022
50/10Mbps	\$47.28	\$50.43	
100/20Mbps 300/100Mbps	\$50.50	\$53.54	100Mbps is anchor service. 300Mbps plan introduced late 2021.
1Gbps	\$58	\$61.86	
Hyperfibre 2Gbps	\$70	\$70	
Hyperfibre 4Gbps	\$85	\$85	
Hyperfibre 8Gbps	\$110	\$110	

Copper pricing	Current wholesale price	Price before 16 Dec 2022	Notes
Copper line	\$36.17	\$33.73	Annual CPI adjustment mid-December 2023
Copper broadband	\$48.35	\$45.09	

Fibre comprises 81% of Chorus connections

	30 June 2022	30 Sept 2022	31 Dec 2022	31 March 2023	30 June 2023
Unbundled copper (no broadband)	1,000	1,000	not material	not material	not material
Baseband copper (no broadband)	102,000	94,000	85,000	80,000	72,000
Copper ADSL (includes naked)	122,000	112,000	102,000	94,000	84,000
VDSL (includes naked)	118,000	109,000	100,000	92,000	83,000
Fibre broadband (GPON)	949,000	969,000	986,000	1,002,000	1,021,000
Data services (copper)	2,000	1,000	1,000	1,000	1,000
Fibre premium (P2P)	10,000	11,000	11,000	10,000	10,000
Total connections	1,304,000	1,297,000	1,285,000	1,279,000	1,271,000

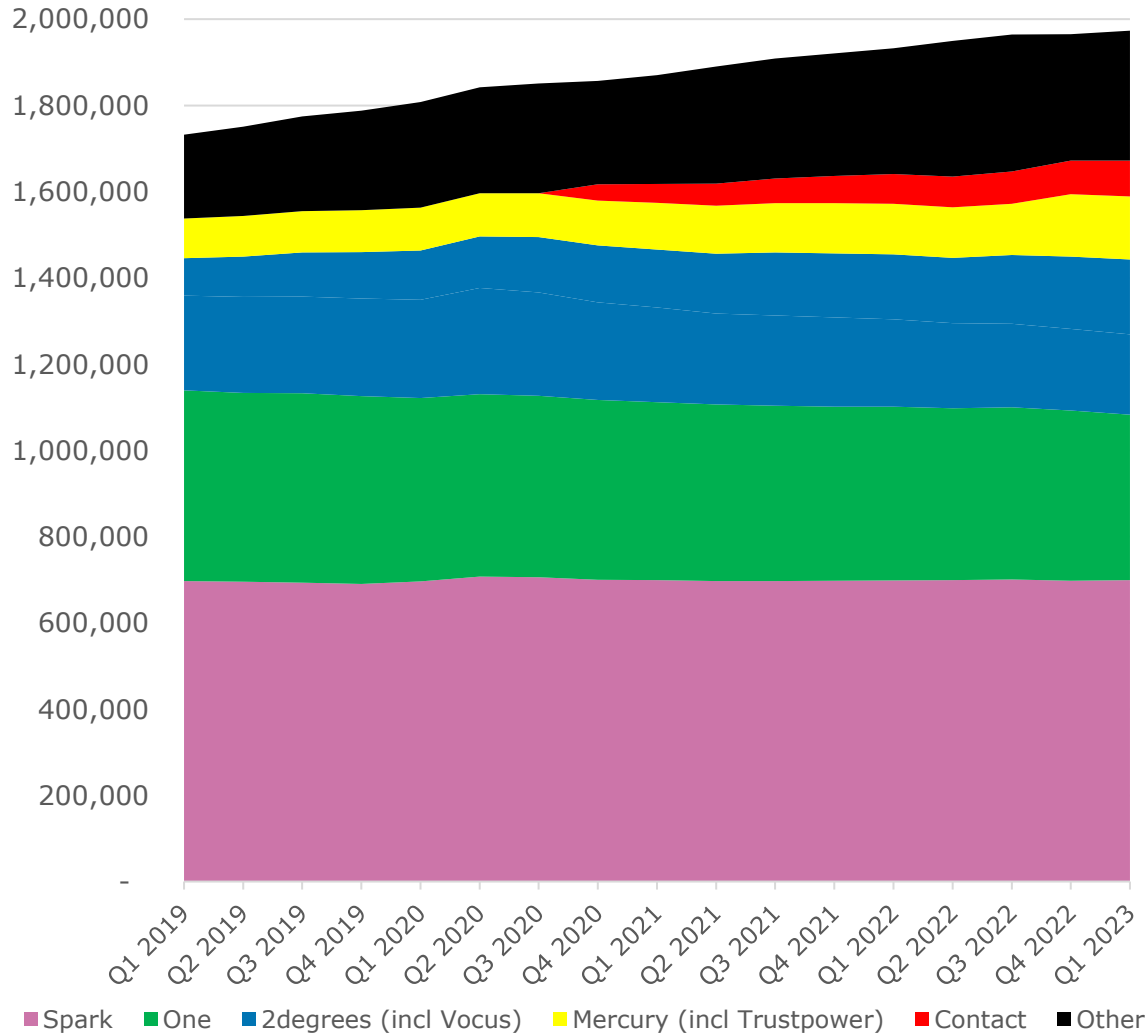


> **1,188,000 broadband connections comprises:**

- 1,021,000 fibre (GPON) connections
- 167,000 VDSL/ADSL (copper) connections

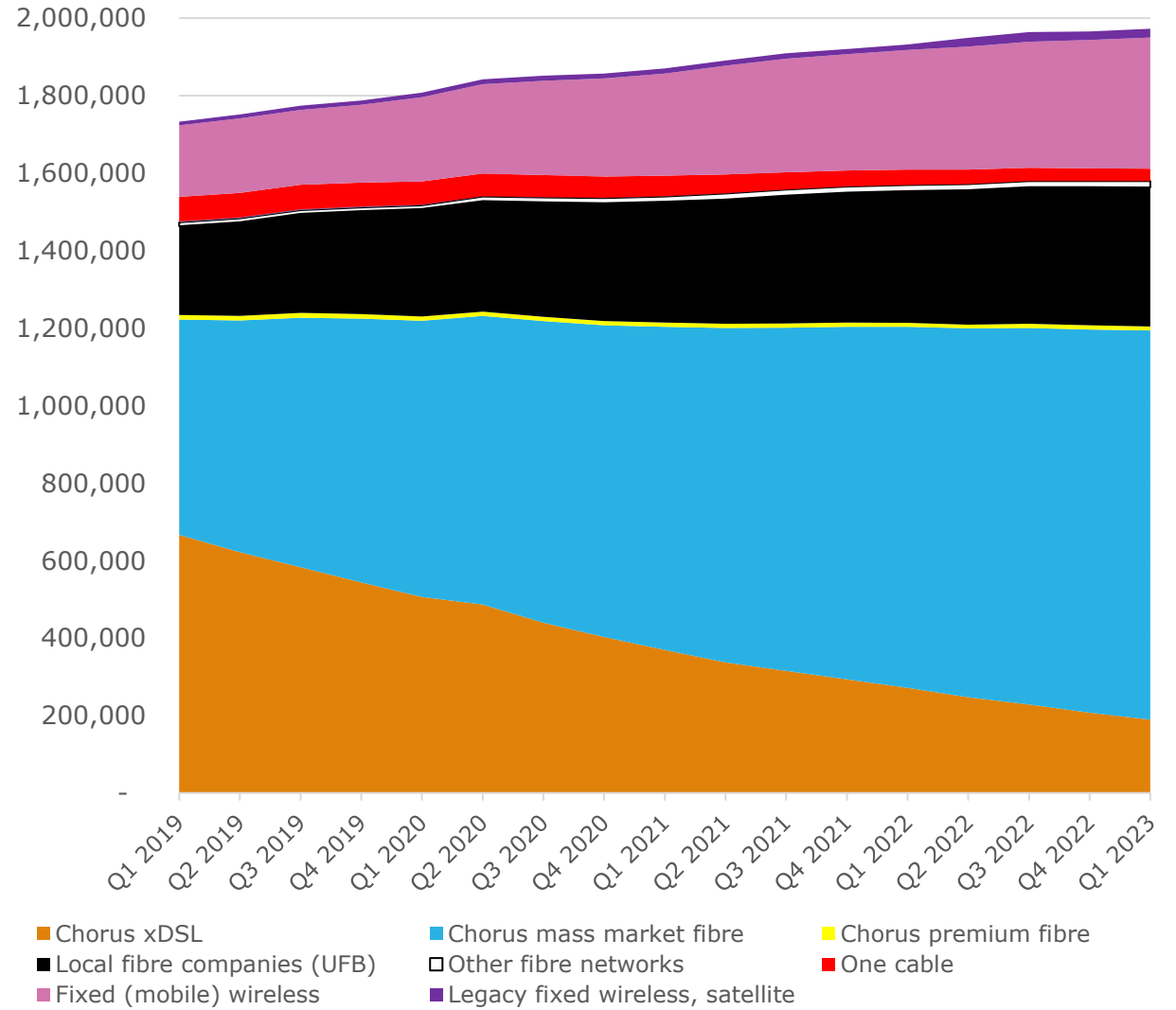
Note: ~2,000 partly subsidised education connections are excluded from this data

NZ broadband market – by retailer



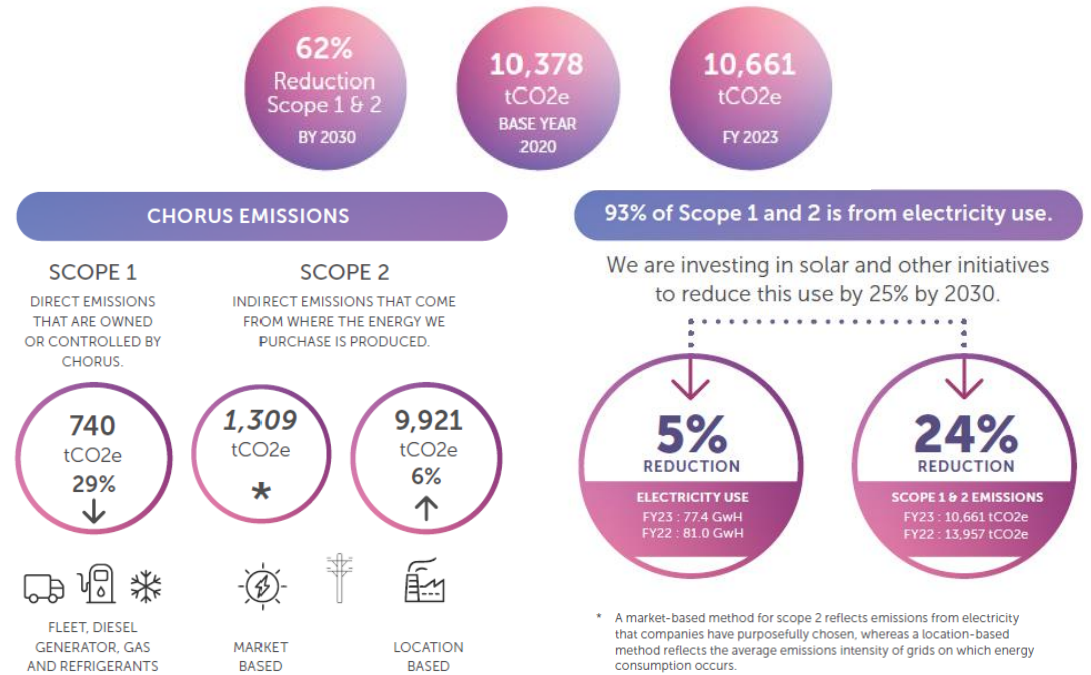
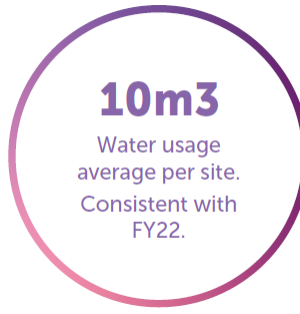
Source: IDC

NZ broadband market – by technology

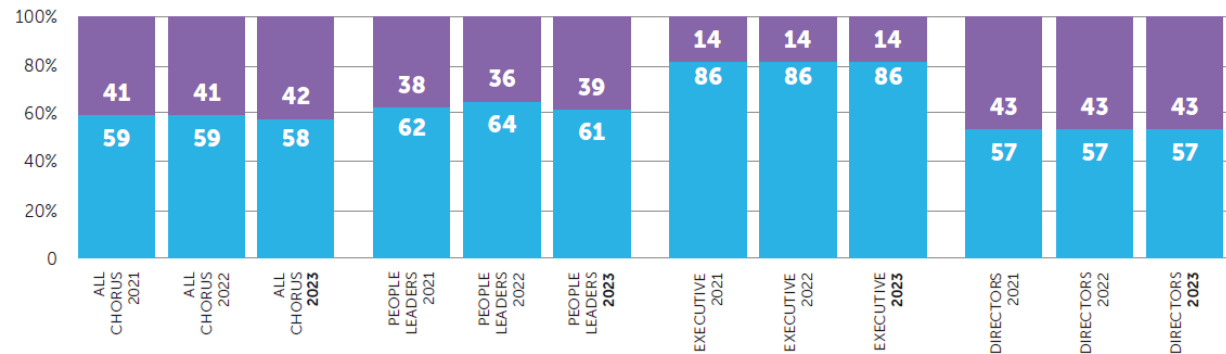


Appendix B: Sustainability

See also <https://company.chorus.co.nz/sustainability>

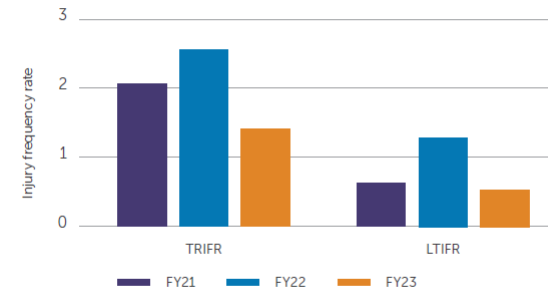


Gender by role - three year view FY21 - FY23 as of 30 April 2023



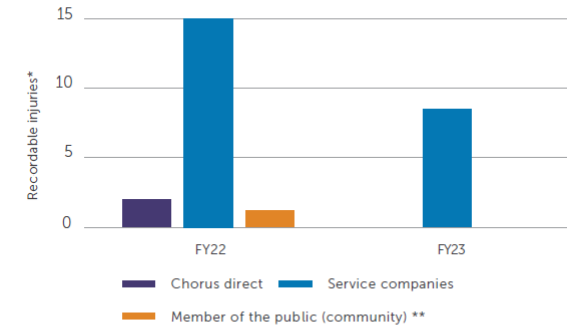
40:40:20 split of employees by 2023 / 40:40:20 split of Career level 8-11 by 2025 / 40:40:20 split of People Leaders by 2023.
40:40:20 split of Executive by 2023 / 40:40:20 Board split by 2023.

Injury frequency rates FY21 – FY23



LTIFR: number of lost time injuries + medical treatment injuries + restricted work injuries per million hours worked.

Actual recordable injuries* FY22 - FY23



*Recordable injuries are medical treatment, lost time or restricted work-injuries
** Member of the public (community) injuries reflect those sustained by slips and trips on Chorus infrastructure e.g. utility covers, which are remediated as quickly as possible.

Appendix C: Additional financial information

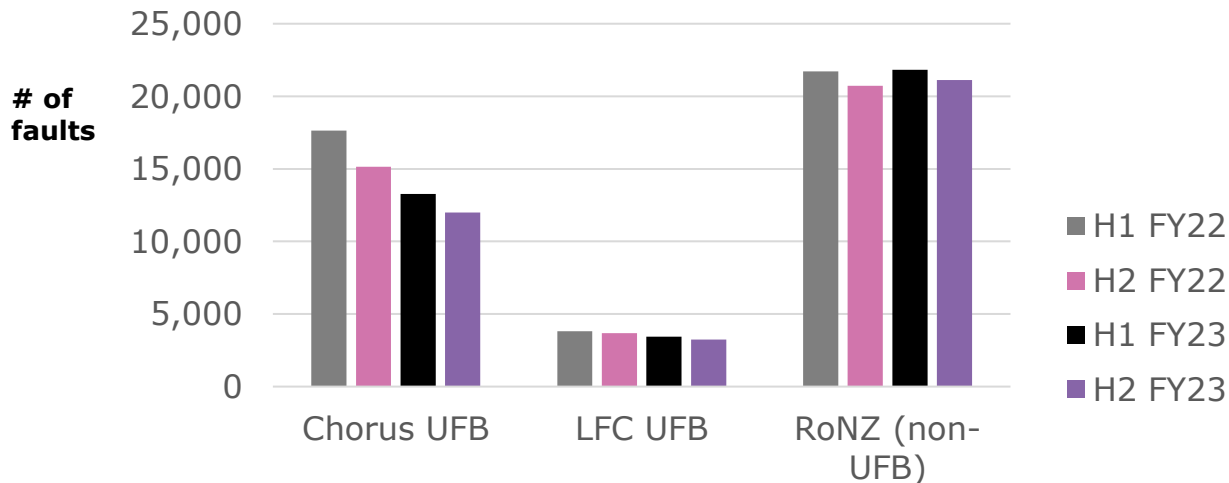
Maintenance trends

- copper faults continue to fall in Chorus fibre areas as we withdraw copper services
- non-fibre areas (~13% of population) make up the majority of copper network faults and reactive costs
- H2 FY23 copper reactive fault spend included Cyclone Gabrielle costs

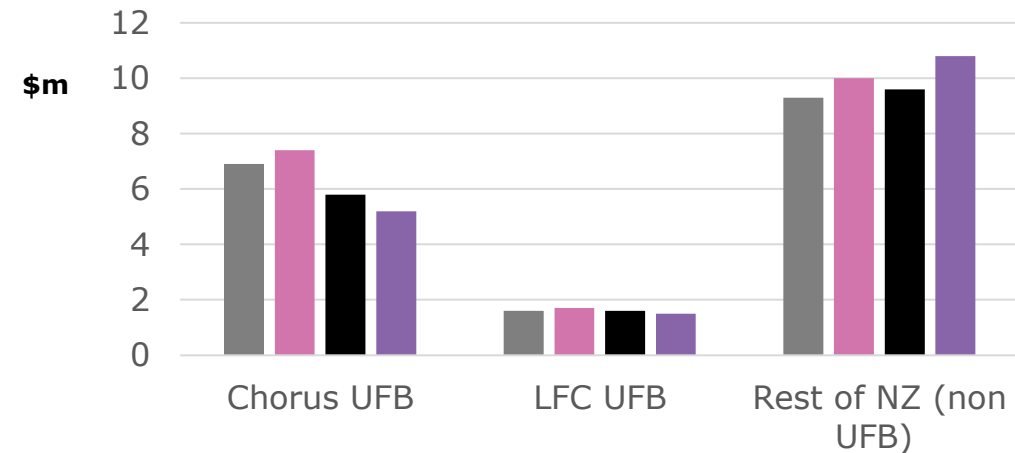
Note:

- reactive maintenance excludes spend on proactive maintenance and customer networks (i.e. premises wiring, no fault found, cancellations)

Copper – fault volumes by area



Copper - reactive fault spend by area



Sustaining vs non-sustaining capex

- > sustaining network capex is investment to maintain, replace or improve an existing copper or fibre asset
- > \$207m of FY23 capex was sustaining vs \$247m non-sustaining
- > fibre sustaining capex is expected to increase over time as the asset ages

Non-sustaining capex	FY23 \$m	FY22 \$m
UFB communal	5	77
Fibre installations	142	166
Greenfield growth* and product development	74	59
Footprint expansion*	11	15
Customer retention (incentives)	15	14
Subtotal	247	331

*majority funded by third party contributions

Fibre capex: sustaining	FY23 \$m	FY22 \$m
Layer 2	51	29
Fibre products & systems	6	7
Network sustain	12	13
Other fibre	31	10
Customer retention costs**	15	13
Subtotal	115	72
Copper capex: sustaining	FY23 \$m	FY22 \$m
Network sustain	20	27
Copper connections	1	1
Copper layer 2	1	3
Customer retention costs**	4	7
Subtotal	26	38
Common capex: sustaining	FY23 \$m	FY22 \$m
Information technology	44	32
Building & engineering services	22	19
Subtotal	66	51

**Relates to provisioning, systems and service desk costs

Indicative long-term investment opportunities

> Below are examples of RAB and non-RAB investment being evaluated for 10-year planning:

- dollar ranges are indicative only and reflect a 10-year total in 2023 dollars
- opportunities to invest in discretionary long-term growth capex could range up to ~\$300 million per annum, subject to consumer demand (e.g. installations and greenfields), business casing and regulatory settings/approvals

KEY: **S** Small: <\$100m **M** Medium: \$100m to \$400m **L** Large: \$400m+

Non-RAB investment
(assessed on a risk-adjusted return basis vs other capital allocation/investment options)

S — M

- New products
- Edge Centre
- Regional backhaul
- Other

RAB investment opportunities

SUSTAINING CAPEX – NEW PROJECTS

- XGS-PON electronics (1):** **L**
migration to multi-gigabit capability
- Rural fibre electronics:** **S**
lifecycle update for RBI* network
- Sustainability:** **S**
(e.g. solar power options)

DISCRETIONARY GROWTH CAPEX

- Fibre installations:** **L**
connect fibre to premises
- Greenfields (2):** **L**
communal fibre to new premises
- Smart locations:** **M**
non-building installations (e.g.CCTV)
- Network resilience:** **M**
enhance network robustness
- Rural fibre(3):** **L**
fibre up to 90% population

*RBI is Rural Broadband Initiative

1. Limited XGS-PON investment in RP1. Broader rollout as technology matures.
2. Greenfields investment is gross amount including customer contributions.
3. Communal rollout cost only.

Hedging profile

Bond	Amount (NZ\$m)	Current hedge profile	Forward looking profile	Fixed hedging movements 1HY24 (\$m)
EMTN 2023	328	100% Fixed at 5.15%	Matures Oct 23	-350
EMTN 2026	514	100% Fixed at 3.39%	Fixed for life of bond	
NZD 2027	200	100% Fixed at 1.98%	Fixed for life of bond	
NZD 2028	500	100% Fixed at 4.35%	Coupon to be reset in Dec 23, will be 100% fixed from this date at a margin of 1.8% over 4.41%	500
EMTN 2029	820	Swapped to a margin over floating (BKBM) through cross currency interest rate swaps	Will be ~50% fixed at margin of 2.2% over 4.1% from Dec 23	400
NZD 2030	200	Swapped to a margin over floating (BKBM) through receiver interest rate swaps	Will be 100% fixed at margin of 1.7% over 0.8% from Oct 23	200
Total				750

Appendix D: Additional regulatory information

RAB movements for 2022 ID year

Closing RAB of \$5,710m

Component	Core RAB \$m (nominal)	Financial Loss Asset (FLA) \$m (nominal)	Notes
Opening RAB (1 January 2022)	4,032	1,416	October 2022 final RAB decision total of \$5,413m (core \$3,997m and FLA \$1,416m) updated for 2022 allocation factors.
<i>less</i> Depreciation	(277)	(234)	FLA depreciation is diminishing value and the core RAB is straight-line. Assets start depreciating the regulatory year after commissioning.
<i>plus</i> Revaluations	287	102	7.22% actual inflation in the December quarter versus forecast 1.8% used in the initial 2022 MAR. The ID RAB rolls forward into RP2 and will be reflected in the RP2 MAR.
<i>plus</i> Assets commissioned	356		Amount is net of \$52m capital contributions
<i>plus</i> Adjustment resulting from asset allocation	28		An upwards adjustment reflects a greater proportion of shared assets being attributable to fibre (due to differences in allocations drivers such as revenues and connections) than was forecast for the opening RAB in 2023.
Total closing RAB value (31 Dec 2022)	4,426	1,284	

NOTE:

1. RAB movements do not affect the RP1 MAR. The ID RAB closing value will be the basis of the opening RAB for RP2.
2. RAB movement calculations are subject to Commerce Commission review and approval.

2022 MAR wash-up balance of \$46.8m

Description	Revenue \$m (nominal)	Wash-up \$m (nominal)	Notes
Building blocks revenue	676.1		2022 MAR was set on the basis of 2021 forecasts.
Pass-through costs	<u>14.2</u>		
Forecast total allowable revenue 2022	690.2		
<i>Less</i> 2022 FFLAS revenue received	<u>(667.2)</u>	23.0	Chorus under-earnt initial MAR allowance by \$23m.
<i>Plus</i> Initial RAB true-up		8.5	MAR adjustment to reflect increased allocation of shared assets in the final RAB decision: expect ~\$30m smoothed across RP1.
<i>Plus</i> Pass-through costs		1.5	Actual pass-through cost of \$15.7m versus forecast \$14.2m.
<i>Plus</i> Crown financing benefit		0.1	Reflects lower Crown financing balance than forecast.
<i>Plus</i> Cost allocators		<u>13.7</u>	Previously forecast cost inputs (e.g. totex, connections and data traffic) have been updated for actuals in the period.
Total wash-up balance for 2022		46.8	The wash-up balance is rolled forward each year using the post-tax WACC as the time-value of money to preserve NPV neutrality. The RP1 balance will be added to the RP2 MAR.
Updated total allowable revenue 2022		714	

NOTE:

1. The regulations omitted a 2022 wash-up for actual CPI. The 2023 and 2024 MAR will be updated for forecast CPI changes as part of in-period smoothing. The 2023 MAR used 2.17% forecast CPI and will be updated for 3.37% (June 2022 forecast) with actual CPI applied via the wash-up process for RP2.
2. There was no wash-up required for individual capex proposals in 2022.
3. A wash-up for connection capex differences vs forecast will occur at the end of 2024.
4. All wash-up estimates are subject to Commerce Commission review and approval.

Maximum Allowable Revenue (MAR)

Table X3 Final building blocks revenue components (\$m, nominal)

Component	2022	2023	2024
Total return on capital	\$122.9	\$99.0	\$100.6
Return on assets (RAB x WACC)	\$260.8	\$260.7	\$258.8
Revaluations	-\$95.5	-\$117.7	-\$113.7
Ex-ante stranding allowance	\$5.4	\$5.5	\$5.4
Benefit of Crown finance	-\$49.8	-\$51.3	-\$51.7
TCS D allowance	\$1.9	\$1.9	\$1.9
Opex allowance	\$160.4	\$158.2	\$156.0
Total depreciation	\$464.6	\$456.3	\$458.9
Core fibre assets	\$261.4	\$274.2	\$296.6
Financial loss asset	\$203.2	\$182.1	\$162.3
Tax allowance	\$0	\$0	\$0
In-period smoothing	-\$71.9	\$19.4	\$58.5
Total	\$676.1	\$732.9	\$774.0
Pass-through costs	14.2	14.5	15.5
TOTAL	\$690.2	\$747.4	\$789.5

- > RP1 post-tax WACC of 4.72% (used 0.51% risk-free rate) would be 7.38% if recalculated at 1 Jan 2023 using recent rates.
- > forecast CPI used for revaluations in 2022 was 1.8% vs 7.22% actual in December quarter. 2023 forecast used 2.2% and 2024 is 2.13%. Higher revaluation rates during RP1 will be reflected in the opening RAB for RP2.
- > regulator only allows ~2% return on funded assets. Crown financing deduction subject to WACC.
- > cost allocations will need to be addressed in RP2 given the increasing dominance of fibre in Chorus' business operations.
- > reflects an implied 14-year asset life through regulatory process.
- > reflects asset life of 14.2 years and tilted annuity depreciation (-13% tilt rate)
- > tax building block commences from ~FY27 and grows to ~\$100m
- > CPI forecast assumptions were 2.71% in 2022, 2.17% in 2023, 2.04% in 2024. The 2023 and 2024 MAR will be updated for preceding June forecasts and then for actual CPI as part of the RP2 wash-up process. Chorus has made a submission to the Commission on the status of the 2022 CPI wash-up.
- > MAR totals reflect draft starting RAB and allocations in 2021. Changes in the final RAB announced in October 2022 will be reflected in the next regulatory period wash-up.

Source: Commerce Commission, price-quality path final decision, 16 Dec 2021