

Information Disclosure update

31 May 2024

C H ● R U S

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Information Disclosure overview

Chorus has published a range of schedules required under the Commerce Commission's Information Disclosure (ID) Determination – these detailed schedules are available at <https://company.chorus.co.nz/disclosures>

Please note that:

- ID reporting is on the basis of disclosure (calendar) year. Chorus has provided regulatory information in the presentation on a six-monthly basis to assist investors with financial year comparisons.
- regulatory cost categories are different from Chorus' financial reporting categories (see Appendix for summary).
- all historical financial numbers are nominal. Forecast numbers in the schedules are nominal and constant.
- ID reporting requires forecasts for connections, operating and capital expenditure. Forecasts in the 2023 disclosures reflect Chorus' submitted PQP2 expenditure proposal, as updated in February 2024. The PQP2 process is ongoing.
- while ID reporting references a 2023 vanilla WACC of 7.90%, this is for reporting purposes only and does not reflect the vanilla WACC of 4.72% that Chorus must apply for the 2022-2024 regulatory period (PQP1).
- RAB and wash-up movement calculations are subject to Commerce Commission review.
- care should be taken when reading Information Disclosure schedules because they include varying combinations of PQ FFLAS and ID only FFLAS data:

PQ FFLAS:
Chorus fibre fixed line access services/assets subject to price-quality RAB and MAR regime

ID only FFLAS:
Chorus fibre fixed line access services/assets not subject to price-quality regime but requiring information disclosure (e.g. assets in other local fibre company areas)

Regulated Asset Base (RAB) grows to \$5.9 billion

- > Chorus' fibre RAB grew from \$5.7 billion* to \$5.9 billion in 2023
 - core RAB grew \$327m to \$4.77 billion
 - financial loss asset reduced by \$142m to \$1.14 billion
 - *the opening 2023 RAB is \$17m higher than the closing 2022 RAB due to asset allocator updates (see next slide)

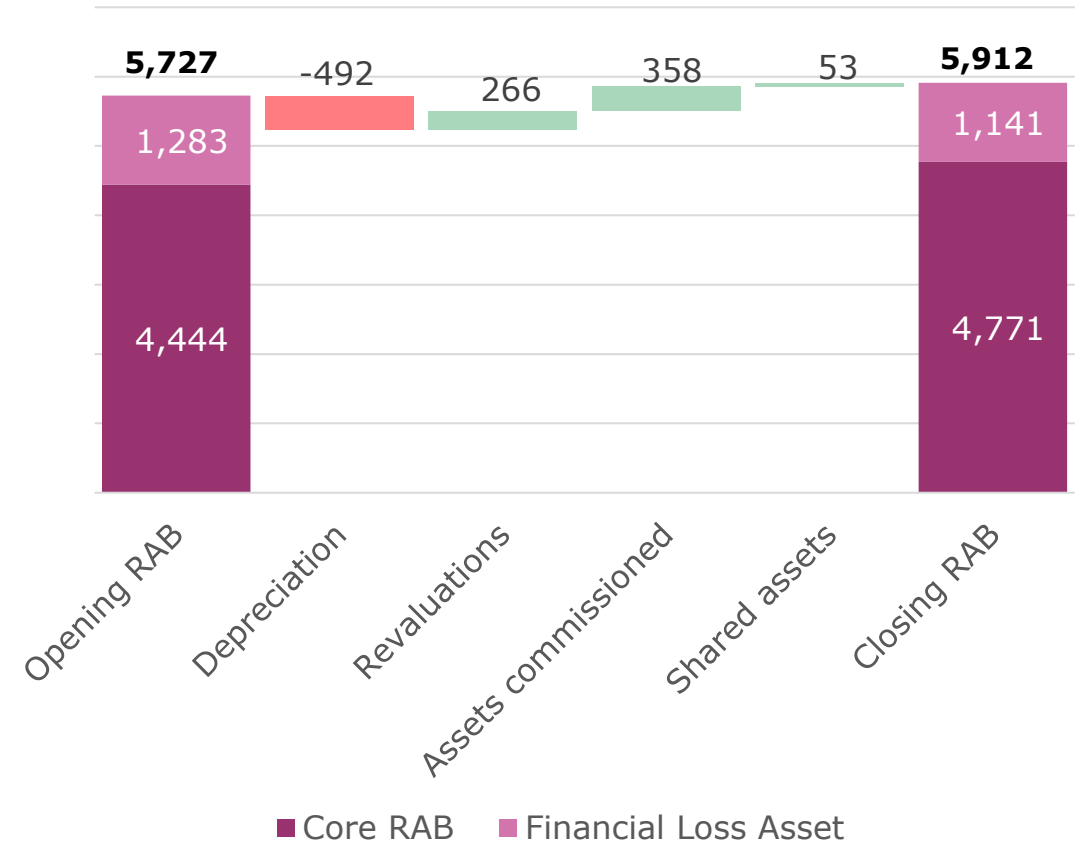
- > depreciation reduced from \$511m to \$492m in 2023, largely because of the reduced value of the Financial Loss Asset which is being depreciated at an accelerated rate

- > investment in the RAB was consistent with \$358m of assets commissioned in 2023, compared to \$356m in 2022

- > the reduction in inflation from 7.2% to 4.66% saw revaluations reduce from \$389m in 2022 to \$266m

- > \$53m of shared assets were added to the core RAB, up from \$28m in 2022

2023 RAB movement (\$m)



RAB movements for 2023 ID year

Closing RAB of \$5,912m

Component	Core RAB \$m (nominal)	Financial Loss Asset (FLA) \$m (nominal)	Notes
Opening RAB (1 January 2023)	4,444	1,283	The closing RAB at 31 Dec 2022 included a <i>forecast</i> asset allocator adjustment. The opening RAB at 1 Jan 2023 is \$17m higher due to updates for <i>actual</i> asset allocators.
<i>less</i> Depreciation	(290)	(202)	FLA depreciation is diminishing value and the core RAB is straight-line. Assets start depreciating the regulatory year after commissioning.
<i>plus</i> Revaluations	206	60	4.66% actual inflation in the December quarter versus forecast 2.20% used in the final decision for 2023 MAR. The ID RAB rolls forward into PQP2 and will be reflected in the PQP2 MAR.
<i>plus</i> Assets commissioned	358	0	Amount is net of \$41m capital contributions
<i>plus</i> Adjustment resulting from asset allocation	53	0	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 2023)	4,771	1,141	

NOTE: RAB movements do not affect the PQP1 MAR. The ID RAB closing value will be the basis of the opening RAB for PQP2.

PQP1 MAR wash-up balance of \$105.6m

Description	Wash-up \$m (nominal)	Revenue \$m (nominal)	Notes
Building blocks revenue Pass-through costs Forecast total allowable revenue 2023		732.9 <u>14.5</u> 747.4	For the purposes of the wash-up 2023 MAR was set on the basis of 2021 forecasts for pass through costs and CPI.
CPI on the price path for 2023	26.6		Forecast CPI of 2.17% updated with 5.73% actuals via in-period smoothing.
Cost allocators	18.9		Previously forecast cost inputs (e.g. totex, connections and data traffic) updated for actuals in the period.
Initial RAB true-up	9.2		MAR adjustment to reflect increased allocation of shared assets in the final RAB decision: \$17m for CY22/CY23, with a further ~\$10m in CY24.
Individual capex proposal for 2023	1.3		Commission approved individual capex proposal for customer incentives for 2023.
Crown financing benefit	0.1		Reflects lower Crown financing balance than forecast.
Pass through costs over-forecast	<u>(0.2)</u>		Actual pass-through costs of \$14.7m versus forecast \$14.9m.
Subtotal of 2023 wash-ups	55.9	<u>55.9</u>	
Updated total allowable revenue 2023		803.3	
<i>Less 2023 FFLAS revenue received</i>		<u>(749.3)</u>	
2023 wash-up balance 2022 wash-up balance: smoothed		54.0 <u>51.6</u>	The 2022 wash-up balance was adjusted as part of the in-period smoothing process.
TOTAL PQP1 wash-up carried forward		105.6	The wash-up balance is rolled forward each year using the post-tax WACC as the time-value of money to preserve NPV neutrality.

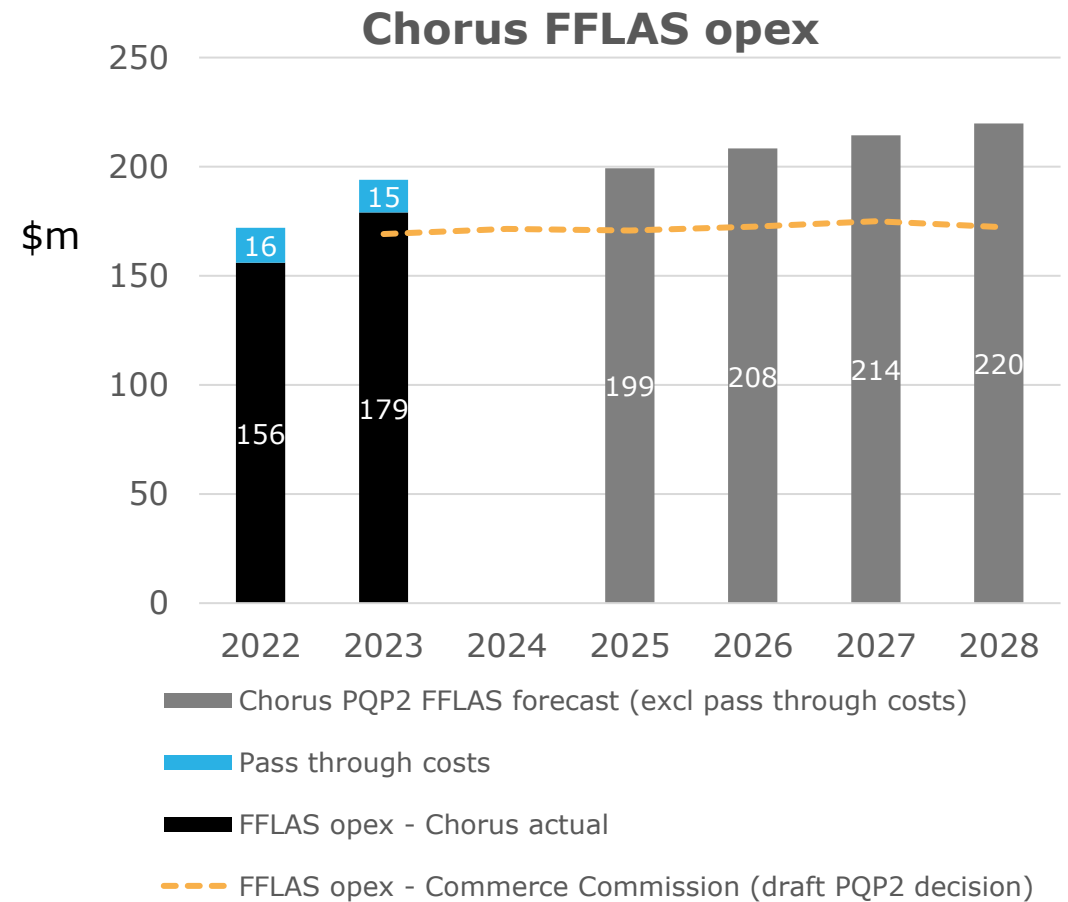
2023 opex shows 2022 was an efficient base year

> **inflation and accelerating migration of copper connections drove an increase in attributable FFLAS opex from \$172m (2022) to \$194m (2023) when including pass through costs**

- \$194m represents 61% of 2023 reported opex
- the 2023 opex outcome uses the same cost allocator updates applied in 2022 and accepted by the Commerce Commission in its draft PQP2 expenditure decision (18 April)

> **2023 opex shows 2022 was an efficient base year for forecasting PQP2 expenditure levels**

- Chorus' PQP2 proposal used a base-step-trend methodology consistent with other regulated utilities and proposed step changes to reflect one-off cost changes in 2022
- 2023 actuals are broadly consistent with the 2022 base year plus step-change adjustments, demonstrating that 2022 is a reasonable basis for forecasting PQP2 opex allowances
- Chorus also proposed shifting to a revenue allocator, from totex, for shared costs in PQP1 to better reflect the accelerating withdrawal of copper services
- the Commission's draft PQP2 expenditure decision did not accept all step changes, or the shift to a totex allocator, and applied a large downward 'efficiency' adjustment
- consequently, the draft decision understates Chorus' fibre operating costs and the acceleration of copper withdrawal now evident in 2023 data



Operating Expenditure

Opex categories	Sub-categories	H1 2022	H2 2022	H1 2023	H2 2023
Customer	▪ Customer operations	(3)	(4)	(3)	(3)
	▪ Product, Sales & Marketing	11	13	14	14
Network	▪ Maintenance	14	14	18	18
	▪ Network operations	8	9	11	13
	▪ Operating costs	4	4	4	4
Support	▪ Asset management	11	11	11	11
	▪ Corporate	20	21	23	22
	▪ Technology	13	10	11	11
TOTAL (\$m)		78	78	89	90
Pass through costs (\$m)		8	8	7	8

> regulatory/calendar year

> the credit reflects capitalised labour costs that are offset in other opex lines.

> some cyclone-related costs in H1 2023; growing fibre volumes/allocations and inflation on costs
 > increasing as fibre activity/allocations grow and inflation drives added cost

Note: The starting PQP1 opex allowance for 2023 was \$158m excluding pass through costs. See next slide for reconciliation between ID reporting and starting allowances.

Opex reconciliation to allowances

	2022 \$m	2023 \$m	Notes
Opex – as reported for ID	156	179	Excludes pass through costs
<u>Less</u> RAB true-up wash-up	(2)	(2)	RAB true-up wash-up would increase annual total opex allowance by this amount. Recovered via annual MAR wash-up.
<u>Less</u> Cost allocator wash-up	(3)	(8)	Cost allocator wash-up would increase total opex allowance by this amount. Recovered via annual MAR wash-up.
<u>Less</u> Allocator type changes	<u>(8)</u>	<u>(8)</u>	Allocator type changes made as part of the 2022 ID process are expected to apply in PQP2 based on the draft expenditure decision (18 April), but are <u>not</u> applied in the current PQP1 MAR wash-up process.
Opex – adjusted	143	161	Adjusted to reflect allowances at start of PQP1
<u>Less</u> PQP1 opex allowance	(160)	(158)	Excludes pass through costs.
(Under)/Over-spend vs PQP1 allowance	(17)	3	Chorus over-spent its allowance by \$3m in 2023, although this is offset by the 2022 under-spend and the MAR wash-up for 2023 includes a CPI uplift on the price path.

Capex	Sub-categories	H1 2022	H2 2022	H1 2023	H2 2023	
Extending the network	▪ Augmentation	3	2	4	4	> regulatory/calendar year
	▪ New property developments	8	14	12	13	> greenfields development, net of contributions
	▪ UFB communal	29	5	0	0	
Installations	▪ Complex	1	1	2	2	
	▪ Standard	79	83	72	84	
IT and support	▪ Business IT	5	7	11	10	
	▪ Corporate	3	-	1	0	
	▪ Network & Customer	10	14	13	13	
Network capacity	▪ Access	9	9	25	16	> equipment upgrades to enable multi-gigabit services
	▪ Aggregation	7	12	4	18	> lifecycle spend and investment to support growing bandwidth demand
	▪ Transport	4	7	5	5	
Network sustain & enhance	▪ Field sustain	7	4	11	2	> West Coast fibre backhaul project in 2023, with ~\$8m government contribution netted off capex in H2
	▪ Relocations	1	2	2	2	
	▪ Resilience	1	2	8	1	
	▪ Site sustain	7	7	9	8	> HY amounts include leases of ~\$3m for regulatory reporting
TOTAL (\$m)		174	169	179	178	

Indicative EBITDA & capex

- > the tables below provide an indicative split of EBITDA and capital expenditure between regulated Price-Quality FFLAS (PQ FFLAS) and Other (i.e. non-PQ FFLAS) activity over the 2022 and 2023 calendar years
- > capital contributions are deducted from asset values for PQ-FFLAS and are included as Other revenue together with non-FFLAS capital contributions
- > Chorus expects the PQ FFLAS share of total opex to increase as fibre activity grows and copper connections reduce. The Commission's decision on shared cost allocators for PQP2 will also influence this. Where the rate of copper withdrawal is faster than forecast, the difference in attributable or shared costs will be calculated as part of the annual ID wash-up process for FFLAS revenue.

PQ FFLAS	H1 2022	H2 2022	H1 2023	H2 2023
Revenue	323	344	362	387
Opex	(78)	(78)	(89)	(90)
Pass through costs	(8)	(8)	(7)	(8)
EBITDA	237	258	266	289
Capex (net of capital contributions <u>and</u> leases)	172	167	176	175
Capital contributions	25	27	17	24

Other	H1 2022	H2 2022	H1 2023	H2 2023
Revenue	159	143	131	116
Opex	(68)	(59)	(67)	(58)
EBITDA	91	84	64	58
Capex (net of capital contributions)	30	26	36	27
Capital contributions	2	2	3	6

Appendix: ID vs financial reporting categories

Regulatory opex categories	Sub-categories	Description	Financial reporting opex categories
Customer	▪ Customer operations	Demand driven activity (e.g. call centre and projects)	Labour
	▪ Product, Sales & Marketing	RSP relationships, activity to attract and retain end users	Labour, Other
Network	▪ Maintenance	Reactive, recoverable and preventative work	Network maintenance
	▪ Network operations	Network operations centre and associated support	Labour, IT, Other network costs
	▪ Operating costs	Leases, electricity, security and building costs	Electricity, Other network costs, Property maintenance
Support	▪ Asset management	Investment, programme, contract and property management	Labour, Other
	▪ Corporate	Corporate functional units, office expenses	Labour, Insurance, Consultants, Other
	▪ Technology	Non-capitalised business, customer and network IT	Labour, IT, Other

Regulatory capex categories	Sub-categories	Description	Financial reporting capex categories
Extending the network <i>(communal infrastructure)</i>	▪ Augmentation	Infill within existing footprint or extension to new communities	Other fibre connections & growth
	▪ New property development	New subdivisions, business parks	Other fibre connections & growth
	▪ UFB communal	UFB programme rollout	UFB communal
Installations <i>(connecting communal network to the ONT, including provisioning and incentive costs)</i>	▪ Complex	Installations for specific business requirements	Fibre connections & layer 2
	▪ Standard	Most installation work, including backbone for multi-dwelling units and rights of way	Fibre connections & layer 2, customer retention costs
IT & Support <i>(IT and corporate capex)</i>	▪ Business IT	Supporting business activities	Common - IT
	▪ Corporate	Sundry investment and product development	Common - Other
	▪ Network & customer	Supporting network or customer activities	Common – IT, Fibre products & systems
Network capacity <i>(ongoing investment in network electronics and systems to optimise for capacity growth and lifecycle needs)</i>	▪ Access	Enabling connections to fibre	Fibre connections & layer 2
	▪ Aggregation	Link access networks to RSP points of interconnection	Fibre connections & layer 2
	▪ Transport	Optical transport network to carry data medium/long distances	Fibre connections & layer 2, Other fibre connections & growth
Network sustain & enhance <i>(investment in physical network assets)</i>	▪ Field sustain	Assets outside of network sites (e.g. poles, fibre, terminators)	Other fibre connections & growth
	▪ Relocations	Roading authority, undergrounding programmes and 3 rd party requests	Other fibre connections & growth
	▪ Resilience	Diversity, robustness or contingency investment to keep the network running	Other fibre connections & growth
	▪ Site sustain	Investment in network buildings, including power and cooling.	Common – building & engineering services