

Information Disclosure update

31 May 2023

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>

The schedules include data applicable to assets across various regulatory frameworks and geographic locations:

- **PQ FFLAS:** Chorus fibre fixed line access services/assets subject to the Part 6 Maximum Allowable Revenue (MAR) and Regulated Asset Base (RAB) price-quality (PQ) regime
- **ID-only FFLAS:** Chorus fibre access services/assets not subject to Part 6 regulation but requiring information disclosure (e.g. fibre network in other Local Fibre Company areas)
- **ID FFLAS:** combined PQ FFLAS and ID-only FFLAS services/assets

The following slides summarise some key aspects of today's Information Disclosure submission. In reviewing these slides and the ID schedules it should be noted that:

- ID reporting is on the basis of disclosure (calendar) year and cost categories are different from Chorus' financial reporting categories (see Appendix for summary). Chorus has provided regulatory information in the presentation on a six-monthly basis to assist investors with financial year comparisons.
- While ID reporting references a 2022 vanilla WACC of 5.86%, 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 (RP1).
- Consistent with the regulatory input methodologies, Chorus has updated allocators and attribution for three operating expenditure categories to better reflect cost drivers. These updates are excluded from RP1 wash-ups.
- ID reporting requires forecasts for connections, operating and capital expenditure. These forecasts were prepared in early 2022. Since then, market conditions (e.g. COVID impacts, labour constraints and economic outlook) and business priorities and strategy have continued to evolve. Potential future projects are also contingent on a range of factors, such as stakeholder preferences, deliverability and regulatory approvals. Therefore, future connections and expenditure amounts on these schedules should not be considered to reflect Chorus' current business plan or the likely content of our PQP2 expenditure proposal due in late 2023.
- All historical financial numbers are nominal. Forecast numbers in the schedules are nominal and constant.

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		
Less 2022 FFLAS revenue received	<u>(667.2)</u>	23.0	Chorus under-earnt initial MAR allowance by \$23m.
Plus 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.
Plus Pass-through costs		1.5	Actual pass-through cost of \$15.7m versus forecast \$14.2m.
Plus Crown financing benefit		0.1	Reflects lower Crown financing balance than forecast.
Plus 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.

Operating & Capital Expenditure for 2021-2022

Opex categories	Sub-categories	H2 2021	H1 2022	H2 2022
Customer	▪ Customer operations	(4)	(3)	(4)
	▪ Product, Sales & Marketing	11	11	13
Network	▪ Maintenance	12	14	14
	▪ Network operations	8	8	9
	▪ Operating costs	4	4	4
Support	▪ Asset management	7	11	11
	▪ Corporate	12	20	21
	▪ Technology	10	13	10
TOTAL (\$m)		60	78	78
Pass through costs (\$m)		8	8	8

> Regulatory/calendar year

> The credit for *Customer-Customer operations* reflects capitalised labour costs that are offset in other opex lines.

> *Support-Corporate* opex for H2 2021 was lower due to the release of a one-off provision for holiday pay.

Note:

1. 2021 amounts are unaudited and represent Chorus' estimates of opex and capex attributable to PQ-FFLAS.
2. The RP1 opex allowance for 2022 is \$160m (excluding pass through costs). Previously forecast cost inputs (e.g. totex, connections and data traffic) are updated for actual percentages through the annual wash-up process. Chorus has also updated three opex allocator types in 2022 that are not part of the MAR wash-up process.

Capex Categories	Sub-categories	H2 2021	H1 2022	H2 2022
Extending the network	▪ Augmentation	3	3	2
	▪ New property developments	8	8	14
	▪ UFB communal	47	29	5
Installations	▪ Complex	1	1	1
	▪ Standard	100	79	83
IT and support	▪ Business IT	9	5	7
	▪ Corporate	-	3	-
	▪ Network & Customer	9	10	14
Network capacity	▪ Access	5	9	9
	▪ Aggregation	7	7	12
	▪ Transport	3	4	7
Network sustain & enhance	▪ Field sustain	5	7	4
	▪ Relocations	1	1	2
	▪ Resilience	2	1	2
	▪ Site sustain	7	7	7
TOTAL (\$m)		207	174	169

> Regulatory/calendar year

> Stronger greenfields growth than forecast, with contributions netted from total
> UFB spend reducing with rollout end

> Despite technician shortages installation volumes were higher than forecast for RP1, but offset by lower per unit cost and incentive spend

Note: total capex was \$34m below 2022 allowance of \$377m (net of \$52m contributions).

Indicative EBITDA & capex: PQ-FFLAS vs Other

- > 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 2021 and 2022 calendar years
- > capital contributions are deducted from asset values for PQ-FFLAS and are included as Other revenue

PQ FFLAS	H2 2021	H1 2022	H2 2022
Revenue	309	323	344
Opex	(60)	(78)	(78)
Pass through costs	(8)	(8)	(8)
EBITDA	241	237	258
Capex (net of capital contributions)	207	174	169
Capital contributions	19	25	27

Other	H2 2021	H1 2022	H2 2022
Revenue	174	159	143
Opex	(68)	(68)	(59)
EBITDA	106	91	84
Total capex	37	30	26

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