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STOCK EXCHANGE ANNOUNCEMENT

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Chorus submits fibre revenue proposal

Chorus has communicated its maximum allowable revenue (MAR) submission to the Commerce Commission for the first regulatory period from 2022 to 2024.

The MAR submission is based upon the conservative starting Regulated Asset Base (RAB) of \$5.5 billion submitted to the Commission in late March, which Chorus advocates strongly should be higher to better reflect the cost of building our UFB network.

Chorus' submission results in an annual revenue range of \$720 million to \$820 million during the period. "This is consistent with Chorus' forecast fibre revenues in the first regulatory period," said Chorus CEO JB Rousselot.

"We want to encourage fibre uptake, investment and innovation, consistent with the goals of our public-private partnership with government and our desire to help more New Zealanders realise the benefits of fibre broadband.

"The MAR proposal includes the use of tilted depreciation to ensure a smooth transition into the new regulatory regime and properly reflect the commercial risks we face."

Depreciation tilting was identified by government and confirmed by the Commission in the Input Methodologies as a tool to be used to reduce revenue volatility in the transition to the new regulatory framework. It is NPV neutral, so doesn't change the overall returns Chorus receives.

As per the Commission's requirements, Chorus' proposal reflects inflation and risk-free rate assumptions used in our prior update on April 6 (see summary of key assumptions below). That update did not include tilted depreciation or revenue smoothing.

Ongoing regulatory processes

In parallel with the submission of its MAR proposal, Chorus continues to engage with the Commission on other aspects of the new regulatory framework.

In particular, Chorus advocates strongly for consideration of RAB outcomes that reflect the true costs of the UFB public-private partnership requirements. Chorus has estimated this would result in RAB outcomes of up to \$6 billion. Issues including WACC and stranding risk will also be raised as part of the Commission's upcoming Input Methodologies consultation.

Mr Rousselot said Chorus' expectation is that the Commission should be able to make the substantive decisions needed to provide certainty on key regulatory inputs before the end of 2021.

"We need certainty as soon as possible to be able to support discretionary activity from the start of the new regulatory period in January. While there may be some fine tuning needed beyond then, we believe clarity on the final RAB valuation and regulatory MAR is necessary and achievable," he said.

Key MAR assumptions

Chorus has kept the following assumptions consistent with its initial 6 April modelling at the Commission's request:

1. A risk-free rate spot rate of 0.51%. The final risk-free rate is currently expected to be set based on the average over the three months ending 31 May 2021.
2. The inflation/indexation rates reflected in Chorus' MAR proposal are: 1.46% in 2022, 1.85% in 2023 and 2.06% in 2024. Final Price-Quality decisions on revenue are currently expected to be updated for Consumer Price Index data for the quarter ended 31 March and inflation forecasts from the May 2021 Monetary Policy Statement.

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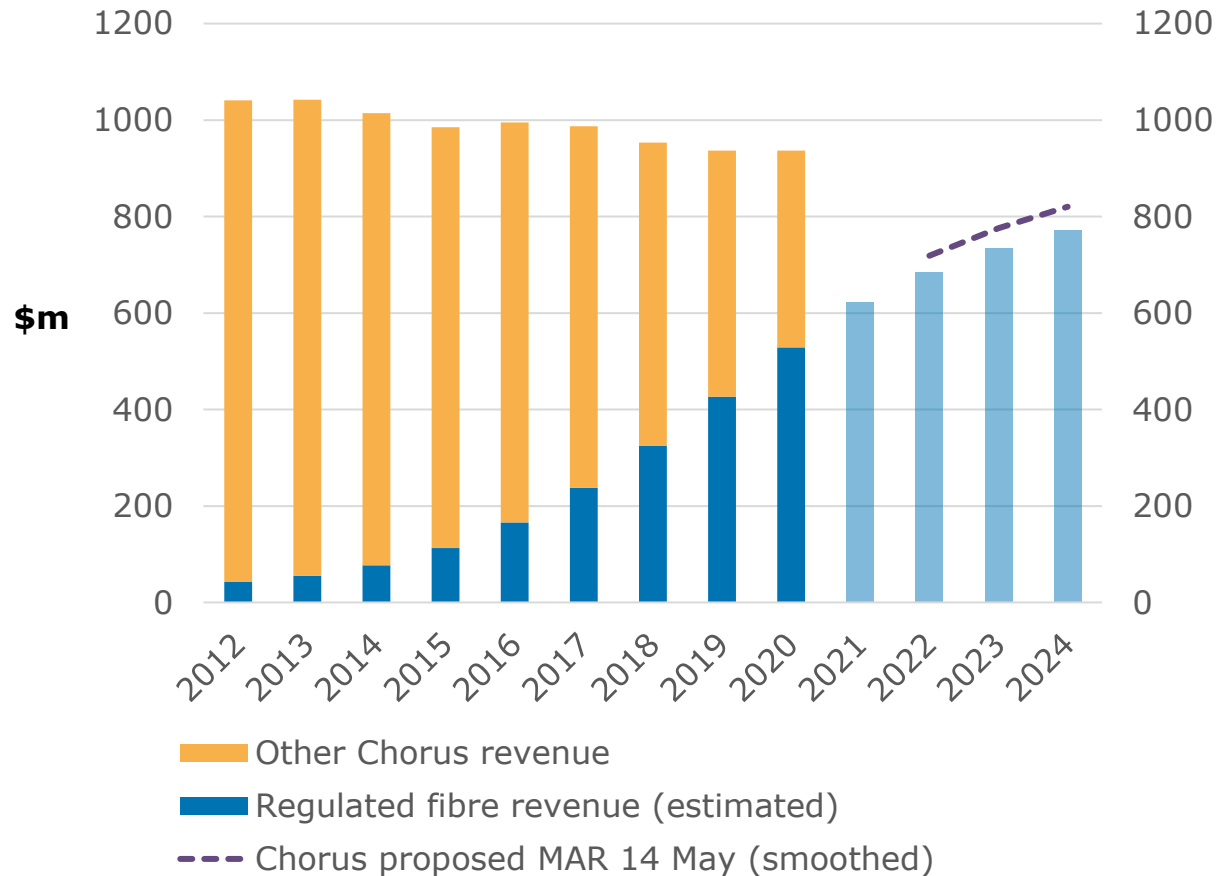
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Chorus MAR range vs estimated regulated fibre revenues



> **Smoothed MAR range of \$720m-\$820m per annum is based on conservative starting RAB of \$5.5 billion**

- Chorus has proposed that depreciation rates could be tilted either for specific asset categories, or for the financial loss asset, with a similar result
- The Commerce Commission noted in its fibre Input Methodologies decision that it is common practice in utility regulation to smooth revenue caps to address potential annual price volatility within a regulated period
- the unsmoothed MAR range is \$760m-\$780m per annum
- without tilting or smoothing the MAR range would be consistent with the indicative MAR range of \$680m-\$710m advised to market on 6 April

Note: Chorus assessment of FFLAS revenue is based on final Input Methodologies. Subject to completion of Commerce Commission process.