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STOCK EXCHANGE ANNOUNCEMENT

27 May 2021

Commerce Commission releases price-quality draft decision for Chorus' fibre business

The Commerce Commission has released its draft decision on Chorus' price-quality determination for the first regulatory period for fibre (RP1, 2022-2024).

The draft decision references an annual revenue range of \$689 million to \$786 million, including pass-through costs, during RP1 and remains broadly consistent with Chorus' forecast fibre revenues for the period.

However, today's draft decision is based on Chorus' recently submitted conservative RAB estimate of \$5.5 billion and doesn't reflect critical decisions yet to be made by the Commission on the initial value of the fibre network. Risk-free rate and inflation assumptions will also need to be updated when the Commission makes its final decision.

Key elements of today's decision include:

- a diminishing value depreciation method for the financial loss asset, using a depreciation rate of 14.3%
- smoothing of the revenue profile in the period
- post-tax WACC of 4.46%, including risk-free rate of 0.43% for three-months ending 31 March
- reductions to capital expenditure, largely reflecting differing demand and inflation assumptions and proposals to require additional evaluation for incentive and innovation spend
- a proposed 10.6% or \$52m reduction to Chorus' operating expenditure in the period

A table from the Commission's draft decision summarising these key elements is attached. The Commission's decision is available [here](#).

Chorus submitted a proposed MAR of \$720 million to \$820 million to the Commission on 17 May.

Chorus CEO JB Rousselot said Chorus will review the Commission's decision carefully and a key focus area for its submissions will be ensuring the expenditure allowed by the Commission can support the ongoing rollout and operation of our world class fibre network.

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ENDS

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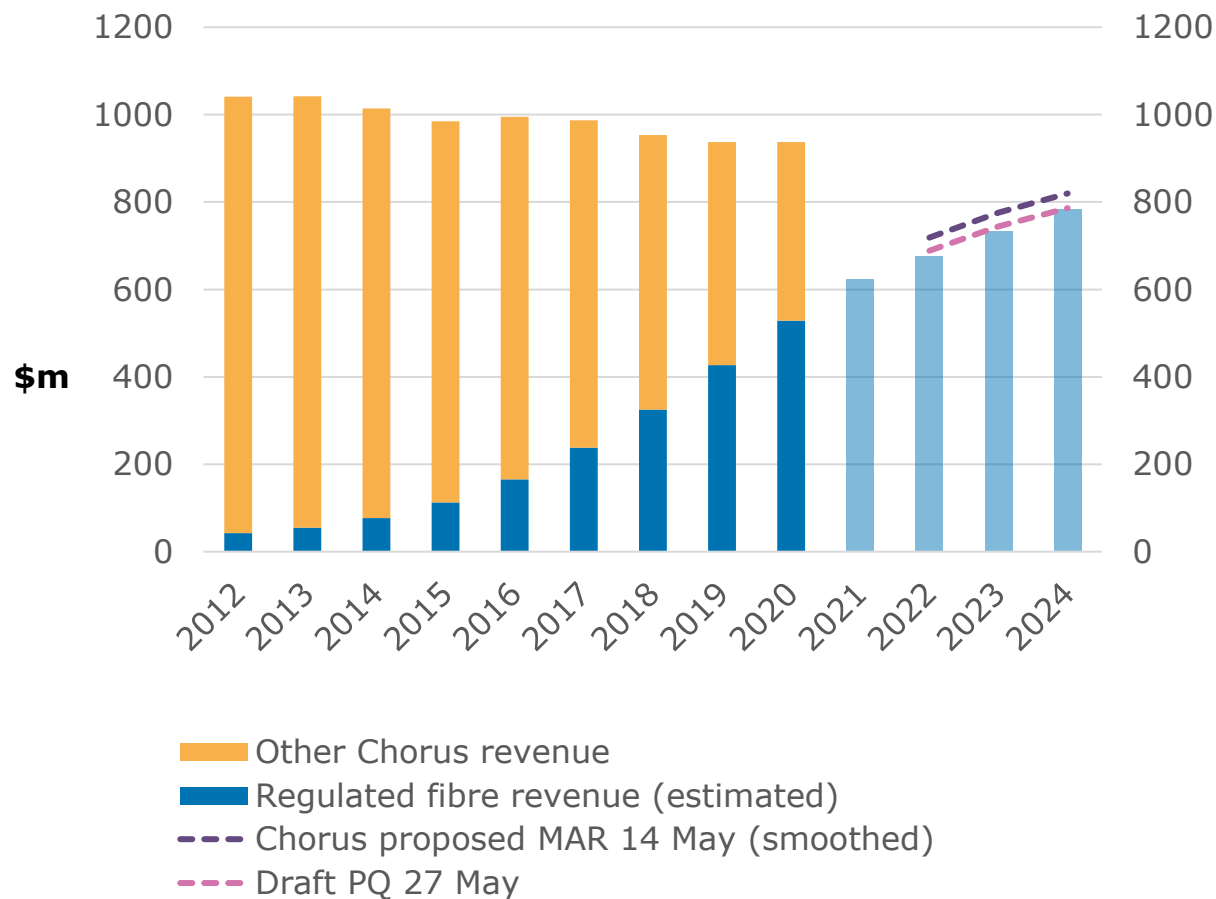
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MAR ranges vs forecast fibre revenues



Note: Chorus assessment of FFLAS revenue is based on final Input Methodologies. Forecast revenues updated to reflect current business plan. Subject to completion of Commerce Commission process.

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

Component	2022	2023	2024
Total return on capital	139.8	115.1	100.8
Return on assets (RAB x WACC)	260.0	257.3	253.9
Revaluations	-78.7	-99.2	-109.5
Ex-ante stranding allowance	5.5	5.4	5.4
Benefit of Crown finance	-48.9	-50.4	-50.8
TCSD allowance	1.9	1.9	1.9
Opex allowance	154.1	150.1	146.0
Total depreciation	466.4	448.8	447.0
Core fibre assets	263.1	271.4	291.4
Financial loss asset	203.3	177.4	155.6
Tax allowance	0.0	0.0	0.0
In-period smoothing	-85.1	15.6	76.9
Total	675.2	729.6	770.7

Source: page 9, Commerce Commission draft decision 27 May 2021. Note: Total excludes pass-through costs of ~\$15m p.a.