

## **STOCK EXCHANGE ANNOUNCEMENT**

26 March 2021

### **Chorus Initial Asset Value Model Overview**

Chorus is submitting a comprehensive Initial Asset Value model to the Commerce Commission today as required under the Price-Quality process. This model is compliant with the Commission's Input Methodologies requirements and supports a solid, but conservative, starting Regulated Asset Base (RAB) of \$5.5 billion for Chorus' fixed line fibre access services at 1 January 2022.

In addition, Chorus has provided an alternative cost allocation approach that supports potential RAB outcomes between \$5.5 billion and \$6 billion. We believe the Commission could consider this approach because it better reflects the full costs of structural separation required by the public-private partnership with the Government.

Chorus CFO David Collins said it's important that initial regulatory settings deliver on the policy goal of a smooth transition for consumers and investors.

"The Commission has a number of mechanisms at its disposal to achieve this. The models we're submitting have required extensive work and were developed by international experts Analysys Mason who have undertaken similar network analysis for regulators and network operators overseas.

"This analysis should enable the Commission to move reasonably rapidly in progressing its draft Price-Quality Determination due in the coming months and we look forward to working constructively with them," he said.

Based on Chorus' indicative revenue modelling, the Initial Asset Value model of \$5.5 billion indicates an estimated maximum allowable revenue range of \$715 million to \$755 million per annum in the first regulatory period from January 2022 to December 2024.

"While the preliminary estimated revenue range broadly aligns with Chorus' forecast fibre revenues for this initial period, it leaves no room for unintended consequences. Poor outcomes for consumers and perverse incentives for Chorus could arise if the revenue cap ends up constraining our natural expected rate of growth.

"Consumers are currently benefitting from strong network investment, incentives to encourage fibre uptake and the ongoing development of new and higher-speed products. Chorus would have limited incentives to keep growing and enhancing fibre services if the cap is met when fibre uptake has only just reached 63%.

“The regulatory framework is being determined at a time when interest rates are at historic lows and potential WACC outcomes for Chorus of around 4.4% are significantly below the 5.8% WACC announced by Ofcom in the UK just last week for fibre networks,” Mr Collins said.

Following the finalisation of the initial asset value model, Chorus has applied consistent cost allocations methodology to expenditure for the first three-year regulatory period. The refinement of shared costs in the modelling means the allocation of operating expenditure to regulated fibre services has reduced from \$625 million to \$550 million and this is reflected in Chorus’ estimated maximum allowable revenue range.

A presentation overview of the Initial Asset Value model Chorus has submitted to the Commerce Commission is attached. An audio conference briefing to discuss the presentation will be held at 10am (NZ time) for investors and analysts.

To join the audio conference, please use one of the following numbers and the pin code: 21814790#

- New Zealand: 0800 452 257
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