

STOCK EXCHANGE ANNOUNCEMENT

6 April 2021

Chorus reduces indicative Maximum Allowable Revenue range

Chorus is today providing an update to the indicative maximum allowable revenue (MAR) range of \$715 million to \$755 million per annum included in its Initial Asset Value presentation update of 26 March, to a reduced range of \$680 million to \$710 million per annum for the first regulatory period.

Chorus is continuing to refine, and perform assurance over, its MAR model, which we expect to provide to the Commission in May. As this process continues MAR estimates may change and we will update the market if required.

As part of this process, two significant assumptions have been updated and one error has been corrected. The changes relate to indexation (negatively impacting MAR) and risk-free rate assumptions (positively impacting MAR). The indexation changes are net present value neutral because the Regulated Asset Base is also inflated by CPI annually. The key changes are:

1. Inflation assumptions in 2022 and the first half of 2023 updated to reflect the latest Reserve Bank Monetary Policy Statement forecast, issued in February 2021. The previous range was based on the November 2020 forecast.
2. The risk-free rate assumption updated from 0.30% to the current spot rate of 0.51%.
3. Inflation assumptions in the second half of 2023 and 2024 corrected to reflect the long-term Reserve Bank forecast required by the Input Methodologies. The previous assumption was incorrectly based on the quarterly inflation forecast. Chorus apologises for this error.

The effect of the changes is that the revised revenue range for the first regulatory period is further below Chorus' forecast fibre revenues, as depicted on the attached slide. However, we expect MAR outcomes for the first regulatory period to improve as Chorus works through the remaining aspects of the Commerce Commission's process, including the Commission's consideration of our revenue modelling alongside the Initial Asset Valuation Model and expenditure proposals.

Chorus notes that today's updated revenue range is based on a conservative starting Regulated Asset Base (RAB) of \$5.5 billion. As noted in our 26 March release, alternative cost allocation methodologies, which more accurately reflect the structural separation requirements of our public-private partnership produce a starting RAB of \$6 billion. The Commission also has tools at its disposal that can be used to ensure regulatory settings deliver on the policy goal of a smooth transition for consumers and investors.

“We hold the strong view that the MAR should be set above forecast fibre revenue to maximise the socio-economic benefits of the investment we and the government have made in the Chorus fibre network. As we’ve said previously, poor outcomes for consumers could arise if the revenue cap constrains our natural expected rate of growth and perversely incentivises Chorus to constrain fibre uptake and investment,” said Chorus CFO David Collins.

The inflation/indexation rates reflected in Chorus’ updated MAR modelling are:

2022: 1.46% (previously 0.90%)

2023: 1.85% (previously 0.90%)

2024: 2.06% (previously 0.90%)

Final Price-Quality decisions on revenue will be updated for Consumer Price Index data for the quarter ended 31 March and inflation forecasts from the May 2021 Monetary Policy Statement. The final risk-free rate will be set based on the average over the three months ending 31 May 2021.

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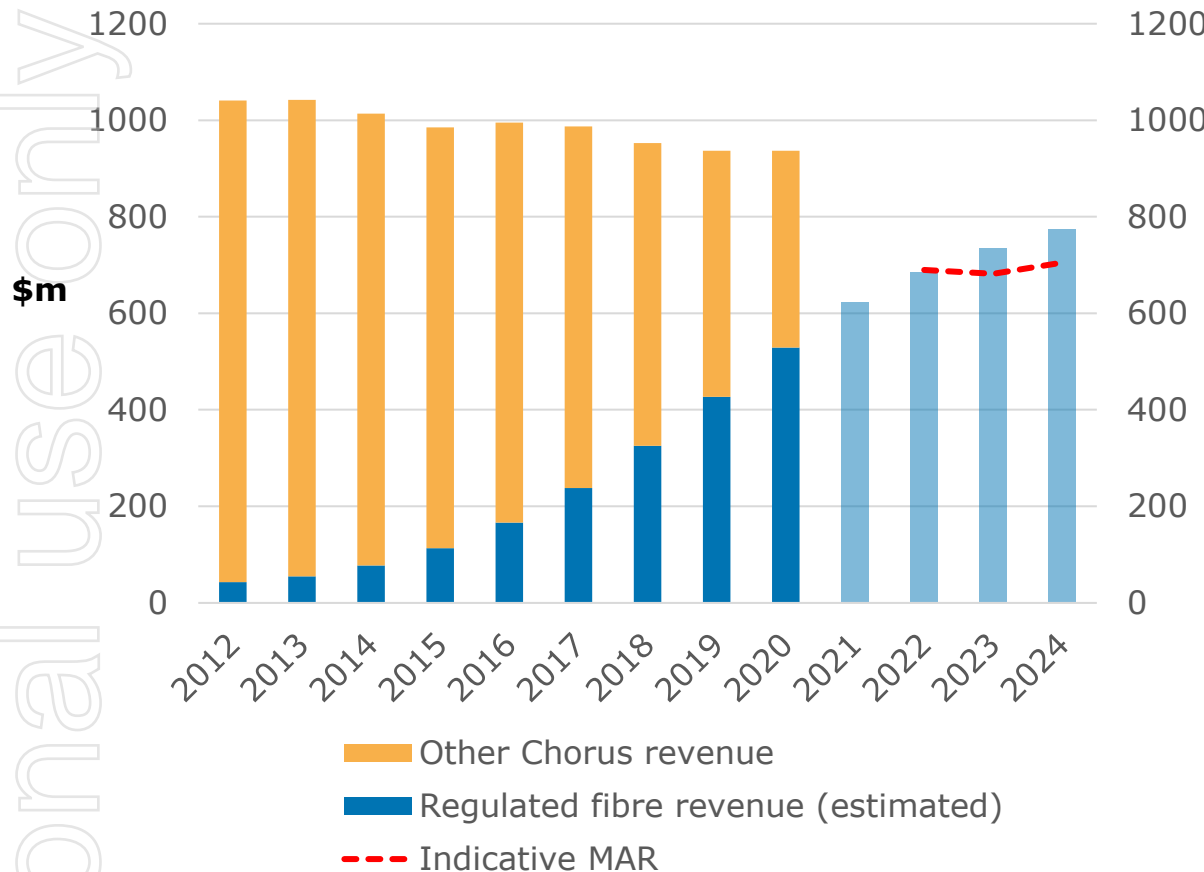
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UPDATED: Indicative MAR range vs estimated regulated fibre revenues



> Indicative MAR range of \$680m-\$710m per annum is based on conservative starting RAB of \$5.5 billion

- reflects estimated 3-year risk-free rate of 0.51% at 1 April: actual rate will be set based on 3-month average ending 31 May
- constrained by carry forward tax losses in RP1 (resulting in zero tax building block) and treatment of Crown financing
- MAR excludes capital contributions (e.g. greenfields, Rural Broadband Initiative) and FFLAS in LFC areas

> MAR in first regulatory period (RP1) should be above forecast revenues to:

- avoid constraining Chorus' natural expected rate of growth given uptake is only 63%
- retain incentives for Chorus to continue investing in better consumer outcomes (e.g. fibre uptake, new and higher-speed products)
- deliver on government policy goals of a smooth transition for consumers and investors

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