Schedule 14: **Mandatory Explanatory Notes** (Chorus)

Company name: Chorus Limited

For disclosure year ended: 31 December 2025

In this Schedule, clause references are to clauses in the body of the Fibre Information Disclosure Determination 2021.

1. This Schedule requires **Chorus** to provide explanatory notes to information provided in accordance with clauses 2.3.1, 2.6.2, and 2.6.3.
2. This Schedule is mandatory: **Chorus** must provide the explanatory comments specified below, in accordance with clause 2.6.1.
3. Schedule 15 (Voluntary Explanatory Notes to Schedules) provides for **Chorus** to give additional explanation of disclosed information if it wishes.

Return on Investment (Schedule 1, 1a, 1b)

4. In the box below, comment on **ROI** as disclosed in Schedule 1. This comment must include information on reclassified items in accordance with clause 2.6.3.

Box 1: Explanatory note on ROI

ROI uses an IRR calculation based on actual cashflows (rather than allowances), and net movement in the RAB.

There are no reclassified items during disclosure year 2025.

ID FFLAS

Total disclosure of PQ plus ID-only FFLAS. 7.47% versus post-tax WACC of 6.91%.

PQ FFLAS

7.41% versus post-tax WACC of 6.91%.

ID-only FFLAS

Where Chorus has voluntarily deployed fibre in other LFC areas and faces greater competition, it is only subject to information disclosure (not PQ regulations). Chorus typically deploys high cost (point-to-point) low volume services, as well as GPON in new property developments. Shared costs are allocated to ID-only areas using connections. ROI is 15.98% versus post-tax WACC of 6.91%.

Regulatory Profit (Schedule 2)

5. In the box below, comment on regulatory profit for the **disclosure year** as disclosed in Schedule 2. This comment must include:

5.1 a description of material items included in **other regulated income (other than gains / (losses) on asset disposals)**, as disclosed in row 2(i) of Schedule 2; and

5.2 information on reclassified items in accordance with clause 2.6.3.

Box 2: Explanatory note on regulatory profit

There are no reclassified items during disclosure year 2025.

PQ FFLAS

Regulatory profit for year ended 31 December 2025 was $370m:

- Total FFLAS revenue of $863m consists of:
  - Operating revenue – revenue from connections, monthly access and other product specific revenue of $857m.
  - Other regulated income – revenue from network services of $7m.
  - Offset by losses from asset disposals of -$0.4m
- Operating expenditure (including pass-through costs) was $191m, using updated cost allocator inputs.
- Depreciation of $464m, and revaluations (indexation) at actual CPI 3.11% (versus forecast of 2.45%).
- No regulatory tax allowance in PQ areas, as Chorus is carrying forward tax losses from the pre-implementation period.

ID-only FFLAS

Regulatory profit for Chorus' ID-only areas for the year ended 31 December 2025 was $6m, due to an operating surplus of $9m and indexation of $1m, offset by expenditure of $1m and depreciation of $3m.

ID FFLAS

Chorus' total regulatory profit for year ended 31 December 2025 was $376m, the sum of PQ FFLAS and ID-only FFLAS.

Merger and acquisition expenses (2(iii) of Schedule 2)

6. If **Chorus** incurred **merger and acquisitions expenditure** during the **disclosure year**, provide the following information in the box below:

6.1 information on reclassified items in accordance with clause 2.6.3; and

6.2 any other commentary on the benefits of the **merger and acquisition expenditure** to **Chorus**.

Box 3: Explanatory note on merger and acquisition expenditure

Chorus had no merger and acquisition expenditure for disclosure year 2025.

Value of the Regulatory Asset Base (Schedule 4, 4b, 4c)

7. In the box below, comment on the value of the regulatory asset base (rolled forward) in Schedule 4. This comment must include information on reclassified items in accordance with clause 2.6.3.
8. Describe any alternative method of depreciation adopted by **Chorus**, and the reason(s) for adopting the alternative method.
9. Describe the methodology used for the allocation of **works under construction**.

Box 4: Explanatory comment on the value of the regulatory asset base (rolled forward)

The opening RAB as at 1 January 2025 has been restated. The closing RAB as at 31 December 2024 includes a forecast asset allocator adjustment. The opening RAB as at 1 January 2025 uses actual asset allocators, therefore there is an immaterial difference.

PQ Regulatory Asset Base (RAB)

Closing PQ RAB as at 31 December 2025 was $6,004m. This shows a $91m increase from the opening RAB, due to:

- Revaluations (indexation) of +$183m (based on actual CPI of 3.11%).
- Commissioned assets of +$343m.
- Depreciation of -$464m.
- Asset allocator adjustment +$30m.

We note that the PQ RAB rolled forward via information disclosure becomes the opening RAB for PQP3, subject to any relevant wash-ups.

ID-only RAB

Closing RAB as at 31 December 2025 was $43m. This shows a $7m increase due to Commissioned assets of $4m, revaluations (indexation) of $1m, offset by depreciation of $3m, and an asset allocation adjustment of $5m due to copper withdrawal.

ID Total RAB

Closing RAB as at 31 December 2025 was $6,047m, this shows a $98m increase due to Commissioned assets of $347m, revaluations (indexation) of $184m, and asset allocation adjustment $34m, offset by depreciation of $467m.

Reclassified items

There are no reclassified items during disclosure year 2025.

Depreciation methodology

Methodology for core assets has changed to a tilted annuity depreciation approach, in order to backload depreciation.

No change to the financial loss asset depreciation methodology since the Commission's final PQ decision in December 2021.

Works under construction methodology

IM-compliant unallocated (excluding 100% FFLAS) works under construction is extracted from Chorus' financial systems at a Decision Packet (**DP**) level. Expected settlements by asset category are used to get an allocated view that is based on historical analysis.

Capitalised interest is calculated on the assets under construction balance based on the number of days each cost incurred has been residing in the project system yet to be settled to the final asset. It will continue to calculate until the assets are ready for service and capitalised. This reduces the balance of the work under construction.

Regulatory tax allowance: disclosure of permanent differences (3a(i) of Schedule 3)

10. In the box below, provide descriptions and workings of the material permanent differences included in the following items, as recorded in the asterisked categories in 3a(i) of Schedule 3:

    10.1 **income not included in regulatory profit / (loss) before tax but taxable**;

    10.2 **expenditure or loss in regulatory profit / (loss) before tax but not deductible**;

    10.3 **income included in regulatory profit / (loss) before tax but not taxable**; and

    10.4 **expenditure or loss deductible but not in regulatory profit / (loss) before tax**.

Box 5: Regulatory tax allowance: permanent differences

Expenditure included but not deductible

The amount of $2.3m at row 9 relates to entertainment, legal and consulting fees that will never be deductible for tax.

Expenditure not included but deductible

The amount of $0.3m at row 11 relates to LTI settlement and tax depreciation re inventory write-down. Both are manual tax adjustments that do not flow via regulatory P&L.

Regulatory tax allowance: disclosure of temporary differences (3a(i) of Schedule 3)

11. In the box below, provide descriptions and workings of the material temporary differences included in the following items, as recorded in the asterisked categories in 3a(i) of Schedule 3:

    11.1 **income not included in regulatory profit / (loss) before tax but taxable**;

    11.2 **expenditure or loss in regulatory profit / (loss) before tax but not deductible**;

    11.3 **income included in regulatory profit / (loss) before tax but not taxable; and**

    11.4 **expenditure or loss deductible but not in regulatory profit / (loss) before tax.**

Box 6: Temporary differences

Income not included but taxable

The amount of $27.6m included as taxable income in the schedule at row 14 relates to capital contributions which are taxed over time rather than reducing the tax cost base of the asset and tax depreciation. The time-period over which the contributions are taxed ranges from 1 to 25 years; however the majority are over 10 years. Capital contributions don't flow through regulatory profit/(loss) before tax as capital contributions are offset against the asset base. A tax adjustment is therefore required to include the portion of current and prior year capital contributions in taxable income.

Expenditure included but not deductible

The amount of $9.5m at row 15 relates to the non-deductible movement in employee provisions.

Income included but not taxable

The amount of $7.2m at row 16 relates to the non-assessable movement in provision for doubtful debts, credit notes and other sundry provisions. Movements are recognised through profit and loss, and depending on their nature, may be deductible or non-deductible for tax purposes.

Expenditure not included but deductible

The amount of $23.4m at row 17 relates to a deduction for lease payments. Leases are treated as operating leases for tax and therefore lease payments are claimed as tax deductible. There is no interest or tax depreciation in relation to the leases that needs to be adjusted for in the tax calculation and reg depreciation on leased assets is added back as non-deductible.

Cost allocation (Schedule 5a)

12. In the box below, comment on cost allocation as disclosed in Schedule 5a. This comment must include information on reclassified items in accordance with clause 2.6.3.

Box 7: Cost allocation

For disclosure year 2025, $23m of operating costs was directly attributed to PQ FFLAS, and $168m shared costs are allocated to PQ FFLAS through cost allocation.

Chorus has applied updated opex cost allocators as per the PQP2 Final Decision for Corporate common costs and CTO variable costs.

There are no reclassified items during disclosure year 2025.

Asset allocation (Schedule 4a)

13. In the box below, comment on asset allocation as disclosed in Schedule 4a. This comment must include information on reclassified items in accordance with clause 2.6.3.

Box 8: Commentary on asset allocation

For disclosure year 2025, $4,425m of Chorus' assets were directly attributed to PQ FFLAS, and $717m shared are allocated to PQ FFLAS through asset allocation. Financial loss asset closed at $862m.

Chorus has reviewed asset allocators, as required in the fibre input methodologies, and as a result, no change in allocator types is required.

There are no reclassified items during disclosure year 2025.

Operating Expenditure (Schedule 5)

14. In the boxes below, comment on **operational expenditure** for the **disclosure year**, as disclosed in Schedule 5. This comment must include-

    14.1 commentary on assets replaced or renewed with **network opex**, as reported in 5(i) of Schedule 5;

    14.2 information on reclassified items in accordance with clause 2.6.3;

    14.3 commentary on any material atypical expenditure included in **operational expenditure** disclosed in Schedule 5, a including the value of the expenditure the purpose of the expenditure, and the categories the **operational expenditure** relates to; and

    14.4 innovations made with **research and development** that have deferred the need for asset replacement.

15. Details of any insurance cover for the assets used to provide **FFLAS**, including-

    15.1 **Chorus's** approaches and practices in regard to the insurance of assets used to provide FFLAS, including the level of insurance; and

15.2 in respect of any self-insurance, the level of reserves, details of how reserves are managed and invested, and details of any reinsurance.

Box 9: Explanation of operational expenditure for the disclosure year

Chorus capitalises costs in accordance with Generally Accepted Accounting Practice (**GAAP**) and the relevant Inland Revenue requirements. In practice there may be small amounts of network opex which by repairing assets extend their useful life; however, there is no material network opex for replacing or renewing assets.

There are no reclassified items during disclosure year 2025.

Chorus has nil atypical expenditure reported as part of operational expenditure.

Chorus has nil research and development expenditure.

Box 10: Explanation of insurance cover

Chorus maintains a comprehensive insurance programme that minimises business risk and is also required under several financing documents. The material damage and business interruption cover (**MDBI**), insures against damage to Chorus property and network assets, and consequential loss of revenue due to an insurable event.

- Chorus insurable assets are revalued on an annual basis. Aon Valuation Services have been engaged to undertake a multi-year programme to provide insurance valuations for approximately 300 Chorus sites. The valuations are based on 'Reinstatement with New Value' methodology.
- MDBI programme is viewed as a 'catastrophe' policy. This means the level of retention is set at a relatively high level.
- Probabilistic loss modelling is undertaken every 2 to 3 years by Aon Global Risk Consulting based on the latest seismic shaking information available. This analysis results in a maximum probable loss (**PML**) for the entire asset portfolio from a seismic event. In reality, the maximum loss is based on a Wellington fault seismic event, the PML is assessed at $210m.

Chorus' internal insurance framework sets out the operating guidelines for how the annual insurance renewal process (for all insurance lines) is carried out.

We have interpreted question 15.2 to mean 'captive' insurance programme. Chorus does not have a captive insurance programme, and so is not relevant.

Capital Expenditure (Schedule 6)

16. In the box below, comment on **capital expenditure** for the **disclosure year**, as disclosed in Schedule 6. This comment must include-

16.1 information on reclassified items in accordance with clause 2.6.3;

16.2 information on how the **capital expenditure** has tracked to plan;

16.3 descriptions of strategies to correct course in areas where delivery is not going to plan;

16.4 information on the link between the **capital expenditure**, **operating costs**, and **fibre network** quality performance (availability and **port utilisation**); and—

16.5 a description of innovations made with **capital expenditure** in the **disclosure year** that have deferred the need for asset replacement.

Box 11: Explanation of capital expenditure for the disclosure year

There are no reclassified items during disclosure year 2025.

PQ FFLAS capital expenditure is 4% above the forecast (PQP2 Final Decision).

Extending the network expenditure is 158% above forecast due to additional augmentation expenditure for commercial network rollout and additional new property development expenditure.

Installations expenditure is 8% above forecast due to additional connections and incentives.

Layer 2 access expenditure is 8% above forecast due to additional ONTs required for connections.

Layer 2 aggregation equipment is 45% below forecast. This is due to change in customer equipment requirements.

Field Sustain expenditure is 55% below forecast. This is due to fibre lifecycle projects being prioritised and some expenditure being deferred.

Relocations is 116% above forecast. This is demand driven and is due to more roadworks and network relocation activity.

Resilience expenditure is 86% below forecast due to expenditure being deferred.

Site sustain expenditure is 28% below forecast due to engineering services projects being delayed as work was prioritised.

Customer retention costs have been re-categorised from Standard Installations to Network and Customer IT. As a result, Network & Customer IT is 52% above forecast with an offsetting variance in Installations.

When expenditure deviates from plan, we work with our investment teams to determine the drivers of the variances. Where drivers are outside our control, we consider project priority and timing and re-assess expenditure plans as part of our annual business planning cycle.

Quality performance

Availability

For all quality measures which are subject to quality standards under PQ, reporting practices were continued and refined (opex). Chorus continues procedures to allow timely decision making and course correction where PQ quality standards are at risk (opex).

Generally, for availability, links between capital and operating expenditure are:

- Layer 1 network availability is a function of network configuration and redundancy (capex) and response times when faults occur (opex).
- Layer 2 availability is mainly a function of network capacity, configuration and redundancy (capex) and response times when faults occur (opex).

Performance

Investments in capacity expansion combined with capacity benefits of lifecycle replacement of equipment have continued in line with our plans. Demand growth measured by average peaks appears to be flattening, however the pattern of volatility in one off events with localised impact continue as a risk, driving the need for headroom capacity on the network.

Innovations with capital expenditure

Chorus has continued to run its pole testing programme based on innovative IT and capability investment. In last year's submission we noted the re-phasing of pole replacement based off information gathered from this testing programme. As a result of improved asset condition data and a greater understanding of pole service life for the various pole types, we have decided to remove or replace all Hardwood poles in the network by December 2026 regardless of their asset condition, in order to remove the risk of pole failure and improve safety. Our records team is also working through a data sharing exercise with Lines Companies to validate pole ownership. This improves data accuracy for pole owners which enables better investment decisions on the respective pole fleets.

Variance between forecast and actual expenditure (Schedule 7)

17. In the box below, comment on variance in actual to forecast expenditure for the **disclosure year**, as reported in Schedule 7. This comment must include information on reclassified items in accordance with clause 2.6.3.

Box 12: Explanatory comment on variance in actual to forecast expenditure

There are no reclassified items.

At the start of 2024 through 2025, Chorus implemented an operational restructure which resulted in some operating costs moving between ID reporting categories. Overall, PQ FFLAS actual operating expenditure is 1% below forecast with some categories having offsetting variances due to differences in categories where costs are forecast and reported in actuals.

The opex forecast in Schedule 7 uses our PQP2 Base-Step-Trend forecast, which was prepared in 2023, and uses 2022 as the base year (including cost allocations).

Customer opex

Customer operations is above forecast due to where capitalised labour is reported in the ID categories. Actual labour capitalisation is split between customer operations and asset management but was forecast in asset management.

Product, Sales & Marketing expenditure is below forecast due to lower advertising and other communication costs.

Network opex

Network operations and network operating costs combined are 6% above forecast. Project related opex costs were above forecast as there was more spend on fibre related capex projects.

Support opex

Asset Management is below forecast due to the capitalisation of labour costs reported in Asset Management but forecast in the Network Operations category.

Support opex is below forecast primarily due to lower spend on external consultants. This is a result of reduced regulatory related spend, increased insourcing and cost management.

18. In the boxes below provide:-

    18.1 an explanatory comment on the reason(s) for any material differences between **target operating revenue** and total actual operating revenue; and

    18.2 an explanatory comment on the reason(s) for any material differences between target **connection** volumes and actual **connection** volumes.

Box 13: Explanatory comment relating to variances between target and actual operating revenue for the disclosure year

Target revenue calculated under the Comparative Contracts Disclosure for disclosure year 2025 used prices as at 1 January 2025.

Other product specific revenue is higher than target mainly due to the slower decline in legacy product.

Box 14: Explanatory comment relating to variances between target and actual connection volumes for the disclosure year

There is no target connection volumes because connection volumes are not required by the Comparative Contract Disclosure under clause 2.5.12(1)(a) of the Determination.

Regulated FFLAS and regulated FFLAS provided with an incentive (Schedule 24)

19. In the boxes below, comment on any changes from month to month or between **disclosure years** in the list of **regulated FFLAS**, as reported in Schedule 24(i) and (iii), and **regulated FFLAS** provided with an **incentive**, as reported in Schedule 24(ii). These comments must include:

19.1 any changes to the names and/or **service descriptions**;

19.2 any changes to the aggregation at which services are reported – eg, a service being reported separately that was previously grouped with other services or a service being moved to a different group;

19.3 any new services that are being reported for the first time, including whether they are grouped with other services when completing Schedule 24; and

19.4 any services that have been discontinued and are no longer reported.

20. For each of the above changes:

20.1 detail the month and calendar year in which the relevant change took place; and

20.2 include sufficient details to enable names and/or **service descriptions** and aggregations to be tracked from month to month. This could take the form of attaching a change schedule showing the current names and/or **service descriptions** and aggregations mapped to previous names and/or **service descriptions** and aggregations, including all the information required under paragraph 19.

Box 15: Explanatory comment relating to the list of regulated FFLAS

Changes to service descriptions

The following changes were made to service descriptions during disclosure year 25:

- May 2025
    - Small Business Fibre and Hyperfibre Service – enhancement to SME assure service level.
    - Chorus Data Centre Connect (**CDCC**) and Chorus Exchange Connect – addition of LOS option.
- June 2025
    - Bitstream 2 Accelerate and SFP Service– Speed boost of selected plans.
    - Express Connect Service – new service.
- August 2025
    - Express Connect Service – minor tidy up and corrections.
- October 2025
    - Chorus Relay Connect Service – Addition of 400G option.
- November 2025

- Chorus Data Centre Connect (**CDCC**) and Chorus Exchange Connect (**CXC**) Service – Addition of 400G option.
- Chorus Relay Connect Service – minor tidy up and corrections.

Change to the aggregation of service reporting

There is no change to the level of aggregation in which services are reported.

Services reported for the first time

Express Connect Service was added in June 2025.

Services discontinued

No services were placed in stop sell during disclosure year 2025.

Note this excludes individual plans under various services which were placed in stop sell or withdrawn during disclosure year 2025.

Box 16: Explanatory comment relating to the list of regulated FFLAS provided with an incentive

During disclosure year 2025, Chorus offered two main types of incentives for consumer and business services:

- Connection incentives – payments to RSPs to increase the quantity of fibre connections, including migrating customers to fibre from copper. The credits are capitalised and amortised over four years.
- Upgrade incentives – payments to RSPs to increase the intensity of usage on the network by existing customers, through moving them onto higher speed plans. These aim to 'move customers up the stack', providing them with higher speed services where that meets their needs. These incentives drive revenue growth and long-term retention, increasing the average revenue per customer. The upgrade credits are capitalised and amortised over one year against revenue.

Amendments to previously disclosed information

21 In the box below, provide information about amendments to information disclosed in accordance with clause 2.11.1 in the last 7 years, including:

21.1 a description of each error; and

21.2 for each error, reference to the web address where the disclosure made in accordance with clause 2.11.1 is **publicly disclosed**.

Box 17: Disclosure of amendment to previously disclosed information

As no material errors were detected in previous years disclosures, there are no amendments.