

20 June 2022

Chorus Limited
1 Willis Street, Wellington Central
Wellington 6011

Attention: Rob Redgrove and Sarah Oldershaw

Dear Chief Financial Officer

Agreed-upon procedures report – Reconciliation of inputs to the updated BBM CRM IAV Models

In accordance with our engagement letter dated 15 June 2022, we have performed the procedures agreed with you on the inputs to the updated BBM CRM IAV Models (the 'subject matter'). Our report includes factual findings and is intended solely for the purpose of complying with the requirements of the "Notice to supply information to the Commerce Commission under the Telecommunications Act 2001 - Finalising Chorus' initial PQ RAB, initial ID RAB and opening tax losses for disclosure year 2022", dated 16 May 2022 (the 'Notice') and may not be suitable for another purpose.

Responsibility for the Procedures Agreed

Chorus Limited have acknowledged that the agreed-upon procedures are appropriate for the purpose of the engagement.

Chorus Limited are responsible for the subject matter on which the agreed-upon procedures are performed.

Scope of our responsibilities

We have conducted the agreed-upon procedures engagement in accordance with the International Standard on Related Services (New Zealand) 4400 *Agreed-Upon Procedures Engagements* ('ISRS (NZ) 4400'). An agreed-upon procedures engagement is limited to only performing the procedures that have been agreed with you and reporting the findings, which are the factual results of the agreed-upon procedures performed.

We make no representations regarding the appropriateness of the agreed-upon procedures.

Because the procedures do not constitute either a reasonable or limited assurance engagement in accordance with auditing, review or other assurance engagement standards issued by the New Zealand Auditing and Assurance Standards Board ('NZAuASB'), we do not express any opinion, conclusion or provide assurance on the subject matter. In particular, we did not subject the information contained in this report or given to us by Chorus Limited to checking or verification procedures except to the extent expressly stated in Appendix A.



This is normal practice when carrying out such limited scope procedures, but contrasts significantly with, for example, an audit as envisaged by the Companies Act 1993 or Financial Markets Conduct Act. The procedures we performed were not designed to and are not likely to have revealed fraud or misrepresentation by the management of the Company. Accordingly, we cannot accept responsibility for the detection of fraud (whether by management or by external parties) or misrepresentation by Chorus Limited. Had we performed additional procedures, or had we performed an audit or a review in accordance with auditing, review or other assurance engagement standards issued by the NZAuASB, other matters might have come to our attention that would have been reported to you.

Professional Ethics and Quality Control

We have complied with the ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* ('PES 1'). For the purpose of this engagement, there are no independence requirements with which we are required to comply.

Our firm applies PS-1 *Quality Control* ('PS-1') issued by the New Zealand Institute of Chartered Accountants, and accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Procedures and Findings

The procedures were performed solely to assist you in meeting your purpose outlined above. The procedures performed and the factual findings obtained are in Appendix A.

Restriction on Use of Report

This report has been prepared solely for your exclusive use and solely for the purpose set out above. We understand that the Notice requires you to provide a copy of our report to the Commerce Commission to assist them in determining whether you are complying with the requirements of the Notice. We agree that a copy of this report may be provided to the Commerce Commission. It is for you and the Commerce Commission to assess both the procedures and our factual findings to determine whether they provide, in combination with any other information you have obtained, a reasonable basis for any conclusions which you wish to draw on the subject matter. Accordingly, this report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written consent. We accept or assume no duty, responsibility or liability to any party, other than you, in connection with this report or engagement including without limitation, liability for negligence in relation to the factual findings expressed or implied in this report.

Our report on factual findings was completed on 20 June 2022 and our findings are expressed as at that date.

A stylized, handwritten-style signature of "Deloitte Limited" in black ink.

Auckland, New Zealand

Appendix A: Procedures and Factual Findings

We obtained the updated BBM CRM IAV Models from the Modelling and Reporting Manager for the Company as provided to the Commerce Commission on 10 June 2022, and performed the following procedures as agreed in our letter of engagement dated 15 June 2022 and as further agreed with you in writing on 20 June 2022:

Procedures performed	Factual findings
<p>Identify changes in the updated information referred to in clause A4 of the Notice</p> <p>We will obtain from Chorus Limited ('the Company') the two version of the BBM CRM IAV Model ('the updated models') provided to the Commerce Commission under the requirements of para. A4 of the "Notice to supply information to the Commerce Commission under section 221 of the Telecommunications Act 2001 – Finalising Chorus' initial PQ RAB, initial ID RAB and opening tax losses for the disclosure year 2022" dated 16 May 2022 ('the Notice').</p> <p>For each of the following periods:</p> <ol style="list-style-type: none"> 1 July 2020 to 30 June 2021; and 1 July 2021 to 31 December 2021 (collectively 'the financial loss years'). <p>we will identify where there have been changes from a forecast figure to an actual figure in the inputs to the BBM CRM IAV Model by comparing the updated models to the file "Chorus NZL Core BBM v314-120c CRM IAV CC final.xlsx" ('the previous model') obtained in completing the procedures in our "Report on Factual Findings – Agreed Upon Procedures Relating to the Reconciliation of Fixed Asset Register to the IAV Model" dated 28 July 2021.</p>	<p>We obtained the two versions of the BBM CRM IAV Model from the Modelling and Reporting Manager on 10 June 2022. These two versions were provided in Excel workbooks titled:</p> <ol style="list-style-type: none"> 1. CONF Chorus NZL Core BBM v314_135 CRM IAV CC (Commission links) clean - Commission July WACC v14 - 50 combined S17 O10.xlsb; and 2. CONF Chorus NZL Core BBM v314_135 CRM IAV CC (Commission links) clean - Commission July WACC v14 - 100 combined S18 O11.xlsb <p>Changes from a forecast figure to an actual figure were identified in both financial loss years for each of:</p> <ol style="list-style-type: none"> 1. Capital Expenditure¹; 2. Transfers and Net Book Value Adjustments (total net value); 3. End of Financial Year Accounting Book Value²; 4. End of Financial Year Tax Book Value³; 5. Accounting Depreciation⁴; 6. Tax Depreciation⁵; 7. Operating cost inputs; and 8. Revenue inputs.

¹ Where Capital Expenditure as defined on the following page was not presented in the previous model, the procedures were amended as agreed with you and we have obtained the Capital Expenditure forecast from row 11 of sheet 'SCapex' in the previous model.

² Where End of Financial Year Accounting Book Value as defined on the following page was not presented in the previous model, the procedures were amended as agreed with you and we have obtained the End of Financial Year Accounting Book Value from row 16 of sheet 'SRABEOP' in the previous model.

³ Where End of Financial Year Tax Book Value as defined on the following page was not presented in the previous model, the procedures were amended as agreed with you and we have obtained the End of Year Tax Book Value from row 15 of sheet 'STaxRABEOP' in the previous model.

⁴ Where Accounting Depreciation as defined on the following page was not presented in the previous model, the procedures were amended as agreed with you and we have obtained the Accounting Depreciation forecast from row 16 of sheet 'SDepreciation' in the previous model.

⁵ Where Tax Depreciation as defined on the following page was not presented in the previous model, the procedures were amended as agreed with you and we have obtained the Tax Depreciation forecast from row 16 of sheet 'STaxDepreciation' in the previous model.

<p>Specifically, we will do this by comparing:</p> <ol style="list-style-type: none"> 1. For Capital Expenditure – Compare the combined total of ‘Capex’ tables on sheets ‘SFARInputPost2012’ and ‘SFARInputPre2012’ in the previous model to the updated models. 2. For Transfers and Net Book Value Adjustments (total net value) – Compare the amount ‘Correction EoP’ (in row 8312 of sheet ‘SRABEOP’) in the previous model to the updated models. 3. For End of Financial Year Accounting Book Value – Compare the combined total of ‘NBV’ tables on sheets ‘SFARInputPost2012’ and ‘SFARInputPre2012’ in the previous model to the updated models. 4. For End of Financial Year Tax Book Value – Compare the combined total of ‘TaxNBV’ tables on sheets ‘SFARInputPost2012’ and ‘in the previous model to the updated models. 5. For Accounting Depreciation – Compare the combined total of ‘Depreciation’ tables on sheets ‘SFARInputPost2012’ and ‘SFARInputPre2012’ in the previous model to the updated models. 6. For Tax Depreciation – Compare the combined total of ‘TaxDepreciation’ tables on sheets ‘SFARInputPost2012’ and ‘SFARInputPre2012’ in the previous model to the updated models. 7. For operating cost inputs – Compare the amount ‘Yearly opex’ (in row 11 of sheet ‘SOpexInput’) in the previous model to the updated models. 8. For revenue inputs – Compare the combined total of the capital contributions amount in row 18 of sheet ‘SCapitalContributionInput’ and the ‘national total revenues’ amount in row 102 of sheet ‘SRevenue’ in the previous model to the updated models. <p>Changes from a forecast figure to an actual figure in the updated models are referred to collectively as ‘the updated information’.</p>	
<p>Report on the reconciliation of Chorus BBN CRM IAV inputs with the FAR (clause A8 of the Notice)</p> <p>We will obtain from the Company the FAR data as defined in the Notice for each of the financial loss years. For the updated information, we will agree the inputs to the updated models to the Accounting FAR data by:</p> <ol style="list-style-type: none"> 1. For any changes in Capital Expenditure – Agree the combined total of ‘Acquisition’ and ‘AUC to Final’ per the Accounting FAR Data to the combined total of ‘Capex’ tables on sheets 	<p>We observed the extraction of the FAR data by the RAB Implementation Specialist on 7 June 2022. FAR data was extracted from Chorus’s SAP accounting system.</p> <p>In reconciling the FAR data to the inputs to the updated models we identified two variances exceeding \$5,000,000.</p> <p>Variance 1</p> <p>For the financial loss half-year ended 31 December 2021, the End of Financial Year Tax Book Value was</p>

<p>'SFARInputPost2012' and 'SFARInputPre2012' in the updated models.</p> <ol style="list-style-type: none"> For any changes in Transfers and Net Book Value Adjustments (total net value) – Agree the combined total net value of 'Retirement', 'Transfer', 'Write-Ups', 'Depreciation Retirement', 'Depreciation Transfer' and 'Depreciation Write-Ups' per the Accounting FAR Data to the 'Correction EoP' (in row 8312 of sheet 'SRABEOP') in the updated models. For any changes in End of Financial Year Accounting Book Value – Agree the total of 'Book Value Current' per the Accounting FAR Data to the combined total of 'NBV' tables on sheets 'SFARInputPost2012' and 'SFARInputPre2012' in the updated models. For any changes in Accounting Depreciation – Agree the total of 'Depreciation' per the Accounting FAR Data to the combined total of 'Depreciation' tables on sheets 'SFARInputPost2012' and 'SFARInputPre2012' in the updated models. <p>For the updated information, we will agree the inputs to the updated models to the Tax FAR data by:</p> <ol style="list-style-type: none"> For any change in End of Financial Year Tax Book Value – Agree the total of 'Book Value Current' per the Tax FAR Data to the combined total of 'TaxNBV' tables on sheets 'SFARInputPost2012' and 'SFARInputPre2012' in the updated models. For any changes in Tax Depreciation – Agree the total of 'Depreciation' per the Tax FAR Data to the combined total of 'TaxDepreciation' tables on sheets 'SFARInputPost2012' and 'SFARInputPre2012' in the updated models. <p>We will report on any variances exceeding \$5,000,000.</p>	<p>CI[\$] in the FAR data which varies from the CI[\$] in both the updated models by CI[\$].</p> <p>Management explained that this was due to two adjustments made subsequent to the half-year close off and data being provided for the updated models.</p> <p>One adjustment was to add additional tax-FAR only assets which had previously been manually adjusted for. These relate to assets that have a tax base but not an accounting base. This had an impact of CI[\$] on the FAR data.</p> <p>The second adjustment was to correct the tax depreciation rate applied on 10 assets. This had an impact of CI[\$] on the FAR data.</p> <p>Variance 2</p> <p>For the financial loss half-year ended 31 December 2021, the Transfers and Net Book Value Adjustments (total net value) was CI[\$] in the FAR data which varies from the CI[\$] in both the updated models by CI[\$].</p> <p>This variance also impacted the End of Financial Year Accounting Book Value. This was CI[\$] in the FAR data which varies from the CI[\$] in both the updated models by CI[\$].</p> <p>Management explained that this was due to an adjustment to account for the renewal and remeasurement of leases, and the resulting impact on right-of-use assets and lease liabilities under NZ IFRS 16.</p> <p>No other variances exceeding \$5,000,000 were identified between the FAR data and the inputs to the updated models.</p>
<p>Report on the reconciliation of Chorus BBN CRM IAV inputs with the Financial Accounting Systems (clauses A9 & A10)</p> <p>We will obtain the Company's financial statements from their website and perform a reconciliation between operating cost inputs (being equal to the 'Yearly opex' in row 11 of sheet 'SOpeXInput' in the updated models) and revenue inputs (being equal to the combined total of the capital contributions amount in row 18 of sheet 'SCapitalContributionInput' and the 'national total revenues' amount in row 102 of sheet 'SRevenue' in the updated models), and the financial accounting system (per the financial statements) for each financial loss year in the updated</p>	<p>We obtained from the Company's website the audited financial statements for the year ended 30 June 2021, and the reviewed interim financial statements for the six months ended 31 December 2021 (collectively, 'the financial statements') and reconciled these to the operating cost inputs and revenue inputs to the updated models.</p> <p>The reconciliation for the six months ended 31 December 2021 included two adjustments due to the reclassification during the preparation of the interim financial statement of a gain on lease modification and a gain on sale of land from operating expenses to operating revenue. This reclassification resulted in the</p>

information. We will report on reconciling items exceeding \$5,000,000 identified during the procedure performed.

We will obtain from the Group Reporting Manager a reconciliation of the cash and non-cash items that make up operating revenue and operating expense in the financial statements. For each financial loss year in the updated information where there has been a change from the forecast figure to an actual figure, we will report on:

1. Any accruals valued at \$5,000,000 or more included in the operating cost inputs;
2. Any accruals valued at \$5,000,000 or more included in the revenue inputs;
3. Any non-cash items valued at \$5,000,000 or more included in the operating cost inputs; and
4. Any non-cash items valued at \$5,000,000 or more included in the revenue inputs.

operating revenue in the interim financial statements (rounded to the nearest million dollars) exceeding the revenue input to the updated models by CI[\$]. The reclassification has a nil impact on net profit as it affects both operating expenses and operating revenue.

No reconciling items were identified for the financial loss year ended 30 June 2021.

We obtained from the Group Reporting Manager a reconciliation of the cash and non-cash items that made up operating revenue and operating expense in the financial statements. We identified the following non-cash and accrual items valued at \$5,000,000 or more.

For the financial loss year ended 30 June 2021, revenue inputs included the net impact of movements in receivables of CI[\$] and the net impact of movements in unearned revenue of CI[\$].

For the financial loss year ended 30 June 2021, operating cost inputs included the net impact of movements in payables of CI[\$].

For the financial loss half-year ended 31 December 2021, revenue inputs included the net impact of movements in unearned revenue of CI[\$].

For the financial loss half-year ended 31 December 2021, operating cost inputs included the net impact of movements in payables of CI[\$].

No other non-cash and accrual items valued at \$5,000,000 or more were identified.