

CHORUS LIMITED ANNUAL MEETING 1 NOVEMBER 2018

CHAIR'S ADDRESS

Good morning and, welcome to Chorus' 2018 Annual Shareholders Meeting. My name is Patrick Strange and I am Chorus' chair.

Our agenda this morning is a short address from me. We'll then hear from chief executive Kate McKenzie, followed by resolutions and voting.

My fellow directors are here today:

- Jon Hartley, Deputy Chair
- Prue Flacks
- Murray Jordan
- Mark Cross
- Anne Urlwin
- Jack Matthews
and, of course
- Kate McKenzie.

We also have our Chief Financial Officer, Andrew Carroll, General Counsel & Company Secretary, Elaine Campbell and our auditors KPMG here with us today.

During the financial year ended 30 June, Chorus achieved a net profit of \$85 million and EBITDA of \$653 million, modestly above the top end of our initial EBITDA guidance.

This performance enabled total dividends of 22 cents per share during the financial year, up from 21 cents per share in the prior period.

Management has also responded well to some competitive challenges, which I will outline shortly.

The enormous investment in building a new fibre network continues, and more than 900,000 homes and businesses now have fibre available. Take-up of fibre has also continued to grow rapidly, with more than 50% of those homes and businesses having already chosen to upgrade.

When you include customers who have chosen to upgrade to our premium copper service, close to 70% of New Zealanders now enjoy world class broadband.

It is worth reflecting on the massive scale of national infrastructure upgrade.

By 2022, more than 87% of all the homes and businesses in New Zealand will have fibre available to them. That will place New Zealand around 6th in the world.

The rapid take-up of fibre has also shot New Zealand up global broadband league tables. Already the proportion of broadband connections that are full fibre to the premise places the country in the top 10 globally, and we will continue to climb.

As an infrastructure wholesaler, most of our pricing is set by regulation or government contract. We are not allowed to sell directly to the end customers. However, we have faced competition, with one of the largest retailers of broadband promoting its mobile network, predominantly to its long-term customers, as an alternative to the more reliable and faster

fixed line services we offer. Further, the local fibre network providers take customers off our copper network.

Our response to this has been to focus on our 'active wholesaler' strategy, where we invest to promote awareness of better broadband through advertising, collaborative campaigns with retailers and our own door knocking activities.

The result was that the loss of overall lines - copper and fibre - has slowed to 76,000 during the financial year, down from 125,000 lines the year before.

On the other side of the ledger, reduced revenues due to fewer overall connections has also emphasised the need for careful control of costs.

Following a strategic review, Kate and her team implemented a new business model that has reduced our internal workforce by 12% but also supported overall increases in productivity. This is best illustrated by a 20% increase in the number of fibre connections completed during the year.

The success in these two areas – slowing line loss and improving efficiency while lowering costs - directly contributed to EBITDA exceeding guidance.

While productivity has improved, the Board remains focused on driving further improvements in customer experience. There is still work to do on this front. The complexity of some installations, right-of way issues, the necessity to build seamless interfaces between the RSP call centre that takes an order all the way to the field crew acting on it, the sheer,

un-forecast volume of fibre take-up, and the very tight labour supply market have all led to challenges, which we are getting on top of.

The rapid expansion of Netflix and the potential for the Rugby World Cup being streamed will act as an incentive for more customers to move to fibre, so continuing to improve both productivity and customer experience will be of paramount importance over the next two years.

Kate will speak to you shortly in a bit more detail about the range of initiatives underway.

There has also been pleasing, if sometimes slow, progress in the development of the regulatory framework that will underpin the telecommunications sector from 2020 onwards.

Legislation outlining the framework has passed through the various legislative stages, and may have its third reading today. We anticipate royal assent by the end of 2018.

While we may not have got absolutely everything we may have wanted from the new framework, it is our view that it is a significant positive improvement from the current regime, and will provide greater stability, predictability and certainty for everyone in the sector.

It is also pleasing to note that the regulatory framework enjoys support from both sides of the house, which should prevent major shifts in regulatory environment whenever there is a change in Government.

As we have seen from our neighbours over the ditch, lack of policy and regulatory certainty makes life extremely difficult when rolling out long run infrastructure projects with payback horizons measured in decades.

Once the legislation finally passes into law, it then becomes the job of the Commerce Commission to implement the new regime.

We will continue to work constructively with the Commission, providing high quality information and open engagement to allow them to do their job in as timely and thorough manner as possible.

I would like to take a moment now to address an issue that garnered some negative publicity recently, regarding concerns about the employment conditions of some of our field force.

Like virtually all utilities and telecommunications companies around the world, Chorus outsources its manual field work to partners with international expertise in construction and maintenance of infrastructure. This has been the case in New Zealand since the late 1980s.

The work undertaken currently falls into three broad buckets.

First, the ongoing maintenance of existing infrastructure, second, building the new fibre network backbone, and third, connecting homes and businesses to fibre – essentially taking fibre from the street into the home.

We contract this work to large primary contractors. Chorus does not specify which employment model they use. All of our primary contractors

use a mix of directly employed staff, sub-contractors and small business owner-operators, depending on the type of work they are doing.

The enormous success of fibre has meant some staffing challenges for some of our primary contractors.

To give you an example of this, the total number of people working in the field on Chorus' behalf has more than doubled to about 4000 as we work through the peak of building the fibre network and connecting customers to it.

The recently publicity has been centred on the fibre provisioning work - connecting customers premises to the backbone network - basically, apartment, house or business to the street kerb. At a time of full employment, securing thousands of new, trained workers for what is essentially a repetitive field task with varying demand which will peak over the next year or two has been a huge challenge.

Indeed, as you know, sectors like horticulture and construction are currently simply unable to fill the jobs they have available.

In part, our primary contracting partners have had success in encouraging skilled technicians from other countries to come and work in New Zealand to meet the demand at a time of labour shortage.

The concerns raised by the Labour Inspectorate relate only to the employment conditions of those working in this area - connecting fibre from the street into the home or business.

Breaches of employment conditions are regrettably more common amongst migrant labour generally, not just those doing work on Chorus' behalf. Problems range from simple documentation to more serious issues around pay and visas.

Let me assure you, Chorus is absolutely committed to stamping this out where it involves work for us. When issues have been raised before, we have acted immediately.

We were disappointed with the recent findings of the Labour Inspectorate, which we believe is focused in the Auckland area. Once we became aware of them when they were made public, we have engaged thoroughly, sought information to enable us to act, and commissioned our own independent review to ensure we are doing everything we can do ourselves to address these issues.

We will work with our primary contractors to stamp these issues out, and we will happily share what we have learned with other companies that may be facing similar issues.

We all need a sustainable, fairly paid and committed workforce and Chorus will absolutely play its part in ensuring this situation is dealt with.

But some parties have used the issue to pursue other agendas.

I absolutely refute comments of a few that quality has been sacrificed. Quality has actually improved, and is of a high standard internationally. Chorus spot checks thousands of installations and only around 1% require a return visit. This compares very favourably to the typical 4-5% industry benchmark.

And, as I mentioned before, we have seen a 20% increase in productivity, customer satisfaction with the installation component of getting fibre has increased, and the overall field force is much more engaged.

I applaud the bulk of this largely younger, motivated workforce, many of whom have brought their skills to New Zealand and committed themselves to the specialist training we and our contractors give them, and are making a strong and enthusiastic contribution to New Zealand.

The overall picture for fibre is almost entirely positive. The network is built to an extremely high standard, demand for fibre is through the roof, and together we are transforming our national infrastructure in a way that will make New Zealand better.

I will now hand over to Kate to take you through some more detail about the work she and the team are doing.

Thank you.