

CHORUS LIMITED ANNUAL MEETING 1 NOVEMBER 2018

CEO's ADDRESS

Tena koutou katoa

Thank you Patrick and good morning everyone.

A special welcome in particular to those of you who have joined us here in our offices today - I look forward to talking to you after the meeting.

I believe it's important for organisations to keep looking back on the past so that you remind yourself of how much things have changed and what progress you have made.

It's now almost seven years since Chorus was listed as a separate company and embarked upon the challenge of building fibre past about a million homes and businesses. It was a substantial commitment – not just the formation of a totally independent wholesale network - but also the sheer scale of the investment and effort required to build the network.

When we started, structurally separated networks were a new idea and the demand for fibre was an even bigger unknown. Our original contractual target was to achieve 20% uptake by the end of 2019 when the original fibre rollout areas are to be completed.

We and our shareholders took on significant risk and backed a fibre future. Now, with hindsight, we can say we made the right choice. Fibre uptake is already 50%, with another year to go before that original contractual deadline.

Having recently met with a range of international network operators at the Broadband World Forum, I can tell you that New Zealand has well and truly scored an international upset and is considered a leading light for others to follow.

Network operators and countries around the world now recognise that fibre networks provide the best future-proofed technology to deliver gigabit capability and beyond.

Wholesale fibre networks are springing up around Europe because traditional combined retail and network owners are finding the longer term economics of fibre network investment too challenging for their business models.

In Denmark, long term infrastructure funds were so convinced about the need for fibre that they bought out the listed incumbent telco and plan to operate it as two separate retail and network units. The network business will include both the fixed line and mobile networks because the new owners recognise the economics are better when you have as many retailers as possible using your network.

At the same time, EU policy makers are now promoting wholesale only networks as the solution to Europe's fibre shortage and encouraging fibre investment through pools of funding and recognition that fibre networks require higher rates of return than legacy networks.

Here in New Zealand, we are already seeing impressive outcomes from our decision to go with fibre. In the 12 months since our last shareholder meeting:

- 66% of our broadband customers are on high speed broadband – fibre or VDSL – up from 53% last year
- average broadband speed has grown from almost 60 megabits to just under 90 megabits
- average monthly data usage in the home has grown from 162 gigabytes to 221 gigabytes
- average usage for fibre customers has gone from 251 gigabytes a month to more than 300
- it's no surprise then that Statistics NZ says 71% of residential connections are now on unlimited plans, compared to 62% a year ago.

What are people doing with this data? The answer is, far more than we could have imagined when we started the rollout seven years ago.

New Zealand on Air says 62% of Kiwis now stream content online, compared to 12% four years ago. And we expect even more Kiwis to get to grips with online streaming in the next ten months with Spark planning to broadcast rugby world cup matches online. We've begun encouraging people to get connected – be it to fibre or VDSL – sooner rather than later.

Our “stream big” website is intended to help demystify streaming for those who might not have tried it before.

Imagine what that peak time traffic could look like when the All Blacks play. The volume of 9pm traffic on our network was up another 40% over the last year. The prior year it increased just over 50%.

We've already had a taste of the kind of network traffic spikes the All Blacks may generate online next year with the effect of the online gaming phenomenon Fortnite. The triangle on the chart shows the 20% spike we experienced in July when a Fortnite update was available for download.

There's little doubt that the mountain of data on the chart will be substantially higher again in the future when broadcasters make 4K quality content more widely available.

We're already thinking ahead to what part our network can play in helping broadcasters deliver 4K TV. Earlier this year we demonstrated the delivery of a live 4K broadcast over fibre.

Commentators at the Broadband World Forum are picking that a terabyte – that's more than three times average monthly household usage today – will be the norm by 2025. They say that may be achieved even earlier given the current rate of growth in household data usage.

Data usage isn't just about TV and gaming.

The socio-economic benefits of broadband are substantial and our network is empowering new ways for Kiwis to earn and learn. Technology exports are now NZ's third biggest export, with revenue growth significantly outpacing growth in the overall economy. We want to do more to help Kiwi businesses get a competitive edge and have launched some new business services, including a 10 gigabit per second service to be made available across our fibre network next year.

The 10 gigabit service will allow businesses to work more effectively through video conferencing and have better connection to important

business tools in the cloud. We expect it to be used by a range of bandwidth-intensive businesses, whether they are animation businesses with large data needs, or organisations with large numbers of employees.

Last year we talked about becoming a more active wholesaler. That focus saw the reduction in our connection numbers slow progressively and our broadband connections have returned to growth.

That's been achieved by working more closely with retailers to migrate customers to better broadband and carrying out our own campaigns to raise consumer awareness of their network options.

These initiatives, combined with the strong retail competition created by New Zealand's separated fixed line networks, have helped lift fibre demand to record levels.

Meeting this demand has been our biggest challenge.

As the slide shows, we've had to grow our workforce rapidly to try and get customers connected as soon as we can. Our service companies added 185 installation crews in the last year alone and helped us achieve a record 156,000 installations.

In the three months to the end of September we completed 50,000 installations. That's another record. And weighted average lead times were tracking at about 8 days in September compared to 13 days back in June.

As I said last year, we're putting a lot of focus into refining industry processes to boost productivity and minimise the amount of effort

involved for customers. Other international fibre network builders tell us they have had to deal with exactly the same challenges we have.

Accessing and connecting fibre into someone's home can be difficult no matter what country you're in. They, like us, have also had to work on improving systems and operational practices.

We have a big programme of work underway to reduce the time taken to connect customers to fibre to just a single visit by us. Initial trials have produced great feedback from retailers and in a few days we'll be releasing about 30% of our address base to retailers as the first phase in this initiative. Our goal is to lift the number of customers connecting with a single visit from about 25% to about 50% by Christmas.

To borrow a word from one of my industry colleagues – we want to make the provisioning process happen *automagically*. To that end, we've been opening up our systems and launching interfaces – Application Programming Interfaces or API's in technical speak – so that retailers can access more information and gain greater control over processes.

The latest API we've released, for example, enables retailers to avoid going through about 8 separate systems and reports, just to determine if broadband is available for a business.

We expect these initiatives to also help lift our customer experience scores. Some people ask us why, as a wholesaler we measure customer satisfaction. The fact is these scores help us to identify where we can improve our processes, or where we can work with particular retailers to improve processes. We want all new fibre customers to have a good experience. A bad experience will only discourage others from connecting.

That's why we were disappointed when we missed our customer satisfaction target of 7.8 last year, with only a slight lift from 7.4 to 7.5 over the twelve months to the end of June. We're not shy of setting ourselves tough challenges and we've raised the bar further again, with a target score of 7.9 by the end of this financial year. We need to work in concert with retailers to make that happen.

We're now entering a phase where we expect to have a clearer regulatory regime than in the past – one which promises to better recognise the need for ongoing investment. Once the legislation is passed, it may take the Commerce Commission some time to nail down every detail required to implement the new framework, but we're looking forward to working with them to satisfy the objective of a smooth transition.

The rapid uptake of fibre also means we're clearer than ever on our strategic direction. We've begun reshaping the way we operate to reflect the network transformation that is occurring and to harness the full potential of the technology we've been building.

That means optimising our business as it is today, across both fibre and copper, and innovating for new revenue opportunities – some of which I mentioned earlier. While we talk a lot about fibre, a big part of our optimisation focus includes the copper network. Our investment in vectoring technology during the year has improved average VDSL broadband speeds by over 40 per cent for downloading. That's a huge boost for those who don't yet have fibre connected, including many rural residents.

And the copper network continues to perform well in terms of fault levels – both as a result of our VDSL and ongoing proactive maintenance

programmes. Current residential fault restoration times are at about 16 hours, significantly better than our target of 24 hours.

You may have noticed that we've refreshed our brand for the first time in a decade. At the same time we've adopted a new company purpose to better reflect the long term view we're taking as a utility network operator.

That purpose is to keep New Zealand new. We want to make New Zealand better, keeping it at the cutting edge through the connectivity our infrastructure enables.

That's why we were delighted to win the *Broadband Delivering Social Impact* award at the Broadband World Forum last week with our supplier partner Nokia. The award was fantastic recognition for a lot of people who had worked hard over many years to improve broadband in rural New Zealand as part of the Government rural broadband initiative.

And we haven't stopped there. We've been doing a lot of work with government agency **Network for Learning** to develop various ways in which our network can be used to bridge the digital divide in urban communities – by enabling students to access their school's network at home, even where their family may not be able to afford a broadband service. **Network for Learning** has shown some great foresight in undertaking this initiative and I believe it has great potential to make New Zealand better.

On that note, here's a news clip that gives you a better sense of just what we're talking about.