



CHORUS LIMITED ANNUAL MEETING 1 NOVEMBER 2017

CHAIRMAN'S ADDRESS

Your Board continues to focus on creating long-term value for shareholders through delivering better broadband for New Zealanders. Chorus is more than 70 per cent of the way to our original goal of bringing fibre within reach of over a million potential customers and we're already on the cusp of achieving 40 per cent uptake.

That's a big step up from the 24% uptake as recently as in June last year. And, in the same period, we've made fibre available to another 100,000 premises. This level of uptake has only been achievable because of the large investment we've made to boost the number of customers we're connecting each week. More importantly, while volumes have increased, so has customer satisfaction. Kate will talk a bit more about that shortly.

Fibre is clearly seen by New Zealanders as the premium broadband service and the demand we're seeing gave us the confidence in January to announce an extension of our UFB partnership with government to another 200,000 or so customers. In late August we agreed to go further again – to another 60,000 or so customers. We also committed to complete our rollout work by the end of December 2022, two years earlier than originally planned.

I can't emphasise enough how fantastic this outcome is by world standards. We're taking fibre from Auckland, with a population of about 1.5 million to places like Ahaura on the West Coast of the South Island with a population of about 370. Blackball, Taylorville, Dobson, Moana, Kumara and Kaniere are all on the list too.

When we're done, more than 1.3 million customers will be able to connect to our fibre. That's about three-quarters of the 87% of New Zealanders to be covered, with the balance provided by the local fibre companies.

Our decision to commit to extending fibre further was not an easy one. We'll be taking on about \$100 million more in peak debt funding. However, the Government has

committed to providing additional financing to reflect the greater cost of taking fibre to these areas. And while it's not a subsidy, this financing and the encouraging demand for fibre helped tip the scales for us to invest in these more regional areas.

We weren't successful in the second phase of the Government's Rural Broadband Initiative and Mobile Blackspot fund. We aren't a mobile operator so mobile blackspots were always going to be challenging, while the UFB2 extension programme was developed in parallel and provided the best option for securing government investment whilst creating a positive return for our shareholders.

We were also encouraged by the Government's significant steps towards implementing a utility-type regulatory framework to fibre. Draft legislation was introduced to Parliament in August that outlines the adoption of a building block model – as used for electricity and gas networks – which would apply to our fibre network from 2020. If and when this framework is passed into law, it will be subject to interpretation and implementation by the Commerce Commission. So the legislative detail will be important to ensure a smooth transition to the new regime by 2020. Labour has supported this regulatory direction, and we do not anticipate any change from the new government.

It will be important that the legislative framework sets up a situation so that the Commerce Commission is not asked to second guess the past, can transition to the new regime without shocks for consumers and investors, and is clear on the utility principles of regulation to enable future innovation and investment.

While fibre is clearly the focus of our investment, there are other areas of the business that also deserve mention.

Our network team put a lot of emphasis on fault performance on the copper network this year and they've delivered great results for customers. Last year, we struggled a little after heavy winter rain and third party network damage, which led one of the retailers to claim the copper network was unreliable in order to promote its own wireless offering. The network maintenance teams kept repair times to around 24

hours this year despite a very challenging and wet autumn and winter, and clearly demonstrated that the copper network continues to be highly reliable.

We also continued to invest in the copper network to provide customers with an even better broadband experience. We upgraded more than 100 rural broadband cabinets with VDSL capability and deployed a new technology nationally to improve copper broadband stability and performance.

The new regulatory framework has not dealt with the rural parts of New Zealand where the costs are highest. This will be something that needs to be looked at if New Zealand wants to incentivise ongoing investment and enable better broadband for people in non-fibre areas.

Competition from other networks – fibre and wireless – remains perhaps the single most important challenge facing the business. While Chorus achieved net profit after tax of \$113 million and delivered EBITDA of \$652 million, total connections reduced by about 125,000. That translates to about \$55 million in reduced revenue in the current financial year.

The loss of copper connections to other fibre companies is expected. The more recent dynamic is having a large vertically integrated retailer encouraging their customers on to their own wireless broadband network. Wireless does make sense for some customers in some locations, or if they are very low data users, but its benefits have been oversold for many. That view has recently been backed up by Consumer New Zealand who noted that some of the claims being made about wireless performance don't stack up.

Last year I said I was a little frustrated that retailers were not encouraging customers to upgrade to much faster VDSL where it was available and that we intended to do more to help customers realise what was on their doorstep. We've done that and VDSL uptake has lifted significantly. That's partly because we've been advertising its availability, but also because we've been providing retailers with incentives to shift their customers to better broadband – be it VDSL or fibre. That does come at a cost to

Chorus, but it makes sense to encourage customers to stay on our network – particularly when we know we offer a better service.

We've invested heavily in improving the experience for customers moving to fibre as well. Now that the processes we developed to support this migration with retailers are bedded in and fibre connections are happening in large volumes, it's time for us to take a good look at how we can reduce our costs back to a more sustainable level.

A fully imputed dividend of 21 cents per share was declared and we've indicated an increase to 22 cents for this financial year. We continued to offer a dividend reinvestment plan so that we can retain cash for network investment purposes and to provide an option for shareholders to build on their investment in us, and this remains very popular with shareholders with a more than 50% uptake for the final dividend. Given the additional capex we've committed for UFB2, we decided to have the final dividend underwritten. This meant about 6 million additional shares were issued, retaining more than 20 million dollars for investment purposes. No decisions have been made on underwriting future dividends.

Just as Chorus itself is evolving, so is your Board. Keith Turner has been a director since Chorus was established in 2011 and is standing down this year. We thank Keith for his tremendous contribution through those formative and at times challenging years, and particularly for his invaluable contribution to getting our capital build on such an efficient footing.

We're pleased to have Jack Mathews standing for the Board today. Jack brings wide ranging experience from across media, telecommunications and technology industries. The Board unanimously supports his appointment as an independent Director. Kate McKenzie is also standing, clearly with our support! We appointed Kate as chief executive back in February and she has done a great job getting up to speed very quickly with the New Zealand environment and bringing her extensive Australian telecommunications experience to bear.

One of the first things we did with Kate was to go through a major strategic review of the company to consider technology and industry developments. This review gave us even stronger confidence in Chorus' future and the role of fibre.

It's clear that New Zealand is different from most other countries because it is well on the way to having fibre connected into most homes and businesses. We've already bridged the challenging economics that other countries continue to grapple with and where wireless, or copper networks are seen as the next best solution. As one industry report said recently – New Zealand's streets are paved with glass. And that fibre optic glass is why we believe wireless networks will remain complementary technologies. Fibre provides a dedicated connection that can carry substantial amounts of data. Combine that capacity with our other infrastructure and there's no doubt Chorus has a strong role to play in helping New Zealanders enjoy the benefits of emerging technologies.

I'll now ask Kate as CEO to talk through what she and the rest of the Chorus team are focused on.

Thank you.

ENDS