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PRESENTATION

Mark Ratcliffe *- Chorus Limited - CEO*

Good morning everybody. Welcome to those of you in the room. We've also got people watching -- or listening on the webcast there. So, we'll manage the interaction between people in the room and people there as we go to Q&A later in the day. Look, tomorrow's actually a bit of a landmark day for us because it's actually a year since we -- the Crown announced that -- its partnership with Chorus and what a year it's been.

We met with many of you in September last year to talk about the then proposed demerger and since then we've successfully completed the structural separation in what many have regarded was a record time thanks to both the efforts of the Telecom and Chorus teams. We've also completed the Fibre to the Node program and started the rollout of New Zealand's new fibre networks as part of the Ultra-Fast Broadband initiative and the Rural Broadband initiative.

Today, what we wanted to do is talk a bit to you about what Chorus looks like as we approach the end of our first six months' operations as a stand-alone entity. You've been heavily reliant on the Telecom Scheme Booklet for information about Chorus today and what we wanted to do was give you an opportunity to get to know us a little bit better. So the presentation this morning isn't intended as a general overview, as we think that's actually relatively well covered in the Scheme Booklet.

What we thought would be more useful to do was to really focus on some of the topics where you've been particularly asking us questions over the last six months and wanted more flavour on those things. So, we'll get down to some of the detail on some of that. So, that's a little different from how things might have been done in the past.

So, with me today I've got three of my colleagues. Andy Carroll will be first up to talk about capital expenditure and assets -- and in particular, capital expenditure especially with major fibre programs. Chris Dyhrberg, who is the general manager of Network Build, will give you an update on the UFB rollout and Victoria Crone, who's our general manager of Marketing & Sales, will give you an overview of the New Zealand market and our customers in general. Then I will come back and end the presentation in about an hour and a half or so with some of key points on our performance over the past six months and tackle some of the main issues of the recent weeks.

What I thought we would do was take a few questions at the end of each of the guys' presentations and then have a more detailed Q&A at the end for general questions. So, if you can try and restrict your questions to specific to the presentations, I know we're happy to complete the open forum towards the end. So what we're aiming to do is finish up around midday. I know that many of you here today are going out with Chris and Vic on a bit of a tour of some of the UFB build later in the day. So, that's the plan and I'll pass over to Andy.

Andrew Carroll - *Chorus Limited - CFO*

Thank you, Mark. As Mark has outlined, the focus of this presentation is Chorus's CapEx. The first half of the presentation provides an overview of Chorus's CapEx -- its quantum and make-up. The second half will provide an update in terms of the UFB build program. So, this slide starts the story. It's a summary of the net book value of the assets that we started life with. We manage an asset intensive business. A key focus for us will be to develop an asset base to support and grow future earnings. And as most of you know, we expect to spend more than half of our revenues on CapEx over the UFB build period, which is a very significant proportion. We have to manage our CapEx extremely well.

Many of you have pointed out that historical pro forma CapEx contained in the Scheme Book is not of particular assistance in terms of predicting future spend. The make-up of future spend will be quite different. Pro forma CapEx included Fibre to the Node spend -- that's not relevant now -- and happened to exclude UFB and RBI initiatives, which are quite material in terms of spend.

We will be talking about CapEx in these three broad categories. Fibre -- that includes spend specifically on fibre assets -- Layer 0 and 1 UFB network assets, assets to support the fibre network, such as IT delivering UFB products, and programs largely focused on fibre, such as RBI, which has some copper related elements within it. Copper -- that includes the spend on copper related network assets and supporting capability -- so the Layer 2 electronics on copper. And the third bucket is Common & Other, which is a range of spend that's unrelated to network asset class, such as Chorus enterprise systems, buildings and other.

This slide provides some guidance in relation to the expected quantum of gross CapEx for this year and next. We expect gross CapEx for the seven months to 30 June to be in the range of NZD335 million to NZD355 million and NZD560 million to NZD610 million for FY13. Future CapEx reporting will be on this gross basis.

By way of the context, this slide also sets out certain funding Chorus receives in relation to some of this CapEx spend, providing a sense of the net, or Chorus funded, CapEx position. The timing of the receipt of those contributions is milestone related. So, actual cash flows may differ from those presented here. So, if we hit a milestone on 1 July as opposed to 29 June, that spend might be recognised in next year, but of course the total spend under both UFB and RBI is unchanged.

This slide provides an overview of the indicative expected make-up of FY13 gross CapEx. There is quite a lot of detail here. Some suggested that it might be too much, but we're providing what we think is a high degree of transparency about the make-up of our CapEx. We think that this should help you understand the likely profile of CapEx over time. The spend in some of these categories will tail off in a few years -- some in five or eight years, and others will be much longer.

As you'll note, spend on Fibre Assets and related programs will make-up around 80% of our expected gross spend, Copper around 13% and Common the balance. The splits that we've provided here are indicative -- effectively, they're mid-points in range. So, please don't persecute us in terms of precise estimates when we report actuals.

The next few slides provide a bit more detail on the drivers underlying the spend. A few highlights in terms of Fibre CapEx categories. So, UFB related expenditure makes up around half of the gross spend in 2013. So, in this category we've got the spend for 100,000 odd premises that we expect to start work and complete next year in addition to the CapEx that we will incur on premises that we will complete -- that we will start but not have completed. So there is a work in progress element in this category. At this stage in the rollout, CapEx for uptake on premises that have been passed will be modest. There's also investment in Fibre related products and IT systems to support the UFB project.

The other government related initiative, RBI, is also a significant element of the spend. It's a five year program. The spend is biased towards the earlier years. In addition to the fibre to the schools, cabinets and mobile towers, there's CapEx in here for Layer 2 electronics that support services over both Copper and Fibre.

Copper -- even with reasonable fibre uptake over the balance of the UFB build period, a very significant proportion of our revenues will continue to be derived from copper-based connections and services. So, we will continue to be spending significant sums on Copper CapEx for the foreseeable future. We will need to continue to support copper-based connections and services outside of our UFB areas and for those customers within UFB areas that are linked to retain a copper connection.

Common CapEx -- that relates to expenditure that isn't readily attributed to fibre or copper related networks. So, we've got IT spend -- that's the most significant item here. We are required to migrate away from Telecom's enterprise systems that we can't repay to use. So that will be a reasonable significant spend in the next few years and we've got property and other in this mix as well.

Contributions to CapEx -- we receive, as I mentioned before, funding from various sources to assist with our CapEx program. The UFB and RBI funding here is milestone related. So the timing of these funding flows won't necessarily turn up on a straight line basis. I think you all know about the UFB funding. We receive NZD1100 odd for each premise passed over the next eight years. That totals up to a maximum of NZD929 million and we're required to repay elements of that funding from 2025 onward.

RBI funding is tied to contractual milestones. We expect to receive around NZD225 million of grants over the course of this five year programme. The grant's focused on Layers 0 and 1. We pick up the tab for the Layer 2 electronics. And the Other category -- as noted there, that reflects a little bit of funding that we receive when we're required to relocate or rebuild elements of our network, perhaps because of roads being widened.

Now to the second part of the presentation -- UFB. This slide repeats some of the UFB metrics that you'll be familiar with. The Scheme Book provided you with a very simple average of the cost per premise passed for the entire programme. Today, we will provide you with a better sense of the expected profile of build costs through the programme. There are a number of factors that influence the expected cost profile and we've noted a few of them here.

So, there are things like the mix of premises -- so, priority premises, which are the things that we need to build to by 2015, typically cost a bit more than a residential premise to build past. Build costs vary by architecture. So, if we get to reuse existing network or deploy into an open trench that's obviously cheaper than digging new holes. And as noted there, it also varies by geotypes. So, it's more expensive to deploy in the CBD, typically, rather than a greenfields trench. Last but not least, where we are at in terms of optimising our deployment approach.

This slide provides a pretty stark representation of the start-up nature of our build activities. We've moved from having no crews in the field in September of last year, to the mid-170s in May and April. In the long run, we expect to have an average of 180 to 190 crews. I think one of the key points to draw from this slide, though, is naturally with this ramp up in activity there are some inefficiencies in current build practices.

In terms of UFB build progress itself, we've completed around 5% of the build. At the end of this financial year, we expect to have completed builds to around 40,000 to 42,000 premises -- passed premises -- with another 10,000 to 12,000 premises recognised as work in progress. Many of the latter will be substantially complete. Consistent with our experience in Fibre to the Node, the initial cost per unit for this work was expected to be greater -- significantly greater -- than the long run average. We're passing higher cost priority premises and our processes are at their least efficient. This year we expect the average cost per premise passed for those premises that our completed or are work in progress to be in the order of NZD3300 per premise.

We've got a range of initiatives underway to deliver reductions for FY13 and beyond. In terms of next years' CapEx program, we're targeting cost per premise passed in the order of NZD2500 to NZD2700 per premise and by the end of the period we're looking at NZD1200 to NZD1500 per premise. Just to bear out the experience in terms of average costs being high at the start of a program, this represents our experience in Fibre to the Node. We realised significant cost efficiencies over the course of this program. Fibre to the Node had a very significant element of civils work and materials within it, similar to UFB.

As I mentioned before, the Scheme Book provided a very high level summary of the average cost to pass a premise over the entire program. This diagram represents our assessment of the cost profile over the course of the program. There's a number of drivers that contribute to this profile. At the start, there's a range of setup and mobilisation costs and inherent inefficiencies in the process.

As we achieve our expected build efficiencies, we'll realise that first dip change in the average cost per premise passed. Around the middle of the program, the build to the priority premises will be completed, reducing average cost per premise passed further. In the second half of the program, we expect our fibre factory to be at its most efficient, as we complete the residential deployment. In short, we remain comfortable that we have the plans in place to deliver an expected total UFB communal build cost in the range of NZD1.4 billion to NZD1.6 billion.

This slide summarises some of our build experiences this year and provides a sense of how we think it will evolve into FY13. As I've mentioned a few times, we have incurred some start-up costs this year. The rapid mobilisation of resources has contributed to sub-optimal design and some instances in sub-optimal deployment practices. We have had a lot of process set up. We've spent a lot of time in the first seven months with our partners and councils standing up the frameworks and approaches we'll refine in subsequent years. The delayed approval of the Year 1 deployment plan has also contributed to additional costs this year. This year has been totally focused on meeting timelines.

Many of these start-up activities won't feature again next year. We've already a number of initiatives to significantly improve average build costs. We've agreed the Year 2 deployment plan and that allows us to start planning and organising resources in advance. We're looking at longer term supply arrangements to provide greater certainty and to drive down build costs. Working more effectively with councils will also deliver build cost efficiencies.

And another thing, last but not least, a few brief words on something other than CapEx. This has been a recurring question, but the dividend one is that we won't answer until our results announcement in August.

QUESTIONS AND ANSWERS

Andrew Carroll - *Chorus Limited - CFO*

Are there any questions? So if we just hold fire for a moment please folks, we will need a microphone so those online can hear the question.

Richard Eary - *UBS - Analyst*

Hi, Andy. It's Richard Eary from UBS. Just three questions based on the back of that presentation. Can you talk about the magnitude of the costs in '12 and '13 in terms of the one off costs that we should be able to think about? That's the first question. The second question relates to the costs that you're paying Telecom. You mentioned the reinvestment of the IT programs to try and reduce those costs. Can you give us an indication of how those costs will change over the next couple of years? The last one, if we're actually starting to see CapEx being brought forward, can you give us an idea in terms of the D&A profile over -- at least the first couple of years would be helpful?

Andrew Carroll - *Chorus Limited - CFO*

Perhaps if we start with the latter. I think we've provided guidance for FY13. In terms of the variable -- or the pieces that could change over time, you can probably come to your own views in terms of the IT piece. We need to have a plan that's signed off by MED later this year, so we can't really say much about the IT program until we have that sorted. RBI, I've said, is front end loaded. So, that's probably all I can say about that at this stage. UFB -- we've given you a sense of cost per premise. You know what build milestones we have and we haven't provided any guidance in terms of connection CapEx over time. But we have given you a sense of an average cost of that, so I think we're leaving that piece of the CapEx discussion for the market to form its own view.

So, I think that probably deals with questions two and three. Your first question?

Richard Eary - *UBS - Analyst*

The first question was -- I think it's on slide -- you talked about some initial start-up inefficiencies in the system, I was just trying to get a feel in terms of how material they were, in terms of what numbers we should think about for '12 or '13.

Andrew Carroll - *Chorus Limited - CFO*

Well, I think that we've factored that in. We haven't -- some of that is quite hard to quantify. So how would you quantify the costs of standing up the framework for reporting and UAT testing with CFH? That's quite hard to quantify. Some of the numbers we've quantified though in terms of those set-up costs are in the order of NZD100 to NZD150 per premise if you average them out.

Richard Eary - *UBS - Analyst*

Thanks.

Geoff Zame - *Deutsche Bank - Analyst*

Andy. Geoff Zame from Deutsche Bank. Could you just -- this is probably a higher level question, but can you talk a little bit about -- one of the questions we get asked a lot is how you're going to contain any risk of CapEx blowout? So, I guess it comes back to your arrangements with Visionstream and what have you. Are you able to provide some high level colour on aspects of those contracts, which are watertight in terms of your deployment costs?

Andrew Carroll - *Chorus Limited - CFO*

Chris will talk to some of that, but I think as you're aware, we haven't sheeted home all of the build risks that are inherent in the program to our partners because we back ourselves to achieve efficiencies through the process. So, we're still in the mode that we think we can get an awful lot better at this. So, rather than have back-to-back arrangements with our build partners, we're better to take that risk ourselves, strive for the efficiencies, then we are the ones that recover the gains in the long run. So, at the moment we have relatively short term arrangements with our build partners. There are learnings from Year 1 and we will look to longer term arrangements reflecting the learnings from this earlier period.

Geoff Zame - *Deutsche Bank - Analyst*

Just another one -- on the CapEx guidance, I think your FY13 is probably broadly in line with the market, but when you look -- the percentage on Copper CapEx, it looks quite low. Can you talk about Copper CapEx in terms of an absolute number? I understood it being in the NZD180 million to NZD220 million range. Is that a little bit excessive in terms of broad copper maintenance?

Andrew Carroll - *Chorus Limited - CFO*

I think, again, that depends, Geoff, in terms of how you count these things. But if you multiply the 13% number that we've got there -- if you multiply the guidance rates by 13% that is roughly what we are expecting to spend on Copper in terms of the way that we've categorised it here. As I noted though, there are some programs like RBI that have elements of them that service copper -- that deliver copper-based services -- but it's a fibre oriented program. So, in a sense we have some Copper being counted in Fibre because we've put the whole of the RBI program into the Fibre category.

Geoff Zame - *Deutsche Bank - Analyst*

Okay. Just finally--

Mark Ratcliffe - *Chorus Limited - CEO*

Geoff. Can I just -- I think the other thing you might want to do, is I think what we're saying how you might want to compare that back to previous years. The other fibre category, which is for access connection growth, would have been thought of as part of the previous business units because we were spending extensively on Fibre. I think there's been to some extent a misunderstanding by some -- or a portrayal that we weren't a committed fibre business prior to the Ultra-Fast Broadband network. We were spending considerable monies on fibre. And therefore you have to take a few of those categories and when you start to bring those together, you get a number that is more back to what you previously said was the baseline CapEx.

Geoff Zame - *Deutsche Bank - Analyst*

Right. Okay. Just finally, I see the Board has reserved its right to discuss the dividend until August. Is there anything happening between now and August which has led them to make that decision? And also, just on the subject of guidance, is there any guidance on the annualised run rates at the operating level?

Andrew Carroll - *Chorus Limited - CFO*

I think it was always our plan to say something around FY13 dividend in August, Geoff. So we haven't changed our timing on that. In terms of earnings guidance, we haven't provided anything specifically. I think a lot of you have based you earnings outlook largely on the material that was contained in the Scheme Book. This world is obviously a little different to that but we haven't felt that we've needed to come out and say anything in terms of adjusting market expectations. So, we won't be saying anything I terms of earnings guidance, Geoff.

Geoff Zame - *Deutsche Bank - Analyst*

So we can take comfort from the continuous disclosure obviously.

Andrew Carroll - *Chorus Limited - CFO*

We are aware of our obligations, Geoff, yes.

Geoff Zame - *Deutsche Bank - Analyst*

Thanks, Andy.

Adrian Allbon - *Goldman Sachs - Analyst*

Andy, it's Adrian Allbon speaking from Goldman Sachs. Just a follow-on question from Geoff's on the dividend. I appreciate the forward looking position. Are you able to give us some colour or perhaps the key assumptions that underpin the NZD0.25 in the Scheme Booklet?

Andrew Carroll - *Chorus Limited - CFO*

That was set by the Telecom board, so I don't think it's really appropriate for me to comment on Telecom's decision making.

Adrian Allbon - *Goldman Sachs - Analyst*

Okay. It's just that from our perspective it's been a key hinge-point for setting our forward looking estimates on.

Andrew Carroll - *Chorus Limited - CFO*

Yes, and we understand that investors like--typically like to see consistency in dividends and ideally with a bit of growth. We're aware of that and that is obviously a factor that we will discuss with the Board.

Adrian Allbon - *Goldman Sachs - Analyst*

Okay. Thank you.

Tristan Joll - *UBS - Analyst*

Hi, Tristan Joll, UBS. Just one follow on the Crown Fibre funding component that's flowing into your CapEx budget for next year. That looks -- that's a tad higher than what I had. I guess part of that is clearly because of the WIP thing, which you've identified here being a further 10,000 odd homes worth of build costs in there. The question I had was just in terms of the mechanism that sees you recover money from Crown Fibre, is there a tilted approach to paying you back for business premises or higher cost premises or is that a uniform cost throughout the course of the project?

Andrew Carroll - *Chorus Limited - CFO*

It's a uniform payment approach. So, all premises are equal.

Tristan Joll - *UBS - Analyst*

All right. Thanks.

Greg Main - *First NZ Capital - Analyst*

Andy. Greg Main from First NZ. Just a question on the RBI -- obviously that seems to be more front end loaded than I thought it would be. Would that be a similar level for FY14 and then fall away quite quickly?

Andrew Carroll - *Chorus Limited - CFO*

It's not quite as large, but it is front end loaded. So, the last couple of years are quite a lot smaller.

Greg Main - *First NZ Capital - Analyst*

Right. Then obviously as part of Chorus's operations, is there going to be something going through the cost line with regard to funding for RBI that Chorus is exposed to beyond FY12, '13?

Andrew Carroll - *Chorus Limited - CFO*

Sorry. Greg, can you--

Greg Main - *First NZ Capital - Analyst*

Or as part of meeting the Development Levy? It's any commitments that maybe weren't in financial previously.

Andrew Carroll - *Chorus Limited - CFO*

So, the TDL wasn't part of the pro forma numbers. That's correct. We're not aware of -- the Levy hasn't been set for future years, but the commission has obviously indicated that they expect -- or they think that we will be part of the contributors to the TDL.

Greg Main - *First NZ Capital - Analyst*

Thank you.

Andrew Carroll - *Chorus Limited - CFO*

Any further questions? Perhaps anyone online?

Operator

(Operator Instructions).

Andrew Carroll - *Chorus Limited - CFO*

Right. Thank you

Operator

We have one question on the phone from the line of Mark McDonnell. Please ask your question.

Mark McDonnell - *BBY Limited - Analyst*

Good morning and thank you for this update -- very timely and very helpful. I'm wondering to what extent you're engaged in any international benchmarking on your CapEx deployment and given the sensitivity to geography, population density and the like, if you could indicated the other parts of the world that you think are most directly relevant and comparable?

Andrew Carroll - *Chorus Limited - CFO*

Thank you. I might get Chris to talk to elements of that because he will be covering elements of that in his presentation. We have spent quite a bit of time with NBN comparing notes in terms of build costs and we have had Analysys Mason review our thinking around build costs. They'll obviously have a significant global expertise. So, we think we've done a good job of benchmarking our build costs against comparables.

Mark McDonnell - *BBY Limited - Analyst*

So is that -- NBN in Australia and Analysys Mason looking where actually?

Andrew Carroll - *Chorus Limited - CFO*

NBN's obviously Australia. Analysys Mason has looked at the build costs in New Zealand and compared that to experiences that they have seen offshore. Civils costs are obviously a significant component of build costs and civils costs tend to be New Zealand centric. Civils costs -- they vary country by country.

Mark McDonnell - *BBY Limited - Analyst*

Okay. Thanks.

Operator

There are no further questions from the phones. Please continue.

Andrew Carroll - *Chorus Limited - CFO*

Thank you, everyone. Chris will now take over and he'll talk to you about build.

PRESENTATION

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Thanks Andy. As Mark said at the start, my job today is to talk to you a bit about deployment of the UFB network and some of the principles that we'll be employing along the way. I warn you in advance that my slides have a number of acronyms in them. I will try to remember to explain what they are as I come up on them on the first time. But by all means ask me about them afterwards if you need.

So the map here shows the 33 UFB candidate areas. The blue areas are the Chorus areas and the other colours belong to the other local fibre companies. The list of twelve of areas on the left-hand side shows where our Year 1 construction is. As Andy mentioned, we've already released our plans for the Year 2 deployment and this includes Nelson, Oamaru, Queenstown and Whakatane. We're also currently working with CFH on finalising our Year 3 plans. We expect to have that out for consultation with the local councils shortly.

We made the decision early on to use our existing service company partners, Visionstream, Downer and Transfield, to undertake the network build on our behalf. We have a long-standing relationship with them and they all have the recent experience of the successful Fibre to the Node deployment to work from. We've put in place an interim contract to kick off the Year 1 build and this will be in place until the end of the calendar year.

We're working on the long term contracts that leverage off our existing ten year contracts with them and we'll employ the same basic model as we did for Fibre to the Node. This will allow us to balance providing certainty for all of the parties, while maintaining the flexibility to work with the service companies over the life of the project to adapt and optimise the build and to realise efficiencies and cost savings over the life of the project.

It's been important as we've developed the build program to try and balance resources and workload across the regions. It's been quite challenging in the first year as we've had to respond to the delayed start and the changes to the initial build areas. However, the second year will be better in this regard as we've got more time for planning and that initial resource mobilisation is complete.

The first year's also given us the opportunity to get more detailed on costs and issues that we'll face through the build. This has enabled us to identify opportunities for cost savings -- particularly in the areas of network design, civil practices and materials -- and it's also allowed us to set up a process for regularly reviewing results with the service companies to address cost and quality issues over the longer term to ensure we bring the project in on budget.

It's important for us to focus on achieving the lowest total cost of ownership for the UFB network. For this reason we've decided to put the network along the streets underground. Aerial networks cost more to maintain and are more susceptible to storm damage. In addition, we're acutely aware of the communities' demands for moving aerial infrastructure underground and we want to avoid the cost of redeploying the network over time. Our advice is that the total cost of ownership of an overhead distribution network becomes more expensive after seven years and it will be 80% more expensive than the equivalent underground deployment over a 25 year period.

We're also designing the network to maximise long term efficiency and reduce maintenance costs and have used a design principal of a maximum distance of 10 kilometres from the central office to any premise. This improves the quality and provides for a greater tolerance to faults and also provides for greater flexibility to move to future technologies with tighter specifications as the need arises.

We'll be reusing as much of the existing network as we can for the UFB deployment and identifying opportunities to work with councils and utilities to reduce deployment costs is something that we're really focused on. This can involve trench sharing or linking with footpath programs to avoid reinstatement costs.

With an open mind on ways of doing things and continuous improvement focus, in many respects our first year deployment has been a learning process and we're refining our deployment approaches and methods. We're working with CFH to go places where there is high-density or priority users and where there's indicated demand. Finally, we're working to ensure we keep the communities well informed to help minimise disruption and inconvenience.

With 60% to 70% of deployment costs relating to civil work, it's critical to leverage as much of our existing duct network as possible. Half of our existing network is already ducted and we expect to be able to use much of that as we deploy and only 60% of the network will need to be new duct. We're also able to employ a consistent approach across UFB and RBI through the use of many of the same materials on both jobs. For example, we're able to use the same cabinet modified to house active equipment and similar microduct where appropriate for RBI.

In addition to using a lot of the existing duct network, we'll also be able to use much of the fibre deployed for Fibre to the Node to connect the new UFB cabinets back to the central office -- about 50% of the time. This slide shows the new passive fibre cabinet. We call it an FFP, or Fibre Flexibility Point. There's a real one next door that you can have a look at afterwards. It was developed with Eaton in Christchurch and was built upon our Fibre to the Node cabinet experience with them. They're designed to facilitate easy maintenance in the fibre network and support a combination of air blow fibre and flexed fibre technologies.

It's flexible because the fibre management system also supports both point-to-point connections and pond capability and the round end enable better access to the ducts to facilitate blowing air blown fibre from the cabinet to the premise. It also has an extra 100mm duct for future use and tubes to accept extra feeder fibre. Unlike the Fibre to the Node cabinets, there's no electronic equipment in the UFB cabinet -- therefore, no power.

It houses optical splitters, which are installed on demand as growth goes, and each splitter is providing a connection to up to 32 customers from a single feeder fibre back to the central office. Microducts, or traditional fixed fibre, then run from the cabinet along the street to the individual premise.

As we deploy the network down the street, to be able to connect individual houses to the cabinets, we take a flexible approach there too, so can utilise any existing network that may already be there. Our standard approach is to deploy microduct for air blown fibre. This is deployed either into an existing duct, where there is room, or directly into the ground. Microduct enables the actual fibre to be deployed on demand deferring the investment until closer to revenue generation. However, where there is existing duct but no room for microduct, we can use the traditional fixed fibre and utilise a different network architecture. Also, depending on which option is more cost effective overall, we will take the duct down either one side of the street or both.

While we're certainly far from being the first network operator to deploy a Fibre to the Premise network, the technology is still relatively new. We've learned a lot from Fibre to the Node, but we're also making some changes to our practices to keep them relevant for UFB and RBI. To this end, we're spending a lot of time engaging with overseas vendors and operators so we can find better ways of building our network.

We've shared ideas and solutions with other operators including NBN Co. in Australia, OpenNet in Singapore, Telekom Malaysia and BT Openreach in the UK. We've also worked with a number of our vendors to co-create some of the products and materials that we're using in the network and this includes the new fibre cabinet.

So far I've talked about the process of getting the fibre down the street. I now want to talk more about getting the fibre from the street into the home or business. So, once CFH have done the final checking and approvals, we're then able to take and order from a service provider to connect and then use it.

We're currently running a trial where there are service provider customers to help optimise the process. This process is a one-stop process to get the fibre from the premises to the boundary and into the home. Overseas experience tell us that multiple track rollouts are not only more costly but also result in a lot more faults. The four or six day SLA for installs requires to install the fibre from the boundary as well as completing the in home installation of the ONT, or optical network terminator, which is essentially the modem for fibre.

Our contract with CFH requires us to do standard residential installs for free, but non-standard installations are not free. There's ongoing discussions with the industry and CFH on the final fibre installation approach. In the meantime, Chorus has extended its introductory offer for residential customers to the end of the year to provide our service provider customers with the certainty they need to offer the fibre products.

I have some slides coming up that show the main scenarios for standard installs, but, basically, anything goes beyond these are considered non-standard. So, when a technician turns up to install the fibre, we use the existing lead-in duct, if available, as our preferred option. Installing an aerial lead in -- if they're an existing pole, an aerial lead-in is our next favoured option. Installing a new underground duct to the premise will be our last option that we go to.

This slide shows the first of the standard install scenarios where the house is within 15 metres of the front boundary. A standard install also covers where there is an existing pole and there is only one span needed from that existing pole to the house. And for back sections or a house more than 15 metres from the front boundary, the standard install also includes a lead-in up to 100 metres if there's an existing lead-in duct that can be used or if a trench is provided by the customer that we can use to deploy our duct into.

The other element of a standard install is how much we have to do at our cost inside the home. The CFH contract requires us to do up to five metres of wiring within the home to connect the ONT. Through the install trial we have under way, we are working on the best method and most effective way to do the in home installation and also finding out from our service provider customers what they need.

Vic's going to touch on this in here presentation, but the picture on this slide, shows what is emerging to be the preferred installation option. That is installing the ONT behind the main TV. From there, there are various options for integrating with the existing home wiring depending on the service providers offering and the nature of the service the end-user wants.

The standard ONT has four Ethernet ports. This potentially allows multiple service providers to deliver different services to different Ethernet ports on the same ONT. The standard ONT also has ATA ports. These are analogue telephone adaptors and are used to connect a standard analogue telephone to a Voice over IP service delivered to the ATA port.

So, once we've got the Layer 1 network in place, we need to have some technology to deliver our service over it. This is called the Layer 2 network. The chosen Layer 2 network for residential and all but the high-end business services is called GPON, or gigabit passive optical network. This technology is widely used around the world, is a mature technology and has a well-defined development pipeline. There are already advanced plans for the rollout of the next generation of GPON called NGPON in some other countries and we are well placed for a relatively simple migration to NGPON when that makes sense.

The basic elements of the GPON network are the GPON OLT, or optical line terminal, which is usually installed in the central office on the left-hand side of the slide. While it has the same power requirements as our existing copper based broadband equivalent. It has 10 times the customer capacity, or around 4000 customers versus 400. The next is the splitter in the cabinet in the middle and that's deployed, as I mentioned previously, on demand. And finally, each end-user has their own ONT, as described in the previous slide. In addition to delivering services over the GPON network, we also have the capability to deliver dedicated Layer 1 or Layer 2 services to anyone that requires them as shown in the bottom part of the slide.

So, maintenance -- one advantage of moving to a fibre network is that maintenance costs should be lower. Water is the main enemy of the copper network. Anywhere there's an exposed joint or a leak in the cable, a fault occurs. In the fibre network, however, water is not as big a problem. Dust on the fibre connectors is where faults tend to occur. Our fibre network architecture has been designed to minimise connection points and splices in the network to reduce faults.

We expect many of the faults we do get will be in the customer premise equipment or at the connection points, which tend to be easier and faster to fix than in the copper network. But the big opportunity from a maintenance point of view is the opportunity to reduce our copper maintenance costs when the fibre network is deployed. There'll be a number of things that need to be aligned for this to happen in a substantial way, but in the near term, we'll be able to develop smarter ways of dealing with copper faults due to the fibre network being in place and as customers start migrating over to it.

QUESTIONS AND ANSWERS

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Right, so that's all I wanted to take you through. I'm hoping to answer some questions.

Adrian Allbon - *Goldman Sachs - Analyst*

Adrian Allbon, Goldman Sachs. Just in terms of the standard connection model, are you able to give us an estimate of how many houses would be considered standard connections?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

So, I obviously had a bit of a look at that, but it's fair to say we haven't been able to come up with any definitive numbers. We've seen a lot of estimates around the place. But our model has assumed that we pay for standard connections and we recover the cost of non-standard connections.

Adrian Allbon - *Goldman Sachs - Analyst*

I imagine that as one of the key constraints, if you put the ONT behind the TV the five metres is going to be pretty questionable in lots of cases. Would that be the key constraint?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Look, so we're running this trial and that's one of the things that we are trying to discover as we do -- we're hoping to do in excess of 1000 connections over the next little while that will help us work out those scenarios. But the idea will be working out what a standard basic installation is that will fit within that model and then what are the add-on options that will fit with our service provider customers that can then be added on when that's not going to work for someone.

Adrian Allbon - *Goldman Sachs - Analyst*

And the trial completes the end of this calendar year, is that correct?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Yes. Goes through to the end of this calendar year. Geoff.

Geoff Zame - *Deutsche Bank - Analyst*

Chris, can you just remind us -- just on the RBI, what exactly it involves in terms of what are you deploying? Is it just mini-DSLAMs? Is it a--

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

So, there's various elements of it. The key element that is subsidised by the government is getting the fibre out there. So it basically involves laying backhaul fibre, often to exchange areas where there isn't fibre today, and getting the fibre to -- it's predominantly schools and hospitals. In the phase 2 bit, it also may include some libraries. So that's the main bit. The second element is the bit where we're in partnership with Vodafone. So they're putting in their 154 new cell towers. So, we're also involved in laying fibre to those cell towers -- again, that's fully subsidised.

What we're also doing is taking the opportunity while we're putting fibre out to put in some new cabinets. So in those cabinets there will be DSLAMs -- they're a new mini-DSLAM provided by our same vendor Alcatel-Lucent. So there's a smaller one of the one that we'll have in the urban cabinets or the exchanges but basically do the same job.

Geoff Zame - *Deutsche Bank - Analyst*

Okay. Just on the CapEx front, are you able to talk a little bit about in the areas you're not deploying UFB? Is there much happening or is it just maintenance as usual situation?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

So, obviously within the RBI areas there is -- so most of the activity that's going on at the moment is pretty much covered by that, but there is some more useful business cases that can be found to continue to deploy network in there. The other areas where we're not the UFB partner, for instance, it is BAU. We'll continue to look at investing in our copper networks and fibre networks where it makes good economic sense to do so.

Geoff Zame - *Deutsche Bank - Analyst*

But presumable that's in the business market as opposed to the residential in terms of--

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Well, like I said, wherever the business case says we should go.

Geoff Zame - *Deutsche Bank - Analyst*

Okay. Thanks.

Tristan Joll - *UBS - Analyst*

Thanks. Tristan Joll. Just a hark back to the standard connection stuff and what is a completely self-serving question I've got to admit. There must be -- is there an extent -- do you plan to put forward some risk capital budget in the instance where there may be multiple houses down long driveways requiring trenches? How do you manage that uptake risk, I suppose you could call it?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

So, they would all be mostly -- in most situations they would be classed as non-standard. So, once again we cover the standard piece and we don't have to cover the non-standard piece. But often if there are multiple houses down there, some of those costs can be shared between multiple premises.

Tristan Joll - *UBS - Analyst*

Okay, so at this stage you guys wouldn't put risk capital into those driveways so to speak?

Mark Ratcliffe - *Chorus Limited - CEO*

(Inaudible) we weren't intending to conduct the commercial conversation with CFH in front of a room full of 80 analysts -- much as you might enjoy it.

Tristan Joll - *UBS - Analyst*

No, no. It was all self-serving. I lived down a long driveway. Okay thanks.

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

But like as Mark said, there's quite a lot of water to flow under the bridge on this and we've got more work to do.

Unidentified Participant

Just one question on the aerial access, what percentage of your customers or connections are aerial from the street to the house at the moment and does that influence how that funding equation with CFH is worked out per connection CapEx?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Well, it's not impacted. So, as Andy said, regardless of the premise, we still get the same amount of money for it. But about a third of the network has got aerial lead-ins at the moment and, like I said, if they're there we will continue to use them. The constraint is often if there's an aerial lead in we're usually allowed replace it and that's what we go to. It's obviously significantly cheaper than putting a new underground duct in.

When I talk about putting our network underground because it's got the best total cost of ownership, that's the distribution network, effectively, down the streets. It still makes very good sense to do an aerial connection because if you get a fault on it it's only impacting one customer and they don't tend to have -- if you put them in right, they're not too bad.

Unidentified Participant

So, what I meant by that partly was that if that was factored into the CFH equation, does that mean that if you are going underground into a house it's well above that average figure?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Right. So, remember that CFH pays for or subsidises or invests in going down the street and that the connection CapEx to connect the customer is at our own cost. So, we have certainly factored that into our equations of we think the average costs of connecting to the customer will be.

Richard Eary - *UBS - Analyst*

It's a Richard Eary again. Just to -- Mark, actually I'll address it to you just on -- about the CFH. When do we think we're going to get clarity in terms of standard and non-standard? Is this a one month, three month, six month, 12 month, 24 month issue or--

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Mark Ratcliffe - *Chorus Limited - CEO*

I think we -- we think it's relatively easily solvable. It's just a case of commercially sorting it out. And the industry and the Minister's exercised about it so I will imagine it will get done relatively quickly. But I think we've indicated to customers that early September was a sort of timeframe to get clarity on that.

Richard Eary - *UBS - Analyst*

So we'll get clarity -- so the RSPs will get clarity on it in September?

Mark Ratcliffe - *Chorus Limited - CEO*

We'll all get it at about the same time.

Richard Eary - *UBS - Analyst*

Thanks.

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Right, if there's no more questions on the floor, maybe we'll take some questions from people on the phone.

Operator

(Operator instructions). Your first question comes from the line of Ian Martin. Please ask your question.

Ian Martin - *RBS - Analyst*

Just in relation to the high cost of maintenance to the copper network and presumably that's going to go up over time as the copper network gets older and older and you get fewer and fewer people on it. At what point -- if you've got a long term rollout plan for fibre, do you contemplate that at some point in that period that it just won't be worth having the copper network and how do you propose going about decommissioning it?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Ian , that's a good question. Look, to be honest I think that point is some time away. We've obviously given that a lot of thought and, clearly, being able to shut down your copper network at the point it makes sense is an opportunity we're planning for. But a lot of things need to come in to align for that.

First of all, every customer -- you have to basically migrate very customer that's already on copper over to fibre and all of their service providers need to be able to deliver their service to them over fibre. So, that's something that the industry is still some way away from. So, it's just the point at which it will be a relatively simple tipping point where the costs line up. And given connection CapEx is still expected to be -- we set a range of NZD900 to NZD1100, you'd have to make sure that that point came.

But certainly, the near term things that we're looking at as people migrate to the fibre network, it frees up more pairs so rather than having to proactively maintain the network you can just do a bit of pair swapping so that you can pull stuff out there. So there's a number of things we can do in the short term until we can get to that longer term point.

Ian Martin - *RBS - Analyst*

Thanks.

Operator

Your next question comes from the line of Mark McDonnell. Please ask your question.

Mark McDonnell - *BBY Limited - Analyst*

Yes, thanks. Given that the civil costs are 60%-70% of total costs and your assumption is that you can use a high proportion of the existing ducts that are underground, it would follow, I think, that the biggest risk to your CapEx is any variation to that assumption, particularly the extent of reuse. That in turn begs the question about the level of confidence that you have -- the level of knowledge that you have about the condition of those ducts given that we're at a very early stage. A lot of the records would be quite old. I daresay they're quite inaccurate and the actual condition of those ducts would be largely unknown.

So, my question is what level of confidence do you have and what underpins that confidence around the high level of existing reuse? And what are the variations that we might expect to your CapEx budget and your timelines associated with any requirement to increase the amount of new civil works?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

So, look, I think that's a good question. That's something that we obviously prodded quite a lot as we built up our estimates of building the network. We've done a number of audits around the place to just to check that. The other thing that we did and I talked about the fact that we have multiple architectures to use be able to make sure that you can use as much of that existing duct network as possible.

We sort of envisage that will be an involving process, so we've got a few options that we go to now. And what we will do over time is employ new technologies to be able to make sure that we can improve our reuse percentages. Yes, look we will find a few ducts that we would've assumed that we can use that, when we go to use them, will be damaged in some way. Look, I think what we're saying is that we feel reasonably confident that over time we'll be able to manage that. Look and as we get through the first couple of years and we get some experience on that we'll be able to update it. But we feel reasonably okay that we've got that under control at the moment.

Mark McDonnell - *BBY Limited - Analyst*

So to what extent in the build so far have there been surprises relative to your initial assumptions about condition?

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

So I don't -- I'm not aware that there are too many assumptions. The amount of duct reuse that we would expect has more or less been fairly good. What we have found in some cases, that the designs that have been done are suboptimal so they haven't always looked to use duct when they should. So we've got a program in place to make sure that the designs are optimised from that perspective and we get the learning back to the designers to make sure that they're taking every opportunity wherever they should.

Mark McDonnell - *BBY Limited - Analyst*

Okay, thanks.

Operator

There are no further questions, please continue.

PRESENTATION

Chris Dyhrberg - *Chorus Limited - General Manager Network Build*

Okay, thank you very much. Now I'll just introduce my colleague, Vic Crone, who's going to talk to you a bit about marketing stuff.

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Thanks for that Chris and good morning everyone. So I'm going to talk -- three things in the coming half hour with you. First of all I'll give you an overview of the market that Chorus is operating in and that should give you a feel for the dynamics that will be impacting Chorus. I'll give you an overview of how we're responding to that, so what does our market strategy look like and at a product level how we responded. I'll give you an update on some early findings from the fibre work we've done so far and our end market activity. Some of it will pick on the discussions that we've just had.

So starting with an overview of the New Zealand market and where we're at. There's three points here really that are important to this. The first is that the retail market is static and it's static at both the connections level and a revenue level. There is still growth in broadband, but the transition to fibre is extensive. We've worked very closely with our customers, through separation to ensure a smooth transition so I'll talk a little bit about that as well.

So let's talk about the New Zealand market at a connections level. So first of all it's static, as you can see by this chart. In fact, actually there's 0.4% growth year-on-year so you could say it's marginally increasing. Chorus's share of lines within this has been declining very slowly and that's due to the likes of competing fixed access networks and mobile substitution.

Mobile substitutions continues to grow very slowly. Our analysis shows that around 40% of that substitution is for data services and 60% of that substitution is for voice services. Mobile substitution in New Zealand is relatively low, when you compare us to internationally, and that's due to a number of factors. Our view is that mobile substitution will continue to grow slowly, as it has been.

If you look at total retail revenues it's stable as well. The New Zealand telecommunications market at a retail level was worth NZD4.7 billion in 2011. That was static on the previous three years. In fact, for the next four years the retail revenue market is predicted to decline very slowly. What you do see here though is a mix and a shift in the revenues. Now that's not new, that is something that we've seen. You can see broadband continuing to grow, mobile continuing to grow and a decline in the traditional voice revenues. This represents both an opportunity and also risks for Chorus as we move forwards and to be discussed later.

Additionally New Zealand has been a fast adopter to unbundling. Chorus now has more than 140 exchanges unbundled across New Zealand. Investment in unbundling has tapered off in the past year or so and that's due to the government's policy around fibre, which led to the separation of Chorus and Telecom and that's meant that our customers, our retail service providers, have had time to think around fibre and how they balance their investments in copper and fibre in a market that has a static revenue at the retail level.

So let's move on to broadband and growth in broadband. So the past four years has seen New Zealand as one of the fastest growing broadband markets. We now have 26% penetration and that is just above the OECD average penetration. The numbers here are subscribers per 100 inhabitants. If you look at this relative to New Zealand's GDP, we actually have the second highest rate of broadband penetration and Australia now officially lags New Zealand in the broadband metrics. We've got leaders in there such as Denmark, Netherlands and Sweden, who have broadband penetration between 30% to 40%. So we do believe there is further room to grow in broadband and that's what we're seeing in our connection numbers.

If you look at the broadband market share at a retail level -- some of you will already know this -- Telecom holds around 50% share of the broadband and the remainder is split across TelstraClear, Vodafone and then CallPlus and Orcon. So the big three providers are holding most of the share in that market.

This slide ties into some conversations we've had around our copper investment. The vast majority of broadband in New Zealand is in DSL -- digital subscriber lines -- which is provided over copper. The balance is across fibre, wireless and satellite. So this means that for our customers, the retail service providers, copper does remain very important. They've invested in copper and they seek returns from this. So fibre for New Zealand presents a paradigm shift that some of our customers are seeing as an opportunity. However, at the moment we see demand is uncertain. So the business case for fibre needs to be clearer.

What does that mean for Chorus? It means that we need to support our customers with a clear migration path from copper to fibre, as well as supporting our customers around fibre education and adoption. We'll talk about this a bit more in the Chorus plans.

So we've talked about the market generally, let's have a look specifically at fibre. The New Zealand market currently we have less than 1% penetration of fibre in New Zealand. The OECD average is 13%. You've got some extremes out there, such as Japan and Korea, which are sitting at 50% and 60%. The fibre market here is very fragmented in many ways. For example, Chorus currently has around half of the fibre share, the rest of that is split across a number of different providers, often across different product sets and in different regions. So therefore you've got a significant variation in fibre products, services and pricing currently across New Zealand.

Fibre today is predominantly used by the business market. We put forward a view on what Chorus is thinking as the size of the New Zealand business market at the moment and how many businesses are operating. You can see from that slide and as we all know, that New Zealand is a nation of small businesses. As you can see from this chart, fibre usage currently increases the larger your business is. The services that are being by businesses typically with our 50 plus employees is a range of dark fibre, or lower speed fibre products, 10 megs to 25 megs, which is being used in these types of sectors the most; the public sector, finance, ICT and media, hiring and real estate, professional, science and technology. So at the moment you've got the fibre market in New Zealand skewed towards larger businesses and specific sectors.

We believe that while the broader New Zealand fibre market is uncertain, there's a clear role for Chorus to help our customers develop their business cases for fibre. We've had some early moves in the fibre market, we've got three RSPs launched, Orcon, [Now] and a smaller RSP called Link Tel. And what they're doing is grabbing DSL's share using data caps and pricing offers on fibre.

On top of this we've seen the launch of Quickflix in New Zealand, providing video on demand services. But overall we'd classify fibre as a mix and match approach. It's a very small part of the landscape here and that's been due to the challenges of cost, certainty and consistency. Our view is over time that ultra-fast broadband addresses all of those issues.

So that's New Zealand, we describe that as a mix and match approach, focused on larger businesses. What do we see happening internationally around fibre? What does it look like, what can we learn from it and what can we predict for the New Zealand environment? Globally we're still experiencing phenomenal worldwide growth in Internet traffic and paid for digital content. We want this available on all our devices, in the home and out and about. We're seeing phenomenal growth in mobile devices, social collaboration, big data analytics by businesses, cloud architecture and the hunger for information now. These, plus the traditional factors, such as video, are driving huge bandwidth growth.

As mentioned, the OECD average for fibre uptake is 13%. Of this 13% around 10% to 15% of people or businesses take it for speed. The rest of it is driven by the demand for bandwidth and in a consumer market that looks like things like entertainment on demand -- anything -- entertainment -- anything high definition; video, gaming, conferencing. And also it's driven by bundling by telco operators. So the sorts of activity we're seeing globally is TV anywhere, cell phone as a TV remote. We've got a lot of content provider partnerships globally. We've got things like home monitoring, security, remote management, e-learning and e-health.

In the business market this fibre is tending to support resilience of services, centralised IT, remote working, business intelligence and customer delivery and engagement. So they're the key drivers in the business market.

If you look at fibre deployment globally it's being driven by a very complex mix of political imperatives, regulatory incentives and cable competition. New Zealand's model is unique and Chorus are pioneers of a completely new industry structure. Japan and Korea are the only markets where fibre represents over half of broadband connections and DSL in these countries are a much smaller portion. Norway and Sweden have always been the leaders in fibre space and have also strong cable services. Czechoslovakia and Hungary are leapfrogging DSL altogether and we've got at the bottom of the league, France and the UK. That is due to a very active market unbundling copper and only recent fibre deployment.

So if we look at New Zealand's broadband technology mix, or profile, the countries that we are most similar to are France, Germany, Australia and Mexico. That's specifically in regards to our DSL technology mix.

Let's have a quick chat around our transition of our customers. We've been working very, very hard to ensure a smooth transition for our customers through the demerger and we have achieved this. We're also focused on improving our relationships with our customers, given the significant opportunities that separation presents us with. We have had a significant number of customers -- new companies want to do business with Chorus and we've been growing our new business development sales pipeline month on month. Following separation with our network now available to all, theoretically the market competition shifts to the services layer. So we've been working with our retail service providers around what does that look like for them.

Our customers are heavily focused on ROIC and that's rightly so given the NZD5.5 billion of investment in this market in the last four years. Remember, it's a static retail market of NZD4.7 billion annually.

So to sum up the market environment Chorus is operating in; it's static at a connections and revenue level. We see there's still growth in broadband but the transition to fibre is considerable and we've worked very closely with our customers, through demerger, to ensure a smooth transition for them.

So let's move on to the second part of what we're going to talk about today and that's how is Chorus responding to this. So I'm going to cover our market strategy, what that looks like. We've got a broad product set and in some instances we need to evolve these products to meet the needs of the market and there's a number of opportunities that we are currently in the very early phases of investigating.

So starting with our market strategy, there's four key pillars here. The first is how do we drive shareholder value through customer experience and operational excellence. So the key focuses in here include things such as orientating our products and our processes around our customers, improving inefficiencies; getting rid of them and reducing cost. And identifying new markets that we can compete in.

The second is how do we provide a very clear, compelling migration to fibre, especially given that 93% of broadband connections in New Zealand in copper.

The third is how do we become New Zealand's trusted network and systems outsourcing partner of choice. How do we make it easier to do business with Chorus? How do we build a product portfolio and service options for everybody so that RSPs can assemble them into solutions for end users. The final area is around how do we enhance our reputation through open, consistent stakeholder experience across many diverse different stakeholder groups.

So I thought I'd just give a quick overview of our product set and the sorts of things that we're looking in there. If you start with the core underlying services of the traditional heritage of Chorus, which is through UCLL and bundling or UCLFS, which is also known as Baseband. So they're the services that connect our RSP network through to the end user. And in unbundling the RSP customer chooses to put their equipment in our network and through UCLFS or Baseband, we provide the service through for them. What is important to note is the change in the services that Chorus is now delivering following separation, which is we now provide most of the regulated services that was delivered by Telecom Wholesale.

So we provide all of the regulated data bitstream services for broadband products, so that's services such as basic UBA and enhanced UBA. We are agents for the voice products Centrex POTS et cetera, on behalf of Telecom, so Telecom use us to sell those services to the industry. We also have, within our portfolio, a number of commercial services, such as Legacy Bitstream Data services, ATM, high-speed network services. So that's our product set and what we are adding in there is the UFB fibre services and there's four plans available in there.

So we've talked about the transition to copper -- from copper to fibre -- being extensive. So we see next generation copper services, such as VDSL2 and next generation voice services, as supporting our customers' migration to fibre. For those customers who are later in the build program -- it is a long build program -- services such as VDSL2 will enable that they can be part of broadband speed sin New Zealand while they're waiting for fibre and we believe it provides a good transition path for them.

So having settled down post separation and providing a smooth transition path for our customers, we're now turning our heads to what opportunities exist in the market. So this visual outlines some of the market and service opportunities that we see out there. At a market level there's opportunities in the education, health and rural sectors and we're already playing a large role in the rural sector through the rural broadband initiative. We're currently working through what additional roles we can play with supporting our customers in areas such as mobile. That would be things like Wi-Fi offload and LTE requirements.

As mentioned, we see VDSL2 as a stepping stone to meet data speed requirements, with a clear migration path to fibre. This provides us with a short term revenue opportunity to make premises fibre ready for UFB and get the home wiring sorted prior to UFB.

We're in discussions with some of our customers around TV services over fibre, which provides an upsell on the entry level UFB services we have. There's further opportunities for colocation services. That's amongst our existing customers, but we're also in discussions with new players in the market around media and hosted applications. It's also important to note that we're in the very early phases of exploring some of these. So just to anticipate any questions that you may have around the size of these, the return and the investment required, we don't have that information yet.

So in summary, we've got four key pillars to our market strategy, we've got a broad product set, including a migration path from copper through to fibre and there's a number of opportunities out there we believe exist that we're in the early phases of investigating.

So let's finish up on what we've learnt so far and what we're finding so far around fibre. In a world where 97% copper and less than 1% is fibre we need a migration plan. What does that look like? We've reduced our Chorus business fibre prices -- copper prices, to be the UFB wholesale prices. We're currently working through VDSL as the steppingstone to fibre, which is encouraging higher bandwidth use and supporting higher bandwidth applications. It also helps with those who come later in the deployment for UFB. We are working with our customers and supporting them in the product development process. We've got initiatives such as the Chorus Co-Innovation Lab which enables our customers to test their products and services and new applications in that environment.

We need to help our customers with their business case for fibre, given the uncertainty of demand. Also there are balancing UCL investments with new fibre investments around marketing systems and products. We're building a database of fibre deployment case studies and metrics to make available to our customers. Along with that we've got a range of presentations, white papers and marketing collateral around fibre. We're getting RSPs involved in our product to market processes, which means that when we deliver capability to them that we know that they are going to use it.

We've got a marketing approach currently that's a blend of what we call push and pull. The push factors are a general fibre awareness education and to our customers in the general market and the pull factors are very much around our deployment communications and our community engagement as we roll out fibre.

What are we learning from our activity to date -- and we've actually had a little bit of a conversation around this in Chris' Q&A session . We firmly believe in the experience effect. So you could either sit back and wait and see what happens in the fibre market or you can get stuck in. And our customers who are getting stuck in -- and we are observing their benefits to doing that. Fibre does bring out -- bring about a major change to how our service provider networks are built. The unconstrained nature of the new fibre network means that the pressure is on to solve the next bottle necks, which is typically around content, caching and switching. That's required to deliver on customer expectations of fibre.

So talking about customer expectations, what are we seeing? We're seeing that as soon as we install fibre the first thing they want to do is do a speed test and see either 30 megs or 100 megs. If they don't get it then they're disappointed. That is the limit of the expectations so far. After a little bit of usage of fibre then they're starting to turn their minds to what can I do over fibre services. So what we've been recommending to service providers is the first thing you need to do is when they have that speed test your network says 30 megs or 100 megs.

We've had some pleasant surprises. We've learnt that there's some customers who just want it. We had a customer who shifted some trees to get it and we've got a customer who's moving house to get it. I guess that just says, for those cynics in the market, that there's a few people who do want these services.

We've learnt that (inaudible) homes are incredibly different. A villa in Grey Lynn is very different from a house in Albany. We've learnt that simple is best for end-users. The lowest cost, least disruptive method is best, and when we leave it better be working. That leads us to the installation of where do you put fibre into the home and our learnings here. We're talked about shifting it to behind the TV. So what are we learning around that, that is making that conversation more interesting. It is actually a much easier install for us and it's where most of the bandwidth is consumed in the house.

So if you look at the end-users behaviours and perhaps some of yourselves, the area where you tend to do multitasking, you're on your phone, you're on your laptop, you're on your tablet, is actually in the living room. So the demand for most bandwidth in the home is in the living room, given that we are multitasking these days. That's the best location for tablets, laptops and smart devices. This is consistent with what we're seeing overseas and actually the best thing is it can be easily explained to the end user of why you need your fibre services sitting behind your TV.

So our goal now is through the extension of the offer until the end of the year to continue working with our customers around the best places to install and how we manage that conversation with end users. So Tristan, if you do happen to be in a rollout area then we're very happy to get you on the trial.

So in summary what I've covered today is that we're operating the market. It's static -- revenue and connections, but there are some opportunities for growth, we see that in the mobile and broadband areas. Fibre is very fragmented in New Zealand and there is a lot of work that needs to be done to drive the market for fibre. We're got four key pillars in our strategy and just a reminder that's around customer experience operational excellence, a clear transition path to fibre, a trusted network and enhancing our reputation through open, consistent communication.

We're working very closely with our customers around fibre in a number of different ways and we've learnt a lot in the short time that we've been doing this. So I'm going to open the floor up now to questions. If we can start with people in the room please.

QUESTIONS AND ANSWERS

Tristan Joll - *UBS - Analyst*

Tristan Joll. I'm not, just for the record, in the trial area. It's good to know that we're building this thing so people can do speed tests principally, which is interesting. But I guess what we didn't kind of cover off on there is just some of the business stuff and I think there's a really real question about what sort of latent demand there is in SMEs for 100 meg broadband services. So what's your research saying about the propensity of those types of organisations to take high speed?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Yes, so the research would say that yes there is latent demand. I think some of the prices of those higher spec services today have suppressed that demand and we put up a range of areas that we have seen, in international research and here, around why those types of businesses want it. It's around productivity, it's around resilience, it's around providing better services to their customers. You can see there's certain sectors that we've talked about that would skew to that as well, such as media, the advertising industry, architects, et cetera. So we do see it's there.

Tristan Joll - *UBS - Analyst*

So it's conceivable that a high percentage of those businesses that you've shown could, at some point on a 10-year view, want something faster?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Well I think you just have to look at history to see what consumer behaviour and expectations are, which is as soon as they get fast they want faster. So I mean I'm not going to comment on that except to look to where we started.

Tristan Joll - *UBS - Analyst*

Okay, no, that's cool. Then just on your product slide, the one with the boxes on it, I just wondered if you could tell us what percentage of your revenues, at the moment, fit into the green box category, which is the -- particularly the higher speed data stuff, the VDSL, the HSNS, Legacy, ATM, that sort of thing. Yes, that stuff there, what sort of --

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Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

The green one?

Tristan Joll - *UBS - Analyst*

-- numbers are we dealing with there?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Look, off the top of my head I don't have that, so I'll talk to Andy about that.

Tristan Joll - *UBS - Analyst*

Okay and then just one more. I mean what are Vodafone and TelstraClear and stuff doing at the moment in terms of unbundling? Are they slowing it down and waiting to see what happens or are they talking to you about doing more? Because certainly the impression you get reading the media is that they're going to do more in the next three to five years.

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Do you know what, I think the best thing is to talk to them. I think we made a reference to how we'd seen unbundling over the past year, year and a half, and in terms of, you know, how that changes, I think the best thing is to talk to them about that.

Tristan Joll - *UBS - Analyst*

Okay cool. Thanks.

Geoff Zame - *Deutsche Bank - Analyst*

Victoria, Geoff. I just wondered if you could -- if we push out to 2017 or so and hypothetically take out 7% or 8% and Ratcliffe and Andy Carroll want you to get the 20% Wi-Fi. Can you talk a little bit about the levers you see, given this vertically (inaudible) model to actually drive that uptake with some urgency?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Yes, so Chorus's responsibility is to build the network brilliantly and we are very much a facilitator of uptake. We don't hold the levers to drive uptake and hence we are working to support our customers to give -- to basically put the information, the case studies, the telco strategies in their hands around where fibre is being successfully internationally and how that's happening. So that's the primary role that we play, through things such as -- we've talked about the installation experience and making that as least disruptive as possible for end users. So there's a limited number of levers that we directly hold to drive uptake. It's very much how do we support our customers in this.

Geoff Zame - *Deutsche Bank - Analyst*

Thank you.

Richard Eary - *UBS - Analyst*

Hi, it's Richard Eary. Just Victoria there's a slide -- I think it's slide 9 of your presentation, which broke out home businesses and business premises. Can you -- I mean obviously they're the actual home premises and business premises. Have you got a feel for actually the total number of lines that span across those premises and whether there -- if there are multiple lines across those premises, what will happen as we transition to a fibre world? I presume the number of lines per premises will collapse as we go into a fibre service?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Yes. I don't have the exact details. I think what we've seen as I opened with is the Chorus market lines declining slowly. Some of that is due to consolidation of lines. We expect that to continue but we don't expect it to collapse.

Richard Eary - *UBS - Analyst*

But I mean looking at those numbers, the businesses premises there, 162,000, I think the last time that maybe Chorus gave some business lines out that number was about 300,000. So we're you thinking two lines per business premises is a rough mix that we should be thinking about as we go forward and how that collapses as fibre take up accelerates through businesses?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

I don't know. I'm going to have to take that one away and have a think about that because I don't want to mislead you on the answer.

Richard Eary - *UBS - Analyst*

Thanks.

Unidentified Participant

Yes a big -- I guess a big question in this whole UFB uptake puzzle is obviously that proportion of customers who don't take broadband. If you've got a higher maintenance cost on your copper network, you don't really have a product offering there that is to -- maybe enticing to switch over for whatever reason. I mean does that form part of your thinking about longer term, how do you get people to take up the Chorus fibre network as opposed to a minority sitting on the copper network?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Sorry, I missed the very first part of your sentence.

Unidentified Participant

The proportion of customers that obviously don't take broadband at the moment, which is --

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Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

That don't take it?

Unidentified Participant

That don't have a broadband service at the moment?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Yes.

Unidentified Participant

They're obviously quite a significant part of the market still, probably lower socio economic et cetera. But as you -- further down the track, as you're moving more towards less people on copper, more on the fibre network. What sort of product offerings or -- has that entered your thinking about how to switch those people across or transition around that?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Look it has but it is very early in our thinking and I guess it's balanced with how long we have the copper network there which there's no intention in the short term to take that away and what additional services could we provide over copper into some of those markets that you were talking around. We have a lot of work to do around how we do that with the current regulatory product set that we have. So it's very early thinking but yes, there's some thoughts there on that.

Adrian Allbon - *Goldman Sachs - Analyst*

Adrian again. Can you just give us a feel for -- just on your slide, it's got all the different product sets, where you're at in terms of progress with your Baseband IP products?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Where we're at with what sorry?

Adrian Allbon - *Goldman Sachs - Analyst*

With your Baseband IP product?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

So we're currently working through that and bringing that to market. Yes.

Adrian Allbon - *Goldman Sachs - Analyst*

I guess is that a natural substitute for Telecom's PSTN?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

I guess you could see it like that, yes.

Adrian Allbon - *Goldman Sachs - Analyst*

Okay so we did the --

Mark Ratcliffe - *Chorus Limited - CEO*

But it would need further investment above the layer two service --

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Yes, that's right.

Mark Ratcliffe - *Chorus Limited - CEO*

-- in order for you to actually make the phone ring.

Adrian Allbon - *Goldman Sachs - Analyst*

Okay.

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

It's not a straight replacement, no. And as Mark said, RSP would need further investment to make it work.

Adrian Allbon - *Goldman Sachs - Analyst*

Okay. When is that likely to be operational, that product?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

We're currently in discussions with our customer -- consultation period with our customers around that, so I would expect anywhere in the next two to three months to be talking more firmly around our plans with our customers on that.

Adrian Allbon - *Goldman Sachs - Analyst*

Okay, thank you.

Mark Ratcliffe - *Chorus Limited - CEO*

We should move on a bit.

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

Okay, any questions from the phone?

Operator

(Operator instructions) Your first question comes from the line of Ian Martin. Please ask your question.

Ian Martin - *RBS - Analyst*

Yes, thank you. In terms of this strategy -- in part of the marketing strategy, to focus on the migration to fibre, the path to fibre and so on, you know, a key factor there and possibly the most important factor is the relative pricing between copper access and fibre access. Have you engaged in any kind of discussions with the commerce commission over that? Their attitude from what I can see seems to be that copper's cheap and should remain cheap. Do they buy into this issue that you've invested, and the government's invested in fibre and there should be some discussions, some thought, some consideration, some consistency around the relative pricing of the two products to encourage that migration over the long-term?

Victoria Crone - *Chorus Limited - General Manager Sales and Marketing*

So I think the first part of the answer to the question is actually where we've been having most of our discussions around VDSL and (inaudible) IP as a migration to fibre is with our customers. And understanding from them how they would use the product, where they'd target it, at what price points they would sell it, et cetera, et cetera, So that's the bulk of the conversations we've had.

In regards to then how does that flow through into discussions with the likes of MED et cetera, I think in the next session Mark is actually going to cover some of our thoughts around the copper versus fibre issue. So that's a great chance, if I can, just to hand over to Mark now.

Mark Ratcliffe - *Chorus Limited - CEO*

Thank you Vic.

Operator

Your next question comes from the line of Laurent Horrut. Please ask your question.

Laurent Horrut - *JP Morgan - Analyst*

Oh yes, thank you. Just one question from me. Have you done any research on elasticity between the bandwidth that you're going to offer to customers, or other operators have offered to customers and the actual utilisation and consumption of data?

Mark Ratcliffe - *Chorus Limited - CEO*

Was that Laurent?

Laurent Horrut - *JP Morgan - Analyst*

Yes.

Mark Ratcliffe - *Chorus Limited - CEO*

Laurent, it's Mark Ratcliffe here. Vic actually said shed sit down and passed over to me. We'll pick that one up with you later, but I think the short answer is no. But we'll pick that up with you later. We're going to move on because we're getting closer to 12 o'clock and I would imagine there's a few items of interest that you might still want to cover. So I'll push on. We don't have a hard close at 12 o'clock but there is a tour and lunch will be served there as well so I will try and move relatively quickly on.

PRESENTATION

Mark Ratcliffe - *Chorus Limited - CEO*

Look, in terms of -- it has only been six months. We launched on the 3 December and a lot of time and energy of the management team has been focused on establishing Chorus. I hope you get a bit of sense from some of the stuff that Andy, Chris and Vic have there that we now have a probably better handle on what this business is as we brought it together there. We have done a lot of work on the demerger itself, in bringing both that layer one and layer two businesses together for the first time. Remember a feature of the previous regime was a strict separation of layer one and layer two and a whole bunch of rules about anybody who works in one business wasn't allowed to know anything about the other part of the business. So bringing those two things together has been nontrivial.

There's also been a pretty significant people transition that's gone on. Taking people from the old Chorus business unit to the Telecom wholesale and the Telecom shared services. And we've also hired a number of people from external to the industry, because we thought bringing perspectives in, that were over and above what we had before, were quite important there.

Chris has outlined that the establishment of some big network programs has been a relatively nontrivial exercise, ramping up from zero to that 175 gangs. A gang in the field has what Chris -- 8 to 10 people in it, each. So you're talking about 1000 people additionally being employed on the network than we previously had. We haven't stopped much of the work that was going on there previously. So a pretty big ramp up in terms of people in that time.

On people, for years within Telecom we've carried over to Chorus, we've -- surveyed each year staff engagement at Chorus. We surveyed the engagement of Chorus people in March of this year and the engagement of our people is at 85%. Now I think any of you that have done any research on what the relativity between engagement and performance is, it's highly correlated and 85% moves you into best employer category. So through a period of -- what I would say the --- to most extents, we've flogged our people pretty hard over the last year in terms of bids and the demerger process they've undergone. For many of them a pretty major change of employer and to pull them through at that kind of level of engagement I think sets us up well for the future.

In terms of strategy, we think building confidence is a core (inaudible) of the strategy. Andy said earlier that today was about giving you a level of transparency over things so that you can hold us -- be clear about what KPIs are for the future and let's hold us accountable for that and we will continue to operate in that. We think that we will tell you what we plan to do and then demonstrate that we do what we say we will.

During last year's investor road show we talked about our short and medium term priorities. Short term was the demerger, we think we've carried that through pretty damn well. There has been barely a slip in terms of getting us all sorted out there. We've even managed to pay tax on time for the first time as a business. Our operational metrics in terms of the way the basic level of the business is running, are running at levels we've never seen before in terms of the basic operation of products and services.

Vic and Chris have talked, I think, the sense about how much we are trying to lead the shift of the industry from being copper-centric to fibre-centric there and that work is perpetually ongoing. I think your questions you're starting to ask are really the relative ones around how quick is the industry relative, what products and services are going to make a difference there and we are starting to see some of that coming up there.

We said that we would continue to try and develop partnerships with local fibre companies. I don't have anything to tell you about where those things are, apart from the fact that we haven't actually yet closed anything out, either for the good or the bad. So as you can imagine those commercial conversations are ongoing. We will let you know as soon as we know anything.

In terms of the longer terms I think -- I mean clearly from the work that Andy said today, it's the own around the operational efficiency of that very, very big build program that is the major focus of management across the organisation. Making sure that we spend our CapEx in a way that's most valuable. The ongoing work on fibre transitions, we cannot deliver there. Geoff, I would say the 20% is not at risk in any way at all, but I don't think New Zealand will be happy if we're only at 20% fibre penetration at the end of eight years. This is a major plank of the New Zealand economy. I think it's fair to say that the New Zealand economy will be in dire problems if we are only at 20% fibre uptake, so that's a much bigger issue than the speed at which we pay our money back. Not that that's not important.

So big role to do in terms of that fibre transition. We have learnt, over the last six months, about what it's like to build a networking partnership with somebody else who monitors every moment of what you're going on. That is a more demanding process than we thought it might be, but we're coming to grips with that. But our intention is to honour those commitments on time and we are -- I think we're there or thereabouts at the moment.

I thought I'd talk a little bit about regulatory matters, because we said today that we would fill in some of the detail on things that were top of mind. We've covered the static nature of the telecommunications market and revenues, increasing industry investment, as well as our own significant investment in fibre to the node and fibre to the premises.

Retail services providers increasingly making more and more economically rational investment decisions and looking to reduce their costs. There's only so much money that they can invest and they're only chasing so many dollars.

We think broadband is critical to New Zealand and UFB is a game changer.

Fibre demand is uncertain but there are some early signs that focus is shifting to developing compelling fibre based services.

We talked about our commitment to helping New Zealand realise the vision for fibre future. So the scale of work, investment and importance of UFB to New Zealand needs a long term policy and a stable regulatory environment. This time last year we worked hard to achieve a regulatory framework that supported the Crown's UFB policy and our participation as a committed partner to the Crown. We thought that was a central plank of doing the deal.

We thought after a lot of debate and legislative change the framework required the commission to set an averaged UCLL price, as well as later review the UBA price, but there was a wider review in 2016 anticipated. With all this, meant the industry could focus forward with a clear UFB plan to build the network and focus on delivering fibre services for New Zealand.

The commission's recent draft decision on its voluntary review of the average UCLL price, which we don't believe fits with either the expectations of the 2011 policy, but what it does do is propose that there is a reduced UCLL price. It also proposes that there is a decoupling of the UCLL price from the UCLF service. This would necessitate a further review of the pricing principles in the act and then a further determination and also proposes that there is a separate review of the sub loop unbundling price. But I think that this proposed approach distracts the industry and overly focuses on copper, rather than the fibre future that we're committed to with the Crown through a private and public partnership. We think it adds even more complexity to investment decisions that our customers face as they plan transitions from copper to fibre there and we will be making strong submissions to that effect.

The commissioner's encouraged a robust process of engagement and we intend to engage robustly on that behalf. We will be asking the commission to exercise it's discretion to make a final decision that better aligns with the expectations of the UFB policy framework. We totally support the Crown's policy objectives, the business case is securing our participation and consistency of regulation within that framework. New uncertainly risks compromising these by distorting or complicating a market led approach. The industry should be focused on realising the opportunities for New Zealand's fibre future.

So what's ahead. I mean beyond the regulatory process we still have a lot to do this year as the industry structure involves further post demerger and we think more effort is probably needed as to manage the diverse and complex needs of our particular set of stakeholders there.

We have challenges going forward there and we're up to facing them. We've got a big project to deliver, a lot of regulatory complexity to deal with and we're largely undaunted by those projects. The core of this Chorus team did take a business unit formed out of the 2006 regulatory form and turned it into one of Telecom's most highly performing units within there -- won the trust of the customers and the regulator through that process. We won the RBI tender, the bulk of the UFB tender. We've participated in the fastest demerger in New Zealand's history. We've set up a public listed company and we've increased staff engagement profoundly through that time.

So we think we can do a few hard things and we think we've got some hard things (inaudible). We also think in our business it's a marathon, not a sprint. We're making long term investments for things and we need to take a long term approach on it there, despite the challenges that come across us.

So look, that's it from terms of the presentations there. We think it's been a big half year for Chorus. Hopefully that gives a bit of a flavour of what we've been up to. We think this will certainly give you more food for thought. I'm happy to take more questions now and meet with you on the phone and individually there. We sort of have an anticipation that you'll individually have a lot more questions on this going on in the forum and we're up for the continued transparency on that. So without further ado I'll pass it over to questions.

QUESTIONS AND ANSWERS

Mark Ratcliffe - *Chorus Limited - CEO*

My goodness. Even the analyst of the year hasn't got a question. Right there being no questions in the room, perhaps we'll move to the webcast.

Operator

We have one question from the line of Ian Martin. Please ask your question.

Ian Martin - *RBS - Analyst*

Yes, thanks Mark. I was just wondering if you could -- I mean you talk about the policy of the government and the MED being the key to the long term business plan and seem to be suggesting that the Commerce Commission is not quite on the same agenda. Is that the right take on it, is the first question?

Secondly, from over here it's kind of not quite obvious how the politics of this plays out. Is the set of arrangements you've got in place, are they set in contract? Are they likely to survive a possible change in government in future/ Can you just elaborate on that? It's probably clear to people in New Zealand but not perhaps so much over here.

Mark Ratcliffe - *Chorus Limited - CEO*

Look, the telecommunications commissioner is an independent appointment. He is part of the Commerce Commission but not answerable to them. He's got an act that governs what his responsibilities are, and they do include the setting of prices for copper based services. So he has a range of powers and I think he has -- he does have a deal of discretion, which is why I think I've sort of very carefully made the point that I think discretion's got to be handled with the policy objectives and the mind he doesn't -- whilst appointed by the Crown for a fixed term he's not answerable to them during the course of his - he has a high level of discretion and nothing like a merits based review for his decisions made. You're able to challenge points of law but no more. So yes, there's a lot of discretion there.

Look, the degree to which -- government policies are set by governments. His job is to regulate within a framework and those two things, you know, I think we'd all say they possibly should be more joined up than they actually are but they're not as joined up as we'd like. So I don't -- I hope that's made it a little clearer but I know that many of the New Zealand analysts and investors would share your view but it's a bit confusing.

Ian Martin - *RBS - Analyst*

All right. And how does the opposition view this deal and would it continue on in the same form if there was a change in government?

Mark Ratcliffe - *Chorus Limited - CEO*

Look, I don't know. We've got some protection mechanisms in place should that happen. I think those were outlined in the scheme booklet last year described what those were. I don't see unravelling this deal as being something that would motivate nay particular political party. It does appear to have support from the country, whilst, I think Vic said, that customers might not know what UFB is. I think they tend to see -- the research is that the Prime Minister said it was good for us so it probably is, would be an outtake on that. So I don't hear of any support at the -- the opposition has not said anything on the subject for some time, including providing almost no commentary, that I can recall, on the commissions recent deliberations. So I sort of regard it as probably not a political issue but I'm not a politician, so --

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Ian Martin - *RBS - Analyst*

It must be very attractive for politicians in future, you know, once the investment commitments are made, and you're improving your productivity to the extent indicated, no to, you know, see if you can get some of that back for -- for -- you know, either the government or consumers?

Mark Ratcliffe - *Chorus Limited - CEO*

Oh look, I've been -- I think, you know, government interference is always a risk, but I mean I don't know whether it's one that's likely to manifest itself here. I don't think we would see in New Zealand the idea of building a broadband network to be such a political issue as it is in Australia. So clearly if you get a change of government think there is -- there has been historically some risk that that will unravel. Doesn't appear to have been quite the same focus on it here.

Ian Martin - *RBS - Analyst*

All right, thanks Mark.

Mark Ratcliffe - *Chorus Limited - CEO*

Thanks. Right Richard--

Operator

Your next question comes from the line of Mark McDonnell, please ask your question.

Mark McDonnell - *BBY Limited - Analyst*

Yes, thank you. Your presentation was very upbeat and it does rather leave me wondering what the biggest problem is. Is it to do with regulation and the recent Commerce Commission draft ruling on pricing or is it more at an operational level? I'm just wondering if you could recap where you see the biggest immediate challenges in the business?

Mark Ratcliffe - *Chorus Limited - CEO*

Oh look, I mean I'll just flick back to page 98 I think it is in the slides, which I think described what I -- what we saw as our challenges and I think they're probably in that order.

Mark McDonnell - *BBY Limited - Analyst*

Okay.

Mark Ratcliffe - *Chorus Limited - CEO*

And I think you could argue -- you could argue that the regulatory uncertainty one is higher. I think that is a more immediate one that is upon us. We're going to get some certainty there. The UFB and RBI rollout and any risks of that will manifest itself in time. I think what we've tried to do today is to let out some milestones about how you would see the cost profile of that program coming down over the period of the bill. We understand the implications of effectively publishing some KPIs to you, is that you'll be asking us questions on a pretty regular basis how we're going against them.

Mark McDonnell - *BBY Limited - Analyst*

I'm sure that's right. Thank you.

Mark Ratcliffe - *Chorus Limited - CEO*

And I don't think you'd have wanted me to be depressed.

Mark McDonnell - *BBY Limited - Analyst*

No, no, no. I guess our job is to quantify risks.

Mark Ratcliffe - *Chorus Limited - CEO*

Thank you. So there was a question in the room from Richard.

Richard Eary - *UBS - Analyst*

Yes, thanks Mark. Just looking at your sort of time plan in terms of what's ahead. And if you look at the pending sort of regulatory decisions that come post the financial results and the AGM. When you come to the final results and when the Board is considering future dividend policies, do you think they can prudently announce a forward looking dividend policy at the results when we still have regulatory uncertainty around UBA and UCLFS?

Mark Ratcliffe - *Chorus Limited - CEO*

I mean I will -- I mean it depends on what sort of -- how much certainly you want on a dividend forecast. I mean it depends whether you've got an expectation is that we're going to give a dividend forecast that will be there for a decade or whether you're going to give it there for a relatively short period of time. I know you'd like it for a decade. So I think the Board will be mindful about how much certainty you can give. But you're quite right, there is stuff afterwards.

Richard Eary - *UBS - Analyst*

Does that mean that when we get to like the financial results in August that -- we'll obviously get a final dividend announcement at that stage. But when we look to guidance into '13 and beyond that the likelihood of getting any clarity of a forward looking dividend statement beyond '13 is remote?

Mark Ratcliffe - *Chorus Limited - CEO*

No I don't think it's remote, but I think it's challenging.

Richard Eary - *UBS - Analyst*

Okay, thank you.

Mark Ratcliffe - *Chorus Limited - CEO*

Hi Greg.

Greg Main - *First NZ Capital - Analyst*

Yes, look you've obviously talked a bit about the CapEx side but we haven't heard much about operational forecasts or anything during this process. You've got the transitional arrangements with Telecom, can you give us some sort of feel about what quantum or timing is around that. Obviously also just with the CapEx profile, a little bit around the depreciation and amortisation expectations?

Mark Ratcliffe - *Chorus Limited - CEO*

Right. I mean we haven't gone deep into the operating side of the business, mostly because with in terms of how we've seen you guys analysing things and the models that you're producing -- I think as Andy said, you're there -- between -- you're sort of all there or thereabouts on there and so we haven't felt any need to provide any additional guidance on that or correct anybody there. We, I think, said at the time of road shows back last year that revenue and costs were past -- was a -- predictor of the future.

I think Vic's been through the market and said there's not much access line growth but there's potentially change in mix and a move to higher ARPU products that are available. Those of you who have looked at the operating costs of Chorus and (inaudible) the last few years would say that we've managed to keep costs relatively flat and build efficiencies into the business year-on-year to cope with CPI type increases and that's the thing. I mean our cost is largely a proportion of either the labour that we employ ourselves or that comes through service companies or Telecom. We're looking to build efficiencies in the take out in the inflationary process.

In terms of services from Telecom -- and it's basically -- there are some things that we have to move off and Andy talked about the investment in new finance systems and HR systems where we have to move off by a particular time. The rest of the stuff we'll move off as it's economically rational to do so. So we can make an investment case that says spend NZD20 million worth of stuff on IT and you can save yourselves NZD5 million to NZD10 million a year in operating costs then we'll spend the money. But we're not moving off systems just for the sake of it. So it will be business case based.

But I mean I think you've all identified that there's a reasonable amount of money that we pay Telecom every year for doing stuff and so therefore you should think there's an opportunity to try and take that down. How much is there? I mean 20 years in this industry says that IT investments and proving them in is challenging and we've got enough to do on the network CapEx side without running into speculative IT projects. We're a network infrastructure business, we don't have -- we don't need to have complex customer management systems in place, however much Vic might want them. We only have 100 customers, you don't need a complex customer management system for 100 people.

Probably got time for one more question.

All right, many thanks everybody. For those of you on the webcast, thank you very much for your time; and we'll talk to those in the room over lunch. Thank you.