

Chorus Annual Meeting 31 October 2019

Chair's Address

Good morning and welcome to Chorus' 2019 Annual Shareholders Meeting. It is great to see some familiar faces back, and thank you for making the effort to join us today.

My name is Patrick Strange and I am Chorus' chair.

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

My fellow directors are here today:

Jon Hartley, Deputy Chair

Prue Flacks

Anne Urlwin

Murray Jordan

Mark Cross

Jack Matthews

and, of course

Kate McKenzie.

We also have our Chief Financial Officer, David Collins, General Counsel & Company Secretary, Elaine Campbell, several other key executives, and our auditors KPMG here with us today.

During the financial year ended 30 June, Chorus achieved a net profit of \$53 million and EBITDA of \$636 million, in line with guidance.

This enabled us to deliver a fully imputed dividend of 23 cents per share this financial year. This is anticipated to increase to 24 cents per share in FY20, subject to no material adverse changes in circumstance or outlook. In the board's view this represents a prudent dividend policy that reflects our current operating environment.

We had a strong year for broadband connections, with an increase of 9,000 lines, despite expected losses in the LFC areas as they install fibre to our copper customers. This was a significant jump from a gain of just

1,000 broadband lines in FY18 and reflects our ongoing initiatives to win broadband customers from cable and fixed wireless networks in our own fibre areas, together with growth in the number of premises nationwide.

We're about 80% of the way to our target of building our fibre network past approximately 1.36 million homes and businesses by the end of 2022. And under UFB2 (an extension to the original UFB rollout), we've started taking fibre to more than 300 smaller towns for the extension of (UFB2), where fibre promises to deliver even greater socio-economic benefits.

Unquestionably, the Ultra-Fast Broadband programme has been a success for New Zealand inc. Infrastructure NZ has called it one of the most successful Public Private Partnerships in New Zealand's history.

With the first phase of the programme nearing completion in the coming weeks, it is important to celebrate and recognise what the team has achieved.

It's a great example of how Government and the private sector can work in partnership to deliver a step change in infrastructure quality on behalf of the country. It's a model that could be used to solve many other infrastructure investment challenges.

But while the UFB is nearing completion, there are a number of other large New Zealand infrastructure projects that must get underway in the coming years. We all know the problem - recent Treasury figures indicated that some NZ\$130b needs to be invested over the next 10 years to get New Zealand's infrastructure up to scratch to meet significant population growth and ever increasing demands.

At least part of that funding will need to be raised from private investors, not unlike the Chorus model. So New Zealand's attractiveness to investors both locally and, most importantly, internationally will underpin the country's ability to deliver this unprecedented infrastructure programme.

A key signal to potential investors about the risks of investment in New Zealand infrastructure will be the Commerce Commission's implementation of the regime that will govern the new fibre broadband network built by Chorus.

These international investors (including many of our current shareholders) are watching the Chorus regulatory process very closely. If they sense that they are not going to get a fair return for the multi-billion dollar investment they made, a return that reflects the considerable risk they took and the long period they have waited for a return, this will be the last investment they and their investment community will make in New Zealand infrastructure - they have choices about where they put their money, and we are competing with other nations for it.

So their experience with Chorus will have a huge impact on New Zealand's ability to deliver the next \$130 billion of essential infrastructure, cost effectively, for everyone.

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

Another area of strong focus for Chorus is customer experience. It is no secret that the huge, un-forecast, early take-up of fibre by New

Zealanders stretched our capacity in early years. And some customers experienced delays and frustrations as a result. For our part, we have made significant strides in improving the fibre installation process, delivering record volumes and new highs in customer experience. We are not perfect, but most customers have a prompt, effective installation now - and virtually every customer loves the speed, quality and reliability fibre offers.

But a challenge the whole telecommunications industry faces is communicating offerings in a way that customers want and understand.

Put simply, too often we still see big promises made and experience that doesn't quite measure up. We've also seen examples of people being sold broadband services that they didn't really understand.

As a sector we need to do better on this. New Zealanders are already wary of telecommunications - with low levels of trust and lots of complaints at RSP level.

And we've seen what happens in other sectors such as banking when conduct issues undermine consumer trust.

We all have to do better, and take the long term health of the whole sector into account through much greater customer focus.

Chorus will do our part, ensuring we provide easily understandable and trustworthy information about our products that allow customers to make clear and realistic comparisons. We hope others will do the same - and will not hesitate to call out instances where this is not happening, something we have been reluctant to do up to now.

Finally, those of you who were here last year will recall that I addressed the allegations of mistreatment of some individuals within our sub-contracted field force and committed to getting those issues sorted out, including commissioning an independent review. The issues arose principally within our migrant work force - whose contribution has been key to delivering the build in a period where labour has impossible to source locally.

We completed that independent review, and published it in its entirety. We have now completed a six month programme of work as a first step in an ongoing fundamental shift in management of our supply chain.

We have audited all sub-contracting companies, which resulted in 38 sub-contractors ceasing work on the Chorus network, and more than 100 more committing to improving.

Along with Visionstream and UCG, we have also:

- Developed worker's rights roadshows and new training for sub-contractors and their employees
- Finalised a new independent whistle-blower process
- Improved the fairness of how jobs are allocated and paid for
- Put lots of other structural improvements in place.

Chorus is absolutely committed to making the changes needed to make this right. We remain open to further changes if monitoring does not show all the improvements we want to see.

In terms of key personnel, the Board continues to evolve and refresh.

Anne Urlwin, who is a founding director, having been on the Board since Chorus' establishment in 2011, is standing down this year.

Anne steps down with the very best wishes of the rest of the Board and our thanks for her hard work, insights and very valuable contribution to Chorus. She will be missed.

We are pleased to have Sue Bailey standing for election to the Chorus Board today. Sue has spent her career in the telecommunications market, working for high profile companies such as Telstra, Virgin Mobile Australia/Virgin Mobile USA, and most recently for Optus where she was a member of the executive leadership team.

The Board unanimously supports Sue's appointment as an independent director, believing she will bring strong new experience and capabilities to the Board.

We are also very pleased that Mark Cross is standing for re-election as a Chorus director. Mark is standing due to the NZX listing rules requirements that require existing directors to retire and stand for re-election every three years. Mark will replace Anne as Chair of our Audit and Risk Committee, and is currently chair of Milford Asset Management, MFL Mutual Fund and Superannuation Investments, and a director of Z Energy.

The Board unanimously supports Mark's appointment as an independent director.

Finally, Chorus will also move forward with new management leadership as Kate McKenzie is stepping down as CEO.

On behalf of the Board, I would like to thank Kate for the superb work she has done leading Chorus. Chorus is well placed to take advantage of the opportunities ahead as we move from building the fibre network to operating it, thanks to her tenure and leadership.

We are sorry to see her go but understand her desire to spend more time with her Sydney-based family. She will leave with our very best wishes and thanks for a job well done.

In terms of Kate's replacement, we announced a couple of weeks ago that JB Rousselot will take over as CEO on 20 November 2019.

JB previously held senior positions at Telstra and NBN Co. Most recently he was Chief Strategy Officer at NBN, and before that he oversaw NBN's network and service operations.

The Board was fortunate to be able to consider several high-quality candidates for the role, and we are pleased to have secured JB to lead Chorus through the next phase of its evolution. And he inherits a very high performing executive team from Kate, so the company will not miss a beat.

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

Thank you.