

Chorus Annual Meeting 6 November 2020

Chair's Address

Good morning and welcome to Chorus' 2020 Annual Shareholders Meeting. Thank you for making the effort to join us online today. My name is Patrick Strange and I am Chorus' chair. I can confirm we have a quorum, and declare the meeting open.

Like everyone else, Chorus is adapting rapidly to the global pandemic. And like many businesses over the last year, we are doing ever more online, including this meeting. Our preference currently is to have in-person annual meetings, but we all know that was not possible this year. We do welcome your feedback on this meeting however.

The meeting will still follow the usual format.

The Lumi platform means you have the ability to ask questions and submit votes online.

Questions can be submitted at any time. To ask a question, press on the speech bubble icon. This will open a new screen. At the bottom of that screen there is a section for you to type your question. Once you have finished typing please hit the arrow symbol to send.

Please note that while you can submit questions from now on, we will not address them until the relevant time later in the meeting.

Please also note that your questions may be moderated or, if we receive multiple questions on one topic, amalgamated.

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

My fellow directors are all on-line with us today:

- Prue Flacks
- Sue Bailey, from Australia
- Kate Jorgensen

- Murray Jordan
- Mark Cross, and
- Jack Matthews

We also have our CEO JB Rousselot, Chief Financial Officer, David Collins, General Counsel & Company Secretary, Elaine Campbell, and other key executives.

This year saw our broadband infrastructure pass its greatest ever test with flying colours.

The COVID-19 pandemic meant New Zealanders were heavily reliant on our copper and fibre network to keep connecting, working and learning through months of change and uncertainty.

Our business and our people rose to the challenge, helping deliver strong operational results and further cement broadband's role as an essential utility.

In fact, the Minister for Communications Kris Faafoi cited the total reliability and huge capacity of fibre as a key enabler of the health response to COVID, by enabling widespread work and learning from home.

We also implemented a range of initiatives to support our broader industry and community. This included \$5 million in financial support to our service companies and their subcontractors to help them in the lockdown, and free student broadband connections for unconnected households identified by the Ministry of Education. There are currently about 12,000 of these connections.

COVID-19 has been a very clear reinforcement of the strategically critical nature of our infrastructure.

The COVID lockdowns did have a significant impact on our own operations, particularly in the field. Our ability to do all but essential services was severely curtailed, including installing fibre, and the ways in which our field technicians could work were heavily impacted.

That we could maintain the quality of our service, and still achieve the financial performance I will now summarise was a credit to the wider Chorus team.

Despite the operational restrictions and financial impact of COVID-19, we achieved our goal of modest EBITDA growth. For the year ended 30 June, Chorus delivered EBITDA of \$648m, delivering net profit of \$52m.

Operating revenue was down slightly, from \$970m in the prior year to \$959m. This reduction was more than offset by a reduction in operating expenses from \$334m to \$311m.

We continue to place huge emphasis on cost management and efficiency, particularly as our major build programme starts to taper down. It is not easy, and invariably impacts people on a personal basis as numbers fall. Credit is due to JB and his team for their relentless focus on this.

This enabled payment of fully imputed dividends of 24cps over the course of the financial year. The board anticipates this increasing to 25cps in the current financial year, subject to no material worsening of the operating or regulatory environment.

During the year, we celebrated a significant milestone with the completion of the original ultrafast broadband (UFB1) rollout in November 2019. There are now less than 150,000 homes and businesses remaining to pass in the UFB2 rollout area by the end of 2022.

Together, these projects are delivering far reaching benefits, with a growing number of smaller communities throughout New Zealand connected to fibre.

Importantly, customer satisfaction for fibre installations continued to increase, reaching 8.1 out of ten by the end of the year. That exceeded the target of 7.9 we'd set for the year.

We still face challenges. The major RSPs still promote their fixed wireless offerings widely. Every technology has its place, including fixed wireless, but fibre is clearly the premier technology for those customers who have it running down the street. This does introduce challenges for a wholesaler like Chorus when you cannot sell direct to the customer, and your major retailers favour their own, unregulated product.

We have met this head on with our active wholesaler programme, through which we actively promote and incentivise the superior fibre network. We have also invested strongly in raising the bar for would-be competitors by investing in the technology and the

unconstrained network - over 17 percent of our users are on a Gig plan now, and we have just made our new 2 and 4 gigabit Hyperfibre service widely available.

And copper, which still serves roughly half a million New Zealand homes and businesses, is not forgotten. Continued investment has ensured its performance continues to lift – about 200,000 of the customers are on VDSL, which can provide speeds up to 130 megabits. Importantly, we had another excellent year for reliability on the copper network too.

I must turn now to the question of regulation.

The Commerce Commission has a large regulation workload, in an area that is new to them. We value the open communication we have with them, and the constructive relationship we have at all levels.

Establishing a new utility framework is not easy and telecommunications is a much more dynamic market than sectors like electricity. Our sector is also complicated by the fact we're a listed company, that was established to fulfil a government contract.

We are encouraged by the initial progress they are starting to make in competition aspects, such as recognising the need to monitor and report the performance of products which compete with our regulated service – and thus allow customers to make an informed choice as to the service they want. JB will talk more on this.

On economic regulation, I cannot be so positive. We differ on appropriate WACCs and the like going forward, but I will not focus on that today.

However, I must respectfully say that I think they are simply wrong on their treatment of historical losses. Their approach materially undervalues the risks our equity investors took at the beginning of the project.

The announcement from the Commerce Commission three days ago was extremely disappointing in this regard. The fact that our shareholders had already priced this decision into our share price does not make it any better.

Let's not underestimate just how risky UFB was. It required billions of dollars of investment in fibre well ahead of demand. Success was in no way guaranteed. These major infrastructure programmes are bloody hard, and most of them end up well over time and

well over budget. You have all seen it, be it on city rail projects, the Transmission Gullys of this world, hospitals and so on.

Chorus investors were willing to take on that risk in 2011, and Chorus has delivered. Through a period of high construction inflation and other headwinds, the fibre network has not only been delivered on budget and on time, but has achieved take-up of 60 percent to date, and rising (against a target of 20 percent by 2020). And New Zealand has benefitted massively, to the envy of many other countries around the world.

The Commission's decision is based on screeds of academic arguments which we all struggle to follow.

The academic arguments are really just that – academic. It is simple really. The international investment community all tell us the same thing – if they had known how we were going to be treated at the end, they would never have invested at the outset. That means we will never be able to do another Chorus to address our infrastructure deficit in New Zealand.

International investors will not be prepared to take this risk in New Zealand again, and future financing of New Zealand infrastructure will require, essentially, government underwrites of the risk before they start. I think we are already seeing this today.

It remains my sincere hope that the Commission sees the bigger picture and looks for ways to reverse the damage done, or else the whole country will be much worse off in the long run.

Moving on - as we look to the future, the Board continues to evolve and refresh.

During the year one of our founding directors, and the deputy Chair, Jon Hartley stepped down. Jon's contribution over many years was enormous, not least during the testing period after the copper pricing debacle, and he stepped down with the Board's sincere thanks.

Today Kate Jorgensen is standing for election, in accordance with NZX listing rules. Kate has significant experience and has held a number of senior leadership positions within the telecommunications, infrastructure and construction industries in New Zealand.

She is unanimously recommended to you by the board as an independent director and she will address you shortly.

Another of our founding directors, Prue Flacks, is also standing for re-election today, in accordance with NZX listing rules. You will hear more from Prue shortly, but I would like to acknowledge that in the spirit of continuing to refresh the board, she has told me it is her intention that if elected, this next year would be her last year as a director of Chorus. Thank you Prue for all you have done.

And finally, Jack Matthews is also standing for re-election in accordance with NZX listing rules. You will hear from Jack shortly too.

Prue and Jack are invaluable members of the board.

During the year, we made a seamless transition to a new CEO, JB Rousselot. Mark Ratcliffe did a great job as the founding CEO, and Kate Mackenzie made a huge difference in her three plus years, as you all saw. JB has picked up the mantle without a hiccup, well supported by a great team.