

Chorus Annual Meeting 27 October 2021

Chair's Address

Good afternoon and welcome to Chorus' 2021 Annual Shareholders Meeting. I'm Patrick Strange, Chorus' chair. The Chorus Board thank you for making the effort to join us online today.

We have a quorum so I declare the meeting open.

Last year we held our first online annual meeting and hoped that we'd be back to an in-person meeting this year. Unfortunately, COVID has forced us to run the meeting virtually again.

While this means we can't mix with shareholders in person, today's online proceedings again showcase the critical role our broadband network has played in supporting New Zealand's economic and social activity through the recent lockdowns.

Today we're using Computershare's online meetings platform to enable you to watch the live webcast and access the various meeting documents. Shareholders and proxies can ask questions and submit votes online.

To submit a question during the meeting, simply select the Q&A tab on the right half of your screen, type your question into the field and press submit. While questions can be submitted from now on, we won't 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.

Voting will be conducted by way of a poll on all items of business. If you are eligible to vote, you will shortly be able to cast your vote under the Vote tab. Your vote has been cast when the tick appears against the available options. You can change your vote up until the time I declare voting closed. Simply select 'Change your vote' to do so.

I now declare voting open on all items of business. I will give you a warning before I move to close voting near the end of the meeting.

If you need assistance at any time, simply type your query into the question field, via the Q&A tab, and someone from Computershare will respond. Or you can call Computershare on 0800 650 034.

The agenda for today is a short address from me, followed by chief executive JB Rousselot. We'll then move to resolutions, questions and voting.

JB is joined today by key executives including David Collins our Chief Financial Officer and Elaine Campbell our Chief Corporate Officer & General Counsel.

My fellow directors are of course also online with us. Sue Bailey is joining us from Australia and from closer to home we have:

- Mark Cross
- Prue Flacks
- Murray Jordan
- Kate Jorgensen, and
- Jack Matthews.

Miriam Dean is also with us. Miriam has been nominated to stand for election today as an independent non-executive director. She is unanimously recommended to you by the Board and brings extensive experience in competition, consumer and regulatory law that will complement and strengthen the Board's skillset. You'll hear more from Miriam shortly.

Murray Jordan and I are standing for re-election today in accordance with the NZX listing rules.

As Prue indicated at last year's meeting, she has decided now is the right time to leave the Board. She is a founding director and has made a huge contribution to Chorus as we navigated some challenging regulatory issues over the years and successfully rolled out the fibre network. We thank her for her hard work, insights and valuable contribution to Chorus over the last decade.

Several months ago I wrote to shareholders about Chorus' performance in FY21 and our outlook for the year ahead. At the time I talked about the unrelenting growth in data demand as an underlying trend supporting our business.

As it turns out, the recent lockdown has elevated New Zealand's reliance on broadband to another level again. Imagine what lockdown would have been like without the unconstrained data and reliability of fibre and fast VDSL. Seamless Zoom meetings with multiple participants wouldn't have been feasible a decade ago. For most of the time, you would have been on voice telephone conferences: the ease with which we have transitioned to working from home would simply have been impossible.

And streaming entertainment and games would have been impossible at the scale we are now doing it. Rather than being limited to a single TV screen and channel, New Zealanders stuck at home have been able to choose from a world of different content across multiple different screens.

The essential nature of the internet today is reflected in our network statistics. Fibre users averaged 621 gigabytes in September. That's a huge leap from 500 gigabytes in June. An hour of high definition streaming uses about 3 gigabytes.

In the first six weeks of the recent COVID lockdown Chorus' network carried more than an exabyte of data. That's 1 billion gigabytes and is more data than we carried in all of 2015 – the first year that Netflix arrived in New Zealand.

Clearly, consumers are getting more and more value from our network as data demand grows. And in December we're offering to triple the speed used by about 70% of our fibre customers, from 100 to 300 megabits per second, with no increase in price!

There are alternatives to fibre. The major retailers offer Fixed Wireless in some areas. It is a product with a place. However, unlike fibre, the speed will degrade as more customers use it, as in the late afternoon or early evening. How did it perform through COVID? I don't know, because unlike fibre, the vendors don't need to reveal its performance. The best idea we will get is from Sam Knows - a sampling programme sponsored by the Commerce Commission - which reports about three months after the fact.

Worse, we've recently seen fixed wireless services promoted as 'speeds up to 750 megabits' - it would be much more useful if they said 'speeds down to' as it will probably be slowest when you most need it. This is why we're very supportive of the Commerce Commission's initiative to bring more transparency to product disclosures for different broadband technologies.

Consumers should be fully informed about the characteristics of the product they're paying for and have time to consider their options, rather than being steered onto a lower quality option that suits the financial objectives of their service provider.

We're also working closely with the Commerce Commission in finalising the requirements and outcomes of the new regulatory framework for fibre. The new regime comes into effect from January 2022.

The Commission is yet to make final decisions on the starting value of our regulated asset base and on our allowable revenues and expenditure for the next three years. Those decisions will have a major bearing on our approach to further discretionary investment in fibre.

Regulatory outcomes in the past year have been a poor advertisement for investment in future public-private partnerships. That is direct feedback we receive from international and local investors and it has been reflected in our share price performance this calendar year. We remain hopeful that the Commission's final decisions will better reflect our commercial reality.

The new regulatory settings for fibre have also put a renewed spotlight on the digital divide for the 13% of New Zealanders outside the planned fibre footprint. We're conscious that other countries already have taken, or plan to take, fibre even further than New Zealand. At this time the regulated return that has been set for fibre, the treatment of government financing and the requirement that we charge urban prices across both our fibre and copper networks, make it uneconomic for us to take fibre further.

New satellite services and government funded fixed wireless towers are helping close the gap in a piecemeal fashion, but something's out of whack in policy settings when other networks can deliver new rural services at different, higher prices when we cannot. Because we must sell services to remote customers at exactly the same price as apartments next door to our biggest exchange in Auckland, we would lose money on every one.

And it is not just about fibre. Our obligations to be a national copper service provider at urban prices are looking increasingly out of date in a world where we have about 400,000 less customers than a decade ago. As migration to our own fibre and other alternative networks continues, our remaining copper network costs will need to be borne by a smaller and increasingly rural customer base. Clearly, this regime is in urgent need of change and our focus will increasingly turn to that.

Despite the tilted playing field, we had an extremely strong operational year, with fibre uptake growing from 60% to 65%. That was helped in large part by our managed migration programme which generated about 30,000 connections. So customers are recognising the general superiority of fibre.

As always, we're pleased to see customer satisfaction continuing to lift as a result of our work on process improvements. Our focus on customer outcomes is unwavering and we're introducing a new fault restoration performance measure to reflect our organisational shift from building to operating the fibre network.

Employee engagement remains strong at 8.5 out of ten, despite the ongoing reduction in employee numbers as the fibre rollout comes to an end. We appreciate the resilience and professionalism of Chorus employees through these changes.

Their efforts through the year helped us just achieve our goal of a modest increase in EBITDA, up \$1 million to \$649 million. Very modest. Revenue was down \$12 million due to COVID-19's ongoing effects on the broadband market and competition from alternative networks. However, JB and his team kept a tight rein on costs and unlike FY20 there were no significant COVID related costs. Net profit was down slightly at \$47 million.

These results meant we were able to deliver on our guidance of 25 cents per share for the year. We've provided initial guidance of 26 cents for FY22 in the absence of certainty on the final regulatory settings due this side of Christmas. We expect to provide an update on dividend outlook in February once the uncertainty is removed. We anticipate that only the interim dividend in FY22 will be fully imputed because of our diminishing imputation credit balance.

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