



CHORUS LIMITED ANNUAL MEETING 1 NOVEMBER 2017

CEO's ADDRESS

Thank you Patrick and good morning everyone.

It's great to have you join us in our offices today and I look forward to meeting some of you after the meeting.

I've been chief executive for just over eight months now and I'm excited and energised about Chorus and the opportunities associated with what it is providing for New Zealand.

I'm not the only Australian to recognise that Chorus is doing great work for New Zealand. Just last week the Australian Prime Minister was publicly referring to the New Zealand model for fibre rollout as a shining example of the way to do things, versus the current Australian approach. Clearly I've come to the right place!

And having met with a range of international network operators in the last few weeks, I'm even more convinced than ever that we're heading in the right direction. European telcos would like to deploy more fibre, but tend to be constrained by the amount of investment required and the limitations of their existing operating models.

However, there are a growing number of countries around the world where widespread fibre networks are being recognised as the fourth utility. Singapore's Netlink Trust, for example, recently joined us as being a publicly listed network only operator.

Chorus is at the centre of a very clear global trend – the thirst for high speed internet connections.

You can see that in the rate at which we're connecting people to VDSL broadband and fibre. In the last three months alone 50,000 customers upgraded to VDSL and 36,000 on to our fibre network.

We now have 53% of broadband customers on high speed broadband, up from 45% in June. As a result, the average broadband speed on our network has gone from around 11 Megabits in 2012 to almost 60 megabits in September. And as people switch on to faster broadband, they use it more.

If there's one thing that gives me confidence in the future of fixed line broadband it's this chart. It tells you how critical our infrastructure is to people's lives. At 6am we see the amount of data on our network start to grow as people wake up and go online. That traffic increases through the day and jumps up noticeably after 3pm – when school gets out. It lifts again after 6pm as people arrive home and start streaming online TV. Right through to the peak at about 9pm.

What's amazing is the rate and pace at which this is increasing. Since June last year we've seen a 51% increase in data traffic as represented by the different coloured shading. That difference is mostly made up of an ever growing mountain of data usage during those peak hours of viewing in the evening. More people are switching on to the convenience of streaming video online – watching programmes when they want.

And more and more content is becoming available online. First it was Netflix, Lightbox and Youtube. Now Sky TV have made about half of their set top boxes internet capable and TVNZ is livestreaming. More recently Vodafone has announced a TV service that will stream video over our fibre network.

An important related trend is the growing data usage in each home. Average monthly usage on our network was 162 Gigabytes in September compared to about 120 Gigabytes last year. Statistics New Zealand estimate 62% of residential connections are now on unlimited data plans, up from 51% last year.

That's a significant jump and some retailers – like Orcon, Stuff Fibre and My Republic - have recognised the trend and now only sell unlimited data plans. Contact Energy has recently joined them. They are the largest electricity retailer to start bundling broadband with electricity - further proof of how broadband is now the fourth utility.

With traditional broadband retailers like Vocus also getting into electricity, we expect to see more of this trend.

Despite the trends in our favour, we do face challenges and the biggest of those, as Patrick mentioned, is the loss of connections to other networks. Total connections reduced by about 125,000 last year and by a further 20,000 in the first quarter to the end of September.

What are we doing about it?

The main change is that we've gone from being a passive wholesaler to being more active in the marketplace. We can't rely on all retailers to promote our products for us when they have their own competitive motivations.

That's why you may have seen us on your TV screen in May when we launched our first mainstream ad campaign encouraging New Zealanders to ask for better.

We aren't looking to become a retailer, but we do think we have an important role to play in helping to ensure that consumers have accurate information about their broadband options. As independent data from TrueNet has shown, fibre and VDSL are excellent broadband products, and ADSL broadband matches fixed wireless for webpage browsing.

It's great to see Consumer New Zealand also stepping up in terms of the information it is providing to customers. Their recent report confirms their view that some of the claims being made about wireless performance don't stack up relative to fixed line options given speed, data and congestion limitations.

We know there are some customers who are looking forward to getting back on our network as soon as fibre rolls past. If not sooner.

And we know our campaign is achieving results. The decline in connections has slowed progressively in the last few months and broadband connections through the first quarter were almost flat. But there's still plenty more we can do.

If you haven't done so already, you can check whether better broadband is available at your home by visiting askforbetter.co.nz online. Chorus people will be more than happy to help shareholders in the room with that afterwards.

Letting people know better broadband is available is one thing. Connecting them to it is another. Installing fibre into a home is not a simple job – we've put a large amount of resources and money into improving the process and we've made great progress. Simplifying the process as much as we can will continue to be a focus – we want to reduce the amount of effort involved for customers.

In the three months to the end of September we built 40,000 new connections for customers.

That's our highest ever quarter for build and is on top of the 129,000 we built through last financial year.

Pleasingly, along with the growing volumes, customer satisfaction has gone from 6.9 out of 10 last June to 7.4.

We're now working on ways to make connecting even easier for customers with about a dozen different trials. In Hokitika, for example, we're trialling connecting homes at the same time as we're building the network in the street. So far we've had 70% of customers spoken to wanting a fibre connection.

And in Auckland, we've door knocked in an area where fibre was already available and had 40% of customers saying they wanted a connection. Many people didn't realise that they can get fibre connected for free – that's a pretty good deal.

These are promising starts towards our goal of reducing customer effort for a connection to less than a day. There's still a lot of work to do to continue to reduce the amount of effort involved for customers wanting to connect.

We're not just focused on connecting people to fibre. We're also thinking about what else can connect to our network and provide opportunities for growth.

It's an exciting future, with Chorus at the heart of the information superhighway. Exchange buildings as data centres, fibre connecting CCTV and other smart devices, and infrastructure for micro cell sites. These are all logical extensions of the network infrastructure we have today. We're testing some of these scenarios and you can expect to hear more on that over the coming year.

Our copper network is still a very important part of how we provide service to customers, especially outside our fibre footprint. We put a lot of effort into maintaining its performance through winter and we're continuing to look at ways to improve, such as how we can work with retailers to reduce unnecessary technician visits. In September about 20% of the broadband faults reported to us were for issues outside of our control, like customer modems.

That means technicians made more than 5,000 visits they didn't need to. We've seen one retailer reduce their avoidable technician visits to almost zero by committing more expertise to customer troubleshooting. That's a win-win for the retailer, us and all customers who would have otherwise had to wait longer for their service to be fixed.

This is one example of why we've begun making changes to the internal structure of the business, with a big focus on lining up our processes and systems around the end-to-end experience for customers. Putting customers at the centre of how we redesign processes is something that I am personally very passionate about.

The first stage of this change is complete with revised executive functions and some new executives in place. We're now working through how this simplified structure can

transform the performance of the business, by delivering the best possible customer experience at the lowest possible cost. This will allow us to reduce the size of our organisation.

There's plenty to be done, but I'm confident we're on the right track and Chorus will continue to play a pivotal role in shaping New Zealand's digital future.

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