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## **STOCK EXCHANGE ANNOUNCEMENT**

27 October 2015

### **Chorus' annual shareholders' meeting**

Please find attached the following prepared announcements which will be delivered at Chorus' annual shareholders' meeting to be held in Wellington at 2pm today:

- Chairman's address;
- CEO's address; and
- Presentation slides.

Copies of these announcements will be available on Chorus' website later today.

The meeting will also be webcast live on the investor section of Chorus' website at [www.chorus.co.nz/webcast](http://www.chorus.co.nz/webcast).

ENDS

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## CHORUS LIMITED ANNUAL MEETING 27 OCTOBER 2015

### CHAIRMAN'S ADDRESS

Your company performed strongly last year, within the constraints imposed by regulation.

Mark will summarise the financial performance shortly, which was impacted by the imposition of lower copper pricing prescribed by the Commerce Commission.

We were required to apply the new pricing of about \$34 from December, sharply reducing revenue. This compares to \$45 at de-merger.

However, as Mark will outline, management implemented strong cost controls in both our legacy copper business and our fibre roll-out in very difficult circumstances.

Last December, the Commerce Commission announced a new draft position of \$38 after detailed modelling, materially above their initial position, and they endorsed this in their 'final draft decision' in July.

Bizarrely, however, they reversed their earlier intention to apply this from last December, requiring us to continue to use pricing which, by their own reckoning, is manifestly too low, until their pending final decision.

We continue to argue strongly that the draft price is still too low, and that it should be applied from at least last December, if not earlier. It seems manifestly wrong for our shareholders - and the industry - that we should be required to continue to receive the wrong price until the Commission finalises a process which has already been seriously delayed.

I will speak more of regulation in a moment.

But let me talk about broadband, which is now at the heart of our business.

New Zealanders are now talking about broadband – and its speed and availability.

The interest in broadband is fantastic. It tells us that Chorus is providing a service that people want and need.

Being a newcomer allows me a better appreciation of just how good a broadband service many New Zealanders are now getting from our copper lines, and are starting to get from fibre.

Mark Ratcliffe has just returned from the Broadband World Forum in the United Kingdom where he was asked to talk about New Zealand's successful fibre story.

British Telecom has been building out a fibre-to-the-cabinet network. Australia is now looking to do that too.

We completed our fibre to the cabinet network in 2011, covering around 80% of the population. Yes - before the last World Cup.

Since then, we have invested about \$2 billion in fibre.

And the Rural Broadband Initiative means that even some remote rural residents can get VDSL speeds.

The fibre rollout is happening at pace – New Zealand's broadband network is a country mile ahead of most other developed countries. In contrast, Australia's fibre rollout is awash in cost over-runs and red ink. And the UK is still debating structural separation for British Telecom, with Chorus being cited as an example of the benefits that it would bring.

Last year we connected 49,000 premises to fibre: this year we expect to connect at least 80,000. It may be more. New Zealand is now leading the OECD for fibre growth.

The surging uptake is stretching us, and not all the customers are yet getting the prompt installation service we aspire to - but we are working to find more fibre technicians and to streamline the installation process.

This is our number one priority in the field.

#### **SLIDE: Broadband The 4th Utility**

Broadband has become the fourth utility. The evidence is written in purple on footpaths everywhere.

New online services such as Lightbox, Neon and Netflix are only going to shift more people from the broadcast airwaves to the broadband pipe.

But while broadband networks can transform communities and economies, they first need investors to build them. And that's where New Zealand's regulatory environment remains a huge sticking point.

#### **SLIDE: Regulatory History vs Share Price**

In electricity transmission, we spent \$3 billion on future-proofing the electricity system to underpin New Zealand's economic future, and the benefits of that are huge now.

Transpower could invest off its own balance sheet because it had the certainty of being allowed an economic return.

The big difference between electricity and communications is that electricity has an orthodox regulatory regime that recognises the need for the investor to be able to rely on it for the 30 years of returns required.

One of my biggest learning curves has been deciphering the regulatory complexity Chorus has faced.

The mind boggles. Imagine trying to explain the concept of the hypothetical network operator to international investors.

And, more recently, explaining that the actual costs Chorus has incurred to build the fibre network have not been used in the Commerce Commission's modelling - they assume we can somehow build it materially cheaper, despite the fibre build being out-sourced under a fiercely competitive process.

We are waiting on the final copper pricing decision from the Commerce Commission in December. The cost of this uncertainty is a cost to New Zealand.

That final price will have a significant bearing on our ability to fund ongoing investment in broadband.

It will also determine the extent to which we can review the cost-saving initiatives introduced to address the funding shortfall from the Commission's initial, now discredited, pricing.

We have had to restrict, for example, proactive maintenance and IT investment, which have meant poorer outcomes for end-users.

It has been a difficult time for staff but they have responded with great commitment. Their engagement is huge - and resulted in your company being named Australasian employer of the year.

As well as running the business at its limits, we have had to suspend dividends for shareholders. We regret that, and will revisit things if we receive a favourable final pricing decision from the Commission.

Certainly, it has been a poor signal to the New Zealand and international investors we need to fund New Zealand's future network.

Equally, the departure of about 8,000 shareholders from Chorus' register in the two years since we last paid a dividend is a serious loss, as they are predominantly the small New Zealand holders who the government has worked hard to bring into the markets.

The directors have had an extremely demanding time over the last few years, dealing with complex issues and I think they have fought the shareholders' corner well. We refreshed the board this year, with Murray and me joining - therefore also adding the additional director as we indicated to you.

We are undertaking a review of the skills we have on the Board to ensure we have the right people for the challenges ahead of us.

Like dividends, base fees for directors have remained frozen and have not changed for three years. No additional daily fees have been paid despite the ongoing additional work of all directors.

So we have only increased the total fee pool once since 2011. That was to allow for the appointment of the additional director - which we have followed through on.

Continuing our transparency with you, before next year's annual meeting we will review director fees to assess whether or not the fee structure (and the total fee pool) should be altered and this will involve taking independent advice.

Looking forward, Chorus will very shortly be submitting confidential and conditional proposals to Crown Fibre Holdings in the UFB2 process, by which the government aims to extend fibre coverage.

We expect that these will be considered over the coming months.

In doing this, the Board will take a long-term view: we will not take a short-term view on UFB2 - or on dividends - if it compromises the value we can bring long-term to our shareholders. And nor will we invest shareholders' money where the regulatory and policy regime doesn't offer appropriate stability.

In this regard, we will shortly submit our response to the Government's discussion document on the review of the communications regime. The Government has suggested that a building block model – like that used in the electricity sector and in almost all international regimes elsewhere – may be implemented from 2020 onwards.

We have welcomed this approach in principle because we believe it is the only logical solution to encouraging long-term network investment.

In fact, we believe that, with the right regulatory and policy settings, New Zealand could achieve regional and rural broadband coverage well beyond the Government's current goals.

While we would love to deliver this for New Zealand, our immediate focus is on improving shareholder returns by securing a regulatory environment that enables shareholders to earn a fair return on their investment in a better broadband for New Zealand.

Thank you.

**ENDS**



## CHORUS LIMITED ANNUAL MEETING 27 OCTOBER 2015

### CEO's ADDRESS

#### **SLIDE: Regulatory Impact Overshadows Investment**

First I would like to give you a brief update on the detail that underpins the company's performance that Patrick outlined a few moments ago.

Our recent full year result showed just how unusual things have become in this climate of regulatory uncertainty.

At a network level, we delivered a strong result, with everything suggesting a healthy network business. Those are the green arrows. Fixed line and broadband connections were up at year end and our broadband rollout programmes on track.

But the financials went the wrong way, simply because we had seven months of reduced regulatory pricing in the mix. Revenues were down by 5% year-on-year, EBITDA by 7% and net profit after tax by 39%.

#### **SLIDE: Reshaping Our Business**

Our financial results would have been much lower but for the initiatives we have implemented to restrict spending and reshape the business.

We have implemented over 100 individual revenue, cost, capital expenditure and capital management initiatives. That isn't to say that we were doing things inefficiently before – it's just that when you are managing for cash rather than longer term value you make a different set of choices.

These initiatives have had ongoing consequences for a wide range of stakeholders and the network. We have put a handbrake on all discretionary spending, with current and future implications for consumers and retail service providers. Investment programmes involving proactive maintenance and information technology platforms remain deferred wherever possible as a result.

Upfront cost recovery requirements have reduced demand for new network extensions to homes and businesses.

We re-priced a range of commercial services, which are either yielding additional revenues or resulting in less capital expenditure.

The results were ahead of our targets – with a decline in nominal costs despite the ongoing increase in employees.

On the capex front, trends in copper and common capex spend are clear evidence that our initiatives are working, with avoided or deferred capital expenditure spend ahead of budget.

But deferred network and IT spend is resulting in additional operating costs and of course shareholders have not had a dividend for two years.

This programme of initiatives will continue until we receive the Commission's final pricing decision. The quality of that outcome will determine the extent to which initiatives can be relaxed or halted.

### **SLIDE: UFB Build On Track**

Yet despite the highly constrained operating environment, we are continuing to meet our commitments to the Crown and to the people of New Zealand.

We are now 45% of the way through our rollout of the UFB network. This rollout is New Zealand's largest ever communications project. The existing Chorus network has been built incrementally over a century as towns and cities grew.

The UFB rollout requires 17,000 kilometres of fibre to be built down 44,000 streets across 24 cities and towns by the end of 2019.

We are at the point in the rollout where we are starting to tick off the smaller areas that have been completed. As you can see, seven are now finished – Ashburton, Blenheim, Timaru, Oamaru and Taupo. Greymouth and Masterton are just recently completed. And we expect to complete work in Waiuku, Rotorua, and Queenstown this financial year.

Sometimes it is very easy to overlook just what is being achieved here. When you tell international visitors that we're building fibre networks in places with less than 5,000 premises they are astounded. In the United States, Google talks about connecting fibre cities, not fibre towns.

We are also very close to completion of our part of the Rural Broadband initiative. In combination, these two initiatives will make better broadband available to more than 80% of New Zealand.

They have also been so successful that the Government is seeking to extend both even further.

### **SLIDE: World Class Networks**

I have just returned from the UK where they are considering adopting the "Chorus" model for British Telecom, and while I was over there I gave them some sense of what we are doing here.

By international comparisons, today we are nudging ahead of the OECD average for availability of fibre.

Once UFB is completed, we will be comfortably in the top 10 countries globally. And with the right regulatory settings there is nothing to suggest that we can't go even further.

A reflection from my time in Europe is that we are way ahead here in New Zealand and they are not likely to catch up for decades at least. When we are benchmarking

ourselves, it needs to be against the most progressive broadband nations which are in Asia.

Not the countries we traditionally compare ourselves with in Europe and the US. We are the envy of many – they want to do what we are doing but haven't figured out how yet.

I firmly believe that the fibre network we are building today will be a visionary investment that future generations will thank us for.

And it was visionary, because when we agreed to partner with the Government and establish Chorus there were no guarantees whatsoever that there would be real mass market demand for fibre services.

### **SLIDE: Rapid Fibre Adoption**

All signs are now that fibre is taking off massively, already outstripping the take-up of copper broadband at the same stage of availability by some distance. After four years of availability, copper broadband was taken by about 8% of customers who could buy it, we are already pushing 20% for fibre.

It's also worth comparing to SkyTV, who appear to have added between 30,000 and 50,000 new subscribers a year, pretty consistently, over more than 20 years.

This financial year, we could end up doing as many as 80,000 connections, or about twice SkyTV's busiest ever year.

### **SLIDE: Fastest Fibre Growth in OECD**

How does that compare with take-up internationally?

Well, by a large distance, New Zealanders are leading the world in their appetite for fibre. We have comfortably the fastest growth in the OECD, with more than 10 times the OECD average.

It is clear that 2015 was the year that fibre went mass market in New Zealand, and that change has come upon all of us in the industry remarkably rapidly.

I hope you can see from this that some of the commentary I see around the traps about sluggish take-up of fibre is demonstrably incorrect. It's an enormous hit and looks set to grow even faster.

### **SLIDE: 80 Fold Increase in Fibre Crews**

Of course near exponential growth puts pressure on our business, especially at a time when we are financially constrained.

A big challenge for us is making sure we have the people and skills available in the right places to meet surging demand for our product.

By way of illustration, in 2013 we had five two-person crews, across the whole of New Zealand, who were dedicated to fibre.



Today, at mid-2015, we have nearly 400 two person crews, across five different service company partners.

Our biggest challenge is hiring people quickly enough to meet the ever growing demand for fibre, and training them up to deliver installations that are every bit as complex as adding any other utility to a property.

It takes between three and six months to train up a new fibre tech, as it requires a wide range of skills, including customer service, hard physical work and sometimes quite technical installations inside the property.

As demand looks set to grow even further we will continue to recruit and train as fast as we possibly can, and also work with the industry to forecast accurately to make sure we have the right numbers.

### **SLIDE: More Customers Buying Premium Fibre**

One of the most positive recent trends is that more and more people are opting for higher specification fibre connections.

This seems most likely to be driven by the emergence of online TV services like Netflix, which require a higher speed connection to deliver the kind of experience people want.

The good news in this is that these higher specification connections are also higher value to us.

Overall close to 40% of end users are now on 100mbps or higher connections, and consistently more than 50% of new fibre orders are 100mbps or higher, including over 2000 gigabit connections in Dunedin.

### **SLIDE: Large Fibre Order Pipeline**

And demand shows little sign of abating.

We have nearly 18,000 orders in the UFB pipeline that we expect to turn into new fibre connections – subject to confirming fibre availability and a proportion of cancellations that typically occur.

Two-thirds of those orders are now either scheduled for a future date or we are waiting for them to give us an installation date.

Most of the remaining third are either complex installations that require consents from landlords or neighbours, or additional civil works to be done to enable connection.

We know this is a large pipeline and some customers are getting frustrated about how long they have to wait – in some cases months.

At the moment we meet about 90% of the installation dates we commit to, which does need to be higher, but when it goes wrong it can go very frustratingly and repeatedly wrong.

And every month we are adding yet more techs and improving the end to end workflows with the retail service providers, and every month ever greater order volumes turn up.

As a business it's a good problem to have – so much demand for your product that you are battling to meet everyone's needs and leave no-one disappointed.

But we know that we have to get on top of this, and reduce the pipeline so that we are matching capacity to install to demand.

Having reshaped the business to survive following the impact of regulation, this is the number one priority for Chorus.

We are not alone in this – the whole of our industry is focused on meeting this incredible demand.

We are working closely with our retail service provider customers and our service company partners, along with great support from Government to get it right.

And I'm sure we will get it right, acknowledging that some customers have had a very frustrating time as we all adapt to rapid changes to our whole sector.

#### **SLIDE: CEO's Scorecard**

Overall I would say we have had a pretty good year.

We are consistently meeting our commitments on UFB and RBI.

Capex on those projects is tracking well.

There's clearly huge demand for fibre, and in fact Chorus recently won the Supreme Award at the TVNZ Marketing Awards for our Gigatown promotion of fibre, beating out national and international brands with huge marketing budgets.

We are making good progress with our improvements to the customer experience, but there is much more to do here as I just said.

We successfully reshaped the business to survive, noting that operating in a cash constrained environment is no good for the long term health of either Chorus or the industry we serve.

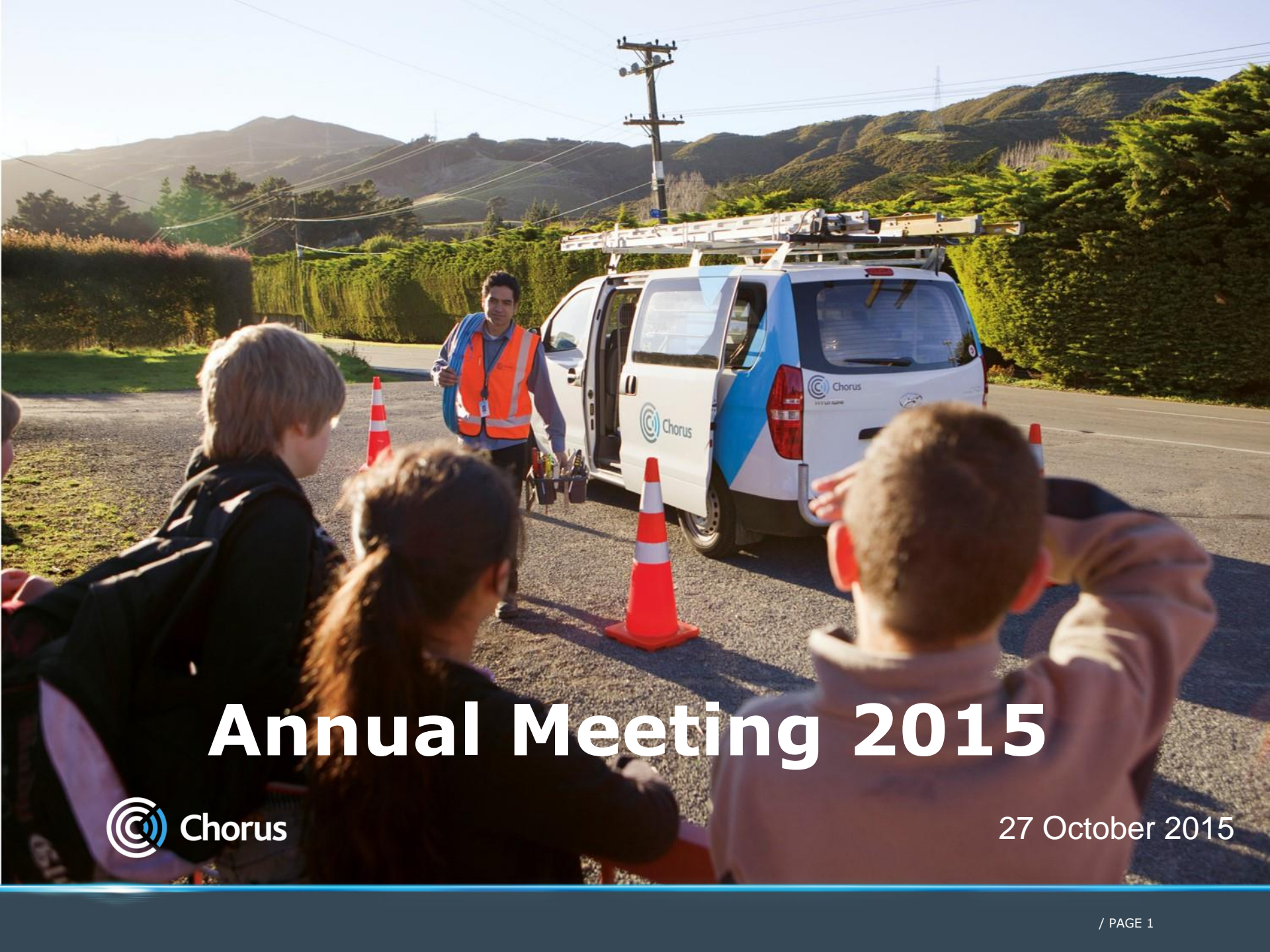
Employee engagement remains at world class levels, and Chorus was recognised as the best employer in Australasia this year, as Patrick has noted.

Regulation remains a deep concern – the only reason it's not marked as red on the scorecard is that the Government's recent discussion document on the post 2020 regulatory environment appeared to signal that it had correctly identified the issues and had some early solutions.

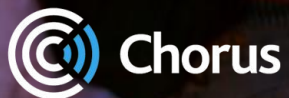
A positive change is that the industry is now in a less fractured space and we are all on the same page about the need for long term certainty and stability.

We watch in hope, that the progress made on a range of fronts is not undermined by poor quality regulation, but also reflect back on a year of quite significant progress where New Zealand moved right to the forefront of international broadband practices.

**ENDS**



# Annual Meeting 2015



27 October 2015

# Agenda

- > Chairman's introduction and address, Patrick Strange
- > CEO address, Mark Ratcliffe
- > Resolutions
- > Shareholder discussion and questions
- > Afternoon tea



# Your directors



Patrick Strange



Jon Hartley



Prue Flacks



Murray Jordan



Mark Ratcliffe



Keith Turner



Anne Urlwin



Clayton Wakefield

# Chorus Executive team



Mark Ratcliffe  
Chief Executive Officer



Ed Beattie  
GM Infrastructure



Ian Bonnar  
GM Corporate Relations



Andrew Carroll  
Chief Financial Officer



Paula Earl-Peacock  
GM Human Resources



Tim Harris,  
Chief Commercial Officer



Irene Lovejoy  
Executive Assistant



Vanessa Oakley  
General Counsel & Company Secretary



Ewen Powell  
Chief Technology Officer



Nick Woodward  
GM Customer Service

# Formalities

- > Notice of meeting
- > Quorum
- > Proxies

## Notice of Annual Meeting 2015



Notice is hereby given that the 2015 annual meeting of shareholders (Annual Meeting) of Chorus Limited (Chorus) will be held

#### Where

The Amora Hotel  
170 Wakefield Street  
Wellington  
New Zealand

#### When

Tuesday  
27 October 2015  
Commencing at 2:00pm  
(New Zealand time)

You are encouraged to read this Notice (including the Explanatory Notes and Procedural Notes) and the instructions on the Proxy/Voting Form carefully.

#### Important dates

All times are given in New Zealand time unless otherwise specified.

**25 October 2015, 2:00pm**

Latest time for receipt of Proxy Forms

**26 October 2015, 5:00pm**

Record date for voting entitlements for the Annual Meeting

**27 October 2015, 2:00pm**

Annual Meeting

#### Business

Shareholders will be asked to consider and, if thought appropriate, to pass the following ordinary resolutions:

##### Re-election and Election of Directors

1. That Mr Jon Hartley be re-elected as a director of Chorus.
  2. That Ms Prue Flacks be re-elected as a director of Chorus.
  3. That Dr Patrick Strange be elected as a director of Chorus.
  4. That Mr Murray Jordan be elected as a director of Chorus.
- Biographical details of each director offering themselves for re-election and election are set out in Explanatory Note 1.

##### Auditor Fees and Expenses

5. That the Board be authorised to fix the fees and expenses of KPMG as auditor.

See Explanatory Note 2.

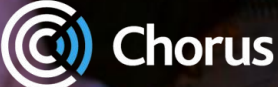
##### By order of the Board

Vanessa Oakley  
General Counsel & Company Secretary  
23 September 2015





# Patrick Strange Chairman



# Broadband: The 4th utility

GAS

CHOR

1XC



W.E. PWR

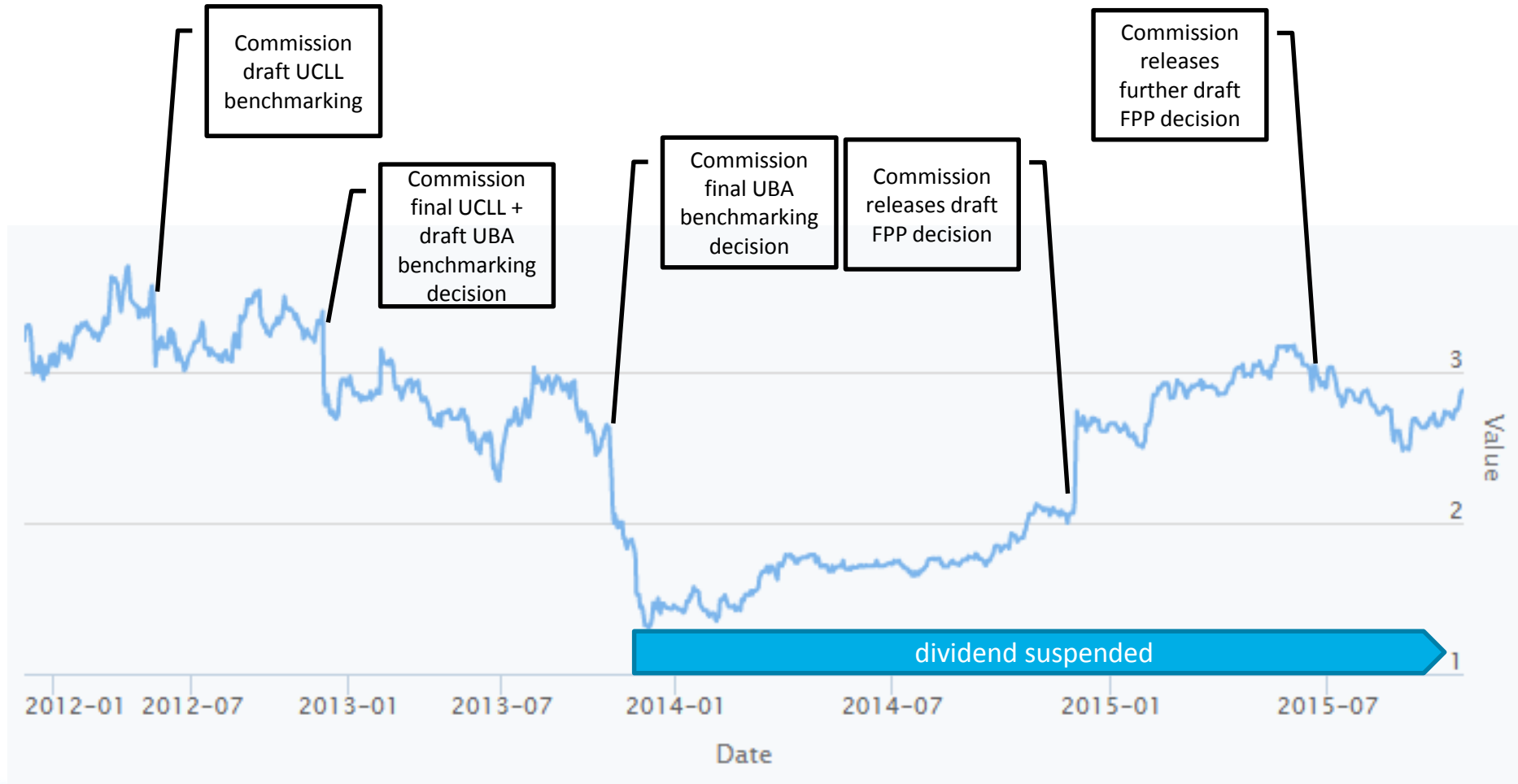
5XC





# Regulatory history vs share price

- > Chorus' share price performance since demerger in 2011 has been dominated by regulatory decisions and processes





# Mark Ratcliffe

## Chief Executive



# Regulatory impact overshadows investment

|                                                       | FY15 v FY14 change |
|-------------------------------------------------------|--------------------|
| > Net Profit After Tax of \$91 million                | ↓ 39%              |
| > EBITDA of \$602 million                             | ↓ 7%               |
| > Revenue of \$1,006 million                          | ↓ 5%               |
| > Total fixed line connections increased to 1,794,000 | ↑ 1%               |
| > Broadband connections increased to 1,207,000        | ↑ 4%               |
| > Better broadband rollouts on track                  |                    |
| ▪ UFB premises 44% complete                           | ↑ 13%              |
| ▪ RBI lines 90% complete                              | ↑ 20%              |
| ▪ 588,000 end-users within reach of better broadband  | ↑ 38%              |

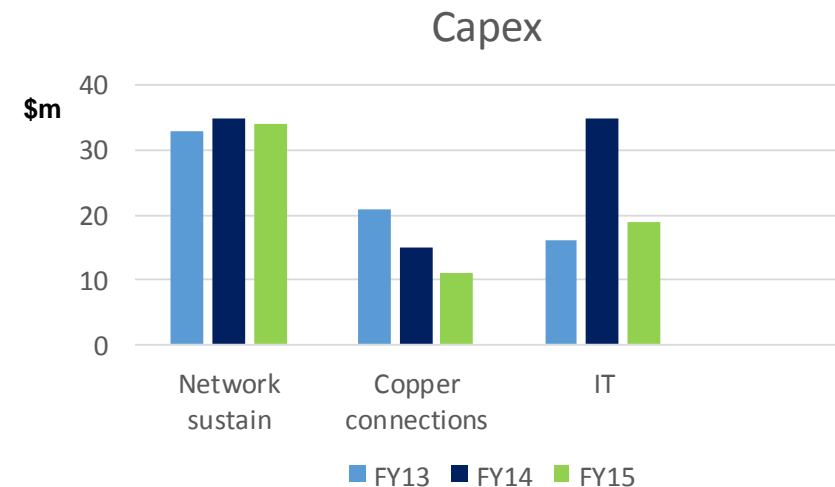
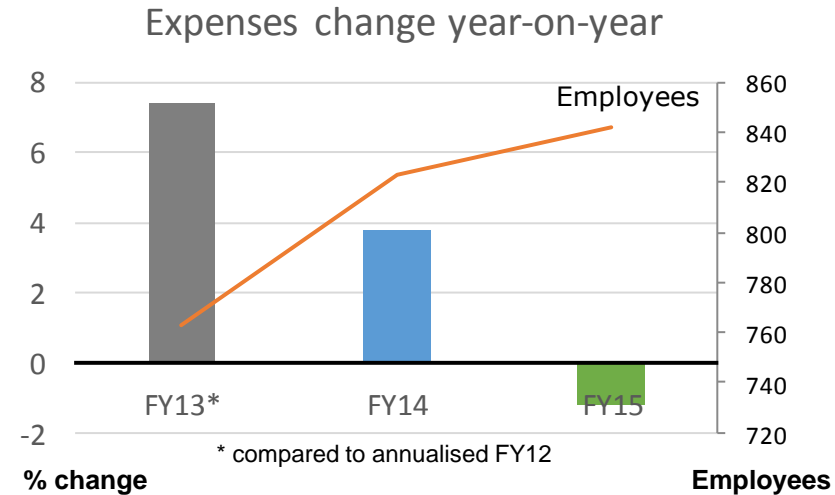
# Reshaping our business

- > 100+ initiatives; emphasis on restricting discretionary spend
  - focus on cash rather than value
  - proactive maintenance and IT separation capex deferred
  - no dividend

## Trade-offs from managing for cash

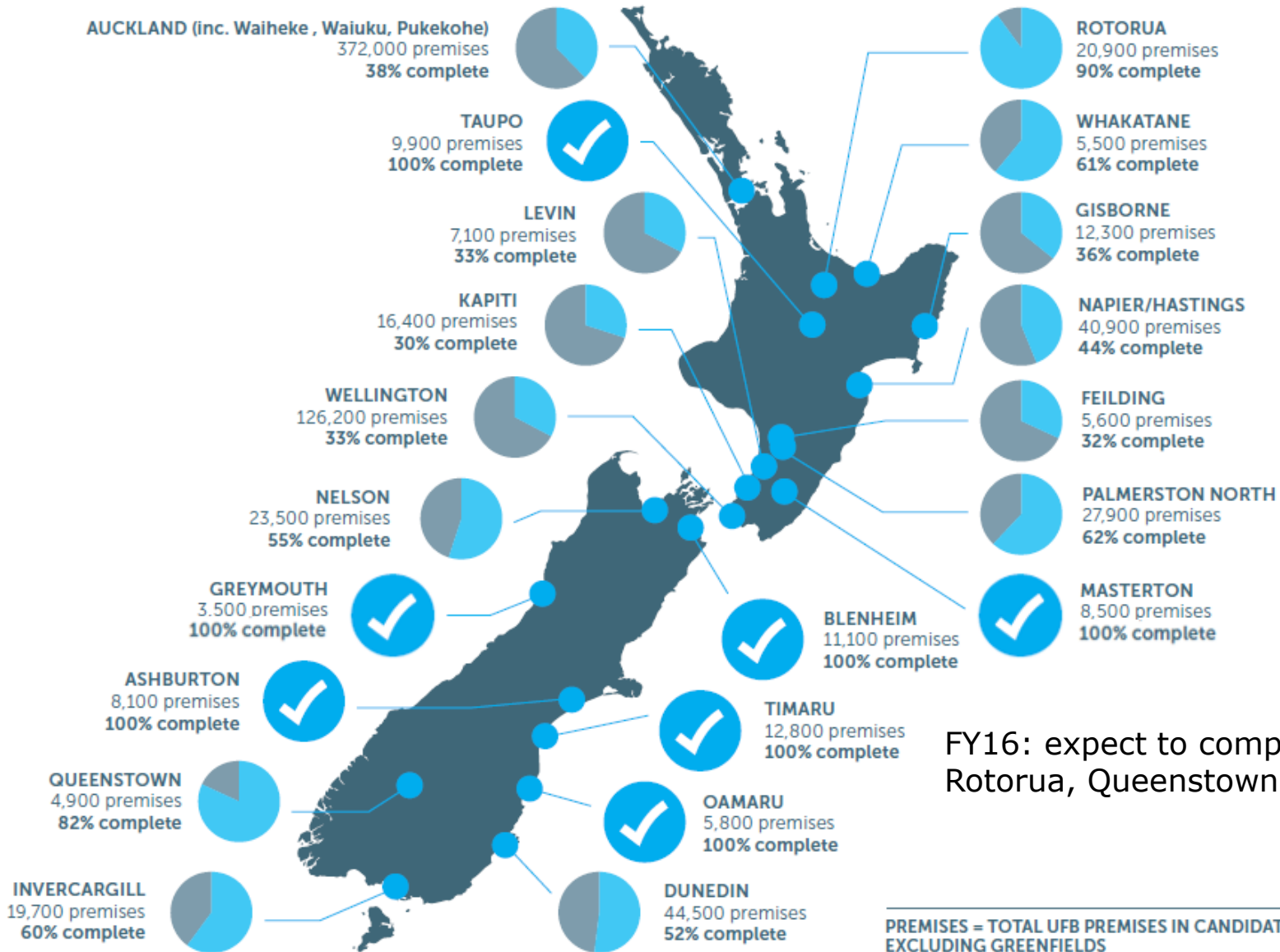
- deferred IT capex = higher opex
- reduced maintenance = more faults
- cost recovery on copper = reduced demand

- > Longer term programme
  - must continue to assume \$34.44 until final Commission determination
  - some initiatives would be reviewed subject to FPP outcomes





# UFB build on track

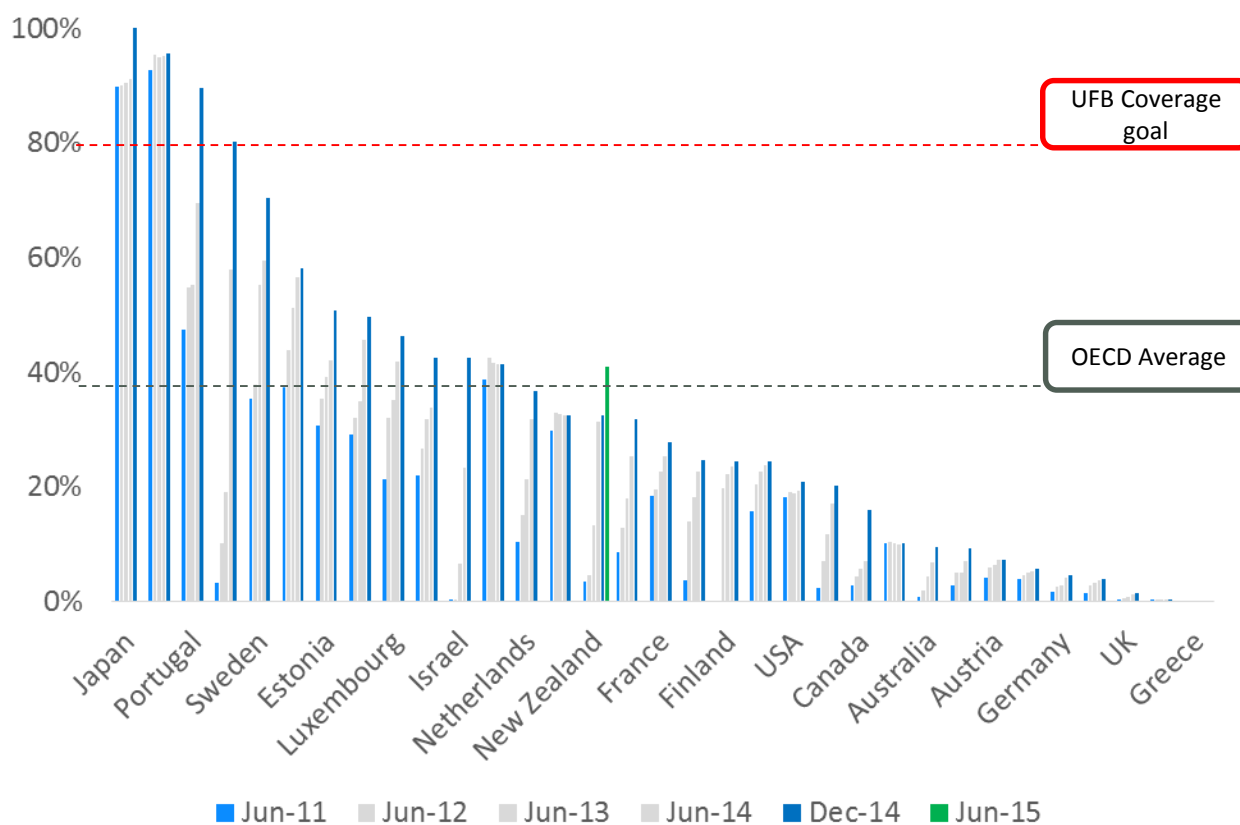


FY16: expect to complete Waiuku, Rotorua, Queenstown

PREMISES = TOTAL UFB PREMISES IN CANDIDATE AREA, EXCLUDING GREENFIELDS

# World class networks

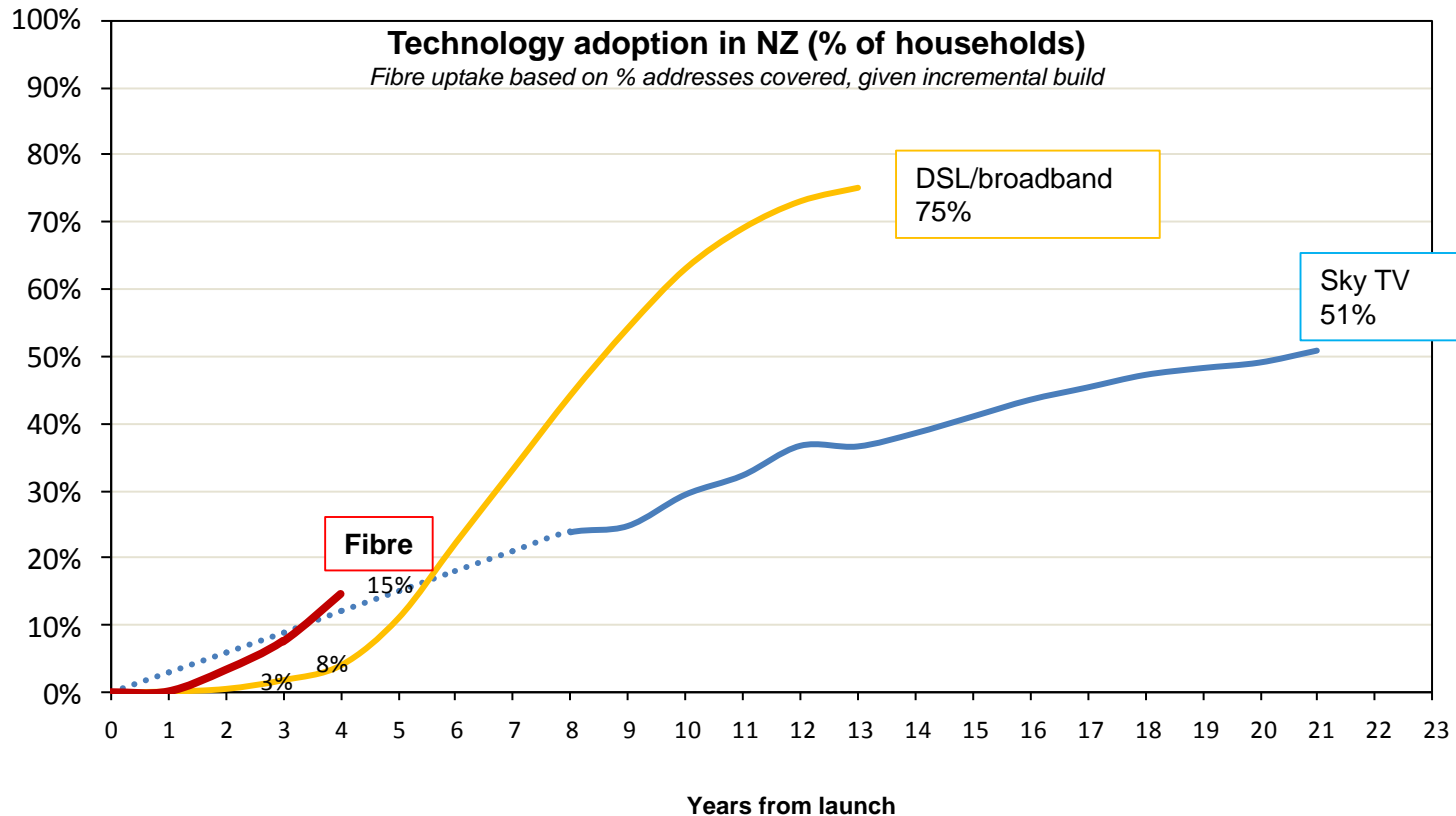
FTTH Coverage – OECD Countries



- > New Zealand fibre coverage moving past OECD average
- > Completion of current fibre build should put NZ comfortably in top 10
- > VDSL coverage remains in the top 10 of OECD countries



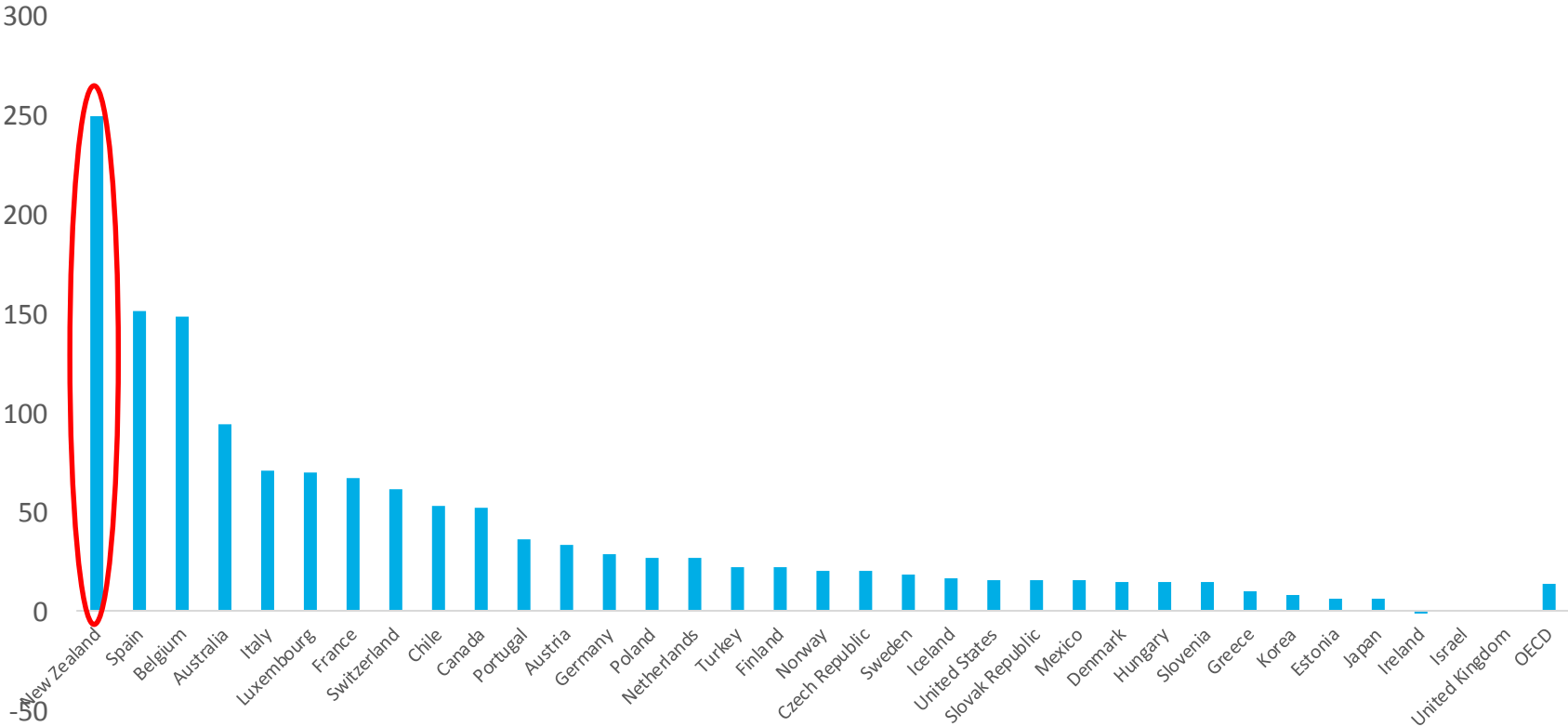
# Rapid fibre adoption



Sources: Statistics NZ Household Use of ICT survey 2009, 2012 (household dial-up/broadband uptake), ISCR estimates of DSL diffusion (DSL/broadband uptake), SKY annual reports (Sky TV uptake), MBIE quarterly reporting (UFB fibre uptake)

# Fastest fibre growth in OECD

Annual growth in fibre subs

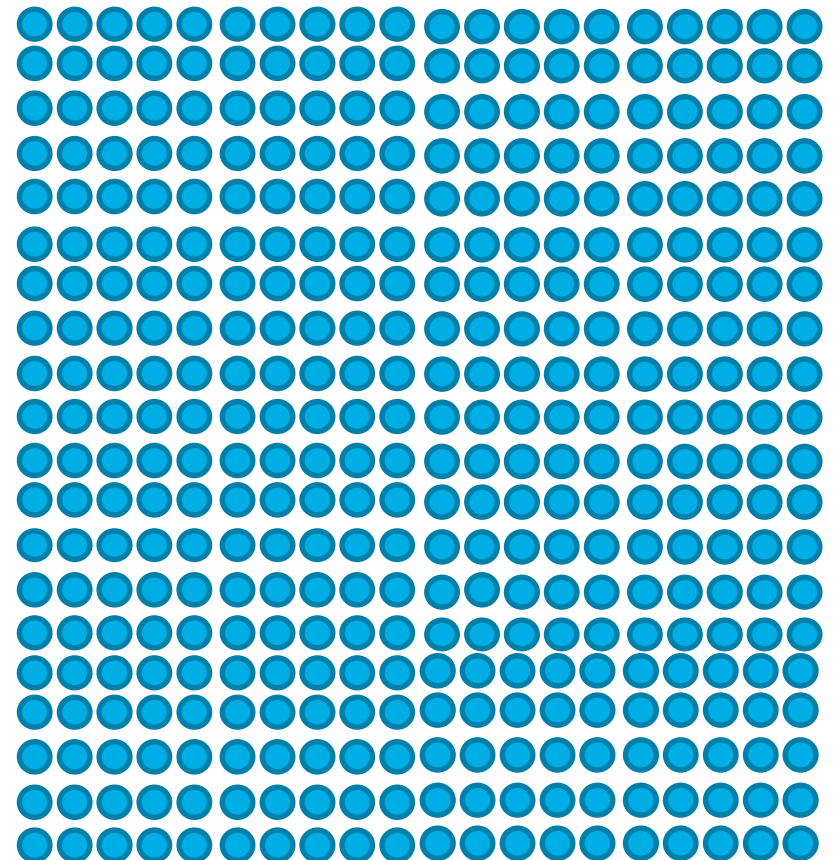


# 80 fold increase in fibre crews

**2013**

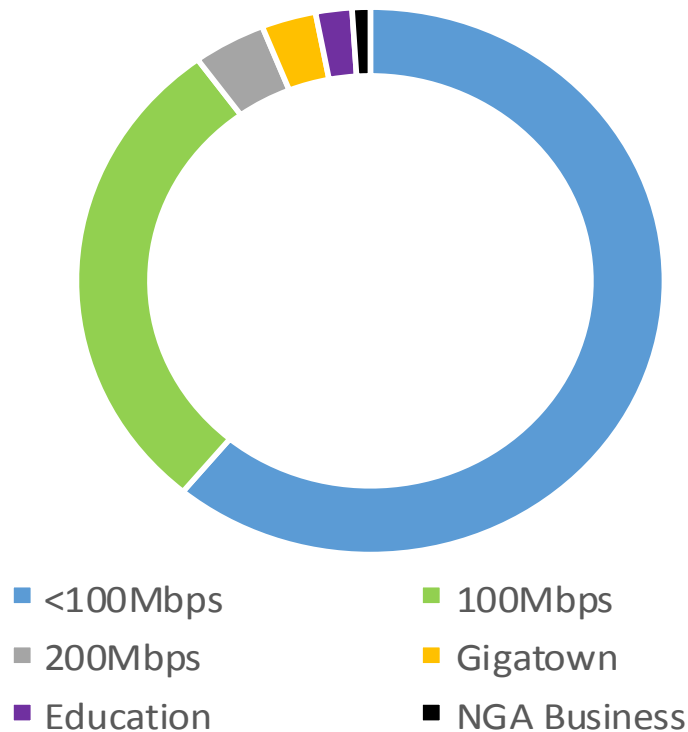


**September 2015**



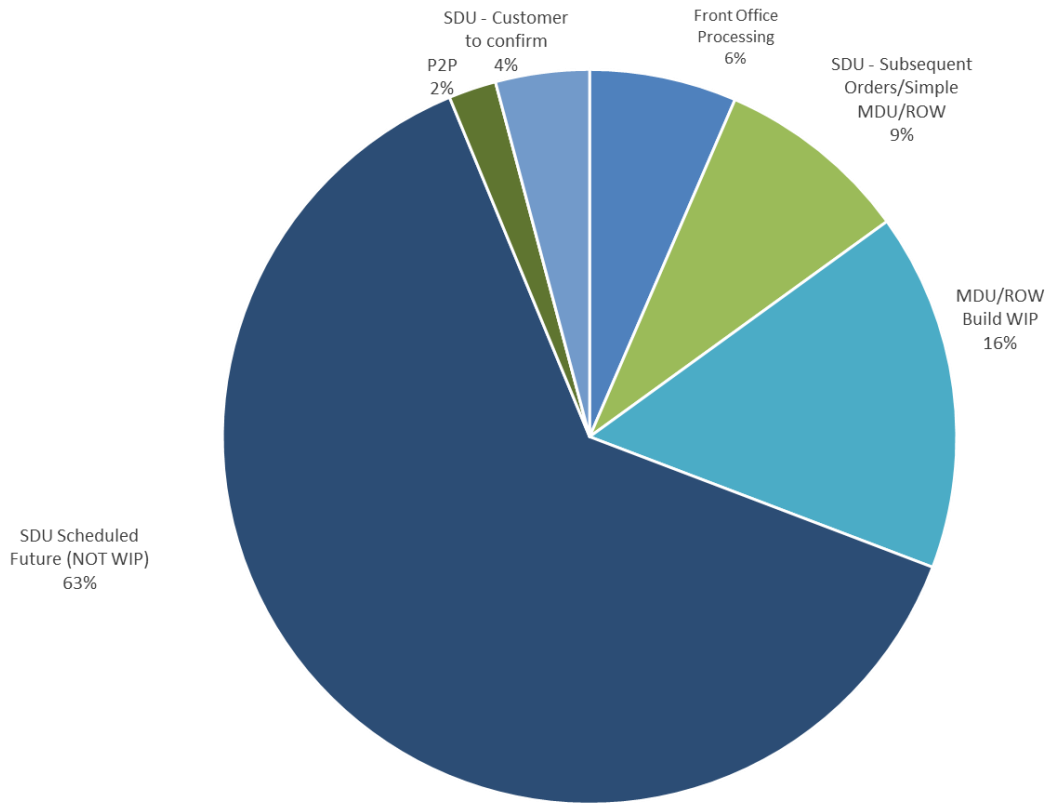
# More customers buying premium fibre

Mass market fibre by plan type - Sept



- > 39% of end users now on premium plans (100mbps or higher)
- > About half of new connections sold are premium plans


# Large fibre order pipeline



SDU = single dwelling unit  
P2P = point to point  
MDU = multi dwelling unit  
ROW = right of way

- > Nearly 18,000 more UFB orders in process
- > 67% are scheduled for a future date or awaiting a date from the customer
- > The rest are mostly complex installations requiring consent and additional civil construction

# CEO's scorecard

|                        |                                                                                     |                                                                                                                                                                                                                                                                |
|------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| UFB and RBI            |    | <ul style="list-style-type: none"><li>• Consistently meeting our commitments</li><li>• Capex well controlled</li><li>• Huge demand for fibre</li><li>• Gigatown won Supreme Award for Marketing</li></ul>                                                      |
| Customer experience    |    | <ul style="list-style-type: none"><li>• Huge fibre demand putting pressure on the whole industry</li><li>• More crews required</li><li>• End to end process improvements needed</li></ul>                                                                      |
| Reshaping the business |    | <ul style="list-style-type: none"><li>• More than 100 cash saving initiatives implemented</li><li>• Revised banking arrangements</li><li>• Dividend suspended</li></ul>                                                                                        |
| Employee engagement    |   | <ul style="list-style-type: none"><li>• AON Hewitt Best Employer in Australasia</li></ul>                                                                                                                                                                      |
| Regulation             |  | <ul style="list-style-type: none"><li>• Final copper price due in December</li><li>• Regulatory uncertainty risks undermining future investment</li><li>• Government discussion document correctly identifies issues to deliver a sustainable future</li></ul> |



# Resolutions



# Ordinary business:

## Resolution 1

- > That Jon Hartley be re-elected as a director of Chorus.



# Ordinary business:

## Resolution 2

- > That Prue Flacks be re-elected as a director of Chorus.

# Ordinary business:

## Resolution 3

- > That Patrick Strange be elected as a director of Chorus.

# Ordinary business:

## Resolution 4

- > That Murray Jordan be elected as a director of Chorus.

# Ordinary business:

## Resolution 5

- > That the Board be authorised to fix the fees and expenses of KPMG as auditor.

# Shareholder discussion and questions



# Disclaimer

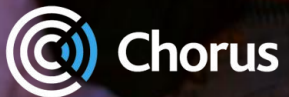
## Forward-Looking Statements

- > This presentation may contain forward-looking statements regarding future events and the future financial performance of Chorus, including forward looking statements regarding industry trends, regulation and the regulatory environment, strategies, capital expenditure, the construction of the UFB network, possible business initiatives, credit ratings and future financial and operational performance. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Chorus' control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. No representation, warranty or undertaking, express or implied, is made as to the fairness, accuracy or completeness of the information contained, referred to or reflected in this presentation, or any information provided orally or in writing in connection with it. Please read this presentation in the wider context of material published by Chorus and released through the NZX and ASX.
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