

Chorus Annual Meeting 6 November 2020

CEO's Address

Tena koutou katoa. Thank you Patrick and good morning everyone.

It's hard to believe it is almost a year since I joined Chorus. It's even harder to comprehend what we have been through together in that time.

COVID-19 has turned the world on its head. It has challenged economies and societies. And it has shown the extent of New Zealand's foresight in 2011 when it chose to build a fibre to the home network.

When the country had to enter lockdown in March, the substantial investment we've made in broadband capacity meant many New Zealanders could continue to work, learn and connect from their homes.

We had bolstered our fibre network capacity in 2019 to cater for streaming demands ahead of the Rugby World Cup. As it turns out, that was just a dress rehearsal.

In March, lockdown broadband traffic set peak time records that were higher again as people turned to online streaming in their droves and kept connected with their whanau online. The second lockdown was just in Auckland, but generated almost the same volume of traffic, helped by streaming services like Netflix not restricting the quality of their service.

Daytime network traffic has also changed forever, as working from home became accepted practice and we all embraced video conferencing applications out of necessity.

In September this year, average monthly broadband usage was 380 gigabytes, up from 279GB at the same time last year. Average fibre usage was 456 gigabytes, up from 360 gigabytes. That's a staggering increase.

Bridging the digital divide

Without a doubt, 2020 was the year that proved broadband networks are essential infrastructure.

COVID-19 has meant many countries are now waking up to the need for the capacity and performance of fibre broadband.

We've seen a flurry of announcements from network operators in countries like the United Kingdom, Germany, the Netherlands and Switzerland, all pledging to invest in building more fibre network.

And just across the Tasman, the National Broadband Network has recently announced they'll spend \$3.5 billion to make fibre available to 2 million more homes.

Fibre is well and truly on trend.

One of the less appreciated aspects of New Zealand's fibre rollout is the extent of the coverage being provided. In November 2019 we completed our original fibre contract milestone of taking fibre to 24 of the larger towns and cities.

Under the UFB2 contract, we're taking fibre to smaller communities as part of the wider goal to take fibre to 87% of New Zealanders by the end of 2022.

The Government says fibre is already available to about 83% of Kiwis. As the slide shows, we're well ahead of most European countries.

New Zealand communities with just a few hundred homes - like Kumara and Granity on the South Island's West Coast, or holiday hotspots like Hahei and Waihi Beach in the North Island - can now get better broadband than large parts of Sydney or London.

These are fantastic outcomes and they are testament to what can be achieved through public-private partnerships for infrastructure investment.

In August we announced further partnerships with the Government to take fibre further. More than 300 kilometres of fibre are being built from Fox Glacier to Lake Hawea, and from Te Anau to Milford. As well as lighting up more gigabit communities, these new links will provide enhanced network redundancy for the lower South Island.

Becoming a gigabit society

COVID-19 has undoubtedly helped New Zealanders realise the benefits of a fibre connection at home.

Fibre uptake in the areas where we've made it available is now 62%, up from 55% at the same time last year. Invercargill is leading the way on 74%. Auckland is close behind on 70%.

These are impressive numbers. They would probably put us in the top 5 for uptake among European countries.

What's even more impressive is the rate at which New Zealanders are embracing 1 gigabit plans. About 17% of fibre connections are now on 1 gigabit. That's up from 11% at the same time last year.

The number of customers taking our lowest speed 50Mbps plan has begun to decline because consumers now attach greater value to higher speeds and the market proposition for fibre has evolved. Some retailers no longer offer the entry level plan and we have recently reduced the price of 1 gigabit plans.

This price change is part of our active wholesaler strategy, where we have our own strategies to foster faster uptake of fibre.

One of the great things about New Zealand's fibre ecosystem is that Chorus' role as an independent wholesaler has enabled the emergence of a diverse range of retailers. This growing diversity means consumers are benefitting from sharp retail offers with a range of different customer propositions.

Small retailers are focusing on things like customer service.

Electricity retailers are bundling broadband with power.

And Sky TV plan to enter the broadband market next year, replicating a strategy that has proved successful in other markets.

Fibre – it's how we internet now

We can't just leave it to retailers to promote fibre. There are still about 470,000 customers who could connect to fibre today but haven't yet done so.

And mobile network operators have economic incentives to promote alternative wireless technologies to their existing fixed line customers.

In recent months you may have seen us taking on a bigger role in encouraging awareness of fibre.

A few months ago the then Communications Minister described fibre as the highest standard for internet connectivity.

We think he's right. Our fibre – it's how we internet now – campaign focuses on how fibre can resolve many of the issues we've all experienced on other technologies. Things like glitching during video conferencing, websites loading slowly and the frozen buffering wheel when watching programmes online.

The Commerce Commission's broadband monitoring report has highlighted the strong performance of fibre relative to other technologies when it comes to features like latency, speed and two-way traffic. VDSL is also shown as performing better than wireless at peak times.

Despite this independent evidence, wireless broadband providers are not required to disclose the expected performance of their service. For me, this is the one area of New Zealand's broadband regime where consumer protections are falling short.

In Europe and Australia, broadband providers for fixed and wireless networks have the same standards of product disclosure. In New Zealand, only fixed line broadband consumers are told exactly what they are getting.

This difference is concerning when we are fielding constant reports of consumers being automatically transferred to a wireless service, if they don't contact their telco provider to object within a certain timeframe.

From the complaints we receive at our community meetings in fibre rollout areas, many consumers do not seem to understand the true nature of the change in their service. Many were given the incorrect impression they had to change because of an imminent shutdown of the copper network. Some have even found themselves downgraded from faster VDSL speeds.

We'll be raising these consumer concerns and the clear gap in disclosure as part of the Commerce Commission's wider review of consumer issues within the telecommunications sector.

1 million fibre connections in 2022

Our foremost priority is to win in our core fibre business. To that end, we've set ourselves a goal of achieving 1 million fibre connections in 2022.

We're making good progress and are approaching 800,000 total fibre connections. In the three months to the end of September we added 33,000 connections.

We've ramped up our managed migrations programme to lift connections intensity across our existing footprint. This means more door knocking and targeted marketing to meet our FY21 installations forecast of 145,000 to 165,000.

The strength of this migration activity is evident from our Q1 numbers.

We drove more than 15,000 installations and about 7,000 connections in Q1. By stimulating installations in this way, we're achieving about ~50% uptake within 6 months of the installation.

And we're very pleased that our focus on customer experience in prior years is continuing to yield positive results. Last year we lifted customer satisfaction with fibre installations from 7.7 to 8.1 out of ten. That was ahead of our target of 7.9. We're tracking at 8.2 in the first few months of FY21.

We're continuing to aim higher and are focusing on things like the switching experience when customers shift into a home where fibre is already installed. Related to this, we continue to embrace digital tools in our push to streamline our processes. Ultimately,

efforts like improved fault diagnosis simultaneously improve the customer experience, while also helping us and our industry partners reduce our operational costs.

Fibre + Wifi 6

The other aspect of customer experience we're paying close attention to is the broadband experience in the home.

Our new wi-fi capable optical network terminal will potentially remove the need for retailers to recover the cost of a separate router and remove the need for consumers to wait until the retailer's router is delivered. This should help make moving premises or changing retail providers a seamless experience for consumers. Much like it already is for electricity consumers.

We already have more than 250,000 wifi capable terminals installed in homes and are switching the wifi capability on before Christmas.

We're also excited about the potential of new wifi 6 technology.

While there's a lot of marketing hype about 5G, fibre is already widely available and wifi 6 devices are now on sale. When you connect fibre with a wifi 6 device, you're going to have a substantial boost in wifi capacity and speed within your home or business.

At the same time, we would like to see New Zealand follow the lead of governments in the UK and USA where large amounts of new unlicensed spectrum capacity is being released in the 6 gigahertz range. Commentators are describing this as the biggest advance in wifi in 20 years.

The 6 gigahertz spectrum helps reduce interference between devices and, when used with 6 gigahertz capable devices, delivers stronger signals and gigabit speed. That will further benefit fixed line broadband users and smartphone users whose service defaults to wifi.

And as you can see from the slide, fibre just keeps getting faster. We've just made our 2 and 4 gigabit Hyperfibre services available to about 3 million New Zealanders and we've been testing an 8 gigabit service.

Greener broadband

Another understated aspect of our transition to fibre broadband is the sustainability benefit it brings.

Fibre to the home broadband networks use significantly less power than copper and wireless networks on a power per subscriber basis.

As the chart on the slide shows, fibre uses about 12 times less energy than VDSL or ADSL. This because data is transmitted by light and we no longer need electronic equipment in streets to power broadband transmission. The resulting drop in power usage, once most people have migrated to fibre, is expected to help us reduce our network-related carbon emissions.

And as we've seen through the various pandemic lockdowns, by enabling people to work from home, broadband is also helping New Zealand realise the emissions related benefits of reduced travel.

The Energy Efficiency and Conservation Authority has estimated that if one in five New Zealanders opted to work from home once a week, it would prevent 84 kilotonnes of carbon dioxide entering the atmosphere annually.

So, fibre is well and truly helping New Zealand realise a better socio-economic future.