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TEL.NZ - Preliminary 2012 Telecom Corporation of New Zealand Ltd Earnings Conference Call

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PRESENTATION

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Good morning everyone and welcome to Telecom's full year FY12 results presentation. Thank you all for joining us and for everyone on line. My name's Chris Quin and I've been the acting CEO of Telecom for the last three months. I'm joined today by Nick Olson, our CFO, all of my leadership team colleagues and of course our new CEO Simon Moutter who is ending his second week with us. Given that Simon's only been with just on two weeks we thought that Nick and I would cover the historic results of FY12 and then once we've got through the presentation Simon will share just a few thoughts about where his mind is at after a couple of weeks.

What we're hoping to do this morning is take you through a review of our key messages, our progress against the vision 2013 initiatives, update trends across the key markets we have and review each of our lines of business for you. Nick will take you through the details of the financial performance and then I'll provide a quick update on business outlook as we see that right now and as I said Simon will say a few words at the end of that and then we'll move into Q&A both in the room and for all of our investors and analysts that are online.

In terms of the results we're looking back at a year where demerger has been successfully completed and the CDMA network shut down and they were two major features of our year. Telecom has emerged from all of that activity as the new fixed line and IT service provider and a single and focused mobile network operator. It has been an incredible year of change both for our organisation and for the industry as a whole. We emerged with the largest customer base and now one mobile network that we can focus on and compete with.

The primary focus for the organisation in this new industry structure of course has to be on our customer base and it's great to be able to report that our customer satisfaction levels are at the highest we have ever measured right across the board. We all enjoyed the story last night from some of our people in Christchurch and the Agents @ Home story that we're telling about how we've made a revolution around how customer service can be delivered out of that city.

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We'd like to thank particularly our customers for their support during the last year and also all of the enormous contributions of our Telecom people getting through a massive period of change. In terms of the FY12 financials they are in line with the guidance that we gave earlier in July and the comparison to the prior period is a bit complicated as you know because of the demerger of Chorus five months into the year but if we look at it overall the adjusted revenues accounting for that are down 9%. However the underlying revenues in the New Zealand business are down about 2% and we'll explain what has brought that about.

The adjusted EBITDA from continuing operations is NZD1048 million but on a pro-forma basis EBITDA has been flat between FY12 and the FY11 year and the adjusted net earnings for the Company is NZD422 million. The capital invested from the continuing operations part of Telecom was NZD392 million and the second half dividend that we have confirmed and declared this morning is NZD0.11. That will carry with it a 75% imputation and it brings the total year dividend to NZD0.20.

The operational performance really does reflect the increasingly competitive market that we are operating in. Fixed line competition has been an absolute feature, particularly of the last six months and we have responded with retention offers and stabilised our customer base. The post-paid mobile connections were up 36,000 in the second half of the year. Mobile usage revenues across the board up 2% and our CDMA network now closed and one of the things we'll do today is give you some clarity around where that leaves the mobile business.

The IT services business margin is now up to 9%. It's been a year of focusing on the efficiency and returns of that business. The continuing focus has of course been on Group costs as we seek to continue to be competitive in this market. Head count is down around 5% on close at FY11 and many other cost-out initiatives help us keep the pro-forma EBITDA of the organisation flat year-on-year.

When we look at our vision 2013 strategy update in giving you a consistent view of what we're doing about each of the key areas we've been talking to you about the first thing is improving customer satisfaction and we're very, very pleased to report that customer value and satisfaction for the retail, Gen-i and wholesale businesses are at their highest scores to date. AAPT has also seen significant improvement through a year in which its customer base changed considerably as we went through changing that business.

In terms of our goal to be number one in mobile, broadband and ICT we have rated this one as amber but we are operating in a very competitive market. We have remained number one in broadband and market share is now 50% where it was 53% a year ago and we are determined to be more competitive in this market and we will share a little bit of our thoughts on that. We've added about 2% in mobile usage revenue, growth in prepaid and post-paid connections and the average revenue of those connections is up 9% now, so the quality of the base has been increasing as well as the number of connections and while post-paid performance has been quite strong, prepaid has been heavily impacted by the CDMA closure.

We will grow this in the future through multiple brands, through pricing competitiveness and through the best channels for each market that we have available. Our IT services market share is 14% and the margin, as I mentioned, has improved to around 9%. In terms of cost reduction the CDMA network shutdown was one of the major focuses in terms of simplifying our business and getting focus. That's worth around NZD5 million to NZD10 million in savings per annum and we get to reuse that Spectrum into our XT network.

Headcount across our business reduced by around 5% and included in-sourcing of help desk which has given better service within our organisation and at a lower cost across the board. Then innovation and fibre and mobile which are the most important parts of the future of our organisation -- we have in the corporate market over 4200 mobile connections now and we are committed to getting our consumer fibre mobile products into market early 2013 which is when the initial percentage points of customers will have fibre available to them. Our LTE trials or 4G mobile trials are on track to be underway before the end of calendar 2012 as well.

So if we move now to looking at each of the major components of the business and firstly access and calling. Our total fixed access connections are declining at around 4% in the second half of the year and that's made up of about an 8% decline at the retail level but then with a wholesale business picking up some of those as they come through, netting out to about a 4% decline in total. This is an incredibly competitive market and there is a lot going on here. We've responded during the year with offers like Double your data on fixed line access, calling and broadband bundles because our customers tend to be buying these as a single bundle into the home and that has reduced the rate of churn in the last few months and got us gaining customers again.

Whole access connection growth now has something like 440,000 connections, it's an incredibly valuable business and the retail and Gen-i fixed access market share now sits at around 63% and we're focused on bundling strategies which is where we can offer great value to our customers and manage our market share. The total calling revenues across our market is down 19%. The first component of that are declines in AAPT following the sale of the consumer business and us rationalising our transits business which was essentially quite a low margin business. That's had a revenue impact but almost equal cost impact.

Greater price drops than normal following the change in MTRs which have flowed through to the competitive pricing that sits in the market. As a whole retail/Gen-I, and wholesale [netted] up in terms of calling was down 15% if you remove the transit and AAPT impact on that 19% decline. Minutes were down about 12% and that

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reflects some of the line loss in the access market and a lower usage as customers communicate across many different mediums and the emergence of all of the messaging technologies that are out there.

Following the changes to the fixed to mobile termination rates we have decreased rates in the market. For example the total home starter packages that we offer our residential customer calling Telecom mobiles from a Telecom home line now pay NZD0.49 whereas previously it was NZD0.63; one small example of the competitiveness and the way in which we are retaining our customers in that market.

In terms of broadband the story is simple to fixed access and calling because these things tend to behave together in terms of how our customers buy. The second half saw some very strong competition in the New Zealand market. Our connections overall grew by about 2000 in the second half and 9000 for the year in total. The market is growing but our share of the market growth during the period was lower. So whilst we have grown we haven't grown at the rate of market share growth and that's something we're very focused on changing.

We increased the amount of value within the bundles that we offer with broadband and we doubled the data on many plans which is one of the key attractions for many of our residential customers. The increased value has stabilised the broadband base and has returned to growth and we're now focused on maintaining our market share as the next lift in performance. As a result of increasing the data something like 60% less customers are now hitting the caps on data and throttling so it's a real indication that that is meeting many customer needs and improvements in customer perceptions of value in relation to broadband are starting to show up. There is more balanced feel coming out of the customer surveys we do across price and some of the features.

Growth in New Zealand revenues and broadband was about 7% and that reflects our value on focus in retaining our high value customers across the base. Market share, as I mentioned before, is 50%, slightly down from 53% a year ago and we're very focused on building out our UFB based mass market fibre products. They need to be sustainable and robust and appeal right across the market and they will be available early 2013. That's when we think the early percentage points of customers will have fibre passing homes across New Zealand.

In terms of mobile our market share has remained stable at 37% and our total New Zealand mobile revenues are up 10%. The bulk of that was driven by the sale of more handsets and a change in accounting policy in the retail market for handset subsidies. If you strip those out the usage revenues across our mobile business were up about 2% and the average revenue per mobile up 9%. The ARPU increase has been driven by the mix of customers skewing our base to the higher value and really seeing the value in the smartphone network and how they can get the very best out of the devices we offer, along with increased data usage offsetting some of the voice declines as people move to the sort of messaging applications that was talked about.

In post-paid we've had connections growth throughout the year in both the Gen-i and retail markets and the connection growth has come from the high value end of the acquisitions and pre-paid and their migrating up to post-paid as they get more value from their mobiles and are prepared to invest and spend more on those.

The growth has seen the usage revenues, separate from handset subsidies or that change in accounting policy, grow by 8% in the Gen-i market and 4% in the retail post-paid market. In the Gen-i market we continue to maintain something over 70% in market share, so a very strong position there with the ICT mobility proposition.

In consumer and our small to medium business markets post-paid we've invested in market share this year and gone after the fact that there is a lot more value being placed on mobile as we go forward. The growth delivers pay back over the next couple of years and well inside the contract periods that we've signed those customers up to. It's another very competitive and difficult market but it's been great to see the level of growth in connections that the team have taken out of there.

This growth in connection numbers of course comes with a growth in cost of sales that we've incurred this year that we'll get pay back for across this year and next year, and also it's the two year anniversary of course since the launch of the XT network so a number of customers on the original contracts will roll them over during this year, and the closure of CDMA presenting new options to many customers.

In pre-paid, if you put aside what happened with the closure of the CDMA network, connections in the half were impacted by that and in the six months to 30 June we fell in that connection number by about 34,000 and the revenues were down about 10% for the year in the pre-paid market. Given that this is quite a significant change to exit an entire network in the year and get investing in the mobile network for the future that New Zealanders want, I thought we'd spend a little bit of time giving a bit of clarity around where we're at post that change.

From the 31st of July, one month after the year end, we shut down the 10-year-old CDMA network successfully. This was a year long endeavour and an enormous amount of work went into communicating to customers that this was coming and what our offers were on the XT mobile network. There was a massive level of customer awareness. We got great customer feedback on that. We've continued migrations over the last few weeks but also a large number of connections that did not migrate and perhaps some potentially not even used for a very long period of time. Some will have gone to other providers as they face the choices and offers that are

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out there in a very competitive market and I guess the key is that post the shutdown, it has now been a little bit over three weeks, we've had no big market issues emerge. So we think the job of making sure all customers that were actually active got options in front of them and made choices about what they wanted to do.

So that successful program of getting that awareness really high enabled us to migrate the bulk of the revenues and even though there was a large number of seemingly active or possibly not active connections on the network at 31st of July the revenue in the final month from all of those connections was only around NZD600,000. So to give some clarity to what's happened post the end of that network, at the end we now have a mobile base that is around 1.6 million connections and we think that's the cleanest mobile base number that we've had for some time. It does compare to a reported 2 million at the 30th of June but it means now with the post CDMA and a very clear view of the single network and the numbers on it, the average revenue for mobile across Telecom now is about NZD35 as opposed to NZD29 and to give you an idea of what was going on in that CDMA base only some 57,000 of those can use their phone for an outbound call or text in the last month of the CDMA network being online.

So the closure has also allowed us to save that NZD5 million to NZD10 million a year in terms of cost and re-use the Spectrum for XT. So it was a big project and a big stage and successfully migrated across.

In terms of our IT services line of business the objective of course in here is to earn IT margins off the investment we make in this and to increase the value of our fixed and mobile services through ICT propositions to the market. This year has been mainly about focusing on improving the quality and the margin of the IT services business and what we've seen for the year is about 5% growth in the profitability of this business and about 1% revenue growth. Revenue reflects quite a big year in terms of the final part of exiting our Telco resell contract with the CBA business and at the same time we have entered a new call centre platform technology with the CBA business.

Our IT services margin grew to just under 9% and that was compared to about 8.5% in the prior period. The margin improvements have been driven by us getting to lower labour costs and the sale of software solutions business in the half both generating the new margin and we continue to make progress in closing and renewing contracts and during the second half of the year the Gen-i has seen signed something like NZD734 million of new contracts in the market.

In the government sector we have maintained some great and strong relationships and are making progress in selling new services to many of our existing clients across government and commercial. One good example is the Ministry of Education has recently signed a new five year contract for Cloud services with Gen-i. These are the sort of businesses that Gen-i will be doing going forward.

What I want to do now is just quickly go through each of the main business units that compile the EBITDA result for Telecom and give you a quick view through some of the highlights in performance. So firstly in our retail unit and across most of the business units one of the features of the year is the fact that our Chorus input costs have changed considerably with the demerger on the 1st of December. So retail EBITDA was up about 2.6%. The smartphone strategy would be the highlight for the year and it delivered 63,000 new post-paid connections. The average revenue per unit, as I have mentioned, up 9% and that means we are getting into the high value post-paid customer base.

There is a real confidence that the multi brand strategy, particularly in the mobile market, will work for us across the respective markets and the Skinny business is now well established with a great brand that really does appeal to that youth market that it is targeted at. Very strong distribution now, over 400 outlets and arrangements made to get that to nearly 800 by the end of this calendar year, giving we have one of the very strongest retail distribution bases. We're committed to growing this brand; we think this is going to be an essential part of winning again in the post-paid market.

The cost reductions in the retail business have been driven by headcount reductions as we get smarter with our core processes and renegotiating with a number of our suppliers to enable our competitiveness for the future. In the Gen-i business EBITDA is up 11%, again partly driven by our input costs but also by growth in cost in key areas. The mobile contribution margin in this business, which is revenue less cost of sales, so just that simple contribution level, is up 22% and that's been a real feature of the year and that really does reflect the increased data revenues and increased connection numbers in the corporate market that we're [adding] with the XT network.

The IT services margin increased to 8.8%, as we've taken down our labour costs to deliver those services and got platforms online and the managed data market does remain competitive but we're holding customers with competitive pricing and value-adds and when you look inside the managed data numbers a little bit and separate out what's happened in the Australian CBA business last year it was about an 8% decline year-on-year, this year about a 5% decline year-on-year on managed data. So we're starting to stabilise that market.

In the wholesale and international business the EBITDA is up 6%, again also affected by the change in our Chorus arrangement. Wholesale continues to see good growth in the PSTN resale lines, 440,000 in that base now. It's also an important source of value retention for the Group as the very active retail market continues to compete and we do capture a reasonable amount of the value lost at retail in this market into the wholesale business. Another feature of this business is that our mobile

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MVNOs target into some of the key mass markets are growing ahead of our expectations and so access through complementary segments and getting up into those markets have increased our overall mobile network share for Telecom.

The AAPT business, whilst EBITDA is down for the year 6% which has been primarily driven by the sale of the AAPT consumer business in the first half and declines in the wholesale business as the structure of the Australian market changes a little one of the keys was that in the second half AAPT's EBITDA is up 9% year-on-year. So as you see the new business emerge you can see some of the confidence we have for the future and the free cash flow for the year out of AAPT is up to AUD36 million from AUD27 million last year through some greater focus on costs and capital management in that business.

These improvements do reflect great management focus on that and where the better margins can be achieved in shifting as much of our business as possible to on-net. So that's a quick look through the whole of the Telecom business where the results have come from and some of the features, highlights and the things we are focused on from the year. In summary I think management would say we're pretty satisfied with that outcome given that it was a year in which we landed the demerger successfully and shut down a major mobile network and migrated the customer base across to XT.

It has been an increasingly competitive period in the second half of the year and when I come back and talk to you a little bit about the outlook we'll talk a little bit about the position we want to take on some of that. What I'd like to do now is ask Nick, our CFO, to walk you through some of the detail of the results. Thank you.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Thanks, Chris. As you can appreciate the second half of the financial year was focused on bedding down the demerger and that is largely behind us now. Firstly, let's take a look at the CFO score card. Our revenues have been impacted by declines in AAPT, lower mobile termination rates and the rationalisation of international transits. When these items are ring fenced the decline in the New Zealand business revenues is around 2%. Costs are down 12% for the year although comparison is difficult due to the change in trading arrangements with Chorus following demerger. We have reduced headcount by 449 FTEs compared to a year ago and have seen significant declines in the AAPT cost base, mobile termination costs and international transit costs.

On a pro-forma basis adjusted EBITDA was NZ1093 million and in line with guidance and roughly flat on the prior year. Depreciation continues to fall in line with the reduced CapEx spend. Excluding Chorus CapEx we spent NZ392 million in the year which equates to about 8.6% of sales. Net debt at 30 June was NZ851 million and is expected to increase modestly as we progress the share buyback.

There were a number of adjusting items during the period, many of which relate to demerger. I'll start with a quick summary of the adjusted numbers and we have reported numbers on the slide for completeness. EBITDA for the continuing operations NZD1048 million, EBITDA from discontinued operations NZD321 million, total EBITDA NZD1369 million, net earnings NZD422 million and CapEx of NZD528 million for the Group.

The main adjustments in the second half relate to NZD31 million of gains on the merger of Chorus. NZD20 million of the adjustments relate from changes in Telecom finance lease asset values and the other NZD11 million relates to assets that were identified post demerger that have been transferred to Chorus as required by the Asset Allocation Plan. These adjustments reduced the recorded gain on sales at NZD832 million. After this and a number of smaller demerger clean up adjustments the adjusted net earnings were NZD182 million for the second half and in line with guidance.

I put up a similar slide at this stage at the half year and think it's equally useful for the full year as it provides insight into the underlying EBITDA performance with the new Chorus external trading arrangements. Adjusted EBITDA for the year was NZD1048 million but on a pro-forma basis NZD1093 million. The financial outlook that Chris will provide at the end of this presentation is based on the pro-forma EBITDA of NZD1093 million. In the Scheme Book, released in 2011, FY pro-forma EBITDA was estimated at NZD1125 million, however we revised that to NZD1086 million to take account of the finalised trading arrangements which resulted in more EBITDA being allocated to Chorus. So again on a pro-forma basis EBITDA is flat.

Adjusted revenue for the full year was down 9%. The decline of 9% was impacted by a number of one-off changes which included significant rationalisation of low margin customers in the international business, the sale of AAPT consumer business and the regulated decrease in mobile termination rates. Also impacting the revenue performance for the year is the significant decline in AAPT's revenue. The AAPT decline in the second half is driven by a loss of low margin resale revenues of transitional services provided to iiNet, came to an end following the sale of AAPT's consumer business in September 2010.

When these declines are ring fenced the New Zealand business revenues fell around 2% for the year. Domestic fixed line access calling and data continue to decline and are partially offset by growth in mobile and broadband.

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Now on to cost trends. Adjusted costs for the year were down 12%, so comparison is complicated by demerger. The declines are offset by a NZD92 million increase in mobile costs of sales as we increased subsidies and sold more smartphones. We are pleased with the growth in mobile connections in this half, however this has refocused our attention on managing subscriber acquisition and retention costs in a more granular manner. A number of costs declined to lower the overall revenue decline. The biggest drivers of cost decline were a change of mobile termination rates, the rationalisation in the international business and the sale of AAPT consumer.

The loss of iiNet transitional revenues in AAPT also had a significant impact on costs in the second half but had minimal impact on EBITDA. The underlying New Zealand business saw costs decline following changes to the trading arrangements with Chorus, headcounts fell 5% following a restructuring activity, the New Zealand cost base was also impacted by in-sourcing of support functions, renegotiations with key suppliers and continued improvement in truck roll management.

Now on to capital expenditure, we continued our focus on CapEx spends this year and this again drove free cash flow generation. Telecom CapEx excluding Chorus was NZD392 million which equated to 8.6% sales and a significant improvement on prior periods. Total spend for the year was NZD528 million which includes NZD136 million relating to Chorus in the first half. You may remember at the half that we reported a NZD150 million of Chorus CapEx, however we have adjusted that down by NZD14 million as we have completed a comprehensive reconciliation post demerger.

The FY13 CapEx outlook is approximately NZD460 million and is higher than FY12 as it includes 850 MHz spectrum purchases which were prepaid in FY12 and we have made an allowance for CapEx relating to new data centres in Auckland and Wellington which are under investigation.

Capital management. Telecom is committed to maintaining A band credit rating from Moody's and Standard & Poors. Our policy is to ensure net interest bearing debt to EBITDA is not greater than 1.1 times on a long run basis. Net debt at 30 June was NZD851 million which equates to 0.8 times net interest bearing debt to EBITDA. We expect this to increase modestly as we progress the share buyback. To date we have repurchased NZD169 million of shares with an average buyback price of NZD2.46. Management will continue to adopt a conservative approach to the buyback and may elect to complete the buyback of up to NZD300 million over a longer period of time if required.

For the second half of FY12 we have declared a dividend of NZD0.11 per share, the dividend will be partially imputed with 75% of the corporate tax rate. Complementary dividends paid to non-residents will be pro-rated in the same manner.

The dividend arrears reinvestment plan has been retained, so we will not conduct the separate on-market buyback for the DRP as participation is currently low. Following the demerger the average cost of debt is around 6% and we now expect it to remain at similar levels.

Before I finish I'd also like to note that as part of our drive for simplicity in FY13 we intend to cease full cost allocation and move to a partial cost allocation basis. In order to make this transition as easy as possible for investors and analysts we will provide a restatement of the historical numbers. Thank you and back to you, Chris.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Thank you, Nick. So I'd like to finish on a few comments about outlook, and then invite Simon to share a few early thoughts with you.

If we look at the strategy and outlook, obviously, with the amount of change we've gone through and the arrival of Simon as new CEO, we'll be renewing our strategy and working on that. The initiatives I want to talk about right now are, really, the areas of focus for the short and medium term that the leadership team have already got underway and are guiding our performance right now.

Because we mainly work in an economy that's expected to maintain a growth rate of around 3% -- and that dictates some of the environment we're in -- and the telco industry and a brand new industry structure and something that's fairly new in the telco world, globally, we'll take a little time to settle and adapt to the new structure, and we're already seeing some consolidation in market with Vodafone's intention to purchase Telstra Clear as one example.

Regardless of all of that, I think the team are pretty focused on what we're going to do about winning in key markets for us right now. The first focus of that is, obviously, creating effortless experience for our customers and simplifying our business. More than ever, this business is dependent on the preference of its customers and how New Zealanders connect with us and move forward, so our first focus is on that.

Competing aggressively in fixed line for broadband customers and for that market share we absolutely think that our position around not only continuing to grow our base, but to get our market share position where we want it to be, is going to be vital to the future economics of this business and, in so doing, leading the transition to the fibre world that is coming for New Zealanders in particular is going to be a key part of our future.

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We're going to focus on growing mobile usage while managing acquisition and retention costs and moving to the world best practice in a smart phone world about how we do that, and having a deep and good understanding of what our customers value in the mobile world and making sure we offer that.

Growing our IT Services business and growing our AAPT business are another couple of areas of focus, and then making sure we continue the great disciplines that the teams have established around our capital investment for the future and maintain the sort of level of performance of capital investment that you have been seeing.

We will give you a much fuller picture of all of this at a strategy day for our investors and analysts. The timing of that is still to be called by Simon, and we've got to give him some time to work that out, but we will have a day coming. We will run through a full story and give you a lot more information about those things. But in terms of -- for the purpose of giving you some view of outlook at this point, given that the financial outlook, obviously, remains subject to that renewal of strategy and where that has landed, we see it like this at this point in time, that FY13 EBITDA outlook is flat, the lowest single digit percentage decline. That is based on the FY12 pro-forma EBITDA number of NZD1093 million. So to give you a view of what to operate off, that is the number that that comment is based off.

We'll be investing to earn broadband customers and to maintain our broadband connection and market share and to start winning again in that market.

Our FY13 CapEx -- the window will be approximately NZD460 million. That does include spend on Spectrum and doesn't include an allowance for the possibility of new data centres, which we're currently investigating and planning what the options are for that.

In terms of dividend policy for FY13 we'll continue the 90% pay out of adjusted net earnings and the DRP -- the Dividend Reinvestment Program -- is maintained. The imputation of those dividends we will maintain somewhere between 70% and 100% as the balance of the imputation credit account has been lowered through the demerger events over the last while.

So that gives you some idea of outlook and the position we take on that, ahead of the renewal of strategy, and more information from that and Simon and the leadership team as we move forward.

What I'd like to do now is invite Simon to share with you for a few minutes some of his thoughts and ideas of where he'll focus after two weeks of having a look around the place. Simon?

Simon Moutter - ***Telecom Corporation of New Zealand Limited - CEO***

Thank you, Chris, and exactly that, I'm on day 10, so having been breathing aviation gas for the last four years, the murk is clearing and I'm still in the process, really, of re-acquainting myself with the complex lingo and the many three-letter abbreviations in this industry.

Look, I wanted to start by acknowledging the terrific job Chris has done in the Acting CEO role. It's not an easy thing to step into the breach like that and, particularly, at a time of the year when you're running through year ends which, of course, for the market, is a year in processes, a set of outcomes but, at the same time, for a management team, you're building the plan for next year, and that actually is an even bigger task. So I'm fortunate to walk through the door with a plan locked and loaded, which is a credit to Chris and the team, so thank you, Chris.

I'd also like to acknowledge the terrific work of the whole Telecom team. I think it is an unbelievable job to have done so cleanly and, as an observer from outside the business for such a long time, to see a massive demerger process conducted so cleanly, in a way that the market has, clearly, appreciated by the terrific value gains for both parts of the Company, post-separation, is an awesome job done by the entire Telecom team, and also the unenviable task -- having been there once before myself -- in closing a mobile network and having to shift all of the customers and the sort of focus it takes to do that well in a way that customers think is seamless and fair and appropriate without changing the business at the same time is a tremendous job.

So I'm very appreciative of all of that and for the support of all our customers through that process. Now, I walk in with what feels to me like a clean slate, a new business, the retail service provider business -- we've moved on from being a regulated business -- and clean platforms to work with.

I can genuinely see in my first couple of weeks the outcome of all of the efforts of Telecom people's work over the last four years, while I've been a customer rather than a part of the business. I can see that Telecom people are more engaged than ever before. Our staff are in a great state of mind and feeling very positive. Our customer [set] ratios is, as Chris has pointed out, are the best they've been, certainly, in my memory.

The product range is much, much better than it was when I left. The networks are in tremendous shape and, already, just in that short space of time, for me, both mobile and broadband networks are doing things that our team, when I left, did not think would be possible in decades. So it is a reminder of just how rapidly the quality of

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these networks and what they're capable of doing for customers -- how fast that is changing. So very insightful for me to see the progress there. We have a fantastic broadband network and, clearly, the class leading smartphone mobile network.

The systems have got better too, and that is resulting in a more seamless customer service experience. So with all of that platform to inherit, clearly, I'm only here because I believe Telecom can again win in the market, and I've seen nothing so far that would change my view on that. In fact, a couple of weeks in, I'm feeling more positive than ever that we are positioned to be the market leader.

I think that really matters for me because I am very ambitious for our country. I'm very ambitious for New Zealand. I think, in a troubled world, it has been interesting, of late, to see such a strong group of large companies in New Zealand performing so well -- very ambitious for our country. I think Telecom New Zealand will play a pivotal role in enabling that ambition, in assisting people in the way a modern family and a modern life is run, but also empowering a modern economy with all of the technology services we provide.

Look, I've been away running the airport for four years, and if there was one learning I'd bring back from that time -- it really was the power of a single and very ambitious strategic plan. So that's where I'm starting my time here at Telecom with, really, over the next few months, rethinking and applying my input to the current business plan, to build on that and to create a very powerful and compelling and very ambitious strategic plan for the Company.

Now, I've got that process underway. It begins by listening, and so I'm spending most of my time at the moment listening to customers, listening to staff. I'm about to begin the process of listening to investors and, of course, I'll be listening to all of our community stakeholders and Government, just to make sure that I am fully versed with all of the insight around all the various stakeholders, before we start building a change into the plan.

So, for me, that's really about understanding what is it that New Zealanders want from us? What is it our customers want from us, and to make sure that we have that pipeline for delivery.

So, in the meantime, clearly, while we're working on strategy, I have, as I said, inherited a business plan which is locked and loaded. Telecom people know what to do. I'll be, clearly, in support of them as we execute the plan. A lot of that plan is focused on completing the process of turning around from facing internally and facing regulators to turning around and looking at customers and delivering for them, and I'm very pleased to have played a part in an early decision to draw a bit more of a line in the sand around broadband market share and compete more aggressively -- not giving reasons for customers to leave us on such a simple lever of price.

So we will be playing a more competitive role in the market. The business clearly has a lot of plans underway to improve efficiency and to simplify, and you won't see any change from my perspective on that -- I think that is incredibly important to the Company -- and a lot of work, ongoing, that I, again, will be in support of in and producing and delivering an inspiring product road map over coming months and years.

So that's me. That's all I've got to say. I'm absolutely thrilled to be back as a part of the Company I loved working at for nine years, and I look forward to making my mark on the business with, look, incredibly well positioned for success over the next few years. Thank you. Back to you, Chris.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Thank you, Simon. Thank you for those comments. I do remember Simon being pretty focused, aspirational and demanding of a customer. I expect no different to the CEO.

We'd like now to move to questions. What we'll do is take questions from investors and analysts in the room first, and we'd like -- and then we'll move to the ones online. I think we have -- the technology team got that under control.

We'd like, if possible, for people to cover a couple of issues at the most in each question so that we can get around people and make sure you all get a little bit of time. Then, once we've done a few in the room, we'll move to the online ones and then we'll see how we're looking. So I think most of the team -- we're good to go? Yes.

QUESTION AND ANSWER

Tristan Joll - ***UBS - Analyst***

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Tristan Joll, UBS. Just a, I guess -- a question for you, Simon. I mean I know you're probably not going to commit to an exact time on this strategy thing, but what sort of order of magnitude are we talking? What kind of philosophy do you think should govern the buyback through this period? I mean is it possible that the outcome of this strategic review is that we're going to pay a whole lot of money back into customer acquisition and things like that and you need your resources for that?

Simon Moutter *- Telecom Corporation of New Zealand Limited - CEO*

Oh well, you're right, Tristan. I'm not going to be drawn on any of the second half of that question. I think -- you might want to comment on how we might manage the buyback -- but, realistically, to add my flavour to the strategy for the business and make sure we've got that well built into an executable plan, you're talking about an early next year delivery -- next calendar year I think would be when you'd expect to be in a position for me to share that.

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

Tristan, the second part of the question -- share buyback. Look, we're not capital constrained. The reason we're actually conducting a share buyback is to correct our leverage. So I don't believe, actually, that has any impact on the share buyback, and you know we don't express a view on share value -- our own value -- as a matter of policy, but you've seen our practice in the market, and the one thing I will say is every time we research the shares in the market we ask a fundamental question; is it in the benefit of shareholders for us to buy that share at that time? That's how we conduct the share buyback and that's the governance we have around it.

Tristan Joll *- UBS - Analyst*

Okay, so you're, effectively, saying the longer -- or possible longer --execution period is just a function of your internal assessment of value versus broader strategic imperatives in the business.

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

Yes, yes, and, I would say, prudent practice to ensure that we always preserve shareholder value.

Tristan Joll *- UBS - Analyst*

Okay, and just a couple of quick operating ones -- just CapEx right up to AUD460 million -- does that include any LTE investment for next year?

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

It includes funding the trial and some of the foundation work LTE, yes.

Tristan Joll *- UBS - Analyst*

No nationwide rollout, including base stations, things like that, just the trial (inaudible) stuff?

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

No, certainly not a nationwide rollout, no.

Chris Quin *- Telecom Corporation of New Zealand Limited - Acting CEO*

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I think, Tristan, it includes -- I think, all over the world, the LTE capital profile will be quite different, maybe, to what's been seen in the past, that the reason we went to the XT network on a full 3G rollout was for a smoother evolution for the future. So the likely rollout of LTE and other technologies will be data underlays in cities as they emerge and much smoother capital profile. So each year we're investing in our mobile network, and that will continue at, probably, a more even pace.

Tristan Joll - ***UBS - Analyst***

Okay. I'll just take one more, if I can? Just the comments on broadband share, I mean, going back a year or two ago we thought that that was stabilising. It's now dropped 300 basis points in a year.

I think, Chris, your comment about people not using up their data is telling because, obviously, doubling data's probably no longer the weapon it once was. How can you react to this if you don't use some sort of price response in the consumer market?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

I think we're being clear that we will be competitive in this market. We intend to earn our market share and be winning again in this. What customers value right now is a combination of price and then services like the amount of data and other services that might go on broadband. I think it's clear, to compete we're going to have to play across all of those, and that really leads through some of our view about outlook, which is we are going to be investing to make sure we maintain our share.

Tristan Joll - ***UBS - Analyst***

Right. Thanks very much, guys.

Adrian Allbon - ***Goldman Sachs - Analyst***

Adrian Allbon from Goldman Sachs. Are you able to give us a sense of, perhaps, how the run rate compared through the quarters -- third quarter into fourth quarter -- for the fixed line part of the business?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

I think, in general, first or third quarter, if you like, versus fourth quarter -- the third quarter we saw a lot of competition emerge quite quickly. Fourth quarter, the campaigns and the responses that the retail team, in particular, put in place stabilised our base and we started moving forward again in terms of the number of broadband customers.

Adrian Allbon - ***Goldman Sachs - Analyst***

In terms of just the access lines?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

In terms of access lines -- so we've seen calling minutes down 12%; that's a combination of access lines and minute reduction, but the pace of that didn't increase during the fourth quarter.

Adrian Allbon - ***Goldman Sachs - Analyst***

Okay, thank you.

Tristan Joll - ***UBS - Analyst***

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I'll have another go, if no-one else wants to -- just in terms of guidance for next year then. What underlying cost assumption have you built into that low single digit EBITDA decline, that's the first one. The second one is can you give us some D&A guidance?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Look, I'm not going to answer the first question, Tristan, but I will take the second one. D&A has been a bit confusing for people, and we've decided to just give you a view on D&A. We think D&A will be NZD30 million, in round figures, lower than FY13 than it was in FY12. That will make sure that people don't undershoot or overshoot that estimate

Tristan Joll - ***UBS - Analyst***

Thanks.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Okay, we have more in the room.

Chris Keall - ***NBR - Analyst***

Chris Keall, NBR. Chris, in terms of the residential UFB rollout beginning next year, are you able to give any target customer goals that you have for the first 12 months, and an idea of what impact it will have on revenue? Just secondly, with Skinny, are you able to break out any specific financials or customer numbers? Thanks.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Thanks, Chris. Look, firstly, we won't give target numbers on UFB because I think, again, the competitive world we live in. Our focus is on market share and broadband as a whole, and broadband includes copper and fibre. Really, we know that what customers expect of us is robust and scalable and easy to fulfil and bill and make happen fibre services.

The team are well into -- and I think we've been clear [publically] we're investing around NZD20 million in product development to get this right, and we'll have those early next year, which is about the time that a few percentage points of New Zealand homes will be passed by fibre and starting to demand those services. So that's our commitment around fibre, and I think it's this, inside our overall commitment rate our market share in broadband.

In terms of Skinny, we're not going to break out the connection numbers or anything like that. Again, this was a competitive market, and we have been winning. We are really satisfied and pleased with the way that brand's been established -- the direction and leadership of the team and all of those things, and the fact that over 400 retail points at present means that -- really well positioned.

The acquisition rates have been increasing quite strongly in the last month, and we're looking forward to really seeing that establish its place in the market.

So do we -- I think we've done the -- we'll do one last in the room, then we'll go to online, I think.

Chris Keall - ***NBR - Analyst***

Simon, you were talking about taking a lot of the business and coming out with an ambitious new plan. Can you give us a broad timeframe for when it'll be made public?

Simon Moutter - ***Telecom Corporation of New Zealand Limited - CEO***

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As I said to Tristan before, Chris, I think early next calendar year is the likely timeline we'll start sharing that.

Chris Quin *- Telecom Corporation of New Zealand Limited - Acting CEO*

Perhaps we can have our MC online to bring the first question from online.

Operator

The first question comes from Sameer Chopra of Merrill Lynch. Go ahead please, Sameer.

Sameer Chopra *- Merrill Lynch - Analyst*

Thanks. By the way, congratulations on handing out a strong dividend delivery again, two years running -- much appreciated. My question was on OpEx trends for next year. Given that we've been through the demerger, perhaps you could walk us through how inter-carrier and other costs that have [tracked] through next year.

Chris Quin *- Telecom Corporation of New Zealand Limited - Acting CEO*

Sameer, it's Chris speaking. The OpEx trends -- sorry, just missed the particular OpEx trend you wanted to talk about.

Sameer Chopra *- Merrill Lynch - Analyst*

Particularly around inter-carrier and other costs.

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

Look, as I said, there's been -- impacted in a number of ways. It's an incredibly long answer to go through it in detail, Sameer, so what I might do is just ask you take that offline with the IR team because there are six or seven moving parts to that.

Sameer Chopra *- Merrill Lynch - Analyst*

Great. Just another question was just on the underlying growth in prepay. So if you take out the CDMA closure-related numbers are you seeing the prepay base is stable on an underlying basis? Is it growing? Is it shrinking?

Chris Quin *- Telecom Corporation of New Zealand Limited - Acting CEO*

Sameer, Chris speaking. So I think the fact we've been clear about is that prior to the CDMA closure we were down around 34,000 connections in prepaid, and the revenue for the FY12 year was down 10%.

I think commenting much further than that made quite complicated by the CDMA network exit, but I think you would have seen from the comments we're pretty clear that we want to return to winning in the prepaid market.

This week you've seen some new price plans and a group of positions taken by the team, and we intend to keep doing that. It's a valuable market, and we think prepaid customers are just as attracted to the smart phone network proposition and what it can do for them. They just -- they choose the billing method for cost control. It doesn't mean they want any less from the devices and the network performance. So we're going to play strongly in that area.

Sameer Chopra *- Merrill Lynch - Analyst*

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Chris, if I can just ask you one question as well. On the Gen-i side are you seeing order books holding, building, shrinking right now, given the macro environment?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

I think, Sameer, the number we quoted for the half for contract signs was NZD734 million. That's a mix of retention of existing clients going to new contract cycles and new business.

I think probably -- in terms of comment you would say it's been a year of consolidation for the IT services business in particular as we get quality into our delivery and margin into that business. It's been a year of growth in mobile contract base, and is the year of starting to grow again in terms of our government market and the all of government contract panels where some of those we have been successful on.

I think, across the board, particularly in IT services, a consolidation year -- a lot of new capability built and delivered to market that will grow again next year, and in our traditional lines of business the team continue to do a great job of showing a full ICT proposition that is retaining some quite strong market shares.

Sameer Chopra - ***Merrill Lynch - Analyst***

Thank you.

Operator

The next question comes from Richard Eary of UBS. Go ahead please, Richard.

Richard Eary - ***UBS - Analyst***

Good morning, guys. Just a couple of questions from me, just -- first of all, in the first half, obviously, there was a change in the accounting numbers just on mobile SAC. Given, obviously, the post-paid numbers that came through, I'm just wondering whether you had a full year number that we could look at for a cash-flow number? I think the first half was NZD22 million as an impact on the change in accounting. So I'm just trying to get a full year impact.

The second question was just looking at the KPIs. I mean it's actually pleasing to see, on a mobile side, that we actually have a tick-up now in mobile usage for the first time for a number of years. Obviously, I'm just trying to see whether we've actually seen any fixed to mobile substitutions start to accelerate or bubble up as a consequence of, obviously, a bit more minutes migration on to mobile. They would be the two questions, thanks.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Shall I take the first one?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Sure.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

First one, impact in the second half was NZD26 million. Sorry, that was for the full year.

Richard Eary - ***UBS - Analyst***

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NZD26 million for the full year?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Full year. Full year, is the impact of the subsidy.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

That's the--

Richard Eary - ***UBS - Analyst***

So it's only a NZD2 million -- NZD4 million impact second half?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Yes.

Richard Eary - ***UBS - Analyst***

Okay.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

I thought the first half actually was--

Richard Eary - ***UBS - Analyst***

NZD22 million in the accounts based on what you released last year?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Yes, that's correct.

Richard Eary - ***UBS - Analyst***

So there's only NZD4 million impact?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Yes, that's correct.

Richard Eary - ***UBS - Analyst***

Okay.

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Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Because it grows and stabilises.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

In terms of the usage growth and fixed to mobile substitution, Richard -- Chris speaking -- look, I think it is true to say we are seeing some of that substitution. The usage growth is driven quite strongly by data as much as voice. However, I think that 12% decline in minutes that we talked about will be a mix of minutes moving to mobile competition and then just new technologies and messaging technologies that people seem to be adopting.

So I think it is correct to say we are seeing people move to more mobile for their standard voice that is correct. Very hard to pick clear percentages across all of the potential changes across from fixed voice through to those.

Richard Eary - ***UBS - Analyst***

Just looking at this -- the retail access line numbers -- and, actually, the total access lines in total -- I mean I know that there hasn't been a step up in the rate of decline, but do you think that if we started to see minute migration access migration will follow and there is a risk around that access line starting to accelerate?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

I don't think you would necessarily put those two together. I think that the key thing is -- we see that most consumer decisions are being made in a bundle, so the broadband access calling bundle, which is why we think it is so important that we compete hard for our market share at a broadband level, and that what's really going on -- and many people would acknowledge this -- is the move to different communication technologies and, particularly, the various messaging technologies and away from voice.

So I don't think a voice decline leads an access decline as such. In fact, probably the other way around, generally.

Richard Eary - ***UBS - Analyst***

Just, obviously, as you look forward -- maybe this is a question also for Simon as well -- is as you look to probably stem some of the broadband losses on the margin, bundling becomes, obviously, quite an important proposition, going forward. How much success or belief do you think there is in actually cross-bundling mobile and broadband because, in other markets, the relationship is a bit tenuous.

Simon Moutter - ***Telecom Corporation of New Zealand Limited - CEO***

Don't know. We'll see. Simon here. He can probably comment about how he thinks about it at home. Look, I think it's absolutely something we're focused on, understanding what customers value in that space in our key market. It's one of our key competitive advantages that we're a fixed-band mobile provider and our mobile network is absolutely -- fibre and mobile are big, big drivers of our future.

I think how much people will make that decision as one bundle as opposed to choosing from a number of different offers will vary. The key focus for us will be all about understanding our market and its segments and their drivers and what they really do value, customer by customer, and then appealing to that -- but bundling is absolutely one of the competitive stances we will take.

Richard Eary - ***UBS - Analyst***

Thanks, guys, much appreciated.

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Operator

The next question comes from Mark McDonnell of BBY. Go ahead please, Mark.

Mark McDonnell - ***BBY - Analyst***

Yes, thank you. Good morning. I've got two questions. The first one is actually a continuation around that topic of bundling. I was wondering if you could clarify, in the consumer sector of your business, what the proportion of single versus multi-product customers is.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

It's Chris speaking, Mark. I don't have a number on that. I'm not sure whether Alan would have one to hand. We'll just get a microphone to Alan so you can hear him.

Mark McDonnell - ***BBY - Analyst***

Okay, thanks.

Alan Gourdie - ***Telecom Corporation of New Zealand Limited - Chief Executive, Telecom Retail***

Thanks, Chris. Look, I don't have the specific figures of single versus multi-product access, but I think, in contract, we have about 80% of our customers on contract, which is some form of multi-product bundle.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

So access voice -- yes.

Alan Gourdie - ***Telecom Corporation of New Zealand Limited - Chief Executive, Telecom Retail***

Yes.

Mark McDonnell - ***BBY - Analyst***

Okay. Well, I mean just in terms of the comments that Simon made about being very much more competitive in broadband, and I take it that with -- the proposition that there's a higher proportion of multi-product customers that, in fact, bundling is a mechanism for price (technical difficulty) of possible product (technical difficulty) in effect?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Yes, it's the mechanism for adding value to customers and having them perceive that they are getting a greater value. So it is -- most customers are making decisions to have a simple set of solutions at home and putting broadband, voice and other services together and, potentially, mobile will be one way of doing that.

Our total home packages, which have been the sort of mainstay of our competitive stance to date, do that.

Mark McDonnell - ***BBY - Analyst***

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Okay. The other area I wanted to recap with you as well is the comment about the buyback being extended over a longer period. I just wanted to understand why that (technical difficulty) with your DRP retention. Firstly, if you could clarify the extent of the dissipation in the DRP but, more generally, what's the probable outcome here in terms of the net change in issued shares? Are we talking about buyback, essentially, simply neutralising the DRP so that we have a stable number of issued shares? Or is the intent to get some kind of contribution to EPS go through [and end up] in the number of issued shares?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Let's -- Mark, thanks for the question. We'll take the DRP first. Our practice in the past has been to issue shares under the DRP, and the participation is quite low. Participation, I think, last time, was around NZD16 million of shares issued. So it's been very low participation recently.

Our practice has been to buy back the equivalent number of shares that we issued to the market at about an equivalent price. Normally, we executed that buyback for the one or two weeks immediately following the dividend. So that's always been a stand-alone process, but because of the very low participation we didn't see any reason that we should really buy back shares in the market through a process that's separate from what we call the big buyback -- the NZD300 million buyback. Does that capture your question?

Mark McDonnell - ***BBY - Analyst***

Yes, just in terms of -- with the elongation; I'm not sure over what period. It was a bit unquantified, the statement that you gave in the presentation about how long you're looking to extend that NZD300 million buyback over. I'm just trying to work out whether you mean by this that you're going to slow it down to a point where the number of issued shares is actually going to remain, more or less, on constant levels.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Actually, when we -- again, we're not really thinking of the DRP being neutralised by the big buyback. We just don't want to conduct two processes on market. No, we're not making a commitment to how long the buyback might take. It comes down to that very simple principle that I stated earlier, which is we have to ensure that every time we repurchase shares it's a dollar well invested for the shareholders.

Simon Moutter - ***Telecom Corporation of New Zealand Limited - CEO***

I think also, Nick, isn't it clear that if you're buying back still another NZD140-ish million dollars' worth, that the number of issued shares is going to decrease. It's not -- (multiple speakers)

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Oh, definitely, given -- good point. A good point of clarification, Simon. Yes, the DRP is of such a low participation. You're talking sub 8 million of shares per half. It's really just a rounding error.

Mark McDonnell - ***BBY - Analyst***

Okay. Thanks so much.

Alan Gourdie - ***Telecom Corporation of New Zealand Limited - Chief Executive, Telecom Retail***

Chris, can I just make a correction? The number in contract -- I've just got the exact figure -- is 60%, not 80%. That's an older figure.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

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Okay. Do we have more questions online?

Operator

Yes, the next question comes from Digby Gilmour of CLSA. Go ahead please Digby.

Digby Gilmour *- CLSA - Analyst*

Thanks very much.

Simon Moutter *- Telecom Corporation of New Zealand Limited - CEO*

Good morning.

Digby Gilmour *- CLSA - Analyst*

Just on CapEx, I just wanted to understand how much of the NZD460 million relates to the potential data centre investment and how much we should explore the extent to which you're confident that spend will go ahead. Then more broadly, just on CapEx for sales, if you could give us some guidance there, just medium term, so fiscal '14 and '15, on the basis that you're giving guidance on the absolute terms in fiscal '13.

Then a second question please, just around data after expectations within mobile fiscal '13, leading into the start of the year on a very strong run rate, curious to see how you see that panning out, particularly first half '13. Thanks.

Nick Olson *- Telecom Corporation of New Zealand Limited - CFO*

Okay, look I'll take the first question. Look, we're not going to be drawn on the amount we've allocated for the data centre. (a) it's early days and we have to actually decide how we will approach it and also ensure the business case is strong. We'll make progress with that through the year. CapEx sales, the best guidance we can give you is actually looking back in history. FY12, 8.6% CapEx to sales ratio, I would say that was virtually all if not all on what I call core CapEx for the business and purchases of Spectrum, significant build of capability outside BAU, core investment in activities that are like data centres are on top of that. So that's how we've actually constructed the CapEx envelope, if you like.

Chris Quin *- Telecom Corporation of New Zealand Limited - Acting CEO*

It's Chris speaking, just to add a little bit to the data centre one, we're quite confident in customer demand for the sort of services we operate with investments. The question that we're working through is, what is the very best way to invest and how does that capital stack up against other choices. So the decision in terms of how likely it is, it comes down to can we see there are things we can generate that are equivalent or better than the rest of the capital opportunities that we face. So will simply be made on a shareholder value and return basis.

Simon's quite right, the points about data centres is a number of the customers that have interest in these sorts of services pretty much are looking for 15 year and beyond contracts. So they are quite long term investments, we do quite a lot of preplanning and a lot of demand generation management well before any investment decision.

In terms of the ARPUs, simply around data and going forward, look I don't have numbers separated for that level, but I think it is absolutely correct to be thinking that we have been successful and starting to acquire as a high value in of the mobile market and you've seen that in the numbers for this year with that connection business revenue and ARPU being active of the connection growth. Now that we have a good, strong range of devices in plan -- all of the key device launches -- and intend to do that very strongly in the future too. I think it's reasonable to assume that we'll continue to grow, skew towards the higher ARPU end of this market and that's where we want to be because that's where we think the smartphone network has a real advantage.

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Digby Gilmour - ***CLSA - Analyst***

Okay, thanks guys, good result.

Operator

The next question comes from Greg Main of First New Zealand Capital. Go ahead please Greg.

Greg Main - ***First NZ Capital - Analyst***

Thank you, good morning guys. Just a couple of quick questions. Just firstly on the run rate for interest cost for FY13, can you give us some sort of feel for effective interest rate and how much you've got FX as opposed to floating?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Sure, I'll try and give you the back of the envelope view and I'll let you do the maths, if that's okay Greg. We've said that our interest rate is about 6%; that is actually largely fixed. We don't carry much floating rate there typically. You see cash on the balance sheet year end waws NZD185 million, that was the lowest actually balance we'd had for a long time and some pretty active management, and also reflects the new business that we have. We just have less working capital and we work hard at it. The only other thing that you have to take into consideration is we get the net interest income and that's principally from the so-called finance leased assets that we have with Chorus and that's served for NZD1 million a month that you should put into your calculation. I think if you do that, form a view on average debt balance, average cash and just for the Chorus interest income, you'll be pretty much on the mark.

Greg Main - ***First NZ Capital - Analyst***

Okay, thank you and then just one other question. How exposed are you to trans-Tasman mobile roaming and if there is some price changes in that market, what sort of impact could that have?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Greg hi, it's Chris here. Look obviously a number of us are aware of papers that were released yesterday through the work that's been done by both Governments into that. We won't comment on the number in terms of the margins we let in from roaming, because it does shift around quite a bit depending on countries and where a lot of New Zealand's export and business development focus tends to be in what country. Roaming prices have fallen quite considerably over the last couple of years. There's no doubt about that. Also, a lot of good product work has been done to put in place things like that smart cap product and usage texts and things like that. So it's probably been quite some months now since we've really had a customer issue around the bill shock and roaming issue, so a lot better management has been in place around this.

I think secondly the thing that -- I think that we would prefer commercially driven outcomes. We generally find they're more sustainable, however we accept this issue's got focus, we'll work with whatever outcome is reached and make sure it works for our customers. What we don't understand and what we think is important to think about as well, is what the latent demand for data roaming and for roaming if costs were seen as more manageable over time. So potentially -- there's an upside once people are more comfortable with the consolability and cost of it versus the downside with the current fear of the cost of it.

So I think when we look ahead, our ability to roam and roam well is still very, very important to our customers and we will keep growing our capability to do that. I think our earnings from it are quite dependent on how we keep making the value packages work for what customers want.

Greg Main - ***First NZ Capital - Analyst***

Okay, thank you.

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Operator

The next question comes from Ian Martin of RBS. Go ahead please Ian.

Ian Martin - ***RBS - Analyst***

Thank you and good morning. I have a question on Gen-i which seems to be the standout contributor to EBITDA growth. I think more than half the incremental EBITDA growth -- half the EBITDA came from the growth in Gen-i's EBITDA and when you look at Gen-i, it's all mobile; mobile's the one like that's really growing there and presumably better margin than the other parts of Gen-i. I think in one of the other slides you mentioned Gen-i has a 70% market share for mobile something or other -- mobile ICT -- in whatever market it's operating in. So I just wonder, presumably that market segment is still at a relatively early stage and there's plenty more growth that you can exploit out of that. On the other hand, you've got 70% market share and it must be an area that Vodafone Clear is looking to get its feet into as well. So I just wonder how much further growth there is versus how vulnerable you are to continuing that kind of contribution that Gen-i mobile's made to the overall performance of the business.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Thanks Ian, Chris speaking. Look I think certainly the Gen-i team are really pleased with the mobile performance in the last year. It's been a strong performance and I think the mobility which is the wider ICT proposition that comes with mobile really does reflect what corporate organisations are now using mobile for across smartphone and tablet devices, and the growth of that trend has led to the growth of that market and then our performance within that market has been strong.

I think in terms of future, we still do see growth in smartphone. I won't separate out numbers at that level, but there's no question potentially no so much at a market share level, but at a value of the market share we have level, there is still growth to come. The way in which we can integrate what customers want to use mobile devices for into those devices and deliver services that enable people to do their jobs in smarter ways is going to be where the growth comes from in the future. The core of the XT smartphone network and its better performance as New Zealand's best performing mobile network is key to that, and the relationships and the overall value we have for customers, so they see value on bundling those things together, is key to that. So we do see potentially not so much strong market share growth, but reasonably strong value growth still to come from the mobile market.

Across the rest of Gen-i, what made that 11% year-on-year growth was a lot about cost control; 5% growth in IT services, that continues to grow year-on-year-on-year and slowing the decline of some of the traditional lines all added up to that result.

Ian Martin - ***RBS - Analyst***

Okay, thanks.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Okay, so we have, I think, two or three more questions online, so we'll take those.

Operator

The next question comes from Paul Brunker of JP Morgan. Please go ahead Paul.

Paul Brunker - ***JP Morgan - Analyst***

Yes, morning guys, so your guidance for EBITDA implies you might be NZD100 million or NZD200 million down year-on-year, your CapEx looks to be down by less than that year-on-year, are you happy to let debt go higher next year to maintain the dividend?

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Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Paul I just want to check -- what we're actually saying is our [flat] to single digit decline is actually based on NZD1093 million which is a pro-forma number.

Paul Brunker - ***JP Morgan - Analyst***

Okay.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

So --

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

It's not hundreds-- (multiple speakers)

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

No it's not hundreds --

Paul Brunker - ***JP Morgan - Analyst***

Sorry, my mistake, yes.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Yes, so call it 1% is just over NZD10 million.

Paul Brunker - ***JP Morgan - Analyst***

Sorry, my mistake. Yes and in principle are you happy to let debt go higher next year if needs be?

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

We would think, are we ever to let debt go higher, it's actually a real time exercise, we actually manage it. So it doesn't go up accidentally; we choose where we sit in the spectrum. Right now we have very modest leverage of 0.8 times debt to EBITDA and we're happy for debt to increase up to 1.1 times debt to EBITDA which actually is still a very conservative measure.

Paul Brunker - ***JP Morgan - Analyst***

Yes, okay.

Operator

The next question comes from Justin Diddams of Citi. Go ahead please Justin.

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Justin Diddams - ***Citigroup - Analyst***

Morning gents; just a couple of clarifications. The labour cost, the step down in the second half, just wondering if you could give us an indication of the run rate into FY13, are we expecting to see another step down in the first half? Some colour around that would be good. Second, just on mobiles and smartphones and the cost of goods sold of that mobile business and whether we should expect expanding costs, significant cost inflation, on the subsidy on smartphones. Then just thirdly, the risk to CapEx; you've talked about a number of other Spectrum and data centres and things of that nature and whether there's actually upside risk to the CapEx guidance. That would be great.

Nick Olson - ***Telecom Corporation of New Zealand Limited - CFO***

Look I'll take first and last and I'll get Chris to take the middle one. Look we're not going to provide a forecast for labour cost. I think one of the things that you should -- that everybody needs to focus on is cost controls is actually a game of inches and if you look at our management commentary, virtually every line item has been addressed in our cost out challenge. So it's a granular war, but that has to go on all the time in a business like ours and every business; it's the reality of life nowadays. So no, look we won't be drawn on labour.

Last question, with the CapEx, I'm happy with the envelope we've given you and I think we're being quite consistent and quite reliable with our CapEx side. So I don't see any risk in this year.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Justin, Chris speaking. In terms of cost of goods sold and mobile and sales and retention costs, I think during the presentation we explained that this year there was a NZD92 million increase compared to the year previous, or probably more like NZD27 million higher than the last three years on average, to give you an example. The uniques about that were that it's two years since XT was launched, when we had quite a push into new smartphone devices and re-contracting those customers and the very strong and successful acquisition that's gone on post-paid and high value customers that we'll see return over the contract life of those customers start to weigh in, in the latter half of this year and next year and you're seeing some usage revenue increase already.

I think going forward, we are continuing to get better at managing our acquisition costs. We had a lot of focus on acquisition retention cost in mobile because it's a much more important part of Telecom's overall earnings profile now. So you should expect to see better efficiency in that and better focus in that. But we're also quite committed to our market share, particularly in the prepaid market and continue to earn high value post-paid customers. So I think without going into detail, the colour would be that we're going to be a lot more efficient with that cost, so we're still going to be quite focused on growth.

Justin Diddams - ***Citigroup - Analyst***

Okay, just a quick follow up on that. So post-paid, pre-paid customer migration, have you seen a shift in the base year-on-year over the last two years if you give us some quantum around the pre-paid/post-paid shift, that would be great.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

We have seen a shift from post-paid to pre-paid. I don't have a quantum to give you.

Justin Diddams - ***Citigroup - Analyst***

You won't or --

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

No.

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Justin Diddams - ***Citigroup - Analyst***

Okay, thanks.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Thanks.

Operator

The next question comes from Andrew Levy of Macquarie Securities. Please go ahead Andrew.

Andrew Levy - ***Macquarie Securities - Analyst***

Thank you. Look my question's just on -- your Vodafone's obviously paid -- what we've seen is a good multiple for Telstra Clear, so I guess -- and I must see some synergies in that transaction, so I guess the question is, what's the extent of your wholesale business with Vodafone and is there a chunk of money that could be at risk, should the takeover proceed?

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

Look we're not going to reveal the revenues from that customer or our arrangement. We do have a number of services we supply into both and I don't think anyone in the wholesale business would say that they were easily earns or in a non-competitive market prior to this merger. So we've got some good business in those areas and we'll continue to work hard to earn that business going forward. I guess like everything, telcos have options around whether you build, buy or partner certain capabilities and where we have good capability to that, if that purchase goes ahead and if the new entity exists, we'll continue to fetch offers and capabilities in there. I think we've good relationships, I think we have great relationships with the wholesale business between the organisations and where we have a strong offer, we'll go and try and win that business.

Andrew Levy - ***Macquarie Securities - Analyst***

Thanks. I guess the focus was as much on where Telstra Clear might have infrastructure that's already built and the revenues that sit against that with Vodafone that might be at risk.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

We have services with Vodafone that are contracted for a period of time and they will continue, I guess, at the end of those contract periods and they have made the acquisition and the acquisition includes capability that duplicates that, then we'll face -- there will be a competitive moment there where we'll attempt to earn that business.

Andrew Levy - ***Macquarie Securities - Analyst***

Okay, thank you.

Chris Quin - ***Telecom Corporation of New Zealand Limited - Acting CEO***

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I think that's all the questions we had online, so I think at this point we'll wrap up, thank everybody for your attendance and for the people online and for all the questions and interest and thank you very much for being here. We'll see you next time, cheers.

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