Question and Answer

Operator

Our first question comes from the line of Chris Keall with National Business Review.

Chris Keall

Sorry, Simon, I don't actually have a brand question, but if I could just quickly ask investors will be wondering how much you're going to budget for content for ShowmeTV plus other aspects of the service? Are you able to speak to that?

Simon Moutter
Former MD & Executive Director

Look, I thought -- there's probably a couple of question points there around the cost of a couple of those initiatives. So yes, since it was the brand session, let me tell you, I think, one thing we've seen coming through in questions as what is the cost of the brand change likely to be. We'll put a number in the order of $20 million on that, most of which we expect to take in the second half year because it's mostly proprietary. And on your question specifically around ShowmeTV, I think we will be budgeting in the order of $20 million cash spend in FY '15, sort of in the order of 3 quarters. Maybe a little more of that would be OpEx, but it's mostly content costs, there's a lot of OpEx around it and there's not much CapEx involved in that business from FY '15 on. And at this point, we'll be hesitant to talk about revenues. We'll set down specific performance metrics for investors on the ShowmeTV move at our full year briefing. We'd just like to get it out the door and a bit more of fact base understood before we start sharing our specific performance metrics that we're going to seek for ourselves. So hopefully, that answers your question.

Operator

Our next question comes from the line of Hamish Fletcher with New Zealand Herald.

Hamish Fletcher

Simon, you've already just relaunched a new Telecom brand, I think, in the last 6 months. How much did that rebrand cost? And are investors going to be pleased that less than a year later, you have come around and announced another $20 million brand change?

Simon Moutter
Former MD & Executive Director

It's not actually correct, Hamish. What we did in the first half year was give the Telecom brand a makeover. So we didn't rebrand. We simply changed the look and feel of it. The cost of that will wouldn't have amounted anything much more than $5 million in the half. So relatively minor incremental cost in the scheme of our $3 billion a year of expenses. And you can see the terrific results that have come off the back of it. So we'll call that a terrific investment and a very strong encouragement for going the next year and the work that was done last year was set up with a view to a potential name change in due course. But the tremendous results we had from that have encouraged us to continue to move on now. So you'll see that new look, feel and style carryforward with the name change. There won't be a reinvention and a setting aside of that spend that was -- we were setting up for a potential name change in due course. So you can see it's part of this branding change actually.

Hamish Fletcher

How long has the name change been in your plan?

Simon Moutter
Former MD & Executive Director

We've been pondering it, I think, for those of us who have been in senior roles around Telecom, pondering the possibility of moving on from the 1980s humble home phone that sort of the word telecom has come to mean since probably the mid-2000s actually. And there was always going to be a time where we needed a name that was more representative of the future business we're in. We're not about home lines anymore and land lines. It's a small part of the business. We're about mobile. We're about digital. We're about data. We're about TV. We're about entertainment. So we knew at some point a name change was required. But look, given the tremendous progress we're making, a really strong sense of energy and excitement around this business, the fact the 200,000 customers have noticed that in the last year and decided to join us is an endorsement and creates in our sense, the possibility to move on. And so we've taken the decision and we're moving on.

Operator

[Operator Instructions] Our next question comes from the line of Paul McBeth with Business Desk.

Paul McBeth

I just had a quick query. How long are you expecting -- I mean, you're rebranding something that's -- it's a well-known brand. And I mean, customers are likely to continue thinking about Spark in the future as Telecom, and of course struggles with the same thing still. How many years are you expecting this to sort of bid in before people start thinking about Telecom as Spark and as a new entity?

Simon Moutter
Former MD & Executive Director

Look, I think that depends on what type of a customer you are. Look, I -- we only adopted the Telecom name in 1987 actually. Before that, we were the post and telegraph for the Post Office. And it took a very short time actually given the -- we're one of the largest advertisers in New Zealand. Our names and brands are everywhere 24/7. We have relationships with millions of New Zealanders already that are somewhat daily and monthly. We think the new brand will transition very quickly. But yes, of course, we'll have some carryover, and some people will fondly remember the Telecom name, and it does give us a great foundation. And so we're not worried that -- if it takes a few years for parts of the market to move on beyond Telecom as what they know us as. But if the new name adds excitement and reasons to reconsider our products to work with us as a provider, then that's a good thing, too.

Paul McBeth

Understood. And then just quickly, what's the sort of opportunity cost of losing the Telecom name, because it is ingrained in everyone? Most people you talk to when they setting up a phone, getting a mobile phone, Telecom's still the name. Was it a torturous process or was it just something that you knew had to happen?

Simon Moutter
Former MD & Executive Director

Look, we know it had to happen, and the opportunity cost of moving away from Telecom will be a fraction of the opportunity value in moving to Spark.

Operator

Our next question comes from the line of Arie Dekker with Deutsche Bank.

Arie Dekker
Deutsche Bank AG, Research Division

Yes, just 3 questions from me. Firstly, just on the -- you've given some guidance to the free cash flow benefit associated with the reengineering and looking to annualize to FY '16. And obviously, you're targeting for stabilization in the top line over that same sort of period. Do you have a view, even a preliminary one, in terms of what the free cash flow impact going the other way will be as that revenue stabilizes over the next 2 or 3 years?

Simon Moutter
Former MD & Executive Director

Look, we'd be very hesitant to set that out, Arie. I think that's your job, mate, to form a view on that. What we've tried to do is to give you some input measures, give you our opinion on fixed network line, provide some increase - a view of what's securing from the turnaround program. And we will continue to do that if and when we find more the capital envelope we've given you a bit of guidance here that actually we can see it now being a little lower than we guided last year. So I think -- sorry, mate, you'll have to do the math and we'll watch with interest to see what you come up with.

Arie Dekker
Deutsche Bank AG, Research Division

Yes, and just on those input measures, I guess one of the areas where clearly there is some cost growth, and as you say, some of it connection related mobile cost of sales, for example. Can you just talk a little bit about what's happening within the different components of mobile cost of sales being separating out some of the subsidies of handsets, but also what's happening in terms of margins associated with network delivery?

Simon Moutter
Former MD & Executive Director

There's a quite shift occurring in the mobile mix, and it's a very good shift actually, and it's representative of some of the changes, particularly in market behavior in retail. So I'm going to ask Chris Quin to comment here. He has a very strong view of those numbers and can help you understand why those trends are very good trends. So, Chris, are you on the line still?

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

Sure, yes. Thank you, Simon. Arie, I think a couple of the things to think about in terms of [indiscernible] that we have had about 1% -- 1 percentage point further improvement in the cost to revenue ratio in the Mobile business. So what we're seeing is a quite solid shift in the mix of postpaid plans, where customers are choosing to buy the device and either buy it outright themselves or finance it separately through the mobile plan, which is shifting the dynamics of cost of acquiring those postpaid plans. And that's, hence, the 1% -- 1 percentage point improvement and what is costing us to acquire customers a percentage of revenue. So the bulk of the mobile cost of sales increase that you see in these numbers are simply volume driven. Our growth number at 108,000 connection growth for the half across Skinny, Gen-i and retail is what's driven the mobile cost of sales up. The gross margin has grown pleasingly. The revenue line has grown. The usage line has grown. So overall, that Mobile business is basically in better health than it was last period.

Simon Moutter
Former MD & Executive Director

Did that help, Arie?

Arie Dekker
Deutsche Bank AG, Research Division

Yes, that's helpful. Just in terms of the capital management and you've been recently clear there. But if I could just -- on the Commerce Commissions review of the spectrum, I guess, one question is if -- and clearly it won't be the case, but if you would turn down on that fourth block, would that be sufficient for you to reconsider the capital management outlook?

Simon Moutter
Former MD & Executive Director

Look, we'll be watching the capital situation over time. And so what makes [indiscernible]

Jolie Hodson

CEO & Executive Director

Yes, and we have committed to reviewing our dividend policy at the end of the year. Our preference is just sustainable ongoing dividend growth. So we would watch that announcement and then reconsider our capital management at the end of the year.

Arie Dekker
Deutsche Bank AG, Research Division

Okay. So the dividend growth is definitely the preference in terms of managing those returns?

Jolie Hodson
CEO & Executive Director

Yes, on a sustainable longer-term basis.

Arie Dekker
Deutsche Bank AG, Research Division

And last question. Just the comment in terms of outlook, in terms of lead indicators and revenue performance and mobile being positive in particular. Can you just expand just briefly on a few of those indicators? I mean, obviously, we see the headline numbers are going well. The services revenue at this point, lagging a little bit, just wonder if you could expand on that outlook a little bit more?

Simon Moutter
Former MD & Executive Director

Look, how we would capture the lead indicators, Arie, say, Chris gave you a very strong insight, the retail for the first time since 2008 has had a flat overall revenue performance. So it's some deal to have risers offsetting decliners. That's a very positive sign. We've clearly stabilized share loss in broadband. We have clearly started to gain share in good quality mobile. We're not destroying our ARPUs in the process. We're winning on value. We've clearly got more cost momentum in core operating costs emerging from the turnaround program. And we -- just for the sake of all analysts on the call, I mean, we were clear that we had to have set up the turnaround program and get it underway. So I think we did not expect an enormous shift in the cost profile in H1. We were getting organized with a more sophisticated, more targeted program around continued cost reduction, and that will show up in H2. And you all know me enough to know I wouldn't say that if I wasn't confident about our ability to deliver it. So those would be some of the lead indicators in the Retail business. And Tim has given you some indication that our shift toward cloud business, particularly at the hosted infrastructuring of the back the Revera acquisition, is building a very strong pipeline. And that's not an easy -- it's not a business that takes 5 minutes from when you win a deal to when you get it in. It's a big complex transition. And so it's one thing signing a contract, it's a whole another deal of many, many months to sometimes years to complete a transition. And that's what makes it such quality business. Once it's in, it's very very sticky business. So we're feeling good about the shift we've made and the momentum we've got. And it's a big deal to have such a strong performance in the mobile market. It is where the action is. It's the preference leader still. It's still the thing most New Zealanders form their opinion about other players in the sector around and to have taken 108,000 connection gain this half when our major competitors actually lost customers in that period is some deal for us. So hopefully, that gives you a bit more flavor.

Operator

Our next question comes from the line of Tristan Joll with UBS.

Tristan Joll
UBS Investment Bank, Research Division

I'll kick off by just by saying when we look at the guidance and we consider the half of it's gone. I mean you've had a fairly weighty Southern Cross dividend in there. It would be very helpful if you could give us some view as to what you're assuming for the full year? I mean I know this is an issue every year. But to me, if you're painting a picture of underlying performance, it would be good to know what you're factoring in.

Simon Moutter
Former MD & Executive Director

I think -- Tristan, we just -- we would like -- we've seen a couple of them endless notes coming through on this sort of idea that the bigger Southern Cross implies a weaker NZ core. And I think actually, there's a little bit it of value to deal with the opposites of it. We think that made no difference at all because these one-off offsets. I'll just let Jolie run you through why we think you should look at that a little differently?

Jolie Hodson
CEO & Executive Director

In the first half, as we talked about before with the brand refresh, we had an increase of $5 million in marketing costs. We had a specific data provision of $10 million increase in doubtful debt. We're cycling $6 million gain from the prior year on the [indiscernible] release of the one up subsidiary. And we've got $5 million of lower insurance proceeds from Christchurch earthquake this year. And we've also got $5 million of incremental costs associated with the setup of the turnaround program going into second half. So we believe that the -- while some cost dividend was higher in the first, it's actually been offset by a number of these items.

Simon Moutter
Former MD & Executive Director

So it's not sort of on the underlying. And look, in terms of your specific question, can we guide you better on Southern Cross dividend in the second half. The answer is no, and it's not because we're being a pain in the ass and we don't want to. We can't. We simply don't know. Southern Cross is a secret business. We're shareholder in it. And the ability to pay dividends is based on the closure of deals and receipt of cash and we simply do not know.

Tristan Joll
UBS Investment Bank, Research Division

No, I understand that. I guess, the question is more on the other side of the equation, which is if you try to paint a picture [indiscernible] underlying, it would just be useful to see what you assumed.

Simon Moutter
Former MD & Executive Director

No, I get it, but we just can't.

Tristan Joll
UBS Investment Bank, Research Division

Okay. Second one, just to go back over what I think was on Slide 32, which is the cost out slide. It's interesting, I think, that you're presenting a view of fixed line stabilization. The costs stuff, I mean, what I'm interested to know is if you increase the sort of aspirational target from $100 million to $200 million to $200 million to $300 million, does that reflect new opportunities that you found or does that reflect a revenue reality that you think is potentially sort of worse? And I suppose to add to that, it will be helpful if you could frame it in terms of where you think -- what you think earnings will be doing at that point in time?

Jolie Hodson
CEO & Executive Director

To answer the first part of the question, the $200 million to $300 million of identified savings are part of a separate turnaround program that's been separately identified and driven in this as we focus and committed to focusing at the second half of last year on a full program across the whole business. If you recall, last year was focused mainly on labor. We've stretched that out across procurement, our network and CapEx investment as well. So it's a separate program unrelated to the revenue, any changes in revenue. In terms of giving EBITDA guidance for years beyond F'14, we aren't prepared to speculate on the FY '15 EBITDA outlook as it will impacted by a number of factors. We talked about the rate of fixed line decline and mobile performance, exact timing of turnaround initiatives, the rate of which we scale our internet TV business. What we are clear on is it can speak to our free cash flow improvement in FY '15 principally due to some of those CapEx reductions, and the savings if they come through.

Tristan Joll
UBS Investment Bank, Research Division

Okay. I guess...

Simon Moutter
Former MD & Executive Director

Tristan, we'll provide our guidance on '15 at the full year results for '14.

Tristan Joll
UBS Investment Bank, Research Division

Okay. And then just finally, on the content stuff, you sort of answered the cost question. But -- cost question. But I suppose, again, more philosophically, do you think that the strategy -- or can you give us some of the sort of target that you're going to fit to this initiative? I mean, it strikes me that it's definitely a strategy for a changing world. But on the near term, the content landscape, as you've got a competitor who's probably, if anything, closer to the pay-TV operating here. And would you look at -- are you potentially, I suppose, sacrificing some sort short-term gain and interested in having a longer term platform focused on Internet TV?

Simon Moutter
Former MD & Executive Director

Look, I think that's a valid conclusion. So there's no way an Internet TV business is going to be cash flow positive in 5 minutes. It will take us some time to build that position. And look, clearly, it is a decision to invest in the future and look, we think it will have more benefit than just the benefit of an Internet TV service in its own right. It also materially alters the perceptions of our other customers towards our business. It helps us drive broadband uptake, it helps us drive volume on the network. When you look today at the U.S., where broadband volumes per household are approaching 100-gig a month, at New Zealand we're at 35. A big reason for the difference is Internet television. And so these things brought to our market and manage really well, help us grow the value, the value to consumers of all of our products and services, which helps us grow our revenues elsewhere, too. So it's more of just a separate play but in the end, we've done the business case based on it, watching its on phase in a reasonable time and being a profitable separate service in due course. But look, in terms of the metrics, as I said, on the -- at the outset, we will share those but we just -- we will share some metrics in terms of forward-looking view for shareholders to hold us to, but we'll do that at the full year. And the reason is we really are, at first point, need to complete the commercial launch, which will happen in coming months and, at that point, we'll be in a position where you're going to be able to have look at what the content library looks like, what the price points and commercials around to that, what devices that can be supported and what the roadmap for that is -- which just helps everyone form a more sensible view on that and that's the right point, I think, to share some views of it for our shareholders.

Operator

Our next question comes from the line of Laurent Horrut with CLSA.

Laurent J. Horrut
CLSA Limited, Research Division

First of all, I'm just wondering if you could do me a favor and clarify the second bullet point on your Slide 23 when you talk about consumer brand in New Zealand.

Simon Moutter

Former MD & Executive Director

Laurent, just to explain. What you mean, the sentence that starts, "we believe"? Is it?

Laurent J. Horrut
CLSA Limited, Research Division

Yes, it says, "We believe that New Zealand is the best place on the planet." And I've got a personally, I've got a different view on that. But...

Simon Moutter
Former MD & Executive Director

We're saying we believe. We're not telling you have to believe.

Laurent J. Horrut
CLSA Limited, Research Division

Well, very true, very true, Simon. I appreciate. Anyway, on the side not also, I hope that your new name is the start of some great fireworks at Telecom New Zealand, I sincerely hope so. But -- and I hope it's not the start of you actually acquiring some regulated Australian utilities business. But more seriously, on FY '14 guidance, I was just wondering, can you clarify what you're assuming in terms of, in your pro forma, in terms of the FY '14 contribution for AAPT. The context is the following: When, the TPG [ph] deal was announced, you talk about a 12 months annualized EBITDA for AAPT of AUD 70 million. Arguably, it was a different currency, et cetera. But now you're talking of a $70 million contribution only for 8 months. So obviously, that would imply a much bigger annualized number for AAPT for FY '14. And obviously, the implication is that your pro forma would potentially -- would have been higher than when normalized for AAPT, if it's right. I mean by that, you're -- the sort of x number would have been different. I'm sure Jolie knows what I mean. So is it -- is the AAPT an 8 months number, the $70 million or is it 12 months?

Jolie Hodson
CEO & Executive Director

No, the 8 months number [indiscernible] it is NZD 70 million. So we're NZD 55 million at the half and then for the last 2 months NZD 70 million. The number you referring, I think, to in the release at the time of the sale, yes, was a recurring annualized EBITDA. So there have been some EBITDA movements in the first half of the year and I'd have to tell you around similar [ph] to the mold.

Laurent J. Horrut
CLSA Limited, Research Division

Okay. Jolie, what I'm going with this is I'm just interested in actually just trying to work out what your underlying year-on-year trends on a pro forma basis is. And I'm just going to take you through the math very quickly for what it's worth. So you start with your previous consensus number. You were sort of comfortable with, was 103 5. Now obviously, we need to strip out AAPT from that. See you get your guidance of $925 million to $945 million. Now my pro forma like-for-like number for '13 is $975 million just by stripping out AAPT. So that would imply that your EBITDA this year on a pro forma, like-for-like, underlying basis would be down 4%. Is my math correct?

Jolie Hodson
CEO & Executive Director

Yes, that is correct.

Laurent J. Horrut
CLSA Limited, Research Division

Great, fantastic. I'm glad we could clarify that. Last question. When -- Simon, maybe for you. When you look at the next 3 years, it strikes me that you guys are doing a fantastic job on cost and far beyond what any other common telco is doing. So we've got to recognize that. What strikes me though, is because of your decline in top line, you're going to have to reinvest most of the cost savings into customer acquisition to actually reverse the top line trends. Is that a correct sort of characterization of what the next couple of years are going to be? And at what point can you pull back on your custom acquisition spend and therefore deliver net efficiency or net cost out to try to grow earnings?

Simon Moutter
Former MD & Executive Director

Laurent, I'd say -- look, that we are ambitious about this. Again, I think it draws us too much into giving future year guidance at a point in the year that we're not able to do that and would be inappropriate. But clearly, we are of the belief that we can be a growing New Zealand business again and with appropriate reinvestment of some of the gains we make from core cost out into driving market growth and we're certainly seeing some of that this year in core cost out funding acquisition in mobile in particular that we build along a better business long term. Now there's a point at which we would clearly move to a more moderate view of that aspiration, but in the next year or 2, we are determined to continue to move our mobile market share up. And so the one thing we won't -- you won't see a shift in is our passion and energy and willingness to invest in growing mobile. And that's very, very important for the long term health of the business.

Laurent J. Horrut
CLSA Limited, Research Division

Yes. Simon, just a follow-up. Where do you think -- compared to other markets operated in, where do you think you guys are in, in terms of the fixed mobile substitution curve in Australia both in terms of price deflation, but also in terms of volume migration onto mobile and line losses, fixed line losses? Where would you say -- on a 10-year journey, where are we on the point in the curve?

Simon Moutter
Former MD & Executive Director

Look, I would broadly say we're sort of 2 to 3 years behind -- say, Australia is not a bad reference point. In terms of that transition occurring and we watched Telstra's results with interest. We really admire the work they have done. They made a lot of these investments a few years ago. They've piled money into mobile. Now today, everyone -- the market is very strongly rewarding them for their effort. And the truth is we're behind their curve. And so they're a good guide to us and we watch them very closely and they help us in steer -- we collaborate a lot with their people and we learned a lot from them. So it's the path we're on.

Laurent J. Horrut
CLSA Limited, Research Division

Yes, it makes sense. A very last one for me, if I may. It's about, so obviously, you're de-consolidating a significant -- or I shouldn't say significant. Some NPAT contribution from AAPT that's going to have the effect of re-basing your NPAT down. You're maintaining sort of your capital -- your dividend policy going forward. If you don't do any buyback, are we looking potentially at '15, the EPS could actually be down on '14? I'm just -- I know you're not going to go into your guidance discussion. But I'm just thinking, conceptually, if I'm thinking about it the right way?

Simon Moutter
Former MD & Executive Director

Wouldn't be our plan to think that way. So certainly, we're really signaling we want to keep going forward on dividends, yes.

Operator

Our next question comes from the line of Sameer Chopra with Merrill Lynch.

Sameer Chopra
BofA Merrill Lynch, Research Division

I had just one question for Chris Quin. So Chris, the customers that you're adding in mobile and broadband, phenomenal growth rates. I was just wondering, you know, if you could talk about what sort of ARPU levels are these customers coming in on? I'm trying to get a sense for what sort of customers are you acquiring right now?

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

Chris speaking. So I think firstly, we've reflected on the ARPU shift. We have seen 6% increase in prepaid ARPU. So that would tell you that a good amount of the customers that we are acquiring on prepaid we're acquiring on to the value packs. And they are sitting at around $16 a month for Skinny, $19 a month for Telecom. And then in the postpaid market, it is confused a little by the mix of customers that are no longer taking a subsidized device into their postpaid plan. But we're pretty pleased with growth across the mix of plans. And our new plan range, which came out at about the same time as the refresh of the brand last year, actually removed one of the bottom tiers of the postpaid plan. So we dropped the $29 and started at $39. And market conditions haven't forced us to go back to that. So if we -- if you look at the effect of the devices coming outside of the financing of the discounting and the charging for the device coming out of a plans, the use of revenue was up 4% across the portfolio. So I think that should help you understand what's going on there.

Sameer Chopra
BofA Merrill Lynch, Research Division

Chris, just to clarify. So you mainly targeting A, B sort of demo, or is it pretty much across the spectrum right now?

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

I just missed the first part of your question there.

Sameer Chopra
BofA Merrill Lynch, Research Division

I was just wondering whether there had been a shift in the sort of demographics or customer base that you are targeting. I think you were initially weak in Auckland and I'm just trying to understand whether there's been a pickup in Auckland specific to everybody.

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

Yes, we're very, very focused on the Auckland market, which is where our market share has been lowest, previously. But not to the exclusion of any other market. Simply just understanding what a younger, more mobile customer looks like and what their preferences are. And then also dealing with the brand affinity they have had to our brands. And a pretty powerful way with this brand change. But in general, we are acquiring customers at increasing levels of actual usage revenue or network revenues, if you like, but the picture is confused somewhat by the fact that the devices are coming out at reasonable rate from the plan. So we're doing much more open term plans, which in the end are going to be more profitable and margin-positive for us.

Operator

Our next question comes from the line of Greg Main with First New Zealand Capital.

Gregory Main
Jarden Limited, Research Division

Just a couple of questions. So just on the re-branding cost bit, $20 million is all going to fall in second half of '14?

Simon Moutter

Former MD & Executive Director

We expect the bulk -- the vast majority, Greg, and it will be a mix of capital and operational. So and as yet, we can't be clear on it. We're still building all of the [indiscernible]. We won't mind advising on that, we just don't have those facts to hand currently. So in the order of $20 million...

Gregory Main
Jarden Limited, Research Division

And then just to clarify on that $200 million to $300 million annualized benefit, Jolie, did you say 75% you expect to maybe flow through to cash flows of that, seeing some cash flow benefit related to 75% of those savings in FY '15?

Jolie Hodson
CEO & Executive Director

It's a combination of across FY '14 and '15. We will see those savings that come through in the second half of this year, and then as a move into FY '15. And there will be some further in '16 but the majority will fit between the back half of this year and '15.

Gregory Main
Jarden Limited, Research Division

Okay. And then just on mobile...

Simon Moutter
Former MD & Executive Director

[indiscernible] Turnaround, Greg, and just for your info -- we find it very challenging to translate, because the external market always look at us on our financial years actuals basis. But a program like that runs on what we call run rate or exit run rate. So all of our internal drivers to what we call exit run rate, so we try to exit the current financial year with a new run rate that is markedly lower running into the subsequent year and say -- we do find it a little bit tricky to get that right in terms of what happens in an absolute sense because things -- program -- we've already got a number of these moves well underway. In fact, many of them are closed off at what we call level 5, which means done and benefits flowing. But they materialize over time and in their part of the exit run rate. So some -- an initiative could have -- could be in place now or it could be in place on June 15. It's -- and it still counts the same value in our exit run rate calculations. So we always find it a little bit tricky trying to guide it to specific financial years. And it's just so -- forgive the sort of clunky-ness of that.

Jolie Hodson
CEO & Executive Director

Given we're talking at 200-odd initiatives as well.

Simon Moutter
Former MD & Executive Director

And there's a lot of initiatives and they -- and are moving feet, right? They're never exactly locked down. So we'll get more and more specific as we lock actuals in. So we intend to update market every reporting time on -- and over time, we'll get a little bit -- we'll get more clear around how and when these benefits would show. But it's such early days right now, we find that a bit challenging to be honest.

Gregory Main
Jarden Limited, Research Division

Okay. And can you just sort of say about where smartphone penetration is on your new brick [ph] at the moment?

Simon Moutter
Former MD & Executive Director

Chris, or Tim, would either of you know?

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

Yes, look, it's sitting just a little bit over 60%. [indiscernible] some growth available in that.

Gregory Main
Jarden Limited, Research Division

Right. And as we're starting to look towards the 4G transition, obviously, that'll be the story over the next few years with mobile. How should we sort of think about -- I know you're not necessarily differentiating pricing and -- compared to the 3G. But how should we sort of think about that transition? If you're sort of moving away from subsidy so much and people are bringing their own devices, is that something that you're going to actively push? Would we expect people to kind of maybe go towards more heavier data plans, et cetera? And how do you sort of see that phasing [indiscernible] 4G services?

Simon Moutter
Former MD & Executive Director

So that'll play out differently in the 2 markets. SO I'll have both Chris and Tim comment on that. So Chris, you'd like to lead off in terms of how that will play in yours? And Tim to follow.

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

Sure. So look, I think we're very pleased with the take-up of 4G. Against the 4G compatible devices that are available in the market today, the Telecom 4G-capable customer base are almost all using 4G. So there's some very strong take-up there. As the device proliferation widens and almost every smartphone device becomes 4G-capable, I wouldn't see any barrier to 4G take-up. So I think it will follow clearly the penetration of smartphone and the availability of the device, how much of fleet can actually use 4G. And we're seeing basically every device now coming up urban [ph] and the big mix, and will the device range of 700 MHz spectrum become available? And that's obviously, critical to our planning of that rollout. And there's no question, the strongest use growth is occurring in data part of mobile. We're talking seeing doubling every year type numbers in mobile data consumption. The patent abuse we're seeing in 4G is that 4G users definitely do use more mobile data.

Timothy M. Miles
Former Non-Executive Chairman of Revera Limited and Non-Executive Chairman of CCL Group

We're seeing very similar trends at Gen-i. I think our penetration is probably just a little behind Chris' at the moment, and that's because we've got companies who go through -- goes through refreshes. And so they don't automatically coincide when we release new technology. But we're seeing for the customers we have, and we have quite a number of clients, obviously using 4G that they tend to look at it as mobility. So they really just look at 4G, Wi-Fi, 3G as a package of mobility. We're seeing terrific growth in data usage. So very much the same trends, though our penetration, I think, would be just behind the consumer folk Chris was saying.

Gregory Main
Jarden Limited, Research Division

Okay. And then just one last question. Just on imputation, previously, we've sort of -- you haven't fully imputed. Following the sale of AAPT, did it sort of impact how -- the level of imputation?

Jolie Hodson
CEO & Executive Director

No, it doesn't. We'll be imputing at 75% for this dividend. It reflects more on our New Zealand tax payments as to the level imputation.

Gregory Main

Jarden Limited, Research Division

And -- but going forward, so FY '15, presumably, you're back to -- you'd be back to almost 100% imputation, right?

Jolie Hodson
CEO & Executive Director

We will be coming quite towards 100%, yes. Of both indiscernible]

Operator

Our next question comes from the line of Nathan Burley with CBA.

Nathan Burley
Commonwealth Bank of Australia, Research Division

Just a quick question, just on spectrum. I was just wondering when the cash and the timing will be? And whether you'll be planning to finance that?

Jolie Hodson
CEO & Executive Director

The timing will be after the -- we've got to wait for the Commerce Commission review of the 4 slots first, and then, you have the last round of the auction, which is -- we set on the duplexer that we need to wait, that probably wouldn't be until March or April. And then, from there, we're not intending -- we're intending that to finance that ourselves, directly, so not use the government funding. And that really just gives us the ability to -- there's 2 reasons. One, the rating agencies count this -- the government money as debt, so there's no change in terms of us using it versus our own funds, and what that will enables us to do is better manage our short and long term debt if we finance it ourselves.

Nathan Burley
Commonwealth Bank of Australia, Research Division

Okay, excellent. And just one more, around the cost out, you obviously said it was hard to give definitive numbers. I would just try to work out how much of that $200 million to $300 million would be captured in the first half of what you just reported?

Jolie Hodson
CEO & Executive Director

Of '14?

Nathan Burley
Commonwealth Bank of Australia, Research Division

Yes, of '14.

Jolie Hodson
CEO & Executive Director

Yes. Fairly small component about around that, in terms of what will be captured, but we've also got cost of execution in relation to that, obviously, in terms of setting ourselves up so some of these things do, whether it severance costs, whether it's our cost of setting the program up. So the majority would be in the second half and in FY '15.

Simon Moutter
Former MD & Executive Director

I think it's even a minimal impact in the first half.

Operator

Our next question comes from the line of Richard Eary with UBS.

Richard Eary
UBS Investment Bank, Research Division

Just a follow-up on mobile. Just got a couple of questions. Obviously, if you look at revenue growth just on a group level, 1.6% x the handsets, that's subscriber growth with 12%. Obviously, we had some dilution in ARPUs which I think, you talked about extensively on the call, obviously with Gen-i a little bit weak from tin sides [ph] and some changing sort of dynamics within retail. Is there anyway that you can -- I mean, just to try and get look into how these are trending month-to-month, is there any signs that we are actually starting to any signs of stabilization in postpaid in some of the market segments? And how we should think about translating sort of subscriber growth back to revenue growth? That's the first question. The second question is, I mean, I know you don't report churn, but given, obviously, the customer growth that you pulled through, are we starting to see any sort of improvements in postpaid churn? And is that one of the reasons why we're actually starting to see SARC improvements? And then, the third question, just on the launch of the IPTV service, I mean, it'd be great to get a feel whether you think this is sort of a revenue opportunity or a churn reduction opportunity, or a combination of both? But it would be interesting to see which one you think it's more leading to?

Simon Moutter
Former MD & Executive Director

I'll ask Chris to deal with the 1st question, but just quickly on IPTV, it's most certainly not a churn reduction initiative. We've been really, really we clear that we if we enter the Services business, we'd do it predominantly for creating value from any Services business. We're not in the job of retaining Chorus' access lines. There are companies around the world who are on the line infrastructure who have compelling churn reduction, and centers around this stuff, we don't. We are of more variable cost structure in fixed broadband. So we're in the business because it creates value and because it creates an attraction to our wider product set, not a churn reduction. So Chris, do you pick up the questions okay, on the earlier piece?

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

I think so. So Richard, tell me if I do answer it. So 2 questions. The first one is, -- and I'll answer for retail and I'm sure Tim will contribute for the Gen-i market. But the postpaid ARPU, the single dominating effect on what is going on in the ARPU there is the mix of customers who are no longer taking a contract that includes the device. So it's a little difficult to pull apart, with the information we published, and in fact, with what we have, but the usage ARPUs are growing because customers are consuming more data basically. So what we're seeing happen is that a plan that might have been $99 with a free iPhone becomes $69 or $79 with the customer buying their own device. And we -- it goes to your second question around SARC. The SARC improvement has come up lower acquisition cost rather than lower churn. Churn, in postpaid, has never been particularly alarming and is pretty benchmarked to what we see from most of the operators. What we are doing is just simply that cost of acquisition is dropping and because of the MEC's shifting to open tool and so a very week-to-week focus on our plans, our offers and investment that is going into device that is included in the postpaid contracts to make sure that we are focused on being competitive, but also maximizing value on this part that's had a huge amount of focus this last year that is paying off. But I suspect the driver might be a bit different for Gen-i.

Richard Eary
UBS Investment Bank, Research Division

Chris, just to follow-up on that. In terms of byo versus handset contracts, out of the sort of customer growth that you've seen, is it possible to share what that mix is? And what the share is within that postpaid base, just to give us a feel in terms of where we can start to see some stabilization on a blended basis rather than on a product basis?

Simon Moutter
Former MD & Executive Director

Rather not go there. The thing's competitively important information. I'd rather not.

Richard Eary
UBS Investment Bank, Research Division

But may to ask in a different way, if you look at the underlying trends, are we 6 months, 12 months, 18 months away from postpaid ARPU stabilization, based on the mix issues that you're seeing underneath?

Simon Moutter
Former MD & Executive Director

[indiscernible] realistically, Tim, did you have anything to add in terms of the...

Unknown Executive

We're obviously a much smaller part of the overall mobile picture in Gen-i. But to answer your question about churn. We're not seeing a big lift in churn. You'll note that our -- well, you maybe won't, but our number of -- our mobile connections activity has gone up slightly. So not seeing a big lift in churn at all. That some pretty good heart, but to maintain business because there is some very strong competitive pressure, there's a very bigger sweep for market in especially around enterprise and government. So what we are seeing is pressure on the ARPU itself to keep those clients that get through.

Simon Moutter
Former MD & Executive Director

At some point, we -- bottoms out is determined by the adequacy of returns, I guess, and so, yes.

Operator

Our next question comes from the line of Adrian Allbon with Goldman Sachs.

Adrian Allbon
Goldman Sachs Group Inc., Research Division

Just one follow-up question for me. Just in the turnaround program and the $200 million to $300 million, I noticed $100 million lift. Just wondering, do you guys include in that the reduction or the reduction in the UPA charge? Or is it something separately that will come through given the final determination?

Jolie Hodson
CEO & Executive Director

It's not included in the turnaround program and obviously, it would be subject to whatever the final determination is.

Simon Moutter
Former MD & Executive Director

It's not included in any of our modeling because it's just -- so we had to see where it leans in the wind or what the pressure exists at the moment.

Operator

Our next question comes from line of Peter Rice with IDC.

Unknown Analyst

My question is around unbundling, I guess. The markets, there's a whole bunch of retail pressure and in a way, your competitor has got a much lower cost at the moment. There's a lot of uncertainty as of Chorus input pricing. But just wondering if you could give an update on whether you're earmarking some CapEx to unbundling or whether it's actually too hard to actually implement, and wouldn't be actually economic to do so, given the scale of it.

Simon Moutter

Former MD & Executive Director

The short answer is, we're not currently planning to move towards an unbundled future. But clearly, we have to maintain the possibility of it dependent on what the outcomes of all of these price settings and final pricing [indiscernible]. We live in a world today where we have a competitive disadvantage. In this regard, that's clearly something we can't live with permanently. And provided the changes and the outcomes of the reviews, et cetera, and that leveling the playing field then we won't feel the need to, but if there is a very significant unlevel-playing field then it would be one of the options that we would get to consider. But it's not in any plans today.

Unknown Analyst

And just wondering, final question is whether you could give a bit of an update on your IP voice product, either fiber and -- where exactly are you around rolling out with LSCs? Have you -- are you actually selling it on all the 4 areas now?

Simon Moutter
Former MD & Executive Director

On UFB, we're currently active with Enable, and in particular, we've got -- we're in the early process with UFF, and I think a bit further away still from [indiscernible] and sort of going in that order. And so it'd take us a long time, well, our systems were never designed to talk to anyone else's input products, so it's been a big build for us to create the capability to consume other third-party inputs but we're there now and moving along well there. On fiber voice, we have a very substantial fiber voice capability. We have a world-class BroadSoft platform that's used heavily into Tim's Gen-i market. We're currently scaling it out to SME and it's a broad, BroadSoft that will provide the basis for our consumer broadband voice, software voice service in due course. And we're advancing through the technical program to make it scalable and deployable into that market at the moment. And at this point, I'm not firm on a timeline there, I'm sorry.

Operator

Our next question comes from the line of Paul Brunker with JPMorgan.

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

Just a question maybe as to Chris about this trend of higher data costs hitting retail profitability. So I just want to get, if possible, some sense of -- if this has come more from the fixed side or the mobile side? And whether you see it being quite meaningful going forward, because there is, I guess, that if costs are rising because of data usage then revenue has to stop growing rather than simply stand still? That was one question. And just following up from Rich's question on IPTV, so to be clear, you would be making that product available to non-telecom customers, is that correct?

Simon Moutter
Former MD & Executive Director

Yes, the TV -- ShowmeTV is a service which all New Zealanders will be able to buy.

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

And Chris speaking, with regard to the first 2 questions. So part of the fixed -- the data-driven cost rise is almost entirely in the fixed market, you're right to observe that. And it's partly because the number of connections has increased, so we've added around 12,000 for the period and now that, that is a variable cost from our partners, of course, that just increases our cost of sale. And then also, there is some variability in the backhaul and international bandwidth costs. So as our customers have been increasing markedly year-on-year, their consumption of data or bits of service [ph] both cost too much. So you're right to observe, that is a critical focus for us as how we purchase the backhaul and how -- what it cost us, and how we manage fixed costs to a scale rather than variable level wherever we possibly can. In the case of just purchasing the number of connections with the industry structure, that will always be -- that will rise with the number of connections we have. And as I mentioned, nearly half our customers are now moving to above $75 basic plan. So we do think there is value to be focused on in this market from adding into the plans what customers value that don't necessarily directly lift cost.

Simon Moutter
Former MD & Executive Director

I think, in last May, I put a slide up, which I sort of illustrated what I call the reseller's floor. And if you think about a market in New Zealand today, where all the RFPs are effectively buying a common access input product, we're all paying the same GST. There's a point at which you have to bottom out in terms of your ability to -- the cost on top of that is modest and I think it's signaling that if we're going to continue to see costs grow and demand, volume usage demand is -- we're getting awfully pressured on the current price points in the market, that's how it feels to me. And so we're looking to upsell and that's why we're very cautious with things like unlimited. And there's a real cost to that service if it's not well managed.

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

Just one quick follow-up as well, on the -- when you get voice over fiber provisions for residential, will you be charging any sort of -- what you'll charging for that service?

Simon Moutter
Former MD & Executive Director

So the provisioning of it, you mean?

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

No, no. I was saying once you've got voice over fiber enabled...

Simon Moutter
Former MD & Executive Director

No idea on that yet.

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

No idea at this point. If there aren't any further questions operator, just -- we're nearly at the 2 hours, or perhaps one more question, if there is one, otherwise, we'll close the call.

Operator

Our final question comes from the line of Justin Diddams with Citi.

Justin Diddams
Citigroup Inc, Research Division

It's Justin Diddams. Just 2 questions, guys. Firstly, just wanted to get a sense of the retail consumer marketing in New Zealand and whether you think they're starting to -- at the consumer end a little bit of profitability and scope to potentially some ARPU lift through that market? And the second question is, have you guys run the economics on bidding for the New Zealand rugby contract that's coming up, that's currently under review? And do the economics stack up for an IP delivered rugby channel? Is that how we should be thinking about potentially a good use of your excess free cash flow? If you could comment, that would be great.

Simon Moutter
Former MD & Executive Director

Well, I better not make one off that. Look, the answer is a definitive no. We haven't -- we won't be looking at bidding for the rugby rights. And look, to produce -- to buy the rights for mainstream sport, and rugby in New Zealand brings with it a production obligation, anytime soon that's not our capability. And so we're building a primarily television-based content service. And longer term, plans will be made when we've got shorter-term outcomes. And so, certainly, you don't need to concerned about that level of risk-taking with this initiative at this point. Chris, on the other matter, on terms of the potential to grow ARPUs?

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business

Not quite, I think. It is reasonable to conclude that there's some potential. And you noted the reseller's floor and, I'm sure, the analysts on this call draw their own conclusions about the sustainability of some of the pricing in the market. But in terms of what we are seeing, customers use of data doubled at least year-on-year and going up significantly. We are creating more reasons for them to get their new phone services. So the TV services are that fantastic example. And there will be others that we think will drive up use of broadband. So we think, in principle, customers are focused on getting more capacity available so that they consume more services, there are more things and that's very new in New Zealand's, some still think this is an immature market for that. And I think Simon quoted the 100 gigabit average in the U.S. business versus our 36. And then the second thing also I'm noticing is people are looking for quality and their connection. So speed and performance of the connection is starting to play quite strongly for people depending on the -- it's a game of profiles and things like that, very much. Now that we have near half our customers actually not on the base plan, I think that's a good indication there is actually a market willing to choose the quality of service and capacity of service that they would value. And we're going to be niche marketing to that as hard as we can.

Simon Moutter
Former MD & Executive Director
Thank you, Chris. And Justin, we thank you, you got the lucky last. So look, we'll draw the briefing to an end. I really do appreciate you all allowing some extra time for us this time in terms of the amount of news we had. And look forward to catching up with some of you in the ensuing weeks and being back here with some more positive progress to report in 6 months' time. Thank you, all.