Question and Answer

Tristan Joll
UBS Investment Bank, Research Division

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

Simon Moutter
Former MD & Executive Director

Well, you're right, Tristan. I'm not going to be doing on any of the second half of that question. I think, Nick, you might want to comment on how we might manage the buyback. But realistically, to add my flavor 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.

Nicholas J. Olson
Former Chief Financial Officer

And Tristan, second part of the question, share buyback. We're not capital-constrained, and the reason we're actually conducting a share buyback is to create a leverage. So I don't believe actually that has any impact on the share buyback. And you know we don't express our 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 that every time we repurchase shares in the market, we ask the following question: Is it in the benefit of shareholders for us to buy that share at that time? So that's how we conduct the share buyback, and that's the governance we have around it.

Tristan Joll
UBS Investment Bank, Research Division

I can see that you're effectively saying the longer -- or possible longer execution period is just a function of your internal system of value versus broader strategic impetus in the business.

Nicholas J. Olson
Former Chief Financial Officer

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

Tristan Joll
UBS Investment Bank, Research Division

Okay. And then just a couple of quick operating ones. Just CapEx guidance of $460 million, does that include any LTE investment for next year?

Nicholas J. Olson
Former Chief Financial Officer

It includes funding the trial and some of the foundation we have for LTE use.

Tristan Joll
UBS Investment Bank, Research Division

So now this nationwide rollout, including base stations -- I'm sorry, just the trial, is that 1 reason?

Nicholas J. Olson
Former Chief Financial Officer

No. Certainly not a nationwide build-out in there.

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

I think, Tristan, it includes -- I think all over the world, the sort of LTE capital profile will be quite different maybe to what's been seen in the past. But the reason we went through the XT network in a full 3G rollout was for a smoother evolution for the future. So the likely rollout of LTE and other technologies will be better underlays in cities as they emerge in a 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 Investment Bank, Research Division

Okay. I'll just take one more, if I can. Just the comments on broadband share. I mean going back 1 or 2 years ago, we thought that, that was stabilizing. 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 is probably no longer the weight when that guidance was. How can you sort of react to this, if you don't use some sort of price response in the consumer market?

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

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

Adrian Allbon
Goldman Sachs Group Inc., Research Division

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

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

I think, in general, first -- or third quarter if you like. This is fourth quarter. In 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 stabilized our base, and we started moving forward again in terms of number of broadband customers.

Adrian Allbon
Goldman Sachs Group Inc., Research Division

And in terms of just the access lines?

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

In terms of access lines, so we're seeing 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.

Tristan Joll
UBS Investment Bank, Research Division

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. And the second one is, can you give us some D&A guidance?

Nicholas J. Olson
Former Chief Financial Officer

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 to people, and we've decided to just give you a view on D&A. We think D&A will be $30 million in round figures lower in FY '13 than it was on FY '12, and that will make sure that people don't undershoot or overshoot that estimate.

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

We have more in the room?

Unknown Analyst

Chris Cole, ABI [ph]. In terms of the residential UFB rollout beginning next year, are you able to give any target customer goals in the first 12 months, an idea of what come back to rate on revenue? And just secondly, with Skinny are you able break out any specific financials or customer numbers?

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

Thanks, Chris [ph]. Look, so firstly, we won't give target numbers on UFB because I think, again, of the competitive world we live in. Our focus is on market share and broadband as a whole, and broadband includes copper and fiber. And really we know that what customers expect of us is robust and scalable and easy to fulfill and bill and make happen fiber services. The same we're well into, and I think we're being clear. Probably, we're risking around $20 million in product development to get this right. And we'll have those out early next year, which is about the time that a few percentage points of New Zealand homes will be passed by fiber and starting to demand those services. So that's our commitment around fiber, and I think it sits inside our overall commitment right around market share and broadband. In terms of Skinny, we're not going to break out the connection numbers or anything like that. Again, this is a competitive market, and we intend 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 of presence means it's really well positioned. The acquisition rates have been increasing quite strongly in the last months, and we're looking forward to really seeing that establish its place in the market.

Simon Moutter
Former MD & Executive Director

Move to online.

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

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

Unknown Analyst

Simon, you're talking about taking over the business and coming out with an ambitious new plan. Can you give us a broad time frame for when that will be made public?

Simon Moutter
Former MD & Executive Director

As I said to Tristan before, Chris, I think, early next year -- early next calendar year is the likely timeline.

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

Okay. I guess we can have our emcee online to bring on the first question from online.

Operator

The first question comes from Sameer Chopra of Merrill Lynch.

Sameer Chopra
BofA Merrill Lynch, Research Division

By the way, congratulations on handing out a strong dividend delivery again, 2 years running. Much appreciated. My question was on OpEx trend for next year. Given that we've been through the demerger, perhaps you could walk us through how intercarrier and other costs would have tracked through next year?

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

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

Sameer Chopra
BofA Merrill Lynch, Research Division

Particularly, your intercarrier and other costs.

Nicholas J. Olson
Former Chief Financial Officer

Look, as I said, they're being impacted in a number of ways. It's an incredibly long answer to go through the details. And so what I might do is just ask you to take that offline with the IR team because there are 6 or 7 moving parts to that.

Sameer Chopra
BofA Merrill Lynch, Research Division

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

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

Sameer, Chris speaking. So I think the fact we're being clear about is that prior to the CDMA closure, we were down around 34,000 connections in prepaid, and the revenue for the FY '12 year was down 10%. I think coming much further than that may quite complicate it by the CDMA network exits. But I think you would've seen from the comments, we're pretty clear that we want to return to winnings in this prepaid market. This week, you've seen some new price plans and aggressive 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 smartphone network proposition and what it can do for them. And they just -- they choose the billing method for the 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
BofA Merrill Lynch, Research Division

Chris, if I can just ask you one question as well. On the Gen-i side, do you think order books, calling, building is shrinking right now, given the backdrop environment?

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

I think, Sameer, the number we quoted for the half for contracts signed was $734 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 it's a year of starting to grow again in terms of our government market and all of the government contract panels, where some of those we have been successful on. But I think across the board, particularly in IT Services, our consolidation year, a lot of new capability built and delivered to market that we'll grow again next year. And on our traditional lines of business, the team continued to do a great job of showing a full ICT proposition that is retaining some quite strong market shares.

Operator

The next question comes from Richard Eary of UBS.

Richard Eary
UBS Investment Bank, Research Division

Just a couple of questions for me. Just first of all, in the first half, obviously, there was a change in the accounting numbers just on mobile sack. And given, obviously, the postpaid 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 of $22 million has impact from the change in accounting. So I'm just trying to get a full year impact. The second question was just looking at sort of like the KPIs. I mean, it's actually pleasing to see on a mobile side there, you actually have a tick up now in mobile usage for the first time for a number of years. And obviously, I'm just trying to see whether we've actually seen any sort of fixed-to-mobile substitutions start to accelerate or bubble up as a consequence of, obviously, a bit more minutes migration onto mobile. That will be the 2 questions.

Nicholas J. Olson
Former Chief Financial Officer

Can I take the first one?

Simon Moutter
Former MD & Executive Director

Sure.

Nicholas J. Olson
Former Chief Financial Officer

First one, I'm taking the second half of $26 million -- sorry, that was for the full year.

Richard Eary
UBS Investment Bank, Research Division

$26 million for the full year?

Nicholas J. Olson
Former Chief Financial Officer

Full year. That's the impact of the subsidy.

Richard Eary
UBS Investment Bank, Research Division

So there's only $4 million impact second half?

Nicholas J. Olson
Former Chief Financial Officer

Yes. I thought the first half actually was...

Richard Eary
UBS Investment Bank, Research Division

$22 million in the accounts, based on what you've related last year?

Nicholas J. Olson
Former Chief Financial Officer

Yes, that's correct.

Richard Eary
UBS Investment Bank, Research Division

So there's only $4 million impact?

Nicholas J. Olson
Former Chief Financial Officer

Yes, that's correct because the growths and stabilizes.

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

And in terms of the usage growth and fixed-to-mobile substitution, Richard, Chris speaking. Look, I think it is true. So 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 in 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 put clear percentages across all of the potential changes across from fixed voice through to those.

Richard Eary
UBS Investment Bank, Research Division

Just looking at the retail access line numbers and actually the total access lines entitled. I mean, I know that there hasn't been a step-up in the direct decline. But do you think that if we've done it and see minute migration, access migration will follow, and there is a risk around that access line starting to accelerate?

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

I don't think you would necessarily put those 2 together. I think 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's what's really going on and many people would acknowledge versus the move to different communication technologies and particularly, the various messaging technologies, and away from voice. So I don't think of voice decline leads in excess decline as such, in fact, probably the other way around generally.

Richard Eary
UBS Investment Bank, Research Division

And just, obviously, as you look forward and maybe this question is directed to Simon as well. Is -- as you look to probably stem some of the broadband losses at a margin bundling account, it's 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, their relationship is a bit tenuous?

Simon Moutter
Former MD & Executive Director

I don't know. We'll see. Simon here. I could probably comment about how things are better at home. But look, I think it's absolutely something we're focused on, understanding what customers value in their space, in our key markets. It's one of our key competitive advantages that we're a fixed and mobile provider. And our mobile network is absolutely -- fiber and mobile app are big, big drivers of our future. I think how much people will make that decision as 1 bundle, as opposed to choosing from a number of different options, we're very -- the key focus for us will be all about understanding our market and our 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.

Operator

The next question comes from Mark McDonnell of BBY.

Mark McDonnell
Asia Pacific Prudential Securities Pty Ltd., Research Division

I've got 2 questions. And the first one is actually the continuation around that topic of bundling. I was wondering if you could clarify in the consumer segment of your business what the proportion of single versus multiproduct customers is.

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

It's Chris speaking. 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.

Alan Gourdie
Former Chief Executive Officer of Retail

Thanks, Chris. Look, so I don't have the specific figures of single versus multiproduct access. But I think in contract, we have about 80% of our customers in contract, which is some form of multiproduct bundle.

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

So access voice will be...

Alan Gourdie
Former Chief Executive Officer of Retail

Yes.

Mark McDonnell
Asia Pacific Prudential Securities Pty Ltd., Research Division

Okay. Well, I mean, just in terms of the comment 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 multiproduct customers that, in fact, bundling is a mechanism for price accounting if possible product had a grazing effect.

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

Yes, it's a 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 main stay of our competitive stance today, do that.

Mark McDonnell
Asia Pacific Prudential Securities Pty Ltd., Research Division

Okay. The other area I wanted to recap with you as well is this comment about the buyback thing taking -- being extended over a longer period. I just wanted to understand why that direct with UDEA [ph] be retention. Firstly, if you could clarify the extent of participation 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 neutralizing the DRP so that we have a stable number of issued shares? Or is the intent to get some kind of contribution to EPS through a duct in the number of issued shares?

Nicholas J. Olson
Former Chief Financial Officer

Mark, thanks for the question. We'll take the DRP first. Our practice in the past has been to issue shares just under the DRP, and the participation is quite low. Dollar participation, I think, last time was around $16 million of shares issued. So there'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. So normally, we executed that buyback sort of 1 or 2 weeks immediately following the dividends. So that's always been a thin-line 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 $300 million buyback. Does that capture your question?

Mark McDonnell
Asia Pacific Prudential Securities Pty Ltd., Research Division

Yes. Just in terms of -- with the elongation, I'm not sure over what period. It was a bit unquantified in the statement that you gave in the presentation about how long you're looking to extend that $300 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, I mean, where the number of issued shares is actually going to remind more or less constant levels.

Nicholas J. Olson
Former Chief Financial Officer

Actually when we -- again, we're not really thinking of the DRP being neutralized by the big buyback. We just don't want to conduct 2 processes on market. And no, we're not making a commitment to how long the buyback might take. It comes down to that very simple principle that I cited earlier, which is we have to ensure that every time we repurchase shares it's a dollar well invested for the shareholders.

Simon Moutter
Former MD & Executive Director

I think, I'll say, Nick, isn't it clear that if we're buying back still another $140-ish million, but the number of issued shares is going to decrease?

Nicholas J. Olson
Former Chief Financial Officer

Definitely, given -- that's a good point of clarification, Simon. The DRP has had such a low participation. You're talking sub-$8 million SEUs [ph] per half. So really just rounding it there.

Alan Gourdie
Former Chief Executive Officer of 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.

Operator

The next question comes from Digby Gilmour of CLSA.

Digby Gilmour
CLSA Limited, Research Division

Just on CapEx. I just wanted to understand how much of the $460 million relates to the potential data center investments and how much we should -- the extent to which your comp on that spend will go ahead. And then more broadly just on CapEx to sales, if you could give us some guidance there, just the medium term for fiscal '14 and '15 on the basis that you're giving guidance on the absolute terms in fiscal '13. And then a second question, please, just around data up to expectations within mobile for fiscal '13, leading in to the start of the year on a very strong run rate. I'm curious to see how you see that panning out, particularly first half '13.

Nicholas J. Olson
Former Chief Financial Officer

Okay. Look, I'll take the first question. Look, we're not going to be drawing on any amount we've allocated for data centers. It's early days, and we have to actually decide how we will approach them, and also ensure the business case is strong. So we'll make progress. And with entering the year, CapEx to sales, the best guidance we can give you is actually looking back in history. FY '12, 8.6% CapEx-to-sales ratio. I would say that was virtually all, if not all, on what I call co-CapEx for the business, and investments of spectrum-significant build out of capability outside BAU or investment in activities like data centers are on top of that. So that's how we've actually constructed the CapEx inflow, if you like.

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

Thank you. Nick it's Chris speaking. Just to add a little bit to the data center, we're quite confident of customer demand for the sort of services we offer out of those 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 then in terms of how likely it is, it comes down to: Can we see returns we can generate that are equivalent or better than the rest of the capital investment opportunities that we face? So it will simply be made on a shareholder value and return basis.

Nicholas J. Olson
Former Chief Financial Officer

[indiscernible]

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

And so quite right to the point about data centers, a number of the customers that have interests in these sort of services from us are looking for 15-year and beyond contracts. So they are quite long-term investments. You do quite a lot of preplanning and a lot of demand-generation management well before any investment decision. In terms of the ARPUs, particularly around data and going forward,, look, I don't have numbers separated to that level. But I think it is absolutely correct to be thinking that we have been successful and starting to acquire at the high-value end of the mobile market. And you've seen that in the numbers for this year, with that connection versus revenue in ARPU growth being -- ARPU being a key over connection growth. And now that we have a good strong range of devices in play in all of the key device launches, and it seems to do that very strongly in the future, too, I think it's reasonable to assume that we'll continue to grow skewed 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.

Operator

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

Gregory Main
Jarden Limited, Research Division

Just a couple of quick questions. Just firstly on the run rate for interest costs and for FY '13, can you give us some sort of feel for effective interest rate and how much you've got fixed as opposed to floating?

Nicholas J. Olson
Former Chief Financial Officer

Sure. Look, I'll try and give you the back of the envelope here, and I'll let you do the math, 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 typically. You see cash on the balance sheet at year-end was $185 million. That was the lowest actually balance we've had for a long time. And we've had pretty active management and also reflects the new business that we have. We just had less working capital, and we work hard with it. And the only other thing that you have to take into consideration as we get to net interest income, and that's principally from the so-called financed leased assets that we have with Chorus, and that's circa $1 million a month that you should put into your calculation. I think if you do that formula on average dip balance, average cash and adjust for, of course, interest income, you'll be pretty much on the mark.

Gregory Main
Jarden Limited, Research Division

Okay. And just one other question, how exposed are you to Trans-Tasman mobile roaming? And if there are some price changes in that market, what sort of impact could that have?

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

Greg, Chris here. Look, obviously, a number of the where-alls, the 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 might end 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 seems to be and what countries. Roaming prices have fallen quite considerably over the last couple of years. There's no doubt about that, and also, a lot of good product work has been done to put in place tools like the smart cap product and usage takes and things like that. There has probably been quite some months now since we've really had a customer issue around the bull shark [ph] of roaming issue. So a lot bit of management has been in place around this. I think secondly the thing that -- I think we would prefer commercially driven outcomes. We generally find them most sustainable. However, we accept those issues got focus. We'll work with whatever outcome is reached and make sure it works for our customers. And what we don't understand and what we think is important to think about it as well what the latent demand for data roaming and for roaming if costs will be seen as more manageable over time. So potentially, there's an upside once people are more comfortable with the controllability and cost over versus the downside, what's the current fear of the customer. So I think when we look ahead, our ability to roam and roam well is still very, very important to our customers, and we'll keep growing our capability to do that. I think our earnings from it, quite dependent on how we keep making the value packages work for what customers want.

Operator

The next question comes from Ian Martin of RBS.

Ian John Martin
RBS Strategy

I have a question on Gen-i, which seems to be the standout contributor to the EBITDA growth. I think more than half of 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 1 line 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 around the mobile ICT in whatever market's operating it. So just wonder, presumably, that market segment is still at a relatively early stage, and there's plenty more growth that you can export out of that. On the other hand, you've got 70% market share, and it must be in 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 has made to the overall performance of the business.

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

Look, it's Chris speaking. And look, I think, certainly the Gen-i team are really pleased with the mobile performance from 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 organizations 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 this market. I won't separate out numbers at that level, but there's no question.

Potentially, not so much at a market share level, but at a value of the market share we have" leveled, there is still growth to come. And 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 in the overall value we have for customers. So they see value in bundling those things together is key to that. So we do see potentially not so much strong market share growth, but strong -- reasonably strong value growth still to come from the mobile market. And across the rest of Gen-i, what made that 11% year-on-year growth was a lot about some good cost control, 5% growth in IT services that continues to grow year on year on year, and slowing on the decline on some of the traditional lines all added up to that result.

Operator

Next question comes from Paul Brunker of JPMorgan.

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

So your guidance for EBITDA implies you might be $100 million, $200 million down year-on-year, and your CapEx looks to be down by less than that year-on-year. Are you happy to let that go higher next year to maintain the dividend?

Nicholas J. Olson
Former Chief Financial Officer

Paul, I just want to share. What we're actually saying is that our flat to single-digit decline is actually based off $1,093 million, which is a pro forma number. So [indiscernible]. So call it, just over $10 million.

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

Are you happy to let that go higher next year if needs be?

Nicholas J. Olson
Former Chief Financial Officer

We would think, yes. I'll be able to let it go higher. Actually, the 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 are very modestly rich at 0.8x debt-to-EBITDA, and we are happy for that to increase up to 1.1x debt-to-EBITDA, which actually is still a very conservative measure.

Operator

The next question comes from Justin Diddams of Citi.

Justin Diddams
Citigroup Inc, Research Division

Just a couple of swift clarifications. The labor costs, the step-down in the second half, just wondered if you could give us an indication of the run rate into FY '13. Are we expecting to see another step-down in the first half? So some color on 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. And then just thirdly, the risk to the CapEx. You've talked about an umbrella of spectrum and data centers and things of that nature, and whether there's actually upside risk to the CapEx guidance that would be great.

Nicholas J. Olson
Former Chief Financial Officer

Okay. Look, I'll take the first and last, and I'll get Chris to take the middle one. We're not going to provide a forecast for labor costs. I think one of the things that you should -- that everybody needs to focus on is cost control is actually gained interest. And if you look at our management commentary, we'd virtually be relying on and it's been addressed in our cost-out challenge. So it's a granular war. They have to go out all the time on a business like ours and every business is the reality of life nowadays. So now, we won't be drawing on labor. Last question, risk to CapEx, I'm happy with the inflow we've given you. And I think we're being quite consistent and quite reliable with our CapEx guidance. So I don't see any risk in this year.

Justin Diddams
Citigroup Inc, Research Division

The upside?

Nicholas J. Olson
Former Chief Financial Officer

No, definitely not.

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

And Justin, Chris, speaking in terms of cost of goods sold in mobile and sales and retention costs, I think during the presentation we explained that this year there was a $92 million increase compared to the year previous or probably more like $27 million higher than the last 3 years on average, to give you an example. The uniques about that were that it's 2 years since XT was launched, so we had quite a push onto new smartphone devices and re-contracting those customers and the very strong and successful acquisition that's gone on in postpaid and high-value customers that we'll see return over the contract life of those customers start to play 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 going to -- we're continuing to get better at managing our acquisition costs. 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. And so you should expect to see better efficiency in that and better focus on that. But we're also quite committed to our market share, particularly in the prepaid market, and continue to win high-value postpaid customers. So I think without going into detail, the color would be that we're going to be a lot more efficient with that cost, but we're still going to be quite focused on growth.

Justin Diddams
Citigroup Inc, Research Division

Okay. Maybe just a quick follow-up on that. So postpaid, prepaid customer migration, have you seen a shift in the base looking year-on-year over the last 2 years? If you could give us some quantum around the prepaid, postpaid sort of shift, that would be great.

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

We have seen a shift from postpaid to prepaid. But I don't have a quantum to give you.

Justin Diddams
Citigroup Inc, Research Division

You won't or...

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

No.

Operator

The next question comes from Andrew Levy of Macquarie Securities.

Andrew Levy
Macquarie Research

Look, my question is just on, your Vodafones obviously paid what was seen as a good multiple for TelstraClear. So I guess, and I'm not seeing some synergies in that transaction. So I guess the question is, what's the extent of your household business would try to find it? And is there a chunk of money that could be at risk should the takeover proceed?

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

Look, we're not going to reveal the revenues from that customer or our arrangements. We do have a number of services we supply into both. And I think -- I don't think anyone in the wholesale business would say that they were easily earned toward a noncompetitive market price of a merger. So we've got some good business in those areas, and we'll continue to work hard in that business going forward. And 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 a new entity exists, we'll continue going to pitch office and capabilities in there. I think we have good relationships. I think we have great relationships at the wholesale level between the organizations. And where we have a strong offer, we'll go and probably win that business.

Andrew Levy
Macquarie Research

I guess, the focus was this match on where they -- Where TelstraClear might have infrastructure that's already built and the revenues that sort of sit against that with Vodafone that might be at risk.

Chris Quin
Former Chief Executive of Spark Home, Mobile & Business
We have services with Vodafone that are contracted for a period of time, and they will continue, I guess. If 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'll be a competitive moment there we'll attempt to in that business. Okay. I think that's all of the questions we had online. So I think, at this point, we'll wrap up. Thank you, everybody, for your attendance and for the people online and for all the questions and interests. And thank you very much for being here. We'll see you next time. Cheers.