Question and Answer

Operator

And the first question comes from Sameer Chopra of Merrill Lynch.

Sameer Chopra
BofA Merrill Lynch, Research Division

I had a couple of questions. First of all, you shared some thoughts on AAPT, it was quite a disappointing sort of performance and I was just wondering if you could talk about AAPT? The second question is around net ads performance, you gave us some color around how net adds performed in August and thereafter. Could you sort of reiterate what happened from August onwards, do you add a 101,000 net adds in mobile, I thought that was a little bit higher than what I was expecting? And the final one is when you talk about material investment, is this more in OpEx or CapEx, how are you thinking about this?

Simon Moutter
Former Chief Executive Officer

So, look I think AAPT, look AAPT is in a battle ground out there. It's confronting continued price pressure and the industry consolidating prior to the rollout of the national broadband network in Australia. We of course moved the final consumer services over to an external business. They remain focused on cost management, but it’s a tough market and while they've got a good solid business and a great management team it’s a grind over there. Chris why don’t you deal with the net adds on mobile?

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

Sameer, Chris Quin speaking. The numbers that I can give you some comment on, our total mobile market to cover retail and the Gen-i market. And in total since August and the exit of the CDMA network, we have added a net adds of 103,000. To give you an idea about 91,000 of that 103,000 occurred in the second quarter, so the most recent 3 months of this result. And I think Simon confirmed usage revenue is up around $3.6 million in the first quarter and up $5.4 million in the second. So, you can see the effect of the rate of the net adds showing up in the usage revenues there, which we are pleased with and the good control over the cost of which those acquisitions have occurred.

Simon Moutter
Former Chief Executive Officer

Yes, I think a solid performance in mobile in Q2 in particular. So, and look on the final point I think your question was related to my indication of a material one-off charge in the second half. We are talking about the potential for restructuring costs and portfolio decisions that can crystallize one-off costs in the period that’s we were at. Next question operator, please?

Operator

The next question comes from Richard Eary of UBS.

Richard Eary
UBS Investment Bank, Research Division

Just a couple of questions, just first of all on the 90% payout ratio just so we're clear, is that based on reported or underlying, that’s the first question. It’s just important because obviously the franking balance effects obviously if there are material write-downs in the fourth quarter. The second one is that, obviously, we have had a step down in terms of EBITDA guidance for this year, not obviously trying to basically takeaway probably what you talked about in May, but with this reinvestment strategy are we expecting a recovery in ‘14 or are we going to expect to basically see this strategy evolve over a couple of years before we start to see some returns. The third question just relates to - just the headcount numbers, I mean headcount numbers I think were very good in terms of out, I think 349 reduction in New Zealand if my math was correct. Can you just talk us through where that sort of came and what were your strategy is looking at the business going forward from a headcount like perspective?

Nicholas J. Olson
Former Chief Financial Officer

Richard, it's Nick here, I'll cover the first question. Our dividend policy is based on adjusted net earnings, so the policy is to pay approximately 90% of adjusted net earnings. So, historically we have excluded one-off charges and adjustments from the calculation for the dividend payment. And I'd just leave you with the thought that ultimately all dividend payments are subject to Board review before they are made. Second question, I'll take as well, Simon. Just look, we're not going to provide any guidance at this stage for FY '14. We are only in the early stages of our formal planning process for FY '14. And as Simon has alluded to there, there could be a number of other changes which could impact the cost basis of this business in FY '14. So, no at this stage we can't be drawn on that.

Simon Moutter
Former Chief Executive Officer

Nick, I will pick up the point around definitely the changes in our staff level. The changes you have seen to-date do reflect correct - you're correct on that assessment, Richard. They have come from a range of efficiency improvement initiatives across the business in the order of 150 in our retail business, there was at least 100 in our technology services business and another 100 or so in various other parts of the organization. Looking forward, clearly I'm not in a position at this point to give specific numbers around the changes ahead, but it is pretty apparent that it will be well into the hundreds of staff who will leave us over the next few months.

Richard Eary
UBS Investment Bank, Research Division

Can I just ask a couple of follow-up questions for clarity just on the back of that, just Nick, in terms of the dividend policy that the first half dividend was 75% franked. So, if we look at our underlying number into the second half and where there are some material impacts on the reported number, are we right to assume the franking element for the final dividend in '13 to be less than 75%?

Nicholas J. Olson
Former Chief Financial Officer

No, you can't draw that conclusion. Now obviously any charge of that nature to the extent it's tax deductible will actually reduce the generation of imputation credits. And so it will have an impact on how we impute in the future, certainly for a couple of years. We don't know the impact yet. The imputation credit balance has to be positive at the 31st of March each year. So, it does not impact the decision to impute dividends at full year. Next question please, operator.

Operator

The next question comes from Digby Gilmour of CLSA.

Digby Gilmour
CLSA Limited, Research Division

So, just 2 quick questions. So, I see you are focused there on start [ph] to revenue ratio and I am just ahead of the formal announcement on strategy. Just trying to gauge if that prohibits a more aggressive customer acquisition drive and perhaps imply a more gradual change in share, just how you are thinking about that? And then also you commented about neutralizing the DRP, no further buybacks planned in that context, but I just wonder how you feel about your balance sheet capacity, do you feel you have the option if perhaps the share price to permits to continue capital management initiatives during the implementation of the new strategy or if you view that as too much to try and implement at the same time?

Chris Quin

Former Chief Executive of Spark Home, Mobile & Business

It's Chris Quin speaking. I'll give you a comment or 2 on the acquisition drive and its relationship to our stock costs. Look, I think the key is that we have and the team has done a great job of getting some pretty sensible and good margin acquisition activities underway. The prepaid propositions that are lifting our prepaid ARPUs in a good way the $19 pack in particular has been hugely successful. Our focus on our device only plans where the customer owns the device, and we supply a competitive plan to serve that device. And then what I would regard as good sensible market offers around contract plans. All have combined to a substantial improvement in our ratio of cost to revenue dollar from mobile acquisition. We would want to continue doing that as fast as is profitably sensible and is as good value business for us and for our customers as we go forward. So, no limitation as such, but just a good strong focus on the discipline of doing that at a sensible level.

Nicholas J. Olson
Former Chief Financial Officer

On to the question on the balance sheet, the whole trust of the share buyback was to correct our leverage post de-merger and that's been achieved. And we have decided to defer any further buybacks at this stage and we won't consider those I think for a number of months. And we certainly wouldn't attempt to do anything through the sort of exercise that Simon and I talked about.

Operator

The next question comes from Arie Dekker of Deutsche Bank.

Arie Dekker
Deutsche Bank AG, Research Division

Just on the cost out, a couple more questions. Firstly, do you expect that to extend beyond the LIBOR to the broader operating cost base and where do you see the majority of savings coming from at this point? Will this implication require any material one-off CapEx that could say that go over and above your existing envelope? And then finally, as part of just rebasing the business and looking at it, do you expect any write-downs within the one-off costs?

Nicholas J. Olson
Former Chief Financial Officer

Arie, sorry, you have to wait till May for all of that sort of detail. Clearly, the organization is going to be cost-focused on more than just the personnel cost line. We have been for many years and will continue to be. So, the simplification agenda we will communicate a clearer view of how that plays out and the sort of capability milestones that we are going to hold ourselves to account in May. And certainly as we re-base the portfolio, there is the potential for write-downs as an element of any decision to reinsert business activities. But at this point, I can't give you any numbers or areas to focus on. I'm sorry. Next question, operator, please.

Operator

The next question comes from Tristan Joll of UBS.

Tristan Joll
UBS Investment Bank, Research Division

Look I was going to ask the spend on transformation question a slightly different way. I mean I guess, you're flagging a one-off cost in the second half year, my question is that, a lot of the IT reengineering prices for engineering would take longer than that. I mean is it possible that the cost elevation goes on beyond the second half. That's my first question.

Simon Moutter
Former Chief Executive Officer

Look Tristan, we do not know the answer to that question at this point. So I am sorry, you'll have to wait till May until we've got through - the detailed planning process, we've seen a strategy. We are signaling change, but we're short on the detail and as always I promise that in May and we'll deliver then.

Tristan Joll
UBS Investment Bank, Research Division

Then just a couple of operating ones, and forgive if I've missed this. The broadband revenue pressure that you are seeing in the half, has that alleviated - did that alleviate towards the backend of the half at all once you got some of that pricing in the market or is it too early to tell. And then the second one is, could you just talk on general about the weakness in Gen-i what's driving that, you can see ITT and data, but I just wonder if there's specific trends you wanted to flag?

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

Tristan, Chris Quin speaking. I'll only give you a comment on the broadband market. I think October, November we certainly saw a fairly aggressive period of offers. Current indications are that that has come off a little bit and probably would effect from April, May onwards. So, most of the competing offers were a 3 to 6 month period. So we still have a little bit life to run and then potential it will stabilize. However I think the pressure on price in broadband is here to stay. So I would not - I don't think we'll see a return to previous price levels. Our strategy will be about how we add value back in to those services in order to encourage customers to see more value in them. So I think it'll take a couple of quarters to see the full effect and where levels might settle.

Simon Moutter
Former Chief Executive Officer

Obviously part of the challenge on our cost base because if that is the new market level we've taken the revenue hit we need to get our cost in line with it. So looking in Gen-i, the economy is tough and large customers are all seeking to rationalize the cost base. That results in a lot of price based competition through most of the product lines. We clearly have continuing to decline in legacy voice and data revenue all around that sort of copper based products set in particular and the substitution and increased competition continue to drive those trends. Mobile usage was down a couple of percent and I think that's probably more to do with how CDMA played, but it certainly each time we bid in mobile, we're seeing material price pressure in that process. So, I think the focus going forward is about really optimizing the business around the areas that are of highest value to the customers and where we can make the meaningful return. So, we we'll share some strategic direction for Gen-i in May as well.

Tristan Joll
UBS Investment Bank, Research Division

Just one more sorry I forgot to ask, Yahoo! thing you haven't raised that yet. But I mean -- given the price volatility [ph] the length of time it's gone, what's the probability you end up dishing out service credits to people or some sort of similar recompense?

Simon Moutter
Former Chief Executive Officer

It's not really a matter of service. Yahoo! is a global email platform. I think while clearly we're disappointed to have had customers have to deal with the issues around Yahoo! and the cyber attack, it is unfortunately a reality of the world of email. And I have spoken to the Yahoo! CEO myself and when you hear just how many attacks they incur everyday on this big global platform, it's still a place where those things are unavoidable. It's not really a compensation issue but it certainly a frustration for customers and our teams who have had to front the matter too. So, we do like we have got the worst of it behind us. We have got the customers through the past, we changed process and there has been no sign of anything more sinister or further developing in the email hack, so. Next question, thanks operator?

Simon Moutter

Former Chief Executive Officer

Operator any further questions?

Operator

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

Gregory Main
Crédit Suisse AG, Research Division

Just a couple of questions from me, a bit more operationally focused just your D&A profile obviously hit a bit of dip down this half is we knew was sort of coming down, can you give us a bit of feel for how you think that will be in the next half sort of flatten off or do you expect to further maybe decline there?

Simon Moutter
Former Chief Executive Officer

Ask your next one as well Greg, and then we will get organized while you're talking. You said you had 2 questions.

Gregory Main
Crédit Suisse AG, Research Division

Sorry, can you hear me.

Simon Moutter
Former Chief Executive Officer

Yes. Alright can you give us your second question?

Gregory Main
Crédit Suisse AG, Research Division

Second question was just, you ask - or in slide 11 you had around your cost movements, and one of them was obviously with regard to C&U and during the presentation you talked about a change in Chorus trading arrangements, is that actually something to do with the way you previously allocated costs in the de-merger, or is that an absolute decrease in the amount that you would expect to pay Chorus in fee going forward?

Simon Moutter
Former Chief Executive Officer

Yes. Sure. Nick will take those. Okay, question number one, D&A profile, yes, we are predicting a fold of year at D&A. Now, because of the changing mix of CapEx, deferral of CapEx into [indiscernible] we haven't actually tempered the forecasted D&A for next year. But we would expect a small downward trend that's what I would have expected before the changes in the CapEx profile. So, that's about the best guidance I can give you at the moment.

Nicholas J. Olson
Former Chief Financial Officer

Greg, I presume you're just talking about the $45 million adjustment. Essentially when we de-merged from Chorus, internal trades became external trades and the way the trades are priced and they are almost entirely regulated prices. We ended up with about a $9 million benefit per month for Telecom relative to the internal trading environment and that was just simply the way that prices changed through the de-merger process. So, I think represents the first 5 months of FY '12, sorry, from the period from 1 July to November.

Gregory Main
Crédit Suisse AG, Research Division

Alright so it's more an accounting and how you used to account to it rather than more a cash type item?

Nicholas J. Olson
Former Chief Financial Officer

Greg, well practically a turn from an internal non-cash accounting entry to an external cash payment.

Gregory Main
Crédit Suisse AG, Research Division

And just one other question, just obviously your interest costs as you said you got benefited from slightly lower interest rates and the lease arrangement from Chorus. Once again, are you expecting a fixed interest rate around 5%, net?

Nicholas J. Olson
Former Chief Financial Officer

Yes. I think if you are calculating average interest rates for financial model, you should use around 5%.

Simon Moutter
Former Chief Executive Officer

And operator I think we got time for maybe 3 or 4 more questions.

Operator

The next question comes from Paul Brunker of JPMorgan.

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

Just digging a bit more into fixed broadband churn, can you give us any numbers about what churn levels are and where that come from. And just a bit of sense for those who aren't over there. How easy is it for customers to churn post-structural separation. And I guess, a follow-up question to that is how much attrition are you seeing in the voice customer base from churn rather than call cutting proper? And just on mobile obviously big drop off from the CDMA shutdown followed by a nice recovery, do you have any sense of how many of these customers were flowing back to like from CDMA closure? Clearly the timing suggests that wasn't there any factor because it was back ended towards the end of first half, but do you think you can sustain that rate of gain from here?

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

Paul, Chris Quin speaking, firstly on churn look I talked about total fixed assets churn level, which I think Simon commented on. We have seen it fall from around a 7% to 5.5% half-on-half for a prior comparable period. Broadband within the market and the current structure with the de-merger well in operation, churning is no more or less difficult than it used to be, really. So, I don't think there are any process or industry barriers to churn us essentially back to the competitive proposition we put in and how people feel about that. I think we would say that us -- that the commitment Simon gave at the full year announcement at the end of last financial that we were committed to holding our share and getting back to our rightful share in broadband is playing out on our pricing. And you are seeing some of the positive impact to that in our lower churn net acquisition being positive. Of course, the price of that comes in the revenues that you own per line. Your question regarding the mobile based gains, I think the fact that 91,000 of the 103 gain came in the second quarter is the answer to your question. I think somewhere between that sort of early 90s and a 100 is the real positive gain that we have made in the quarter and as clean of any CDMA effect overall. Can we continue that rate, look, we are determined to be competitive in the mobile market it's important to us, but we are pleased that we are doing that at our overall value level and trying to build some sensible good offers in that we know are sustainable for customers.

Simon Moutter
Former Chief Executive Officer

Operator, next question?

Operator

The next question comes from Ian Martin of CIMB.

Ian John Martin
CIMB Research

Just going back to Gen-i, it was the standout performer in full year results 6 months ago with EBITDA up 11% and mobiles in particular driving that contribution. And mainly I will recall in the enterprise segment. So, given your comments earlier on Gen-i, is this really an issue that your strong position in that enterprise segment, in particularly mobile revenue has eroded quite quickly. Is that what's going on there in Gen-i?

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

Look, I think it's more likely we took that really young guy Chris Quin out. Look I think that would be an incorrect assumption that we are suddenly seeding enormous market share, Ian. It's just a slower, generally slower, tougher, more price-based game out there at the moment. And usage in particular around the mobile usage revenue with the change in CDMA which had a lot of corporate base needed to make a series of moves will have impacted the half year. So, - and has a full year effect this year as we go into the second half. So, look we're not gloomy on Gen-i. We just got a - it is a softer outlook in the second half and I don't really have anything further add there, sorry. Next question, operator?

Operator

The next question comes from Adrian Allbon of Goldman Sachs.

Adrian Allbon
Goldman Sachs Group Inc., Research Division

Actually most of my questions have been answered already.

Simon Moutter
Former Chief Executive Officer

Next question, operator?

Operator

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

Sameer Chopra
BofA Merrill Lynch, Research Division

I just had 2 other follow-ups. One is the LTE, when do you think you might be able to go to market with LTE? And Chris just on the roaming decision, can you give us a sense for how much price elasticity sits in roaming? When you cut price, what sort of P&L sort of impact do you get to that?

Simon Moutter
Former Chief Executive Officer

Sameer, look LTE, we will be commercially in market this year. We are not prepared to be any clearer on the time that would be commercially seen sort of position, but we expect to be in market this year. Look on the roaming decision; it is too early to give you detailed numbers. What we know is the fixed price point in Australia trebled effectively trebled the volumes of data usage, but we haven't had long enough to assess the financial impacts and that will need a few more months of information before we do that. I am sorry. Operator, next question?

Operator

The next question comes from Hamish Fletcher of New Zealand Herald.

Hamish Fletcher

Just want to get some clarity on headcount reduction. I know you said today that you're not going to sharing any numbers. When are we likely to get to more details on exactly what's going on there?

Simon Moutter
Former Chief Executive Officer

Hamish, we're clearly very concerned about the impact of these decisions on our people and the right thing to do in any organization is to put - get the plans work out properly to work that through with our people first and to treat them with the greatest respect in that process. As I said before, what we do know without sugarcoating this is - that it is apparent, it will be a number well into the 100s. I can't be more specific than that right now, but we will be in a position to share more information over the next 2 or 3 months as those plans are built and take effect.

Hamish Fletcher

Do we know what area of the business is likely to be affected by these cuts as opposed to other?

Simon Moutter
Former Chief Executive Officer

There is no area of the business who was not being asked to look very hard at everything we do to make sure we remove the legacy culture, the layers of middle management, the duplication of effort and to find a way to make a contribution to getting our cost base more competitive. So that we can continue to be competitive and offer customers the sort of value they expect in the market.

Simon Moutter
Former Chief Executive Officer

Operator, any further questions, we have perhaps time for one more.

Operator

The next question comes from Chris Keall of NBR.

Chris Keall

I mean, you got 4G trial underway not looking at the financial year starting in August, do we have any significant or any CapEx for a 4G rollout or is that going to be fairly down the track? And I was also just wondering for the first half of the mixed financial year as well or if there'd be any material CapEx for that the UFB or the trade assessment cable?

Simon Moutter
Former Chief Executive Officer

So, Chris just to confirm we are not in a position at this point to provide any view on CapEx envelopes for next financial year, we're confirming CapEx guidance at $460 million for the current financial year. And that $460 million contains a significant CapEx for our preparation in building capability around 4G, expansion of 3G dual-carrier, the core, the evolved packet core system, the optical transport network, and of course the fiber program. So, it's - we've planned that. There will be continuing spend in future years and we'll give the markets some guidance on that at the normal time.

Chris Keall

Just quickly, can you give any more detail on the UFB plans being launched next month or how many residential fiber customers you would expect to gain over say the first 6 months?

Simon Moutter
Former Chief Executive Officer

No, not at this point Chris we'd like. We'll come to market in March as we have indicated with our fiber offerings and at the time we launch them, you'll see the shape of those. So, let's - operator, I think we have 2 more questions, let's take those and then we'll close off.

Operator

The next question comes from (indiscernible).

Unknown Analyst

I hate to bang on about the job cut numbers, but you did indicate hundreds of jobs will be tough over the next 10 months. A lot of our leaders might have seen that mean - would mean that it won't be in 3 figures, that it won't exceed 1,000 jobs, is that interpretation correct?

Simon Moutter
Former Chief Executive Officer

Look I am not willing to be any more specific at this point, Tom.

Simon Moutter
Former Chief Executive Officer

Alright, operator, I understand there are no further questions. So, thank you all for joining the conference call this morning. We look forward to seeing you in May at the Investor Day or at our full year briefing in August later this year.

Operator
Ladies and gentlemen this concludes the Telecom New Zealand financial half yearly results announcement. Thank you for your participation, you may now disconnect.