Question and Answer

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

First I want to take some questions in the room, and then we'll go to those online. To just keep it under some time control, please limit yourself to two questions. We'll start with Tristan.

Tristan Joll
UBS Investment Bank, Research Division

I'm sorry, I don't have the microphone.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Who's got the mic?

Geoff Zame
Deutsche Bank AG, Research Division

Geoff Zame, Deutsche Bank. Sorry Tristan. I just have a few questions I want to cover off. One just on the CapEx. Looking forward into FY13, it looks like your run rate's around 400. Can you give us a little bit of color on sort of where the -- in terms of the to-do list what's the up side and down side might be to that number.

Also, I want to talk in terms of the balance sheet. Can you just give us a little bit more color on why you're choosing to maintain the A rating at some -- it's obviously a very strong balance sheet, but just where and how the board thinks about that. And also on the amputation [ph] credit side of things, where we are at the moment in terms of the balance, and what's driving that uncertainty. Is that just a timing issue on depreciation or something? I have a couple of issues on mobile if we could cover those first.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

So that sounded like 4 under 2 headings there, Geoff.

Geoff Zame
Deutsche Bank AG, Research Division

Sorry.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

The first question was on CapEx. Look, we're -- no one around the world's been in the position we're in of a demerged non-access network telco. So what the CapEx comps for business like this is, I think we're kind of, we're right in the book. We estimated, as we did the road show, that under 10% would be a good number, 10% CapEx to sales. I think the numbers in here are about 8.3%. I think our range of 8% to 10% is a good one to expect going forward.

We still think there's opportunity to be leaner in what we do. But we also acknowledge, and I've said it consistently from time to time that we would spend a wee bit more if there's a big product development push. So Geoff, we're giving you a very clear number for the next half, because we've got line of sight for that. 8% to 10% is my view of where this business can land, and I think the comfort the market should take is I think we've taught the machine to be very, very focused on CapEx projects that have a good rate of return, so the control mechanisms are better than they've ever been here, and that's a good basis on which both to maintain your existing systems and bring through projects that innovate. Eight to ten being the ratio.

Nicholas J. Olson
Former Chief Financial Officer

I think was the second question was why maintain the rating. We've had a long history of trying to maintain stable credit ratings, we actually do genuinely believe that A-band credit ratings is the right space for Telecom on a long run basis. We've made that commitment to our debt holders, to the rating agencies, so in the context of we think it's the optimal rating for us and we've made a commitment that we want to keep, the intention is to actually maintain that rating.

I think the next question was IC's. Amputation [ph] credit account, I won't give you a balance, but we're close to the wire when we look at the full year dividend. We're close enough that we don't have absolute confidence that we can fully impute. That is simply driven by demerger, transaction costs that are deductible, some are deductible, some are not. But we are close to the wire. It's also complicated by the level of income that we get, of course, through particularly Southern Cross, because that drives ultimately EBITDA on impact, but isn't taxed at its full value. So those are things that complicate the overall picture, Geoff.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

We'll do the mobile one later, Geoff and give someone else a go. We'll come back round to you.

Tristan Joll
UBS Investment Bank, Research Division

Tristan Joll, UBS. I just want to draw in on that CapEx point a little more. So you're saying, Paul, that 8% to 10% would be your view of normalized underlying CapEx. So that excludes lumpy stuff like LTE, for example?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

It includes it.

Tristan Joll
UBS Investment Bank, Research Division

Okay. And have you got some idea of, you know, we sort of know what the timing is, but what would you be budgeting in terms of [indiscernible] and license fees as well as build out right now? Is it sort of $200 million to $300 million or...

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Look, I'm not going to give a number on that. It's up to the government how it runs its auction process. I think one of the key things though, Tristan, is what does the bell profile look like and as you can see in market showing the world, LTE is being used for data infill in over -- utilize 3G networks in town centers. That's going to be the initial usage. And the fact of the matter is their mobile networks in towns is working fantastically well at the moment. So I think the budget for build is something you can flex quite quickly, and we have the time. And based on the capacity requirements, I mean, quite frankly, right now we don't need the capacity, but of course, with the smartphone growth that we're seeing and the corporate usage that we are seeing, we expect to see the day. Exactly how much in 2013, I don't know at the moment.

Tristan Joll
UBS Investment Bank, Research Division

OK. The envelope would suggest you could spend another 100 [indiscernible] through that period, so it's probably 200 to 300 wouldn't be a bad assumption.

Nicholas J. Olson
Former Chief Financial Officer

The reality of it is the range isn't trying to give you guidance on what we expect to spend. It's just simply the range that we would expect to run this business on on a long-run basis.

Tristan Joll
UBS Investment Bank, Research Division

OK. All right. In terms of viable [ph], you know, at 6.4% underlying, I think is a little bit misleading in some ways because your service revenues are actually up 1%. I just wonder if you could comment on, you know, what your long-run assumptions are around that given that you did say the market is going at 2. And are we going to see, I suppose higher aimed attempts to test elasticity? So I suppose Skinny in the higher end of the market? Are we going to see more bundling with flex now you've got with regulatory pressures? Can you talk about your mobile strategy?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Look, we're going to have a Strategy Day, you know, in the next couple month. The date is still to be confirmed, but working the lines [ph] will give you that. And that will be our opportunity to sort out some of those issues, Tristan. Suffice to say that we do see very clear green shoots in here. We're getting great customer feedback and good customer numbers.

And we will be testing, if you like, the business model on handset subsidies at the top end, what works, what works well and what doesn't. We're already doing that. And Skinny is a big test at the youth market. But I, you know, I'm not going to give you any numbers on that, but we will give a lot more detail when we come around to Strategy Day.

Tristan Joll
UBS Investment Bank, Research Division

Okay. If I could just ask one more. Just noted that you had a good EBITDA improvement. The revenues aren't looking so good, especially not in the Telco space, in fact, I think they went backwards about 4% or 5%. How much of that would you say is cyclical versus structural?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Chris, you want to talk to that?

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

Thanks, Tristan. Look, the mobile revenues are up about 13%. Data revenues were back about $29 million. The bulk of that is in Australia and reflects the, you know, first full 6 month period after exiting a large Australian financial institution's network. So, I think if you looked at a pure New Zealand view of telco revenues you would see they were pretty flat.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Question. Just to the gentleman in the blue shirt down here, followed by Guy, and then back up to Geoff.

Unknown Analyst

Adrian from Goldman Sachs. I'm going to ask a couple questions. Firstly, back in the mobile space, can you give us some more color on is there any cost benefits as you shut off the CDMA network?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

I think most of the cost benefit has already been yielded. I'm looking at Dave Howercroft [ph]. Yeah, it's maybe in the small millions, but no, the substantial operating costs of CDMA have already been run out. Don't expect a step change.

Unknown Analyst

Okay. And can you just give us a little more color as what sort of progress you're seeing at the moment on Skinny?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

No, it's too early. I mean, Skinny's been, our approach to Skinny's been brand-building. We've been at all of the cool [indiscernible] and events in the summer around New Zealand. We've been talking to kids and we've been getting the brand known. We have not gone into full launch yet. Alan, you want to talk more about when we get to that full launch for Skinny?

Alan Gourdie
Former Chief Executive Officer of Retail

Sure. So we launched on the 6th of January, and it was what we call a soft launch. We want to make sure that all of our systems and our campaigns are right before we go at scale. So over the next 4 weeks we'll start to ramp up to scale and build off the back of that good start we've had from a marketing point of view with more of a roll out into a wider distribution footprint, into retail and a launch of a fully-functioning, and I must say, having seen the prototype, a very strong portal online site. That's all ahead of us in the next 4 to 6 weeks.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Cool. Thank you.

Unknown Analyst

Just a question for Nick. In terms of the adjusted numbers, is it reliable to use the adjusted number for FY11 in the scheme booklet? Is it a useful comparison for what you're predicting forward in terms of your guidance? If not, can you provide us with a rebased FY11?

Nicholas J. Olson
Former Chief Financial Officer

We won't provide a rebased FY11. That's why we've given you pro forma for FY12. So the best lead I can give you is rebase your model around the pro formas for FY12. That's the best information we can give you.

Unknown Analyst

Okay.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Maybe we'll hand it over to Guy and we'll come back round to you if we have time.

Guy Hallwright
Forsyth Barr Group Ltd., Research Division

One of my questions was around that too, actually. You probably answered it, which was there are some changes, obviously, versus what was in position in the scheme booklets, and certainly on the pro forma anyway, but you're not going to rework FY11 on the new basis?

Nicholas J. Olson
Former Chief Financial Officer

No, we're not, no.

Guy Hallwright

Forsyth Barr Group Ltd., Research Division

Can I ask then, there's been some costs. You've mentioned costs that had been assumed in Chorus which are now going to be in Telecom. Can you give us some more detail around that?

Nicholas J. Olson
Former Chief Financial Officer

It relates primarily to wholesale FTE's that remained with Telecom, and some corporate overhead that was retained within Telecom. Those are the 2 big components of it. And at the margin, obviously the negotiation entrees continue post the date of the scheme booklet. Not material changes, but that also had some impact.

Guy Hallwright
Forsyth Barr Group Ltd., Research Division

Okay. Back on mobile, you said it was 284. Skinny. You've also mentioned that hinted subsidies have increased. How do you see that play out? Does that flag an intention to get more response going forward?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Look, we are testing that here. We are testing the business case by the week. Maybe Alan can make a few comments, but we're seeing good success at the top end of the market, and I think that if that continues and we continue to see like a 2-year, payback within the year, sales growth will reflect that through on cost of sales. Alan?

Alan Gourdie
Former Chief Executive Officer of Retail

Thanks, Paul. Yeah, this has been quite a highlight of the first half, and particularly in the months of November and December as we ramped up that smartphone strategy, and of course introduced iPhone to our mix. So we've seen our postpaid growth really accelerate from about that point. And of course with that, your cost of sale and subsidies goes up. What we're seeing though, to offset those subsidies is the usage revenues coming in to support that cost of sale.

So the profile of the customers, then, is the next thing you look at. What we see is a very strong migration of 75 plus ARPU customers. Now these are the big data users, and so with that, you'll see your ARPUs grow up. So the returns that we're seeing from that migration, consistent with that subsidy strategy, is good, and that's what Paul's referring to. We want to see that play out, get some more data, and then make some decisions as to how much we continue to invest in that subsidy model.

Guy Hallwright
Forsyth Barr Group Ltd., Research Division

Same subject, just you gave us the adjustment to revenues for the changed policy on handset subsidies--capitalization, effectively. What would the EBITDA impact have been?

Nicholas J. Olson
Former Chief Financial Officer

Well, it's $22 million, is the impact.

Guy Hallwright
Forsyth Barr Group Ltd., Research Division

At EBITDA level?

Nicholas J. Olson
Former Chief Financial Officer

Yes, it essentially goes straight to EBITDA from revenue.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

So final one from Geoff, then we'll go online. I'm sure there's a lot of people online waiting.

Geoff Zame
Deutsche Bank AG, Research Division

Thanks, Paul. I think it's mostly been answered. Just trying to understand from guys' earlier question. Obviously mobile revenues went up a lot. I think Tristan alluded to the other mobile revenue, which was presumably from the handsets more than the roaming that's going up. But there's always the corresponding increase in the cost of sale and the policies change. So you're saying that there's $22 million sitting on the balance sheet, that's going to be released?

Nicholas J. Olson
Former Chief Financial Officer

No, no, no. I actually--that's brought forward revenue by $22 million.

Geoff Zame
Deutsche Bank AG, Research Division

All right, all right.

Nicholas J. Olson
Former Chief Financial Officer

So, I'm not sure I can explain that. No. We'll take that offline.

Geoff Zame
Deutsche Bank AG, Research Division

We'll take it offline. And just on another issue, I just want to ask -- it's probably in the assembly, but just throughout Chorus, what the annualized revenues were, the run rate, the annualized revenues from Chorus are, and can you talk a little about that and the stability of that revenue line in terms of agreements you had at the merger date.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Nice try, Geoff, but we can't talk about Chorus revenues. They're a different company.

Geoff Zame
Deutsche Bank AG, Research Division

But they're your revenues.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

What do you mean?

Geoff Zame
Deutsche Bank AG, Research Division

Well, I'm saying this is the revenue that you received from Chorus.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Oh, the first 5 months, you mean?

Geoff Zame
Deutsche Bank AG, Research Division

Yeah. And respectively the services you provide on their operating costs.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

I think we'll pass on that. Help you offline if we can. Clearly today we're being very circumspect.

Let's take a question online.

Operator

Your first question comes from Sameer Chopra of Merrill Lynch.

Sameer Chopra
BofA Merrill Lynch, Research Division

I have just one question. You have a $300 million buy back. The way I'm looking at this, it gets your net debt to EBITDA to 0.95. That's assuming your net debt goes up by $300 million and your annualized EBITDA is $1093 million. So you're at the midpoint of your target ratio. I wonder why you didn't stretch it all the way up towards 1.1 times.

Nicholas J. Olson
Former Chief Financial Officer

When we model out the year, we want to make sure that we don't exceed 1.1 times any time in the period. So that actually achieves that and we would have a peak of leverage typically around the full year dividends in September.

Sameer Chopra
BofA Merrill Lynch, Research Division

Great and given that the CapEx trend rate's around 8% it means that the business is generating a lot of free cash again next year, so that the gearing will fall straight back down to probably that 0.8 times. Does that mean that this capital management becomes almost ongoing?

Nicholas J. Olson
Former Chief Financial Officer

I think I'll just answer that question by saying that's a valid observation, but no decision has been made.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Another question online?

Operator

The next question comes from Laurent Horrut of JPMorgan.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

Just 2 questions from me. Just on the cost side, I'm wondering if you could help us sort of get a picture what the underlying sort of cost efforts are. If you adjust for the AAPT sort of deconsolidation in the half and the currency effect, what sort of year-on-year run rates are we on? That's my first question.

The second question is on the guidance. Do you assume a Southern Cross dividend in the second half to get to that 560? And also just I'm not sure if I missed this information, but what's this $45 million pro forma adjustment that you are trying?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Thanks, Laurel. I don't think we're going to give you a normalized cost run rate. That's a bit tricky. You want to take the other two?

Nicholas J. Olson
Former Chief Financial Officer

Sorry, I think the guidance was mixed up with a request about what's our forecast for a Southern Cross dividends in the second half. I'll answer the question very simply. We don't provide Southern Cross guidance and Southern Cross dividends, and the guidance does include our expectation of Southern Cross performance in the second half.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

It does include, yes?

Nicholas J. Olson
Former Chief Financial Officer

It does include, yes.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

Yes. Okay.

Nicholas J. Olson
Former Chief Financial Officer

The last question? I didn't quite hear.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

Yes, the $45 million -- you know how you give a pro forma adjustment of $45 million to get to your pro forma FY12 guidance. What's the $45 million again?

Nicholas J. Olson
Former Chief Financial Officer

That $45 million is the benefit of the Chorus trading.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

Yes?

Nicholas J. Olson
Former Chief Financial Officer

Relative -- we used to have a internally traded prices with Chorus. So what we're saying is there's a $45 million benefit going through the new traded regime with Chorus, so new regulated prices essentially.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

Yes. So Nick, in the prospectus there was a forecast you mentioned of 1125 or 1150, something like that. My thinking is the comparable number to that one is now more like 1050?

Nicholas J. Olson
Former Chief Financial Officer

Look, I'm not going to comment on that, but I think the best thing I can give you is, I believe, 1093. It is just slightly better than flat on a year-on-year basis. And I'm sorry to give you a little bit of uncertainty around that, but it's actually not a trivial exercise to produce a year-on-year comparison. Even in the room full of PhDs that we have can only get within a small variance, anyway.

Laurent J. Horrut
JP Morgan Chase & Co, Research Division

Okay. That's fine. Just on the cost side, I appreciate you don't want to give us, but are we looking at beyond any kind of mid single-digit kind of cost reduction underlying? That's the kind of number that ...

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Laurel, I'm not going to give you it, but I will tell you we see substantial continuing opportunities for cost reduction. It's one of the key drivers in the business. I think we've built up a good momentum and a good track record. There will be different programs in different periods and we'll just keep going after it relentlessly, but I can't give you a forecast right now.

Thanks a lot, Laurent. We'll take another question, please.

Operator

The next question comes from Andrew Levy of Macquarie Securities.

Andrew Levy
Macquarie Research

I just had a question on mobile termination rates and the impact. If I'm looking at your service revenues, it does look like they're up by 1.5%, but should I be adding $40 million to that to normalize it, or $44 million to the termination rate?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

No. The PhDs in the room are saying no, and I'm sure if you talk to the investor relations guys, they'll give you a more detailed answer offline.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Another question, please.

Operator

The next question comes from Richard Eary of UBS.

Richard Eary
UBS Investment Bank, Research Division

Paul, Nick, just a couple of questions. The first one just relates to sort of labor costs. Just looking through the KPI sheets that have been given out, I mean, retail's down 240, Gen-i's down sort of 500, which sort of explains the bounce in the Gen-i margins. But corporate's plus 400 and TSS [ph] is like 230. So given that, as we look towards the business, how should we think about headcount within the business and as a result, whether the lift in things like Gen-i and some of the benefits inside retail from a cost-out side can continue. That's the first question.

The second question is I didn't really hear Nick say something about, I don't know whether it was a $22 million benefit from amortizing asset costs over a 2-year period, so I presume that if we analyze the actual guidance, the pro forma number is stepped up because of that change in the accounting policy. So, just get some clarity on that.

And then just the last question on G&A. I don't know, Nick, if there's any sort of guidance that you can give us for the full year pro forma numbers for '12, just given the moving parts in the business.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

So I'll take the headcount one, if you like, and it's kind of related to the previous cost question. I'm not going to give you a forecast, but we still see further opportunities for centralization.

As further, we, by centralizing we can take up further duplication and overlap in the business. But the main costs in the business are in a more widespread service delivery. We -- the big opportunity is in rationalizing a fulfillment share [ph] processes. We're working very hard on analyzing now. We think there's a lot of simplification we can do that will really speed things up for our customers, get it right, more accurately for them. And take out some of the cost in there.

But, look, I'm not going to give you a percentage number reduction or figure. It's just, it's something we're just very, very focused on and I think we can continue to do well on.

Nicholas J. Olson
Former Chief Financial Officer

OK. The subsidy, spreading of the subsidy, look, technically it's actually not a change in accounting policy. We've changed our terms with customers which allow us to spread the subsidy that we provide them.

I think, you actually have to look at that exercise and link it entirely with the mobile cost of sales. That's the way to look at it. One is driven by the other. As Alan said, we're driving postpaid acquisition, that's driving large mobile cost of sales, and that activity, of course, is driving a subsidy that we account for in this way. So, I think probably best to actually dig under the covers on that one over the next couple of days. Now we haven't given you a forecast on depreciation and amortization and we hope that you will be able to back solve that and form your own view.

Richard Eary
UBS Investment Bank, Research Division

I'd like to kind of ask just a, just some follow up from today's -- those answers. In terms of just the mobile side, is there actually a positive EBITDA impact from the change in terms of the mobile subsidy? So yes or no? And in terms of just looking at the headcount numbers, particularly around Gen-i, where, obviously, your headcount has gone backwards 500, which has driven the margin expansion. Is part of that headcount reduction a consequence of exiting the CBA contract for AAPT.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

I'll ask, let's ask Chris to take that. No, if you can. Do you have the question, Chris?

Operator

Your next question comes from Justin Diddams of Citi.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Justin, just hold on a minute while we answer the last of Richard's questions. And we'll take, Chris will do the Gen-i headcount and Nick will do the other one.

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

So, just to explain the headcount number around 500 down, 125 of those centralized into our corporate groups as part of the changes we made finance, legal, HR. And about 118 heads were transferred as part of the sale of business to Infosys and Software Solutions. So the net of those numbers was the actual net headcount reduction, if you like. And yes, you know sort of, 40%, probably 30%, 40% of that showed up in IT services costs and the rest would have shown up in our overhead and telecommunications cost. So, whilst it is correct that contributed to the EBITDA increase, also the fact that we had a slight rise in New Zealand telco revenues, 6% in IT services and 13% in mobile revenues, all really did build EBITDA result for the 6 months.

Nicholas J. Olson
Former Chief Financial Officer

And the question, Richard, taken in isolation, yes, the spreading of the subsidy over the life of the prospect contracts has a positive impact on EBITDA.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Okay. Thank you.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

So, Justin, was it, online?

Justin Diddams
Citigroup Inc, Research Division

Yes. Just two questions for me. First, just on the intercarrier charges, is the decline across those costs purely related to the decline in revenues, or are you getting some contract efficiencies and better pricing out there? I'm just trying to gauge what the driver is there on the decline, first.

Then second question, just on the EBITDA guidance, the 560, just trying to get a run rate on -- so the pro forma in the first half was 533, so the second half, I would've expected that number to be higher on the basis that you are cutting costs out, yet if you look at the sort of half year split in prior years, it seems to be just comparable with a first half, second half split. So really just wanted to get a gauge of why that 560 isn't higher? Why the cost savings aren't coming through stronger?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

So I'll ask Nick to take that second question. The first question, intercarrier costs, I think we'll put that into offline, Justin. There's definitely a significant change due to the MTR rates. Whether there are significant other price changes that impacted our volume changes, I think we can probably talk to you offline about. The second half?

Nicholas J. Olson
Former Chief Financial Officer

Second half. You're right. I mean, the second half is normally about $30 million stronger than the first half. It can be anywhere between low 20's and about $40 million stronger than the second [sic] half. In this case we've got a couple of positive one-offs in the first half. Sale of Software Solutions and the sale of some Southern Cross capacity, and that won't be repeated in the second half. So we think our pro forma of 560 is a good measure.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Okay. Thanks, Nick. Another question online?

Operator

The next question comes from Mark McDonnell of BBY.

Mark McDonnell

Asia Pacific Prudential Securities Pty Ltd., Research Division

Paul and Nick, just 2 from me. Firstly, on the observation you're getting about 37% in mobile connections, I seem to recall you had a target you announced some time ago of trying to get back to 50% there. I'm wondering whether you still have that aspiration, or any sense that there's any prospect of material marketshare improvement in mobiles over the next year to 2 years.

Secondly, in respect of AAPT, I've noticed that Marco Malone's [ph] been talking up his share of business customers, and it sounds like there's a warmup toward another transaction there. But are you still potentially interested in selling the remnants of AAPT?

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

So, on the second point, we do not have AAPT up for sale at the moment, Mark, and on the first point, look, I think I'm going to kick that into the Strategy Day. And I'll repeat what I've said already this morning. We see some good signs of high-value growth in mobile. I think one the strategic choices is how hard we push that, and that depends on many factors. The nature of the market here in New Zealand and subsidies and so forth so as we work that through in our plans we'll try to give you guys a clear view. Suffice to say we're feeling quite good. There's lots to be done, but you can see the green shoots here and the ways that we hope for. There is an opportunity to build on it and we'll talk about that strategy.

Another question on line?

Operator

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

Gregory Main
Jarden Limited, Research Division

Just a quick question from me. The first half pro forma number, does that include some of the -- what I'd classify as adjusting items, things like the income from the Canterbury earthquake and the one-off FX gain?

Nicholas J. Olson
Former Chief Financial Officer

No. The earthquakes are adjusted for. Now the FX gain, I'm not sure which one you're specifically talking about because there's a couple floating through the management commentary.

Gregory Main
Jarden Limited, Research Division

The $28 million.

Nicholas J. Olson
Former Chief Financial Officer

No, it doesn't include that.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Ms. Rick [ph], I think there's one other online, and if there's another in the room we'll take that before we close. So online first is Richard.

Operator

Richard Eary.

Richard Eary
UBS Investment Bank, Research Division

Thanks just a follow-up for Nick, on the net debt number. $755 million at the 31st of December. Nick, based on obviously sort of the guidance that you've given around CapEx, EBITDA, and sort of net income, can we assume pre the buyback that will drop down to sort of circa $550 million at year end, or am I missing something?

Nicholas J. Olson
Former Chief Financial Officer

No, I don't think you should make that assumption because there's unders and overs. And I think probably the thrust of your question is you may have expected debt to come in lower. The thing that you need to remember is that we restructured a whole range of derivatives when we actually restructured our debt, and that had the impact of increasing the amount of debt on issue, but reducing the applied interest rate. So economically neutral, but has a positive impact on the business going forward from an interest cost perspective.

Richard Eary
UBS Investment Bank, Research Division

So from a end 12 number, can you give us an indication or a steerance into where you think that net debt number will be pre the buyback?

Nicholas J. Olson
Former Chief Financial Officer

No, I prefer not to do that, Richard.

Paul Joseph Reynolds
Former Chief Executive Officer of Telecom Corporation of New Zealand Ltd

Thanks, Richard. Are there any final questions in the room? Okay, thank you very much ladies and gentlemen.

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