<https://www.sec.gov/Archives/edgar/data/868675/000110465919028000/a19-6703_1ex99d2.htm>

OTT is “over the top” content – television provided by private subscription to HBO, Amazon Prime, etc

ABPU - mobile phone average billing per subscriber unit per month

ARPU - mobile phone average revenue per subscriber unit per month

Copy of TELUS Small Cell Wi-Fi Agreement

<http://resources-business.telus.com/cms/files/files/000/000/519/original/WiFi_Services_Agreement_Phase1.pdf>

EX-99.2 3 a19-6703\_1ex99d2.htm EX-99.2

**Exhibit 99.2**

**TELUS CORPORATION**

**Management’s discussion and analysis**

**2019 Q1**

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**Caution regarding forward-looking statements**

The terms *TELUS, the Company, we, us* and *our* refer to TELUS Corporation and, where the context of the narrative permits or requires, its subsidiaries.

This document contains forward-looking statements about expected events and our financial and operating performance. Forward-looking statements include any statements that do not refer to historical facts. They include, but are not limited to, statements relating to our objectives and our strategies to achieve those objectives, our targets, outlook, updates, and our multi-year dividend growth program. Forward-looking statements are typically identified by the words *assumption, goal, guidance, objective, outlook, strategy, target* and other similar expressions, or future or conditional verbs such as *aim, anticipate, believe, could, expect, intend, may, plan, predict, seek, should, strive* and *will*. These statements are made pursuant to the “safe harbour” provisions of applicable securities laws in Canada and the United States*Private Securities Litigation Reform Act of 1995*.

By their nature, forward-looking statements are subject to inherent risks and uncertainties and are based on assumptions, including assumptions about future economic conditions and courses of action. These assumptions may ultimately prove to have been inaccurate and, as a result, our actual results or events may differ materially from expectations expressed in or implied by the forward-looking statements. Updates to the assumptions on which our 2019 outlook is based are presented in *Section 9 Update to general trends, outlook and assumptions, and regulatory developments and proceedings* in this Management’s discussion and analysis (MD&A).

Risks and uncertainties that could cause actual performance or events to differ materially from the forward-looking statements made herein and in other TELUS filings include, but are not limited to, the following:

                  Regulatory decisions and developments including changes to our regulatory regime or the outcomes of proceedings, cases or inquiries relating to its application, such as: the potential of government intervention to further increase wireless competition, including a proposed policy direction to the CRTC; any new regulatory requirements as a result of the CRTC’s ongoing review of the wireless regulatory framework; the federal government’s announcement in its 2019 budget that it intends to propose new legislation and make necessary amendments to existing federal legislation in order to introduce a new critical cyber systems framework; the potential for government intervention concerning the CRTC’s decision on lower-cost data-only plans; changes to the cost burden associated with CRTC-mandated network interconnections; disputes with certain municipalities regarding rights-of-way bylaws, and other potential threats to unitary federal regulatory authority over telecommunications, including provincial wireless and consumer protection legislation; the impact of the CRTC’s wireline wholesale services review, with a review of rates and configurations for wholesale access currently in progress for TELUS; follow-up proceedings further to the CRTC’s report on the retail sales practices of Canada’s large telecommunications carriers; the Competition Bureau’s market study on competition in broadband services; the CRTC’s phase-out of the local service subsidy regime and corresponding establishment of a broadband funding regime to support the enhancement of high-speed Internet services focusing on unserved and underserved areas in Canada; the CRTC’s review of the price cap and local forbearance regimes; the CRTC’s proceeding to create a mandatory code of conduct to address the clarity and content of contracts for retail fixed Internet access and related issues; broadcasting-related issues, such as: the CRTC’s implementation of new initiatives discussed in its May 2018 report “Harnessing Change: The Future of Programming Distribution in Canada”; the federal government’s legislative review of the *Broadcasting Act*, *Telecommunications Act* and *Radiocommunication Act* as announced on June 5, 2018; the review of the *Copyright Act*, which began in early 2018; spectrum and compliance with licences, including our compliance with licence conditions, changes to spectrum licence fees, spectrum policy determinations such as restrictions on the purchase, sale and transfer of spectrum licences, and the cost and availability of spectrum in the 3500 MHz and millimeter wave (mmWave) bands; the impact on us and other Canadian telecommunications carriers of government or regulatory actions with respect to certain countries or suppliers; restrictions on non-Canadian ownership and control of TELUS common shares and the ongoing monitoring and compliance with such restrictions; and our ability to comply with complex and changing regulation of the healthcare and medical devices industry in the provinces of Canada in which we operate, including as an operator of health clinics.

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                  Competitive environment including: our ability to continue to retain customers through an enhanced customer service experience, including through the deployment and operation of evolving wireless and wireline infrastructure; intense wireless competition, including the ability of industry competitors to successfully combine a mix of high-speed Internet services and, in some cases, wireless services under one bundled and/or discounted monthly rate, along with their existing broadcast or satellite-based TV services; the success of new products, new services and supporting systems, such as home automation security and Internet of Things (IoT) services for Internet-connected devices; wireline voice and data competition, including continued intense rivalry across all services among wireless and wireline telecommunications companies, cable-TV providers, other communications companies and over-the-top (OTT) services, which, among other things, places pressures on current and future mobile phone average billing per subscriber unit per month (ABPU), mobile phone average revenue per subscriber unit per month (ARPU), cost of acquisition, cost of retention and churn rate for all services, as do customer usage patterns, increased data bucket sizes or flat-rate pricing trends for voice and data, inclusive rate plans for voice and data and availability of Wi-Fi networks for data; mergers and acquisitions of industry competitors; pressures on Internet and TV ARPU and churn rate resulting from market conditions, government actions and customer usage patterns; residential voice and business network access line losses; subscriber additions and retention volumes, and associated costs for wireless, TV and Internet services; our ability to obtain and offer content on a timely basis across multiple devices on wireless and TV platforms at a reasonable cost; vertical integration in the broadcasting industry resulting in competitors owning broadcast content services, and timely and effective enforcement of related regulatory safeguards; our ability to compete successfully in customer care and business services (CCBS) given our competitors’ brand recognition, consolidation and strategic alliances as well as technology development and, in our TELUS Health business, our ability to compete with other providers of electronic medical records and pharmacy management products, systems integrators

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and health service providers including those that own a vertically integrated mix of health services delivery, IT solutions, and related services, and global providers that could achieve expanded Canadian footprints.

                  Technological substitution including: reduced utilization and increased commoditization of traditional wireline voice local and long distance services from impacts of OTT applications and wireless substitution, a declining overall market for paid TV services, including as a result of content piracy and signal theft and as a result of a rise in OTT direct to consumer video offerings and virtual multichannel video programming distribution platforms; the increasing number of households that have only wireless and/or Internet-based telephone services; potential mobile phone ABPU and mobile phone ARPU declines as a result of, among other factors, substitution to messaging and OTT applications; substitution to increasingly available Wi-Fi services; and disruptive technologies, such as OTT IP services, including Network as a Service in the business market, that may displace or re-rate our existing data services.

                  Technology including: high subscriber demand for data that challenges wireless networks and spectrum capacity levels and may be accompanied by increases in delivery cost; our reliance on information technology and our need to streamline our legacy systems; the roll-out and evolution of wireless broadband technologies and systems, including video distribution platforms and telecommunications network technologies (broadband initiatives, such as fibre to the premises (FTTP), wireless small-cell deployment, 5G wireless and availability of resources and ability to build out adequate broadband capacity); our reliance on wireless network access agreements, which have facilitated our deployment of wireless technologies; choice of suppliers and those suppliers’ ability to maintain and service their product lines, which could affect the success of upgrades to, and evolution of, technology that we offer; supplier limitations and concentration and market power for network equipment, TELUS TV® and wireless handsets; the performance of wireless technology; our expected long-term need to acquire additional spectrum capacity through future spectrum auctions and from third parties to address increasing demand for data; deployment and operation of new wireline broadband network technologies at a reasonable cost and availability and success of new products and services to be rolled out using such network technologies; network reliability and change management; self-learning tools and automation that may change the way we interact with customers; and uncertainties around our strategy to replace certain legacy wireline network technologies, systems and services to reduce operating costs.

                  Capital expenditure levels and potential outlays for spectrum licences in spectrum auctions or from third parties, due to: our broadband initiatives, including connecting more homes and businesses directly to fibre; our ongoing deployment of newer wireless technologies, including wireless small cells to improve coverage and capacity and prepare for a more efficient and timely evolution to 5G wireless services; utilizing acquired spectrum; investments in network resiliency and reliability; subscriber demand for data; evolving systems and business processes; implementing efficiency initiatives; supporting large complex deals; and future wireless spectrum auctions held by Innovation, Science and Economic Development Canada (ISED), including the 3500 MHz and mmWave spectrum auctions expected to take place in 2020 and 2021, respectively. Our capital expenditure levels could be impacted if we do not achieve our targeted operational and financial results.

                  Operational performance and business combination risks including: our reliance on legacy systems and ability to implement and support new products and services and business operations in a timely manner; our ability to implement effective change management for system replacements and upgrades, process redesigns and business integrations (such as our ability to successfully integrate acquisitions, complete divestitures or establish partnerships in a timely manner and realize expected strategic benefits, including those following compliance with any regulatory orders); our ability to identify and manage new risks inherent to new service offerings that we may provide, including as a result of acquisitions, which could result in damage to our brand, our business in the relevant area or as a whole, additional exposure to litigation or regulatory proceedings; and real estate joint venture risks.

                  Data protection including risks that malfunctions or unlawful acts could result in the unauthorized access to, change, loss, or distribution of data, which may compromise the privacy of individuals and could result in financial loss and harm to our reputation and brand.

                  Security threats including intentional damage or unauthorized access to our physical assets or our IT systems and networks, which could prevent us from providing reliable service or result in unauthorized access to our information or that of our customers.

                  Ability to successfully implement cost reduction initiatives and realize planned savings, net of restructuring and other costs, without losing customer service focus or negatively affecting business operations. Examples of these initiatives are: our operating efficiency and effectiveness program to drive improvements in financial results; business integrations; business product simplification; business process outsourcing; offshoring and reorganizations, including any full-time equivalent (FTE) employee reduction programs; procurement initiatives; and real estate rationalization.

                  Implementation of large enterprise deals, which may be adversely impacted by available resources, system limitations and degree of co-operation from other service providers.

                  Foreign operations and our ability to successfully manage operations in foreign jurisdictions, including managing risks such as currency fluctuations.

                  Business continuity events including: our ability to maintain customer service and operate our network in the event of human error or human-caused threats, such as cyberattacks and equipment failures that could cause various degrees of network outages; supply chain disruptions, delays and economics, including as a result of government restrictions or trade actions; natural disaster threats; epidemics; pandemics; political instability in certain international locations; information security and privacy breaches, including data loss or theft of data; and the completeness and effectiveness of business continuity and disaster recovery plans and responses.

                  Human resource matters including: recruitment, retention and appropriate training in a highly competitive industry, and the level of our employee engagement.

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                  Financing and debt requirements including: our ability to carry out financing activities, refinance our maturing debt and/or maintain investment grade credit ratings in the range of BBB+ or the equivalent. Our business plans and growth could be negatively affected if existing financing is not sufficient to cover our funding requirements.

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                  Lower than planned free cash flow could constrain our ability to invest in operations, reduce debt or return capital to shareholders, and could affect our ability to sustain our dividend growth program through 2022. This program may be affected by factors such as the competitive environment, economic performance in Canada, our earnings and free cash flow, our levels of capital expenditures and spectrum licence purchases, acquisitions, the management of our capital structure, and regulatory decisions and developments. Quarterly dividend decisions are subject to assessment and determination by our Board of Directors based on our financial position and outlook. Shares may be purchased under our normal course issuer bid (NCIB) when and if we consider it opportunistic, based on our financial position and outlook, and the market price of TELUS common shares. There can be no assurance that our dividend growth program or any NCIB will be maintained, not changed and/or completed.

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                  Taxation matters including: interpretation of complex domestic and foreign tax laws by the relevant tax authorities that may differ from our interpretations; the timing and character of income and deductions, such as tax depreciation and operating expenses; tax credits or other attributes; changes in tax laws, including tax rates; tax expenses being materially different than anticipated, including the taxability of income and deductibility of tax attributes; elimination of income tax deferrals through the use of different tax year-ends for operating partnerships and corporate partners; and changes to the interpretation of tax laws, including as a result of changes to applicable accounting standards or tax authorities adopting more aggressive auditing practices, tax reassessments or adverse court decisions impacting the tax payable by us.

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                  Litigation and legal matters including: our ability to successfully respond to investigations and regulatory proceedings; our ability to defend against existing and potential claims and lawsuits (including intellectual property infringement claims and class actions based on consumer claims, data, privacy or security breaches and secondary market liability), or to negotiate and execute upon indemnity rights or other protections in respect of such claims and lawsuits; and the complexity of legal compliance in domestic and foreign jurisdictions, including compliance with competition, anti-bribery and foreign corrupt practices laws.

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                  Health, safety and the environment including: lost employee work time resulting from illness or injury, public concerns related to radio frequency emissions, environmental issues affecting our business including climate change, waste and waste recycling, risks relating to fuel systems on our properties, and changing government and public expectations regarding environmental matters and our responses.

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                  Economic growth and fluctuations including: the state of the economy in Canada, which may be influenced by economic and other developments outside of Canada, including potential outcomes of yet unknown policies and actions of foreign governments; future interest rates; inflation; unemployment levels; effects of fluctuating oil prices; effects of low business spending (such as reducing investments and cost structure); pension investment returns, funding and discount rates; fluctuations in foreign exchange rates of the currencies in the regions in which we operate, the impact of tariffs on trade between Canada and the U.S. and global implications of a trade conflict between the U.S. and China.

These risks are described in additional detail in *Section 9 General trends, outlook and assumptions, and regulatory developments and proceedings* and*Section 10 Risks and risk management* in our 2018 annual MD&A. Those descriptions are incorporated by reference in this cautionary statement but are not intended to be a complete list of the risks that could affect the Company.

Many of these factors are beyond our control or our current expectations or knowledge. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, financial performance, cash flows, business or reputation. Except as otherwise indicated in this document, the forward-looking statements made herein do not reflect the potential impact of any non-recurring or special items or any mergers, acquisitions, dispositions or other business combinations or transactions that may be announced or that may occur after the date of this document.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements in this document describe our expectations and are based on our assumptions as at the date of this document and are subject to change after this date. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements.

This cautionary statement qualifies all of the forward-looking statements in this MD&A.

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**Management’s discussion and analysis (MD&A)**

May 9, 2019

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**1.**              **Introduction**

The forward-looking statements in this section, including estimates regarding economic growth, are qualified by the Caution regarding forward-looking statements at the beginning of this Management’s discussion and analysis (MD&A).

**1.1 Preparation of the MD&A**

The following sections are a discussion of our consolidated financial position and financial performance for the three-month period ended March 31, 2019, and should be read together with our March 31, 2019, condensed interim consolidated statements of income and other comprehensive income, statements of financial position, statements of changes in owners’ equity and statements of cash flows, and the related notes (collectively referred to as the interim consolidated financial statements)*.*The generally accepted accounting principles (GAAP) that we use are International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our interim consolidated financial statements comply with IFRS-IASB and Canadian GAAP and have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*. In this MD&A, the term IFRS refers to these standards. We adopted IFRS 16, *Leases,* on January 1, 2019, with retrospective application, with the cumulative effect of the initial application of the new standard recognized at the date of initial application, January 1, 2019. This method of application does not result in the retrospective adjustment of amounts reported for periods prior to fiscal 2019. The most significant effect of the new standard is the lessee’s recognition of the initial present value of unavoidable future lease payments as right-of-use lease assets and lease liabilities, including those for most leases that would have previously been accounted for as operating leases. This results in depreciation of right-of-use lease assets and financing costs arising from lease liabilities, rather than as part of Goods and services purchased. The adoption of the new standard has resulted in an increase to Property, plant and equipment of approximately $1.0 billion and long-term debt of approximately $1.4 billion as at January 1, 2019. However, the implementation of IFRS 16 does not have any impact on economics or cash flows. In our discussion, we also use certain non-GAAP financial measures to evaluate our performance, monitor compliance with debt covenants and manage our capital structure. These measures are defined, qualified and reconciled with their nearest GAAP measures in *Section 11.1*. All currency amounts are in Canadian dollars, unless otherwise specified.

Additional information relating to the Company, including our annual information form and other filings with securities commissions or similar regulatory authorities in Canada, is available on SEDAR (**sedar.com**). Our filings with the Securities and Exchange Commission in the United States, including Form 40-F, are available on EDGAR (**sec.gov**).

Our disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, so that appropriate decisions can be made regarding public disclosure. This MD&A and the interim consolidated financial statements were reviewed by our Audit Committee and authorized by our Board of Directors (Board) for issuance on May 9, 2019.

In this MD&A, unless otherwise indicated, results for the first quarter of 2019 (three-month period ended March 31, 2019) are compared with results for the first quarter of 2018 (three-month period ended March 31, 2018).

**1.2 The environment in which we operate**

The success of our business and the challenges we face can best be understood with reference to the environment in which we operate, including broader economic factors that affect our customers and us, and the competitive nature of our industry. Our estimates regarding our environment also form an important part of the assumptions on which our targets are based.

**Economic growth**

We have updated some of our assumptions since our 2018 annual MD&A. We now estimate that the rate of economic growth in Canada in 2019 will be 1.5% (previously 2.0% as reported in our 2018 annual MD&A) based on a composite of estimates from Canadian banks and other sources. For our incumbent local exchange carrier (ILEC) provinces in Western Canada, we estimate that economic growth will be 1.9% in 2019 in British Columbia (B.C.) (previously 2.3% as reported in our 2018 annual MD&A) and 1.2% in Alberta (previously 2.1% as reported in our 2018 annual MD&A). The Bank of Canada’s April 2019 Monetary Policy Report estimated that economic growth in Canada will be 1.2% in 2019 (1.8% in 2018). The extent to which these economic growth estimates affect us and the timing of their impact will depend upon the actual experience of specific sectors of the Canadian economy.

With respect to the national unemployment rate, Statistics Canada’s Labour Force Survey reported a rate of 5.8% for March 2019 (5.6% reported for December 2018 and 5.8% for March 2018). The unemployment rate for B.C. was 4.7% for March 2019 (4.4% for December 2018 and 4.7% for March 2018), while the unemployment rate for Alberta was 6.9% for March 2019 (6.4% for December 2018 and 6.3% for March 2018). Based on a composite of estimates from Canadian banks and other sources, we now estimate that the unemployment rate in 2019 will be 5.8% in Canada (unchanged

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from our 2018 annual MD&A), 4.5% in B.C. (previously 4.9% as reported in our 2018 annual MD&A) and 6.8% in Alberta (previously 6.2% as reported in our 2018 annual MD&A).

With respect to the pace of housing starts, Canada Mortgage and Housing Corporation reported the seasonally adjusted annual rate (SAAR) of housing starts in March 2019 in Canada was approximately 193,000 units (224,000 units for March 2018). The SAAR of housing starts in March 2019 for B.C. and Alberta was approximately 35,000 and 20,000 units, respectively (49,000 and 27,000 units in March 2018, respectively). Based on a composite of estimates from Canadian banks and other sources, on an unadjusted basis, we estimate that housing starts in 2019 will total approximately 196,000 units in Canada (unchanged from our 2018 annual MD&A), 37,000 units in B.C., and 26,000 units in Alberta.

**1.3 Consolidated highlights**

**Business acquisition**

On January 14, 2019, we acquired a telecommunications business complementary to our existing lines of business, for consideration consisting of cash of $74 million and TELUS Corporation Common Shares of $38 million. The investment was made with a view to growing our managed network, cloud, security and unified communications services.

**Long-term debt issue**

On March 29, 2019, we announced an offering of $1 billion of senior unsecured 3.30% 10-year notes which were issued on April 3, 2019, and will mature on May 2, 2029. The net proceeds from this offering will be used to repay outstanding indebtedness, including outstanding commercial paper, for the reduction of cash amounts outstanding under an arm’s-length securitization trust, and for general corporate purposes.

**600 MHz spectrum auction**

On April 10, 2019, we announced we were the successful bidder on 12 wireless spectrum licences in B.C., Alberta, Saskatchewan, Ontario and Quebec in Innovation, Science and Economic Development Canada’s (ISED) 600 MHz wireless spectrum auction. The 600 MHz band is important for its ability to travel great distances in rural areas and infiltrate barriers to better reach in-building locations such as elevators and parking garages, making it highly conducive to 5G deployment. The licences, acquired for $931 million ($2.35 per MHz-pop, where pop refers to the population in a licence area), equate to a national average of 11.3 MHz and will enable us to deliver enhanced mobile broadband connectivity as the industry transitions from 4G LTE to 5G. The design of the combinatorial clock auction (CCA), coupled with a 30 MHz set-aside for regional carriers (representing 43% of the spectrum at auction), led to national carriers paying a 134% premium over regional operators, and to the best of our knowledge, the highest prices for 600 MHz spectrum in the world. Outside of Canada, set-asides are very rare, and the few instances where there were CCAs with set-asides, the set asides have only been for approximately 5% of the spectrum at auction. We remitted an initial payment of $186 million to ISED on April 26, 2019, and the remaining balance of $745 million will be paid on, or before, May 27, 2019.

**Multi-year dividend growth program**

On May 9, 2019, we announced our intention to target ongoing semi-annual dividend increases, with the annual increase in the range of 7 to 10% from 2020 through to the end of 2022. This announcement further extends our dividend program originally announced in May 2011 and extended for three additional years in each of May 2013 and May 2016. So as to be consistent with the way we manage our business, we have revised our target guideline, effective January 1, 2020, to be calculated as 60 to 75% of free cash flow on a prospective basis. Notwithstanding this target, dividend decisions will continue to be subject to our Board’s assessment and the determination of our financial situation and outlook on a quarterly basis. There can be no assurance that we will maintain a dividend growth program through 2022. See *Section 4.3 Liquidity and capital resources*.

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**Consolidated highlights**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions, except footnotes and unless noted otherwise) |  | **2019** |  | 2018 |  | Change |  |
| **Consolidated statements of income** |  |  |  |  |  |  |  |
| Operating revenues |  | **3,506** |  | 3,377 |  | 3.8 | % |
| Operating income |  | **762** |  | 719 |  | 6.0 | % |
| Income before income taxes |  | **594** |  | 563 |  | 5.5 | % |
| Net income |  | **437** |  | 412 |  | 6.1 | % |
| Net income attributable to Common Shares |  | **428** |  | 410 |  | 4.4 | % |
| Adjusted Net income1 |  | **453** |  | 435 |  | 4.1 | % |
|  |  |  |  |  |  |  |  |
| Earnings per share (EPS) ($) |  |  |  |  |  |  |  |
| Basic EPS |  | **0.71** |  | 0.69 |  | 2.9 | % |
| Adjusted basic EPS1 |  | **0.75** |  | 0.73 |  | 2.7 | % |
| Diluted EPS |  | **0.71** |  | 0.69 |  | 2.9 | % |
| Dividends declared per Common Share ($) |  | **0.5450** |  | 0.5050 |  | 7.9 | % |
|  |  |  |  |  |  |  |  |
| Basic weighted-average Common Shares outstanding (millions) |  | **600** |  | 595 |  | 0.8 | % |
| **Consolidated statements of cash flows** |  |  |  |  |  |  |  |
| Cash provided by operating activities |  | **790** |  | 838 |  | (5.7 | )% |
|  |  |  |  |  |  |  |  |
| Cash used by investing activities |  | **(962** | **)** | (932 | ) | 3.2 | % |
| Acquisitions |  | **(162** | **)** | (204 | ) | (20.6 | )% |
| Capital expenditures2 |  | **(646** | **)** | (650 | ) | (0.6 | )% |
|  |  |  |  |  |  |  |  |
| Cash provided by financing activities |  | **346** |  | — |  | n/m |  |
| **Other highlights** |  |  |  |  |  |  |  |
| Subscriber connections3,4 (thousands) |  | **13,979** |  | 13,431 |  | 4.1 | % |
| Earnings before interest, income taxes, depreciation and amortization (EBITDA)1 |  | **1,379** |  | 1,269 |  | 8.7 | % |
| Restructuring and other costs1 |  | **36** |  | 34 |  | 5.9 | % |
| Adjusted EBITDA1,5 |  | **1,415** |  | 1,303 |  | 8.6 | % |
| Adjusted EBITDA margin1,6 (%) |  | **40.4** |  | 38.6 |  | 1.8 | pts. |
| Free cash flow1 |  | **153** |  | 443 |  | (65.5 | )% |
| Net debt to EBITDA — excluding restructuring and other costs1 (times) |  | **2.84** |  | 2.71 |  | 0.13 |  |

Notations used in MD&A: n/m — not meaningful; pts. — percentage points.

(1)         These are non-GAAP and other financial measures. See *Section 11.1 Non-GAAP and other financial measures.*

(2)         Capital expenditures include assets purchased, excluding right-of-use lease assets, but not yet paid for, and consequently differ from Cash payments for capital assets, excluding spectrum licences, as reported in the interim consolidated financial statements. Refer to *Note 31* of the interim consolidated financial statements for further information.

(3)         The sum of active mobile phone subscribers, mobile connected device subscribers, Internet access subscribers, residential voice subscribers and TELUS TV subscribers, measured at the end of the respective periods based on information in billing and other systems. Effective April 1, 2018, and on a prospective basis, we have adjusted cumulative subscriber connections to remove approximately 68,000 TELUS TV subscribers as we have ceased marketing our Satellite TV product. Fourth quarter of 2018 opening mobile phone subscriber connections have been adjusted to exclude an estimated 23,000 subscribers impacted by the CRTC’s final pro-rating ruling in June 2018, which was effective October 1, 2018. During the first quarter of 2019, we adjusted cumulative Internet subscriber connections to add approximately 16,000 subscribers from acquisitions undertaken during the quarter.

(4)         Effective for the first quarter of 2019, with retrospective application, we have revised our definition of a wireless subscriber unit and now report mobile phone units and mobile connected device units as separate subscriber bases so as to be consistent with the way we manage our business and to align with global peers. As a result of the change, total subscribers and associated operating statistics (gross additions, net additions, churn, ABPU and ARPU) have been adjusted to reflect (i) the movement of certain subscriber units from the mobile phones subscriber base to the newly created mobile connected devices subscriber base, and (ii) the inclusion of previously undisclosed Internet of Things (IoT) and mobile health subscriber units in our mobile connected devices subscriber base. For additional information on our subscriber definitions, see *Section 11.2 Operating indicators*.

(5)         Adjusted EBITDA for the first quarters of 2019 and 2018 excludes restructuring and other costs (see *Section 11.1* for restructuring and other costs amounts).

(6)         Adjusted EBITDA margin is Adjusted EBITDA divided by Operating revenues.

**Operating highlights**

                  **Consolidated operating revenues** increased by $129 million in the first quarter of 2019:

Service revenues increased by $134 million in the first quarter of 2019, mainly due to growth in wireless network revenue and wireline data services revenue, partly offset by the ongoing declines in wireline legacy voice and legacy data service revenues.

Equipment revenues increased by $4 million in the first quarter of 2019, primarily due to increased wireless revenue mainly from more higher-value smartphones in the sales mix and growth in revenue per handset.

Other operating income decreased by $9 million in the first quarter of 2019 as there were higher net gains in the first quarter of 2018 from the sale of certain assets.

For additional details on operating revenues, see *Section 5.4 Wireless segment*and *Section 5.5 Wireline segment*.

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                  During the 12-month period ending on March 31, 2019, our total **subscriber connections** increased by 548,000 reflecting a 3.1% increase in mobile phone subscribers, an 18.9% increase in mobile connected device subscribers, a 7.4% increase in Internet subscribers and a 0.5% increase in TELUS TV subscribers, partly offset by a 3.5% decline in residential voice subscribers.

Our mobile phone net additions were 11,000 in the first quarter of 2019, up 14,000 year over year due to a lower mobile phone churn rate, demographic shifts, and growth, in the Canadian population, in addition to successful promotions and expanded channels. Mobile connected device net additions were 49,000 in the first quarter of 2019, up 8,000 year over year due to growth in our IoT offerings including the connected device growth arising from our subscribers expanding their IoT services to their growing customer bases, partially offset by the strategic focus away from lower-margin subsidized tablets. Our comparatively low mobile phone churn rate was 1.02% in the first quarter of 2019, down from 1.10% in the first quarter of 2018. (See *Section 5.4 Wireless segment* for additional details.)

Internet net additions were 22,000 in the first quarter of 2019, flat year over year. TELUS TV net additions were 17,000 in the first quarter of 2019, up 11,000 year over year. Our continued focus on expanding our addressable high-speed Internet and Optik TV® footprint, connecting more homes and businesses directly to fibre, growing our diverse product offerings, and bundling these services together, as well as our ongoing focus on putting our customers first, resulted in a lower customer churn rate and contributed to combined Internet and TV subscriber growth of 137,000 or 4.8% over the last 12 months. We had made TELUS PureFibre® available to approximately 63% of our broadband footprint by March 31, 2019. As well, residential voice net losses improved by 31.3% due to our expanding fibre footprint and bundled product offerings, and the success of our stronger retention efforts, including lower-priced offerings. (See *Section 5.5 Wireline segment* for additional details.)

                  **Operating income** increased by $43 million in the first quarter of 2019, reflecting higher wireless network growth driven by a growing subscriber base and higher wireless equipment margins, in addition to growth in wireline data service margins and EBITDA contribution from our customer care and business services (CCBS) and TELUS Health businesses. These factors were partly offset by increased costs associated with a growing wireless subscriber base, declines from wireline legacy voice and legacy data services, and higher wireline restructuring and other costs related to efficiency initiatives, as well as increased depreciation and amortization, including the depreciation recorded arising from the application of IFRS 16 described in *Section 1.1*.

EBITDA, which includes restructuring and other costs, increased by $110 million or 8.7% in the first quarter of 2019.

Adjusted EBITDA, which excludes restructuring and other costs, increased by $112 million or 8.6% in the first quarter of 2019. The increase reflects both higher wireless network revenue growth driven by a growing subscriber base, higher wireless equipment margins, growth in wireline data service margins and EBITDA contribution from our CCBS and TELUS Health businesses. Additionally, upon the application of IFRS 16, Goods and services purchased decreased and, correspondingly, Adjusted EBITDA increased. These factors were partly offset by increased costs associated with a growing wireless subscriber base, declines in wireline legacy voice and legacy data services and a decline in the EBITDA contribution from our business services. Applying a retrospective IFRS 16 simulation to fiscal 2018 results, which are cash-based proxy adjustments, all as used by our chief operating decision-maker to assess performance, pro forma consolidated Adjusted EBITDA growth was approximately 4.4%. (See *Section 5.3 Consolidated operations* for additional details.)

                  **Income before income taxes** increased by $31 million in the first quarter of 2019. Higher Operating income, as noted above, was partly offset by an increase in Financing costs. The increase in Financing costs resulted primarily from higher average long-term debt outstanding and the financing costs recorded that arose from lease liabilities upon the application of IFRS 16 described in *Section 1.1*. (See *Financing costs*in *Section 5.3.)*

                  **Income taxes** increased by $6 million in the first quarter of 2019 although the effective tax rate decreased from 26.8% to 26.5%. The reduction in the effective tax rate was due to a number of factors including adjustments for foreign taxes as well as lower taxes applicable to gains on disposition.

                  **Net income attributable to Common Shares** increased by $18 million in the first quarter of 2019. This increase was driven by higher Operating income, partly offset by increased Financing costs and increased income taxes.

Adjusted Net income, which excludes the effects of restructuring and other costs, increased by $18 million or 4.1% in the first quarter of 2019.

**Reconciliation of adjusted Net income**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  | Change |  |
| Net income attributable to Common Shares |  | **428** |  | 410 |  | 18 |  |
| Add: |  |  |  |  |  |  |  |
| Restructuring and other costs, after income taxes |  | **25** |  | 25 |  | — |  |
| Adjusted Net income |  | **453** |  | 435 |  | 18 |  |

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                  **Basic EPS**increased by $0.02 or 2.9% in the first quarter of 2019. This increase was driven by higher Operating income, partly offset by increased Financing costs and increased income taxes.

Adjusted basic EPS, which excludes the effects of restructuring and other costs, increased by $0.02 or 2.7% in the first quarter of 2019.

**Reconciliation of adjusted basic EPS**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($) |  | **2019** |  | 2018 |  | Change |  |
| Basic EPS |  | **0.71** |  | 0.69 |  | 0.02 |  |
| Add: |  |  |  |  |  |  |  |
| Restructuring and other costs, after income taxes, per share |  | **0.04** |  | 0.04 |  | — |  |
| Adjusted basic EPS |  | **0.75** |  | 0.73 |  | 0.02 |  |

                  **Dividends declared per Common Share** were $0.5450 in the first quarter of 2019, up 7.9% from one year earlier. On May 8, 2019, the Board declared a second quarter dividend of $0.5625 per share on the issued and outstanding Common Shares, payable on July 2, 2019, to shareholders of record at the close of business on June 10, 2019. The second quarter dividend increased by $0.0375 per share or 7.1% from the $0.5250 per share dividend declared one year earlier, consistent with our multi-year dividend growth program described in *Section 4.3 Liquidity and capital resources*.

**Liquidity and capital resource highlights**

                  **Net debt to EBITDA — excluding restructuring and other costs** was 2.84 times at March 31, 2019, up from 2.71 times at March 31, 2018, as the increase in net debt, which includes the $1.4 billion recognition of lease liabilities upon the application of IFRS 16 effective January 1, 2019, exceeded the effect of the increase in EBITDA — excluding restructuring and other costs (including that the transition method for IFRS 16 has currently only included three months effect on the trailing EBITDA). (See *Section 4.3 Liquidity and capital resources* and *Section 7.5 Liquidity and capital resource measures.*)

                  **Cash provided by operating activities** decreased by $48 million in the first quarter of 2019, primarily due to increased income taxes paid, including a one-time catch-up payment of $270 million, increased restructuring and other costs disbursements, and increased interest paid. This was partly offset by growth in EBITDA and other working capital changes.

                  **Cash used by investing activities** increased by $30 million in the first quarter of 2019, largely attributed to higher cash payments for capital assets, excluding spectrum licences, partially offset by lower cash payments for business acquisitions. **Acquisitions** decreased by $42 million in the first quarter of 2019 as we made larger cash payments for business acquisitions in the first quarter of 2018. **Capital expenditures** decreased by $4 million or 0.6% in the first quarter of 2019. We have made TELUS PureFibre available to approximately 63% of our broadband footprint at March 31, 2019. (See *Section 7.3 Cash used by investing activities*.)

                  **Cash provided by financing activities** increased by $346 million in the first quarter of 2019, primarily reflecting increased short-term borrowings, net of repayments. (See *Section 7.4 Cash provided by financing activities.*)

                  **Free cash flow**decreased by $290 million in the first quarter of 2019, largely resulting from increased income taxes paid, including the above-noted $270 million one-time catch-up payment and increased interest paid. These decreases were partly offset by higher Adjusted EBITDA, and the timing of device subsidy repayments and associated revenue recognition. (See calculation in *Section 11.1 Non-GAAP and other financial measures*.)

**2.**              **Core business and strategy**

Our core business and our strategic imperatives were described in our 2018 annual MD&A.

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**3.**              **Corporate priorities for 2019**

Our annual corporate priorities are used to advance our long-term strategic imperatives and address near-term opportunities and challenges. The following table provides a discussion of activities and initiatives that relate to our 2019 corporate priorities.

**Honouring our customers, communities and social purpose by our team delivering on our brand promise**

                  In April 2019, the Commission for Complaints for Telecom-television Services (CCTS) issued its mid-year report for the period August 1, 2018 to January 31, 2019, and TELUS again received the fewest customer complaints among the national service providers, while Koodo again received the fewest complaints among the national flanker brands, both in terms of absolute accepted complaints and on an estimated per subscriber basis. TELUS, Koodo and Public Mobile were the subjects of 7.6%, 3.4% and 0.8% of the total customer complaints accepted by the CCTS, respectively, or 11.8% of total customer complaints, in aggregate.

**Leveraging our broadband networks to drive TELUS’ growth**

                  In OpenSignal’s *Mobile Network Experience Canada* report released in February 2019, we were recognized as being number one for LTE download speeds, latency and network availability, and tying for number one for LTE upload speeds and video experience.

                  In the report *Canada: State of Mobile Networks March 2019*, published by Tutela, a Canadian independent mobile network data company, TELUS ranked number one for latency and tied for first place for consistent quality.

                  We continue our significant ongoing investment in rural and remote communities to provide broadband Internet to all Canadians. In aggregate, we have invested more than $175 billion in infrastructure and operations since 2000, and plan to invest approximately $40 billion in infrastructure and operations over the next three years, for a total of $215 billion.

                  Throughout the quarter, we made a series of announcements regarding the connection of additional homes and businesses to our TELUS PureFibre infrastructure, including:

                  An investment of $75 million in the city of Nanaimo and district of Lantzville, B.C., including the Snuneymuxw and  
Snaw-Naw-As Nations to connect by the spring of 2021

                  An investment of $60 million in the city of Airdrie, Alberta to connect by the end of 2020

                  An investment of $20 million in the city of Nelson, B.C. to connect by the end of 2019

                  A further investment of $95 million in our wireless and fibre-optic infrastructure across rural communities in Greater Quebec City and Eastern Quebec. This investment was made with support from the federal government’s Connect to Innovate program and the Quebec government’s Québec branché program. With this support, we will deploy our technology to reach 34,000 new families and businesses in 80 remote communities.

                  In March 2019, we completed construction on a new wireless communications site in the Village of Port Clements on Haida Gwaii, bringing high-speed wireless voice and Internet services to the community and some surrounding areas for the first time.

                  In April 2019, we announced we were the successful bidder on 12 wireless spectrum licences across B.C., Alberta, Saskatchewan, Ontario and Quebec in Innovation, Science and Economic Development Canada’s 600 MHz wireless spectrum auction. The acquisition of 600 MHz spectrum will enable us to deliver enhanced urban and rural connectivity, and will advance our national 5G growth strategy.

**Fuelling our future through recurring efficiency gains**

                  We are focusing on the expansion of customer self-serve adoption through virtual assistants and digital platforms, while improving productivity by utilizing robotic process automation.

                  Through the deployment of Xavient’s capabilities, TELUS International is continuing to enhance digital experience offerings to customers while building strength in industries such as healthcare and games.

**Driving emerging opportunities to build scale in TELUS Health and TELUS International**

                  In March 2019, we launched Babylon by TELUS Health, a virtual healthcare solution that provides Canadians with access to doctors and healthcare information where and when they need it through a new smartphone app. B.C. residents have been the first to have access to the app’s one-on-one video consultation feature, allowing them to speak directly and privately with a B.C.-licensed family doctor. Canadians across the country can also create a personal health record and use the app’s artificial intelligence chatbot Symptom Checker, which draws on more than 500 million streams of medical knowledge and asks patients questions about their symptoms and provides information on possible causes or courses of action.

                  TELUS International continues its growth with significant customer acquisitions and expanded its global coverage with new customer care locations in Noida, India and Chengdu, China.

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**4.**              **Capabilities**

The forward-looking statements in this section, including statements regarding our dividend growth program and our financial objectives in *Section 4.3*, are qualified by the *Caution regarding forward-looking statements* at the beginning of this MD&A.

**4.1 Principal markets addressed and competition**

For a discussion of our principal markets and an overview of competition, refer to *Section 4.1* of our 2018 annual MD&A.

**4.2 Operational resources**

**Wireless**

Our mobile phone churn rate was 1.02% in the first quarter of 2019, which represented our lowest reported first quarter mobile phone churn rate since we became a national carrier 19 years ago, despite strong competitive and economic pressures. This speaks to the success of our differentiated customers first culture and our ongoing focus on delivering an outstanding customer experience, combined with attractive new products and services, our retention programs and leading network quality. For a definition of churn, see *Section 11.2* of this MD&A.

During the first quarter of 2019, Innovation, Science and Economic Development Canada’s (ISED) held its 600 MHz auction. We were the successful bidder on 12 wireless licences equating to a national average of 11.3 MHz. The acquisition of this spectrum will enable us to deliver enhanced urban and rural connectivity, and will advance our national 5G growth strategy.

Since mid-2013, we have invested more than $4.6 billion to acquire wireless spectrum licences in spectrum auctions and other transactions, which has more than doubled our national spectrum holdings in support of our top corporate priority to put customers first. Wireless data consumption has been increasing rapidly and we have responded by investing to extend the capacity of our network to support the additional data consumption and growth in our wireless subscriber base. This includes investments in wireless small cells connected to our fibre technology to improve coverage and capacity and to prepare for a more efficient and timely evolution to 5G wireless services.

As at March 31, 2019, our 4G LTE technology covered 99% of Canada’s population, consistent with March 31, 2018. Furthermore, we have continued to invest in the roll-out of our LTE advanced network, which covered approximately 93% of Canada’s population at March 31, 2019, up from more than 88% one year before.

**Wireline**

We are continuing to invest in our incumbent local exchange carrier (ILEC) urban and rural communities with commitments to deliver broadband technology capabilities to as many Canadians as possible. We are expanding our fibre footprint by connecting more homes and businesses directly to fibre in communities across B.C., Alberta and Eastern Quebec. In addition, we have increased broadband Internet speeds, expanded our IP TV video-on-demand library and high-definition content, including 4K TV and 4K HDR capabilities, and enhanced marketing of data products and bundles resulting in improved churn rates. Our fibre technology is also an essential component of our wireless access technology and will enable 5G deployment in the future as referenced above. Our home and business smart technology (including security) lines of business integrate security and safety monitoring with smart devices.

As at March 31, 2019, our high-speed broadband footprint covered more than 3.1 million households and businesses in B.C., Alberta and Eastern Quebec, including approximately 1.94 million households and businesses covered with fibre-optic cable (representing approximately 63% of our total high-speed broadband footprint), which provides these premises with immediate access to our gigabit-capable fibre-optic technology. This is up from approximately 1.54 million households and businesses in the first quarter of 2018, representing approximately 51% of households and businesses in our high-speed broadband footprint covered by fibre-optic cable.

**4.3 Liquidity and capital resources**

**Capital structure financial policies**

Our objective when managing capital is to maintain a flexible capital structure that optimizes the cost and availability of capital at acceptable risk.

In the management of capital and in its definition, we include Common Share equity (excluding Accumulated other comprehensive income), Long-term debt (including long-term credit facilities, commercial paper backstopped by long-term credit facilities and any hedging assets or liabilities associated with Long-term debt items, net of amounts recognized in Accumulated other comprehensive income), Cash and temporary investments, and short-term borrowings arising from securitized trade receivables.

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We manage our capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of our business. In order to maintain or adjust our capital structure, we may adjust the amount of dividends paid to holders of Common Shares, purchase Common Shares for cancellation pursuant to normal course issuer bid (NCIB) programs, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics, and/or increase or decrease the amount of trade receivables sold to an arm’s-length securitization trust.

We monitor capital utilizing a number of measures, including our net debt to EBITDA — excluding restructuring and other costs ratio, coverage ratios and dividend payout ratios. (See definitions in *Section 11.1 Non-GAAP and other financial measures*.)

**Financing and capital structure management plans**

*Report on financing and capital structure management plans*

**Pay dividends to the holders of Common Shares under our multi-year dividend growth program**

                  On May 9, 2019, we announced our intention to target ongoing semi-annual dividend increases, with the annual increase in the range of 7 to 10% from 2020 through to the end of 2022, thereby extending the policy first announced in May 2011. Notwithstanding this target, dividend decisions will continue to be subject to our Board’s assessment and the determination of our financial position and outlook on a quarterly basis. (See *Section 7.5 Liquidity and capital resource measures.*) There can be no assurance that we will maintain a dividend growth program or that it will be unchanged through 2022. (See *Caution regarding forward-looking statements — Ability to sustain our dividend growth program through 2022*and *Section 10.7 Financing, debt requirements and returning cash to shareholders* in our 2018 annual MD&A*.)*

                  On May 8, 2019, the Board declared a second quarter dividend of $0.5625 per share, payable on July 2, 2019, to shareholders of record at the close of business on June 10, 2019. The second quarter dividend for 2019 reflects a cumulative increase of $0.0375 per share or 7.1% from the $0.5250 per share dividend declared one year earlier.

                  During the three-month period ending March 31, 2019, our dividend reinvestment and share purchase plan trustee purchased from Treasury dividend reinvestment Common Shares for $23 million, with no discount applicable.

**Purchase Common Shares**

                  During the three-month period ended March 31, 2019, and up to the date of this MD&A, we did not purchase or cancel any shares pursuant to our NCIB.

**Use proceeds from securitized trade receivables (Short-term borrowings), bank facilities and commercial paper as needed, to supplement free cash flow and meet other cash requirements**

                  Our issued and outstanding commercial paper was $1,105 million at March 31, 2019, all of which was denominated in U.S. dollars (US$827 million), compared to $774 million (US$569 million) at December 31, 2018, and $843 million (US$654 million) at March 31, 2018.

                  Our net draws on the TELUS International (Cda) Inc. credit facility were $412 million ($405 million net of unamortized issue costs) at March 31, 2019, compared to $427 million ($419 million net of unamortized issue costs) at December 31, 2018, and $441 million ($433 million net of unamortized issue costs) at March 31, 2018. The credit facility is non-recourse to TELUS Corporation.

                  Proceeds from securitized trade receivables were $500 million at March 31, 2019 (December 31 and March 31, 2018 were  $100 million).

**Maintain compliance with financial objectives**

                  Maintain investment grade credit ratings in the range of BBB+ or the equivalent — On May 9, 2019, investment grade credit ratings from the four rating agencies that cover TELUS were in the desired range. (See *Section 7.8 Credit ratings*.)

                  Net debt to EBITDA — excluding restructuring and other costs ratio of 2.00 to 2.50 times — As measured at March 31, 2019, the ratio was 2.84 times, outside of the objective range, primarily due to the funding of spectrum licences, the elevated strategic capital investments in our fibre-optic infrastructure and the application of IFRS 16 effective January 1, 2019 (including that the transition method for IFRS 16 has currently only included three months effect on the trailing EBITDA). Given the cash demands of the recent 2019 and upcoming spectrum auctions, the assessment of the guideline and return to the objective range remains to be determined; however, it is our intent to return to a ratio below 2.50 times in the medium term (following upcoming spectrum auctions), consistent with our long-term strategy. (See *Section 7.5 Liquidity and capital resource measures*.)

                  Dividend payout ratio of 65 to 75% of net earnings per share for 2019 on a prospective basis — Our objective range is on a prospective basis. The dividend payout ratio we present in this MD&A is a historical measure utilizing the last four quarters of dividends declared and earnings per share, and is disclosed for illustrative purposes in evaluating our target guideline. As at March 31, 2019, the historical ratio of 79% and the adjusted historical ratio of 82% exceeded the objective range; however, we currently expect that we will be within our target guideline when considered on a prospective basis within the medium term. So as to be consistent with the way we manage our business, we have revised our target guideline, effective January 1, 2020, to be calculated as 60 to 75% of free cash flow on a prospective basis. (See *Section 7.5 Liquidity and capital resource measures*.)

                  Generally maintain a minimum of $1 billion in unutilized liquidity — As at March 31, 2019, our unutilized liquidity on a consolidated basis was over $1.3 billion. (See *Section 7.6 Credit facilities*.)

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**4.4 Changes in internal control over financial reporting**

**Disclosure controls and procedures**

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**5.**              **Discussion of operations**

This section contains forward-looking statements, including those with respect to mobile phone average billing per subscriber unit per month (ABPU) and mobile phone average revenue per subscriber unit per month (ARPU) growth, wireless trends regarding loading and retention spending, Internet subscriber growth and various future trends. There can be no assurance that we have accurately identified these trends based on past results or that these trends will continue. See *Caution regarding forward-looking statements* at the beginning of this MD&A.

**5.1 General**

A significant judgment we make is in respect of distinguishing between our wireless and wireline operations and cash flows (and this extends to allocations of both direct and indirect expenses and capital expenditures). The clarity of such distinction has been increasingly affected by the convergence and integration of our wireless and wireline telecommunications infrastructure and technology. The continued build-out of our technology-agnostic fibre-optic infrastructure, in combination with converged edge network technology, has significantly affected this judgment, as has the commercialization of fixed-wireless telecommunications solutions for customers and the consolidation of our non-customer facing operations. As a result, it has become increasingly difficult and impractical to objectively and clearly distinguish between our wireless and wireline operations and cash flows, and the assets from which those cash flows arise. As we do not currently aggregate operating segments, our reportable segments as at March 31, 2019, are also wireless and wireline. Segmented information in *Note 5* of the interim consolidated financial statements is regularly reported to our Chief Executive Officer (CEO) (our chief operating decision-maker).

We applied IFRS 16 with a transition date of January 1, 2019. As noted in *Section 1.1*, upon the application of IFRS 16, we did not retrospectively adjust amounts reported for periods prior to fiscal 2019. Refer to *Note 2* of the interim consolidated financial statements for further information.

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**5.2 Summary of consolidated quarterly results and trends**

**Summary of quarterly results**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ($ millions, except per share amounts) |  | **2019 Q1** |  | 2018 Q4 |  | 2018 Q3 |  | 2018 Q2 |  | 2018 Q1 |  | 2017 Q4 |  | 2017 Q3 |  | 2017 Q2 |  |
| **Operating revenues**1 |  | **3,506** |  | 3,764 |  | 3,774 |  | 3,453 |  | 3,377 |  | 3,541 |  | 3,404 |  | 3,280 |  |
| **Operating expenses** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Goods and services purchased2,3 |  | **1,421** |  | 1,784 |  | 1,685 |  | 1,491 |  | 1,408 |  | 1,635 |  | 1,522 |  | 1,423 |  |
| Employee benefits expense2 |  | **706** |  | 745 |  | 740 |  | 711 |  | 700 |  | 683 |  | 638 |  | 649 |  |
| Depreciation and amortization |  | **617** |  | 586 |  | 572 |  | 559 |  | 550 |  | 564 |  | 547 |  | 526 |  |
| Total operating expenses |  | **2,744** |  | 3,115 |  | 2,997 |  | 2,761 |  | 2,658 |  | 2,882 |  | 2,707 |  | 2,598 |  |
| **Operating income** |  | **762** |  | 649 |  | 777 |  | 692 |  | 719 |  | 659 |  | 697 |  | 682 |  |
| Financing costs before long-term debt prepayment premium |  | **168** |  | 159 |  | 162 |  | 150 |  | 156 |  | 144 |  | 149 |  | 142 |  |
| Long-term debt prepayment premium |  | **—** |  | — |  | 34 |  | — |  | — |  | — |  | — |  | — |  |
| **Income before income taxes** |  | **594** |  | 490 |  | 581 |  | 542 |  | 563 |  | 515 |  | 548 |  | 540 |  |
| Income taxes |  | **157** |  | 122 |  | 134 |  | 145 |  | 151 |  | 161 |  | 142 |  | 144 |  |
| **Net income** |  | **437** |  | 368 |  | 447 |  | 397 |  | 412 |  | 354 |  | 406 |  | 396 |  |
| **Net income attributable to Common Shares** |  | **428** |  | 357 |  | 443 |  | 390 |  | 410 |  | 353 |  | 403 |  | 389 |  |
| **Net income per Common Share:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic earnings per share (EPS) |  | **0.71** |  | 0.60 |  | 0.74 |  | 0.66 |  | 0.69 |  | 0.59 |  | 0.68 |  | 0.66 |  |
| Adjusted basic EPS4 |  | **0.75** |  | 0.69 |  | 0.74 |  | 0.70 |  | 0.73 |  | 0.66 |  | 0.70 |  | 0.70 |  |
| Diluted EPS |  | **0.71** |  | 0.60 |  | 0.74 |  | 0.66 |  | 0.69 |  | 0.59 |  | 0.68 |  | 0.66 |  |
| **Dividends declared per Common Share** |  | **0.5450** |  | 0.5450 |  | 0.5250 |  | 0.5250 |  | 0.5050 |  | 0.5050 |  | 0.4925 |  | 0.4925 |  |
| **Additional information:** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| EBITDA4 |  | **1,379** |  | 1,235 |  | 1,349 |  | 1,251 |  | 1,269 |  | 1,223 |  | 1,244 |  | 1,208 |  |
| Restructuring and other costs3,4 |  | **36** |  | 75 |  | 173 |  | 35 |  | 34 |  | 54 |  | 23 |  | 36 |  |
| Non-recurring gains and equity income (non-recurring losses and equity losses) related to real estate joint ventures |  | **—** |  | — |  | 171 |  | — |  | — |  | (2 | ) | — |  | 3 |  |
| MTS net recovery5 |  | **—** |  | — |  | — |  | — |  | — |  | 21 |  | — |  | — |  |
| Adjusted EBITDA4 |  | **1,415** |  | 1,310 |  | 1,351 |  | 1,286 |  | 1,303 |  | 1,258 |  | 1,267 |  | 1,241 |  |
| Cash provided by operating activities |  | **790** |  | 948 |  | 1,066 |  | 1,206 |  | 838 |  | 979 |  | 1,133 |  | 1,126 |  |
| Free cash flow4 |  | **153** |  | 122 |  | 303 |  | 329 |  | 443 |  | 274 |  | 215 |  | 260 |  |

(1)         In the third quarter of 2018, we recorded equity income related to real estate joint ventures of $171 million arising from the sale of TELUS Garden.

(2)         Goods and services purchased and Employee benefits expense amounts include restructuring and other costs.

(3)         In the third quarter of 2018, we recorded a donation to the TELUS Friendly Future Foundation™ of $118 million as part of other costs.

(4)         See *Section 11.1 Non-GAAP and other financial measures*.

(5)         Refer to our 2018 annual MD&A for definition.

**Trends**

The trend of year-over-year increases in consolidated revenue reflects: (i) wireless network revenue generated from growth in our subscriber base; and (ii) growth in wireline data services revenues, including customer care and business services (CCBS), Internet and enhanced data, TELUS Health, TELUS TV services, and home and business smart technology (including security). Increased CCBS revenues, TELUS Health revenues, home smart technology and business smart technology revenues include revenues from business acquisitions. Increased Internet and TV service revenues are being generated by subscriber growth and higher Internet revenue per customer. Year-over-year wireless equipment revenues generally increased from a higher volume of new contracts and higher-value smartphones in the sales mix. Operating revenues in the third quarter of 2018 include equity income related to real estate joint ventures of $171 million arising from the sale of TELUS Garden. For additional information on wireless and wireline revenue and subscriber trends, see *Section 5.4 Wireless segment* and *Section 5.5 Wireline segment*.

The trend of year-over-year increases in Goods and services purchased, excepting the effects of the application of IFRS 16 first evidenced in the first quarter of 2019, reflects increases in wireless and wireline customer service, roaming and external labour expenses to support growth in both our subscriber base and business acquisitions; higher wireless equipment expenses associated with a general increase in gross additions and increases in higher-value smartphones in the sales mix; and increased wireline TV costs of sales associated with a growing subscriber base. Goods and services

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purchased in the third quarter of 2018 include a $118 million charitable donation to the TELUS Friendly Future Foundation.

The trend of year-over-year increases in net Employee benefits expense reflects increases in the number of employees resulting from business acquisitions, including those supporting CCBS revenue growth, expansion of our TELUS Health offerings, and growth in our other complementary businesses. This was partly offset by moderating salaries expense resulting from reductions in the number of full-time equivalent (FTE) domestic employees related to cost efficiency and effectiveness programs.

The trend of year-over-year increases in Depreciation and amortization reflects increases due to growth in capital assets, which is supporting the expansion of our broadband footprint and enhanced LTE technology coverage, and growth in business acquisitions. The investments in our fibre-optic technology also support our small-cell technology strategy to improve coverage and capacity while preparing for a more efficient and timely evolution to 5G. Depreciation and amortization under the application of IFRS 16 is higher than would have been the case prior to IFRS 16.

The trend of year-over-year increases in Financing costs reflects an increase in long-term debt outstanding, mainly associated with our generational investments in fibre to homes and businesses and wireless technology, and our business acquisitions, in addition to a higher average effective interest rate in 2018. Financing costs include a long-term debt prepayment premium of $34 million in the third quarter of 2018. Financing costs also includes Interest accretion on provisions and Employee defined benefit plans net interest expense. Additionally, for the eight periods shown, Financing costs include varying amounts of foreign exchange gains or losses and varying amounts of interest income. Financing costs under the application of IFRS 16 are higher than would have been the case prior to IFRS 16.

The trend in Net income reflects the items noted above, as well as non-cash adjustments arising from legislated income tax changes and adjustments recognized in the current periods for income taxes of prior periods, including any related after-tax interest on reassessments. Historically, the trend in basic EPS has been impacted by the same trends as Net income and can also be impacted by share purchases under our normal course issuer bid (NCIB) programs. While a 12-month program is currently in place, there have been no such purchases under the program, which commenced in January 2019.

The general trend of year-over-year increases in Cash provided by operating activities reflects generally higher year-over-year consolidated EBITDA, was impacted by a one-time catch-up payment in income taxes paid of $270 million in the first quarter of 2019 and was impacted by IFRS 16 which prospectively results in the principal component of lease payments being reflected as a financing activity. This trend was reduced by increased interest payments arising from increases in debt outstanding and year-over-year fluctuations in fixed-term interest rates. The general trend of year-over-year increases in free cash flow reflects the above factors affecting Cash provided by operating activities excepting that the implementation of IFRS 16 (and the implementation of IFRS 15 on January 1, 2018) does not affect the free cash flow amount determined. For further discussion on these trends, see *Section 5.4 Wireless segment* and *Section 5.5 Wireline segment*.

**5.3 Consolidated operations**

The following is a discussion of our consolidated financial performance. Segment information in *Note 5* of the interim consolidated financial statements is regularly reported to our CEO. We discuss the performance of our segments in *Section 5.4 Wireless segment* and*Section 5.5 Wireline segment.*

**Operating revenues**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Service |  | **3,020** |  | 2,886 |  | 4.6 | % |
| Equipment |  | **469** |  | 465 |  | 0.9 | % |
| Revenues arising from contracts with customers |  | **3,489** |  | 3,351 |  | 4.1 | % |
| Other operating income |  | **17** |  | 26 |  | (34.6 | )% |
| Operating revenues |  | **3,506** |  | 3,377 |  | 3.8 | % |

Consolidated operating revenues increased by $129 million in the first quarter of 2019.

                  **Service revenues** increased by $134 million in the first quarter of 2019, reflecting growth in wireless network revenue and wireline data services, partly offset by the continuing declines in wireline legacy voice and legacy data service revenues. Wireless network revenue increases reflect a growing wireless subscriber base. The increase in wireline data service revenue reflects increased CCBS revenue growth, as well as increases in Internet and enhanced data services, TELUS Health revenues, TELUS TV revenue and revenues from our home and business smart technology lines of business, partly offset by decreased legacy data service revenues. Internet and TV revenues increased due to subscriber growth, as well as higher Internet revenue per customer.

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                  **Equipment revenues** increased by $4 million in the first quarter of 2019, primarily due to increased wireless revenue mainly from more higher-value smartphones in the sales mix and growth in revenue per handset as customers select higher-value smartphones.

                  **Other operating income** decreased by $9 million in the first quarter of 2019, largely due to higher net gains in the first quarter of 2018 from the sale of certain assets.

**Operating expenses**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Goods and services purchased |  | **1,421** |  | 1,408 |  | 0.9 | % |
| Employee benefits expense |  | **706** |  | 700 |  | 0.9 | % |
| Depreciation |  | **470** |  | 411 |  | 14.4 | % |
| Amortization of intangible assets |  | **147** |  | 139 |  | 5.8 | % |
| Operating expenses |  | **2,744** |  | 2,658 |  | 3.2 | % |

Consolidated operating expenses increased by $86 million in the first quarter of 2019.

                  **Goods and services purchased** increased by $13 million in the first quarter of 2019, largely due to higher wireline product costs associated with TELUS Health services and higher TV content costs, higher administrative and other costs related to business acquisitions, and increased external labour costs to support a growing subscriber base. This was partly offset by the application of IFRS 16, as Goods and services purchased decreased by $83 million as a result of the new accounting standard. Depreciation of right-of-use lease assets and financing costs arising from lease liabilities are the IFRS 16 accounting for certain components of lease payments which are no longer part of Goods and services purchased and we did not retrospectively adjust amounts reported for periods prior to fiscal 2019.

                  **Employee benefits expense** increased by $6 million in the first quarter of 2019, primarily due to higher compensation and benefit costs resulting from an increase in the number of employees from business acquisitions, as well as higher employee-related restructuring and other costs related to efficiency initiatives in the year. This was partly offset by lower compensation and benefit costs from a decrease in the number of domestic FTEs, excluding business acquisitions, and higher capitalized labour costs.

                  **Depreciation** increased by $59 million in the first quarter of 2019 due to higher expenditures associated with growth in capital assets over the last 12 months, including those arising from our investments in fibre and business acquisitions. Additionally, $48 million of the increase in depreciation resulted from the application of IFRS 16 as we did not retrospectively adjust amounts reported for periods prior to fiscal 2019. This depreciation is largely related to our real estate leases (including cell site leases and retail store leases), whereas prior to the application of IFRS 16, these costs would have been accounted for in Goods and services purchased.

                  **Amortization of intangible assets** increased by $8 million in the first quarter of 2019, reflecting higher expenditures associated with the intangible asset base over the last 12 months, including those arising from business acquisitions.

**Operating income**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Wireless EBITDA (see *Section 5.4*) |  | **908** |  | 836 |  | 8.6 | % |
| Wireline EBITDA (see *Section 5.5*) |  | **471** |  | 433 |  | 8.8 | % |
| EBITDA |  | **1,379** |  | 1,269 |  | 8.7 | % |
| Depreciation and amortization (discussed above) |  | **(617** | **)** | (550 | ) | n/m |  |
| Operating income |  | **762** |  | 719 |  | 6.0 | % |

Operating income increased by $43 million in the first quarter of 2019, and EBITDA increased by $110 million. These increases reflect higher wireless network revenue growth driven by a growing subscriber base and higher wireless equipment margins, in addition to growth in wireline data service margins and EBITDA contribution from our CCBS and TELUS Health businesses, and the effects of implementing IFRS 16. These factors were partly offset by increased costs associated with a growing wireless subscriber base, declines from wireline legacy voice and legacy data services, and higher wireline restructuring and other costs related to efficiency initiatives, as well as increased depreciation and amortization.

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**Adjusted EBITDA**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Wireless Adjusted EBITDA (see *Section 5.4*) |  | **917** |  | 846 |  | 8.4 | % |
| Wireline Adjusted EBITDA (see *Section 5.5*) |  | **498** |  | 457 |  | 9.0 | % |
| Adjusted EBITDA |  | **1,415** |  | 1,303 |  | 8.6 | % |

Adjusted EBITDA increased by $112 million or 8.6% in the first quarter of 2019, reflecting both higher wireless network revenue growth and higher wireless equipment margins driven by a growing subscriber base, growth in wireline data service margins and EBITDA contribution from our CCBS and TELUS Health businesses. These factors were partly offset by increased costs associated with a growing wireless subscriber base, declines in wireline legacy voice and legacy data services and a decline in the EBITDA contribution from our business services.

For purposes of the chief operating decision-maker’s assessment of performance during the 2019 fiscal year relative to the fiscal 2018 year, we have simulated IFRS 16 adjustments to the fiscal 2018 results in calculating pro forma results. This IFRS 16 simulation to fiscal 2018 results, which are cash-based proxy adjustments, all as used by our chief operating decision-maker to assess performance, resulted in pro forma consolidated Adjusted EBITDA growth of approximately 4.4%.

**Financing costs**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Interest expense |  | **177** |  | 150 |  | 18.0 | % |
| Employee defined benefit plans net interest |  | **—** |  | 4 |  | (100.0 | )% |
| Foreign exchange (gains) losses |  | **(7** | **)** | 4 |  | n/m |  |
| Interest income |  | **(2** | **)** | (2 | ) | — | % |
| Financing costs |  | **168** |  | 156 |  | 7.7 | % |

Financing costs increased by $12 million in the first quarter of 2019, mainly due to the following factors:

                  **Interest expense** increased by $27 million in the first quarter of 2019, resulting from:

                  Interest on long-term debt increased by $6 million in the first quarter of 2019, due to an increase in average long-term debt balances outstanding, partly offset by a decrease in the effective interest rate. Our weighted average interest rate on long-term debt (excluding commercial paper, the revolving component of the TELUS International (Cda) Inc. credit facility and lease liabilities) was 4.17% at March 31, 2019, as compared to 4.22% one year earlier. (See *Long-term debt issues and repayments* in *Section 7.4*.)

                  Interest on lease liabilities of $16 million represents the financing costs increase arising from lease liabilities upon the application of IFRS 16 as we did not retrospectively adjust amounts reported for periods prior to fiscal 2019. This interest on lease liabilities was largely related to our real estate leases (including cell site leases and retail store leases), whereas prior to the application of IFRS 16, these costs would have been accounted for in Goods and services purchased.

                  Interest on short-term borrowings and other increased by $3 million, due to the draw-down of amounts advanced to us from an arm’s-length securitization trust. (See *Long-term debt issues and repayments* in *Section 7.4*.)

                  Interest accretion on provisions increased by $2 million in the first quarter of 2019, attributed to written put options in respect of business acquisitions.

                  **Employee defined benefit plans net interest** decreased by $4 million in the first quarter of 2019, primarily due to the change in the defined benefit plan surplus as at December 31, 2018, to $57 million (net of plan asset ceiling limit of $263 million), compared to a defined benefit plan deficit of $334 million (net of plan asset ceiling limit of $110 million) one year earlier, partly offset by an increase in the discount rate.

                  **Foreign exchange (gains) losses**have fluctuated as a result of movement of the Canadian dollar relative to the U.S. dollar.

                  **Interest income** was flat in the first quarter of 2019.

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**Income taxes**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions, except tax rates) |  | **2019** |  | 2018 |  | Change |  |
| Income tax computed at applicable statutory rates |  | **161** |  | 152 |  | 5.9 | % |
| Other |  | **(4** | **)** | (1 | ) | n/m |  |
| Income taxes |  | **157** |  | 151 |  | 4.0 | % |
| Income taxes computed at applicable statutory rates (%) |  | **27.1** |  | 27.0 |  | 0.1 | pts. |
| Effective tax rate (%) |  | **26.5** |  | 26.8 |  | (0.3 | )pts. |

Total income tax expense increased by $6 million in the first quarter of 2019. The effective tax rate decreased to 26.5% for the quarter due to a number of factors including adjustments for foreign taxes as well as lower taxes applicable to gains on disposition.

**Comprehensive income**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Net income |  | **437** |  | 412 |  | 6.1 | % |
| Other comprehensive income (net of income taxes): |  |  |  |  |  |  |  |
| Items that may subsequently be reclassified to income |  | **(43** | **)** | (11 | ) | n/m |  |
| Items never subsequently reclassified to income |  | **24** |  | (43 | ) | n/m |  |
| Comprehensive income |  | **418** |  | 358 |  | 16.8 | % |

Comprehensive income increased by $60 million in the first quarter of 2019, primarily as a result of changes in employee defined benefit plan re-measurement amounts arising from returns, which were significantly limited by the plan asset ceiling, on pension plan assets in excess of the discount rate. Items that may subsequently be reclassified to income are composed of changes in the unrealized fair value of derivatives designated as cash flow hedges and foreign currency translation adjustments arising from translating financial statements of foreign operations. Items never subsequently reclassified to income are composed of employee defined benefit plans re-measurement amounts.

**5.4 Wireless segment**

**Wireless trends and seasonality**

The historical trend over the last eight quarters in wireless network revenue reflects growth in our subscriber base, as well as higher-value smartphones in the sales mix of gross additions and retention units. There has been a general year-over-year increase in equipment revenues from a higher volume of new contracts and higher-value smartphones in the sales mix. The general trend of year-over-year increases in subscriber net additions resulted from the success of our promotions; the effects of market growth arising from a growing population, changing population demographics and an increasing number of customers with multiple devices; and continuous improvements in the speed and quality of our network, combined with our low churn rate, which reflects our focus on customers first initiatives. Our expenditures on network improvements increase capacity and coverage, allowing us to grow revenue through net additions of wireless subscribers. Although there have historically been significant third and fourth quarter seasonal effects that result in increased loading, competitive intensity in both the consumer and business markets, launches of new devices and the strategic decision to focus on margin-accretive loading as opposed to lower-margin subsidized tablet loading and non-accretive prepaid-to-postpaid migrations, may impact subscriber addition results and trends for future periods.

Mobile phone ABPU growth has been moderating, primarily due to: (i) competitive pressures driving larger allotments of data and rate plans encompassing data sharing and international roaming features, as well as the consumer behavioural response to more frequent customer data usage notifications and offloading of data traffic to increasingly available Wi-Fi hotspots have put downward pressure on mobile phone ABPU growth; partly offset by (ii) an increased mix of higher-priced rate plans, such as data share plans, in addition to more higher-value smartphones in the sales mix, and an increased proportion of higher-rate customers in the subscriber mix. As a result of increased competitive pressures, customers have been able to gain access to higher network speeds and larger allotments of data included for a given price point, further limiting mobile phone ABPU expansion. The economic environment, consumer behaviour, the regulatory environment, device selection and other factors also impact mobile phone ABPU, and as a consequence, there can be no assurance that mobile phone ABPU will return to growth in the coming quarters.

Our connected device subscriber base has been increasing with our expanded IoT offerings. IoT technologies are expected to continue their growth and IoT customers, along with other connected device subscribers, will be able to realize greater benefits that are dependent upon 5G deployment.

The trend of our comparatively low mobile phone blended churn rate reflects our customers first efforts, retention programs and focus on building, maintaining and enhancing our high-quality network. With our improvements in customer loyalty resulting in a generally decreasing mobile phone churn rate, our lifetime revenue per customer has increased despite moderating mobile phone ABPU. We may experience pressure on our mobile phone blended churn rate if the level of competitive intensity increases, in part due to increased promotional activity, if there is an increase in customers on expired or no contracts (compared to current experience), or due to regulatory changes. Accordingly, our wireless segment historical operating results and trends may not be reflective of results and trends for future periods.

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The trends in wireless EBITDA-based operating metrics have been impacted by our adoption of IFRS 16 effective January 1, 2019, as discussed further in *Note 2* of the interim consolidated financial statements.

**Wireless operating indicators**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| At March 31 |  | **2019** |  | 2018 |  | Change |  |
| **Subscribers**1,2 (000s) |  |  |  |  |  |  |  |
| Mobile phones1 |  | **8,470** |  | 8,215 |  | 3.1 | % |
| Mobile connected devices |  | **1,266** |  | 1,065 |  | 18.9 | % |
| Total |  | **9,736** |  | 9,280 |  | 4.9 | % |
| HSPA+ population coverage3 (millions) |  | **37.0** |  | 36.7 |  | 0.8 | % |
| LTE population coverage3 (millions) |  | **36.9** |  | 36.6 |  | 0.8 | % |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 |  | **2019** |  | 2018 |  | Change |  |
| Mobile phones gross additions2 (000s) |  | **269** |  | 263 |  | 2.3 | % |
| **Subscriber net additions (losses)**2 (000s): |  |  |  |  |  |  |  |
| Mobile phones |  | **11** |  | (3 | ) | n/m |  |
| Mobile connected devices |  | **49** |  | 41 |  | 19.5 | % |
| Total |  | **60** |  | 38 |  | 57.9 | % |
| Mobile phones ABPU, per month2,4,5 ($) |  | **72.19** |  | 72.15 |  | 0.1 | % |
| Mobile phones ARPU, per month2,4,5 ($) |  | **59.33** |  | 60.26 |  | (1.5 | )% |
| Mobile phones churn, per month2,4,5 (%) |  | **1.02** |  | 1.10 |  | (0.08 | )pts. |

(1)         Fourth quarter of 2018 opening mobile phone subscriber connections have been adjusted to exclude an estimated 23,000 subscribers impacted by the CRTC’s final pro-rating ruling in June 2018, which was effective October 1, 2018.

(2)   Effective for the first quarter of 2019, with retrospective application, we have revised our definition of a wireless subscriber unit and now report mobile phone units and mobile connected device units (e.g. tablets, internet keys, Internet of Things (IoT), wearables, connected automobile systems) as separate subscriber bases so as to be consistent with the way we manage our business and to align with global peers. As a result of the change, total subscribers and associated operating statistics (gross additions, net additions, churn, ABPU and ARPU) have been adjusted to reflect (i) the movement of certain subscriber units from the mobile phones subscriber base to the newly created mobile connected devices subscriber base, and (ii) the inclusion of previously undisclosed Internet of Things and mobile health subscriber units in our mobile connected devices subscriber base. For additional information on our subscriber definitions, see *Section 11.2 Operating indicators*.

(3)         Including network access agreements with other Canadian carriers.

(4)         Using the definitions set out in *Section 11.2* of our 2018 annual MD&A, for the first quarter of 2019, wireless subscriber blended ABPU was $66.14 ($66.51 for the first quarter of 2018), wireless subscriber blended ARPU was $54.36 ($55.55 for the first quarter of 2018) and wireless subscriber blended churn was 1.06% (1.14% for the first quarter of 2018).

(5)         See *Section 11.2 Operating indicators*. These are industry measures useful in assessing operating performance of a wireless company, but are not measures defined under IFRS-IASB.

**Operating revenues — Wireless segment**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Network revenue |  | **1,492** |  | 1,472 |  | 1.4 | % |
| Equipment and other service revenues |  | **427** |  | 411 |  | 3.9 | % |
| Revenues arising from contracts with customers |  | **1,919** |  | 1,883 |  | 1.9 | % |
| Other operating income |  | **5** |  | 7 |  | (28.6 | )% |
| External operating revenues |  | **1,924** |  | 1,890 |  | 1.8 | % |
| Intersegment revenues |  | **13** |  | 11 |  | 18.2 | % |
| Wireless operating revenues |  | **1,937** |  | 1,901 |  | 1.9 | % |

Total wireless operating revenues increased by $36 million in the first quarter of 2019.

**Network revenue** from external customers increased by $20 million in the first quarter of 2019 or 1.4%, reflecting 4.9% growth in the subscriber base, partly offset by declining mobile phone ARPU as discussed below. **Mobile phone ABPU** was $72.19 in the first quarter of 2019, reflecting an increase of $0.04 or 0.1% as growth from customers selecting plans with larger data buckets or periodically topping up their data buckets, the introduction of our Platinum rate plan and more higher-value smartphones in the sales mixwere partly offset by declines in chargeable data usage, the impact of the competitive environment putting pressure on base rate plan prices in the current and prior periods and the changing customer mix.**Mobile phone ARPU** was $59.33 in the first quarter of 2019, reflecting a decrease of $0.93 or 1.5% as the declines in chargeable data usage, competitive pressures on base rate plan prices mentioned above and the changing customer mix more than offset the increased number of customers selecting plans with larger data buckets.

                  **Mobile phone gross** **additions**were 269,000 in the first quarter of 2019, reflecting an increase of 6,000 year over year, driven by higher-value, smartphone-centric postpaid customer additions and growth in prepaid customer additions, including demographic shifts, and growth, in the Canadian population, as well as successful promotions and expanded channels.

                  Our **mobile phone churn rate** was 1.02% in the first quarter of 2019, as compared to 1.10% in the first quarter of 2018. The improvement in our mobile phone churn rate during the first quarter of 2019 reflects our focus on executing customers first initiatives and retention programs, as well as our leading network quality.

                  **Net subscriber additions** were 60,000 in the first quarter of 2019, reflecting a year over year improvement of 22,000. Mobile phone net additions were 11,000 in the first quarter of 2019, a year over year increase of 14,000, driven by a lower mobile phone churn rate and higher mobile phone gross additions, as described above. We continue to focus on margin accretion growth with the focus away from non-accretive prepaid-to-postpaid migrations. Mobile connected device net additions were 49,000 in the first quarter of 2019, reflecting a year over year improvement of 8,000, driven by growth in our IoT offerings including the connected device growth arising from our subscribers expanding their IoT services to their growing customer bases, partly offset by less focus on lower-margin subsidized tablet loading.

**Equipment and other service revenues** increased by $16 million in the first quarter of 2019, due to more higher-value smartphones in the sales mix and growth in revenue per handset.

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**Other operating income** was relatively flat in the first quarter of 2019.

**Intersegment revenues**represent network services eliminated upon consolidation along with the associated wireline expenses.

**Operating expenses — Wireless segment**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Goods and services purchased: |  |  |  |  |  |  |  |
| Equipment sales expenses |  | **422** |  | 418 |  | 1.0 | % |
| Network operating expenses |  | **184** |  | 200 |  | (8.0 | )% |
| Marketing expenses |  | **89** |  | 83 |  | 7.2 | % |
| Other1 |  | **181** |  | 193 |  | (6.2 | )% |
| Employee benefits expense1 |  | **153** |  | 171 |  | (10.5 | )% |
| Wireless operating expenses |  | **1,029** |  | 1,065 |  | (3.4 | )% |

(1)         Includes restructuring and other costs. See *Section 11.1 Non-GAAP and other financial measures*.

Wireless operating expenses decreased by $36 million in the first quarter of 2019.

**Equipment sales expenses** increased by $4 million in the first quarter of 2019, reflecting an increase in higher-value smartphones in the sales mix.

**Network operating expenses** decreased by $16 million in the first quarter of 2019, mainly due to the application of IFRS 16.

**Marketing expenses** increased by $6 million in the first quarter of 2019, primarily due to higher commissions expense.

**Other goods and services purchased** decreased by $12 million in the first quarter of 2019, mainly due to the application of IFRS 16, as well as the non-recurrence of higher costs associated with an aggressive holiday rate plan offer that stimulated significant traffic in the prior year, partly offset by higher external labour.

**Employee benefits expense**decreased by $18 million in the first quarter of 2019, due to lower internal labour costs including lower FTEs, higher capitalized labour costs, and lower labour-related restructuring and other costs related to efficiency initiatives.

**EBITDA — Wireless segment**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions, except margins) |  | **2019** |  | 2018 |  | Change |  |
| EBITDA |  | **908** |  | 836 |  | 8.6 | % |
| Add restructuring and other costs included in EBITDA |  | **9** |  | 10 |  | n/m |  |
| Adjusted EBITDA1 |  | **917** |  | 846 |  | 8.4 | % |
| EBITDA margin (%) |  | **46.9** |  | 44.0 |  | 2.9 | pts. |
| Adjusted EBITDA margin2 (%) |  | **47.4** |  | 44.5 |  | 2.9 | pts. |

(1)         See description under *EBITDA* in *Section 11.1 Non-GAAP and other financial measures*.

(2)         Adjusted EBITDA margin is Adjusted EBITDA divided by Operating revenues.

Wireless EBITDA increased by $72 million or 8.6% in the first quarter of 2019. Wireless Adjusted EBITDA increased by $71 million or 8.4% in the first quarter of 2019, reflecting higher network revenue growth driven by a larger subscriber base, lower employee benefits expense, higher equipment margins which includes our strategic focus away from non-accretive prepaid-to-postpaid migrations and the implementation of IFRS 16 on certain expenses.

Applying a retrospective IFRS 16 simulation to fiscal 2018 results (see *Section 5.3*), pro forma wireless Adjusted EBITDA growth was approximately 5.0%.

**5.5 Wireline segment**

**Wireline trends**

The trend over the last eight quarters of increases in wireline service revenue reflects growth in Internet and enhanced data services, CCBS revenues, TELUS TV revenues, TELUS Health revenues, and home and business smart technology revenues, and is partly offset by declining wireline legacy voice and legacy data revenues. The increases in Internet and TV service revenues are being generated by subscriber growth and higher Internet revenue per customer resulting from upgrades to faster speeds, larger data usage rate plans and expansion of our fibre footprint. We expect continued Internet subscriber base growth as the economy grows and as we continue our investments in expanding our fibre-optic infrastructure. The total number of TELUS TV subscribers has increased as a result of our low customer churn rate, diverse product offerings, fibre expansion and bundled product offerings. Residential voice subscriber losses continue to reflect the ongoing trend of substitution to wireless and Internet-based

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services, but have been partly mitigated by the success of our bundled service offerings and lower-priced offerings. The trend of declining wireline voice revenues is due to technological substitution, greater use of inclusive long distance coupled with lower long distance minutes used, and intensification of competition in the small and medium-sized business market. The migration of business products and services offerings to IP services yield inherently lower margins compared to some legacy business products and service offerings. The general trend of increasing TELUS Health revenues and increasing CCBS revenues has been driven by both organic growth and business acquisitions.

The trends in wireline EBITDA-based operating metrics have been impacted by our adoption of IFRS 16 effective January 1, 2019, as discussed further in *Note 2* of the interim consolidated financial statements.

**Wireline operating indicators**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| At March 31 (000s) |  | **2019** |  | 2018 |  | Change |  |
| **Subscriber connections:** |  |  |  |  |  |  |  |
| Internet1 |  | **1,896** |  | 1,765 |  | 7.4 | % |
| TELUS TV2 |  | **1,110** |  | 1,104 |  | 0.5 | % |
| Residential voice |  | **1,237** |  | 1,282 |  | (3.5 | )% |
| Total wireline subscriber connections1,2 |  | **4,243** |  | 4,151 |  | 2.2 | % |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 (000s) |  | **2019** |  | 2018 |  | Change |  |
| **Subscriber connection net additions (losses):** |  |  |  |  |  |  |  |
| Internet |  | **22** |  | 22 |  | — | % |
| TELUS TV |  | **17** |  | 6 |  | n/m |  |
| Residential voice |  | **(11** | **)** | (16 | ) | 31.3 | % |
| Total wireline subscriber connection net additions |  | **28** |  | 12 |  | 133.3 | % |

(1)         During the first quarter of 2019, we adjusted cumulative subscriber connections to add approximately 16,000 subscribers from acquisitions undertaken during the quarter.

(2)         Effective April 1, 2018, and on a prospective basis, we have adjusted cumulative subscriber connections to remove approximately 68,000 TELUS TV subscribers as we have ceased marketing our Satellite TV product.

**Operating revenues — Wireline segment**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Data services |  | **1,219** |  | 1,089 |  | 11.9 | % |
| Voice services |  | **253** |  | 281 |  | (10.0 | )% |
| Other services and equipment |  | **98** |  | 98 |  | — | % |
| Revenues arising from contracts with customers |  | **1,570** |  | 1,468 |  | 6.9 | % |
| Other operating income |  | **12** |  | 19 |  | (36.8 | )% |
| External operating revenues |  | **1,582** |  | 1,487 |  | 6.4 | % |
| Intersegment revenues |  | **56** |  | 52 |  | 7.7 | % |
| Wireline operating revenues |  | **1,638** |  | 1,539 |  | 6.4 | % |

Total wireline operating revenues increased by $99 million in the first quarter of 2019.

                  **Data services**revenues increased by $130 million in the first quarter of 2019. The increase was driven by: (i) growth in CCBS revenues, primarily due to growth in business volumes resulting from both organic growth and business acquisitions; (ii) increased Internet and enhanced data service revenues, reflecting higher revenue per customer as a result of upgrades to faster Internet speeds, larger data usage Internet rate plans and certain rate changes, as well as a 7.4% increase in our Internet subscribers over the last 12 months; (iii) increased TELUS Health revenues, driven by both business acquisitions and organic growth; (iv) revenues from our home and business smart technology lines of business; and (v) increased TELUS TV revenues, reflecting subscriber growth of 0.5% over the last 12 months. This growth was partly offset by the ongoing decline in legacy data service revenues.

                  **Voice services** revenues decreased by $28 million in the first quarter of 2019, reflecting the ongoing decline in legacy voice revenues from technological substitution, greater use of inclusive long distance plans and price plan changes. We experienced a 3.5% decline in residential voice subscribers over the last 12 months, as compared to a 5.1% decline in residential voice subscribers for the 12-month period ended March 31, 2018.

                  **Other services and equipment** revenues was flat in the first quarter of 2019.

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                  **Wireline subscriber connection net additions**were 28,000 in the first quarter of 2019, reflecting an increase of 16,000 compared to the first quarter of 2018.

                  **Internet net additions** were 22,000 in the first quarter of 2019, flat compared to net additions in the first quarter of 2018 due to consistent customer demand for our high-speed broadband services, including fibre to the premises. Our continued focus on connecting more homes and businesses directly to fibre (with TELUS PureFibre available to approximately 63% of our broadband footprint at the end of the first quarter of 2019), expanding and enhancing our addressable high-speed Internet and Optik TV footprint, and bundling these services together contributed to combined Internet and TV subscriber growth of 137,000 over the last 12 months.

                  **TELUS TV net additions** were 17,000 in the first quarter of 2019, reflecting an increase of 11,000 due to a lower customer churn rate from stronger retention efforts and higher gross additions as a result of our diverse product offerings.

                  **Residential voice net losses**were 11,000 in the first quarter of 2019, as compared to residential voice subscriber net losses of 16,000 in the first quarter of 2018. The residential voice subscriber losses continue to reflect the trend of substitution to wireless and Internet-based services, partially mitigated by our expanding fibre footprint and bundled product offerings, and the success of our stronger retention efforts, including lower-priced offerings.

**Other operating income** decreased by $7 million in the first quarter of 2019 due to the non-recurrence of first quarter 2018 gains on the sale of certain assets.

**Intersegment revenues** represent services including CCBS provided to the wireless segment. Such revenue is eliminated upon consolidation together with the associated expenses in wireless.

**Operating expenses — Wireline segment**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions) |  | **2019** |  | 2018 |  | Change |  |
| Goods and services purchased1 |  | **614** |  | 577 |  | 6.4 | % |
| Employee benefits expense1 |  | **553** |  | 529 |  | 4.5 | % |
| Wireline operating expenses |  | **1,167** |  | 1,106 |  | 5.5 | % |

(1)         Includes restructuring and other costs. See *Section 11.1 Non-GAAP and other financial measures.*

Total wireline operating expenses increased by $61 million in the first quarter of 2019.

**Goods and services purchased** increased by $37 million in the first quarter of 2019, mainly due to higher product costs associated with growth in TELUS Health services, higher TV content costs mainly driven by our growing TV subscriber base, and increases in non-labour-related restructuring and other costs related to efficiency initiatives, as well as higher external labour and other administrative costs related to business acquisitions. The increase in Goods and services purchased was partly offset by the application of IFRS 16.

**Employee benefits expense** increased by $24 million in the first quarter of 2019, mainly due to increases in compensation and benefit costs resulting from an increase in the number of employees from business acquisitions, partly offset by a decrease in the number of FTEs in Canada, excluding business acquisitions, and lower labour-related restructuring and other costs related to efficiency initiatives.

**EBITDA — Wireline segment**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ in millions, except margins) |  | **2019** |  | 2018 |  | Change |  |
| EBITDA |  | **471** |  | 433 |  | 8.8 | % |
| Add restructuring and other costs included in EBITDA |  | **27** |  | 24 |  | n/m |  |
| Adjusted EBITDA1 |  | **498** |  | 457 |  | 9.0 | % |
| EBITDA margin (%) |  | **28.7** |  | 28.1 |  | 0.6 | pts. |
| Adjusted EBITDA margin2 (%) |  | **30.4** |  | 29.7 |  | 0.7 | pts. |

(1)         See description under *EBITDA* in *Section 11.1 Non-GAAP and other financial measures*.

(2)         Adjusted EBITDA margin is Adjusted EBITDA divided by Operating revenues.

Wireline EBITDA increased by $38 million or 8.8% in the first quarter of 2019. Wireline Adjusted EBITDA increased by $41 million or 9.0% in the first quarter of 2019, reflecting an increased contribution from our CCBS business from organic growth, higher Internet margins and higher TELUS Health margins inclusive of business acquisitions, as well as the implementation of IFRS 16 on certain expenses, partly offset by the continued declines in legacy voice and legacy data services, higher employee benefits expense and other costs related to business acquisitions, and a decline in the EBITDA contribution from our business services.

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Applying a retrospective IFRS 16 simulation to fiscal 2018 results (see *Section 5.3*), pro forma wireline Adjusted EBITDA growth was approximately 3.3%.

**6.**              **Changes in financial position**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Financial position at: |  | **Mar. 31** |  | Dec. 31 |  |  |  |  |
| ($ millions) |  | **2019** |  | 2018 |  | Change |  | Change includes: |
| **Current assets** |  |  |  |  |  |  |  |  |
| Cash and temporary investments, net |  | **588** |  | 414 |  | 174 |  | See *Section 7 Liquidity and capital resources* |
| Accounts receivable |  | **1,645** |  | 1,600 |  | 45 |  | An increase in wireless roaming revenue, partially offset by lower inventory-related amounts due from dealers |
| Income and other taxes receivable |  | **48** |  | 3 |  | 45 |  | Instalments to date are greater than the expense |
| Inventories |  | **359** |  | 376 |  | (17 | ) | A decrease in inventories in transit |
| Contract assets |  | **862** |  | 860 |  | 2 |  | Refer to description in non-current assets |
| Prepaid expenses |  | **626** |  | 539 |  | 87 |  | Increased due to the annual prepayment of statutory employee benefits, maintenance contracts, property taxes and wireless spectrum license fees, net of amortization |
| Current derivative assets |  | **27** |  | 49 |  | (22 | ) | A decrease in the spread between the hedging rate and the actual rate at the balance sheet date. |
| **Current liabilities** |  |  |  |  |  |  |  |  |
| Short-term borrowings |  | **500** |  | 100 |  | 400 |  | See *Section 7.7 Sale of trade receivables* |
| Accounts payable and accrued liabilities |  | **2,416** |  | 2,570 |  | (154 | ) | A decrease in network-related accruals, payroll and other employee-related liabilities, partly offset by the timing of accounts payable. See *Note 23* of the interim consolidated financial statements |
| Income and other taxes payable |  | **47** |  | 218 |  | (171 | ) | Current income tax expense in excess of instalments |
| Dividends payable |  | **329** |  | 326 |  | 3 |  | Effects of an increase in the number of shares outstanding |
| Advance billings and customer deposits |  | **667** |  | 653 |  | 14 |  | An increase in TELUS Health advance billings during the period. See *Note 24* of the interim consolidated financial statements |
| Provisions |  | **79** |  | 129 |  | (50 | ) | Restructuring disbursements exceeded new restructuring provisions. See *Note 25* of the interim consolidated financial statements |
| Current maturities of long-term debt |  | **1,341** |  | 836 |  | 505 |  | An increase in outstanding commercial paper and initial recognition of lease liabilities due to implementation of IFRS 16 |
| Current derivative liabilities |  | **19** |  | 9 |  | 10 |  | An increase in the fair value of the interest rate swap. |
| **Working capital** (Current assets subtracting Current liabilities) |  | **(1,243** | **)** | (1,000 | ) | (243 | ) | TELUS normally has a negative working capital position. See *Financing and capital structure management plans* in *Section 4.3* and the *Liquidity risk* discussion in *Section 7.9.* |

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|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Financial position at: |  | **Mar. 31** |  | Dec. 31 |  |  |  |  |
| ($ millions) |  | **2019** |  | 2018 |  | Change |  | Change includes: |
| **Non-current assets** |  |  |  |  |  |  |  |  |
| Property, plant and equipment, net |  | **13,321** |  | 12,091 |  | 1,230 |  | See *Capital expenditures* in *Section 7.3 Cash used by investing activities* and *Depreciation* in *Section 5.3* |
| Intangible assets, net |  | **11,015** |  | 10,934 |  | 81 |  | See *Capital expenditures* in *Section 7.3 Cash used by investing activities* and *Amortization of intangible assets* in *Section 5.3* |
| Goodwill, net |  | **4,877** |  | 4,745 |  | 132 |  | Acquisitions including a telecommunications business |
| Contract assets |  | **437** |  | 458 |  | (21 | ) | A decrease primarily driven by a lower number of contracted subscribers, as well as lower contract amounts per subscriber, in the period |
| Other long-term assets |  | **911** |  | 986 |  | (75 | ) | A decrease in derivative assets due to the movement of foreign exchange rates relative to hedged rates, as well as the movement in non-designated valuation elements. See *Note 20* of the interim consolidated financial statements. |
| **Non-current liabilities** |  |  |  |  |  |  |  |  |
| Provisions |  | **684** |  | 728 |  | (44 | ) | Decrease due to implementation of IFRS 16. See *Note 25* of the interim consolidated financial statements |
| Long-term debt |  | **14,434** |  | 13,265 |  | 1,169 |  | See *Section 7.4 Cash provided by financing activities* |
| Other long-term liabilities |  | **706** |  | 730 |  | (24 | ) | A decrease in pension and post-retirement liabilities resulting from actual returns being in excess of the discount rate, as well as a decrease in the tenant inducement allowance as a result of the implementation of IFRS 16, and the movement of foreign exchange rates relative to hedged rates, as well as the movement in non-designated valuation elements. See *Note 27* of the interim consolidated financial statements |
| Deferred income taxes |  | **3,130** |  | 3,150 |  | (20 | ) | An overall decrease in temporary differences between the accounting and tax basis of assets and liabilities primarily due to adjustments for IFRS 16. |
| **Owners’ equity** |  |  |  |  |  |  |  |  |
| Common equity |  | **10,278** |  | 10,259 |  | 19 |  | See *condensed interim consolidated statements of changes in owners’ equity* in the interim consolidated financial statements |
| Non-controlling interests |  | **86** |  | 82 |  | 4 |  | See *condensed interim consolidated statements of changes in owners’ equity* in the interim consolidated financial statements. |

**7.**              **Liquidity and capital resources**

This section contains forward-looking statements, including those with respect to our dividend payout ratio and net debt to EBITDA — excluding restructuring and other costs ratio. See *Caution regarding forward-looking statements* at the beginning of this MD&A.

**7.1 Overview**

Our capital structure financial policies and financing and capital structure management plans are described in *Section 4.3*.

**Cash flows**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  | Change |  |
| Cash provided by operating activities |  | **790** |  | 838 |  | (48 | ) |
| Cash used by investing activities |  | **(962** | **)** | (932 | ) | (30 | ) |
| Cash provided by financing activities |  | **346** |  | — |  | 346 |  |
| Increase (decrease) in Cash and temporary investments, net |  | **174** |  | (94 | ) | 268 |  |
| Cash and temporary investments, net, beginning of period |  | **414** |  | 509 |  | (95 | ) |
| Cash and temporary investments, net, end of period |  | **588** |  | 415 |  | 173 |  |

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**7.2 Cash provided by operating activities**

**Analysis of changes in cash provided by operating activities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  | Change |  |
| EBITDA (see *Section 5.4* and *Section 5.5*) |  | **1,379** |  | 1,269 |  | 110 |  |
| Restructuring and other costs, net of disbursements |  | **(33** | **)** | (4 | ) | (29 | ) |
| Employee defined benefit plans expense, net of employer contributions |  | **4** |  | 4 |  | — |  |
| Share-based compensation expense, net of payments |  | **19** |  | 18 |  | 1 |  |
| Interest paid, net of interest received |  | **(177** | **)** | (148 | ) | (29 | ) |
| Income taxes paid, net of recoveries received |  | **(351** | **)** | (56 | ) | (295 | ) |
| Other operating working capital changes |  | **(51** | **)** | (245 | ) | 194 |  |
| Cash provided by operating activities |  | **790** |  | 838 |  | (48 | ) |

                  Income taxes paid, net of recoveries received increased by $295 million largely due to a one-time catch-up payment of $270 million, in addition to higher required instalment payments.

                  Restructuring and other costs, net of disbursements represented a net change of $29 million in the first quarter of 2019. This was attributed to increased disbursements of restructuring and other costs related to improving our overall cost structure and operational effectiveness.

                  Interest paid, net of interest received increased by $29 million, largely due to an increase in the average long-term debt balance, partly offset by a lower weighted-average interest rate on long-term debt, as well as interest paid on lease liabilities.

                  For a discussion of Other operating working capital changes, see *Section 6 Changes in financial position* and *Note 31(a)* of the interim consolidated financial statements.

**7.3 Cash used by investing activities**

**Analysis of changes in cash used by investing activities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  | Change |  |
| Cash payments for capital assets, excluding spectrum licences |  | **(793** | **)** | (738 | ) | (55 | ) |
| Cash payments for acquisitions, net |  | **(162** | **)** | (204 | ) | 42 |  |
| Real estate joint ventures advances, net of receipts |  | **(7** | **)** | (5 | ) | (2 | ) |
| Proceeds on dispositions |  | **—** |  | 15 |  | (15 | ) |
| Cash used by investing activities |  | **(962** | **)** | (932 | ) | (30 | ) |

                  The increase in Cash payments for capital assets, excluding spectrum licences for the first quarter of 2019, was primarily composed of:

                  A decrease in capital expenditures of $4 million in the first quarter of 2019 (see *Capital expenditure measures* table and discussion below).

                  Higher capital expenditure payments with respect to payment timing differences, as the change in associated Accounts payable and accrued liabilities increased by $59 million in the first quarter of 2019.

                  In the first quarter of 2019, we made cash payments for business acquisitions, including a telecommunications business and other individually immaterial acquisitions complementary to our existing lines of business. This is compared to business acquisition activity in the first quarter of 2018, which included certain assets of AlarmForce Industries Inc., 65% of Xavient Information Systems and other individually immaterial acquisitions complementary to our existing lines of business.

                  Proceeds on dispositions in the first quarter of 2018 were primarily related to the sale of small portfolio investments. There was no comparable activity in the first quarter of 2019.

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**Capital expenditure measures**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions, except capital intensity) |  | **2019** |  | 2018 |  | Change |  |
| **Capital expenditures**1 |  |  |  |  |  |  |  |
| Wireless segment |  | **177** |  | 182 |  | (2.7 | )% |
| Wireline segment |  | **469** |  | 468 |  | 0.2 | % |
| Consolidated |  | **646** |  | 650 |  | (0.6 | )% |
| Wireless segment capital intensity (%) |  | **9** |  | 10 |  | (1 | )pt. |
| Wireline segment capital intensity (%) |  | **29** |  | 30 |  | (1 | )pt. |
| Consolidated capital intensity2 (%) |  | **18** |  | 19 |  | (1 | )pt. |

(1)              Capital expenditures include assets purchased, excluding right-of-use lease assets, but not yet paid for, and therefore differ from Cash payments for capital assets, excluding spectrum licences, as reported in the condensed interim consolidated statements of cash flows. Refer to *Note 31* of the interim consolidated financial statements for further information.

(2)              See *Section 11.1 Non-GAAP and other financial measures*.

**Consolidated capital expenditures** decreased slightly by $4 million in the first quarter of 2019, representing a decline of 0.6%. With our ongoing investments, we are continuing to advance wireless speeds and coverage, including pre-positioning for 5G, as well as continuing to connect additional homes and businesses directly to our fibre-optic technology and support systems reliability and operational efficiency and effectiveness efforts. These investments also support our Internet and TELUS TV subscriber growth, as well as our customers’ demand for faster Internet speeds, and extend the reach and functionality of our business and healthcare solutions. At March 31, 2019, we made TELUS PureFibre available to approximately 63% of our broadband footprint.

**7.4 Cash provided by financing activities**

**Analysis of changes in cash provided by financing activities**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  | Change |  |
| Dividends paid to holders of Common Shares |  | **(303** | **)** | (279 | ) | (24 | ) |
| Issue (repayment) of short-term borrowings, net |  | **400** |  | (6 | ) | 406 |  |
| Long-term debt issued, net of redemptions and repayment |  | **249** |  | 266 |  | (17 | ) |
| Issue of shares by subsidiary to non-controlling interests |  | **—** |  | 24 |  | (24 | ) |
| Other |  | **—** |  | (5 | ) | 5 |  |
|  |  | **346** |  | — |  | 346 |  |

**Dividends paid to holders of Common Shares**

In connection with dividends declared during the first quarter of 2019, the dividend reinvestment and share purchase plan trustee (Trustee) purchased shares from Treasury for the dividend reinvestment and share purchase plan instead of acquiring Common Shares in the stock market. During the first quarter of 2019, cash dividends paid to the holders of Common Shares increased by $24 million, which reflects higher dividend rates under our dividend growth program (see *Section 4.3*), as well as an increase in the number of shares outstanding. During the first quarter of 2019, the Trustee purchased dividend reinvestment Common Shares for $23 million, with no discount applicable.

In April 2019, we paid dividends of $329 million to the holders of Common Shares.

**Issue (repayment) of short-term borrowings, net**

In the first quarter of 2019, we drew-down amounts advanced to us from an arm’s-length securitization trust to finance working capital.

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**Long-term debt issues and repayments**

For the first quarter of 2019, long-term debt issues net of repayments were $249 million, a decrease of $17 million, primarily composed of:

                  A net increase in commercial paper outstanding, including foreign exchange effects, of $331 million to a balance of $1,105 million (US$827 million) at March 31, 2019, from a balance of $774 million (US$569 million) at December 31, 2018. Our commercial paper program, when utilized, provides low-cost funds and is fully backstopped by the five-year committed credit facility (see *Section 7.6 Credit facilities*).

                  A decrease in net draws on the TELUS International (Cda) Inc. credit facility, including foreign exchange effects, of $15 million (US$5 million). As at March 31, 2019, net draws were $412 million ($405 million net of unamortized issue costs), all of which were denominated in U.S. dollars (US$308 million). As at December 31, 2018, net draws were $427 million ($419 million net of unamortized issue costs), all of which were denominated in U.S. dollars (US$313 million). The credit facility is non-recourse to TELUS Corporation.

                  Repayments of lease liabilities of $88 million, largely related to the implementation of IFRS 16, where the principal component of leases which were previously accounted for as operating leases and previously classified within cash provided by operating activities is reflected as cash used by financing activities under the new accounting standard.

In comparison, for the first quarter of 2018, long-term debt issues net of repayments were $266 million and were primarily composed of:

                  A net decrease in commercial paper outstanding, including foreign exchange effects, of $297 million from a balance of $1,140 million (US$908 million) at December 31, 2017.

                  An increase in net draws on the TELUS International (Cda) Inc. credit facility, including foreign exchange effects, of $95 million (US $66 million). As at December 31, 2017, net draws were $346 million ($339 million net of unamortized issue costs), all of which were denominated in U.S. dollars (US$276 million).

                  The March 1, 2018, issues of $600 million of senior unsecured Series CX notes at 3.625% due March 1, 2028, and $150 million through the re-opening of Series CW notes at 4.70% due March 6, 2048.

                  The March 2018 repayment of $250 million of Series CS notes.

The average term to maturity of our long-term debt (excluding commercial paper, the revolving component of the TELUS International (Cda) Inc. credit facility and lease liabilities) was approximately 12.0 years as at March 31, 2019, a decrease from approximately 12.2 years as at December 31, 2018, and an increase from approximately 10.8 years at March 31, 2018. Additionally, our weighted average cost of long-term debt (excluding commercial paper, the revolving component of the TELUS International (Cda) Inc. credit facility and lease liabilities) was 4.17% as at March 31, 2019, as compared to 4.18% as at December 31, 2018, and 4.22% at March 31, 2018.

**Issue of shares by subsidiary to non-controlling interests**

In connection with our February 2018 acquisition of 65% of Xavient, our TELUS International (Cda) Inc. subsidiary issued shares to non-controlling interests. There was no comparable activity in the first quarter of 2019.

**7.5 Liquidity and capital resource measures**

**Net debt** was $15.7 billion at March 31, 2019, an increase of $1.9 billion when compared to one year earlier, resulting mainly from the $1.4 billion recognition of lease liabilities upon the application of IFRS 16 effective January 1, 2019, an increase in Short-term borrowings and an increase in commercial paper outstanding. These increases were partially offset by higher Cash and temporary investments, net.

**Fixed-rate debt as a proportion of total indebtedness** was 87% as at March 31, 2019, down from 90% one year earlier, mainly due to an increase in Short-term borrowings and a net increase in commercial paper outstanding, which emulates floating-rate debt. This was partly offset by a decrease in the amounts drawn on the TELUS International (Cda) Inc. credit facility, which is non-recourse to TELUS Corporation.

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**Net debt to EBITDA — excluding restructuring and other costs** ratio was 2.84 times, as measured at March 31, 2019, up from 2.71 times one year earlier, largely attributed to the $1.4 billion recognition of lease liabilities upon the application of IFRS 16 effective January 1, 2019 as we did not retrospectively adjust amounts reported for periods prior to fiscal 2019 (see *Note 2(a)* of the interim consolidated financial statements). Our long-term objective for this measure is within a range of 2.00 to 2.50 times, which we believe is consistent with maintaining investment grade credit ratings in the range of BBB+, or the equivalent, and providing reasonable access to capital. As at March 31, 2019, this ratio remains outside of the long-term objective range due to prior issuances of incremental debt, primarily due to the funding of spectrum licences, and the elevated strategic capital investments in our fibre-optic infrastructure, partially offset by growth in EBITDA — excluding restructuring and other costs (including that the transition method for IFRS 16 has currently only included three months effect on the trailing EBITDA). These acquired licences have more than doubled our national spectrum holdings and represent an investment to extend our network capacity to support continuing data consumption growth, as well as growth in our wireless subscriber base. Given the cash demands of the recent 2019 and upcoming spectrum auctions, the assessment of the guideline and return to the objective range remains to be determined; however, it is our intent to return to a ratio below 2.50 times in the medium term (following upcoming spectrum auctions), consistent with our long-term strategy. While this ratio exceeds our long-term objective range, we are well in compliance with the leverage ratio covenant in our credit facilities, which states that we may not permit our net debt to operating cash flow ratio to exceed 4.00:1.00 (see *Section 7.6 Credit facilities*).

**Liquidity and capital resource measures**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| As at, or 12-month periods ended, March 31 |  | **2019** |  | 2018 |  | Change |  |
| **Components of debt and coverage ratios1** ($ millions) |  |  |  |  |  |  |  |
| Net debt |  | **15,732** |  | 13,785 |  | 1,947 |  |
| EBITDA — excluding restructuring and other costs |  | **5,533** |  | 5,091 |  | 442 |  |
| Net interest cost |  | **660** |  | 582 |  | 78 |  |
| **Debt ratios** |  |  |  |  |  |  |  |
| Fixed-rate debt as a proportion of total indebtedness (%) |  | **87** |  | 90 |  | (3 | )pts. |
| Average term to maturity of long-term debt (excluding commercial paper, the revolving component of the TELUS International (Cda) Inc. credit facility and lease liabilities) (years) |  | **12.0** |  | 10.8 |  | 1.2 |  |
| Weighted average interest rate on long-term debt (excluding commercial paper, the revolving component of the TELUS International (Cda) Inc. credit facility and lease liabilities) (%) |  | **4.17** |  | 4.22 |  | (0.05 | )pts. |
| Net debt to EBITDA — excluding restructuring and other costs1 (times) |  | **2.84** |  | 2.71 |  | 0.13 |  |
| **Coverage ratios1 (times)** |  |  |  |  |  |  |  |
| Earnings coverage |  | **4.3** |  | 4.8 |  | (0.5 | ) |
| EBITDA — excluding restructuring and other costs interest coverage |  | **8.4** |  | 8.8 |  | (0.4 | ) |
| **Other measures1 (%)** |  |  |  |  |  |  |  |
| Dividend payout ratio |  | **79** |  | 76 |  | 3 | pts. |
| Dividend payout ratio of adjusted net earnings |  | **82** |  | 76 |  | 6 | pts. |

(1)         See *Section 11.1 Non-GAAP and other financial measures.*

**Earnings coverage** ratio for the 12-month period ended March 31, 2019 was 4.3 times, down from 4.8 times one year earlier. An increase in income before borrowing costs and income taxes increased the ratio by 0.2, while an increase in borrowing costs, including the recognition of interest (currently only for the three-month period ended March 31, 2019) on lease liabilities upon the application of IFRS 16, reduced the ratio by 0.7.

**EBITDA — excluding restructuring and other costs interest coverage** ratio for the 12-month period ended March 31, 2019 was 8.4 times, down from 8.8 times one year earlier. Growth in EBITDA — excluding restructuring and other costs increased the ratio by 0.6, while an increase in net interest costs, including the recognition of interest (currently only for the three-month period ended March 31, 2019) on lease liabilities upon the application of IFRS 16, reduced the ratio by 1.0.

**Dividend payout ratios:** Actual dividend payout decisions will continue to be subject to our Board’s assessment and the determination of our financial position and outlook, as well as our dividend payout objective range of 65 to 75% of prospective net earnings per share for 2019. The disclosed basic and adjusted dividend payout ratios are historical measures utilizing the last four quarters of dividends declared and earnings per share. We currently expect that we will be within our objective range when considered on a prospective dividend payout ratio basis within the medium term. So as to be consistent with the way we manage our business, we have revised our target guideline, effective January 1, 2020, to be calculated as 60 to 75% of free cash flow on a prospective basis. The historical measures for the 12-month period ended March 31, 2019, are presented for illustrative purposes in evaluating our target guideline, and both exceeded the objective range.

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**7.6 Credit facilities**

At March 31, 2019, we had available liquidity of approximately $1.1 billion from the TELUS revolving credit facility and approximately $204 million of available liquidity from the TELUS International (Cda) Inc. credit facility. In addition, we had drawn the maximum amount of $500 million available under our trade receivables securitization program (see *Section 7.7 Sale of trade receivables*). We are well within our objective of generally maintaining at least $1.0 billion of available liquidity.

**TELUS revolving credit facility**

We have a $2.25 billion (or U.S. dollar equivalent) revolving credit facility with a syndicate of financial institutions, expiring May 31, 2023. The revolving credit facility is used for general corporate purposes, including the backstop of commercial paper, as required.

**TELUS revolving credit facility at March 31, 2019**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ($ millions) |  | Expiry |  | Size |  | Drawn |  | Outstanding undrawn letters of credit |  | Backstop for commercial paper program |  | Available liquidity |  |
| Five-year revolving facility 1 |  | May 31, 2023 |  | 2,250 |  | — |  | — |  | (1,105 | ) | 1,145 |  |

(1)         Canadian dollars or U.S. dollar equivalent.

Our revolving credit facility contains customary covenants, including a requirement that we not permit our consolidated leverage ratio to exceed 4.00 to 1.00 and that we not permit our consolidated coverage ratio to be less than 2.00 to 1.00 at the end of any financial quarter. As at March 31, 2019, our consolidated leverage ratio was approximately 2.84 to 1.00, and our consolidated coverage ratio was approximately 8.38 to 1.00. These ratios are expected to remain well within the covenants. There are certain minor differences in the calculation of the leverage ratio and coverage ratio under the revolving credit facility, as compared with the calculation of Net debt to EBITDA — excluding restructuring and other costs and EBITDA — excluding restructuring and other costs interest coverage. Historically, the calculations have not been materially different. The covenants are not impacted by revaluation, if any, of Property, plant and equipment, Intangible assets or Goodwill for accounting purposes. Continued access to our credit facilities is not contingent on maintaining a specific credit rating.

**Commercial paper**

TELUS Corporation has an unsecured commercial paper program, which is backstopped by our revolving credit facility, enabling us to issue commercial paper up to a maximum aggregate amount of $1.4 billion as at March 31, 2019, including a U.S. dollar-denominated commercial paper program for up to US$1.0 billion within this maximum aggregate amount. Foreign currency forward contracts are used to manage currency risk arising from issuing commercial paper denominated in U.S. dollars. The commercial paper program is to be used for general corporate purposes, including, but not limited to, capital expenditures and investments. Our ability to reasonably access the commercial paper market in Canada and the U.S. is dependent on our credit ratings (see *Section 7.8 Credit ratings*).

**TELUS International (Cda) Inc. credit facility**

As at March 31, 2019, TELUS International (Cda) Inc. had a bank credit facility, secured by its assets, expiring on December 20, 2022, with a syndicate of financial institutions. The credit facility is composed of a US$350 million revolving component and an amortizing US$120 million term loan component. The credit facility is non-recourse to TELUS Corporation. As at March 31, 2019, $412 million ($405 million net of unamortized issue costs) was outstanding, all of which was denominated in U.S. dollars (US$308 million), with the revolving component having a weighted average interest rate of 4.22%.

**Other letter of credit facilities**

At March 31, 2019, we had $186 million of letters of credit outstanding (December 31, 2018 — $184 million) issued under various uncommitted facilities; such letter of credit facilities are in addition to the ability to provide letters of credit pursuant to our committed bank credit facility. Available liquidity under various uncommitted letters of credit facilities was $129 million at March 31, 2019. We arranged $880 million of incremental letters of credit to allow us to participate in Innovation, Science and Economic Development Canada’s 600 MHz wireless spectrum auction that was held in March-April 2019, as discussed further in *Note 18(a)* of the interim consolidated financial statements. Such letters of credit will remain outstanding until such time as our final payment for any awarded spectrum licences have been made.

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**7.7 Sale of trade receivables**

TELUS Communications Inc., a wholly owned subsidiary of TELUS, is a party to an agreement with an arm’s-length securitization trust associated with a major Schedule I Canadian bank, under which it is able to sell an interest in certain trade receivables for an amount up to a maximum of $500 million. The agreement is in effect until December 31, 2021, and as at March 31, 2019, we had drawn the maximum amount of $500 million. (See *Note 22* of the interim consolidated financial statements.) Sales of trade receivables in securitization transactions are recognized as collateralized Short-term borrowings and thus do not result in our de-recognition of the trade receivables sold.

TELUS Communications Inc. is required to maintain at least a BB credit rating by DBRS Ltd., or the securitization trust may require the sale program to be wound down prior to the end of the term. The minimum credit rating was exceeded as of May 9, 2019.

**7.8 Credit ratings**

There were no changes to our investment grade credit ratings as of May 9, 2019.

**7.9 Financial instruments, commitments and contingent liabilities**

**Financial instruments**

Our financial instruments and the nature of certain risks that they may be subject to were described in *Section 7.9* of our 2018 annual MD&A.

*Liquidity risk*

As a component of our capital structure financial policies, discussed in *Section 4.3 Liquidity and capital resources*, we manage liquidity risk by: maintaining a daily cash pooling process that enables us to manage our available liquidity and our liquidity requirements according to our actual needs; maintaining an agreement to sell trade receivables to an arm’s-length securitization trust; maintaining bilateral bank facilities and syndicated credit facilities; maintaining a commercial paper program; maintaining an in-effect shelf prospectus; continuously monitoring forecast and actual cash flows; and managing maturity profiles of financial assets and financial liabilities.

As at March 31, 2019, we could, after reflecting the offering of the 3.30% Notes (see *Section 1.3*), offer $1.5 billion of debt or equity securities pursuant to a shelf prospectus that is in effect until June 2020.

As at the date of this MD&A, we had liquidity of approximately $1.1 billion available from the TELUS revolving credit facility and approximately $204 million of available liquidity from the TELUS International (Cda) Inc. credit facility (see *Section 7.6 Credit facilities*). In addition, we had drawn the maximum amount of $500 million available under our trade receivables securitization program (see *Section 7.7 Sale of trade receivables*). This adheres to our objective of generally maintaining at least $1 billion of available liquidity. We believe that our investment grade credit ratings contribute to reasonable access to capital markets.

**Commitments and contingent liabilities**

*Purchase obligations*

As at March 31, 2019, our contractual commitments related to the acquisition of property, plant and equipment were $205 million through to December 31, 2022, as compared to $177 million over a period ending December 31, 2022, reported in our 2018 annual report. The increase was primarily due to higher purchase commitments at March 31, 2019, related to a new purchase agreement with a supplier.

*Claims and lawsuits*

A number of claims and lawsuits (including class actions and intellectual property infringement claims) seeking damages and other relief are pending against us and, in some cases, other wireless carriers and telecommunications service providers. As well, we have received notice of, or are aware of, certain possible claims (including intellectual property infringement claims) against us and, in some cases, other wireless carriers and telecommunications service providers.

It is not currently possible for us to predict the outcome of such claims, possible claims and lawsuits due to various factors, including: the preliminary nature of some claims; uncertain damage theories and demands; an incomplete factual record; uncertainty concerning legal theories and procedures and their resolution by the courts, at both the trial and the appeal levels; and the unpredictable nature of opposing parties and their demands.

However, subject to the foregoing limitations, management is of the opinion, based upon legal assessments and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would have a material effect on our financial position and the results of our operations, including cash flows, with the exception of the items disclosed in*Note 29*of the interim consolidated financial statements.

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*Indemnification obligations*

As at March 31, 2019, we had no liability recorded in respect of our indemnification obligations.

**7.10 Outstanding share information**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Outstanding shares (millions)** |  | **March 31, 2019** |  | **April 30, 2019** |
| Common Shares |  | 601 |  | 601 |
| Common Share options — all exercisable (one for one) |  | <1 |  | <1 |

**7.11 Transactions between related parties**

**Transactions with key management personnel**

Our key management personnel have authority and responsibility for overseeing, planning, directing and controlling our activities and consist of our Board of Directors and our Executive Leadership Team. Total compensation expense for key management personnel was $19 million in the first quarter of 2019, as compared to $7 million in the first quarter of 2018. The increase in compensation expense for key management personnel was due to greater share-based compensation primarily arising from metrics affecting the fair value of the relative total shareholder return market performance condition-based restricted share units. See *Note 30(a)* of the interim consolidated financial statements for additional details.

**Transactions with defined benefit pension plans**

We provided management and administrative services to our defined benefit pension plans. Charges for these services were on a cost recovery basis and were immaterial.

**Transactions with real estate joint ventures**

In the first quarter of 2019, we had transactions with real estate joint ventures, which are related parties to us, as set out in *Note 21* of the interim consolidated financial statements.

For the TELUS Sky real estate joint venture, commitments and contingent liabilities include construction-related contractual commitments through to 2020 (approximately $42 million at March 31, 2019) and construction financing ($342 million with three Canadian financial institutions as 66-2/3% lender and TELUS as 33-1/3% lender). We have entered into a lease agreement with the TELUS Sky real estate joint venture; for lease accounting purposes, the lease commenced during the three-month period ended March 31, 2019.

**8.**              **Accounting matters**

**8.1 Critical accounting estimates and judgments**

Our significant accounting policies are described in *Note 1* of the Consolidated financial statements for the year ended December 31, 2018. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates, assumptions and judgments that affect: the reported amounts of assets and liabilities at the date of the financial statements; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our critical accounting estimates and significant judgments are generally discussed with the Audit Committee each quarter and are described in *Section 8.1* of our 2018 annual MD&A, which is hereby incorporated by reference.

**8.2 Accounting policy developments**

Our accounting policy developments were discussed in *Section 8.2 Accounting policy developments* of our 2018 annual MD&A. See *Note 2* of the interim consolidated financial statements for additional details.

**9.**              **Update to general trends, outlook and assumptions, and regulatory developments and proceedings**

This section contains forward-looking statements, which should be read together with the *Caution regarding forward-looking statements*at the beginning of this MD&A.

The assumptions for our 2019 outlook, as described in *Section 9* *General trends, outlook and assumptions, and regulatory developments and proceedings* of our 2018 annual MD&A, remain the same, except for the following updates:

                  Our revised estimate for economic growth in Canada in 2019 is 1.5% (previously 2.0% as reported in our 2018 annual MD&A). For our incumbent local exchange carrier provinces in Western Canada, we currently estimate that

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annual rates of economic growth will be 1.9% in 2019 in B.C. (previously 2.3% as reported in our 2018 annual MD&A) and 1.2% in Alberta (previously 2.1% as reported in our 2018 annual MD&A).

                  Our revised estimate for the unemployment rate will be 4.5% in 2019 in B.C. (previously 4.9% as reported in our 2018 annual MD&A) and 6.8% in Alberta (previously 6.2% as reported in our 2018 annual MD&A).

The extent to which these economic growth estimates affect us and the timing of their impact will depend upon the actual experience of specific sectors of the Canadian economy.

**9.1 Communications industry regulatory developments and proceedings**

Our telecommunications, broadcasting and radiocommunication services are regulated under federal laws by various authorities, including the Canadian Radio-television and Telecommunications Commission (CRTC), Innovation, Science and Economic Development Canada (ISED), Canadian Heritage, and the Competition Bureau.

The following is a summary of certain significant regulatory developments and proceedings relevant to our business and our industry. This summary is not intended to be a comprehensive legal analysis and description of all of the specific issues described. Although we have indicated where we do not currently expect the outcome of a development or proceeding to be material to us, there can be no assurance that the expected outcome will occur or that our current assessment of its likely impact on us will be accurate. See *Section 10.2 Regulatory matters* of our 2018 annual MD&A.

**Radiocommunication licences and spectrum-related matters**

ISED regulates, among other matters, the allocation and use of radio spectrum in Canada and licenses radio apparatus, frequency bands and/or radio channels within various frequency bands to service providers and private users. The department also establishes the terms and conditions attaching to such radio authorizations, including restrictions on licence transfers, coverage obligations, research and development obligations, annual reporting, and obligations concerning mandated roaming and antenna site sharing with competitors.

*600 MHz spectrum auction*

On March 12, 2019, ISED commenced the auction of 600 MHz band spectrum, which included a 30 MHz set-aside for facilities-based providers who serve less than 10% of the national subscriber share and are actively providing commercial telecommunication services to the general public in the licensed area of interest. The 600 MHz auction concluded on April 4, 2019, and ISED published the results on April 10, 2019. TELUS successfully acquired 20 MHz in B.C., Alberta, Saskatchewan, Eastern Ontario, Southern Quebec and Eastern Quebec equating to a national average of 11.3 MHz, at a cost of $931 million ($2.35 per MHz-pop).

*Repurposing the 3500 MHz spectrum to support 5G*

On December 18, 2014, ISED released its *Decisions Regarding Policy Changes in the 3500 MHz Band (3475 — 3650 MHz) and a New Licensing Process* noting the band would be fundamentally reallocated for flexible (mobile and fixed) use in the near future. On June 6, 2018, ISED released its *Consultation on Revisions to the 3500 MHz Band to Accommodate Flexible Use and Preliminary Consultation on Changes to the 3800 MHz Band*, proposing to claw back 56 to 66% of the band from fixed wireless incumbents (predominantly Inukshuk, which is a joint venture owned by Bell and Rogers, and Xplornet) and to auction the amount clawed back in 2020. In our consultation response, we called for a 100% clawback in large population centres. After ISED issues a transition decision, it will then consult on a licensing framework (i.e. auction rules and conditions of licence) for the 3500 MHz band. There is a risk that the transition decision and the auction rules will favour certain carriers over us and impact our ability to acquire 3500 MHz band spectrum.

*Repurposing mmWave spectrum to support 5G*

On June 5, 2017, ISED issued a *Consultation on Releasing Millimetre Wave Spectrum to Support 5G*, proposing to release 3.25 GHz of millimetre wave (mmWave) spectrum for licensed use and 7 GHz for licence-exempt use largely in line with recent U.S. mmWave developments. On June 6, 2018, ISED released an *Addendum to the Consultation on Releasing Millimetre Wave Spectrum to Support 5G*, proposing to release an additional 1 GHz of spectrum in the 26.5 — 27.5 GHz range. After issuing a repurposing decision, ISED will then consult on a licensing framework (i.e. auction rules and conditions of licence) for the mmWave bands. There is a risk that the repurposing decisions and the auction rules will favour certain carriers over us and impact our ability to acquire mmWave band spectrum.

**Regulatory and federal government reviews**

The CRTC and the federal government have initiated public proceedings to review various matters. They are discussed below.

*Review of mobile wireless services*

On February 28, 2019, the CRTC released its anticipated consultation to review the regulatory framework for wireless services. The review will examine three major issues — the level of competition in the retail market, the current wholesale mobile wireless service regulatory framework, with a focus on wholesale mobile virtual network operator (MVNO) access

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and the future of mobile wireless services in Canada, with a focus on reducing barriers to infrastructure deployment. The CRTC also provided a preliminary view that there should be more opportunity for MVNOs. We will participate in this proceeding, which will take place over the remainder of 2019 and into 2020. An oral hearing is scheduled to begin on January 13, 2020. We will file evidence to demonstrate the high-performance of Canadian wireless services on dimensions including network coverage, network quality and availability of service and pricing. The impact of this proceeding on us will not be known until a decision is issued by the CRTC. That decision is not expected until mid-2020, at the earliest.

*Wireline wholesale services follow-up*

On July 22, 2015, the CRTC released *Review of wholesale wireline services and associated policies, Telecom Regulatory Policy CRTC 2015-326*. The major component of this decision was that the CRTC ordered the introduction of a disaggregated wholesale high-speed Internet access service for Internet service provider (ISP) competitors. This will include access to fibre to the premises (FTTP) facilities. This requirement is being phased in geographically beginning in the largest markets in Ontario and Quebec (i.e. in the serving territories of Bell, Cogeco, Rogers and Videotron). The CRTC initiated a follow-up proceeding to determine the technical configurations, appropriate costs and wholesale cost-based rates in those regions.

The FTTP follow-up activities directed in *Telecom Regulatory Policy CRTC 2015-326* remain ongoing. For the second phase, which involves FTTP wholesale services for the rest of Canada (including our serving territories), a proceeding on technical configurations for disaggregated wholesale services commenced in 2017 and the associated cost study and tariff review will follow. The timing of the implementation of disaggregated wholesale services will also be affected by the recent application filed by the Canadian Network Operators Consortium Inc. (CNOC) to review the wholesale high-speed Internet access services framework. The CRTC, after conducting a review of CNOC’s proposed interim relief, has issued an order to suspend the transition period for aggregated wholesale services pending the review of the substantive elements of CNOC’s application. We anticipate no material adverse impact in the short term from the CRTC’s decision on the CNOC application. Given the phased implementation of the mandated provision of wholesale access to our FTTP network, it is too early to determine the impact *Telecom Regulatory Policy 2015-326* will have on us in the longer term.

*Follow-up proceedings further to the CRTC report on sales practices of large telecommunications carriers*

On February 20, 2019, the CRTC released its*Report on Aggressive or Misleading Communications Retail Sales Practices*. The CRTC published this report further to a proceeding it commenced, at the direction of the Governor in Council, to examine claims of aggressive or misleading sales practices concerning telecommunications services, the prevalence and impact on consumers, and potential solutions. While the report itself is not a legally binding direction or order, it does note that the CRTC may commence certain follow-up proceedings and activities, including, but not limited to, a new secret shopper program, enhanced consumer information tools and complaints disclosure, and a proceeding to determine whether mandatory compliance measures and enhanced public reporting measures should be imposed on providers that fall below a threshold of acceptable behaviour. Until the CRTC releases greater details on its follow-up activities, we are unable to determine any new potential impacts on us.

*Competition Bureau market study on competition in broadband services*

On May 10, 2018, the Competition Bureau commenced a market study to better understand the competitive dynamics of Canada’s broadband Internet services industry. The Bureau states that the purpose of the study is to better understand these market outcomes and the competitive dynamics of Canadian broadband markets more generally, including whether resellers are fulfilling their role in placing increased competitive discipline on traditional broadband services provided by telephone and cable companies. The Bureau expects to publish the results of the study in a public report, which may include recommendations to relevant government authorities, as appropriate. The Bureau states that the study will enable it to, among other things: make informed regulatory interventions regarding steps that regulators or policymakers could take to further support competition in the broadband industry; and increase its knowledge and understanding of the competitive dynamics of the broadband industry, and the telecommunications industry more generally, to inform the Bureau’s future work. We are participating in this proceeding and filed our initial submissions with the Bureau on August 31, 2018. The Bureau continues to undertake further stakeholder engagement and research, as well as information analysis. The Bureau intends to publish a draft report in May 2019, at which point it will hold public consultations and then publish a final report in June 2019.

Study is found here: <https://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04469.html>

*Phase-out of the local service subsidy regime*

On June 26, 2018, the CRTC issued *Phase-out of the local service subsidy regime, Telecom Regulatory Policy CRTC 2018-213*. In this decision, the CRTC determined that it would phase out the existing local service subsidy over three years, from January 1, 2019 to December 31, 2021. In September 2018, the Independent Telecommunications Providers Association (ITPA), which represents small incumbent local exchange carriers (ILECs), brought an application to the CRTC to review and vary this decision. In its application, the ITPA seeks to keep the existing local service subsidy

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regime in place. The record of this proceeding is now closed with a decision anticipated later this year. If upheld, the impact of this decision is not expected to be material.

*Review of the price cap and local forbearance regimes*

Simultaneously with the release of the *Phase-out of the local service subsidy regime* decision noted above, the CRTC issued *Review of the price cap and local forbearance regimes, Telecom Notice of Consultation CRTC 2018-214*. In this proceeding, the CRTC is reviewing, among other things: pricing constraints for residential local exchange services; whether compensation to ILECs is required given that the local service subsidy is being eliminated further to the *Phase-out of the local service subsidy regime* decision; whether there is still a need for an exogenous factor mechanism in the price cap regimes; and whether changes are necessary to test for local forbearance. Final submissions were filed on March 22, 2019 with a decision anticipated later this year. The impact of this decision is unknown at this time.

*Code of conduct for retail Internet services*

On November 9, 2018, the CRTC issued *Call for comments — Proceeding to establish a mandatory code for Internet services, Telecom Notice of Consultation CRTC 2018-422*. In this proceeding, the CRTC is considering establishing a mandatory code of conduct to address the clarity of contracts for retail fixed access Internet services and related issues. Among other things, the CRTC is proposing mandating the provision of a critical information summary, limiting early cancellation fees, and requiring that ISPs offer a cooling-off period for customers who sign term contracts. In our written submissions filed December 19, 2018 and reply filed January 28, 2019, we stressed that TELUS already undertakes many of these initiatives as part of our customers first initiatives, but argued that certain proposals should not be adopted, including, among other things, certain restrictions, early cancellation fees and the CRTC’s proposal to give a new code retrospective effect. The proceeding remains ongoing, with a decision anticipated by the end of 2019. It is too early to determine the impact of this proceeding on us.

*Proposed policy direction to CRTC*

Under section 8 of the *Telecommunications Act*, the Governor in Council may provide broad direction to the CRTC on how to implement the policy objectives set out in the Act. On February 26, 2019, the Governor in Council proposed a new direction under this power. The draft direction would require the CRTC, when regulating, to take into account how regulation can promote competition, affordability, consumer interests and innovation. The Governor in Council has further advised that it intends for the draft direction, if implemented, to exist in complementary fashion to the previous policy direction, which requires the CRTC to, among other things, rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives. The degree, if any, to which this could affect us is unknown at this point and it is too early to conclusively determine any potential impact on us.

*Potential for new security legislation*

In the federal budget released March 19, 2019, the government announced its intention to propose new legislation and make necessary amendments to existing federal legislation in order to introduce a new critical cyber systems framework. The degree, if any, to which this could affect us is unknown at this point and it is too early to conclusively determine any potential impact on us.

**Broadcasting-related issues**

*Broadcasting licences held by TELUS*

Our regional licences to operate broadcasting distribution undertakings in B.C. and Alberta have been granted renewals in Broadcasting Decision CRTC 2018-267, which extend the licence terms to August 31, 2023. Our regional broadcasting distribution licence to serve Quebec has also been granted an additional administrative renewal, which has extended the current licence terms to June 30, 2019. A renewal of our regional licence to operate broadcasting distribution undertakings in Quebec is expected by the end of the second quarter of 2019. Our licence to operate a national video-on-demand service was renewed to August 31, 2023, as part of Broadcasting Decision CRTC 2018-20.

*CRTC ordered to report back to federal government on distribution models of the future*

On September 22, 2017, the Governor in Council issued an Order in Council pursuant to section 15 of the *Broadcasting Act* to request that the CRTC hold hearings and report on distribution models of the future and how Canadians will access programming. On May 31, 2018, the CRTC issued its report, titled Harnessing Change: The Future of Programming Distribution in Canada, which provides an overview of the state of programming content distribution in Canada and sets out some options for change to the policy framework for consideration. This report will likely form part of the record for the joint review of the *Broadcasting Act* and *Telecommunications Act* by a panel of experts as described below. The CRTC has also announced in its forecast of activities for 2019 to 2020 that it intends to implement some of the new initiatives discussed in its report. Further consultations are anticipated but the outcomes are not expected to have any negative material impact on us.

*Review of the Telecommunications Act and the Broadcasting Act*

On June 5, 2018, the federal government announced a joint review of the *Telecommunications Act* and the *Broadcasting Act* to be conducted by a panel of seven experts, which will have until January 31, 2020 to provide its final

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recommendations. Written submissions in response to the panel’s call for comments were filed on January 11, 2019, and the panel expects to issue an interim report no later than June 30, 2019 on what it has heard during this consultation process. At this time, we do not know the impact of the review and any resulting amendments to the *Telecommunications Act*, the *Broadcasting Act* or the *Radiocommunication Act* (all three of which form the main legislative framework for communications).

*Review of the Copyright Act and Copyright Board*

The *Copyright Act*’s mandated five-year review was due in 2017 and the process for review via parliamentary committee was announced in December 2017. The Standing Committee on Industry, Science and Technology, with the assistance of the Standing Committee on Canadian Heritage, completed the review of the *Copyright Act* and its policy framework in January 2019. The issuance of a report providing recommendations to the government for amendments to the *Copyright Act*is expected in the first half of 2019. The policy approach for copyright has traditionally been based on a balance of interests of creators and consumers, and as a result, changes to the *Copyright Act* are not expected to have a negative material impact on us.

The Copyright Board reform process was completed in 2018, and reforms were implemented by the government through *Bill C-86, A second Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures*, which received Royal Assent on December 13, 2018. The Copyright Act provisions relating to Copyright Board reform came into force on April 1, 2019.

**10.**       **Risks and risk management**

The principal risks and uncertainties that could affect our future business results and associated risk mitigation activities were described in our 2018 annual MD&A and have not materially changed since December 31, 2018. Reference is made as well to the summary of risks and uncertainties in the *Caution regarding forward-looking statements* at the beginning of this MD&A.

**11.**       **Definitions and reconciliations**

**11.1 Non-GAAP and other financial measures**

We have issued guidance on and report certain non-GAAP measures that are used to evaluate the performance of TELUS, as well as to determine compliance with debt covenants and to manage our capital structure. As non-GAAP measures generally do not have a standardized meaning, they may not be comparable to similar measures presented by other issuers. Securities regulations require such measures to be clearly defined, qualified and reconciled with their nearest GAAP measure.

**Adjusted Net income and adjusted basic earnings per share:**These measures are used to evaluate performance at a consolidated level and exclude items that may obscure the underlying trends in business performance. These measures should not be considered alternatives to Net income and basic earnings per share in measuring TELUS’ performance. Items that may, in management’s view, obscure the underlying trends in business performance include significant gains or losses associated with real estate development partnerships, gains on exchange of wireless spectrum licences, restructuring and other costs, long-term debt prepayment premiums (when applicable), income tax-related adjustments, asset retirements related to restructuring activities and gains arising from business combinations. (See*Reconciliation of adjusted Net income*and*Reconciliation of adjusted basic EPS*in *Section 1.3.*)

**Capital intensity:** This measure is calculated as capital expenditures (excluding spectrum licences) divided by total operating revenues. This measure provides a basis for comparing the level of capital expenditures to those of other companies of varying size within the same industry.

**Dividend payout ratio:** This is a historical measure calculated as the sum of the last four quarterly dividends declared per Common Share, as reported in the financial statements, divided by the sum of basic earnings per share for the most recent four quarters for interim reporting periods. For fiscal years, the denominator is annual basic earnings per share. Our objective range for the annual dividend payout ratio is on a prospective basis, rather than on a trailing basis. (See *Section 7.5 Liquidity and capital resource measures.*)

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**Calculation of Dividend payout ratio**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 12-month periods ended March 31 ($) |  | **2019** |  | 2018 |  |
| Numerator – Sum of the last four quarterly dividends declared per Common Share |  | **2.14** |  | 1.995 |  |
| Denominator – Net income per Common Share |  | **2.70** |  | 2.62 |  |
| **Ratio (%)** |  | **79** |  | 76 |  |

**Dividend payout ratio of adjusted net earnings:** This ratio is a historical measure calculated as the sum of the last four quarterly dividends declared per Common Share, as reported in the financial statements, divided by adjusted net earnings per share. Adjusted net earnings per share is basic earnings per share, as used in the **Dividend payout ratio,** adjusted to exclude the gain on the exchange of wireless spectrum licences, gains and equity income related to real estate joint ventures, provisions related to business combinations, long-term debt prepayment premium (when applicable) and income tax-related adjustments.

**Calculation of Dividend payout ratio of adjusted net earnings**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 12-month periods ended March 31 ($) |  | **2019** |  | 2018 |  |
| Numerator – Sum of the last four quarterly dividends declared per Common Share |  | **2.14** |  | 1.995 |  |
| Adjusted net earnings ($ millions): |  |  |  |  |  |
| Net income attributable to Common Shares |  | **1,618** |  | 1,555 |  |
| Deduct non-recurring gains and equity income related to real estate joint ventures, after income taxes |  | **(150** | **)** | (1 | ) |
| Provisions related to business combinations, after income taxes |  | **(17** | **)** | (22 | ) |
| (Deduct net favourable) add net unfavourable income tax-related adjustments |  | **(7** | **)** | 21 |  |
| Add long-term debt prepayment premium, after income taxes |  | **25** |  | — |  |
| Add initial and committed donation to TELUS Friendly Future Foundation, after income taxes |  | **90** |  | — |  |
|  |  | **1,559** |  | 1,553 |  |
| Denominator – Adjusted net earnings per Common Share |  | **2.60** |  | 2.62 |  |
| **Adjusted ratio (%)** |  | **82** |  | 76 |  |

**Earnings coverage:** This measure is defined in the Canadian Securities Administrators’ National Instrument 41-101 and related instruments, and is calculated as follows:

**Calculation of Earnings coverage**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| 12-month periods ended March 31 ($ millions, except ratio) |  | **2019** |  | 2018 |  |
| Net income attributable to Common Shares |  | **1,618** |  | 1,555 |  |
| Income taxes (attributable to Common Shares) |  | **546** |  | 592 |  |
| Borrowing costs (attributable to Common Shares)1 |  | **653** |  | 569 |  |
| Numerator |  | **2,817** |  | 2,716 |  |
| Denominator – Borrowing costs |  | **653** |  | 569 |  |
| **Ratio (times)** |  | **4.3** |  | 4.8 |  |

(1)         Interest on Long-term debt plus Interest on short-term borrowings and other plus long-term debt prepayment premium, adding back capitalized interest and deducting borrowing costs attributable to non-controlling interests.

**EBITDA** (earnings before interest, income taxes, depreciation and amortization): We have issued guidance on and report EBITDA because it is a key measure used to evaluate performance at a consolidated level. EBITDA is commonly reported and widely used by investors and lending institutions as an indicator of a company’s operating performance and ability to incur and service debt, and as a valuation metric. EBITDA should not be considered an alternative to Net income in measuring TELUS’ performance, nor should it be used as an exclusive measure of cash flow. EBITDA as calculated by TELUS is equivalent to Operating revenues less the total of Goods and services purchased expense and Employee benefits expense.

We calculate EBITDA – excluding restructuring and other costs, as it is a component of the **EBITDA – excluding restructuring and other costs interest coverage** ratio and the **Net debt to EBITDA – excluding restructuring and other costs** ratio.

We also calculate **Adjusted EBITDA** to exclude items of an unusual nature that do not reflect our ongoing operations and should not, in our opinion, be considered in a long-term valuation metric or should not be included in an assessment of our ability to service or incur debt.

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**EBITDA reconciliation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  |
| **Net income** |  | **437** |  | 412 |  |
| Financing costs |  | **168** |  | 156 |  |
| Income taxes |  | **157** |  | 151 |  |
| Depreciation |  | **470** |  | 411 |  |
| Amortization of intangible assets |  | **147** |  | 139 |  |
| **EBITDA** |  | **1,379** |  | 1,269 |  |
| Add restructuring and other costs included in EBITDA |  | **36** |  | 34 |  |
| **EBITDA – excluding restructuring and other costs** and **Adjusted EBITDA** |  | **1,415** |  | 1,303 |  |

**EBITDA – excluding restructuring and other costs interest coverage:** This measure is defined as EBITDA –excluding restructuring and other costs, divided by Net interest cost, calculated on a 12-month trailing basis. This measure is similar to the coverage ratio covenant in our credit facilities, as described in *Section 7.6 Credit facilities*.

**Free cash flow:** We report this measure as a supplementary indicator of our operating performance. It should not be considered an alternative to the measures in the condensed interim consolidated statements of cash flows. Free cash flow excludes certain working capital changes (such as trade receivables and trade payables), proceeds from divested assets and other sources and uses of cash, as found in the condensed interim consolidated statements of cash flows. It provides an indication of how much cash generated by operations is available after capital expenditures (excluding purchases of spectrum licences) that may be used to, among other things, pay dividends, repay debt, purchase shares or make other investments. Free cash flow may be supplemented from time to time by proceeds from divested assets or financing activities.

**Free cash flow calculation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  |
| **EBITDA** |  | **1,379** |  | 1,269 |  |
| Deduct non-cash gains from the sale of property, plant and equipment |  | **(5** | **)** | (8 | ) |
| Restructuring and other costs, net of disbursements |  | **(33** | **)** | (4 | ) |
| Effects of contract asset, acquisition and fulfilment \* |  | **38** |  | 18 |  |
| Effects of lease principal |  | **(88** | **)** | — |  |
| Leases formerly accounted for as finance leases |  | **13** |  | — |  |
| Items from the condensed interim consolidated statements of cash flows: |  |  |  |  |  |
| Share-based compensation, net |  | **19** |  | 18 |  |
| Net employee defined benefit plans expense |  | **20** |  | 25 |  |
| Employer contributions to employee defined benefit plans |  | **(16** | **)** | (21 | ) |
| Interest paid1 |  | **(179** | **)** | (150 | ) |
| Interest received |  | **2** |  | 2 |  |
| Capital expenditures (excluding spectrum licences)2 |  | **(646** | **)** | (650 | ) |
| Free cash flow before income taxes |  | **504** |  | 499 |  |
| Income taxes paid, net of refunds |  | **(351** | **)** | (56 | ) |
| **Free cash flow** |  | **153** |  | 443 |  |

(1)              Includes $15 million interest paid on lease liabilities*.*

(2)              Refer to *Note 31* of the interim consolidated financial statements for further information.

**\* Reconciliation of effects of contract asset, acquisition and fulfilment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  |
| From *Note 6(c)* of the interim consolidated financial statements: |  |  |  |  |  |
| Net additions arising from operations |  | **321** |  | 281 |  |
| Amounts billed in period and thus reclassified to accounts receivable |  | **(346** | **)** | (304 | ) |
| Change in impairment allowance, net |  | **—** |  | (1 | ) |
| Other |  | **1** |  | — |  |
| From *Note 20* of the interim consolidated financial statements: |  |  |  |  |  |
| Additions – Total |  | **62** |  | 76 |  |
| Amortization – Total |  | **(76** | **)** | (70 | ) |
| **Effects of contract asset, acquisition and fulfilment** |  | **(38** | **)** | (18 | ) |

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The following reconciles our definition of free cash flow with cash provided by operating activities.

**Free cash flow reconciliation with Cash provided by operating activities**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  |
| **Free cash flow** |  | **153** |  | 443 |  |
| Add (deduct): |  |  |  |  |  |
| Capital expenditures (excluding spectrum licences) |  | **646** |  | 650 |  |
| Adjustments to reconcile to Cash provided by operating activities |  | **(9** | **)** | (255 | ) |
| **Cash provided by operating activities** |  | **790** |  | 838 |  |

**Net debt:** We believe that net debt is a useful measure because it represents the amount of Short-term borrowings and long-term debt obligations that are not covered by available Cash and temporary investments. The nearest IFRS measure to net debt is Long-term debt, including Current maturities of Long-term debt. Net debt is a component of the **Net debt to EBITDA – excluding restructuring and other costs** ratio.

**Calculation of Net debt**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| As at March 31 ($ millions) |  | **2019** |  | 2018 |  |
| Long-term debt including current maturities |  | **15,775** |  | 13,990 |  |
| Debt issuance costs netted against long-term debt |  | **90** |  | 75 |  |
| Derivative (assets) liabilities, net |  | **41** |  | 59 |  |
| Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. dollar-denominated long-term debt (excluding tax effects) |  | **(86** | **)** | (24 | ) |
| Cash and temporary investments, net |  | **(588** | **)** | (415 | ) |
| Short-term borrowings |  | **500** |  | 100 |  |
| **Net debt** |  | **15,732** |  | 13,785 |  |

**Net debt to EBITDA – excluding restructuring and other costs:** This measure is defined as net debt at the end of the period divided by 12-month trailing EBITDA – excluding restructuring and other costs. (See discussion in *Section 7.5 Liquidity and capital resource measures.*) This measure is similar to the leverage ratio covenant in our credit facilities, as described in *Section 7.6 Credit facilities*.

**Net interest cost:** This measure is the denominator in the calculation of**EBITDA – excluding restructuring and other costs interest coverage**. Net interest cost is defined as financing costs, excluding capitalized long-term debt interest, employee defined benefit plans net interest and recoveries on redemption and repayment of debt, calculated on a 12-month trailing basis. Expenses recorded for the long-term debt prepayment premium, if any, are included in net interest cost. Net interest cost was $660 million in the 12-month period ended March 31, 2019, and $582 million in the 12-month period ended March 31, 2018; currently, this reflects interest on lease liabilities only for the three-month period ended March 31, 2019, due to the IFRS 16 transition methodology.

**Restructuring and other costs:** With the objective of reducing ongoing costs, we incur associated incremental, non-recurring restructuring costs. We may also incur atypical charges, which are included in other costs, when undertaking major or transformational changes to our business or operating models or post-acquisition business integration. In other costs, we include incremental atypical external costs incurred in connection with business acquisition or disposition activity, as well as significant litigation costs, in the context of losses or settlements, and adverse retrospective regulatory decisions*.*

**Components of restructuring and other costs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Three-month periods ended March 31 ($ millions) |  | **2019** |  | 2018 |  |
| Goods and services purchased |  | **18** |  | 5 |  |
| Employee benefits expense |  | **18** |  | 29 |  |
| **Restructuring and other costs included in EBITDA** |  | **36** |  | 34 |  |

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**11.2 Operating indicators**

As a result of our subscriber definition changes effective the first quarter of 2019, certain subscriber units were moved from the mobile phones subscriber base to the newly created mobile connected devices subscriber base. Specifically, data-centric devices intended for limited or no cellular voice capabilities, such as tablets, internet keys, connected cars, and wearable technology were moved to the mobile connected devices subscriber base in alignment with the revised definitions. Our newly created mobile connected devices subscriber base combines these data-centric devices moved from mobile phone subscriber units with previously undisclosed Internet of Things and mobile health subscriber units.

The following measures are industry metrics that are useful in assessing the operating performance of a wireless and wireline telecommunications entity, but do not have a standardized meaning under IFRS-IASB.

**Mobile phone average billing per subscriber unit per month (ABPU)** for subscribers is calculated as network revenue derived from monthly service plan, roaming and usage charges, as well as monthly re-payments of the outstanding device balance owing from customers on contract; divided by the average number of mobile phone subscriber units on the network during the period and is expressed as a rate per month.

**Mobile phone average revenue per subscriber unit per month (ARPU)** for subscribers is calculated as network revenue derived from monthly service plan, roaming and usage charges; divided by the average number of mobile phone subscriber units on the network during the period and is expressed as a rate per month.

**Churn per month (or churn)** is calculated as the number of subscriber units deactivated during a given period divided by the average number of subscriber units on the network during the period, and is expressed as a rate per month. Mobile phone churn refers to the aggregate average of both prepaid and postpaid mobile phone churn. A TELUS, Koodo or Public Mobile brand prepaid mobile phone subscriber is deactivated when the subscriber has no usage for 90 days following expiry of the prepaid credits.

**Mobile connected device subscriber unit** is defined as an active data-centric recurring revenue-generating device (e.g. tablets, internet keys, Internet of Things, wearables, connected automobile systems) with a unique subscriber identifier (SIM or IMEI number) that is intended for limited or no cellular voice capability. In addition, TELUS has a direct billing or support relationship with the user of each device.

**Mobile phone subscriber unit** is defined as an active mobile recurring revenue-generating unit (e.g. feature phones, smartphones) with a unique subscriber identifiers (SIM or IMEI number) that is a multi-purpose mobile handset which provides cellular voice, text and data connectivity. In addition, TELUS has a direct billing or support relationship with the user of each device.

**Wireline subscriber unit** is defined as an active recurring revenue-generating unit that has access to stand-alone services, including fixed Internet access, TELUS TV and residential voice (previously residential network access lines). In addition, TELUS has a direct billing or support relationship with the user of each service.

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