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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2018 Q4 Earnings Conference Call.

I'd now like to now introduce your speaker, Mr. Darrell Rae. Please go ahead.

Darrell Rae - *TELUS Corporation - Director of IR*

Thanks, Mike. Good morning, everyone, and thank you for joining us today. TELUS' Fourth Quarter 2018 Earnings and 2019 Targets news release, Quarterly Report and detailed supplemental investor information are posted on our website, telus.com/investors.

On the call today, we have: President and CEO, Darren Entwistle; Doug French, our CFO; and Josh Blair, Group President and Chief Corporate Officer. After our prepared remarks, we will conclude with a question-and-answer session.

Let me direct your attention to Slide 2, our caution regarding forward-looking statements. This presentation answers the questions and statements about future events, including our 2019 targets as well as intentions for dividend growth and capital investments. And the performance of TELUS include forward-looking statements that are subject to risks and uncertainties and are made based on certain assumptions. Accordingly, actual performance could differ materially from statements made today, so do not place undue reliance on them. We also disclaim any obligation to update forward-looking statements, except as required by law.

I ask that you read our cautionary note and refer you to the risks and assumptions outlined in our public disclosures, in particular, our 2018 management discussion and analysis, Sections 9 and 10 as well as filings with securities commissions in Canada and the United States. The appendix of our presentation and Sections 1 and 11 of our 2018 MD&A provide definitions and reconciliations of the non-GAAP measures that we use today.

Let me now turn the call over to Darren.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Thanks, Donnie, and good morning, everyone, and Happy Valentine's Day. As you've seen today, TELUS finished 2018 with strong Q4 financial and operating results. Despite a highly competitive environment, we realized robust loadings and financial performance across both our wireless and wireline operations. These results were underpinned by our team's ongoing commitment to customer service excellence and our continued traction in our efficiency programs. Consolidated revenue was up 6.3% and EBITDA increased by 4.3% in the fourth quarter. Moreover, we delivered strong loading across all key growth segments with 164,000 new postpaid wireless, Internet and TELUS TV customers, our strongest result in 4 years.

In wireless, we achieved solid growth in revenue and EBITDA, which were up 5.4% and 5%, respectively. Postpaid wireless net additions of 112,000 represented healthy fourth quarter loading. This was buttressed by industry-leading postpaid churn of 0.91%, an 8 basis point improvement over this time last year.

Notably, this result is 32 and 35 basis points better than our 2 national peers. Thanks to our frontline team members, TELUS has now delivered 5 consecutive years of postpaid churn below 1%.

Also in the fourth quarter, monthly ABPU was $66.80. This reflects a 0.7% decline in the quarter, driven by decreases in chargeable data usage and competitive pressures from rate plans with larger data buckets. These factors were partially offset by growth from customers selecting higher rate plans and more higher value smartphones in gross additions and our retention mix as data usage growth continues to be strong.

Whilst the general trend towards moderating annual ABPU growth is as anticipated, we're working diligently to better monetize robust data growth while simultaneously delivering a strong value for money proposition to our customers.

2 to 10, we continue to focus intensely on quality, margin accretive customer growth through our consistent strategic execution of premium smartphone loading, inclusive of driving higher value data and share plan adoption.

Notwithstanding our moderating ABPU, TELUS' best-in-class churn drove fourth quarter blended lifetime revenue per customer of close to $5,900, which represents a 7% increase over last year. By this measure, the economic value of our average customer remains up to 76% higher than our national peers.

Leadership and network excellence continues to represent a key driver of our lower churn and our strong data growth. In January, the consumer-initiated Ookla Speedtest once again recognized TELUS as having the fastest mobile network in Canada for the second half of 2018. TELUS continues to be ranked repetitiously amongst the best, on a global basis, as further evidenced by Ookla's global speed index in December, which named Canada, and TELUS by extension, as having third fastest wireless network in the world.

Canada has distinctly outperformed many developed countries, including the U.S. that came in at 42nd, as well as historical leaders in Asia such as South Korea and Singapore.

On the heels of this recognition, OpenSignal ranked TELUS first for the third year in a row, in respect of network excellence. Notably, in its newly released state of mobile network Canada report, OpenSignal's rigorous testing placed TELUS #1 in LTE download speeds, latency and #1 in network availability as well.

These acknowledgments build on the consistent network accolades that TELUS has earned from JD Power and PCMag as well as Ookla and OpenSignal over the past couple of years.

Importantly, they reinforce the superiority of our networks and the value of our investment in broadband network technologies and in giving our clients the very best experience available on a global basis.

On the subject of globally recognized networks, as it relates to 5G deployment, it's important to note that we've not yet selected a vendor for our next generation 5G network, and we will be entering into our standard RFP process later this year. Despite the increasing excitement for 5G, we do not expect 5G to be deployed commercially in Canada before the second half of 2020, as we await clear timing on the critically important 3.5 gigahertz spectrum auction.

Regarding 5G security, we continue to collaborate closely with the Canadian government and the Communications Security Establishment to uphold and enhance our innovative and secure approach to managing all of our network equipment for the benefit of our clients.

TELUS' security framework involves a series of protocols that preclude Chinese equipment from the sensitive parts of our network, also known as our core, and limits the equipments used to the edge of our network where the less sensitive radio and antenna components reside.

Whilst there has been significant coverage about 5G security and Huawei internationally, much has included speculation and misinformation about the types of measures being implemented. I think it's important to provide clarity.

Of those U.K. and European telecoms that have announced limitations on Huawei, it is important to note that they are only rationalizing Huawei equipment within their core of their networks. So they are now, in effect, moving to follow the network architecture model similar to that used by TELUS over the past decade. In addition, the Italian and German governments have confirmed that they will not ban Huawei from their networks. Indeed, Germany stated that any ban would not apply to Huawei or China alone, but that security standards would apply universally to all potential service providers. In fact, we have seen that there is a growing realization that the global supply chains of internationally sourced equipment must include a 5G security regime for all suppliers.

Our partnership with Huawei over the past decade has been fruitful for Canada and fruitful for Canadians. As I just mentioned, Canada's wireless networks are consistently the most capable in the world. Our Huawei partnership has allowed us to be exceptionally innovative with our network deployment, taking into account the realities of Canada's vast geography and demographics, our unique spectrum position in this country and Canadians' desire for the most advanced technology on the planet that supports the very best wireless services.

We will continue to work collaboratively and cohesively with the TSC and the Canadian government, which are currently undertaking a comprehensive security review, the results of which are expected in the months ahead. As with any major government decision, we are well prepared for a number of scenarios and developments with respect to the eventual rollout of 5G infrastructure and the acquisition of spectrum that will be critical to deliver 5G.

Depending on the scope of the government decision, including the potential supplier ban, we may see an incremental nonrecurring financial cost that we will manage adeptly. It's important to note that we would also risk diluting Canada's global leadership in wireless network performance and excellence, owing to a concentrated supply chain, if that eventuality comes to fruition. Nevertheless, should the government restrict the use of Huawei completely in 5G networks, we will uphold our customers first philosophy, and work to ensure it does not impact the timing of when TELUS brings 5G to market. As you know well, the TELUS team has a long track record of successfully managing through various exogenous events, whether they are regulatory, competitive or macroeconomic in their orientation, and we will continue to do so prospectively.

Moving now to our wireline business. Wireline revenues increased 7.5%, backed by gated services, delivering revenue growth of a very significant 13%. This was supported by excellent high-speed Internet and TV customer growth, and a solid year-over-year performance in both TELUS Health and TELUS International. The wireline EBITDA increase to 3.1% in the fourth quarter was driven by growth in Internet and TELUS Health, as well as an increased contribution from TELUS International, inclusive of acquisitions.

Impressively, this marks our seventh consecutive year of wireline EBITDA growth, a unique performance that is unrivaled amongst our global peer group.

Looking at our wireline customer expansion, high-speed Internet net additions of 28,000 were up 33% over the fourth quarter of 2017. TV net additions of 24,000 were up more than 70% over last year. Notably, our strong performance on Internet and TV continued to be supported by year-over-year improvements in Internet and TV churn. Clearly, customer excellence isn't just relegated to the wireless side of our business. This clearly demonstrates as well the operational success and efficacy of expanding our PureFibre footprint, coupled with our unwavering focus on customer service excellence.

Moreover, residential now net losses continue to improve for TELUS, coming in at 13,000 in the quarter, which is down 7% over the fourth quarter of last year. This represents our ninth consecutive quarter of moderating network access line losses.

In addition, when we tally it all up, in total, we earned 39,000 wireline net RGUs in the fourth quarter of 2018, representing an 86% improvement over last year. Our strong and our consistent wireline operating and financial results clearly highlight our customer service excellence in action, combined with our attractive bundled offers available to customers across our highly differentiated product portfolio. This includes the superior attributes of our Internet, Optik TV and Pik TV offerings, as well as increasingly, those of our home automation, home security and consumer health lines of business.

Our strong results also reflect our team's steadfast focus on leveraging the significant competitive advantage inherent in our PureFibre broadband network. In this regard, during the fourth quarter, our team expanded our PureFibre coverage by 150,000 premises to a coverage level of 61% of our overall high-speed broadband footprint. This ongoing expansion continues to enable more customers to access our leading broadband technology, and to benefit from the corresponding customer experience enhancement across all of our product portfolios that leverage the fiber connectivity and the bandwidth that we provide.

The strong performance has made TELUS a global leader with respect to wireline broadband deployment. Indeed, over the past year, we've increased TELUS's active fiber connections by 34%, outpacing the OECD average of 15% in terms of year-over-year growth by well over 2x.

Consequently, 38% of our wireline broadband connections are on PureFibre today, approaching, again, 2x the average broadband services penetration up 23% in other OECD countries.

Canada in the lead on wireless and wireline broadband. Importantly, this will support us well when we talk about the expansion of our PureFibre footprint that continued its sustainable growth of wireline and wireless services through to the evolution of 5G. Moreover, our expanding PureFibre footprint and customer base that underpins it support enhanced efficiency in terms of increasing the lower OpEx and economy of scale benefits. This is further bolstered by the lower churn and higher revenue characteristics of our PureFibre clients, which lead to elevated broadband customer economics overall.

In addition to our broadband growth engine, our wireline results continue to be supported by our unique TELUS Health and TELUS International growth businesses. Further to the incremental color we will provide on TELUS Health and TELUS International in just a moment with the release of our second quarter 2018 results that we delivered in respect of TELUS International, I'm going to hand over in just a second to Josh Blair, who is going to give you some extra disclosure on our TELUS Health line of business.

Overall, fourth quarter results were strong for TELUS, yet again capping off a solid 2018, marked by many notable achievements. Notable achievements that include delivering on our annual revenue and EBITDA growth targets for the eighth year in a row. Achievements that include adding more than 534,000 net postpaid wireless, Internet and TV customers, which represents an 8% increase over last year. Achievements that included an annual postpaid churn rate of 0.89%, down from last year and reflecting our fifth consecutive year below 1%. Achievements that have seen us earn an industry-leading record lifetime revenue per wireless customer in 2018 up over $6,200, a 3.5% year-over-year increase for TELUS, and up to 57% higher than our national peers. We also generated Internet customer lifetime revenue of more than $5,000 within our wireline business, which represents a 30% year-over-year increase, driven by strong customer loyalty and ARPU growth.

And finally, our 2018 achievements encompass continued global recognition for network excellence in respect of our broadband networks, as illustrated most recently by the top rankings from OpenSignal and Ookla, as well as the OECD report on the wireline front.

Our 2019 target announced this morning demonstrate our confidence in continuing these strong growth trends, including consolidated revenue growth of up to 5%, EBITDA growth of up to 6%, EPS growth of up to 10% and free cash flow growth of 22% to 29% on a before cash tax basis, building upon the 20% free cash flow growth before taxes that we delivered in 2018 versus 2017.

Similar to 2018, we expect both our wireless and wireline results to contribute to these robust targets, reflecting the quality of our dual tenet growth engine at TELUS across wireline and wireless. Our consistent growth in both the wireless and wireline sides of our business, at the revenue and

EBITDA level, reinforces the efficacy of the targeted generation of growth investments TELUS continues to make in its core wireline and wireless broadband networks. Notably, the majority of our broadband network-built programs will be increasingly behind us as we approach the 70% build threshold in 2019, on the way to near ubiquitous fiber and broadband coverage. Clearly, our consistent long-term approach to capital investment in broadband technology and the returns that we exact in this regard have positioned TELUS well for today and well into the future.

Through strong execution from the TELUS team, we demonstrated our ability to consistently drive long-term revenue and EBITDA growth, and deliver robust and reliable free cash flow growth to support our shareholder-friendly initiatives. Moreover, we've established an enviable track record in this regard.

In 2018, we returned over $1.2 billion to our shareholders. Furthermore, since 2004, TELUS has returned more than $16 billion to shareholders, representing over $27 per share. Consistent with the 7% dividend growth achieved in 2018 and 2017, and following 6 consecutive prior years of circa 10% annual dividend growth, we continue to target an additional 7% to 10% increase into 2019. This remains consistent with our most recent 3-year dividend growth program through 2019, and I indeed look forward to updating you on our next dividend growth model at our AGM this coming May.

I can tell you our dividend growth program going forward is supported by our robust 2019 target announced year-to-date and our track record for delivering against these goals. It's also supported by our expectations of chronic, free cash flow expansion in the years to come from a potent combination of moderating CapEx and EBITDA growth.

2018 is a strong year for TELUS and our 2019 targets reflect our team's commitment to continuing this level of performance and building upon it in the years well beyond. I want to take this opportunity, as I always do, to thank the TELUS team for their dedication, skill and ability to consistently deliver on our strategy, navigating the competitive environment and other challenges that we encounter along the way.

I continue to be impressed with what our organization can achieve as a collective, thanks to our culture and how this translates into strong results for our customers, investors, and in our digital society and economy, for the communities in which we live, work and serve as citizens.

Let me now turn the call over to Josh to give you some additional color on our TELUS Health business

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Josh Blair - *TELUS Corporation - Executive VP, Group President & Chief Corporate Officer*

Thank you, Darren. Healthcare is expected to be a continued growth era in future years, based on an increasing emphasis on chronic disease management, the enhanced focus of consumers and employers on optimizing wellness and the potential benefits that technology can deliver in terms of efficiency and effectiveness within the sector. At TELUS, we are leveraging our leading broadband networks, as Darren commented on, to increase the availability and effectiveness of our innovative services across the primary care ecosystem, in order to ensure we are well positioned for the anticipated strong, ongoing growth in the sector.

Notably, no other company has the full set of assets that we have, setting us up for success in this critical vertical. Indeed, TELUS Health has become a Canadian leader in providing managed solutions across a wide range of elements, including electronic, medical and health records, pharmacy management systems, employer health offerings, consumer health services, benefits management for insurers and extended health care providers, and as well, and importantly, platform interconnectivity services such as operating Canada's PrescribeIT electronic prescription service.

Additionally, our emerging foray into the consumer health realm that Darren spoke to will enable us to have more touch points with our customers in terms of expanding our bundled services for mobility, Internet, TV, home phone, smart security and home automation to now include health offerings such as virtual care and Home Health Monitoring.

Turning to our financials. In 2018, our domestic health vertical revenues grew by double digits to surpass the $700 million mark. Our health solutions now make up the majority of this portfolio, with the remainder being the broadband services we offer to our B2B health clients. In terms of EBITDA, our margins are in line with our broader wireline segments, with room for upside as we scale TELUS Health into the future.

With moderate capital intensity and strong execution, TELUS Health is well positioned to be a meaningful contributor to our cash flow growth in the years ahead.

Let me now turn the call over to Doug to provide some additional details regarding the fourth quarter and our targets for 2019.

Doug French - *TELUS Corporation - Executive VP & CFO*

Thank you, Josh, and good morning, everyone. As Darren discussed, TELUS delivered strong fourth quarter results building on our financial and operational momentum we delivered throughout 2018. Consolidated revenue and adjusted EBITDA growth was a result of favorable contributions from both our wireless and wireline operating segments. Earnings per share was driven by higher EBITDA, partially offset by an increase in depreciation and amortization, reflecting growth in our asset base from the investments, including our broadband networks as well as those rising from business acquisitions and higher financing costs.

Consolidated CapEx decreased 3.8% over last year, reflecting a 9.5% decline in our wireline CapEx, while still expanding our fiber footprint to over 61%. Wireless CapEx increased by 8.5% as we increased infrastructure initiatives as we cover over 93% of Canadians with LTE Advance and over 99% of all Canadians with 4G LTE.

For the year, CapEx of $2.9 billion declined by 5.8%, and represented a capital intensity of 20%, a 300 basis point improvement over 2017. Free cash flow for the quarter of $122 million decreased by $152 million over the same period a year ago as EBITDA growth was offset by higher wireless acquisition retention costs and the timing of cash taxes.

Higher acquisition retention costs reflect handset promotions during the competitive holiday season and an increase in adoption of our Platinum rate plans, which increases the upfront subsidy for the latest premium devices, but importantly, is offset by higher monthly ABPU. Meanwhile, in the same period a year ago, subscriber loading was driven by bring your own device promotion, lowering the industry's acquisition and retention cost in a period where costs are typically elevated.

For the year, free cash flow of $1.2 billion increased by 24% on higher EBITDA and lower capital expenditures, as planned.

Before we review our 2019 targets, let me review the impacts associated with the implementation of IFRS 16 leases. The application of IFRS 16 is effective January 1, 2019, and our comparative information will not be recast. The most significant effect of the new standard will be the recognition of initial present value of the unaffordable -- unavoidable future lease payments on the balance sheet as right of use lease assets and lease liabilities.

Upon transitioning to IFRS 16, on January 1, 2019, we recorded right-to-use assets for approximately $1.1 billion and associated lease liabilities of approximately $1.3 billion as a cumulative catch-up and an adjustment to retained earnings.

As a result of a noncash accounting change reported in EBITDA -- reported EBITDA in 2019 will be higher. And in our case, it's approximately $230 million. This is similar to our estimated impact in 2018. Reported EPS will not be impacted.

Previously reported leases are presented as depreciation of right-to-use lease assets, as well as financing costs arising from lease liabilities. Both will be accounted below the EBITDA line.

For TELUS, we expect approximately 3 quarters of our noncash accounting expense to be recorded as depreciation, but the remaining going through financing costs. With this regards our statement of cash flows, while no impact to cash, will be changed in its presentation. The increase in cash from operating activities is equally offset by a decrease in cash from financing activities as the principal portion of lease payments moves from operating activities under the old accounting to financing activities under IFRS 16.

Altogether, the adoption of IFRS 16 is an accounting change only. It does not impact our economics, our financial position or cash flows of our business. Accordingly, and similar to IFRS 15, our free cash flow calculation will not benefit from either of these noncash changes.

Let me now review our 2019 financial targets to reflect the implementation of IFRS 16. Consolidated revenue is targeted to be 3% to 5%. This growth range is calculated over normalized 2018 consolidated operating revenue, excluding the nonrecurring income from the joint venture sale of our TELUS Garden recorded in the third quarter of 2018.

Consistent with 2018, our revenue growth reflects continued growth in data services across wireline and wireless, supported by our strategic investments in broadband technologies and our leading network. In 2019, we continue to generate positive subscriber growth, including wireless, high-speed and Internet along with growing contributions from home and business security and improving business margins.

TELUS International and TELUS Health are also expected to contribute to this growth profile. While financial results for 2018 will not be recast for the new IFRS 16 accounting standard, our adjusted EBITDA would have been higher by approximately $230 million in 2018, as previously noted. Overlaying the impact on 2018, our 2019 guidance for EBITDA growth is 4% to 6%. Our 2019 adjusted EBITDA as a reported basis will be 8% to 10%, as 2018 will not be restated.

Adjusted EBITDA reflects higher revenue and margins as discussed on the ongoing focus in operational efficiency and effectiveness. In 2019, our total restructuring costs are estimated to be approximately $100 million.

Earnings per share is targeted to increase by 2% to 10%, reflecting EBITDA growth, partially offset by higher depreciation and amortization as a result of increased capital investments in our leading broadband technologies, recognition of the right-to-use lease assets as well as from acquisitions that we made over the past few years and higher interest costs.

As previously disclosed, we are targeting to invest approximately $2.85 billion in capital expenditures, reflecting a capital intensity of 19%, down 100 basis points over 2018 as we continue to enhance and expand our broadband network, our products and services, including home and business security, and support continued wireless high-speed Internet and TV subscriber growth.

A full list of our 2019 assumptions can be found in our fourth quarter earnings release and in Section 9 of our 2018 Annual MD&A. Our growth targets, combined with our stable capital expenditures this year, will result in 2019 free cash flow of up to approximately $1.15 billion before dividends.

Our 2019 cash flow outlook is impacted by a cash catch-up payment of approximately $270 million to be recorded in the first quarter of this year, related to reorganization of corporate structure announced in the third quarter of 2017. When excluding this catch-up payment, free cash flow before dividends would be higher by 10% to 19% over 2018. Based on our view today, cash taxes are expected to be lower in 2020 to more standard levels.

Importantly, our 2019 targets and free cash flow outlook are supportive of our multiyear dividend growth program first announced in 2011, under which TELUS has since delivered 16 dividend increases.

Let me now turn it back to Darrell to start the Q&A.

Darrell Rae - *TELUS Corporation - Director of IR*

Thank you, Doug. Mike, can you please proceed with the questions from the queue for Darren, Doug and Josh.

QUESTIONS AND ANSWERS

Operator

So the first question comes from Drew McReynolds from RBC.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Just on the guidance, I guess, probably for you, Doug. We have seen TELUS make some tuck-in acquisitions, and I think you did another what appears to be a little one in early 2019. Just comment on the contribution of organic and acquisitions to guidance, if you could. And then secondly, Darren, you've talked a little bit recently about the trajectory on the wireline EBITDA margin side, and I think you have gotten over it extensively throughout 2018. Just wondering what kind of dynamics on that margin side we should see for 2019?

Doug French - *TELUS Corporation - Executive VP & CFO*

So on the acquisition side, we've lapped most of our more significant acquisitions in TELUS International and Health. So 2019, and even the latest one that we did is, to your point, insignificant. So majority of our -- substantially all of our guidance in 2019 is related to ongoing operations and the nonorganic would be insignificant.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Drew, in terms of our goals on wireline margins, they haven't changed. Near term, for us, is to get to the 30% level holistically, factoring in the [different] considerations on TELUS International. And then longer-term, the goal is to get to 35% wireline margins. When we start factoring in the significant efficiencies of a new -- near-ubiquitously deployed broadband wireline network with the combination of both fiber and 5G, any efficiencies inherent in that technology. So in terms of what to look for from TELUS going forward, building upon the 3.1% growth that we delivered in the fourth quarter, which is now sort of second year as a positive EBITDA accretion in the wireline side of the business, which is pretty unique, I would say, to our organization. If you look at the margins in Q4, in the high 27 -- sorry, 28% zone. If you, for the full year 2018, back out our TI business and some of the dilutive impacts from the underperformance in the first half and the still J -curves in its infancy from the acquisitions that we affected with both Xavient and Voxpro, TELUS's wireline margins on a normalized basis would already actually be north of 35 -- 30%.

The other point is that if you left TI in but only backed out the dilutive impact from the acquisition J -curves, we will be around 21%. So I think we are heading definitively in the right direction. And in terms of what to watch for prospectively, with the significantly improved organic performance of TI in the second half of 2018, which bodes well for the performance in 2019, and the maturation of the investments that we've made in 2 key acquisitions as they start to become much more contributing at the margin level, I think that is a positive for the development in respect of our wireline margins, and I'm encouraged by the significant contributions TI is going to make, not just at the wireline margin level, but given the very low CapEx intensity on TI contributions, as well at the cash level. And the other areas to me that, I think, are going to be key is continuing the growth on the FFH side of our business. If you look at our 13% wireline data growth and I disclosed for the first time the lifetime revenue on high-speed Internet access at $5,000, which is up 30% on a year-over-year basis because of improvements in both ARPU and the lowering of churn, I think that will make up a tiny contribution to the margins of TELUS on a go-forward basis.

The other areas where I'm looking for us to improve is in respect of B2B, which has been dilutive to both EBITDA growth and our margins. And to give you a sense of it, if our B2B wireline business delivered 0 EBITDA growth in 2018, our annual consolidated wireline EBITDA growth number would go from 4.1% to 8%. It would, in fact, nearly double. That hit of our B2B business was at 0 EBITDA growth, so I'm just eliminating the dilutive impact. And so for TELUS right now, we're looking to get back to near 0 EBITDA growth on wireline B2B in 2019, and assuredly through 2020, and I think that will make a very nice accretive contribution to our consolidated wireline EBITDA growth and our wireline EBITDA margins, particularly in 2020 and beyond when we start to see a positive EBITDA contribution coming from B2B. And that's an important endeavor for this organization.

The other factors that I think will be key are economies of scope. It's one thing to deploy our fiber infrastructure, but I think it's the responsibility of its management team to get as many RGUs on that fiber infrastructure as possible to harvest economies of scope to support EBITDA growth, wireline margin and wireline cash flow. So I'm anxious to see what we can do on the security front in 2019, building upon the success we've had with Internet and TV. What can we do on the consumer health front and what we do on the home automation front, all leveraging that fiber infrastructure. The next area for me is TELUS Health. TELUS Health had a solid year in 2018, but not sensational. I think there's a lot more upside to be exacted from that emerging part of our business. And if we could get better growth out of TELUS Health and supernormal growth, which I think is achievable, out of TELUS International, that's really going to be a nice complementary engine to where we want to take EBITDA growth in wireline margins for TELUS. And then lastly, and perhaps most importantly over the longer-term, the fiber push for us has so much benefit on the cost efficiency front as we decommission our copper infrastructure and the inherent cost structure that, that entails. And when you have better retention, when you have truck rolls that are down 40%, when the cost of support at a unit level on fiber is 50% lower than copper, and when you can expose some very attractive growth attributes to combine with the efficiency measures, I find that tremendously exciting. And in a year when in 2019 we're going to look to hit the 70% coverage mark of pure fiber on our existing broadband footprint and we're already passing sort of the 50% zone of fiber coverage relative to our competitors' footprint, I think that bodes well for improved economics on wireline prospectively. And I'm excited by that particular opportunity. So I'll stop there. That's probably enough color, in addition to what we've done with the restructuring investments that Doug alluded to and general cost efficiency that we have to drive over both wireline and wireless along the way.

Operator

Next question comes from Simon Flannery from Morgan Stanley.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

Just following up on the build, the fiber build and the 5G. You talked about combining fiber with 5G. So where does it start to make sense to bring in 5G? Are you going to build fiber to, say, 80% or 90%? Or is it really at that sort of 70%, 75% where 5G starts to come in? And you talked about waiting for 3.5. How do you think about the architecture of a 5G network? Is it -- I think we have heard some of the Nokias of the world talk about 500 megahertz of millimeter wave and 100 megahertz of 3.5. Is that the sort of architecture that you're thinking of, as well?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

It's not too distant from that, Simon. I think it's an eclectic combination that we will be looking at. Firstly, let me talk about the 5G combination with PureFibre. I think, for right now, it's a pretty decent rule of thumb to say around the 75% PureFibre footprint on the holistic homes within our ILEC territory is a relative ceiling for PureFibre. Beyond that, we would start to leverage 5G technology. It really depends on the circumstances. Let me give you an example. If you're aerial in BC and you can leverage that and maybe you build a little bit more aggressively on the PureFibre front; if you're buried in Alberta, maybe you take a bit of a different ratio between the 2. What's the densification of the population or the community within that particular zone? Is the community going to participate in the economics of bringing to PureFibre into their area if they're going to make a commitment on certain penetration rates, then that makes the economics more doable for the investment on the fiber front. And we have seen that on a number of vacations. Where can we take the technology cost curve on PureFibre, particularly the stimulus component with developments in micro trenching and the like. I think it really is a geozone by geozone tuning that we would do. If you wanted sort of a broad macro footprint type situation, I'd say 75% would be a reasonable zone. There are other areas as well like if you look in the rurals, maybe there's government subsidy programs that are in place that we could leverage to make PureFibre more economical. Maybe the economics of the resource industries that are located in those areas make it more attractive. Maybe there's an opportunity to purely decommission copper in those areas to get a better cost economics on PureFibre. It's really a geozone by geozone type solution. But isn't it a fantastic position for us to be in? To be where we are right now on PureFibre and deliver the phenomenal results that we are delivering on wireline, I mean, wireline RGUs up 86% on a year-over-year basis is pretty potent. 127,000 loads for 2018. That's up 80,000 loads year-over-year. So talk about having these nice choices from a position of strength and all the cost efficiencies on the comps is amazing. And then the last thing in terms of how far we can go on, on PureFibre is again, how you start the question with the synergistic relationship with 5G because, as I think you understand better than most, the speed and performance of a wireless network is significantly influenced by the underlying PureFibre network that does the front-haul delivery of that wireless traffic and the backhaul redistribution. So that will also determine how far we go along the way. But talk about a build program that's more in our rearview mirror than the challenge on a look-forward basis because of the heavy lift that we've undertaken over '13, '14, 2015, '16, '17 and '18, it's a fantastic position to be in and allows us to be rather than a big bulk push on PureFibre, to be increasingly judicious about how we invest and the economics that we derive and the technology choices that we smartly make along the way. When 5G gets commercialized in the second half of 2020, think of where we are going to be with our fiber coverage at that particular point. Talk about a beautifully eclectic combination and a powerful competitive and economic synergy. We are vastly differentiated from our peers on a global basis on that combination of 5G. And well, well, well distributed in deployed fiber.

And then lastly, in terms of the frequency conversation. For us, the big bet here is that the global ecosystem at 3.5, Canada following the global ecosystem more than, I'd say, the U.S. one. The 600 auction that we can have in a month's time now is not really going to get operationalized spectrum for us until the 2020, 2021 time frame, with the exception we may look to do some early deployments on 600 in terms of 5G within the rurals that I think could be quite an interesting, exciting thing to do, and really leverage the prescient decision by the Canadian government in terms of accelerated capital cost allowances. That could allow us to do something a little bit preemptive, exciting and meaningful, leveraging 600 megahertz propagation characteristics in non-urban areas to bring 5G, maybe initially to the rurals, of doing something that's pretty differentiated, and doing it in a way with a nice economic set of characteristics, because the capital costs allowances that have been provided by the government in that regard. And then lastly, we will be a big deployer of millimeter wave. Both 3.5 and millimeter wave, where we look to use 5G as not just a macro mobility play, but as a point to multipoint wireless access mechanism, and that will be done complementary to our PureFibre expansion. So look for us to be big movers when we get the spectrum auction rules and the spectrum deployed at 3.5, because we need to leverage the global ecosystem in that regard. We have diseconomies of scale in Canada so we need to make ecosystem bets, the bigger, the better, both in terms of cost but also in the quality of the equipment that we'll be looking to deploy along the way. Let's look to deploy low-band frequencies on 600 judiciously for coverage considerations and end building penetration, and then we will leverage 28 GB, 40 GB, 65 to 70 GB as the chief mechanism for us in terms of 5G as a broadband access mechanism, bringing cool services like Internet, TV, home health, home security and home automation to people's premises as well as the business community.

Operator

Next question comes from Maher Yaghi from Desjardins Securities.

Maher Yaghi - *Desjardins Securities Inc., Research Division - VP, Telecom, Media & Tech Analyst and Intellectual Property Analyst*

Just wanted to go back to TELUS International, and I wanted to ask Josh maybe to give us an update in terms of financials. I know you gave some update a few quarters ago about revenues and margins. Can you talk about how 2018 finished in terms of revenues and margins? And I noticed in your MD&A, you talked about growth recovery on an organic basis that you're expecting in 2019. Can you talk about what's driving that recovery? I also have a question on wireless. In terms of the market competitiveness in postpaid, I noticed a little bit of improvement there for you. When you look at your market share of net adds on a consolidated basis with the other 2 competitors in the market, what's driving that improvement at the margin?

Josh Blair - *TELUS Corporation - Executive VP, Group President & Chief Corporate Officer*

Okay, well, I'm happy to start with TELUS International. So Maher, if you look at our Q2 call last August, we mentioned that we were hoping to finish the year over $1 billion in revenue. I'm pleased to see that -- pleased to say that the team did surpass that quite easily. So delivered a good result in that regard. We also talked about wanting our margins to improve through 2 mechanisms, and Darren spoke to them both. One was a return to organic growth, which we did see in the second half of the year, and we do see good promise for that throughout 2019, based on a couple things. One, new customers that the TELUS International team has landed and we're ramping up as we speak, and also a robust funnel of sales pursuits that are ahead of us. And then the second aspect of margin improvement that we wanted to see was as we integrate the Voxpro and Xavient acquisitions and leverage TELUS International's scale to improve their margins, so we are also seeing good momentum on that front. So that all sums up to increasing our confidence in our medium term goal of our margins being in that 15% to 20% zone. So with that, I'll turn over for the second half of the question.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

So in terms of wireless net adds, Maher, we were pleased with our results overall. As I think you know well, we're an organization that focuses on quality loading, not just nominal loading, and we want to have robust loading combined with good financial results, and we want that for our wireless business, and we want that for our wireline business. If you look at how we did on postpaid at 112,000 and look at how our competition did and make certain adjustments for government of Canada mobile movements within the industry, I think Q4 was a very strong result for the

TELUS organization, and that's true on postpaid, and that's true on total mobility net adds, combining both prepaid and postpaid overall. So we are pleased with that particular performance. And I don't think there's anything that's particularly differentiated for us. It does illustrate, I think, that when people are making choices and you can offer them a level of service that is significantly better than the competition, it's going to get you traction. And we, in Q4, had a churn rate that was 32 to 35 bps better than our competitors. And I think that's telling, particularly in a seasonal period such as Q4 with Black Friday and the Christmas period.

When you are delivering a superior network performance in a digital world, that's superior on just about every metric, superior on speed, superior on reliability in terms of lower access failure rates or lower dropped call rates. Superior on quality in terms of latency, having lower latency which matters for people that want to use their devices to play games. When you're superior on coverage and depth of coverage because of what we can leverage in terms of our network sharing agreement. And when you do that consistently, I mean, we won all 4 network awards from OpenSignal and Ookla to JD Power and PCMag, and most recently the Canadian version of that, Tutela, coming out of Victoria, and those awards have recognized everything from speed and latency to quality to the technical components being evaluated right through to the voice of the customers. So I think it's a pretty comprehensive outcome. And we are now winning these awards for 3 consecutive years. I think after a while, that differentiated performance starts to resonate with customers.

And then you look at how we're doing within as an industry overall, for everyone within the industry, for people wanting to invest in Canadian wireless, I think it's a good news story for all the players within the industry. We are seeing a postpaid accretion within the industry of 12% in '18 over 2017. And I think that's important, and I also think it's necessary to get those volume uplifts when you're in a moderating ABPU environment, so that you could deliver a good financial result such as what we did with the 5% EBITDA growth along the way. But for us, more and more, it's really about quality on the loading. We have significantly deemphasized tablets. We put more emphasis in areas like prepaid. We did better in Q4 year-over-year on prepaid, but we had, I think, a very encouraging positive loading performance in Q2, Q3 that we can build off of on 2019. And I think the ARPU characteristics there are far superior to what takes place on a loading basis versus tablet, but I think we should be interested in, and of course, you get an economy of scope in terms of today's prepaid customer is not only attractive from an ARPU perspective but can also be migrated eventually to become a postpaid customer along the way, and I think that's attractive. And the other thing that we -- if you look at our overall results, we came in around 356,000 postpaid loads. That's down slightly from 2017. But 2017 was up 50% on a year-over-year basis, so that's down slightly against the massive growth rate that we delivered in 2017, the previous year. And then lastly, it's great to have that churn performance capability. It allows us to be much more judicious on COA, COR considerations because we don't need to do anything irrational or overtly aggressive to hit a net loading number because we do so well in respect of retention. And the thing that we keep also trying to emphasize with the dual tenet strategy is that we look at TELUS from a total loading point of view. So when you look at total wireless loading combined with total TV loading and total high-speed loading, what a fantastically positive story that is, up 27% at 525,000 on a year-over-year basis. So with all the accretive economics that go with it, when you look at the premium wireless combined with premium high-speed and TV and year-over-year growth that's approaching 30%. And then lastly, I know we don't always talk about it as much, but to talk about loading and ABPU simultaneously for us is key and driving the cost efficiency to do with moderating ARPU, to deliver good financial results when the other complementary component is volume. And then looking at everything else we can do along the way, leveraging data growth through to the 5G growth area, trying to do more on wireless, wireline bundling for positive economics, leveraging machine-to-machine more effectively, leveraging pre- to post-migrations more effectively, getting more value out of base management in a way that's compelling. Doing better overall in the roaming front I think for us is going to be a combination of new growth, new services and better based management prospectively so that we're generating not just good volumes, but good, holistic financial performance from the growth volumes, but also exacting better economics from our existing client base. So I think that is the story for us holistically.

Maher Yaghi - *Desjardins Securities Inc., Research Division - VP, Telecom, Media & Tech Analyst and Intellectual Property Analyst*

And Doug, can I ask you on an ABPU basis, if I can slip on one last question here. Have we seen the worst part of the curve in terms of the reduced coverage on the wireless ARPU? Or there could be a few quarters less in terms of negative growth here.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Yes, Doug, why don't you answer that?

Maher Yaghi - *Desjardins Securities Inc., Research Division - VP, Telecom, Media & Tech Analyst and Intellectual Property Analyst*

Tough question to Doug.

Doug French - *TELUS Corporation - Executive VP & CFO*

Yes. I think we're going to see continued softness in the first part as you -- we implement some of the initiatives that Darren talked about, but we're obviously all hands on deck on striving to remediate any of those trends. So beyond that, we don't really give that -- any more guidance on that, so maybe I'll just stop there.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Yes. I think that's the right answer. The result in Q4 I think is indicative of right now in terms of the softness. I don't think we are an organization that's forecasting deterioration.

Operator

Next, we have a question from Jeff Fan from Scotia Capital.

Jeffrey Fan - *Scotiabank Global Banking and Markets, Research Division - Director of Telecommunication Services & Canadian & U.S. Telecom and Cable Equity Research Analyst*

Just a question on wireless. The subsidy for this quarter, and I know -- I realize it doesn't flow through EBITDA, but when we look at the cost of acquisition or retention in handset subsidies, it looks like that number's a little bit higher. And I understand there are some seasonality involved, but it looks like that number jumped up quite a bit. Wonder if you can talk a little bit about that, whether that's something that's kind of new normal subsidy that we expect to see on an annual basis now going forward. And maybe just one quick housekeeping question. You used to provide an IFRS 15 reconciliation in your wireless EBITDA. Wondering if you can provide that for the fourth quarter.

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

We did have IFRS 15 within our statement, so I think you will find it in there. And on the mix and subsidy looking like it's increasing, I think a lot of it is mix and you'll see that with Platinum Plus and some of the higher-end smartphones, they will attract higher subsidies. So the investment in that is where you're seeing the uptick. And within retention as well, retention at a higher platinum mix, higher handset mix on higher quality handsets would drive that. But the, in of themselves, the rate is a little bit higher but not that material. It is more the mix.

Operator

Last question comes from Richard Choe from JPMorgan Securities.

Yong Choe - *JP Morgan Chase & Co, Research Division - VP in Equity Research*

It looks like the fiber build is coming to an end over the next few years. You've been spending 2 -- the high $2 billion to almost $3 billion more recently, and almost above $2 billion for call it, 6 to 8 years. As we come to the end of this build, what level of CapEx do you think we can see it come down to or will it stay around this level? And if it stays around this level, will it be for acquisitions? If it comes down, would the priority be more buybacks or dividend growth?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

Okay. I think the emphasis is always going to be pictured on dividend growth, supported by net income expansion and cash flow affordability. If we are in a chronic surplus cash situation and we have satisfied all of our investment opportunities that we deem to be prudent, and as I have said previously, we will never go further afield and start investing your money in areas that are off strategy for us, so we will look at NCIB programs on a discretionary basis in that regard. The only other element on the NCIB is that if we feel that there is a weakness in our stock price related to any type of exogenous event, given the strong confidence we have in our strategy and our underlying economics, we will expediently step in and act on that softness to buy back shares at advantageous prices.

Secondly, we're not going to give multiyear CapEx forecasts. I think we already lead the way in disclosure, transparency and long-term forecasting with what we have done on the dividend growth model front. And I would draw your attention to my comments in my script where I indicated that I'm looking forward to the AGM in May. The highlight, what we're going to do with the dividend growth model through 2020, 2021 and 2022 that I think will be important information for investors. The other thing is I don't think we need to be precise on the exact dollar value of the CapEx prospectively in the years ahead but rather to say the CapEx in the years ahead will be moderating, particularly at a CapEx intensity level on the wireline side of our business. But also in some cases, at a nominal level. And when you combine that with continued EBITDA growth, I think that provides for, as I said earlier, a very potent combination. I'm confident in this organization's ability because of our dual growth tenets, our strong asset mix to generate both good operational and financial results on wireless and wireline prospectively that have positive manifestations in terms of EBITDA growth and net income expansion. And I think with TELUS having gone past, if you will, the midpoint threshold on the fiber build and looking to surpass the 70% coverage mark of our existing broadband footprint over the course of 2019, setting us up for that 5G fiber synergy beyond, we will have a moderating capital appetite for this organization. And I think that's a great story. And I chose my words very precisely in my remarks because I used them in previous periods of cash flow generation over the last 20 years. Normalizing for spectrum options, I believe that we are heading into a period with TELUS because of the prescient investments that we have made in broadband technology in the years past where we are going to be in a chronic free cash flow positive situation for this organization. And I think that's very exciting, both of what it's going to mean in terms of cash generation but what it's going to mean competitively for us in the marketplace because of the broadband advantages that we will have on wireline and wireless.

And if you look at our cash generation almost on a simple cash flow basis, EBITDA less CapEx with some other considerations, but pre-cash taxes, our growth in 2018 was 20%. If you look at our guidance for 2019 on that same measure, so free cash flow, pre-cash taxes, it's 22% to 29%. And as you start to think about where we are going in '20, '21, '22, '23, having broken the back of the fiber challenge along the way and now having 5G as potentially a more complementary cost-attractive broadband access mechanism to premises across our footprint, I think that moderating capital story and that EBITDA growth story in combination allows me to feel confident about the chronic free cash flow generation that we have set ourselves up for in the short term, the medium term and the longer term over the next 5 years. And I just -- I think that's a very, perhaps, the most important component of the investment thesis at TELUS. And it underpins the affordability of where we want to take our dividend growth model. And that cash gives us the latitude to act on an NCIB if we think the conditions are warranted. So I like that. And if you look at where we've got to at the end of 2018, very close to back into our net debt-to-EBITDA zone in that regard. So our balance sheet is being well managed relative to that cash generation as well. So I won't give you any more than that, but those general indicators should be more than sufficient for you.

Yong Choe - *JP Morgan Chase & Co, Research Division - VP in Equity Research*

As a quick follow-up, you're close to the high end of your 2x to 2.5x leverage target. Would you rather stay -- do you think the business is stable enough to stay at the 2.5? Or would you rather have it be closer to the 2?

Darren Entwistle - *TELUS Corporation - President, CEO & Director*

I think 2.5 is a good number, Richard. So if you take the hardcore corporate finance look at the Pareto Optimal outcome of equity and tax-affected debt and looking to kind of metrically minimize your weighted average cost of capital, which is a smart thing to do when you're a deployer of capital, our WAC gets minimized in the 2.5 to 2.75 zone. So I think that's a pretty healthy position for our balance sheet holistically. And given that we are a cash taxpaying organization, being appropriately tuned to the amount of debt within the equity debt mix in terms of to tax-effect that debt and leverage this shield constituency to it, given our cash tax exposure, I think that's the right way of managing our mix and lowering or minimizing our weighted average cost of capital, technically speaking.

Darrell Rae - *TELUS Corporation - Director of IR*

Okay. Thanks, Richard. And thank you all for taking the time to join us today. If you have any follow-up questions, feel free to contact the Investor Relations team. Have a good afternoon.

Operator

Ladies and gentlemen, this concludes the TELUS 2018 Q4 Earnings Conference Call. Thank you for your participation, and have a nice day.
