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Q3 2012 TELUS investor conference call
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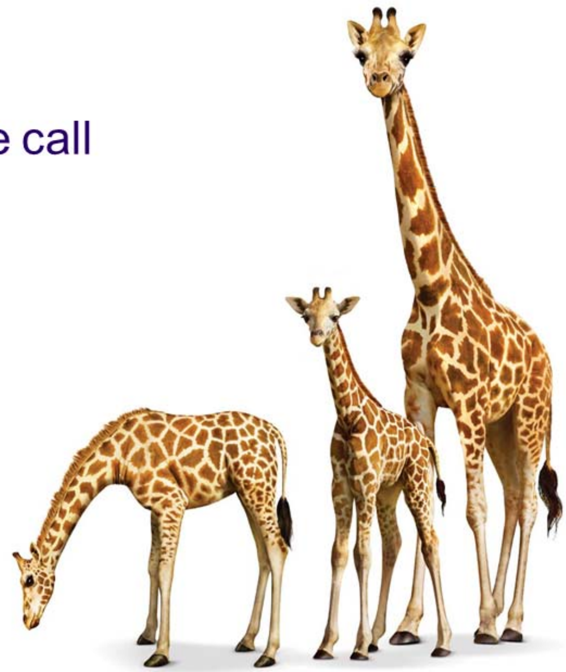

Robert McFarlane
EVP & Chief Financial Officer

Joe Natale
EVP & Chief Commercial Officer

Darren Entwistle
President & Chief Executive Officer

Participants

CORPORATE PARTICIPANTS

Darren Entwistle	President and CEO
Bob McFarlane	EVP and CFO
Joe Natale	Chief Commercial Officer
John Wheeler	VP, Investor Relations

CONFERENCE CALL PARTICIPANTS

Phillip Huang	UBS Securities
Greg MacDonald	Macquarie Research
Dvai Ghose	Canaccord Genuity
Jeff Fan	Scotia Capital Markets
Drew McReynolds	RBC Capital Markets
Adam Shine	National Bank Financial
Glen Campbell	Bank of America Merrill Lynch

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the TELUS 2012 Q3 earnings conference call. I would like to introduce your speaker, Mr. John Wheeler. Please go ahead.

John Wheeler, VP Investor Relations

Welcome, and thank you for joining us today for our third quarter 2012 investor conference call. The call is scheduled for up to one hour. The news release for our third-quarter financial and operating results, and detailed supplemental investor information are posted on our website, TELUS.com/investors. For those with Internet access, the quarterly presentation slides are also available on our website. You will be in listen-only mode during the opening comments.

Let me now direct your attention to slide 2. The forward-looking nature of this presentation, answers to questions, and statements about future events are subject to risks and uncertainties and 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 legal disclaimers. And refer you to the risks and assumptions outlined in our public disclosures and filings with securities commissions in Canada and the U.S.

Turning to slide 3 for an outline of today's agenda, we will start with opening comments by our President and CEO, Darren Entwistle, followed by a review of the third quarter by Executive Vice President and CFO, Bob McFarlane. Joe Natale, our Chief Commercial Officer, will comment on several key operating highlights. We'll then conclude with a question and answer session. Before I turn the call over to Darren on slide 4, I would draw investors' attention to the fact that Darren has confirmed his intention to again take his annual cash salary in 2013 in TELUS common shares. This will be for the fourth consecutive year. Over to you, Darren.

Darren Entwistle, President & Chief Executive Officer

Thanks, John. I would like to focus my remarks on four important investor topics this morning.

First, TELUS' strong financial performance and operating metrics in the third quarter are clearly the direct result of our long-term strategic investment in broadband wireless and wireline data technology, services and applications. In this regard, we are again generating significant customer growth across mobility, TV, and high-speed Internet. These results can be further attributed to our team's unwavering commitment to consistently deliver exceptional client experiences. Notably, our customers are staying with us longer, as evidenced by our ongoing industry-leading wireless churn results, which improved to 1.44% in the third quarter. Moreover, TELUS experienced improved loyalty and retention in respect to both our TV and HSIA services. Our strong performance this quarter also included double-digit data revenue growth within both our wireless and wireline businesses, a 6% EBITDA growth at our consolidated level and 8% earnings per share growth, and, as well, a 23% increase in free cash flow.

Secondly, we are once again delivering on our promise to our valued shareholders, increasing the quarterly dividend by $0.03 to $0.64, or $2.56 annually. This represents a 10.3% increase from one year ago, and can be attributed to our ongoing net income expansion and free cash flow generation, which is the foundation for our multi-year dividend growth model. We look forward to continuing to deliver strong operational and financial results to support the realization of our dividend growth ambitions through 2013, and, importantly, beyond.

Thirdly, I would like to express my sincere gratitude to our shareholders for their strong participation and overwhelming support of our share exchange proposal. Indeed, a remarkable 93% of TELUS shareholders voted in favor of the exchange, when one excludes Mason Capital's voting block; including the decisive approval from 84.4% of our common share class.

Finally, I would like to congratulate and express my deep gratitude to our long-serving Chief Financial Officer, Bob McFarlane. Who will retire from TELUS at the end of the year to devote more time to his family and to his community endeavors that are important to Bob. Bob has played a key role in TELUS' many great successes and significant achievements throughout his 12-year career. His distinguished leadership of TELUS' finance team has yielded a legacy that includes robust financial policies and balance sheet management, achieving an impressive track record of reporting disclosure and transparency, and helping TELUS consistently deliver on the promises that we make to our shareholders. Indeed, alongside his colleagues, Bob's exceptional contributions have elevated TELUS to become a global leader in corporate reporting and disclosure, social responsibility practices, investor relations, and, critically, generating total shareholder returns in a leadership capacity amongst our peers. Bob will retire from TELUS having created an exceptional legacy to be proud of. That will benefit our investors, our customers, his fellow team members, and our communities for many, many years to come. I also appreciate Bob's commitment to ensuring a seamless transition to his very capable successor, John Gossling.

John was selected as TELUS' next Executive Vice President and CFO after an extensive executive search. He will be located in Vancouver and begin his new role on Monday, working closely with Bob over the next two months in respect of a seamless transition. John joins the TELUS team with a proven track record as a highly-regarded finance executive, with extensive experience in wireless communication and the broadcasting industry. This is, indeed, an elegant fit with TELUS' strategic focus on broadband mobility, TV and the Internet. We welcome John to the TELUS team. Let me now turn the meeting over to Bob and to Joe who will take you through our third-quarter key operating metrics. Bob, over to you.

Robert McFarlane, EVP & Chief Financial Officer

Thank you, Darren, and thank you very much for your most kind words. Much appreciated. Good morning, everyone. Let's start our review of the third quarter, beginning with wireless on slide 5. Total wireless revenue increased by over 7%, reflecting strong network revenue growth of over 6%, driven by both continued ARPU and subscriber growth. Data revenue increased by 23%, while voice revenue showed a stable trend, declining only 2% over the same period a year ago. Wireless EBITDA was higher by 12% year over year. While EBITDA margins on total revenue increased this quarter by 1.9 points to 42.4%, or nearly 47% of network revenue. Capital expenditures increased by 11% to $175 million due to the continued build-out of our urban 4G LTE network, as well as investments in HSPA+ network capacity and coverage, and a share of the capital costs relating to TELUS' investment in two state-of-the-art Internet data centers. One in Rimouski, Quebec, and the other in Kamloops, British Columbia. Despite slightly higher CapEx, simple cash flow increased a healthy 13% to $465 million.

Turning to slide 6. We added a solid 116,000 post-paid net adds in the third quarter. Notably TELUS' smartphone base increased to 63% of our postpaid subscriber base, a 15-point increase from 48% last year. Total net adds of 111,000 were relatively stable year-over-year due to significantly fewer prepaid net losses. Part of the improved prepaid trend was due to the launch of prepaid services in mid-August under our popular Koodo brand at Koodo and Wal-Mart stores. Of course, the major event in the quarter was the late third quarter launch of the new Apple iPhone 5 on September 21. While this widely anticipated product launch boosted postpaid adds in the final days of the quarter, system issues on day one, and availability restrictions, limited the impact in the third quarter. We anticipate iPhone 5 to represent a meaningful proportion of adds in the fourth quarter. Our entire subscriber base is up 4.8% year-over-year and the higher-value postpaid mix sits at 85% of the total subscriber base. TELUS' wireless subscribers are now about 7.6 million. So, another good quarter for wireless subscriber results.

Slide 7 shows the breakdown of TELUS' total ARPU between voice and data. Wireless ARPU increased by 1.5% and represents the eighth consecutive quarter of year-over-year growth. ARPU growth was driven by both the increase in postpaid ARPU, as well as the higher mix of postpaid subscribers. Data ARPU growth was 17% year-over-year, greatly exceeding the voice ARPU decline of 6.8%, which remained stable sequentially.

Turning to slide 8. The combined impact of our excellent data ARPU growth, plus the increase in our subscriber base, resulted in wireless data revenue increasing by 23% year-over-year to $546 million. This growth was driven by strong smartphone service revenues, including increasing text messaging due to higher penetration of smartphones and associated adoption of data plans, higher data roaming volumes, more devices that provide an Internet connection, including tablets, and increased rates for pay-per-use text messaging. Data represents 40% of network revenue compared to 34% a year ago.

Slide 9 shows the metrics related to our wireless marketing and loyalty efforts in the quarter. TELUS' blended and postpaid churn both improved by 23 basis points year-over-year to 1.44% and 1.10%, respectively. The blended churn rate was the best third quarter result in five years. This reflects strong ongoing retention efforts, lower Government of Canada deactivations, and an increasing proportion of subscribers that are postpaid, and success from our corporate priority of enhancing customer service and experience by putting our customers first. As a result of our Canadian industry-leading churn rate, there was less pressure on stimulating gross adds, which enabled us to have a more efficient cost approach. Consequently, despite gross adds being down 8% year-over-year, TELUS still added a healthy 111,000 net adds, which is above street expectations. The cost of acquisition per gross add remained almost unchanged year-over-year at $402. The combination of our continued ARPU growth and improved churn led to an 18% improvement in lifetime revenue. As such, the COA to lifetime revenue ratio, a measure of our efficiency, declined by 1.5 points to 9.4%. Retention expense also declined. In its case, by 2%, due to lower retention volumes resulting from strong retention efforts over the past year as a result of our clear and simple device upgrade program, and, to a lesser extent, commission savings from recent dealer acquisitions. Clearly, retention volume and related expenses in Q3 were impacted from a late iPhone 5 launch in the quarter. The retention costs to network revenue ratio also improved. Down 0.9 points to 11%, despite the pressures associated with higher subsidy smartphone upgrades, which represent 87% of postpaid retention units. We are very pleased with these value-creating wireless metrics.

Turning to slide 10. Let's move over and review our wireline segment results. Revenue increased by $48 million or 4% due to data revenue growth of 14%, reflecting a combination of strong TV and high-speed Internet subscriber growth and recent rate increases supporting ARPU growth. Data revenue did benefit from a one-time $18 million negotiated equipment sale, but only had a marginal positive impact on EBITDA. The data revenue growth more than offset ongoing declines in traditional voice, local and long-distance revenues, which were down 7% and 11%, respectively. Other operating income increased by $6 million year-over-year. And primarily reflects draw down of the price cap deferral account in 2012 to recognize provisioning of broadband Internet service to a number of rural and remote communities. Wireline EBITDA declined by 5% due to reduced contributions from the declining higher-margin legacy voice services. EBITDA margin declined by about 2.7 points from a year ago to 28.7% and was up slightly on a sequential basis. We are focused on improving wireline profit margin, including our longstanding and effective approach to making the necessary investments to improve operating efficiency, particularly in the legacy areas of our business. Capital expenditures were lower by 5.4% due to reduced investments in our broadband build and investments to support business growth.

Slide 11 shows the continued success of Optik TV. We reported another good quarter of TELUS TV net adds, with 42,000 net customers. While the TV base increased by 41% to reach 637,000. Overall, we continue to be comfortable with these steady net adds, including a continued improvement in cost of acquisition, customer churn and ARPU growth, which, in part, reflects recent price increases we implemented in July. This resulted in a strong increase in lifetime revenue.

Turning to slide 12, we again generated excellent high-speed Internet loading of 26,000 for the quarter reflecting an increase of 18%. Notably, this net adds result is the highest achieved in five years. This is impressive, considering the high level of penetration today compared to back then. Our total high-speed Internet subscriber base is up 7%, or 85,000 over the last 12 months, to surpass the 1.3 million milestone.

Slide 13 shows our residential and business network access line performance for the quarter. Residential NAL losses of 30,000 continue to show an improving sequential trend and were equal to the losses of a year ago. Notably, both reflect the best result in over six years. The primary cause of the NAL decline is increasingly due to wireless substitutions, including the longstanding erosion by competitive voice alternatives.

Business NAL losses of 9,000 improved year-over-year but continued to reflect ongoing price-based competition in the small-medium business market segment and continued conversion from legacy voice services to IP services. Keep in mind that this includes the statistical effect of TELUS converting legacy circuit-switched lines to more efficient IP services provided by TELUS. Altogether, TELUS’ network access line count declined by 5% year-over-year.

Putting the two segments together, let's look at TELUS’ excellent consolidated results on slide 14. Revenue in the third quarter increased by nearly 6% from a year ago, while reported EBITDA increased by 5%.

Reported earnings per share increased by 8% to $1.08. I'll explain in more detail the underlying drivers on the next slide. Meanwhile, capital expenditures were flat as higher wireless spending was offset by a decline in wireline. Free cash flow before dividends was up a strong 23% due to higher EBITDA and lower net restructuring expenses.

Slide 15 provides a detailed breakdown of the EPS drivers this quarter. Higher normalized EBITDA added $0.13 of growth, while lower financing costs due to the lower interest rates added $0.01 to the upside. These favorable trends were partially offset by higher depreciation and amortization expenses associated with a larger asset base, as a result of recent CapEx and acquisitions totaling $0.04. An increase in tax expense of $0.02 and a lower pension expense negatively impacted EPS by $0.01. To complete the analysis, the quarters reported EPS included a positive income tax -related adjustment amounting to about $0.01 per share.

Moving to slide 16. we have, as expected, announced today another dividend increase. Based on our continued confidence in our prospects for earnings and cash flow growth, the TELUS Board of Directors has approved a $0.03 quarterly dividend increase to $0.64 per share for the January 2, 2013 dividend payment. The dividend increase represents a 10.3% increase over the dividend paid in January 2012. This increase represents the fourth of six semi-annual dividend increases targeted to the end of 2013 and is consistent with the May 2011 announcement in that regard. We believe this initiative has provided shareholders with excellent clarity on TELUS' intention on how it returns capital to shareholders during a difficult economic period.

Now let's turn to slide 17 to review our 2012 guidance. We are reaffirming our 2012 consolidated and segmented guidance for the year, which was raised on August 3 with our second-quarter results. To provide further colour, consolidated EBITDA is trending to the mid-point of the range, as wireless tends towards the top half and wireline tends to the lower end of their respective ranges. Restructuring costs remain unchanged at $50 million for the year, reflecting an expected increase in costs in the fourth quarter relative to a year ago. Notably, cash taxes for the year are now more likely to fall at the lower end of our $150 to $200 million initial annual projected range.

Now, let's review one notable corporate development, starting on slide 18. Given the very important nature of our share exchange proposal, and to keep investors informed, I wanted to briefly review some key developments. On October 12, the BC Court of Appeals ruled that Mason's requisition for a shareholder meeting, and its four resolutions were allowed to proceed. The Appeal Court ordered both parties back to the Supreme Court of BC to determine practical logistics for the TELUS shareholder meeting. On October 15, the Supreme Court of BC rejected Mason's attempt to challenge TELUS' share exchange proposal. The court confirmed the validity of the interim order it had initially granted to TELUS in August, enabling shareholders to vote on its share exchange proposal. Also on October 15, consistent with TELUS' submission, the Supreme Court of BC ordered that the shareholder meeting already scheduled for October 17 to consider TELUS' one-for-one share exchange proposal, now be a joint meeting to also vote on Mason's four related resolutions proposing alternate exchange ratios. These resolutions were to be voted on by only common shareholders. On October 17, TELUS common and non-voting shareholders, voting as a separate class, each voted strongly in favour of the share exchange proposal. Notably, none of Mason's four resolutions received the requisite support from common shareholders required to pass. On October 23, the Supreme Court of BC granted TELUS' request for Mason's appeal of the October 15 decision and TELUS' final order application to be heard at court hearings that began on November 7. In order for the share exchange to be effective, the court will have to approve TELUS' application for a final order and dismiss all current and further possible appeals. It is currently estimated that the share exchange would not be effective until late November at the earliest.

Let's quickly review the clear and decisive outcome of the October 17 shareholder vote on slide 19, which had a very high shareholder participation, with almost 74% of common shareholders, and nearly 85% of non-voting shares outstanding, voting at the meeting. The final vote tally was 62.9% of the common shares voted in favour of the share exchange proposal on a one-for-one basis. Excluding Mason's most recently-reported 19% voting block, 84.4% of common shares voted in favour of the one-for-one proposal. And, finally, 99.5% of the non-voting shares were in favour, as well. As such, the voting results easily exceeded the approval thresholds for the proposal to pass. Namely, a simple majority of common shares voted, and two-thirds of non-voting shares voted. Subject to court approval, the plan of arrangement, the outcome of the shareholder vote is very positive for TELUS shareholders in that the simplified share structure will provided increased liquidity, common shares will be listed on the New York Stock Exchange for the first time, and it exemplifies principles of good corporate governance.

Let me wrap up my session on slide 20. Overall, we are pleased with the third quarter financial and operating results. Wireless delivered another strong quarter, including continued ARPU and solid subscriber growth, the lowest blended and postpaid churn rate in the Canadian industry and double-digit EBITDA growth. We continue to be satisfied with the wireline subscriber results and strong data revenue growth, however, there needs to be an ongoing focus on efficiency to ensure margin improvement in wireline operations. Free cash flow before dividends increased by a strong 23% and year-to-date is higher by 35%. Finally, we delivered on our semi-annual dividend growth model with a January dividend of $0.64 that is 10.3% higher than a year ago. Now let me pass the call over to Joe to make some final operational comments.

Joe Natale, EVP & Chief Commercial Officer

Thanks, Bob and good morning, everyone. Starting on slide 21. In the third quarter TELUS reported our eighth consecutive quarter of year-over-year ARPU growth. This was driven by strong ongoing wireless data growth, as we continue to generate robust smartphone adoption. Our smartphone subscriber base increased 43% and now represents 63% of our postpaid base, a 15 point increase over last year.

Demand for the new iPhone 5 was significantly stronger than previous versions. However, we only had 10 selling days in the quarter, constrained supplies, and volume-related system issues on the first day. A great deal of end-to-end preparation went into the launch to ensure our success. However, we were blindsided by a 5-year-old artifact piece of code that seriously deteriorated our systems performance on that launch day. This one-time issue impacted launch day but was immediately identified and fixed. The issue cost us about 5,000 gross loads and a few million dollars to recover. We also saw some impact from deferred customer purchasing decisions in the quarter, ahead of the widely anticipated launch on September 21. Iconic device launches are now clearly accentuating traditional seasonality in the wireless business. Given its LTE and other advanced data capabilities, alongside typically very positive overall iPhone economics, we expect the iPhone 5 to nicely support our wireless data momentum. As shown here, data ARPU is up 17% this quarter to $24.51 and overall data revenue growth remains strong at 23%. As we continue to expand our LTE network, which now covers more than 60% of the Canadian population, and anticipate covering two-thirds or more by year end.

As shown on slide 22, TELUS again reported a low and improved blended churn rate, the lowest third-quarter churn rate since 2007. Industry-leading churn reflects the success of our investments in network technology evolution, the disciplined acquisition and retention investments, and the power of TELUS' focus on the customer experience. It's worth noting that in October the Commissioner for Complaints for Telecommunications Services released its 2011/2012 annual report. Complaints related to TELUS decreased by 13%, and we represented only 11% of complaints despite our having an approximate 28% share. This contrasts to our peers who all saw complaints increase. Low churn, along with continued ARPU growth, supports our industry-leading lifetime revenue per subscriber. It also allows us to take a more measured approach in acquiring new customers with a focus on high-quality subscribers. TELUS' marketing efficiency as a ratio of COA per gross addition to lifetime revenue also remains industry-leading. These metrics indicate just how positive the economics of smartphones are for TELUS and our investors.

Turning to slide 23, we continue to see healthy demand for Optik TV, and excellent pull-through growth in demand for high-speed Internet. We are also seeing continued positive momentum in the overall economics of Optik TV and Internet. ARPU is increasing as a larger proportion of customers come off introductory pricing and add channels and content to their packages, as well as from the impact of rate increases that were effective in mid-year. Combined TV and high-speed Internet net additions of 68,000 once again exceeded residential NAL losses by more than 2 to 1. This was the ninth consecutive quarter we have seen this positive trend. Residential NAL losses were flat year-over-year. This represents the lowest NAL loss since the third quarter of last year, as our Western cable TV competitor backed away from very aggressive promotions in the first part of this year. While my team continues to look for and embrace opportunities to enhance average revenue per customer, we are maintaining an intense focus on initiatives that enhance operating efficiency to mitigate the secular margin impacts of wireless substitution, competitive losses and rising programming costs.

Moving to slide 24. We remain excited about the service and feature road map for Optik TV. In October we launched Optik Smart Remote. This innovative app allows customers to change channels with a tap on an iPad or iPhone, and spend less time channel surfing by using guide filters to show only what they are looking for, such as movies, HD, comedy or sports. Customers can browse the interactive programming guide on a mobile device without interrupting what they were watching and retrieve program-related information from online sources. The app is very fast and there is no perceivable lag or load time. Optik TV also added 10 new HD channels to its lineup in the third quarter. And TELUS now offers over 550 channels, including more than 135 in high-definition. Optik is showing steady momentum and I am comfortable with our loading performance in the quarter. We will look for more opportunities to differentiate our premium TV offerings with innovative applications, features and content. I will now turn the call back to John.

John Wheeler, VP Investor Relations

Thank you very much, Joe. Peter, can you please proceed with questions from the queue, for Bob, Joe and Darren.

Q&A Period

Operator

Phillip Huang.

Phillip Huang

Hi good morning guys. I wanted to get your thoughts on the wireless industry moving towards more flat-rate type voice plans. We saw Rogers' new simplified plans earlier this week, shortly followed by BCE. And I think TELUS also launched a new suite of plans the same day with similar features. I understand the benefit of doing this is to allow the industry to de-risk from future decline in voice usage. But I was wondering if the timing might be a little early, for TELUS in particular, just given your MOU is still growing. And whether this might be the reason that you guys only responded with plans in the higher price points starting at $70 rather than the $50 range, as your peers might have done. Thanks.

Joe Natale

Thanks, Phil. On Wednesday, we launched a comparable set of talk, text and data plans. Very much a fast follow, so there would be no advantage to the Rogers organization. There is no question that there is a desire in the marketplace for two things. One is unlimited calling, and text packages and plans. And secondly, data sharing. I think both of these elements resonate well with consumers. And something that the market was certainly expected to go towards in the fullness of time. You can never quite predict when these things will happen based on market demand. But there is no question that we have fully understood what it means to our business. I think it will drive a level of consumer appetite for these types of plans. We are certainly assessing what we do on the lower end. And stay tuned on that front with respect to what we are up to. You will notice right now for us the plans have been put up there as a promotional set of plans. We will assess how they work in the marketplace over the coming little while. We have left the old plans in the market, as well. And we will assess accordingly as we go through the rest of the quarter, and determine how we're going to play this out.

At the end of the day, if you look at the impact of these plans to the TELUS organization, I don't believe it will have any material downward impact into next year. Yes, we do have a long tail of customers that have been paying overage on voice, have had higher-value plans. We fully assessed what that means to our business, and it's not a material number. In fact, in this game of some of the promotional activity that we see that drives subsidies, COA, COR, in any given quarter, it'll get lost in the mix of 2013 overall. So, I'm not concerned about that whatsoever. No question, in the fullness of time, as these types of plans take root in the marketplace, they will have some simplifying effects on our business. There is no question that a lot of our calls in the call center often have to do with dealing with overage and discussing why there was overage. The simplicity of unlimited plans will clearly diminish a lot of those conversations, and save us some costs in operating issues in the call center overall. So, with respect to the long-term benefits, we believe that the long-term benefits are very good for us at TELUS. There will be the short-term immaterial bump that I talked about. As always, our goal has been to constantly monitor the market and adjust the offering if necessary. If we believe we need a low-end plan, you will see it come out from us. We've got a great team that is very much dialed in to what is happening, very responsive on this front. I think, frankly, this approach to rate plans and simplicity is very much in line with the clear and simple message that you have been hearing from TELUS now for a long time. It goes way back in time to our launch of HSPA and the number of moves we've made along the way, and this is a natural evolution for us to move to these types of rate plans.

Phillip Huang

Right. And do you see any near-term benefit as a result of actually launching unlimited voice on the TELUS brand, as opposed to Koodo?

Joe Natale

Near-term benefit, and certainly matching in the marketplace, is certainly important. Because, as someone is contemplating making a switch from one of our competitors, we have taken away any sort of advantage in making that switch for our competitor. And they look at where they want to come. We have been a net recipient of the iPhone 3 and iPhone 4 migration activity in the marketplace, given the power of the TELUS brand and our customer service reputation. So, certainly that would be a continued benefit for us as an organization. Until there is a material element of these plans in our base, it is very difficult to see exactly what the impact will be.

Phillip Huang

Great. Thanks very much.

Operator

Greg MacDonald.

Greg MacDonald

First, let me say good luck to Bob. It has been an impressive 12 years, certainly for shareholders. So, kudos to that, no pun intended. I want to ask a question on costs. TELUS hasn't had to focus as much on costs as, say, Rogers and Bell have. Probably a function of your growth profile. But I wanted to ask, is there anything in the operating structure that would restrict the Company's ability to address the cost structure in the same way Bell has for a while? Rogers, a lot more recently. And in a related topic, I know it is sensitive, but in your consideration for John Gossling as the new CFO, can shareholders assume that cost control management skills have been a big part of a key consideration for him as being chosen for the new role? Thanks.

Robert McFarlane

Let me start off, Greg. Over the past decade, this organization under Darren's leadership has reduced a remarkable amount of costs. There were some very difficult times where we did significant but well-executed restructurings that over a 2.5-year period led to the reduction of 7,800 positions in the organization. And yet, the operations and the processes of the organization continued unabated. So, it is not just the reduction of costs. It is also what’s the resulting effectiveness of the organization. So, I think we have a pedigree in that regard that is impressive. In terms of the current situation, clearly there is some different effects going on. Whether you have fluctuations or different aspects of competitive tension by region. Sometimes that is not directly comparable at the same point in time to different organizations. But you also have changes or differences with respect to what phase organizations are in, in pursuing their growth investments. As you know, on the TELUS TV, Optik TV side, we have been quite successful in growing that operation the last number of years. And now over 637,000 Optik TV subscribers. We all know they come at a certain cost of acquisition. It is an investment in the future profit. So, we're, I think fair to say, further ahead with the largest IPTV base in Canada by a wide margin. And consequently, we have and incurred more of a dilutive cost associated with that growth. Joe and I have referenced in our comments, whether it be price increases, whether it be the adoption of new services, whether it be the increased loyalty we are seeing from that bundled approach with TV being in there. We are seeing the types of benefits and returns that one would want to realize upon in the medium to long term. Suffice to say that some of our growth areas, instead of adding to margin in the short term have had a dilutive impact. All of which to say, we are certainly not in a troubled situation, but we tried to take care in our comments to also say that we are not satisfied. So, while we are unusual for a wireline company with revenue growth that we are having, perhaps the best you will find in North America in that regard, we also know that to earn our right to have some dilutive investments, we need to also ensure that we are reducing costs from the legacy side of the business.

Last quarter, we raised the estimate for restructuring expenses in 2012 from $25 million to $50 million. That reflected that orientation. Today I indicated that, despite on an annualized basis a lower run rate in the third quarter, we continue to expect to incur approximately $50 million of restructuring expenses for the full year. And the intention is that we will continue to reduce costs, as necessary. And we are going to drive the organization to positive EBITDA growth on the wireline side of the organization. But that is going to come through the combination of increased margins as we get volume and scale in these growth businesses, as well as focused attention on the cost side.

Darren Entwistle

Greg, it is Darren here. I think it is important to put some empirical substantiation in response to your question to compliment the points that Bob has accurately made. On an audited basis, over the past decade, TELUS has taken $1.9 billion out of our OpEx base to support our EBITDA ambitions at a cost of circa $500 million on workforce restructuring charges. That is nearly a 4 to 1 ratio in terms of our pursuit of efficiencies. And that came through no easy measure in terms of over 12,500 staff level reductions. So, I think you should reflect upon that empirical evidence extremely carefully. Number two, a well-run organization is an organization that can blend effectively cost-reduction, service quality, and growth plan ambitions being brought to fruition. And I think we have done that remarkably well, as evidenced by our total shareholder return on a sustained basis. And thirdly, yes, you can assume that cost control was part of the recruitment philosophy as it relates to John Gossling. But frankly, I don't think the question needed to be asked in the first place.

Greg MacDonald

Okay. Thanks a lot.

Operator

Dvai Ghose.

Dvai Ghose

Let me add my congratulations to Bob on his retirement. We're going to miss your consistently insightful and colorful commentary, Bob. All the best to you.

I just want to talk to Joe about the wireline pricing situation. You have seen price increases from Shaw and TELUS, as you mentioned in your prepared remarks, Joe. I'm wondering whether you believe they're sustainable given the fact that your subscriber numbers are clearly accelerating, and they're showing some market share declines. And what do you think the impact will be on margins, and whether you think wireline EBITDA growth is perhaps around the corner? And on a related point, I saw a nice acceleration in your DSL numbers. Very strong. And modest but nonetheless deceleration in the TV subscriber growth. To what is that attributable? Is that a function of over-the-top, or are there other factors behind that?

Joe Natale

First of all, on the price and revenue side of our future-friendly home business, I do believe that there is still significant upside ahead of us on that front. It comes in a few different forms. Number one, we have an opportunity to upsell our base to higher-speed tiers and higher overall packages within the current composite. Number two, as we've developed some terrific content, you heard me talk about once again how we have upped the ante on HD content and content overall. What I think is a very good VOD library we are seeing even more upsell and growth in terms of share of wallet for VOD services and families that are grazing our movies and adding more of that content. And we are also working actively to upsell that base into bigger and more valuable theme packs as a whole. So, there's upside certainly on that front.

The second thing I would say to you is that I believe there is still headroom with respect to rate increases in an appropriate fashion. If you look at the delta between western Canada and the east, there is significant difference in terms of end market rates and overall ARPU in the segment in the sector. If you compare the west to Ontario, there is as much as a $10 or $15 difference in terms of the standard ARPU or rate costs in the two regions of the country. So, I believe that there is some opportunity for us to keep driving in that direction. If you look at the overall appeal of Optik TV, it's as strong as ever. In many markets, we have upwards of 30% market share, and certainly growing. So, there is an opportunity for growing on that front that will continue into the future.

With respect to your comment around costs, no question, there is a very intense focus in the organization, as I said, and as Darren underscored in his comments just a few minutes ago, on continuously driving costs out of the organization. We have a series of initiatives across every aspect of the business, from call centers and driving up calls to our call center, through our value for money initiatives around procurement. And looking at every single vendor line item and what drives those costs, from set-top boxes through handsets in the wireless business, through every piece of material and cabling that is part of our operation. We worked very hard across bill simplification, recognizing that the number-one call driver in our residential business is around the bill. The simpler the bill, the more intuitive the bill, the more we can drive those efforts. And we have been on a quest to make that bill as simple as possible. And to put it in perspective, as I've said to you in the past, and to others, we take roughly 35 million to 40 million phone calls a year, so we are working diligently to reduce that volume recognizing that the average TV customer does call more often than the legacy voice customer. And I can keep going. There are a whole list of issues that go across the spectrum, from the way we install and repair services, through the real estate consolidation that we are doing in our buildings across the country, to more of a work styles approach that includes hoteling and mobile workers, et cetera, et cetera, et cetera. So, that margin pursuit will continue. It has been in place now for the last decade or more. And will continue and intensify in the coming periods.

With respect to high-speed, we are very pleased with our high-speed results. I have said the goal for us is actually to drive that new dial tone. High-speed is the anchor to the home. It is the new dial tone in the home. I see the focus on high-speed a reflection of two things. One is the appeal and the magnetism of our TV product in pulling through all of our services, number one. And number two is, the resonance of the TELUS brand in the marketplace, and our reputational growth in terms of customer service, and our appeal in the community with respect to the focus and work we do in the communities, both are playing a very important role on that front.

Operator

Jeff Fan.

Jeff Fan

Let me take this opportunity to congratulate Bob, as well. It has been a pleasure working with you. I wanted to ask about wireless churn. As you guys mentioned, lowest Q3 churn in a number of years. As you look forward, as the smartphone penetration continues to increase, and we're presuming smartphone churn is lower. And you are introducing these plans which encourage more sharing and more multi-devices within plans. Do you see churn continuing to go down, and more room for improvement going forward, just based on those industry trends?

Robert McFarlane

Yes, I think that you've quite rightly pointed out a potential cause of benefit from the new adoption of increased flat-like type of plans. The extended family or multi-device application to the data plan therein. So, it remains to be seen. I think, as well, I referenced it in our comments today that we are certainly seeing an increased trend to wireless substitution of the traditional landline phone in the home. That is not a new phenomenon per se, but I think the rate of it is an increasing trend. That, as well, means that the wireless device itself is a necessity. And now it is just a question of which carrier the person is going to be on. In our case, we have had a tremendous focus on quality, network reliability, simplicity, so on and so forth. We have accrued benefits that I think have resulted in having the lowest rate. But even stepping back and looking at the industry in its entirety, it is an economic imperative and likely occurrence that as penetration gets higher and higher, the economic impact of churn becomes more material because of the size of everyone's subscriber base. And therefore, the relative benefit from investing in, say, growth stimulation versus retention protection is changing over time. And I think all firms are refining their approaches and getting better. Perhaps we're leading the pack, but I think they're all getting better.

The final comment I will make is, and maybe it's somewhat obvious, but I'll share a story of one of our processes. If you go back a couple years ago in wireless, and someone had a phone that broke and they came into our store, we'd give them a replacement unit. They'd come back in a week or so to get their repaired device. That was a satisfactory process for most customers. Not with the advent of smartphones, when people's lives and contacts and social connections are resident on that device. If it is broken, it was dropped or whatever, and they go in the store, they really want to have a device that provides them that instant replication of that social connectivity that they have enjoyed. The point therein, it just shows you how we've transitioned to where the wireless device is a critical device for most people's lives. And consequently, if you can keep people happy with an experience, have simplicity in terms of how they can upgrade and maintain the newest technology over time, then they're going to remain loyal. And that is why smartphone churn rates are materially lower than the traditional wireless devices. And I think that bodes well for future economics of the industry.

Jeff Fan

Great. Thanks very much.

Operator

Drew McReynolds.

Drew McReynolds

Again, congratulations, Bob. Just two wireline questions for me. First, just with the nice Internet net adds in the quarter, just wondering if you can just update us on the road map on your fibre-to-the-node footprint in terms of the overlays that you are doing. And maybe just talk about the Internet speeds that you will be able to offer across the footprint.

And then a second question just with respect to the Optik On-the-Go service, have you seen any notable impact on wireless data growth? Is it just too early? Can you maybe comment on the behavior that you are seeing in terms of subscribers that have this service that choose Wi-Fi over actually being on the network? Thank you.

Robert McFarlane

Thanks, Drew, for your comments. I appreciate that. And others on this call. Starting with Internet speeds. I think we all know that they are a prerequisite, an enabler of not just Internet connectivity, but in our case, IPTV connectivity. And that is where the criticality of the broadband connection is a positive for our organization. We have crossed the 80% coverage of our top urban areas in western Canada and eastern Quebec. But the upgrading of speed is not a one-time thing. It is really an ongoing process. And, to your point, getting fibre not just to the node but actually to the premise is something we have commented before. The obvious ones go to the multiple dwelling units, new construction, greenfield, suburban developments, what have you. Where it makes sense to go with a fibre connection at the outset rather than just putting in copper. But we have also talked about that, over the long term, we are going to be moving to fibre-to-the-premise. But that is a very long-term upgrade schedule. We will take a piece of it every year as we move along the way in an orderly fashion, consistent with the heritage of how we've approached this general challenge in the past. The other thing I would say is that Internet speeds are important, but the importance of them as an Internet connection in isolation, I think, diminish as you get up in speeds. In other words, going from dial-up to high-speed is a huge change in benefit for a subscriber. Going from 1-megabyte to 5-megabyte connection speeds in terms of video utility, et cetera, is a distinct benefit. Going from 5 to 50 in terms of an Internet connection in most conventional usage has limited benefit for most subscribers, given current utilizations.

So, at some point, it starts to change where speed is no longer the dominant marketing consideration. But what does it enable, what is the differentiated service and product that I get with that connection? And that is where I think we have been so successful in the past couple of years with our Optik TV bundled in along with the Internet, where we have had this differentiated advantage. And with the applications, et cetera, that are enabled by our IPTV connection the future is positive in that regard, as well. So, on that side, I think we are seeing the paradigm change. But not to diminish that, overall broadband speeds are important just for the future of our IPTV product. Joe, did you want to have some supplemental comments?

Joe Natale

Sure. Just a couple of quick comments on that. Then I will talk about Optik On-the-Go. We will have 100% of our ADSL footprint covered by VDSL 2 by the end of this year. That is roughly 2.4 million homes with speeds up to 30 Mbps. Bonding is something that we are undertaking right now, as well. And that will roughly double the profile to between 50 Mbps or more. So, the opportunity is there to leverage those speeds. I agree with Bob's points completely that it is not just about speed. It's the quality of the experience and especially as you wrap entertainment around that experience. And we will continue to grow our fibre footprint to brand new developments and ethernet-to-the-suite in MDU's, et cetera. So, absolutely an important part of our focus.

As it relates to Optik On-the-Go, Optik On-the-Go for us has a couple of very important purposes. First and foremost, it's to underscore our focus on bringing to market integrated wireless and wireline solutions. Absolutely a competitive importance to us. Something that is a little more difficult for our cable competitor. And they can't leverage the strength of the wireless capability at all, given the lack of investment in that area. Certainly you will see more wireless and wireline integrated solutions coming from TELUS. The customer satisfaction on that product has been very strong. It will continue to build as we add more content to our Optik On-the-Go end screen solution, and we continue to add content through every single period. In terms of wireless data ARPU impact, certainly we are seeing some, and it's growing. But it is not at a state now where it is material in nature. It will grow over time as people start to use that capability on the macro wireless network, as well as using it currently on Wi-Fi and in-home solutions.

Drew McReynolds

Thank you very much.

Operator

Adam Shine.

Adam Shine

I will also say congratulations and all the best to you, Bob. And if I may, I would also add that John Gossling is a wonderful person, and I think will make a great addition to the team. Quick question, just with respect to the data revenue growth in wireline, which really was quite impressive at up mid-teens. This was a period where you saw some price increases, obviously. When I go through the MD&A, I see a number of the drivers, but they are repeated from prior quarters as well. I was wondering, maybe Bob or Joe, if you could just address maybe key items that would have driven some of this impressive strength?

And number two, maybe specifically for Bob, as it relates to the resolution of the arbitration decisions back in July, were there any additional maybe one-time cost catch up or otherwise related to those decisions that would have impacted wireline EBITDA at all? Thanks.

Robert McFarlane

Okay, Adam. Again, thank you for your kind comments. In terms of the price increases, just keep in mind that we basically started the implementation and bill runs in the July timeframe. So, we had an ARPU boost from some price increase, but not a full Q3 quarter. There are different products. I'm not going to get into all the detail, that we did some different timing. Suffice to say it was less than a full quarter across the products that we did some increases. So, that was a new development for the third quarter compared to prior ones, and we should see some lift going forward. Next, in terms of, I am not sure by memory whether we specifically referenced this, but an important effect to keep in mind is that, as we add new subscribers, they tend to be on promotional periods and so they run off of promotional periods as time is going on the proportion of people that we have recently added to the denominator being the total base, or cumulative subscriber base, is decreasing over time. And consequently, the proportional impact of that promotional discount period on our blended ARPU is reducing. And consequently, the overall ARPU is going up.

I know your question was on price, but I can say to you, as well, that we have had an increased adoption of services like VOD. And so, the tendency is that, as the subscriber duration, or as they have been on the service for a while, they have an increasing tendency to use services such as VOD. They become more accustomed and familiar with the features, with the offerings. And so, we are seeing a natural ARPU increase through, really, greater subscription of services over time. So, that is not price increase, that is really adoption of service related. The other thing I will mention is that with respect to the overall economics, it is not merely a price, it comes back to our other products, like wireless, et cetera, where loyalty and churn are important. And so, we've seen improving benefits of our quality and network reliability, and the product differentiation, such that our churn rate is just dropping quarter over quarter on our TV product, as well. And so, that is creating a strength. Where you can do price increases and yet still maintain nice growth, like we have in the 40,000-plus net territory per quarter.

In respect of the arbitration decision, this relates to content that we acquire. There is no EBITDA impact. It was incremental because that contract had expired. If I remember, Joe, it was in 2011 that it expired, if I recollect. We were accruing for a price increase since that point in time. And consequently, there was no step function increase or decrease with respect to the pricing on that content upon the settlement of the arbitration.

Adam Shine

Thanks for that, Bob.

Operator

Glen Campbell.

Glen Campbell

Two, if I might. One for Bob, and one for Joe. Bob, one of the things that you have done for the Company, and for the industry in my view, is create this win-win relationship with the regulator. And we have seen all sorts of innovations from TELUS on the pricing side that are very customer and regulator friendly. And yet, at the same time, it seems that the regulators are taking a much more, say, aggressively pro-consumer stance. As you look forward, do you see more opportunities for the Company to do this? And will the changes be just in the area of consumer pricing in terms of service, or are there other ways to sharpen the regulatory bargain?

Robert McFarlane

An interesting question, Glen. I think we are seeing a congruence between two dynamics. One is the dynamic that is internal to our organization in terms of a cultural imperative and corporate priority to, as we refer to it, putting customers first. That phrase really goes to how we try to deliver in all facets of the organization to have a quality experience for our customers, that lives up to the brand promise of the future is friendly. At the same time, and we are in the third year of that progression, the job isn't finished. But, clearly, there is positive momentum there.

At the same time, the regulator has made it clear at the CRTC that -- maybe they use different words -- but they want to put the customer first, as well. So, we are quite encouraged by developments like the CCTS report that came out recently. Well -- weren't pleased to see the industry where there is a significant increase in complaints year over year in a 35% territory. Yet, the percentage of complaints for TELUS reduced significantly year over year. So, what that tells us is, even though the challenges for customer complaints in the industry are continuing to increase, TELUS isn't a part of that problem, so to speak. And we are making significant progress in the other direction. In that light, I think you can see where the focus of the regulator on this issue aligns very much with where we have been now for a number of years. And that makes it, I think, easier when we are taking regulatory positions which are consistent with our own corporate priority, which happens to be the priority of the regulator. There is no inherent conflict between the two organizations. And I think that has helped us tremendously in that regard. So, I think that is the secret sauce, so to speak. And I think we have to all realize the customer is king, and the regulator wants them to be king. And if you as an organization have excellent service in this industry, I think you're going to find yourself with a positive relationship with the regulator. I think that is the take-away.

Glen Campbell

Thanks, Bob. And very best wishes. For Joe, a follow-up on wireless ARPU. You talked through generally the impact of the new rate plans. But I was hoping we could dive a little bit deeper, and talk about some of the puts and takes. On the positive side, the propensity of customers to take big plans, more than 1 Gbps, maybe the propensity to take tablets. Curious if there is much traction there yet? And on the negative side, any sense of what proportion of the base might be exposed to re-price now under these new plans? Thanks.

Joe Natale

Thanks, Glen. No question, we are seeing a great growth in all types of data devices. The tablet market for us is a very attractive market. The tablet market comes with no subsidy. It comes with a low cost of sale, overall. And it comes with, albeit lower ARPU than a smartphone addition, the AMPU characteristics are very attractive. You can keep going. You can look at different types of hubs that are out there, et cetera. They all have their incredibly strong characteristics around AMPU. I think at the end of the day, you have heard me say this before, Glen, our focus is very much on AMPU.

If it is an iconic smartphone subscriber, we continue to see the same sort of economics around iconic subscribers of that nature. And the data appetite is big. If it is a somewhat more entry-level device with very low subsidy, albeit maybe lower smartphone ARPU, again, the margin is great on that device because the subsidy on the low-end smartphones could be much lower. We pay less than $200 for some of the low-end smartphones that we have on the market, and they drive great economics for us.

I think when you look at the positive side, it's there. At the end of the day, customers are looking for certainty and safety around data consumption. So, sharing certainly is a helpful factor. And sharing is great, that you can share high-end plan at 5 [Gbps] with maybe one of your kids on a lower-end plan with only 1 [Gbps] or less. But at the end of the day, you have to give them that insight into their consumption so they can regulate as appropriate. And they feel comfortable spending more if they know what the fuel gauge on data is telling them. And therefore, they feel more comfortable.

Right now we believe there is a reticence for a lot of customers to consume data because of lack of clarity around their consumption and what is driving it. So, we have a job to do as an industry and as TELUS to help customers understand how much data they are consuming based on what activities they are performing. And help them manage that appropriately. I think if we do that appropriately, we will get some of the elasticity in terms of volume in that part of the business overall. And I think it is the right direction forward.

Voice, at the end of the day, has a lot of stiff competition coming. Whether it is over-the-top VOIP-type solutions. Text, I could say the same thing. iMessage -- as the iPhone 5 and iPhone 4 networks continue to grow, iMessage becomes a more dominant form of text and SMS-like exchange. Where we don't enjoy the same economics that we did in the text market. So, it is incumbent on us to figure out a way of turning voice and text into a feature. Into a feature where we can create a more-for-more mind set around that feature. And a more-for-more mindset will allow us to stem some of the erosion on voice overall.

There's no question that in the short term there are a long tail of customers out there that are paying for voice overage, for whatever reason. They may be on a legacy plan or they may just not want to bother with any look at a different plan for them overall. At the end of the day, for those customers, over time they will make their move to more of the unlimited voice plan. But the data consumption, in our minds, will overtake some of that re-price that goes on. As I said earlier, we're not concerned about the materiality of that. It is small in the scheme of things.

And if you stand right back, I would say there are three words that best define our focus in this whole area. The three words are AMPU, AMPU, and AMPU. At the end of the day, as an organization, we are obsessed on that topic. We have seen Verizon talk about ARPA. And I understand what they are trying to do with ARPA because they are trying to train the market on a new measure that would envelop tablets and all of these devices. But I think, if anything, it moves the conversation to the wrong place. The conversation needs to be about the margin we are deriving from the unit of devices attributed to an individual, a household, a small business or an enterprise. For years we've looked at the enterprise business on a margin basis only, or the SMB area on a margin basis only. And more than ever, there has to be a focus on looking at the household and the individual, the family on a margin basis. I think that will drive our behavior, and it will drive the types of rate plans we throw out there. And that will drive some of the clever marketing initiatives around what type of devices we offer in the marketplace to support that focus on margin. Great plans will continue to evolve to reflect the nature of consumer patterns and what is happening in the marketplace. I'm not fussed at all.

Glen Campbell

Okay. Thanks very much, Joe.

John Wheeler

Thank you for taking the time to join us today, everybody that is online. And we appreciate your interest and continued support of TELUS. Thank you. Have a good day.

Operator

Ladies and gentlemen, this concludes the TELUS 2012 Q3 earnings conference call. Thank you for your participation, and have a nice day.