

Q1 2009 TELUS investor conference call

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Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the TELUS Q1 2009 Earnings Conference Call. I would like to introduce your speaker, Mr. John Wheeler, Vice President, Investor Relations. Please go ahead.

John Wheeler – TELUS, Vice President, Investor Relations

Welcome and thank you for joining us today for our first quarter 2009 investor call that we have ever held in Ottawa, where today TELUS held its 2009 Annual General Meeting. The call is scheduled for one hour or less. The news release on the first quarter financial and operating results and detailed supplemental investor information are posted on our website. In addition for those with Internet access, the quarterly presentation slides are also available. In addition, Darren Entwistle's slides and speech from this morning's AGM are posted for viewing at telus.com, Investors. You'll be on listen-only mode during the opening comments.

Let me now direct your attention to slide two. The forward-looking nature of the presentation, answers to questions and statements about future events that are subject to risks and uncertainties and assumptions. Accordingly, actual results could differ materially from statements made today. So do not place undue reliance upon 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 we refer you to the risks and assumptions outlined in our public disclosures and filings with Securities Commissions in Canada and in the U.S.

Now turning to slide three for an outline of today's agenda, we'll start with introductory comments by Bob McFarlane, Executive Vice President and CFO. Bob will review both segmented and consolidated results and give updates on the issues outlined. This will be followed by a question-and-answer session. Darren Entwistle, President and CEO, will be participating in that part of the call, and as well will Joe Natale, President of our Business Solutions business unit. Let me turn the presentation over to Bob starting on slide four.

Bob McFarlane – TELUS, Executive Vice President and Chief Financial Officer

Thanks, John. Let's begin with a summary of the wireless highlights. Wireless revenues were up 3%, based on 9% annual growth in the wireless customer base, partially offset by lower revenue per subscriber. EBITDA decreased 3% and so lower-than-expected growth in revenue was more than offset by the higher operating expenses, including cost to support subscriber retention and upgrades to smartphones. We also saw increases in certain network operating expenses, which were driven by a significant increase in data revenue, as well as higher content and licensing costs associated with this strong data growth. Marketing expenses were lower year-over-year, as were salaries, benefits and other employee-related costs. Capex investments increased by \$131 million, reflecting the capital spent in the quarter on the next generation HSPA network build-out. I should note that Capex this quarter last year was abnormally low, as we are still finalizing our wireless network evolution plans.

Turning to slide five, as previously announced in early April, net additions of 48,000 were disappointing. As outlined in our pre-release, net adds were impacted by the economic recession especially in British Columbia, Alberta and Ontario, which experienced the largest employment declines in the first three months of the year and this impacted both gross additions and churn. Increased competitive intensity also impacted results, as I will discuss momentarily. While loading was lower than expected, 92% of first-quarter net adds were postpaid. Our cumulative subscriber base is up 9% year-over-year and now totals 6.2 million.

Slide six provides a recap of the pressures we experienced in ARPU, as previously disclosed in April. Voice ARPU continued its declining trend and accelerated over fourth quarter of 2008, due to the deepening global economic recession increasingly being experienced in Canada and in particular in Western Canada and from competitor price changes in early November, 2008.

The decrease in ARPU included a combination of factors, including lower Mike service revenue, which is sensitive to the economically challenged business sectors of manufacturing, automotive, construction, transportation, dispatch and energy. All these sectors experienced significant employment declines in the latest March data. Mike comprises less than 11% of TELUS' wireless subscriber base, but nevertheless contributed the most significant decline in consolidated ARPU. Declining minutes of use by both consumers and businesses, as subscribers right-sized their plans and reduced their out-of-bucket minutes of use; decreased roaming ARPU, due to domestic and cross-border roaming rate reductions as well as slower traffic, as consumer and business subscribers travel less; and finally, increased penetration of the popular and growing Koodo brand had a small impact on ARPU.

Slide seven shows the breakdown of TELUS' total ARPU between voice and data for the first quarter. Data ARPU increased by more than 29% to more than \$11, and now represents 19% of total ARPU. This result is notable, given Mike iDEN, generates only a small amount of data revenue and also because TELUS does not enjoy full access to certain smartphones, which drive additional data revenues. Considering this, we are pleased with the results from the continued execution of our wireless data strategy, as we continue to enjoy success in the smartphone category, as shown on the next slide.

Data revenue growth for the first quarter was 41% year-over year, reaching \$208 million. We remain very bullish at TELUS for continued strong wireless data growth, given the increasing sales of 3G capable devices, especially into the consumer market, the ongoing introduction of higher bandwidth applications, as well as the continued orderly migration of non-dispatch Mike users, and higher value prepaid subscribers to both feature phones and smartphones. In addition, we're optimistic concerning the data growth potential from the upcoming launch of our HSPA service plan by early 2010.

Slide nine shows the metrics related to our continued focus on marketing and retention efforts in the first quarter. Gross additions remained relatively flat year-over-year. Churn increased by 9 basis points to 1.62% and reflects higher involuntary churn, due to rising unemployment levels and continued competition. COA per gross add increased slightly to \$336, due to higher subsidies to support the adoption of smartphones, higher foreign exchange rates and handset inventory valuation adjustments. These were partially offset by lower advertising and promotion expenses. In aggregate, COA expense increased 2.6%. Cost of retention increased by 28%, as we continue to focus on migrating clients to smartphones and other multimedia devices. All in, the weak wireless results were disappointing to TELUS and management is focused on improving the elements we can control as we work through the current slowdown.

To conclude this segment of the presentation, we today lowered our 2009 wireless guidance to reflect results to date and our current outlook. Revenue has been adjusted down by \$275 million and EBITDA by \$125 million. We are now guiding to wireless revenue growth of 1 to 4% and projecting flat EBITDA, as cost control helps to somewhat mitigate worsening top line economic impacts.

Turning to the wireline segment financials, starting with revenue on slide 11. Local and long-distance revenue continued to decline, reflecting competition and the substitution effects from wireless and VoIP from cable competitors. Data revenue increased by 6% due to higher revenues from Managed Workplace and other business data services, continued growth in broadband revenues from high-speed Internet and

TELUS TV, with a small lift from an additional half-month of revenue from the mid-January acquisition of Emergis. Total wireline revenue declined slightly.

Turning to slide 12. Wireline profitability was down 6%, but was primarily impacted by an increase in pension expenses and restructuring costs, which I'll cover in a moment. Other operating expenses impacting profitability were higher access facility costs associated with implementing new enterprise contracts and higher costs for the provisioning of TELUS TV due to an increase in loading. Notably, salaries, benefits and other employee-related costs declined by 7% this quarter, due primarily to reductions in employee-performance bonuses and lower management compensation. Capital expenditures increased by 9%, mainly due to continued investments in broadband expansion, which is expanding our competitive coverage of higher-speed Internet and TELUS TV coverage.

Turning to slide 13, we can clearly see the impact of the higher pension expense and restructuring costs in wireline profitability. When adjusting for both the \$27 million increase in defined benefit pension expenses, as well as the \$19 million increase in restructuring costs, normalized EBITDA actually increased by 4%.

Let's move to slide 14 and briefly examine our Internet results. In the quarter, TELUS added 14,000 high-speed net additions. The decline year-over-year in these additions was due to a maturing market, our cable competitors' emphasis on deep discounted bundled pricing across their home phone and Internet products, and lower household formation due to the weakening economy. As I've mentioned on past calls, we continue to see better high-speed results, where we have TELUS TV bundled offerings, particularly HD offerings. This reinforces the increasing importance of consumer bundles and our strategy to continue to invest in expanding our broadband speed and coverage, including the TELUS TV and HD footprints. Overall, our high-speed Internet subscriber base is up 7% year-over-year.

As highlighted on slide 15, we have two exciting announcements with regards to TELUS TV. We achieved a notable milestone in April, as the subscriber base surpassed 100,000 customers, an exciting highlight for our company. This success helps support TELUS' continued broadband expansion in other markets, including Calgary and the Lower Mainland. This build-out is a significant initiative, and is a major driver for the higher-than-average capital intensity in our wireline business. TELUS is also pleased to announce that we intend to introduce TELUS Satellite TV later this year, beginning with team member trials. The satellite TV service will complement and augment TELUS' current IPTV service by enabling TELUS to more quickly expand the TV home bundle footprint, bringing TV coverage to more than 90% of Alberta and BC households. This is made possible through an agreement with Bell. The financial impact

is included in our 2009 updated guidance and we do not expect it to be a major driver to wireline capital intensity. Our strategy with TELUS Satellite TV will be to augment our continued expansion of IPTV coverage to increase our addressable market.

Slide 16 highlights our wireline network access line performance and we continue to compare very favorably to our peers across North America, albeit down 3.9% on a consolidated basis. Business lines declined in the first quarter as competitors made inroads into the small and medium-size business market in the West, while business lines in the east increased. Notably residential line losses improved year-over-year, which I will discuss further on the next slide.

Slide 17 shows our unfavorable improvement in residential line losses with the decrease being 10,000 less than that experienced a year ago. The year-over-year improvement reflects more effective win back efforts, fewer residential moves and results for a continued broadband expansion which facilitates bundling opportunities including TELUS TV.

Let's conclude our review, the wireline segment on slide 18 with an update to our 2009 guidance. Wireline revenue was lower due to a slightly weaker economic outlook and we now expect revenue growth of up to 2%. EBITDA remains unchanged despite the 50 to \$75 million increase in the consolidated restructuring cost estimate, the majority of which is expected to be incurred in wireline due to improved cost efficiency efforts. Note that while not a formal target when one excludes pension expense and restructuring costs, the guidance for 2009 EBITDA over 2008 implies 3 to 8% growth.

So putting it altogether, let's quickly look at TELUS on a consolidated basis starting on slide 19. Consolidated revenue in the first quarter grew by 1% while reported EBITDA declined by 4.5%. Reported EPS increased by 12% excluding favourable income tax related adjustments of \$0.20 versus only \$0.05 the same period last year, EPS was actually lower by 5%. I'll elaborate on the various drivers behind EPS in a moment. Meanwhile, Capex increased by \$154 million as already explained.

Turning to slide 20, we can see that consolidated profitability was largely impacted by higher pension expenses as expected and restructuring cost. When adjusting for the pension and restructuring cost from both periods underlying EBITDA actually increased by \$7 million to \$938 million. The increase in normalized EBITDA primarily reflects lower performance bonus accruals and increasing traction from efficiency initiatives.

This next slide shows the detailed breakdown of the components of reported EPS, when we exclude the positive income tax related adjustments in both quarters represented by the green bars at each end. As expected, higher pension costs negatively impacted EPS by \$0.06. Meanwhile higher restructuring costs contributed \$0.05 to the decline. Normalized EBITDA growth generated \$0.02 of growth while lower outstanding shares and lower 2009 tax-rates contributed \$0.03 of growth. Finally, slightly higher depreciation and amortization offset by lower other expense contributed \$0.02 of growth.

To conclude the financial review, slide 22 outlines TELUS's revised consolidated guidance, which reflects first quarter results, accelerated restructuring and the outlook from the worsening Canadian economy. Our previous targets were set in mid-December, when economists were more optimistic about how the global recession would impact Canada. Notably, that while not a formal target when adjusting EBITDA for pension, expense and restructuring costs, normalized EBITDA growth would be up to 5%.

To provide greater clarity for investors, slide 23 reviews our tax situation from both cash and an accounting perspective. Cash income tax payments this quarter, of \$214 million, primarily consist of the final tax payment for 2008 and the first installment payment for 2009 based on 2008 taxable income. Because of this, there was a higher than usual negative impact on our reported free cash flow number from cash taxes paid. From an accounting perspective, the effective tax rate of 15%, much lower than our approximately 30% statutory rate was due to reassessments of prior-year tax issues and revaluation of future income tax liabilities. In addition, a positive income tax related adjustment of \$62 million or \$0.20 per share include \$8 million of after-tax interest income on the settlements, the before tax amount of which appears on the financing cost line of our income statement. Our 2009 net cash tax payment guideline of approximately \$320 to \$350 million remains unchanged. Please note that a full breakdown of our free cash flow calculation can be found in the appendix of this presentation.

I want to provide an important update on our operating efficiency programs starting on slide 24. Which predominantly impacts our wireline segment, but is also an area of focus in wireless. Restructuring initiatives have significantly accelerated since mid-2008 and we continue this effort into 2009, as shown by the significant increase in restructuring costs in the quarter to \$28 million compared to \$7 million a year ago. In light of the economic downturn and its impact in TELUS' results, the company continues to aggressively expand its efficiency initiatives. The company's estimate of restructuring costs for the full year of 2009 has been raised from the old range of 50 to 75 million to approximately \$125 million.

Slide 25 shows restructuring costs over the last five quarters, and on the right hand side, the annual year-over-year comparison. TELUS is undertaking a number of initiatives across the company to improve

efficiency and reduce costs. Certain of these activities result in restructuring costs. The significant acceleration of our operational efficiency initiatives that is driving increased restructuring costs in recent quarters and for this year is clearly evident on this slide, and reflects the economic and competitive environment. Interestingly, restructuring costs for the last 12 months trailing have been \$80 million, the largest annual total since 2002. The EBITDA savings from these initiatives are offsetting the near-term dilution associated with our recent restructuring investments.

As part of our operating efficiency program, slide 26 shows the changes in staff count since the end of 2008. Domestic staff count is down 660, while TELUS International is down 500. I should note that the TELUS International staff count is temporarily lower for seasonal and other reasons, since the end of 2008 and it's expected to increase year-over-year by the end of 2009. In our domestic operations, 500 permanent positions have been reduced by operating efficiency initiatives and attrition, while the remaining balance to total 660 is largely due to seasonality. As you can see, solid progress has been made today towards the year-end goal of reducing our domestic full-time equivalent staff count by more than 1,500.

Before I conclude, I will take a moment to review TELUS' strong funding position as shown on slide 27. At the beginning of May, TELUS extended its Accounts Receivable securitization program. The agreement is being extended three years, for an amount up to a maximum of \$500 million. TELUS has a committed \$2 billion credit facility with a syndicate of 18 financial institutions available until May 2012. TELUS's \$700 million credit facility with the syndicate of Canadian banks remains undrawn and is available until March 2010. We currently have greater than \$1 billion of Commercial Paper issuance outstanding at lower rates of less than 1%. As a result of our long track record of setting and living up to our clear and prudent financial policies TELUS has maintained a strong balance sheet supporting our healthy investment-grade credit ratings. As I have noted in recent conference calls an array of traditional sources of capital have been consistently been open and available to TELUS during the recent period of capital market volatility. If conditions become advantageous TELUS would consider terming of some short-term funding.

To conclude on slide 28, let me quickly summarize the quarter. Wireless results disappointed and were impacted by the weakening Canadian economy and by increased competitive intensity impacting ARPU. Wireline results showed positive trends including improved cost efficiency and EBITDA growth of 4% when excluding pension and restructuring cost. We continue to build momentum with TELUS TV evidenced by subscribers surpassing 100,000 and as we plan to introduce TELUS Satellite TV later this year, which will compliment and augment TELUS's current IPTV service. As shown by our Capex increase, TELUS continues to strategically invest in wireless and wireline broadband to fund strategic

growth initiatives from a position of financial and balance sheet strength. Finally, we have updated our 2009 consolidated and segmented guidance to reflect results year-to-date and significant acceleration of our operating efficiency initiatives given the general economic conditions and competitive environment. So with that I will hand the call back over to John.

John Wheeler – TELUS, Vice President, Investor Relations

Thanks Bob. Before we start the Q&A with Darren and Bob and Joe, I would ask for your cooperation in asking one question at a time, please. We will try one more time and Daniel please proceed. Q&A

Operator

Thank you. Our first question will be from Greg MacDonald of National Bank Financial. Please go ahead.

Greg MacDonald – National Bank Financial, Analyst

Thanks, good afternoon guys. The question is on retention spending and cost of acquisition on the wireless side. Cost of acquisition, I'll just say off the top in remains well under control, retention spending clearly is going up and you commented on that in the past. What I'm looking for is two things. Number one, could you give us a little more color on the mix of that spending for retention? I know a big part of that in the past has been focused on iDEN customers. Is that still largely the case or has it shifted more to non-data, postpaid type customers? And then secondly, as a related one to that, can you again indicate whether you've reached sort of a high end point on retention spending? Should we see that top out, as a percentage of revenue or do you anticipate that throughout the remainder of 2009 we should continue to see an increase there?

Bob McFarlane – TELUS, Executive Vice President and Chief Financial Officer

Okay, Greg. Let me start of then. In terms of next – really there's a couple of trends. They are not new trends. They are extension of trends that we experienced last year. One is the increasing adoption of smartphones by the consumer segment. So as you go through contract renewals on a consumer segment, increasingly they've been seeking the smart phones. We do link that to ARPU profile and in turn, but that that trend certainly has increased. And since really the spring or sorry, the early summer of last year, when the iPhone was introduced in the Canadian market, a significant subsidy effectively repriced the smartphone category on a retail bases, which affects not only COA in respect to that, but

obviously on the retention, given my point that increasingly smartphones are a bit desired on contract renewal. The second trend, which continues is that of iDEN. As we've mentioned before, we have really been pursuing I call it an orderly migration, in terms of the more mobile-centric, with a greater propensity to seek data usage, as opposed to the push-to-talk centric, which are core iDEN subscribers, and that by referencing orderly migration. What we are really seeing there is as contracts come up to maturities, we're not really accelerating it, nor are we slowing it down, it's really a pace consistent with contracts maturity. So that continues to flow through and I think the new number we provided here in the detail is to provide some quantification of that Mike subscriber base, and it represents slightly less than 11% of our total subscriber base. So I think that helps to sort of quantify where we are in that regard. So those trends are not new. In terms of going forward, I think one of the things that I am optimistic about aside from focus on general cost containment and being smart and all that sort of things that we can control ourselves, is the HSPA network launch, because we will be tapping into a new technology curve that generally is expected to have lower handset prices. Certainly we will not have products at any disadvantage from cost curve perspective to our competitors and, in fact, we will still be able to benefit from the CDMA technology curve to the extent that there are handsets have become available on that technology, that aren't available on HSPA and therefore we will do so, looking at cost and differentiation as two of the important factors in making our sourcing selections from handset manufacturers.

John Wheeler – TELUS, Vice President, Investor Relations

Okay. Thank you. Daniel, next question, please?

Operator

Thank you. Our next question will be from Peter MacDonald of GMP Securities. [Operator Instructions]. Please go ahead.

Peter MacDonald – GMP Securities, Analyst

Thanks. If I calculate the average revenue per total access line on the total voice revenue this quarter, there it's down about 3%, which I think is the greatest decline that I have seen in any of the previous quarters. So first, was there anything specific in the quarter that may have caused the decline, or is competition now starting to impact price on top of line erosion? And then just on the line erosion, given the economic pressure that you have talked about and Shaw's continued success, should we be concerned that the rate of access line erosion will accelerate for the rest of the year? Thanks.

Bob McFarlane – TELUS, Executive Vice President and Chief Financial Officer

Peter, I am not sure that basis of your calculation maybe you'll have to take that one offline with that contrary to our understanding of our numbers and what is going on in the market. We are in fact having increased bundling introduction of additional services and so consequently our revenue per household, if you will, certainly on the consumer segment is increasing, not decreasing. But what we can do on that is maybe take that offline with the IR team and they will try to reconcile their respective numbers.

John Wheeler – TELUS, Vice President, Investor Relations

Okay. Next question, please, Daniel.

Operator

Thank you. Our next question will be from Jeffrey Fan of UBS Securities. Please go ahead.

Jeffrey Fan – UBS Securities Canada, Analyst

Thanks very much and good afternoon. My question is on the wireless side. Given the new revenue guidance that you guys have given, if you - we do sort of back of the envelope calculation on what that implies on ARPU, it looks to me like you guys are expecting that the decline that we saw in Q1 on the blended ARPU will start to stabilize and not get worse throughout the year. Maybe first, just want to ask you, if that is the sort of implicit assumption, that's in your guidance? And two, if that is the case, what are the factors that are – that's supporting that view, given a bit of a slowdown on the data revenue growth and also that Mike is still – 11% of your base?

Bob McFarlane – TELUS, Executive Vice President and Chief Financial Officer

Okay. Jeffrey, I guess in respect of the wireless guidance just to ground everyone in terms of the guidance today, the revenue for 2009 is implied to grow, will be flat to grow 2% on the wireline side. And the wireless would be 1% to 4%. So obviously, we're factoring some growth. We do not guide subscribers, and I'm not going to get into that right now. We haven't before for this year and we're not going to start now. What we – obviously, when we set our guidance back in December, we did reference those predicated on an expected downward pressure on ARPU and obviously, we have experienced that. But it would be clear to say that the accelerated decline in the first quarter was beyond expectations.

Hence, in our pre-release, if you factor out this year, we provided a range of outcomes, and it's our best estimate based on the erosion we experienced in the first quarter. But as Darren and I've always said, to a large extent, we cannot control ARPU from the standpoint that competitive actions in the market, either lowering price, raising price, what have you, lead to a domino effect. And so it's an iterative thing. You can't necessarily control or predict that. What was the case in the first quarter that I think caught us more off-guard was the accelerated decline, particularly in Western Canada in its employment levels and certainly in some buying patterns. And perhaps that affected us more than others, because of our relative concentration of our base in those geographies. When one looks at the economy, we tried in the MD&A to cite the best source we could, which was the Bank of Canada. Who knows who's right? Canada will be largely influenced by other economies and we're not professing to be the experts on that. But if conditions remain somewhat the way they are now, then these results should hold as to whether the results get worse, because the economy turns out to be in a deterioration beyond that, which is cited by the Bank of Canada, then that, obviously, that's an exposure we can't control. Conversely, if the recovery comes earlier, then that would be something that we'd be – we would benefit from.

John Wheeler – TELUS, Vice President, Investor Relations

Okay. Thank you. Daniel, please.

Operator

Thank you. Our next question will be from Scott Malat of Goldman Sachs. Please go ahead.

Scott Malat - Goldman Sachs, Analyst

Good afternoon, thanks. I was wondering about a question on Koodo. And just – I know you don't give out the subscribers, but maybe you can help us think about the relative mix trends of Koodo versus your TELUS brand and how that's changing over time? And then on Koodo, just does it make sense to have a phone like the Samsung Slide on that network? How do you think about cannibalization between your brands? Thanks so much.

Darren Entwistle – TELUS, President and Chief Executive Officer

I don't think we're going to discuss the relative share between Koodo and TELUS. I don't think that that would be in the best interest of our shareholders, given the competitive intelligence involved. I think it is

important to point out that the cannibalization that we have seen on TELUS from Koodo is de minimis, which is not surprising given that we have done a hard segmentation between the two brands. With Koodo effectively focusing on affordability, focusing on talk and texting and focusing on a limited device set that is in accordance with the philosophy that we're going after customers that are interested in value. And they're interested in using the device in terms of the preponderance of the activity for talking and texting. And that's the way that we've marketed the device. I think going beyond that and breaking out in terms of postpaid activity – what is TELUS-related and what is Koodo-related is not something that's appropriate. As it relates to the Samsung Slide, I'm not going to say that there will never be a situation where we see a permeation of devices between TELUS and Koodo, but clearly, we've taken a different orientation than some of our peers, where the great extent of the devices that are available on the core brands are also available on the basic brands. That is not consistent with the strategic and marketing philosophy of Koodo. With Koodo, we want to focus very much on the AMPU and when we think about the AMPU, we want to begin managing effectively major cost concepts like device subsidization. And by focusing on handsets that have nice economic characteristics associated with them rather than feature rich handsets that typically have greater levels of subsidization, we think that that's appropriate for the economics of Koodo. And we think it's consistent with the marketing philosophy where the user is not looking to tap into a multiplicity of data applications, but rather to use the basic service for talking and texting. And the device will fit that type of usage pattern.

John Wheeler – TELUS, Vice President, Investor Relations

Okay, Daniel, next question, please.

Operator

Thank you. Our next question will be from Glen Campbell of Merrill Lynch. Please go ahead.

Glen Campbell – Merrill Lynch, Analyst

Yes, thanks very much. Again on wireless, you've talked about focusing on cost as a way to preserve EBITDA as well as possible on wireless. But is there any other sort of action that you are taking? I mean, we're not seeing, obviously, big changes on pricing, but are you fine tuning your retention policies or how you're pricing at the margin, marketing that kind of thing?

Darren Entwistle – TELUS, President and Chief Executive Officer

The answer Glen is, yes and yes. I think as an organization that's experiencing ARPU pressure, to the extent to which we can make astute pricing decisions, we will avail ourselves of that and have been doing so to try and drive greater ARPU resiliency in a very challenging market, to say the very least. Number two, historically, I would say, the weight of our cost reduction activities have been biased towards the wireline side of the TELUS organization. That is not true whatsoever on a go-forward basis. You will recollect on the last couple of calls, I've been referencing AMPU and, in particular, EBITDA flow through as it relates to the wireless side of our business. And it would be fair to say that the operational efficiency program that we have underway is one that is exhaustive across both the wireline and wireless sides of our organization. And so when you look at activities related to COA, COR economics, as it relates to cost of evolution, in terms of the way that we manage the customer base as it looks to things like e.billing and cost of client management. As we're thinking about the introduction of new technologies like HSPA, which has very attractive cost attributes from a data transmission perspective. When we think about business process outsourcing, when we think about vendor management, when we think about cost efficiency and expense reduction, we think about it across the organization and we're thinking about it directly as it relates to the EBITDA flow through of our wireless business. And I think when picking up on the point as Bob articulated quite rightly, we've made some assumptions in terms of our guidance as to what the market is going to perform like on a go forward basis that has ARPU implications. And clearly there are exogenous factors in terms of economic and market conditions that are outside of our control and we are in a volatile environment. What we can control on a go-forward basis and what we will control on a go-forward basis, with a focus that is very much dedicated to wireless every bit as much as wireline, is driving non-trivial efficiencies into that part of our business across the type of programs that I have alluded to previously.

John Wheeler – TELUS, Vice President, Investor Relations

Thank you, Daniel. Next question please.

Operator

Thank you. Our next question will be from John Henderson of Scotia Capital. Please go ahead.

John Henderson – Scotia Capital, Analyst

Yes, thank you. I just wondered if you'd care to provide more detail on TELUS TV and around sort of what the growth rates may have been recently? What the start-up losses may be in that area? And on the satellite side, just whether that is really designed to be a push into the MDU market or really more broad than that? I guess, obviously, outside your IPTV footprint as well. Any color you can provide around those things would be great.

Darren Entwistle – TELUS, President and Chief Executive Officer

Okay. This is going to be a very disappointing answer for you, because we're not going to provide, at this juncture, any additional color. Fundamentally and sincerely, I just don't think it's the right thing to do. All we'll do is bleed competitive intelligence out into the public domain, and I don't think that that particular development helps our shareholders. I do think that it helps the competition. I can say that we have taken a step forward today, in terms of disclosure on TELUS TV. We've posted what I would construe to be a reasonable result, by highlighting the magnitude of our client base in totality going past the 100,000 clients threshold during the course of April. But I'm not prepared to give any sense of trajectory in terms of client additions, nor am I prepared to give any forward-looking targeting our guidance, nor am I'm also not prepared to give any sense at this particular juncture as to the underlying economics. I think suffice to say, at this juncture, a greater than 100,000 customers represents a satisfactory or reasonable start. Similar to Koodo, we have a long way to go on this particular service. I will emphasize, once again as I have done on previous occasions, our focus here will be very much a focus of discipline, as it relates to the economics of this particular service. We will be progressive in our approach rather than aggressive in our approach. We have no desire to come into the entertainment distribution market, and amortize value in this particular industry.

We're going to be very sensible about the way that we market our product. We're going to focus on non-price-based differentiation, features, services and a client experience that we think will resonate well with certain client constituencies across Western Canada and Eastern Quebec. That's very much going to be our mentality, in terms of the capital that we've been investing, I've said all the way along whether it's ADSL-2, whether it's VDSL-2, whether it is Ethernet-To-The-Suite or whether it is GPON we're going to sweat all the technology stages along the way, so that we can exact a return for our shareholders in terms of the market outcomes that we are delivering on TELUS TV from the capital investments that we're making. We thought that that was a nice adjusted division for investors given that in 2009, we are experiencing a peak year, as it relates to broadband capital expenditures holistically across wireless and wireline. We thought well, given that we are experiencing a peak year as it relates to broadband capital

expenditures. It's appropriate for investors to get a sense as to the market success that we are realizing from these investments. And we thought it was appropriate to do the correlation with the money that we're spending in an area like broadband wireline to improve our IPTV footprint and to improve our IPTV bandwidth, to give a sense as to what type of demand are we stimulating out into the marketplace and are we being able to fulfill that demand in a way that's satisfactory with clients. And I think the empirical evidence that we have put forward thus far, indicates exactly that. But all we're doing today is we're providing a start.

I think from our perspective, there's always the opportunity to provide increased disclosure. I think, going forward and providing comprehensive disclosure out of the gate is not future-friendly from a shareholder perspective. It rather tips our hat to the competition in I think an unnecessary fashion. The other thing that we wanted to do is to make it clear the independence to a certain degree of Satellite TV versus IPTV, by disclosing the IPTV results at this particular juncture, along with announcing our launch of TELUS Satellite TV, it's clear that the Satellite TV is a decision that's been made from a position of strength off of solid IPTV results and that as a strategy as it relates to Satellite TV is a strategy that's complementary to our core IPTV offering. And our goal on IPTV is going to again be progressive, expand the footprint on IPTV, augment the bandwidth on ITPV and complement it with the rather immediate and significant coverage characteristics that we secure when we will bring TELUS Satellite TV to market, later this year to complement what we're doing on the core IPTV offering. And so that's the efficacy of the approach and for us to secure the coverage on the satellite front to embellish the good momentum that we've got in the core IPTV front I think speaks to a synergistic relationship between the two.

John Wheeler – TELUS, Vice President, Investor Relations

Next question.

Operator

Thank you. Our next question will be from Vince Valentini of TD Newcrest. Please go ahead.

Vince Valentini – TD Newcrest, Analyst

Yeah, thanks very much. Darren, can I just clarify on the Capex, I believe, you've said in the past that you think 2009 would be a peak year for capital intensity on a percentage of revenue basis and then in your

last comment you just said it will be a peak year for broadband expenditures specifically. So is it just broadband or is it all intensity across-the-board, do you think this will be a peak year?

Darren Entwistle – TELUS, President and Chief Executive Officer

Vince, just to be clear and as it relates to the Capex intensity point at the outset, I have never said in any form – formal or informal that our 2009 Capex intensity holistically for TELUS is at a peak year. You can draw your own conclusions in that regard. What I can say is that within the realm of reason as far for as you can project within an industry as dynamic as telecommunications that it is my view that 2009 is a peak year as it relates to broadband capital expenditures. To be explicit, as you may have seen from the slides that were posted during the AGM this morning, we are looking to spend close to \$1 billion, \$950 million to be exact in terms of broadband wireless and wireline expenditures and that accounts for almost 50% of the entirety of our capital envelope for 2009 at \$2.05 billion that is – that's a peak situation from my perspective. It's certainly not every year that you build effectively a new wireless network and significantly upgrade your access network on the wireline front. So that's the comment that's specific to broadband holistically between wireline and wireless. In addition to that I have also stated that again, for the foreseeable future for as long as you can predict in this industry, 2009 is also a peak year as it relates to wireless Capex. Again, for the same reasons that I've just articulated, the significance of the HSPA buildout where a lot of the capital activity is being shouldered in 2009 in preparation for the launch in 2010, we would construe that to be a peak year for TELUS as well. In addition to the strain that it puts on our cash flow because one of the other unique characteristics of 2009 is that it's the year of double taxation. And so as we work our way through these investments and if we can execute these investments effectively, we truly do believe over the medium to longer term, they will be materially augment not just our competitiveness, I think that would be fair to say, but these investments will give us access to new revenue streams that we have not previously participated in. Whether these revenue streams, that are new on the wireless front, which I think are obvious to the people on this call or new revenue streams on the wireline front, because we have an expanded IPTV footprint or because we have a satellite footprint that covers over 90% of the households across Alberta and BC. We'll participate in new revenue streams that hopefully will be profitable for this organization.

And lastly, one of the things that doesn't get discussed as frequently as it should is that the new technology and investments, HSPA in particular, a very attractive cost economics associated with them as it relates to data carriage. And I would argue that the standardization of the Canadian wireless industry from a technology perspective is a very investor-friendly event for the industry in totality. And it avoids the situation where people are trying to leapfrog each other on a competitive basis in terms of trying to steal a

march on each other's technology. But rather focused on sweating each technology stage and putting their money into products and services that are hopefully driving a positive result at the ARPU and AMPU level.

John Wheeler – TELUS, Vice President, Investor Relations

Thank you. Next question please, Daniel.

Operator

Thank you. Our next question will be from Simon Flannery of Morgan Stanley. Please go ahead.

Simon Flannery - Morgan Stanley, Analyst

Okay. Thank you very much. Good morning – or, good afternoon. Thanks for the disclosure on the Mike network. Sprint has had great success with the Boost Unlimited product and really noting that there's very little incremental capital costs, given the space they have left on that network given the subscriber declines. You talked, also, about the migration of customers in an orderly fashion as a network cuts across. At what point does it make sense either to do something like a Boost Unlimited to really use up that spare capacity? Or alternately, decide that there's duplicate costs here, particularly as you turn up HSPA, and it's time to shut down that network? Thanks.

Darren Entwistle – TELUS, President and Chief Executive Officer

Okay. Number one, let me just make a comment. We are not contemplating shutting down the iDEN network. As an organization, the intellectual property that we have on iDEN is exceedingly strong. We've never lost that intellectual property. We have a good solid network and we have a very solid spectrum position as it relates to supporting iDEN and I would say some of those characteristics would differentiate us from our peers. Secondly, for us, we like the iDEN product very much because when you look at the iDEN product being used in the way that it should be used, which is effectively targeting people that are Push-to-Talk centric, we are in an unbelievably powerful position. We haven't seen a lot of competitive offerings come to fruition in this particular space within the GSM world. Kodiak effectively went nowhere within the CDMA world. Winphoria effectively went nowhere. And if you're Push-to-Talk or direct connect or dispatch centric, rather, and you're interested in mitigating call latency, you care about speed of call setup and you care about your ruggedized handset, we have an abnormally strong market position. I think some of the issues that we've had in the past is that we haven't had a pure iDEN base. I think with the

increased disclosure highlighting the fact that iDEN is circa a little less than 11% of our overall subscriber base. One of the things that is worth highlighting is that, within that less than 11%, we have some customers that are very PTT centric. We have some customers for historic reasons that just came to iDEN for basic service and coverage. And we would very much like to evolve those customers over to either our CDMA or, prospectively, our HSPA offering, where we can offer them a greater range of data applications that are typically quite ARPU-friendly. If we can get down to a pure play base of PTT on the iDEN front, I would expect that to be very resilient, insofar as a mature product line is concerned. And I would expect that as the economy recovers and the key sectors that support iDEN begin to recover, like the transportation sector, the energy sector and the construction center – or sector, rather – we will see a pickup in the performance of this product overall. And it's nice to finally have a new MikeBerry out into the marketplace that augments what's been quite a deficient handset line-up for some time, and does a little bit for us in terms of the data applications side of things. Also, because it's a mature product, one of the interesting attributes of iDEN is, yes, as we experience ARPU pressure, that's a challenge from a profitability perspective. We're pretty resilient on the cash flow perspective because you're talking about a product that's got a Capex intensity of effectively 5%. Because we are managing this particular network like a mature network, and making sure that we are harvesting opportunities for cash flow growth and cash flow robustness. I think it's our longer-term strategic hope that we can evolve iDEN as a device that really begins to resonate within a key vertical that we think makes a lot of sense, which is emergency responders and first responders, within the public sector, where we think the attributes of the iDEN device have some very, very attractive attributes. And we like the economics of that.

From a Boost perspective, we're not – against a Boost by any stretch of the imagination. And certainly, I would say, looking at economies of scope, as it relates to a fixed infrastructure, whether it's iDEN, or for that matter leveraging the sunk costs associated with CDMA, I think those are things that, as an organization, we should always be dutifully considering. And we look at things like well, what's the traffic pattern like, as it relates to iDEN today, where we've got a more heavy business usage? Can we complement that with the consumer off peak pattern, leveraging the economies of scope and increasing the level of network utilization? That's something to be contemplated by this organization. I just think that we have to be weary, – or wary rather that when you decide to embark upon a particular path like this, you want to focus on the economics holistically. And one of the things that we've always talked about is lifetime revenue per client. And as we're thinking about lifetime revenue per client by getting into a service like Boost, we better make sure that we've got our COA subsidization economics done just right. We better make sure that we can deliver an experience that don't have a plus 7% churn rate, which is going to blow away your lifetime revenue per client, so that you don't actually get a contribution to your fixed

cost base. And so I think there's more work to be done in that regard. But I would say, theoretically, opportunities to leverage economies of scope is something that that we as an organization are open to.

The only caveat, I would say right now is that TELUS, as an organization, has a tonne of stuff on our plate. We've got our hands full right now on the PCS front, given what's going on in the economy. So that's challenge. We're building out an additional brand new wireless network with HSPA, that's a challenge. We've got our core challenges with Mike that are down to the economy and finally, Koodo has only been in the market for a year, which at this time last year that we launched Koodo. So when you think about economic challenges on the PCS front, you think about the HSPA build, you think about getting Mike back on track, and you think about the fact the Koodo is only 12 months old, I think as an organization, we want to be focused and disciplined and not bite off too much more than what we can chew.

John Wheeler – TELUS, Vice President, Investor Relations

Okay. Next question please.

Operator

Thank you. Our next question comes from Dvai Ghose of Genuity Capital Markets. Please go ahead.

Dvai Ghose – Genuity Capital Markets, Analyst

Yeah, thanks very much. Darren, I was hoping to get some more clarity on the satellite deal with Bell. First of all, do you think it's going to reduce your Capex requirements for broadband in Western Canada, because obviously there are markets where satellite is preferable, I would assume to terrestrial IPTV solution and can you give us an idea of whether it's a revenue share, whether you've get a one-off sort of commission, or how do the economics work?

Darren Entwistle – TELUS, President and Chief Executive Officer

Thanks, Dvai. Let's start with the revenue share. The commercial agreement between ourselves and Bell is proprietary, so not for me to disclose it. But I think it's a balanced deal in my view that if we – TELUS, as an organization on a retail basis execute effectively, and I think we can, given the strength of our brand in Western Canada, given our ability to bundle the service with the other product offerings that we have in the marketplace and given the distribution channels that we have in the West, I think we can do

reasonably well. If we do that I think it will be value accretive at the both to TELUS and the Bell organization. But we've struck a balanced agreement. I think both parties Bell and TELUS are incentivized to do the right thing, and derive the economic benefits from that. But we have – we have not gone forward to sort of disclose the key commercial parameters of our relationship with the Bell organization, as it relates to that contract.

As it relates to Capex, let me be little bit more specific here. It's not going to do anything to diminish our capital appetite for 2009, the \$2.05 billion we are committed to that spend for what we think are our strategically the right reasons. From an efficiency-perspective, the right reasons and in terms of our competitive posture the right reason. So that number stands, and we continue to implement a good effect in that regard. But I do think to your point Dvai, what it does allow us to do is make some choices in the future, as we continue to expand IPTV, and I just talked in the previous question that we're doing exactly that, we're increasing the geographic footprints and we're increasing the bandwidth. But how far we go with that expansion and what it looks like on the periphery between our wireline IPTV offering and what it looks like on the periphery with our TELUS Satellite offering that gives us some choices in terms of spending our money. And I think to have that flexibility as it relates to the IPTV penumbra in terms of our geographic footprint, where we arrest our IPTV-build and where we rely on Satellite, to have those choices, I think in the telecom industry, given the volatile dynamic nature, I think to have that financial and cash flexibility is a very nice attribute of the satellite offering to say the very least. The other thing that it can allow us to do is maybe be a little bit more patient when we're thinking about the evolution of IPTV technologies. So, for example, you've seen a myriad of succession of IPTV technologies from ADSL2+, VDSL2, Ethernet-To-The-Suite and GPON. Maybe we can be patient and skip a stage occasionally in terms of wireline technologies because we have an alternative solution that we can bring into the marketplace. So rather than how to spend Capex on two successive technology stages on the wireline IPTV front, maybe we can just take one step because we've got as an alternative the Satellite TV offering. And then lastly, it puts us in a position where upon the launch later this year, we immediately go to a digital footprint on TV that covers, as I said in the previous question, more than 90% of the households within Alberta and BC. In fact theoretically 100% of the households it is just really our own ability to sell that actually mitigates the size of the addressable market. But we immediately go north of 90% of the households in Alberta and BC with our digital Satellite TV footprints and all that it entails including a High-Definition TV. And that gives us a competitive balance in my view that is a very positive strategic attribute for our organization as we continue to develop our entertainment offering and as we continue to nurture and build upon the early success that we have secured going past the 100,000 clients on the IPTV front.

John Wheeler – TELUS, Vice President, Investor Relations

Okay, thank you Darren. Daniel, we've gone through the hour. So we'll take one last question if we could, thank you very much.

Operator

No problem. Our last question will be from Peter Rhamey of BMO Capital Markets.

Peter Rhamey - BMO Capital Markets, Analyst

Great. Thanks for taking one more last question. The question is on enterprise, I would like to get some flavor for the sales funnel at TELUS and any indications of pricing and volume, that's gone on particularly in the last quarter, and what are you seeing on a go forward basis. Where I am going is that with the other carriers in U.S., as indicated, a lot of companies are not taking decisions. And I am wondering a lot of decisions get delayed right up to the next budget cycle for many customers into the October, November timeframe? Thank you.

Joe Natale - TELUS, Executive Vice-President and President, Business Solutions

Hi Peter, it's Joe. Let me take the question this way. First of all, if you look at the enterprise space for us overall we cover the country nationally, with a very heavy focus in the four verticals that we've talked about many times, financial services, healthcare, public sector and energy. If you look across those verticals, the state of the sales, follow the state of the opportunities where we kind of place like an economic view of those verticals. Certainly we have seen some slowdown in areas like oil and gas, energy and we've certainly seen some thoughtful look at opportunities in financial services. But generally speaking, opportunities have not disappeared, it is just simply a slowdown given the nature of what's happening in the economy. We have been very, very focused and selective in terms of what we're going after, making sure that the opportunities have the right margin and capital efficiency characteristics that we're after as a business. Our challenge is, actually have been really having too many opportunities to go after, given the success and the growth that we've had overall as an organization. So we're in a very good spot in terms of having the fortunate ability to have choice at this stage of the game. And really focusing what we think there is still momentum and capability in those verticals.

John Wheeler – TELUS, Vice President, Investor Relations

Okay. Thank you very much. So on that note, I'd just like to thank everybody for joining us today once again, like to look forward to working with you in the coming weeks with the industries and the analysts. And thank you very much for your support and joining us today.