5.2 Summary of consolidated quarterly results and trends

Summary of quarterly results

($ millions, except per share amounts)	**2015 Q3**	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
Operating revenues	**3,155**	3,102	3,028	3,128	3,028	2,951	2,895	2,948
Operating expenses								
Goods and services purchased[1]	**1,394**	1,372	1,284	1,476	1,333	1,268	1,222	1,349
Employee benefits expense[1]	**693**	649	609	651	630	610	596	648
Depreciation and amortization	**471**	464	456	468	459	444	463	461
Total operating expenses	**2,558**	2,485	2,349	2,595	2,422	2,322	2,281	2,458
Operating income	**597**	617	679	533	606	629	614	490
Financing costs	**106**	110	117	115	124	115	102	110
Income before income taxes	**491**	507	562	418	482	514	512	380
Income taxes	**126**	166	147	106	127	133	135	90
Net income and Net income attributable to Common Shares	**365**	341	415	312	355	381	377	290
Net income per Common Share:								
Basic (Basic EPS)	**0.61**	0.56	0.68	0.51	0.58	0.62	0.61	0.47
Adjusted basic EPS[2]	**0.66**	0.66	0.70	0.53	0.64	0.63	0.62	0.49
Diluted	**0.61**	0.56	0.68	0.51	0.58	0.62	0.60	0.46
Dividends declared per Common Share	**0.42**	0.42	0.40	0.40	0.38	0.38	0.36	0.36
Additional information:								
EBITDA[2]	**1,068**	1,081	1,135	1,001	1,065	1,073	1,077	951
Restructuring and other like costs included in EBITDA[2]	**51**	59	17	26	30	11	8	33
EBITDA — excluding restructuring and other like costs[2]	**1,119**	1,140	1,152	1,027	1,095	1,084	1,085	984
Cash provided by operating activities	**1,018**	943	718	917	1,037	855	598	726
Free cash flow[2]	**310**	300	271	337	219	210	291	136

1 Goods and services purchased and Employee benefits expense amounts include restructuring and other like costs.
2 See *Section 11.1 Non-GAAP and other financial measures.*

Trends

The consolidated revenue trend continues to reflect year-over-year increases in: (i) wireless network revenues generated from a growing subscriber base and moderating growth in average revenue per subscriber unit (ARPU) driven by an increased proportion of higher-rate two-year plans, a more favourable postpaid subscriber mix, growth in data usage and increased data roaming, partly offset by a decline in voice revenue; (ii) wireless equipment revenue that has generally increased due to sales of higher-priced smartphones and higher retention volumes, especially in 2015 as two-year and three-year customer contracts began to expire coterminously; and (iii) growth in wireline data revenues, driven by Internet, enhanced data services, business process outsourcing, TELUS TV and TELUS Health services. This growth was partially offset by the continued declines in wireless voice revenues, wireline voice service and other services and equipment revenues, as well as other operating income.

- **Equipment revenue** increased year over year by $8 million or 4.0% in the third quarter of 2015 and $37 million or 6.6% in the first nine months of 2015. The increase in wireless equipment revenues was $20 million for the third quarter and $77 million for the first nine months, reflecting increased retention volumes in part from the impacts of two-year and three-year contracts expiring coterminously in 2015, as well as higher-value smartphones in the sales mix, partially offset by lower gross additions and device upgrade revenues. Wireline data and voice equipment revenues decreased by $12 million for the third quarter and $40 million for the nine-month period due to declines in business and government activity.
- **Other operating income** decreased year over year by $14 million or 50% in the third quarter of 2015 and $21 million or 34% in the first nine months of 2015 mainly due to gains from the sale of certain real estate assets and other investments in the third quarter of 2014, as well as a decrease in current period amortization of deferred revenue in respect of the regulatory price cap deferral account for provisioning broadband Internet services to eligible rural and remote communities.

Operating expenses

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions)	**2015**	2014	Change	**2015**	2014	Change
Goods and services purchased	**1,394**	1,333	4.6 %	**4,050**	3,823	5.9 %
Employee benefits expense	**693**	630	10.0 %	**1,951**	1,836	6.3 %
Depreciation	**361**	363	(0.6)%	**1,069**	1,057	1.1 %
Amortization of intangible assets	**110**	96	14.6 %	**322**	309	4.2 %
	2,558	2,422	5.6 %	**7,392**	7,025	5.2 %

Consolidated Operating expenses increased by $136 million or 5.6% in the third quarter of 2015 when compared to the third quarter of 2014 and increased by $367 million or 5.2% in the first nine months of 2015 when compared to the first nine months of 2014.

- **Goods and services purchased** expense increased year over year by $61 million or 4.6% in the third quarter of 2015 and $227 million or 5.9% in the first nine months of 2015. This reflects an increase in wireless subscriber retention costs to 14.3% of wireless network revenue in the third quarter and 12.8% in the first nine months of 2015 as compared with 11.5% in the third quarter and 11.0% in the first nine months of 2014. The increase in Goods and services purchased also reflects an increase in wireless customer service and distribution channel expenses, higher TELUS TV content costs and, for the nine-month period, higher non-labour restructuring and other like costs from the closure of all Black's Photography retail stores, real estate rationalization and other efficiency initiatives. These increases were partially offset by lower wireline equipment cost of sales associated with lower equipment revenues, a $15 million retroactive assessment of additional TV revenue contribution expense towards our Canadian programming funding requirements in the third quarter of 2014 and, for the nine-month period, lower wireless network operating costs.
- **Employee benefits expense** increased year over year by $63 million or 10% in the third quarter of 2015 and $115 million or 6.3% in the first nine months of 2015, driven by increased wages and salaries, labour restructuring expenses, employee defined pension benefit plan costs and share-based compensation expenses, partly offset by higher capitalized labour costs. Wages and salaries increased year over year by $39 million in the third quarter and $74 million in the nine-month period, mainly from an increase in the number of wireline FTE employees to support growth in business process outsourcing revenue, partly offset by a decrease in the number of wireless FTE employees from ongoing operational efficiency initiatives, including the integration of Public Mobile and the closure of all Black's Photography retail stores. Labour restructuring expenses increased year over year by $18 million in the third quarter and $34 million in the nine-month period from efficiency initiatives. Employee defined benefit pension plan expenses increased year over year by $6 million in the third quarter and $16 million in the nine-month period. Share-based compensation expenses, excluding amounts in labour restructuring expenses, increased year over year by $6 million in the third quarter and $13 million in the nine-month period. These increases were partly offset by year-over-year increases in capitalized labour costs of $10 million for the third quarter and $29 million for the nine-month period.
- **Depreciation** was relatively flat year over year in the third quarter of 2015 and increased year over year by $12 million or 1.1% in the first nine months of 2015, as growth in capital assets (such as broadband, TELUS TV-related assets and the wireless LTE network) was only partially offset by the impact of our continuing program of asset life studies and lower asset retirements in the first nine months of 2015.

Income taxes

($ millions, except tax rates)	Third quarters ended September 30 2015	2014	Change	Nine-month periods ended September 30 2015	2014	Change
Basic blended income tax expense at weighted average statutory income tax rates	**130**	126	3.2 %	**412**	395	4.3 %
Revaluation of deferred income tax liability to reflect future statutory income tax rates	**—**	—	—	**48**	—	n/m
Adjustments recognized in the current period for income taxes of prior periods	**(4)**	—	n/m	**(23)**	(2)	n/m
Other	**—**	1	(100.0)	**2**	2	— %
Income taxes	**126**	127	(0.8)%	**439**	395	11.1 %
Blended weighted average federal, provincial and non-Canadian statutory tax rate (%)	**26.5**	26.1	0.4 pts.	**26.4**	26.2	0.2 pts.
Effective tax rate (%)	**25.7**	26.3	(0.6)pts.	**28.1**	26.2	1.9 pts.

Total income tax expense was relatively flat year over year in the third quarter of 2015, primarily due to an increase in income before income taxes offset by higher recoveries from the settlement of prior years' income tax-related matters. In the first nine months of 2015, income tax expense increased year over year by $44 million or 11%, mainly due to a $48 million non-cash adjustment in the second quarter of 2015 to revalue deferred income tax liabilities arising from an increase to the Alberta provincial corporate tax rate from 10% to 12% effective July 1, 2015, as well as higher income before taxes, partly offset by higher recoveries from the settlement of prior years' income tax-related matters.

Comprehensive income

($ millions)	Third quarters ended September 30 2015	2014	Change	Nine-month periods ended September 30 2015	2014	Change
Net income	**365**	355	2.8 %	**1,121**	1,113	0.7 %
Other comprehensive income (loss) (net of income taxes):						
Items that may be subsequently reclassified to income	**14**	1	n/m	**14**	(2)	n/m
Item never subsequently reclassified to income – Employee defined benefit plans re-measurements	**(156)**	(14)	n/m	**(41)**	207	(119.8)%
Comprehensive income	**223**	342	(34.8)%	**1,094**	1,318	(17.0)%

Comprehensive income decreased by $119 million or 35% in the third quarter of 2015 and $224 million or 17% in the first nine months of 2015 when compared to the same periods in 2014. This was primarily due to decreases in employee defined benefit plan re-measurements. Items that may be subsequently reclassified to income are composed of changes in the unrealized fair value of derivatives designated as cash flow hedges, foreign currency translation adjustments arising from translating financial statements of foreign operations, and changes in the unrealized fair value of available-for-sale investments.

5.4 Wireless segment

Wireless operating indicators

As at September 30	2015	2014[1]	Change
Subscribers (000s):			
Postpaid	**7,290**	6,990	4.3 %
Prepaid	**1,131**	1,205	(6.1)%
Total	**8,421**	8,195	2.8 %
Postpaid proportion of subscriber base (%)	**86.6**	85.3	1.3 pts.
HSPA+ population coverage[2] (millions)	**35.7**	35.2	1.4 %
LTE population coverage[2] (millions)	**34.3**	30.2	13.6 %

Wireless operating indicators

	Third quarters ended September 30			Nine-month periods ended September 30		
	2015	2014[1]	Change	**2015**	2014[1]	Change
Subscriber gross additions (000s):						
Postpaid	**269**	286	(5.9)%	**741**	767	(3.4)%
Prepaid	**121**	144	(16.0)%	**331**	414	(20.0)%
Total	**390**	430	(9.3)%	**1,072**	1,181	(9.2)%
Subscriber net additions (000s):						
Postpaid	**69**	113	(38.9)%	**182**	239	(23.8)%
Prepaid	**—**	(6)	n/m %	**(42)**	(73)	42.5 %
Total	**69**	107	(35.5)%	**140**	166	(15.7)%
Blended ARPU, per month[3] ($)	**64.22**	63.52	1.1 %	**63.35**	61.88	2.4 %
Churn, per month[3] (%)						
Blended	**1.28**	1.32	(0.04)pts.	**1.24**	1.40	(0.16) pts.
Postpaid	**0.97**	0.90	0.07 pts.	**0.91**	0.93	(0.02) pts.
Cost of acquisition (COA) per gross subscriber addition[3] ($)	**400**	380	5.3 %	**399**	367	8.7 %
Retention spend to network revenue[3] (%)	**14.3**	11.5	2.8 pts.	**12.8**	11.0	1.8 pts.
Retention volume[3] (000s)	**569**	499	14.0 %	**1,560**	1,393	12.0 %

1 Effective January 1, 2014, prepaid subscribers, total subscribers and associated operating statistics (gross additions, net additions, blended ARPU, blended churn and COA per gross subscriber addition) have been adjusted for the inclusion of 222,000 Public Mobile prepaid subscribers in the opening subscriber balances and subsequent Public Mobile subscriber changes.
2 Including network access agreements with other Canadian carriers.
3 See *Section 11.2 Wireless operating indicators.* These are industry measures useful in assessing operating performance of a wireless company, but are not measures defined under IFRS-IASB.

Operating revenues – Wireless segment

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions)	**2015**	2014	Change	**2015**	2014	Change
Network revenues	**1,600**	1,538	4.0 %	**4,703**	4,459	5.5 %
Equipment and other	**167**	146	14.4 %	**458**	384	19.3 %
External operating revenues	**1,767**	1,684	4.9 %	**5,161**	4,843	6.6 %
Intersegment network revenue	**16**	13	23.1 %	**44**	39	12.8 %
Total operating revenues	**1,783**	1,697	5.1 %	**5,205**	4,882	6.6 %
Data revenue to network revenues (%)	**55**	51	4 pts.	**54**	49	5 pts.

Total wireless operating revenues increased by $86 million or 5.1% in the third quarter of 2015 and $323 million or 6.6% in the first nine months of 2015 when compared to the same periods in 2014. The increases reflect growth in both network and equipment revenues.

Intersegment revenue in the wireless segment represents network services provided to the wireline segment. Such revenues are eliminated upon consolidation along with the associated expenses.

Operating expenses – Wireless segment

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions)	**2015**	2014	Change	**2015**	2014	Change
Goods and services purchased:						
Equipment sales expenses	**425**	362	17.4 %	**1,143**	971	17.7 %
Network operating expenses	**197**	194	1.5 %	**569**	582	(2.2)%
Marketing expenses	**113**	109	3.7 %	**307**	288	6.6 %
Other [1]	**151**	158	(4.4)%	**487**	437	11.4 %
Employee benefits expense[1]	**182**	174	4.6 %	**521**	506	3.0 %
Total operating expenses	**1,068**	997	7.1 %	**3,027**	2,784	8.7 %

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

Wireless segment expenses increased by $71 million or 7.1% in the third quarter of 2015 and $243 million or 8.7% in the first nine months of 2015 when compared to the same periods in 2014.

Equipment sales expenses increased year over year by $63 million or 17% in the third quarter of 2015 and $172 million or 18% in the first nine months of 2015, reflecting increased retention volumes and higher-value smartphones in the sales mix, partly offset by lower gross additions.

- **Retention spend to network revenue** was 14.3% in the third quarter and 12.8% for the first nine months of 2015, as compared to 11.5% in the third quarter of 2014 and 11.0% in the first nine months of 2014. The increases were driven by greater retention volumes and associated commissions, as well as higher per-unit subsidy costs due to a continued preference for higher-value smartphone devices and lower device upgrade fees. Greater retention volumes included early renewals and upgrades, which were partly driven by the coterminous expiration of two-year and three-year contracts beginning in June 2015.
- **COA per gross subscriber addition** was $400 in the third quarter of 2015 and $399 in the first nine months of 2015, reflecting year-over-year increases of $20 or 5.3% for the quarter and $32 or 8.7% for the nine-month period. The increases were mainly due to higher per-unit subsidy costs reflecting a greater proportion of postpaid gross additions and higher-value smartphones in the sales mix.

Network operating expenses increased slightly year over year by $3 million or 1.5% in the third quarter of 2015 mainly from higher roaming costs driven by volume increases, partially offset by lower data content share fees. During the first nine months of 2015, network operating expenses decreased year over year by $13 million or 2.2% due to lower network maintenance and support costs resulting from turning down the Public Mobile CDMA network in the third quarter of 2014, as well as lower data content share fees, partly offset by higher roaming costs driven by volume increases.

Marketing expenses increased year over year by $4 million or 3.7% in the third quarter of 2015 and $19 million or 6.6% in the first nine months of 2015. The increases were primarily due to higher commission expenses driven by higher retention volumes and, for the nine-month period, an increase in advertising and promotions expenses.

Other goods and services purchased expense decreased year over year by $7 million or 4.4% in the third quarter of 2015 mainly from lower non-labour restructuring and other like costs, but increased year over year by $50 million or 11% in the first nine months of 2015 mainly from higher non-labour restructuring and other like costs, primarily from the closure of all Black's Photography retail stores, as well as higher bad debt provisions to support the growing subscriber base, the expansion of our distribution channels, and increases in external labour and administrative costs.

Employee benefits expense increased year over year by $8 million or 4.6% in the third quarter of 2015, reflecting higher labour restructuring costs from efficiency initiatives, higher wages and salaries and lower capitalized labour costs. In the first nine months of 2015, employee benefits expense increased $15 million or 3.0%, reflecting higher labour restructuring costs from the closure of all Black's Photography retail stores and other efficiency initiatives, partly offset by lower salary costs from the associated decline in FTE employees. In addition, higher share-based compensation and lower capitalized labour costs also contributed to higher employee benefit expense in the first nine months of 2015.

EBITDA – Wireless segment

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions, except margins)	**2015**	2014	Change	**2015**	2014	Change
EBITDA	**715**	700	2.0 %	**2,178**	2,098	3.8 %
Restructuring and other like costs included in EBITDA	**14**	18	(22.2)%	**56**	24	133.3%
EBITDA – excluding restructuring and other like costs	**729**	718	1.4 %	**2,234**	2,122	5.2 %
EBITDA margin (%)	**40.1**	41.2	(1.1) pts.	**41.8**	43.0	(1.2) pts.
EBITDA margin – excluding restructuring and other like costs (%)	**40.9**	42.3	(1.4) pts.	**42.9**	43.5	(0.6) pts.

Wireless EBITDA increased by $15 million or 2.0% in the third quarter of 2015 and $80 million or 3.8% in the first nine months of 2015 when compared to the same periods in 2014. Wireless EBITDA – excluding restructuring and other like costs increased year over year by $11 million or 1.4% in the third quarter and $112 million or 5.2% in the first nine months of 2015. The increases in EBITDA reflect operating revenue growth driven by a larger customer base and continuing but moderating ARPU growth, as well as ongoing operational efficiency initiatives including the integration of Public Mobile, partly offset by higher retention spend, increased customer service and distribution channel expenses, and, for the nine-month period, higher restructuring and other like costs.

5.5 Wireline segment

Wireline operating indicators

As at September 30 (000s)	**2015**	2014	Change
High-speed Internet subscribers	**1,544**	1,453	6.3 %
TELUS TV subscribers	**980**	888	10.4 %
Network access lines (NALs):			
Residential	**1,491**	1,576	(5.4)%
Business	**1,591**	1,618	(1.7)%
Total NALs	**3,082**	3,194	(3.5)%
Total wireline subscriber connections	**5,606**	5,535	1.3 %

	Third quarters ended September 30			Nine-month periods ended September 30		
	2015	2014	Change	**2015**	2014	Change
High-speed Internet subscriber net additions	**24**	22	9.1 %	**69**	58	19.0 %
TELUS TV subscriber net additions	**26**	23	13.0 %	**64**	73	(12.3)%
Net NAL gains (losses):						
Residential	**(25)**	(24)	(4.2)%	**(65)**	(67)	3.0 %
Business	**(8)**	3	n/m	**(22)**	7	n/m
Total NAL losses	**(33)**	(21)	(57.1)%	**(87)**	(60)	(45.0)%
Total wireline subscriber connections net additions	**17**	24	(29.2)%	**46**	71	(35.2)%

Operating revenues – Wireline segment

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions)	**2015**	2014	Change	**2015**	2014	Change
Data service and equipment	**950**	858	10.7 %	**2,781**	2,561	8.6 %
Voice service	**373**	399	(6.5)%	**1,138**	1,222	(6.9)%
Other services and equipment	**53**	58	(8.6)%	**166**	188	(11.7)%
Revenues arising from contracts with customers	**1,376**	1,315	4.6 %	**4,085**	3,971	2.9 %
Other operating income	**12**	29	(58.6)%	**39**	60	(35.0)%
External operating revenues	**1,388**	1,344	3.3 %	**4,124**	4,031	2.3 %
Intersegment revenue	**44**	46	(4.3)%	**130**	131	(0.8)%
Total operating revenues	**1,432**	1,390	3.0 %	**4,254**	4,162	2.2 %

Other operating income decreased year over year by $17 million or 59% in the third quarter of 2015 and $21 million or 35% in the first nine months of 2015. The decreases were mainly the result of gains from the sale of certain real estate assets and other investments in the third quarter of 2014, as well as a reduction in current period amortization of deferred revenue in respect of the regulatory price cap deferral account for provisioning broadband Internet services to eligible rural and remote communities.

Intersegment revenue represents services provided to the wireless segment. Such revenue is eliminated upon consolidation along with the associated expenses.

Operating expenses – Wireline segment

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions)	**2015**	2014	Change	**2015**	2014	Change
Goods and services purchased[1]	**568**	569	(0.2)%	**1,718**	1,715	0.2 %
Employee benefits expense[1]	**511**	456	12.1 %	**1,430**	1,330	7.5 %
Total operating expenses	**1,079**	1,025	5.3 %	**3,148**	3,045	3.4 %

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

Total wireline operating expenses increased by $54 million or 5.3% in the third quarter of 2015 and $103 million or 3.4% in the first nine months of 2015 when compared to the same periods in 2014.

- **Goods and services purchased** expense was relatively flat year over year in the third quarter of 2015 and in the first nine months of 2015, primarily from increased non-labour restructuring and other like costs, and higher network operating costs and administrative costs to support our growing subscriber base, offset by a decrease in equipment cost of sales associated with lower equipment revenues, a $15 million retroactive assessment in the third quarter of 2014 for additional TV revenue contribution expense towards our Canadian programming funding requirements, and reduced advertising and promotion costs.
- **Employee benefits expense** increased year over year by $55 million or 12% in the third quarter of 2015 and $100 million or 7.5% in the first nine months, primarily due to year-over-year increases in wages and salaries mainly to support increased business process outsourcing revenue, higher labour restructuring costs from efficiency initiatives, and higher share-based compensation expenses and employee defined benefit pension plan expense. These increases were partly offset by increases in capitalized labour costs.

EBITDA – Wireline segment

	Third quarters ended September 30			Nine-month periods ended September 30		
($ millions)	**2015**	2014	Change	**2015**	2014	Change
EBITDA	**353**	365	(3.2)%	**1,106**	1,117	(0.9)%
Restructuring and other like costs included in EBITDA	**37**	12	n/m	**71**	25	184.0 %
EBITDA – excluding restructuring and other like costs	**390**	377	3.6 %	**1,177**	1,142	3.1 %
EBITDA margin (%)	**24.7**	26.3	(1.6)pts.	**26.0**	26.8	(0.8)pts.
EBITDA – excluding restructuring and other like costs margin (%)	**27.3**	27.2	0.1 pts.	**27.7**	27.4	0.3 pts.

Wireline EBITDA decreased by $12 million or 3.2% in the third quarter of 2015 and $11 million or 0.9% in the first nine months of 2015 when compared to the same periods in 2014. The decrease was due to increased restructuring and other like costs, higher wages and salaries, and lower other operating income from certain real estate and investment gains in the third quarter of 2014, partly offset by growth in data service and equipment revenues and lower TV programming costs from a retroactive assessment of additional TV revenue contribution expense made in the third quarter of 2014. EBITDA – excluding restructuring and other like costs increased year over year by 3.6% in the third quarter of 2015 and 3.1% in the first nine months of 2015, as compared to year-over-year revenue increases of 3.0% for the quarter and 2.2% for the nine-month period reflecting improving margins in data services, including Internet, TELUS Health, TELUS TV and business process outsourcing services.