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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13(A) OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008 **Commission File Number 000-24876**

TELUS Corporation

(Exact Name of Registrant as specified in its charter)

British Columbia, Canada
(Province or other jurisdiction of incorporation or organization)

4812
(Primary Standard Industrial Classification Code Number (if applicable))

8 – 555 Robson Street
Vancouver, British Columbia V6B 3K9, Canada
(604) 697-8044
(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 Eighth Avenue, 13th Floor
New York, New York 10011
(212) 590-9200
(Name, Address (including zip code) and Telephone Number of Agent for Service in the United States)

Securities registered pursuant to section 12(b) of the Act.

Title of Each Class	Name of each exchange On Which Registered
Non-Voting Shares	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

8.0% Notes due 2011
5.00% Notes due 2013
4.50% Notes due 2012
4.95% Notes due 2017
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

x Annual information form x Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2008:

174,817,514 Common Voting Shares and 142,831,858 Non-Voting Shares

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes o 82- No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on the evaluation by TELUS Corporation ("TELUS" or the "Registrant") as of December 31, 2008 of the effectiveness of the design and operations of the Registrant's disclosure controls and procedures under the supervision of the Audit Committee, including the Registrant's Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that the Registrant's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act") are effective to ensure that information required to be disclosed by the Registrant in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission ("SEC") rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

The report of management on our internal control over financial reporting is located under the heading "Management's Annual Report on Internal Control Over Financial Reporting" in our audited consolidated financial statements, which are filed as Exhibit 99.4 to this annual report on Form 40-F and is incorporated by reference herein.

Attestation Report of the Registered Public Accounting Firm

The attestation report on our internal control over financial reporting is located under the heading "Report of Independent Registered Chartered Accountants" in our audited consolidated financial statements, which are filed as Exhibit 99.4 to this annual report on Form 40-F and is incorporated by reference herein.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the above evaluation that occurred during the period covered by this annual report on Form 40-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

IDENTIFICATION OF AUDIT COMMITTEE

TELUS has a separately designated standing Audit Committee. The current members of the Audit Committee are Brian F. MacNeill (Chair), Micheline Bouchard, Pierre Ducros, Ruston Goepel and Ron Triffo. All members of the Committee are "independent" as such term is defined under applicable securities laws and applicable New York Stock Exchange ("NYSE") rules.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors (the "Board") of TELUS has determined that the Audit Committee Chair is an "audit committee financial expert" as such term is defined by U.S. securities laws and "independent" as noted above. The information contained under the heading "Audit Committee" on page 44 of TELUS' 2008 Annual Information Form, filed as Exhibit 99.3 to this annual report on Form 40-F, is incorporated by reference herein.

CODE OF ETHICS

The Registrant has adopted an Ethics Policy that applies to all directors, officers, including the Chief Executive Officer and the Chief Financial Officer, and employees. The Policy has been posted on the Registrant's Internet website at telus.com. The Policy is also available to any person, upon request,

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without charge by contacting TELUS Investor Relations at 1-800-667-4871 or 555 Robson Street, Vancouver, B.C. V6B 3K9.

The Board amended the Policy in 2008 to clarify that team members using TELUS-provided communications devices for personal use must comply with all TELUS policies, and to make other amendments that were housekeeping in nature.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table is a summary of billing by Deloitte & Touche LLP, as external auditors of TELUS, during the period from January 1, 2008 to December 31, 2008:

Type of work	Deloitte & Touche	%
Audit fees	$ 3,783,672	94.3
Audit-related fees	$ 184,500	4.6
Tax fees	$ 45,410	1.1
All other fees	—	—
Total	**$ 4,013,582**	**100**

The following table is a summary of billing by Deloitte & Touche LLP, as external auditors of TELUS, during the period from January 1, 2007 to December 31, 2007:

Type of work	Deloitte & Touche	%
Audit fees	$ 4,087,308	94.6
Audit-related fees	$ 203,191	4.7
Tax fees	$ 30,000	0.7
All other fees	—	—
Total	**$ 4,320,499**	**100**

TELUS' policy regarding pre-approval of all audit, audit related and non-audit services provided by its External Auditor is based upon compliance with the Sarbanes-Oxley Act of 2002, the subsequent implementation rule from the SEC titled "Final Rule: Strengthening the Commission's Requirements Regarding Auditor Independence" and any additional determinations regarding impermissible services issued by the Public Company Accounting Oversight Board (PCAOB).

All requests for non-prohibited audit, audit related and non-audit services provided by TELUS' External Auditor and its affiliates to TELUS are required to be pre-approved by the Audit Committee of TELUS' Board of Directors. To enable this, TELUS has implemented a process by which all requests for services involving the External Auditor are routed for review by the VP Risk Management and Chief Internal Auditor to validate that the requested service is a non-prohibited service and to verify that there is a compelling business reason for the request. If the request passes this review, it is then forwarded to the Chief Financial Officer for further review. Pending the Chief Financial Officer's affirmation, the request is then presented to the Audit Committee for its review, evaluation and pre-approval or denial at its next scheduled quarterly meeting. If the timing of the request is urgent, it is provided to the Audit Committee Chair for his review, evaluation and pre-approval or denial on behalf of the Audit Committee (with the full committee's review at the next scheduled quarterly meeting). Throughout the year, the Audit Committee monitors the actual versus approved expenditure for each of the approved requests.

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OFF-BALANCE SHEET ARRANGEMENTS

The Registrant has no off-balance sheet arrangements.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided under the heading "Contractual Obligations" set forth under the heading "Commitments and Contingent Liabilities" set forth in the Management's Discussion and Analysis filed as Exhibit 99.4 to this annual report on Form 40-F, is incorporated by reference herein.

UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

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SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant: TELUS Corporation

By: /s/ Audrey T. Ho
Audrey T. Ho
Senior Vice President, General Counsel and Corporate Secretary

Date: March 13, 2009

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EXHIBIT INDEX

The following documents are filed as exhibits to this Form 40-F:

Exhibit Number	Document
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
99.2	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
99.3	Annual Information Form dated March 13, 2009
99.4	Audited Consolidated Financial Statements as at and for the year ended December 31, 2008 and Management's Discussion and Analysis
99.5	Consent of Independent Registered Chartered Accountants
99.6	Amended 2008 Ethics Policy

Exhibit 99.1

Certification

I, Darren Entwistle, certify that:

1. I have reviewed this annual report on Form 40-F of TELUS Corporation.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report.

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 13, 2009.

By: /s/ Darren Entwistle
Darren Entwistle
President and Chief Executive Officer

Certification

I, Robert G. McFarlane, certify that:

1. I have reviewed this annual report on Form 40-F of TELUS Corporation.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report.

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 13, 2009.

By: /s/ Robert G. McFarlane
Robert G. McFarlane
Executive Vice President and Chief Financial Officer

Exhibit 99.2

Certifications

Pursuant to 18 U.S.C. §1350, each of the undersigned officers of TELUS Corporation ("TELUS") hereby certifies that to his knowledge, (a) the annual report for the period ended December 31, 2008 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934 and (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of TELUS.

Date: March 13, 2009.

By: /s/ Darren Entwistle
Darren Entwistle
President and Chief Executive Officer

Date: March 13, 2009.

By: /s/ Robert G. McFarlane
Robert G. McFarlane
Executive Vice President and Chief Financial Officer

Exhibit 99.3

TELUS Corporation
Annual Information Form
for the year ended December 31, 2008

March 13, 2009

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements about expected future events and financial and operating results of TELUS Corporation and its subsidiaries (collectively, TELUS or the Company). By their nature, forward-looking statements require the Company to make assumptions, and forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, and reserves the right to change, at any time at its sole discretion, its current practice of updating annual targets and guidance.

Factors that could cause actual results to differ materially include, but are not limited to:

Competition (including more active price competition and the likelihood of new wireless competitors beginning to offer services in late 2009 and into 2010 as a result of the 2008 advanced wireless services (AWS) spectrum auction); economic growth and fluctuations (including the global credit crisis, and pension performance, funding and expenses); capital expenditure levels (increasing in 2009 and potentially in future years due to the Company's fourth generation (4G) wireless deployment strategy and any new Industry Canada wireless spectrum auctions); financing and debt requirements (including ability to carry out refinancing activities and fund share repurchases); tax matters (including acceleration or deferral of required payments of significant amounts of cash taxes); human resource developments; business integrations and internal reorganizations (including ability to successfully implement cost reduction initiatives); technology (including reliance on systems and information technology, broadband and wireless technology options, choice of suppliers and suppliers' ability to maintain and service their product lines, expected technology and evolution path and transition to 4G technology, expected future benefits and performance of high-speed packet access (HSPA) / long-term evolution (LTE) wireless technology, successful implementation of the network build and sharing arrangement with Bell Canada to achieve cost efficiencies and reduce deployment risks, successful deployment and operation of new wireless networks and successful introduction of new products, services and supporting systems); regulatory approvals and developments (including interpretation and application of tower sharing and roaming rules, the design and impact of future spectrum auctions, the review of new media and Internet traffic management

practices, and possible changes to foreign ownership restrictions); process risks (including conversion of legacy systems and billing system integrations, and implementation of large complex deals); health, safety and environmental developments; litigation and legal matters; business continuity events (including manmade and natural threats); any prospective acquisitions or divestitures; and other risk factors discussed herein or listed from time to time in TELUS' reports and public disclosure documents including its annual report, financial statements, management's discussion and analysis, and other filings with securities commissions in Canada (on SEDAR at http:///sedar.com) and the United States (on EDGAR at http:///sec.gov). Refer, in particular, to the assumptions contained in sub-section 1.5 and the risk factors contained in section 10 of the Company's 2008 management's discussion and analysis entitled "Financial and operating targets for 2009" and "Risks and risk management", respectively.

CORPORATE STRUCTURE

Name, Address and Incorporation

TELUS was incorporated under the *Company Act* (British Columbia) (the BC Company Act) on October 26, 1998 under the name BCT.TELUS Communications Inc. (BCT). On January 31, 1999, pursuant to a court-approved plan of arrangement under the *Canada Business Corporations Act* among BCT, BC TELECOM Inc. (BC TELECOM) and the former Alberta-based TELUS Corporation (TC), BCT acquired all of the shares of BC TELECOM and TC in exchange for Common Shares and Non-Voting Shares of BCT, and BC TELECOM was dissolved. On May 3, 2000, BCT changed its name to TELUS Corporation and in February 2005, the Company transitioned under the *Business Corporations Act* (British Columbia), successor to the BC Company Act. TELUS maintains its registered office at Floor 21, 3777 Kingsway, Burnaby, British Columbia (B.C.) and its executive office at Floor 8, 555 Robson Street, Vancouver, B.C.

Intercorporate Relationships and TELUS Subsidiaries

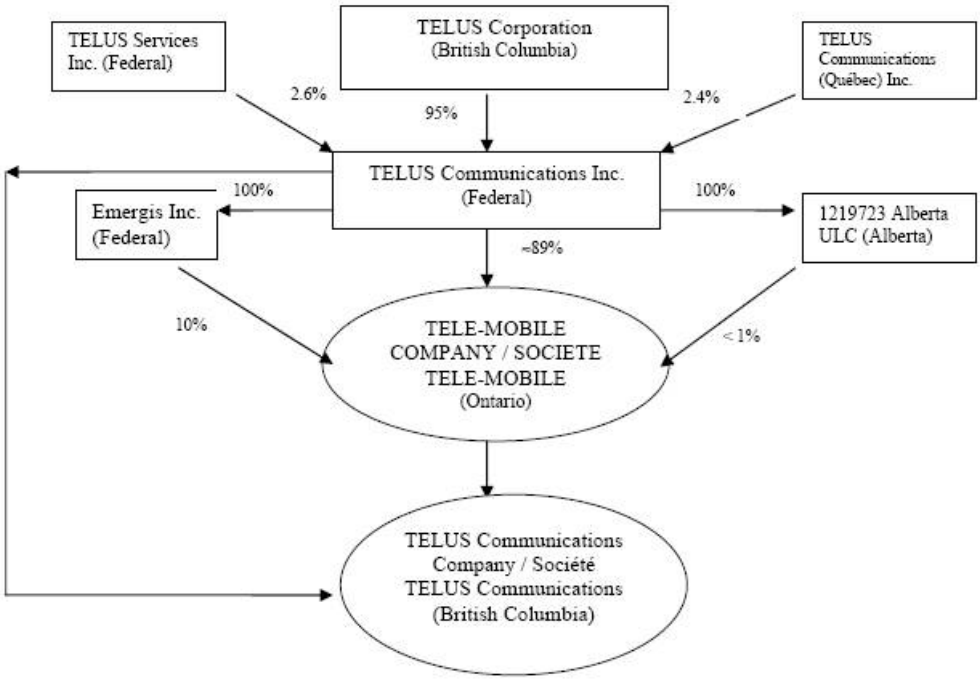
As of December 31, 2008, the only material subsidiary of TELUS was TELUS Communications Inc. (TCI), being the only subsidiary which owned assets that constitute more than 10 per cent of the consolidated assets of TELUS as at December 31, 2008 and generated sales and operating revenues that exceed 10 per cent of the consolidated sales and operating revenues of TELUS for the year ended December 31, 2008.

TELUS' wireline and wireless businesses were formerly located in TCI and TELE-MOBILE Company (TELE-MOBILE), respectively. In 2005, TELUS announced the merger of those segments into a single operating structure (the wireline-wireless merger). This was partly effected by way of a legal entity restructure on March 1, 2006 (the 2006 legal entity restructure), at which time TELUS combined its wireline and wireless businesses into TELUS Communications Company (TCC).

TCC is a partnership organized under the laws of B.C. whose partners are TCI and TELE-MOBILE. Immediately prior to the 2006 legal entity restructure, 3817873 Canada Inc., a partner in TELE-MOBILE, was continued into Alberta as 1219723 Alberta ULC.

As part of a year-end internal reorganization in 2008, Emergis Inc. (Emergis), a TELUS subsidiary acquired in January 2008, became a partner of TELE-MOBILE. In addition, TELUS Services Inc. and TELUS Communications (Québec) Inc. converted their shareholding in TCI from preferred shares to ordinary shares.

The following organization chart sets forth the relationships between these subsidiaries and partnerships, as well as their respective jurisdictions of incorporation or establishment and TELUS ownership as at December 31, 2008:



In this Annual Information Form, references to TELUS or the Company are to TELUS Corporation and all of its subsidiaries and partnerships as a whole, except where it is clear that these terms mean only TELUS Corporation. Unless the context otherwise requires, TELUS wireline refers to the wireline businesses carried on primarily through TCC presently and primarily through TCI prior to the wireline-wireless merger, and TELUS Mobility or TELUS wireless refers to the wireless businesses carried on through TCC presently and through TELE-MOBILE prior to the wireline-wireless merger.

EXCHANGE RATE INFORMATION

TELUS publishes its consolidated financial statements in Canadian dollars. In this Annual Information Form, except where otherwise indicated, all references to dollars or $ are to Canadian dollars. The Bank of Canada noon spot exchange rate on March 10, 2009 was Cdn. $1.2797 = U.S. $1.00. The following table sets forth, for the dates indicated, certain exchange rate information based on the noon spot rate:

December 29, 2006	1.1653
December 31, 2007	0.9881
December 31, 2008	1.2246

GENERAL DEVELOPMENT OF THE BUSINESS

TELUS is a leading national telecommunications company in Canada, offering a wide range of wireline and wireless communications products and services including data, voice and entertainment. In 2008, TELUS generated $9.65 billion in annual revenue and had 11.6 million subscriber connections including 6.13 million wireless subscribers, 4.25 million wireline network access lines and 1.22 million Internet subscribers. As a result of TELUS' national growth strategy, revenue grew by 6.4 per cent in 2008 and total customer connections increased by 448,000.

Three Year History

During the three-year period ended December 31, 2008, TELUS undertook a number of acquisitions, internal reorganizations and business development opportunities.

In the third quarter of 2008, TELUS purchased the remaining interests in Ambergris Solutions Inc. (TELUS International Philippines), in which TELUS first acquired a controlling interest in 2005.

In January 2008, TELUS made a small acquisition of privately held Fastvibe, a provider of web-streaming solutions for business to strengthen the Company's technology solutions portfolio.

On November 29, 2007, TELUS and Emergis, a business process outsourcer specializing in the healthcare and financial services sectors, announced that they had entered into a support agreement pursuant to which TELUS agreed to make an all-cash offer to acquire by way of a take over bid all the outstanding common shares of Emergis at $8.25 per share. On January 17, 2008, 6886116 Canada Ltd., a wholly-owned subsidiary of TCI, had purchased approximately 94 per cent of the issued and outstanding common shares of Emergis on a fully diluted basis. 6886116 Canada Ltd. exercised its statutory rights under the *Canada Business Corporations Act* and purchased the remaining common shares of Emergis by compulsory acquisition. The approximate total purchase price of the Emergis common shares was $743 million. A corporate reorganization of Emergis was completed immediately prior to the completion of its purchase. The common shares of Emergis have been de-listed from the Toronto Stock Exchange and Emergis is no longer a reporting issuer.

In 2006, TELUS strengthened its IT capabilities by acquiring Assurent Secure Technologies, a Canadian information technology security services and research company.

DESCRIPTION OF THE BUSINESS AND GENERAL DEVELOPMENTS

Organization

TELUS is the largest incumbent telecommunications company in western Canada and one of the largest telecommunications companies in Canada. The Company is organized into four customer facing business units:

- Consumer Solutions, which provides wireline and wireless Internet Protocol (IP) data services, voice and entertainment services to households and individuals across Canada;
- Business Solutions, which delivers innovative wireline and wireless data, IP, voice and business process outsourcing solutions to small and medium-sized businesses and entrepreneurs, and brings customized wireline and wireless voice and data, IP, Information Technology (IT) and e.business solutions to large multinational, corporate and public sector customers;
- TELUS Québec, which focuses on the unique needs of the Québec marketplace by offering businesses and consumers comprehensive and integrated wireless and wireline telecommunications solutions, including data, Internet and voice; and
- Partner Solutions, which provides services to wholesale customers, including telecommunications carriers, resellers, Internet service providers (ISPs), wireless communications companies, competitive local access providers and cable-TV operators.

These customer facing business units receive essential support from the business capabilities units comprised of Technology Strategy and Business Transformation and Technology Operations, as well as from the business enabling units comprised of Finance (which includes corporate development, regulatory affairs and government relations) and Human Resources (which includes corporate communications and enterprise services).

Wireline and wireless segments

TELUS has two reportable segments: wireline and wireless.

In the wireline segment, TELUS offers the following solutions: voice — phone service with long distance and call management services such as voice mail, call display and call waiting, and the sale, rental and maintenance of telephone equipment; Internet — secure high-speed or dial-up access with a comprehensive suite of security and entertainment services; TELUS TV® — digital entertainment service with high-definition (HD) TV, personal video recorder (PVR), Video on Demand and Pay Per View services; data — IP networks, private line, switched services, network wholesale, network management and hosting; converged voice and data solutions — integrated and hosted IP telephony solutions through TELUS IP-One® services; hosting and infrastructure — managed IT and infrastructure solutions delivered through TELUS' IP networks and connected to the Company's Internet data centres; security solutions — managed and non-managed solutions to protect business networks, messaging and data, in addition to security consulting services; and customized solutions — global multi-language contact centre solutions including CallCentreAnywhere, remote agent solutions with TELUS AgentAnywhere®, interactive voice response (IVR) and speech recognition services, conferencing and collaboration services, and performance optimization, human resource and health and safety outsourcing solutions.

In the wireless segment, TELUS offers the following solutions: digital voice - PCS (postpaid and Pay & Talk® prepaid) and Mike all-in-one (iDEN); Push to Talk™ capability on both Mike (Direct Connect®) and PCS (Instant Talk®); Internet and data services including TELUS Mobile TV®, TELUS Mobile Radio®, TELUS Mobile Music®, web browsing, Windows Live Messenger, social networking, text and picture messaging, and downloadable games, videos, ringtones and images; and data devices including smartphones and wireless connect cards available for use on wireless high-speed and Mike packet data networks.

TELUS earns the majority of its revenue (voice, data and wireless network revenue) from access to, and usage of, its telecommunication infrastructure. The majority of the balance of TELUS' revenue (other revenue and wireless equipment revenue) arises from providing products that facilitate access to, and usage of, TELUS' telecommunication infrastructure.

TELUS' national growth strategy

Since 1999, the Company has been pursuing a national wireline and wireless growth strategy outside Alberta and B.C. into the rest of Canada. This has been implemented by both organic growth and through a series of wireline and wireless acquisitions. This has provided TELUS with a regional full service wireline presence in eastern Québec through acquisitions in 1999 and 2000 and ongoing investments in facilities, marketing and distribution focused on the business market in urban centres of Québec and Ontario. In 2000, TELUS acquired national digital wireless communications networks and subscribers, spectrum, employees, and infrastructure and sales distribution channels primarily in central and eastern Canada through the purchase of Clearnet Communications Inc., and has continued to invest in and grow the business.

TELUS' approach to the business market is through a focus on growth in central Canada as well as, nationally, a focus on key vertical markets of healthcare, financial services, energy and the public sector. For example, in January 2008, TELUS completed its acquisition of Emergis, a business process outsourcer specializing in the healthcare and financial services sectors, who delivers solutions to major insurance companies,

financial institutions, government agencies, hospitals, pharmacies, large corporations, and real estate lawyers and notaries. Emergis was integrated with TELUS' own health care resources to form TELUS Health Solutions in November 2008. TELUS Health Solutions develops and manages solutions that automate transactions and the secure exchange of information. TELUS Health Solutions has expertise in electronic health-related claims processing, health records systems, pharmacy management solutions, point-of-sale transaction processing, cash management and loan document processing and registration.

TELUS' networks

The Company has a coast-to-coast fibre optic network, which interconnects cities between Halifax and Vancouver and extends into the U.S. via points of presence in Albany, Ashburn, Palo Alto, Boston, Buffalo, Chicago, Detroit, New York and Seattle. This network is fully integrated with TELUS' extensive metropolitan networks in Alberta and B.C. and connects into networks constructed in Montréal, Ottawa, Toronto and other cities.

TELUS wireline networks

TELUS' national fibre optic backbone network delivers traditional telephony, data services and IP-based phone solutions across Canada that interconnects the network in Alberta and B.C. with major centres in Ontario and Québec. This fibre optic network is supplemented by new local fibre optic networks in some 54 competitive local exchange carrier (CLEC) exchanges or metropolitan areas. TELUS' network interconnects with the networks of carriers in the U.S. for the exchange of U.S. and international traffic.

TELUS wireless networks

TELUS is one of three national Canadian facilities-based wireless service providers, and offers wireless voice and data services to consumers and businesses nationally on two networks.

As a result of the AWS auction for spectrum in the 2 GHz range held in mid-2008, TELUS acquired an average of 16.2 MHz of spectrum nationally for $882 million (see *TELUS — wireless segment* for further discussion on TELUS' wireless strategies).

TELUS also holds a significant mobile spectrum position of up to 45 MHz PCS and cellular spectrum and as much as 55 MHz in many areas with the inclusion of its iDEN network spectrum.

An enhanced network sharing agreement with Bell Canada was entered into in 2008, using existing 1,900 MHz and 850 MHz spectrum, in respect of a high-speed packet access, or HSPA, network currently under construction with services expected to be launched commercially by early 2010. (See *TELUS — wireless segment* for further discussion.)

PCS/cellular networks

TELUS owns and operates a national digital PCS network and digital cellular facilities in Alberta, B.C., and eastern Québec, with 40 to 45 MHz of PCS spectrum throughout all major population regions of Canada. Its national PCS wireless network utilizes 1X, CDMA (code division multiple access), and EVDO and EVDO Rev A digital technology.

TELUS expanded its network coverage through roaming/resale agreements entered into in 1999 (the Roaming/Resale Agreements), principally with Bell Canada and certain of its affiliates. These agreements expanded TELUS' digital PCS coverage areas outside of major urban markets in Ontario, Québec and Atlantic Canada and were subsequently amended to include 1X and the EVDO high-speed network. At the end of 2008, TELUS' national digital networks, combined with coverage provided by the Roaming/Resale Agreements, reached approximately 32.6 million Canadians. In 2004, TELUS and Verizon Wireless expanded their Canada and U.S. roaming arrangements under a consolidated long-term roaming agreement to improve each other's ability to provide more consistent and comprehensive roaming services to each other's customers. Substantially all of TELUS' digital subscribers are provided extended coverage in Canada, the U.S. and various other countries through analogue and digital roaming arrangements with other carriers by means of dual-mode or tri-mode, dual-band handsets.

Beginning in late 2005, EVDO services were introduced in major centres across Canada offering to customers average wireless data transfers at speeds of approximately 400 —

700 kilobits per second. In 2007 and the first part of 2008, TELUS continued the enhancement of digital wireless capacity and coverage and continued its investment in higher-speed wireless EVDO Rev A network technology, which now reaches 88 per cent of Canadians, when Roaming/Resale Agreements are considered, and enables roaming to more than 230 cities in the U.S.

TELUS also operates analogue specialized mobile radio (SMR) systems in most major urban centres in Canada and paging networks in Alberta, B.C. and eastern Québec.

iDEN network

TELUS also owns and operates Canada's only national enhanced specialized mobile radio (ESMR) network. ESMR digital wireless business communications services are offered under the Mike trademark using iDEN technology from Motorola. The Mike network covers the larger population centres and surrounding areas in Alberta, B.C., Manitoba, Ontario and Québec, and many non-urban areas and transport corridors in Ontario, Québec and western Canada. The Mike network utilizes frequencies in the 800 MHz range which have propagation advantages over

higher frequencies such as those used in digital 1900 MHz PCS networks, resulting in more cost effective geographic coverage. While the amount of 800 MHz spectrum licenced to TELUS varies by region, TELUS has ten to 17 MHz of ESMR spectrum available for its Mike network in Montréal, Toronto and Vancouver, Canada's three most populous metropolitan areas. The Mike service is marketed primarily through independent and corporate-owned dealers to businesses and other organizations as a digital PCS-like service with the added benefit of Mike's Direct Connect™ Push to Talk™ functionality, which provides low-cost instant connectivity for work groups.

In 2006, Sprint/Nextel completed a mandatory shift of channels (rebanding) for its iDEN service due to concerns from the Federal Communications Commission (FCC) about interference with public safety operations. Part of the TELUS Mike network utilizes channels under control of the FCC and discussions are underway to determine if TELUS will be required to shift some of the channels for its iDEN service to address similar concerns in selected areas along the Canada/U.S. border. See "800 MHz Re-banding" on page 29 of this Annual Information Form.

TELUS - wireline segment

TELUS operates as an ILEC (incumbent local exchange carrier) in Alberta, B.C. and eastern Québec where it provides comprehensive local, long distance, data, Internet and information services and is a CLEC(competitive local exchange carrier or non-ILEC), offering services to businesses primarily in central Canada. TELUS' ILEC operations serve a population of approximately 7.8 million in its incumbent western Canada service territory, and a population of more than 500,000 in its incumbent eastern Québec territory. On a combined basis, wireline services accounted for revenue of $5,021 million for the year ended December 31, 2008 ($4,810 million for the year ended December 31, 2007) representing 52 per cent of the total revenue of TELUS for 2008 (53 per cent of the total revenue of TELUS for 2007).

Local

Local wireline services allow customers to complete calls in their local calling areas and to access long distance networks, wireless networks and the Internet. In addition to local calling, local services generally include enhanced calling features, such as call display, call waiting, call forwarding and voice mail; Centrex for business customers; public pay telephones; and competitive long distance carrier access. Local access or exchange service is the largest component of local wireline service, and is generally provided on a monthly flat rate basis.

TELUS' network can provide services to almost every urban and rural home and business in incumbent territories in B.C., Alberta and eastern Québec. However, in the face of growing competition and technological substitution, TELUS' wireline residential access line services are provided to an estimated 66 per cent of households in B.C. and Alberta, while approximately 12 per cent of households subscribe to only wireless telephone services (from all wireless service providers including TELUS). Competition is also active in the business market, such that approximately 70 per cent of TELUS' total business lines are forborne from price regulation.

CLECs operating in Canada provide service to their customers over facilities they have constructed or leased from ILECs in a given region or by reselling the local services of the ILECs (including TELUS). CLECs that use their own facilities or facilities leased from TELUS are eligible to receive a subsidy when they provide service to residential customers living in high cost areas where TELUS, as an ILEC, receives a per customer subsidy.

TELUS is competing outside its incumbent territories as a non-dominant carrier and has obtained approval to operate as a CLEC in certain targeted markets in central Canada where it concentrates on providing wireline services to businesses. TELUS is continuing to pursue CLEC status in other areas in central and eastern Canada.

Long distance

Wireline long distance services interconnect customers in different local calling areas, and provide domestic and international connectivity. TELUS offers its residential and business customers a range of long distance savings plans, billing options, and call options. The largest component of wireline long distance services is message toll services, which are transmitted through fibre optic cables, cable carrier systems and satellite channels. National and international wireline long distance services are provided through TELUS' national network and by way of interconnecting with the networks of other facilities-based carriers and resellers.

Data, Internet and IT services

TELUS provides "traditional" (or legacy) data services and "enhanced" data services. Traditional data services include circuit switched, packet switched and dedicated private lines. Enhanced data services provide greater functionality to the customer, allowing a customer to compress their telecommunications applications onto a single infrastructure. The primary enhanced data services offered by TELUS are Internet access, private Intranets, wide area network outsourcing and electronic commerce. Customers may

choose from a wide range of data services to suit the complexity of their requirements, including required speed and volume.

TELUS is the second largest ISP in Alberta and B.C., and the fourth largest wireline ISP in Canada. As at December 31, 2008, TELUS had 1,220,000 wireline Internet subscribers, including 1,096,000 high-speed Internet subscribers. In 2008, the number of high-speed subscribers increased by 7.5 per cent. TELUS has seen an increase in the use of data services such as business Intranets by business customers and in the use of personal computer and Internet access by residential customers. TELUS also offers a range of broadcast, teleconferencing and advanced intelligent network services — services that can be customized to meet the specific needs of individual customers through software changes to network switches. These services include special number services such as toll free 1-800 and 1-900 and enhanced call routing.

Through growth, investment and strategic acquisitions in prior years, TELUS also became a leading managed data-hosting provider in Canada with a national network of intelligent Internet data centres.

TELUS provides businesses with IT services such as IT outsourcing, application development and sustainment, and national IT consulting. As a provider of Web hosting services, TELUS also offers managed hosting, co-location including shared Web and e-mail hosting services, media streaming, data storage and security services. In addition, TELUS offers managed applications services and software such as online backup Web conferencing, expense management, customer relationship management and sales force automation. These services are available across Canada and can be enhanced by connection with TELUS' infrastructure through points of presence throughout Alberta and B.C., and in Winnipeg, Regina, Saskatoon, and many cities in Ontario and Québec.

Recent efficiency initiatives

TELUS continues to focus on enhancing operational efficiency and effectiveness in its wireline business. In 2006, TELUS fully or partially contracted out a number of non-core functions including property management, custodial services, building maintenance, mail services, fleet maintenance, and pay phone coin counting. In addition, management rationalized a number of offices into larger centres and completed the consolidation of two field dispatch centres. In addition, a number of process improvement and automation initiatives were undertaken.

In 2007, efficiency activities were somewhat curtailed due in part to a major implementation of a consolidated order entry and billing system in Alberta to some one million customers which brought about the need for extra labour in the short term.

In 2008, there was a heightened focus to identify opportunities which deliver continuous cost improvements through network evolution, workforce and process optimization, and system enhancements. Effort was refocused on operational efficiency initiatives, including re-directing resources to growing parts of the business, optimization of layers of management and spans of control to reduce staff, organization-wide expense control, increased use of business process outsourcing and internal off-shoring, rationalization of products in low-value activities, and commencing a multi-year program to consolidate vendor management and reduce the

number of vendors. In addition to team redeployments, reductions in positions were made in December 2008 and early 2009, mostly in management ranks.

Recent developments — consumer

An important element of the Company's wireline revenue growth strategy is the TELUS Future Friendly â Home initiative in its incumbent service areas. TELUS offers a suite of integrated, advanced digital and wireless services that leverage its significant investments in high-speed Internet. In 2008, TELUS continued the expansion of its digital television service, TELUS TV®, in Calgary, Edmonton, Vancouver, Fort McMurray, Grande Prairie, Rimouski and Whistler. Product enhancements were made during the year with the launch of HD and PVR functionality. In 2008, TELUS also continued enhancing its broadband infrastructure under a three-year, $600 million program first announced in the fall of 2006. This investment is enabling emerging high-speed Internet services and expanded network coverage across B.C., Alberta and eastern Québec. The broadband project complements a rural capital investment program to bring high-speed Internet services to more than 450 additional remote communities B.C., Alberta and eastern Québec by 2010. (See "Management's Discussion and Analysis — Section 10. Risks and risk management — 10.2 Technology" in TELUS' 2008 Annual Report — Financial Review.)

The Company continued its transformational billing initiative to re-engineer processes in the wireline segment for order entry, pre-qualification, service fulfillment and assurance, customer care, billing, collections/credit, customer contract and information management. In 2008, TELUS successfully implemented its consolidation of multiple order entry and billing systems into one unified customer care platform for more than one million B.C. customers, following the implementation of the same program for one million Alberta customers in 2007. The expected benefits of this project include streamlined and standardized processes and the elimination over time of multiple legacy information systems.

In 2007, the CRTC granted residential local exchange forbearance in markets where incumbents are facing increasing competitive pressure. To date, TELUS has received approval for deregulation of wireline residential phone service in 96 exchanges (about 80 per cent of residential lines in non-high cost serving areas) across B.C., Alberta and Québec. This is expected to positively impact TELUS' competitiveness by providing improved pricing, marketing and bundling flexibility.

Recent developments — business

TELUS' approach to the business market is through growth in central Canada as well as nationally, with a focus on the key vertical markets of healthcare, financial services, the public sector and the energy sector.

As noted on page 8, TELUS advanced its capabilities in the healthcare and financial services sectors with the January 2008 acquisition of Emergis. Emergis' service portfolio and eastern presence provides a good geographical and service fit with TELUS' services in the west.

In December, 2008, the Company was selected by the Government of Quebec, through a competitive bid process, to deliver and manage the province's next generation data

network, the Réseau intégré de télécommunications multimédias. The contract is for a term of seven to 10 years and worth up to $900 million over the term of the contract, the largest contract in TELUS' history.

In 2007, TELUS won several major enterprise contracts, including a five-year $200 million transaction with the Department of National Defense for its national and international locations.

In 2006, in addition to several other multi-million dollar contracts, TELUS secured a five-year $140 million contract with the Government of Ontario to provide fully managed network access services.

In 2006, TELUS strengthened its IT capabilities by acquiring Assurent Secure Technologies, a world-leading Canadian information technology security services and research company. TELUS is leveraging Assurent's global reputation and expertise to provide solutions that help customers protect their assets, identities, and information.

In the small business market, TELUS is pursuing growth with TELUS Business One®, a portfolio of solutions tailored to the needs of small business customers. In 2007, TELUS expanded the solutions available, which now include connectivity, security and a range of powerful IP-based tools customized for smaller clients. In 2008, TELUS continued to tailor its solutions by leveraging its market leading suite of smartphones, mobile applications and converged wireless and wireline solutions.

In 2008, TELUS expanded its international holding by purchasing the remaining interests in TELUS International Philippines, in which TELUS first acquired a controlling interest in 2005. This international call centre capability provides support for TELUS' bids to offer competitive call centre services to potential new clients.

The following table sets forth certain statistical information with respect to the wireline segment as at December 31 in each of the last three years:

Wireline segment

	2008	2007	2006
Network access lines (000's)	4,246	4,404	4,548
High-speed Internet net additions (000s)	76	103	154
High-speed Internet subscribers (000's)	1,096	1,020	917
Dial-up Internet net reductions (000's)	(31)	(39)	(42)
Dial-up Internet subscribers (000's)	124	155	194
Total Internet subscribers (000's)	1,220	1,175	1,111
Full-time equivalent employees [(1)]	27,700	25,700	23,900
Total employees	28,000	26,100	24,200

[(1)] Full-time equivalent (FTE) employees include TELUS International FTE employees (8,000 in 2008, 6,700 in 2007 and 4,900 in 2006) and Emergis FTE employees (1,100 in 2008 as a result of the January acquisition).

TELUS — wireless segment

TELUS is a national wireless provider with 6.13 million consumer and business subscribers, and extensive coverage to 32.6 million people or 98 per cent of Canada's population, when Roaming/Resale Agreements are considered. TELUS provides integrated digital wireless voice, data and Internet services on a digital PCS (CDMA) network, including 1X and high-speed (EVDO and EVDO Rev A) data capabilities on a third generation high-speed network, business service on the iDEN-based Mike network and Push To Talk (PTT) services with both the Mike iDEN network and PCS network (Instant Talk®).

For the year ended December 31, 2008, the wireless segment accounted for revenue of $4,632 million ($4,264 million for the year ended December 31, 2007), representing approximately 48 per cent of the total revenue of TELUS in 2008 (47 per cent of the total revenue of TELUS for 2007).

In 2008, TELUS won and was awarded 59 licences of AWS spectrum in the 2 GHz range in an auction held by Industry Canada. The average spectrum won by TELUS was 16.2 MHz nationally, which increases TELUS' strong spectrum position, and is expected to provide capacity for the introduction of future 4G (fourth generation) service offerings. (See "Management's Discussion and Analysis — Section 10. Risks and risk management —10.1 Competition" in TELUS' 2008 Annual Report — Financial Review.)

In September 2008, the Company turned down its first generation, analogue wireless network, deployed in the mid-1980s, as this network had reached the end of its useful service life and had only 27,600 remaining subscribers. The deactivation of this network made available more spectrum for digital capacity and allows the Company to focus on improvements in the current third generation (3G) network and prepare for future fourth generation (4G) services.

In October 2008, TELUS announced it had chosen long-term evolution (LTE) as the technology path for its 4G wireless broadband network, and as an interim step, the Company immediately started a national build of a next generation wireless service to be launched commercially by early 2010, based on the latest version of HSPA technology using existing 1900 MHz and 850 MHz spectrum. The HSPA service is expected to augment TELUS' existing wireless service portfolio and position the Company for an optimal future transition to LTE. TELUS' existing portfolio of wireless services includes CDMA (code division multiple access) providing access to 3G high-speed data services (EVDO Rev A), and iDEN-based Mike service, the Company's Push To Talk network and business service. LTE is an emerging worldwide 4G technology that has gained support from many of the world's largest carriers and manufacturers, but it is not expected to be available commercially for a number of years. The benefits of the investment in HSPA are expected to include increased international roaming for existing TELUS customers, access to increased global roaming revenues for TELUS, faster network speeds, lower handset costs and greater device selection due to the larger HSPA device ecosystem, and lower network development and ongoing operating costs. TELUS plans to support its CDMA and iDEN (Mike service)

customers for the foreseeable future. (See “Management’s Discussion and Analysis — Section 10. Risks and risk management — 10.2 Technology” in TELUS’ 2008 Annual Report — Financial Review.)

The Company selected two suppliers, Nokia Siemens Networks and Huawei Technologies, for TELUS’ next generation wireless network. TELUS also announced it has entered into an HSPA network sharing agreement with Bell Canada. This agreement builds on and enhances an agreement signed in 2001 and is expected to enable TELUS to lower the cost, accelerate deployment of the next generation wireless voice and data services on a national basis, optimize cell-site utilization, and maximize potential operating efficiencies. (See “Management’s Discussion and Analysis — Section 10. Risks and risk management — 10.1 Competition” in TELUS’ 2008 Annual Report — Financial Review.)

A key development was the March 2008 launch of TELUS’ wireless postpaid Koodo Mobile® brand and service to better address segments of the wireless market and complement the fully featured TELUS brand service. The expected benefits of this basic brand include more flexibility in serving various market segments, increasing postpaid customer additions, and improving client retention programs.

In 2007, Canadian carriers including TELUS successfully implemented wireless number portability (WNP), which gave consumers and businesses the ability to change carriers without changing their telephone number.

TELUS’ EVDO network was upgraded to higher speed EVDO Revision A services in 2007, which are now available to approximately 88 per cent of Canadians when Roaming/Resale Agreements are included.

The following table sets forth certain statistical information with respect to the wireless segment as at December 31 in each of the last three years:

Wireless segment

	2008	2007	2006
Net subscriber additions (000’s) [1]	561	515	535
Gross subscriber additions (000’s)	1,655	1,434	1,293
Wireless subscribers (000’s) [1]	6,129	5,568	5,056
Penetration rate [2]	18.8%	17.5%	16.2%
Wireless market share, subscriber based	28%	27%	27%
Average monthly revenue per subscriber unit	$ 63	$ 64	$ 63
Minutes of use per subscriber per month (MOU)	411	404	403
Cost of acquisition, per gross addition	$ 346	$ 395	$ 412
Monthly deactivations (churn rate)	1.57%	1.45%	1.33%
Digital population coverage (millions)	32.6	31.6	31.0
Full-time equivalent employees	8,200	7,700	7,200
Total employees	8,600	8,100	7,700

(1) Net of the impact of TELUS’ analogue network turndown in Q3 2008 which reduced net subscribers by 27,600.

(2) Subscribers divided by population coverage.

EMPLOYEE RELATIONS

As at December 31, 2008, TELUS employed approximately 36,600 employees, including employees in TELUS International. Approximately 14,650 employees were unionized (10,620 in the wireline segment and 4,030 in the wireless segment).

On November 20, 2005, a five-year collective agreement came into effect covering approximately 13,300 employees in both the wireline and wireless segments. The agreement (the TWU Collective Agreement), which expires on November 19, 2010, replaced six previously separate collective agreements and applies to all unionized employees represented by the Telecommunications Workers Union (TWU) located predominantly in B.C., Alberta, Ontario and Québec.

Wireline segment

The TWU represents approximately 8,960 unionized employees in TELUS’ wireline operations across Canada. These employees are covered by the TWU Collective Agreement. Approximately 1,060 office, clerical and technical employees in the wireline segment in Québec are represented by the Syndicat Québécois des employés de TELUS, under a collective agreement which expires on December 31, 2009. In September of 2008, TELUS signed a collective agreement with the Syndicat des Agents de Maîtrise de TELUS (SAMT) covering approximately 480 professional and supervisory employees in TELUS’ wireline operations in Québec. This collective agreement expires on December 31, 2011. TELUS Sourcing Solutions Inc., which employs approximately 120 unionized employees in the payroll and human resources services business, is signatory to three separate collective agreements in the provinces of Alberta and B.C.

Wireless segment

TELUS' wireless operations employed approximately 4,030 unionized employees in two separate bargaining units, with the majority of them being clerical and technical employees across Canada in the TWU's national bargaining unit and a small number of professional and supervisory employees represented by the SAMT in Québec under a collective agreement that expired on March 31, 2007 and is being renegotiated in the first quarter of 2009.

Collective bargaining

Renewal negotiations for the collective agreement with the SAMT in the wireless segment commenced in 2008 and continue into 2009. The terms of the expired agreement will continue to apply until a new collective agreement is ratified. (See "Management's Discussion and Analysis — Section 10. Risks and risk management — 10.4 Human Resources" in TELUS' 2008 Annual Report — Financial Review).

CAPITAL ASSETS AND GOODWILL

As at December 31, 2008, the total investment of TELUS in capital assets and goodwill was recorded at a net book value of $16.0 billion on a consolidated basis. Goodwill, which represents the excess of cost of acquired businesses over the fair value attributed to the net identifiable assets, had a net book value of $3.6 billion.

The principal capital assets of TELUS consist of telecommunications property, plant and equipment and intangible assets and do not lend themselves to description by exact location. As at December 31, 2008, the total investment of TELUS in capital assets was recorded at a net book value of $12.5 billion on a consolidated basis. Such assets, located principally in Alberta, B.C., Ontario and Québec, include network facilities, relay and transmission towers, switching equipment, terminal devices, computers, motor vehicles, tools and test equipment, furniture, office equipment and intangible assets. Spectrum licences, which had a net book value of $3.8 billion as at December 31, 2008, comprise the majority of identifiable intangible assets included in capital assets.

With the exception of terminal devices located at customer premises, most of the Company's communications plant and equipment are located on land owned or leased, or on rights-of-way obtained, by TELUS.

The real properties of TELUS include: (i) office space and related parking facilities; (ii) work centres for field service and materials management personnel; and (iii) space for exchange, toll and mobile radio equipment. A small number of buildings are constructed on leasehold land and the majority of the relay stations for TELUS' public service radio-telephone network are situated on lands held under leases or licences for varying terms. The network facilities of TELUS are constructed under or along streets or highways pursuant to rights-of-way granted by the owners of land including municipalities and on land owned by the Crown or on freehold land owned by TELUS. Other communications property, plant and equipment consist of plant under construction and materials and supplies used for construction and repair purposes. Identifiable intangible assets include wireless spectrum licences, subscriber base and computer software.

TELUS monitors its operations for compliance with applicable environmental requirements and standards, and implements preventative and remedial actions as required. TELUS' business of telecommunications services does not generate significant waste products that would be considered hazardous. For these reasons, remedial action has not been significant to the ongoing operations and expenditures of TELUS.

Value of intangible assets and goodwill

The carrying value of intangible assets with indefinite lives, and goodwill, are periodically tested for impairment using a two-step impairment test. The frequency of the impairment test generally is the reciprocal of the stability of the relevant events and circumstances, but intangible assets with indefinite lives and goodwill must, at a minimum, be tested annually. The Company has selected December as its annual test time. No impairment amounts arose from the December 2008, 2007 and 2006 annual tests. The test is applied to each of the Company's two reporting units: wireline and wireless, which reporting units are identified in accordance with the criteria in the Canadian Institute of Chartered Accountants (CICA) Handbook section for intangible assets and goodwill.

Intangible assets with finite lives (intangible assets subject to amortization) are amortized on a straight-line basis over their estimated lives; estimated lives are reviewed at least annually and are adjusted as appropriate.

RISK FACTORS

The risk factors in TELUS' 2008 Annual Report and Management's Discussion and Analysis are hereby incorporated by reference. The 2008 Annual Report and Management's Discussion and Analysis are available at sedar.com.

ALLIANCES

Verizon software and related technology and services

Concurrently with the 2004 sale by Verizon Inc. of its equity interest in TELUS (the Verizon Sale), Verizon and TELUS adjusted their business relationships to reflect changes in their business requirements since their business alliance was first established.

In particular, there were significant amendments to the January 1, 2001 alliance agreement between TELUS and Verizon (the Verizon Agreement) under which TELUS retained exclusive rights to a limited set of specified Verizon trademarks and service marks, software and other technology in connection with the provision of Telecommunications Services (as defined in the Verizon Agreement) in Canada, and Verizon remained subject to a non-compete covenant on the provision of Telecommunications Services in Canada. The Verizon Agreement expired on December 31, 2008.

In most instances, TELUS has a right to use the specified Verizon software and technology on a non-exclusive basis following the expiry of the agreement.

Directory business

TELUS directories are published by the Yellow Pages Group, pursuant to a series of commercial arrangements that were first entered into in 2001, when TELUS sold its directory advertising services business to Verizon Information Services — Canada Inc. (VIS), a subsidiary of Verizon. At that time, various TELUS subsidiaries and VIS entered into a series of commercial arrangements whereby VIS acquired the exclusive right to publish TELUS directories and provide on-line directories on TELUS portals, in Canada and within 40 miles of the Canada-U.S. border, for an initial term of 30 years with certain renewal rights thereafter, and TELUS agreed not to compete with this business for the term of the agreement.

In 2004, Verizon announced that it had sold VIS to Advertising Directory Solutions Holdings Inc. (ADSHI), an affiliate of Bain Capital. In 2005, the Yellow Pages Group announced that it, through Yellow Pages Income Fund, had purchased ADSHI from an affiliate of Bain Capital.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Investigations, claims and lawsuits

Given the size of TELUS, investigations, claims and lawsuits seeking damages and other relief are regularly threatened or pending against the Company and its subsidiaries. TELUS cannot predict with any certainty the outcome of such actions and as such, there can be no assurance that results will not be negatively impacted. The Company believes that it has put in place reasonable policies, processes and awareness designed to enable compliance with legal obligations and reduce exposure to legal claims.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan

Two lawsuits were commenced in Alberta in 2001 and 2002, respectively, by plaintiffs alleging to be either members or business agents of the TWU, and suing allegedly on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan, respectively. The TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of $445 million. The TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan as defendants, and claims damages in the sum of $15.5 million. The statements of claim were subsequently amended in 2002 by the plaintiffs to include allegations, *inter alia*, that benefits provided under the two pension plans are less advantageous than those provided under their respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted. The Company believes that it has good defences to the actions. As a term of the 2005 settlement reached between TCI and the TWU that resulted in a collective agreement, the TWU has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs

the TWU's desire and recommendation that these proceedings be dismissed or discontinued. However, the Company has been advised by the TWU that the plaintiffs have not agreed to dismiss or discontinue these actions, and the Company has not been informed of any change in this regard.

Certified class action

A class action was brought in 2004 under class action legislation in Saskatchewan against a number of past and present wireless service providers including the Company. The claim alleges that each of the carrier defendants is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings were commenced in other provinces. A national class was certified on September 17, 2007 by the Saskatchewan Court of Queen's Bench. On February 20, 2008, the same court removed from the class all customers of the Company who are bound by an arbitration clause, applying two recent decisions of the Supreme Court of Canada. The Company has applied for leave to appeal the 2007 certification decision. Certification is a procedural step. If the Company is unsuccessful on appeal of the certification decision, the plaintiff would still be required to prove the merits of the claim.

The Company believes that it has good defences to the action.

Uncertified class actions

TELUS and certain subsidiaries are defendants in a number of uncertified class actions. The Company has observed an increased willingness on the part of claimants to launch class actions whereby a representative plaintiff seeks to pursue a legal claim on behalf of a large group of persons. A successful class action lawsuit, by its nature, could result in a sizable damage award that negatively affects a defendant's results.

One such lawsuit is a class action brought on June 26, 2008, in the Saskatchewan Court of Queen's Bench alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 9-1-1 charges to the public and have been deceitfully passing it off as government charges. The plaintiffs seek restitution and direct and punitive damages in an unspecified amount. The

Company is assessing the merits of this claim, but the potential for liability and magnitude of potential loss cannot be readily determined at this time. Certification is a procedural step that determines whether a particular lawsuit may be prosecuted by a representative plaintiff on behalf of a class of persons. Certification of a class action does not determine the merits of the claim, so that if the Company were unsuccessful in defeating certification, the plaintiffs would still be required to prove the merits of their claims.

Intellectual property and proprietary rights

Technology evolution brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under statute, such as patent, copyright and industrial design legislation, or under common law, such as trade secrets. With the growth and development of technology-based industries, the value of these intellectual property and proprietary rights has increased. Significant damages may be awarded in intellectual property infringement claims advanced by rights holders. In addition, defendants may incur significant costs to defend such claims and that possibility may prompt defendants to settle claims more readily, in part to mitigate those

costs. Both of these factors may incent intellectual property rights holders to more aggressively pursue infringement claims.

Given the vast array of technologies and systems used by TELUS and its affiliates to deliver their products and services, and with the rapid change and complexity of such technologies, disputes over intellectual property and proprietary rights can reasonably be expected to increase. As a user of technology, TELUS and its affiliates receive from time to time communications, ranging from solicitations to demands and legal actions, from third parties claiming ownership rights over intellectual property used by TELUS and its affiliates and asking them to pay a settlement or licensing fees for the continued use of such intellectual property. There can be no assurance that TELUS and its affiliates will not be faced with significant claims based on the alleged infringement of intellectual property rights, whether such claims are based on a legitimate dispute over the validity of the intellectual property rights or their infringement, or whether such claims are advanced for the primary purpose of extracting a settlement. TELUS and its affiliates may incur significant costs in defending infringement claims, and may suffer significant damages and lose the right to use technologies that are essential to their operations should any infringement claim prove successful.

While TELUS and its affiliates incorporate many technologies into their products and services, they are not primarily in the business of creating or inventing technology. In acquiring products and services from suppliers, it is the practice of TELUS and its affiliates to seek and obtain contractual protections consistent with industry practices, to help mitigate the risks of intellectual property infringements.

FOREIGN OWNERSHIP RESTRICTIONS

Certain subsidiaries of TELUS or partnerships in which TELUS has a controlling interest, as Canadian carriers, holders of radio authorizations or licences, and holders of broadcasting licences, are required by the Telecommunications Act (Canada) (the Telecommunications Act), the Radiocommunication Act (Canada) (the Radiocommunication Act) and a Direction to the CRTC (Ineligibility of Non-Canadians) given under the Broadcasting Act (Canada) (the Broadcasting Act) to be Canadian-owned and controlled. Each of the Canadian carriers, under the Telecommunications Act, is considered to be Canadian-owned and controlled as long as: (a) not less than 80 per cent of the members of its board of directors are individual Canadians; (b) Canadians beneficially own not less than 80 per cent of its issued and outstanding voting shares; and (c) it is not otherwise controlled in fact by persons who are not Canadians. Substantially the same rules apply under the Radiocommunication Act and the Broadcasting Act. After the 2006 legal entity restructure, TELUS filed with the CRTC the requisite documentation affirming TCC's status as a Canadian carrier. TELUS further intends that TCC will remain controlled by TELUS and that it will ensure that TCC remains "Canadian" for the purposes of these ownership requirements.

The Telecommunications Act also provides that in order for a company that holds shares in a carrier to be considered Canadian, not less than 66-2/3 per cent of the issued and outstanding voting shares of that company must be owned by Canadians and that such company must not otherwise be controlled in fact by non-Canadians. Accordingly, not less than 66-2/3 per cent of the issued and outstanding voting shares of TELUS must be owned by Canadians and TELUS must not otherwise be controlled in fact by non-Canadians. To the best of TELUS' knowledge, Canadians beneficially own and control

in the aggregate not less than 66-2/3 per cent of the issued and outstanding Common Shares of TELUS and TELUS is not otherwise controlled in fact by non-Canadians.

The regulations under the Telecommunications Act provide Canadian carriers and carrier holding companies, such as TELUS, with the time and ability to rectify ineligibility resulting from insufficient Canadian ownership of voting shares. Under these regulations, such companies may restrict the issue, transfer and ownership of shares, if necessary, to ensure that they and their subsidiaries remain qualified under such legislation. For such purposes, in particular but without limitation, a company may, in accordance with the provisions contained in such regulations:

(i) refuse to accept any subscription for any voting shares;

(ii) refuse to allow any transfer of voting shares to be recorded in its share register;

(iii) suspend the rights of a holder of voting shares to vote at a meeting of its shareholders; and

(iv) sell, repurchase or redeem any voting shares.

To ensure that TELUS remains Canadian and that any subsidiary of TELUS, including TCC, is and continues to be eligible to operate as a

telecommunications common carrier under the Telecommunications Act, to be issued radio authorizations or radio licences as a radiocommunications carrier under the Radiocommunication Act, or to be issued broadcasting licences under the Broadcasting Act, provisions substantially similar to the foregoing have been incorporated into TELUS' Articles permitting the directors to make determinations to effect any of the foregoing actions.

REGULATION

General

The provision of telecommunications services and broadcasting services in Canada is regulated by the Canadian Radio-television and Telecommunications Commission (the CRTC) pursuant to the Telecommunications Act and the Broadcasting Act, respectively. In addition, the provision of cellular and other wireless services using radio spectrum is also subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act.

The Telecommunications Act gives the CRTC the power to regulate the provision of telecommunications services, and to forbear from regulating (i.e. not subject to rate regulation) certain services or classes of services if they are subject to a degree of competition which is sufficient to protect the interests of customers. However, even when the CRTC forbears from price regulation in respect of a service, it can continue to regulate these services for certain other matters such as network access and interconnection.

Local forbearance

The CRTC and federal government have implemented several changes to the regulatory regime for local telecommunications services. On December 14, 2006, the Governor in Council issued a direction to the CRTC to rely on market forces to the maximum extent feasible; to ensure technological and competitive neutrality and enable competition from new technologies; to use tariff approval mechanisms that are as minimally intrusive as possible; to complete a review of the framework for mandated access to wholesale services; to publish and maintain performance standards for its various processes; and, to continue to explore new ways of streamlining its processes.

On April 4, 2007, the Governor in Council issued Order in Council P.C. 2007-532 and varied a previous CRTC local forbearance decision (Decision 2006-15) by changing the criteria for local forbearance for residential and business local exchange services. Instead of requiring at least 25 per cent market share loss in large local forbearance regions, the Order in Council requires two independent facilities-based competitors (of which one can be a wireless service provider) capable of serving at least 75 per cent of the residential lines in a local exchange area. For business local exchange service, forbearance is granted when one facilities-based competitor is able to serve at least 75 per cent of the business lines in the relevant exchange.

The Order in Council reduced the number of quality of service indicators that must be met for the six-month period prior to the forbearance application. The Order in Council also removed restrictions on winbacks (actions to regain customers who have switched to a competing service provider) and promotions by the incumbent telephone companies.

Since the Order in Council was issued, TELUS has obtained forbearance for local residential service in 96 exchanges in B.C., Alberta and Québec (about 80 per cent of residential lines in non-high-cost serving areas). TELUS has also obtained forbearance for local business service in 47 exchanges in B.C., Alberta and Québec (about 70 per cent of business lines).

On April 4, 2007, the Governor in Council also issued Order in Council P.C. 2007-533, which effectively required TELUS and the other incumbent telephone companies to set up an ombudsman service to resolve complaints between consumer and small business customers and providers of forborne retail telecommunications services, including local and long distance telephone service, Internet access service, and wireless service. TELUS and other telecommunications service providers created the Commissioner for Complaints for Telecommunications Services (CCTS), and TELUS became a founding member on July 23, 2007. In Decision 2007-130 (released December 21, 2007), the CRTC ordered a number of changes to CCTS' structure and mandate and made membership mandatory for most telecommunications service providers as of February 1, 2008. In Decision 2008-46 (released May 30, 2008), the CRTC limited the time period for mandatory membership in CCTS for telecommunications service providers to three years and stated that it would initiate a review of CCTS after three years. CCTS has the authority to investigate, make recommendations, and ultimately to render decisions that are binding on its members with respect to eligible complaints from their consumer and small business customers. CCTS can assess a monetary award of up to $5,000 for direct damages actually sustained by a customer of a CCTS member company.

The major categories of telecommunications services provided by TELUS that remain subject to rate regulation are Competitor Services, Public Telephone Services, Services with Frozen Rates and Other Capped Services. The rates for Residential and Business

Services in exchanges where forbearance has not yet been granted are also still regulated by the CRTC.

Price cap regulation

Price cap regulation continues to apply to a basket of local services provided by ILECs. TELUS is subject to price cap regulation as an ILEC in Alberta, B.C. and eastern Québec.

On April 30, 2007, the CRTC issued Decision 2007-27 and established an open-ended price cap regime. The CRTC removed the productivity adjustment from the Residential Services in non-high-cost serving areas price cap basket and the Other Capped Services price cap basket. For

the Competitor Services price cap basket, the CRTC reduced the productivity adjustment from inflation (as measured by the chain-weighted Gross Domestic Product Price Index) minus 3.5 per cent, to inflation minus 3.2 per cent. The Commission moved residential optional local services and service bundles containing residential local exchange service to the Uncapped Services basket (no upward pricing constraints).

The CRTC capped residential service rates in urban areas at existing levels and limited annual rate increases in rural areas to the rate of inflation (to a maximum of five per cent). However, the CRTC removed restrictions on rate de-averaging for residential local service and optional local services. Subsequent to the price cap decision, the CRTC also removed restrictions on rate de-averaging for business and pay telephone services (Decision 2007-106).

In 2002, the CRTC incorporated a deferral account mechanism to which was added an amount equivalent to the cumulative annual productivity adjustments for residential services in non-high cost serving areas, less an amount to compensate for certain mandated price reductions (generally for competitor wholesale services).

In February 2006, the CRTC determined in Decision 2006-9 that the funds accumulated in the ILEC deferral accounts could be used to expand broadband services to rural and remote communities and to improve accessibility to telecommunications services for individuals with disabilities. After receiving proposals from the ILECs in response to Decision 2006-9, the CRTC launched a further proceeding in November 2006 (Public Notice 2006-15) to further explore the ILECs' proposals. On July 6, 2007, the CRTC issued Decision 2007-50 which partially approved TELUS' broadband expansion proposal for 115 locations in TELUS' ILEC territory.

On January 17, 2008, the CRTC released Decision 2008-1 which identified an additional 119 rural and remote communities in TELUS' incumbent operating territories that are eligible for broadband expansion using deferral account funds. In addition, the decision approved the use of approximately five per cent of the accumulated balance of TELUS' deferral account for improving access to telecommunications services for persons with disabilities. The CRTC also determined that any funds remaining in TELUS' deferral account, other than those required to implement the broadband expansion and accessibility initiative, should be rebated to the Company's residential local customers in non-high cost serving areas.

There have been a series of escalating court actions since the issuance of CRTC Telecom Decision 2006-9 and Telecom Decision 2008-1 and the litigants have included

the Consumers Association of Canada, the National Anti-Poverty Organization, Bell Canada and the Company. The consumer groups have appealed to the courts to direct that rebates be made to local telephone subscribers rather than have the accumulated deferral account funds used for purposes determined by the CRTC, as noted above. Bell Canada has appealed to the courts that the CRTC has exceeded its jurisdiction to the extent it approved rebates from the deferral account. The Company's appeal likewise argues that the CRTC exceeded its jurisdiction. The appeal is based on the fact that the rates in question were made "final" and were found to be "just and reasonable" by the CRTC. As a result, the funds in the deferral account are the property of the Company and cannot be rebated to customers. The Supreme Court of Canada has granted a stay of CRTC Telecom Decision 2006-9 in so far as it requires a rebate to local telephone subscribers. The appeals pertaining to the disposition of the accumulated amounts in the deferral account by the consumer groups, Bell Canada and the Company are currently scheduled to be heard by the Supreme Court of Canada in March 2009. The Company anticipates a decision on this matter in the latter half of 2009. There is no guarantee that the ILECs will be able to proceed with their proposals for the use of deferral account funds pending the outcome of such appeals. TELUS would still be obligated to implement the accessibility initiatives.

Local competition framework

The regulatory framework for local services competition has a number of components, the more important of which are summarized below.

Essential Services

The CRTC requires ILECs like TELUS to make certain "essential facilities" available to competitors, at rates based on the ILEC's incremental cost plus an approved mark-up. In December 2007, the CRTC completed an extensive review of the regulatory framework for essential services initiated by Public Notice 2006-14.

On March 3, 2008, the CRTC issued Decision 2008-17 which set out, among other matters, a three to five year phase-out process after which time various non-essential services will no longer be subject to regulation. Services subject to phase out include fibre-based access and transport services, higher speed competitor digital network (CDN) access, all speeds of other CDN services, Ethernet services, and operator services. During the phase-out period, ILECs are permitted to negotiate "off-tariff", competitor-specific supply arrangements, for services subject to phase out, without Commission approval. For all other mandated wholesale services (including unbundled local loops, low-speed CDN access facilities, asymmetric digital subscriber line (ADSL) access service and co-location services), there is no change to the pricing principles. As well, these facilities remain subject to mandated supply until market conditions change. Any party can apply in the future to remove the mandated supply obligations for these facilities based on changes in market conditions.

On December 11, 2008, the CRTC issued Decision 2008-116 which determined that new wholesale services will be subject to regulation by the CRTC. The CRTC will allow the ILECs to apply for forbearance for new services where conditions warrant, failing which these new wholesale services must be offered in conformity with the CRTC's Decision 2008-17 wholesale framework. In Decision 2008-117, also issued on December 11, 2008, the CRTC determined that the ILECs are required to provide wholesale ADSL speeds to match any new retail ADSL speeds that they offer to retail

customers. The CRTC subsequently confirmed, in Telecom Order CRTC 2009-111 issued on March 3, 2009, that this wholesale matching requirement extends to all new retail ADSL access services offered over an access path that includes copper facilities. In Decision 2008-118, issued on December 11, 2008, the CRTC maintained wholesale Ethernet access and transport services as non-essential subject to phase-out. This determination will result in the deregulation of these services after five and three years, respectively.

Contribution and portable subsidies

The cost to local exchange carriers of providing the basic level of residential services in high-cost serving areas (as required by the CRTC) is higher than the amounts the CRTC allows the local exchange carriers to charge for the level of service. Accordingly, the CRTC collects contribution payments from all Canadian telecommunication service providers (including voice, data and wireless service providers) that are then disbursed as portable subsidy payments to subsidize the costs of providing residential telephone services in these high-cost serving areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per line/per band subsidy rate. The CRTC currently determines, at a national level, the total contribution requirement necessary to pay the portable subsidies and then collects contribution payments from the Canadian telecommunication service providers, calculated as a percentage of their telecommunication service revenue. Entertainment, Internet, paging and terminal equipment revenues are exempt from the revenue charge. In November 2008, the CRTC finalized the contribution revenue percentage charge for 2008 at 0.87 per cent and also set an interim rate for 2009 at 0.87 per cent.

Implementation of phase II wireless enhanced 911 (E9-1-1) services

On February 2, 2009, the CRTC issued Telecom Policy CRTC 2009-40, directing Canadian wireless service providers to implement wireless phase II E9-1-1 service by February 1, 2010, and ruling that wireless service providers are responsible for their own costs of implementation. Wireless phase II E9-1-1 services are intended to automatically provide E9-1-1 call centres with more precise location information when a person calls 9-1-1 emergency services from their wireless handsets. Wireless phase II E9-1-1 services are designed to provide the caller's location using a GPS-based system, a triangulation method using the nearest cellular towers, or a combination thereof. The CRTC has ordered all Canadian wireless providers to implement wireless phase II E9-1-1 services in the same areas where wireline E9-1-1 services were already available by February 1, 2010 (stage 1). The CRTC is expected to issue a decision on stage 2 of phase II E9-1-1 (providing mid-call location updates) after a working group tables its recommendations later in 2009. TELUS is working to meet the requirements of this CRTC decision, but there can be no assurance that TELUS can successfully implement the first stage of wireless phase II E9-1-1 services across its entire wireless operating territory by February 1, 2010.

Quality of service

The CRTC monitors quality of service for retail services in non-forborne areas. On November 8, 2008, the CRTC issued Decision 2008-105 which made significant changes to the retail quality of service monitoring regime that applies to the ILECs in non-forborne areas. The CRTC eliminated the retail rate adjustment plan and reduced the number of quality of service indicators being monitored from 17 to three.

The CRTC also monitors quality of service for competitor services and enforces a rate adjustment plan and associated rebates for ILECs that do not meet approved quality of service standards for these services.

Regulation of wireless services

The use of radio spectrum is subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act, which is administered by Industry Canada. All of TELUS' wireless communications services depend on the use of radio frequencies. While economic regulation of wireless services falls under CRTC jurisdiction, wireless services have, generally, been subject to regulatory forbearance.

The Minister of Industry has the authority to suspend or revoke radio spectrum licences if the licence holder has contravened the Radiocommunication Act, regulations or terms and conditions of its licence and after giving the holder of the licence a reasonable opportunity to make representations. Licence revocation is rare; licences are usually renewed upon expiration (see "Management's Discussion and Analysis — Section 10. Risks and risk management — 10.3 Regulatory" in TELUS' 2008 Annual Report — Financial Review).

Wireless Number Portability. Wireless number portability (WNP) enables consumers to retain their telephone number when switching between service providers or between wireline and wireless service. In Decision 2005-72, the CRTC directed Bell Mobility, Rogers Wireless Inc. and the wireless division of TELUS to fully implement WNP by September 2007. TELUS has successfully completed this implementation. Canada was the second country in the world after the United States to offer complete number portability (wireless-to-wireless, wireless-to-wireline and wireline-to-wireless). TELUS has experienced modestly higher churn rates since the introduction of WNP. The initial post-WNP phase of pent-up demand to switch has subsided, but churn rates may be permanently higher in the future.

Radiocommunications spectrum licences

TELUS holds radiocommunication spectrum licences and authorizations for a variety of wireless services and applications, both mobile and fixed. TELUS holds significant 1.9 GHz PCS spectrum throughout Canada, is the leading holder of 800 MHz SMR/ESMR spectrum in all of the major Canadian markets, and holds 25 MHz of cellular 800 MHz spectrum in Alberta, B.C. and eastern Québec. In addition, TELUS holds various radio spectrum licences for fixed services in the 24/38 GHz, 2.3/3.5 GHz band throughout Canada, paging services, analogue two-way radio services, and legacy mobile-telephone and other miscellaneous wireless services.

Licence terms and renewals. Currently, spectrum licences in Canada for PCS and cellular spectrum will expire in 2011 and 2013 (see "Management's Discussion and Analysis — Section 10. Risks and risk management — 10.3 Regulatory" in TELUS' 2008 Annual Report — Financial Review). The spectrum licences for the auctioned 24/38 GHz, 2.3/3.5 GHz and PCS spectrum have a ten-year term from the date of issuance. Most other radiocommunications spectrum licences are renewed annually (see

"Management's Discussion and Analysis — Section 10. Risks and risk management — 10.3 Regulatory" in TELUS' 2008 Annual Report — Financial Review).

Spectrum auction. On February 16, 2007, Industry Canada released a discussion paper for the then-upcoming auction for AWS spectrum in various spectrum bands. On November 28, 2007, the Minister released a policy framework on how the auction would be conducted. The major elements included a set aside for new entrants of 40 MHz of the available 90 MHz of AWS spectrum, mandated roaming, and mandated tower and site sharing requirements at commercial rates subject to binding arbitration. On February 27, 2008, Industry Canada clarified its decision on roaming indicating that new entrants are required to build before roaming and that resale will not be mandated, but rather left to commercial negotiations between relevant parties. Terms of roaming and tower and site sharing will be based on commercial terms and subject to binding arbitration where commercial negotiations are not successful. Final conditions of licence were subsequently released on February 29, 2008. The auction began on May 27, 2008 and ended July 21, 2008.

TELUS was successful in obtaining AWS spectrum licences covering a national footprint and will have increased capacity for advanced wireless services. Besides Rogers and Bell Canada, licences were provisionally awarded to several new wireless service providers including Shaw Communications Inc., Quebecor Media Inc., Globalive Wireless LP., Bragg Communications Inc., Data & Audio-Visual Enterprises Wireless Inc., BMT Holdings and six smaller firms.

700 MHz Spectrum: The U.S. had a spectrum auction for the 700 MHz spectrum in early 2008. This spectrum is currently assigned to over-the-air broadcasters and became mobile in the U.S. in 2009. The CRTC has set a shut-down date for analog television transmission in Canada by August 31, 2011. After this date, no licences for analog transmission will be issued or renewed, thereby eventually freeing up this spectrum. On January 19, 2008, Industry Canada initiated an auction consultation process for spectrum at 700 MHz strictly covering public safety usage. A consultation process for commercial use is expected to be announced before the analog TV shut down in 2011. There is no guarantee that the Canadian government will not reserve spectrum for new entrants or that it will not, as was done in the U.S., adopt some elements of open access for some of this spectrum.

2.5/2.6GHz: Industry Canada had previously announced plans to auction certain unlicenced spectrum at 2.6GHz and clawback spectrum at 2.5/2.6 GHz for mobile and fixed wireless services. A consultation on this spectrum is expected to be announced, presumably sometime between 2009 and before expiration of current licences in 2011. TELUS does not currently hold spectrum in these bands.

800 MHz Re-banding: In 2004, the FCC released a Report and Order adopting a plan to resolve interference to public safety radio systems in the 800 MHz band in the U.S. Sprint Nextel's ESMR system was identified as the primary contributor of this interference. The U.S. is planning to realign the band so that Public Safety systems would be relocated to the bottom of the 800 MHz band and Sprint Nextel's ESMR system would operate in the upper part of the band.

In Canada, the TELUS Mike (ESMR) network also uses this same frequency spectrum. Because of the way licensing is carried out for the Mike network (i.e. each site is

analyzed and licenced individually), TELUS and Industry Canada have been able to minimize the number of Public Safety interference issues to a few across Canada (compared to more than 1500 in the U.S.).

However, TELUS has an existing Special Co-Ordination Procedure (SCP), endorsed by both Industry Canada and the FCC, wherein TELUS and Sprint-Nextel utilize each other's channels within their respective ESMR networks at specific border areas across the country. These channels serve to increase the number of available channels available to both networks to better serve the area. The re-alignment threatens the continued use of the channels specified in the SCP.

While discussions with both the Canadian and U.S. regulators indicate that TELUS should be able to continue to have access to a certain number of SCP channels in the border areas, until such time as the U.S. announces their final decision, there is no assurance that TELUS will be able to continue to use these channels.

Broadcasting services

The Broadcasting Act governs all types of broadcasting activities including commercial off-air radio and television broadcasting, the operation of other programming services such as specialty and pay television, as well as the distribution of television services through cable or satellite undertakings.

The Broadcasting Act and its regulations give the CRTC the authority to issue licences for specific categories of broadcasting undertakings and to regulate the content provided and rates charged by each category of broadcasting undertaking. In August 1996, the federal government issued its policy under which "telecommunications common carriers" (as defined in the Telecommunications Act) would be allowed to apply for broadcasting distribution undertaking (BDU) licences to provide cable television service. In 1997, the CRTC confirmed that new entrant BDUs, including telecommunications common carriers, would not be rate regulated and would not have an obligation to serve. However, the CRTC confirmed that new entrants would have to meet all the same content and carriage obligations as incumbent BDUs.

TELUS has been licenced by the CRTC to operate Class 1 Regional BDUs in each of B.C., Alberta and Québec utilizing its IP facilities. TELUS also holds a national licence to operate a video-on-demand programming service. All of TELUS' services are fully digital and thus benefit from the more flexible regulatory regime regarding BDU packaging established by the CRTC in its Digital Migration Framework.

Licence renewals: The TELUS broadcasting licences are set to expire in 2009 and the renewal process for these licences commenced in 2008. TELUS does not expect any difficulties in obtaining these renewals for further seven year terms.

Policy framework review for broadcasting distribution and specialty and pay television services: The CRTC issued a revised policy for broadcasting distribution undertakings in Broadcasting Public Notice 2008-100. In this policy, the CRTC increased contribution requirements of distribution undertakings by one per cent of gross revenues. This policy also altered the framework regarding the offering of distant over-the-air television signals, which will likely make the offering of time-shifting packages more expensive. The new policy framework also provides for new flexibility for broadcasting distribution undertakings in

packaging of Canadian and foreign programming services. These changes will take effect at the same time as the digital conversion of analogue over-the-air signals in August 2011.

In addition, the CRTC has initiated a proceeding to review its exemption orders regarding new media broadcasting undertakings (which dates back to 1999) and mobile television broadcasting undertakings (which was issued in 2005). The CRTC has a policy of reviewing its exemption orders every five years. The CRTC has launched a public hearing (Broadcasting Notice of Public Hearing 2008-11) for this review and initial comments have been filed. Some of the proposals made in this first round of comments were considered by the CRTC at an oral hearing that began in February 2009 and included mandating a contribution requirement for ISPs to create a fund to subsidize the creation of Canadian new media content and implementing incentives for the promotion of Canadian new media content on the Internet. These proposals all raise significant jurisdictional, public policy and enforcement issues for the CRTC but there can be no assurance that the CRTC will not attempt to implement some measures to benefit Canadian new media content. A decision is expected by the end of 2009.

Internet access services

The CRTC has also initiated a separate proceeding to investigate the Internet traffic management practices of Canadian ISPs. This follows a November 2008 decision by the CRTC denying a request to have Bell Canada halt its traffic shaping (or throttling) of peer-to-peer file sharing application traffic on its wholesale ADSL access service. The CRTC's review of Internet traffic management practices includes both wholesale and retail services and encompasses such issues as the growth of Internet traffic and how this has affected ISP networks and what (if any) practices might violate the unjust discrimination or control of content rules in the Telecommunications Act. An oral hearing is scheduled for July 2009 and a decision (which may set out some broad principles or guidelines under which the Commission will review future contested Internet traffic management practices) is expected by the end of 2009.

COMPETITION

TELUS expects continued strong competition in the wireline and wireless businesses in all principal markets and geographic areas. The following is a summary of the competitive environment in each of TELUS' principal markets and geographic areas.

Wireline segment

TELUS' wireline telephony competitive environment is divided into two regions, ILEC and non-ILEC, based on its treatment under CRTC rules.

TELUS has always experienced competition for data services. Long distance and local access voice services have faced competition since 1993 and 1998, respectively.

TELUS is an ILEC in Alberta, B.C. and parts of Québec, while it operates as a CLEC in the rest of Canada. In mid-2007 the CRTC forbore from price regulating the provision of residential local telephone service in Fort McMurray, Alberta. Since that time, the CRTC has forborne from regulating approximately 80 per cent of TELUS' residential customer market and 70 per cent of its business market. Forbearance allows TELUS pricing flexibility for most customers in forborne exchanges but does not remove caps on prices for stand-alone basic residential telephone customers. Where TELUS competes as a

CLEC, it is forborne from regulation. TELUS has higher market share in areas where it is the ILEC; however, competition has been increasing over time.

Within TELUS' ILEC territories, a number of competitors offer voice and data services through a combination of their own facilities and unbundled network elements provided by TELUS. The primary competitors are: BCE Inc. including its subsidiary Bell Canada, Shaw Communications, MTS Allstream (a subsidiary of Manitoba Telecom Services Inc), Rogers Communications Inc., and Primus Telecommunications Canada. A number of these competitors have built extensive local fibre optic networks in TELUS' ILEC service territories. All of these competitors are increasingly integrating and bundling voice and data services in order to provide both discounted and more extensive service offerings to customers.

In addition to providing telephony services, TELUS is an ISP in Alberta, B.C., and in parts of Ontario and Québec. In the residential sector and, to some extent, the business sector, cable-TV companies are also providing high-speed Internet services and represent significant competition to the ILECs. Shaw Communications is TELUS' primary competitor in the provisioning of high-speed Internet and residential telephone services to consumers in Alberta and B.C. In the Québec ILEC region, the Company's primary competitors are Cogeco and Videotron.

In recent years, a number of new Internet-based competitors have entered the market for local and long distance voice services in TELUS' ILEC and non-ILEC regions. These competitors utilize voice over Internet protocol (VoIP) technologies to offer customers phone service over existing Internet connections. In the past few years, non-facilities based VoIP service providers (such as Vonage and Skype) have had some success.

However, the cable-TV companies (such as Shaw Communications, Rogers Communications, Videotron, Cogeco) have been the most successful VoIP competitors having captured an estimated 2.6 million VoIP service subscribers by the end of 2008. TELUS expects competition to remain intense especially because VoIP competitors are largely free from regulatory burden, thereby offering them significant flexibility in competing against ILECs such as TELUS (particularly in non-forborne areas).

TELUS also faces competition from companies without wireline networks. Wireless service providers offer rate plans and services that are intended to compete directly with ILEC local services. Resellers of primary local exchange services and smaller competitors in niches such as dial-around plans and calling card services have been operating in Alberta and B.C. for several years and also compete with TELUS' ILEC operations.

In its non-ILEC territories, TELUS' major competitors for wireline voice and data services are the incumbent carriers. In most cases, these competitors are subsidiaries or affiliates of BCE Inc. The other primary competitors are MTS Allstream and Rogers Communications Inc. with increasing competition from cable-TV companies and municipal hydro company owned telecommunications providers.

A significant development on the competitive front in 2008 was the termination of the definitive agreement to acquire BCE Inc. by a consortium of private equity investors. Instead, BCE Inc. remains a public company. (See "Management's Discussion and Analysis – Section 1. Introduction, performance summary and targets - 1.2 Canadian economy and telecommunications industry" in TELUS' 2008 Annual Report – Financial Review.)

System integrators such as IBM Canada and HP also represent a competitive threat to TELUS in both IT services as well as the business market for higher bandwidth and other data and voice network management and network integration services.

Wireless segment

TELUS offers wireless voice and data services to consumers and businesses nationally on both the ESMR (branded Mike) and the PCS/cellular networks and competes in both the prepaid and postpaid markets.

TELUS' primary competitors are Bell and Rogers - both have national networks, a broad offering of wireless voice and data services for consumers and businesses and a large existing customer base. Regional competitors include Sasktel and MTS; these firms have coverage in very specific geographic regions and are key competitors in those particular markets.

In April 2005, Virgin Mobile began offering services across Canada. Virgin Mobile is a Mobile Virtual Network Operator (MVNO) which is owned in part by Bell and utilizes the Bell network for the provisioning of services. In addition, both Bell and Rogers are supporting other MVNO partnerships with cable-TV companies (such as Eastlink) and other resellers (such as President's Choice, Petro-Canada and 7-Eleven). To compete with MVNOs and other basic brands for price-sensitive clients, Bell and Rogers are promoting their respective basic brand offerings through strategies such as per second billing and extended hours on free nights and weekend calling. In March 2008, TELUS successfully launched its basic postpaid Koodo Mobile brand and service to better address segments of the wireless market and complement the fully featured TELUS brand service. Competition within the wireless market is anticipated to remain intense.

As a result of the 2008 AWS spectrum auction, new wireless entrants as outlined on page 29 are expected to commence operations in all regions of the country in the coming years. The operational details and launch timing of these new wireless entrants continue to evolve but some have announced plans to begin service in late 2009 and early 2010. Additionally, there is the possibility that the upcoming 700 MHz and 2.5/ 2.6 GHz auctions will lead to the entry of additional wireless providers on a regional and/or national basis in a few years.

New entrants will benefit from mandated roaming and tower/site access and from the lower prices paid for set-aside spectrum compared to the open spectrum purchased by incumbents during the 2008 spectrum auction. Several AWS auction participants such as regional cable operators (e.g., Videotron) and new entrants (e.g., Globalive) are expected to deploy discount strategies in order to gain market share. (See "Management's Discussion and Analysis – Section 10. Risks and risk management – 10.1 Competition" in TELUS' 2008 Annual Report – Financial Review.

TELUS offers a number of wireless Internet offerings using the networks noted above as well as wireless LAN services such as WiFi (802.11) in "hotspots" and other areas utilizing unlicenced spectrum. In offering wireless Internet and LAN access services, TELUS competes, to a limited extent, with wireline business Internet access providers.

TELUS also competes with numerous national, regional and local paging companies for paging customers in Alberta, B.C. and eastern Québec. It also competes with major equipment manufacturers for private radio engineered systems.

Other emerging competitive services

A number of additional longer term factors are expected to increase competition in the communications industry such as the continuing convergence of cable-TV, satellite, computer, wireline and wireless technologies.

In November 2005, TELUS commercially launched TELUS TV within select neighbourhoods in the Edmonton and Calgary markets. TELUS TV is now available in Alberta in Calgary, Edmonton, Grande Prairie and Fort McMurray; in British Columbia in Vancouver, Whistler and the Lower Mainland area; and in Québec in Rimouski. Additional serving areas in these three provinces are targeted for 2009. TELUS has also begun offering HD capability in select areas through the deployment of ADSL2+ technology. (See "Management's Discussion and Analysis –

Section 10. Risks and risk management – 10.1 Competition" in TELUS' 2008 Annual Report – Financial Review.)

In this segment, TELUS competes with established cable-TV video providers, such as Shaw Communications and Cogeco, and with direct-to-home broadcast satellite companies, such as Bell TV and Star Choice.

Competition is also intense in other emerging markets such as multimedia conferencing, Web hosting, information security services, contact centre setup, application management, and human resource business process outsourcing. TELUS took a significant step forward in the advancement of its growth strategy with its acquisition of Emergis, which was integrated with TELUS' own health care resources to form TELUS Health Solutions (See Description of the Business and General Developments.) TELUS Health Solutions develops and manages solutions that automate transactions and the secure exchange of information. TELUS Health Solutions has expertise in electronic health-related claims processing, health records systems, pharmacy management solutions, point-of-sale transaction processing, cash management and loan document processing and registration. The acquisition of Emergis is expected to enable TELUS to further enhance its reputation as an organization that understands these industries and can deliver innovative solutions to increase their efficiency and the service they provide to Canadians.

DIVIDENDS DECLARED

The dividends per Common Share and Non-Voting Share declared with respect to each quarter by TELUS, during the three-year period ended December 31, 2008, are shown below.

Quarter ended [1]	2008	2007	2006
March 31	$ 0.45	$ 0.375	$ 0.275
June 30	$ 0.45	$ 0.375	$ 0.275
September 30	$ 0.45	$ 0.375	$ 0.275
December 31	$ 0.475	$ 0.45	$ 0.375

[1] Paid on the first business day of the next month.

TELUS' Board of Directors reviews its dividend rate quarterly. On November 7, 2008, TELUS announced that it was increasing its dividend to $0.475 per share on the issued and outstanding Common and Non-Voting Shares. This 5.6 per cent increase was consistent with the Company's forward-looking dividend payout ratio guideline of 45 to 55 per cent of sustainable net earnings first set in October 2004. TELUS' quarterly dividend rate will depend on an ongoing assessment of free cash flow generation and financial indicators including leverage, dividend yield and payout ratio.

CAPITAL STRUCTURE OF TELUS

The authorized capital of TELUS consists of 4,000,000,000 shares, divided into: 1) 1,000,000,000 Common Shares without par value; 2) 1,000,000,000 Non-Voting Shares without par value; 3) 1,000,000,000 First Preferred shares without par value and; 4) 1,000,000,000 Second Preferred shares without par value. The Common Shares and Non-Voting Shares are listed for trading on the Toronto Stock Exchange and the Non-Voting Shares are listed for trading on the New York Stock Exchange. See "Market for Securities".

TELUS Common Shares and TELUS Non-Voting Shares

Subject to the prior rights of the holders of First Preferred shares and Second Preferred shares, the Common Shares and the Non-Voting Shares are entitled to participate equally with each other with respect to the payment of dividends and the distribution of assets of TELUS on the liquidation, dissolution or winding up of TELUS.

Neither the Common Shares nor the Non-Voting Shares can be subdivided, consolidated, reclassified or otherwise changed unless the other class is changed in the same manner.

The holders of the Common Shares are entitled to receive notice of, attend, be heard and vote at any general meeting of the members of TELUS on the basis of one vote per Common Share held. The holders of Non-Voting Shares are entitled to receive notice of, attend and be heard at all general meetings of the members of TELUS and are entitled to receive all notices of meetings, information circulars and other written information from TELUS that the holders of Common Shares are entitled to receive from TELUS, but are not entitled to vote at such general meetings unless otherwise required by law. Holders of Common Shares are entitled to vote by a separate resolution for each director rather than a slate.

In order to ensure that the holders of the Non-Voting Shares can participate in any offer which is made to the holders of the Common Shares (but is not made to the holders of Non-Voting Shares on the same terms), which offer, by reason of applicable securities legislation or the requirements of a stock exchange on which the Common Shares are listed, must be made to all or substantially all the holders of Common Shares who are in any province of Canada to which the requirement applies (an Exclusionary Offer), each holder of Non-Voting Shares will, for the purposes of the Exclusionary Offer only, be permitted to convert all or part of the Non-Voting Shares held into an equivalent number of Common Shares during the applicable conversion period. In certain circumstances (namely, the delivery of certificates, at specified times, by holders of 50 per cent or more of the issued and outstanding Common Shares to the effect that they will not, among

other things, tender to such Exclusionary Offer or make an Exclusionary Offer), these conversion rights will not come into effect.

If all of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act are changed so that there is no restriction on any non-Canadians holding Common Shares, holders of Non-Voting Shares will have the right to convert all or part of their Non-Voting Shares into Common Shares on a one for one basis, and TELUS will have the right to require holders of Non-Voting Shares who do not make such an election to convert such shares into an equivalent number of Common Shares.

TELUS will provide notice to each holder of Common Shares before a general meeting of members at which holders of Non-Voting Shares will be entitled to vote as a class. In such event, holders of Common Shares will have the right to convert all or part or their Common Shares into Non-Voting Shares on a one for one basis provided and to the extent that TELUS and its subsidiaries remain in compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act.

The Common Shares are subject to constraints on transfer to ensure TELUS' ongoing compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act. As well, holders of Common Shares will have the right, if approved by the Board of Directors of TELUS, to convert Common Shares into Non-Voting Shares in order that TELUS be in compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act.

In all other respects, each Common Share and each Non-Voting Share have the same rights and attributes.

First Preferred shares

The First Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, and having attached thereto the designation, rights, privileges, restrictions and conditions which the board of directors of TELUS determines by resolution and subject to filing an amendment to the Notice of Articles and Articles of TELUS. No series of First Preferred shares may have attached thereto the right to vote at any general meeting of TELUS or the right to be convertible into or exchangeable for Common Shares. Except as required by law, the TELUS holders of the First Preferred shares as a class are not entitled to receive notice of, attend or vote at any meeting of the members of TELUS. The First Preferred shares rank prior to the Second Preferred shares, Common Shares and Non-Voting Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of TELUS.

Second Preferred shares

The Second Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, and having attached thereto the designation, rights, privileges, restrictions and conditions, which the board of directors of TELUS determines by resolution and subject to filing an amendment to the Notice of Articles and Articles of TELUS. No series of Second Preferred shares may have

attached thereto the right to vote at any general meeting of TELUS or the right to be convertible into or exchangeable for Common Shares. Except as required by law, the holders of the Second Preferred shares as a class are not entitled to receive notice of, attend or vote at any meeting of the members of TELUS. The Second Preferred shares rank, subject to the prior rights of the holders of the First Preferred shares, prior to the Common Shares and Non-Voting Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of TELUS.

TELUS Rights Plan

TELUS adopted a shareholder rights plan (the Rights Plan) in March 2000 and issued one right (a Series A Right) in respect of each Common Share outstanding as at such date and issued one right (a Series B Right) in respect of each Non-Voting Share outstanding as of such date. The Rights Plan has a term of 10 years subject to shareholder confirmation every three years. The Rights Plan was amended and confirmed as amended by the shareholders first in 2003 and again in 2005 and 2008. Each Series B Right, other than those held by an Acquiring Person (as defined in the Rights Plan) and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20 per cent or more of the voting shares of TELUS (otherwise than through the "Permitted Bid" requirements of the Rights Plan) to purchase from TELUS $320 worth of Non-Voting Shares for $160 (i.e. at a 50 per cent discount).

RATINGS

Ratings information contained in "Management's Discussion and Analysis – Section 7. Liquidity and capital resources – 7.7 Credit Ratings" in TELUS' 2008 Annual Report – Financial Review is hereby incorporated by reference. TELUS' 2008 Annual Report and Management's Discussion and Analysis are available at sedar.com. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

A description of the rating categories applied to TELUS as at December 31, 2008 from each agency is below. The outlook or trend for TELUS from four agencies was stable.

Institution	Rating	Outlook
Fitch	"BBB" ratings indicate that there is currently expectation of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic	An Outlook indicates the direction a rating is likely to move over a one to two-year period. Outlooks may be positive, stable or negative. A positive or negative Rating Outlook does not imply a rating change is inevitable. Similarly, ratings for which

Institution	Rating	Outlook
	conditions are more likely to impair this capacity. This is the lowest investment grade category. The modifiers "+" or "-" may be appended to ratings "AA" to "CCC" to denote relative status within major rating categories.	outlooks are 'stable' could be upgraded or downgraded before an outlook moves to positive or negative if circumstances warrant such an action.
DBRS	Long-term debt rated "A" is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities. While "A" is a respectable rating, entities in this category are considered to be more susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities. Long-term debt rated "BBB" is of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities. The ratings from "AA" to "CCC" are denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category. DBRS' short-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. The ratings range from R-1 (high) to D. Short-term debt rated R-1 (low) is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories, but these considerations	Each DBRS rating category is appended with one of three rating trends - "Positive", "Stable", or "Negative". The rating trend helps to give the investor an understanding of DBRS's opinion regarding the outlook for the rating in question. However, the investor must not assume that a positive or negative trend necessarily indicates that a rating change is imminent.

Institution	Rating	Outlook
	are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.	
S&P	An obligator rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments. The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.	Rating outlooks assess the potential direction of a long term credit rating over the intermediate term (typically six months to two years). An outlook is not necessarily a precursor to a rating change or CreditWatch placement. Outlooks may be positive, negative, stable, or developing and they accompany all long-term credit ratings except those on CreditWatch.
Moody's	Obligations rated "Baa" are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from 'Aa' through 'Caa'. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.	Moody's also provides a rating outlook which is an opinion regarding the likely direction of a rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV – contingent upon an event. Ratings Under Review (RUR) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation.

DIRECTORS AND OFFICERS

Directors

The names, municipalities of residence and principal occupations of the directors of TELUS and the date each such person became a director of TELUS are as set out below. Currently, there are 12 directors on the TELUS Board. Each was elected at TELUS' annual and special meeting on May 8, 2008 for a one year term.

Directors of TELUS (Name and municipality of residence)	Director since [1]	Principal occupation
R.H. (Dick) Auchinleck [4 - Chair] [5] Calgary, Alberta	2003	Presiding Director, ConocoPhillips (oil and gas)
A. Charles Baillie [3 - Chair] [5] Toronto, Ontario	2003	Chair, Alberta Management Investment Corporation (pension investment corporation)
Micheline Bouchard [2] Montréal, Québec	2004	Corporate Director
R. John Butler [3] [4] Edmonton, Alberta	1995	Counsel, Bryan & Company (law firm)
Brian A. Canfield [5] Point Roberts, Washington	1989	Chair, TELUS Corporation
Pierre Y. Ducros [2] Montréal, Québec	2005	President of P. Ducros & Associés Inc. (investment and administration firm)
Darren Entwistle Vancouver, B.C.	2000	President and Chief Executive Officer, TELUS Corporation
Ruston E.T. Goepel [2] Vancouver, B.C.	2004	Senior Vice President, Raymond James Financial Ltd. (investment firm)
John S. Lacey [3] [4] Toronto, Ontario	2000	Chairman, Advisory Board, Tricap Restructuring Fund (investment fund)
Brian F. MacNeill [2 - Chair] Calgary, Alberta	2001	Chairman, Petro Canada (oil and gas company)
Ronald P. Triffo [2] Edmonton, Alberta	1995	Chairman, Stantec Inc. (engineering company)
Donald Woodley [4] [5 — Chair] Mono Township, Ontario	1998	Corporate Director

[1] TELUS or its predecessors
[2] Member of Audit Committee
[3] Member of Human Resources and Compensation Committee
[4] Member of Corporate Governance Committee
[5] Member of Pension Committee

All of the directors of TELUS have held the principal occupations set forth above or executive positions with the same companies or firms referred to, or with affiliates or predecessors thereof, for the past five years except as follows: Micheline Bouchard was President and CEO, ART Advanced Research Technologies Inc. from 2002 to July

2006; and Don Woodley was interim CEO and President of GENNUM Corporation from November 2005 to September 2006.

Executive Officers

The name, municipality of residence and present and principal occupations of each of the executive officers of TELUS, as of March 10, 2009, are as follows:

Executive Officers of TELUS (Name and municipality of residence)	Position held with TELUS
Josh Blair Vancouver, B.C.	Executive Vice President, Human Resources
Brian A. Canfield Point Roberts, Washington	Chair
Darren Entwistle Vancouver, B.C.	President and Chief Executive Officer
Robert G. McFarlane Vancouver, B.C.	Executive Vice President and Chief Financial Officer
Joe M. Natale Toronto, Ontario	Executive Vice President and President, Business Solutions
Karen Radford Westmount, Québec	Executive Vice President and President, TELUS Québec and Partner Solutions

Kevin A. Salvadori Vancouver, B.C.	Executive Vice President, Business Transformation and Technology Operations
Eros Spadotto Toronto, Ontario	Executive Vice President, Technology Strategy
John Watson Toronto, Ontario	Executive Vice President and President, Consumer Solutions

All of the officers above have been engaged for the past five years with TELUS, its subsidiaries, affiliates or predecessors thereof.

TELUS shares held by directors and executive officers

As at March 10, 2009, the directors and executive officers of TELUS, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 304,255 Common Shares, which represented approximately 0.17 per cent of the outstanding Common Shares and 326,518 Non-Voting Shares, which represented approximately 0.23 per cent of the outstanding Non-Voting Shares.

Cease trade orders, bankruptcies, penalties or sanctions

Other than as disclosed, for the ten years ended March 10, 2009, TELUS is not aware that any current director or executive officer of TELUS had been a director or executive officer of any issuer which, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. In December 1998, John Lacey was asked by a group of shareholders to lead the Loewen restructuring, as Chairman of the Board, a position he held at the time of Loewen's filing under Chapter 11 of the U.S. Bankruptcy Code and the Companies' Creditors Arrangement Act (Canada) (CCAA). In March 2006, Mr. Lacey was appointed to the board of directors of Stelco Inc. (Stelco) as a nominee of Tricap Management Limited (Tricap). Stelco filed for bankruptcy protection under the CCAA in January 2004. Mr. Lacey's appointment as a director was part of a court supervised restructuring, from which Stelco emerged on March 31, 2006 and pursuant to which Tricap had the right to appoint four of Stelco's nine directors. Charles Baillie was formerly a director of Dana Corporation, which filed for bankruptcy in March 2006 under Chapter 11 of the U.S. Bankruptcy Code. He ceased to be director when the company emerged from bankruptcy on February 1, 2008. Robert G. McFarlane was a director of Ascalade Communications Inc. (Ascalade) until his resignation in February 2008. In March 2008, Ascalade filed for bankruptcy protection under the CCAA.

Other than as disclosed, for the ten years ended March 10, 2009, TELUS is not aware that any current director or executive officer of TELUS had been a director, chief executive officer or chief financial officer of any issuer which was the subject of a cease trade or similar order while that person was acting in that capacity, or was subject to such an order issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and resulted from an event that occurred while that person was acting in that capacity, or any order which denied such company access to any exemption under securities legislation for a period of more than 30 consecutive days. On June 14, 2006, and at the request of Cognos Incorporated (Cognos), the Ontario Securities Commission (OSC) issued a cease trade order against all directors of Cognos, including Pierre Ducros, in connection with a delay in filing its annual report with Canadian regulators. The delay was related to a review by the United States Securities and Exchange Commission (SEC) of the way Cognos allocated revenue between post-contract customer support and licence fees. The OSC lifted the cease trade order on August 3, 2006 after the SEC concluded that it did not object to Cognos' revenue recognition policy. Mr. Ducros ceased to be a director of Cognos in February 2008 after its takeover by IBM.

MARKET FOR SECURITIES

TELUS' Common Shares and Non-Voting Shares are listed on the Toronto Stock Exchange (TSX) under "T" and "T.A" respectively and the TELUS Non-Voting Shares are listed on the New York Stock Exchange under "TU". Monthly share prices and volumes for 2008 are listed below:

TSX – Common and Non-Voting Shares

	Common Shares			Non-Voting Shares		
Month	**High($)**	**Low($)**	**Volume**	**High($)**	**Low($)**	**Volume**
January	49.90	41.05	25,908,530	48.49	39.41	16,683,564
February	47.43	41.51	16,656,575	46.15	39.86	11,943,287
March	45.70	41.55	22,194,256	44.55	40.12	16,139,951
April	47.48	43.66	15,124,703	45.87	43.14	7,630,807
May	48.87	45.30	15,566,827	47.14	43.65	9,950,596
June	47.78	42.10	15,991,253	46.31	40.26	11,142,203
July	43.75	37.30	19,255,629	42.21	35.33	12,306,319
August	42.79	37.50	14,422,852	41.99	35.77	10,943,030
September	43.76	36.01	25,541,546	42.00	35.29	10,581,303
October	43.65	34.12	24,579,348	40.50	31.83	10,290,592
November	43.66	33.80	17,477,074	41.12	31.46	11,888,739
December	39.50	32.27	19,241,286	36.91	29.70	11,037,789

NYSE – Non-Voting Shares

Month	High ($ U.S.)	Low ($ U.S.)	Volume
January	48.87	38.41	2,427,366
February	47.44	39.53	1,591,157
March	45.18	39.24	3,165,402
April	45.34	42.54	1,450,204
May	47.89	43.20	1,794,966
June	46.40	39.83	1,619,915
July	41.02	34.52	2,626,018
August	39.01	34.35	1,977,760
September	39.12	33.26	3,166,237
October	37.32	26.83	6,079,218
November	35.48	24.48	4,635,774
December	29.55	24.19	7,164,778

INTERESTS OF EXPERTS

Deloitte & Touche LLP, Chartered Accountants, are the auditors of the Company and are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

AUDIT COMMITTEE

The Audit Committee of the Company supports the Board in fulfilling its oversight responsibilities regarding the integrity of the Company's accounting and financial reporting, internal controls and disclosure controls, legal and regulatory compliance, ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risk, credit worthiness, treasury plans and financial policy and whistleblower and complaint procedures. A copy of the Audit Committee's Terms of Reference is attached as Appendix A to this Annual Information Form.

The current members of the Audit Committee are Brian F. MacNeill (Chair), Micheline Bouchard, Pierre Y. Ducros, Ruston E. T. Goepel and Ronald P. Triffo. Each member of the Audit Committee is independent and financially literate within the meaning of Multilateral Instrument 52-110 "Audit Committees" and the Board has determined that Brian MacNeill is an audit committee financial expert and has accounting or related financial management expertise. The following lists the relevant education and experience of the members of TELUS' Audit Committee that is relevant to his or her role on the committee.

Brian MacNeill chairs the Audit Committee. He holds a Bachelor of Commerce from Montana State University and has over 35 years of experience in accounting having earned his Certified Public Accounting designation (California) and his Chartered Accountant designation (Canada). In 1995, Mr. MacNeill was made a Fellow of the Chartered Accountants of Alberta. Mr. MacNeill served as Chief Executive Officer of Enbridge Inc. from 1990 until his retirement in 2001. Prior to that, he served as Chief Operating Officer of Enbridge and held numerous financial positions with various Canadian companies.

Micheline Bouchard holds a Bachelor of Applied Science (Engineering Physics) and a Master of Applied Science (Electrical Engineering) from Ecole Polytechnique. She served as President and CEO of ART Advanced Research Technologies, a biomedical company, from 2002 until July 2006 and prior to that, she held senior executive positions at both Motorola Inc. and Motorola Canada Limited. Ms. Bouchard is currently a director and a member of the audit committee of Home Capital/Home Trust and Citadel Group of Funds. She has previously served on eight audit committees, and served as chair for two of them.

Pierre Y. Ducros obtained a Bachelor of Arts Degree from the Université de Paris at Collège Stanislas in Montréal and a Bachelor of Engineering (Communications) degree from McGill University. Mr. Ducros was President and Chief Executive Officer of DMR Consulting Group, Inc. (Canada), an information technology services company, which he co-founded in 1973. Mr. Ducros has also held various management positions at IBM Canada Limited and serves on the board of a number of other public companies.

Ruston E.T. Goepel holds a Bachelor of Commerce from the University of British Columbia and has over 35 years of experience in the investment banking industry. He is currently Senior Vice President with Raymond James Financial Ltd. Mr. Goepel is a director of several public companies, and currently serves as a member of the audit committee of Baytex Energy Trust.

Ronald P. Triffo obtained a Bachelor of Applied Science from the University of Manitoba and an MSc (Engineering) from the University of Illinois. Mr. Triffo is the Chairman and a director of Stantec Inc., an engineering and international professional services company where he served in various executive management positions for more than 25 years. He is the Chairman of the Alberta Ingenuity Fund and the past Chairman of ATB Financial.

Audit, audit-related and non-audit services

All requests for non-prohibited audit, audit-related and non-audit services provided by TELUS' external auditor and its affiliates to TELUS are required to be pre-approved by the Audit Committee of TELUS' Board of Directors. To enable this, TELUS has implemented a process by which all requests for services involving the External Auditor are routed for review by the VP Risk Management and Chief Internal Auditor to validate

that the requested service is a non-prohibited service and to verify that there is a compelling business reason for the request. If the request passes this review, it is then forwarded to the Chief Financial Officer for further review. Pending the Chief Financial Officer's affirmation, the request is then presented to the Audit Committee for its review, evaluation and pre-approval or denial at its next scheduled quarterly meeting. If the timing of the request is urgent, it is provided to the Audit Committee Chair for his review, evaluation and pre-approval or denial on behalf of the Audit Committee (with the full committee's review at the next scheduled quarterly meeting). Throughout the year, the Audit Committee monitors the actual versus approved expenditure for each of the approved requests.

The following table is a summary of billing by Deloitte & Touche LLP, as external auditors of TELUS, during the period from January 1, 2008 to December 31, 2008:

Type of work	Deloitte & Touche	%
Audit fees	$ 3,783,672	94.3
Audit-related fees	$ 184,500	4.6
Tax fees	$ 45,410	1.1
All other fees	—	—
Total	**$ 4,013,582**	**100**

The following table is a summary of billing by Deloitte & Touche LLP, as external auditors of TELUS, during the period from January 1, 2007 to December 31, 2007:

Type of work	Deloitte & Touche	%
Audit fees	$ 4,087,308	94.6
Audit-related fees	$ 203,191	4.7
Tax fees	$ 30,000	0.7
All other fees	—	—
Total	**$ 4,320,499**	**100.0**

MATERIAL CONTRACTS

TCI is a party to an agreement with an arm's-length securitization trust associated with a major Schedule I bank, under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. As a result of selling the interest in certain of the trade receivables on a fully serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables. A March 31, 2008 amendment resulted in the term being extended to July 17, 2009, for this revolving-period securitization agreement.

TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd. or the securitization trust may require the sale program to be wound down. The necessary credit rating was exceeded by three levels at A (low) as of February 11, 2009.

TRANSFER AGENTS AND REGISTRARS

The Company's transfer agent and registrar is Computershare Trust Company of Canada. Computershare maintains the Company's registers at 600, 530 - 8th Avenue SW, Calgary, Alberta T2P 3S8.

ADDITIONAL INFORMATION

Additional information relating to TELUS may be found on SEDAR at sedar.com and EDGAR at sec.gov. Additional information regarding directors' and officers' remuneration, indebtedness and options to purchase securities, is contained in the TELUS information circular dated March 13, 2009 for the annual general meeting to be held on May 7, 2009. Additional financial information, including supplementary quarterly financial data and the audited consolidated financial statements of TELUS for the year ended December 31, 2008, is set out in the 2008 Annual Report – Financial Review. All of the above information can also be found at telus.com.

APPENDIX A: TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

The Board has established an Audit Committee (the Committee) to assist the Board in fulfilling its oversight responsibilities regarding the integrity of the Company's accounting and financial reporting, the Company's internal controls and disclosure controls, the Company's legal and regulatory compliance, the Company's ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risks, the Company's credit worthiness, treasury plans and financial policy and the Company's whistleblower and complaint procedures.

1. MEMBERSHIP

1.1 The Committee will have a minimum of three members, including the chair of the Committee. The Board, following the recommendation of the Corporate Governance Committee, will appoint and remove the members of the Committee by a majority vote. The members will sit on the Committee at the pleasure of the Board.

1.2 The Board, following the recommendation of the Corporate Governance Committee, will appoint the chair of the Committee from the

Committee's members by a majority vote. The chair of the Committee will hold such position at the pleasure of the Board.

1.3 All members of the Committee will be Independent Directors.

1.4 All members of the Committee will be financially literate, as defined in accordance with applicable securities laws and standards of the stock exchanges on which the Company's securities are listed.

1.5 At least one member of the Committee will be an audit committee financial expert, as defined in accordance with applicable securities laws, and at least one member of the Committee will have accounting or related financial management expertise, as defined in accordance with applicable securities laws.

2. MEETINGS

2.1 The Committee will meet at least once each quarter and otherwise as necessary. Any member of the Committee may call meetings of the Committee.

2.2 All directors of the Company, including management directors, may attend meetings of the Committee provided, however, that no director is entitled to vote at such meetings and is not counted as part of the quorum for the Committee if he or she is not a member of the Committee.

2.3 Notwithstanding section 2.2 above, the Committee will, as a regular feature of each regularly scheduled meeting, hold an in-camera session with the external auditors and separately with the internal auditors, without management or management directors present. The Committee may, however, hold other in-camera sessions with such members of management present as the Committee deems appropriate.

2.4 The Corporate Secretary or his or her nominee will act as Secretary to the Committee.

2.5 The Committee will report to the Board on its meetings and each member of the Board will have access to the minutes of the Committee's meetings, regardless of whether the director is a member of the Committee.

2.6 The external auditors of the Company will receive notice of every meeting of the Committee and may request a meeting of the Committee be called by notifying the chair of the Committee of such request.

3. QUORUM

3.1 The quorum necessary for the transaction of business at Committee meetings will be a majority of the members of the Committee. A quorum once established is maintained even if members of the Committee choose to leave the meeting prior to conclusion.

4. DUTIES

The Board hereby delegates to the Committee the following duties to be performed by the Committee on behalf of and for the Board:

4.1 Financial Reporting

Prior to public disclosure, the Committee will review and recommend to the Board, and where applicable, to the boards of the Company's subsidiaries which are reporting issuers, for approval:

a) the annual audited consolidated financial statements and interim unaudited consolidated financial statements of the Company and those of its subsidiaries that are reporting issuers, as defined in accordance with applicable securities laws;

b) the interim and annual management's discussion and analysis of financial condition and results of operations (MD&A) of the Company and those of its subsidiaries that are reporting issuers, as defined in accordance with applicable securities laws;

d) earnings press releases and earnings guidance, if any;

e) Management's Statement on Financial Reporting; and

f) all other material financial public disclosure documents of the Company and those of its subsidiaries that are reporting issuers, including prospectuses, press releases with financial results and the Annual Information Form.

4.2 External Auditors

The external auditors will report directly to the Committee and the Committee will:

a) appoint the external auditors, subject to the approval of the shareholders, and determine the compensation of the external auditors;

b) oversee the work of the external auditors and review and approve the annual audit plan of the external auditors, including the scope of the audit to be performed and the degree of co-ordination between the plans of the external and internal auditors. The Committee will discuss with the internal auditors, the external auditors and management, the adequacy and effectiveness of the disclosure controls and internal controls of the Company and elicit recommendations for the improvement of such controls or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis will be given to the adequacy of internal controls to prevent or detect any payments, transactions or procedures that might be deemed illegal or otherwise improper;

c) meet regularly with the external auditors without management present and ask the external auditors to report any significant disagreements with management regarding financial reporting, the resolution of such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the external auditors;

d) pre-approve all audit, audit-related and non-audit services to be provided to the Company or any of its subsidiaries, by the external auditors (and its affiliates), in accordance with applicable securities laws;

e) annually review the qualifications, expertise and resources and the overall performance of the external audit team and, if necessary, recommend to the Board the termination of the external auditors or the rotation of the audit partner in charge;

f) at least annually, obtain and review a report by the external auditors describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues; and all relationships between the external auditors and the Company;

g) annually assess and confirm the independence of the external auditors and require the external auditors to deliver an annual report to the Committee regarding its independence, such report to include disclosure regarding all engagements (and fees related thereto) by the Company and relationships which may impact the objectivity and independence of the external auditors;

h) require the external auditors to deliver an annual acknowledgement in writing to the Committee that the shareholders, as represented by the Board and the Committee, are its primary client;

i) review post-audit or management letters, containing recommendations of the external auditors and management's response;

j) review reports of the external auditors; and

k) pre-approve the hiring of employees and former employees of current and former auditors in accordance with applicable securities laws and TELUS policies.

Notwithstanding section 4.2(d) above, the Committee may delegate the pre-approval of audit, audit-related and non-audit services to any one member of the Committee, provided, however, a report is made to the Committee on any pre-approval of such services at the Committee's first scheduled meeting following the pre-approval.

4.3 Internal Auditors

The internal auditors will report functionally to the Committee and administratively to the Chief Financial Officer and the Committee will:

a) review and approve management's appointment, termination or replacement of the Chief Internal Auditor;

b) oversee the work of the internal auditors including reviewing and approving the annual internal audit plan and updates thereto;

c) review the report of the internal auditors on the status of significant internal audit findings, recommendations and management's responses and review any other reports of the internal auditors; and

d) review the scope of responsibilities and effectiveness of the internal audit team, its reporting relationships, activities, organizational structure and resources, its independence from management, its credentials and its working relationship with the external auditors.

The internal auditors will report quarterly to the Committee on the results of internal audit activities and will also have direct access to the chair of the Committee when the internal auditors determine it is necessary.

4.4 Whistleblower, Ethics and Internal Controls Complaint Procedures

The Committee will ensure that the Company has in place adequate procedures for:

a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters; and

b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The CEO or CFO will report to the Committee, and the Committee will review such reports, on any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls. Where the CEO, CFO and/or the Chief Internal Auditor are named in a complaint, the Director of Ethics and Internal Controls will speak directly with the Chair of the Committee.

The Chief Internal Auditor will report to the Committee, and the Committee will consider such reports, on the results of the investigation of whistleblower, ethics and internal controls complaints.

4.5 Accounting and Financial Management

The Committee will review:

a) with management and the external auditors, the Company's major accounting policies, including the impact of alternative accounting policies and key management estimates and judgments that could materially affect the financial results and whether they should be disclosed in the MD&A;

b) emerging accounting issues and their potential impact on the Company's financial reporting;

c) significant judgments, assumptions and estimates made by management in preparing financial statements;

d) the evaluation by either the internal or external auditors of management's internal control systems, and management's responses to any identified weaknesses;

e) the evaluation by management of the adequacy and effectiveness in the design and operation of the Company's disclosure controls and internal controls for financial reporting;

f) audits designed to report on management's representations on the effectiveness and efficiency of selected projects, processes, programs or departments;

g) management's approach for safeguarding corporate assets and information systems, the adequacy of staffing of key financial functions and their plans for improvements; and

h) internal interim and post implementation reviews of major capital projects.

4.6 Credit Worthiness, Treasury Plans and Financial Policy

The Committee will review with management:

a) the Company's financial policies and compliance with such policies;

b) the credit worthiness of the Company;

c) the liquidity of the Company; and

d) important treasury matters including financing plans.

4.7 Legal/Regulatory Matters and Ethics

The Committee will review:

a) with management, the external auditors and legal counsel, any litigation, claim or other contingency, including any tax assessment, that could have a material effect upon the financial position or operating results of the Company;

b) annually, management's relationships and compliance with regulators, and the accuracy and timeliness of filings with regulatory authorities; and

c) annually, the ethics policy, management's approach to business ethics and corporate conduct and the program used by management to monitor compliance with the policy.

4.8 Risk Management

The Committee will:

a) consider reports on the annual enterprise business risk assessment and updates thereto;

b) consider reports on the business continuity disaster recovery plan(s) for the Company;

c) consider reports on the insurance coverage of the Company;

d) consider reports on financial risk management including derivative exposure and policies;

e) monitor, on behalf of the Board, the Company's compliance with environmental legislation and the adequacy of the Company's environmental budget expenditures;

f) monitor, on behalf of the Board, the Company's health and safety policies and receive and review regular reports concerning the Company's health and safety programs, policies and results from the Chief Internal Auditor and the Chief Compliance Officer;

g) review and recommend to the Board for approval environmental policies and procedure guidelines and any amendments or changes thereto;

h) report to the Board, and require management to report to the Committee, on environmental matters each quarter; and

i) review other risk management matters as from time to time the Committee may consider suitable or the Board may specifically direct.

4.9 Other

The Committee will review:

a) the expenses of the Chair of the Board and CEO and will assess the Company's policies and procedures with respect to the Executive Leadership Team members' expense accounts and perquisites, including their use of corporate assets;

b) the proposed disclosure concerning the Committee to be included in the Company's Annual Information Form to verify, among other things, that it is in compliance with applicable securities law requirements;

c) significant related party transactions and actual and potential conflicts of interest relating thereto to verify their propriety and that disclosure is appropriate;

d) the disclosure policy of the Company; and

e) at least once annually, and evaluate the adequacy of these Terms of Reference and the Committee's performance, and report its evaluation and any recommendations for change to the Corporate Governance Committee.

The Committee will also have such other duties and responsibilities as are delegated to it and review such other matters as, from time to time, are referred to it by the Board.

5. Authority

The Committee, in fulfilling its mandate, will have the authority to:

a) engage and set compensation for independent counsel and other advisors;

b) communicate directly with the Chief Financial Officer, internal and external auditors, Chief Compliance Officer and Chief General Counsel;

c) delegate tasks to Committee members or subcommittees of the Committee; and

d) access appropriate funding as determined by the Committee to carry out its duties.

management's report

Management is responsible to the Board of Directors for the preparation of the Consolidated financial statements of the Company and its subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and necessarily include some amounts based on estimates and judgments.

The Company maintains a system of internal controls that provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines that require TELUS team members (including Board members and Company employees) to maintain the highest ethical standards, and has established mechanisms for the reporting to the Audit Committee of accounting and ethics policy complaints. In addition, the Chief Compliance Officer works to ensure the Company has appropriate policies, controls and measurements in place to facilitate compliance with all legal and regulatory requirements. Annually, the Company performs an extensive risk assessment process, which includes interviews with senior management, a web-enabled risk and control assessment survey distributed to a large sample of employees, and input from the Company's strategic planning activities. Results of this process influence the development of the internal audit program. Key enterprise-wide risks are assigned to executive owners for the development and implementation of appropriate risk mitigation plans. As required by Canadian securities regulations and the United States *Sarbanes-Oxley Act*, the Company has an effective and efficient Sarbanes-Oxley certification enablement process. In addition to assessing disclosure controls and procedures and internal control over financial reporting, this process cascades informative certifications from the key stakeholders, which are reviewed by the Chief Executive Officer and the Chief Financial Officer as part of their due diligence process.

The Company has a formal policy on Corporate Disclosure and Confidentiality of Information, which sets out policies and practices including the mandate of the Disclosure Committee.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of the Management's discussion and analysis and the Consolidated financial statements, as well as other information contained in this report. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the Consolidated financial statements contained in this report were being prepared. In addition, the Chief Executive Officer and the Chief Financial Officer have also evaluated the design and operating effectiveness of the Company's internal control over financial reporting as explained in the following report entitled Report of Management on Internal Control over Financial Reporting.

The Board of Directors has reviewed and approved these Consolidated financial statements. To assist the Board in meeting its oversight responsibilities, it has appointed an Audit Committee, which is comprised entirely of independent directors. All the members of the committee are financially literate and the Chair of the committee has financial expertise and meets the applicable securities law requirements as a financial expert. The committee oversees the Company's accounting and financial reporting, internal controls and disclosure controls, legal and regulatory compliance, ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risks, its creditworthiness, treasury plans and financial policy, and its whistleblower and accounting and ethics complaint procedures. The committee meets no less than quarterly and, as a standard feature of regularly scheduled meetings, holds an in-camera session with the external auditors and separately with the internal auditors without other management, including management directors, present. It oversees the work of the external auditors and approves the annual audit plan. It also receives reports on the external auditor's internal quality control procedures and independence. Furthermore, the Audit Committee reviews: the Company's major accounting policies including alternatives and potential key management estimates and judgments; the Company's financial policies and compliance with such policies; the evaluation by either the internal or external auditors of management's internal control systems; and the evaluation by management of the adequacy and effectiveness in the design and operation of the Company's disclosure controls and internal controls over financial reporting. The Audit Committee also considers reports on the Company's business continuity and disaster recovery plan; reports on financial risk management including derivative exposure and policies; tax planning, environmental, health and safety risk management, corporate social responsibility and management's

approach for safeguarding corporate assets; annual review of the Chair of Board of Directors, Chief Executive Officer and Executive Leadership Team expenses and their use of corporate assets; and regularly reviews material capital expenditure initiatives. The committee pre-approves all audit, audit-related and non-audit services provided to the Company by the external auditors (and its affiliates). The committee's terms of reference are available, on request, to shareholders and at **telus.com/governance**.

/s/ Robert G. McFarlane /s/ Darren Entwistle

Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 11, 2009

Darren Entwistle
President
and Chief Executive Officer
February 11, 2009

report of management on internal control over financial reporting

Management of TELUS Corporation (TELUS) is responsible for establishing and maintaining adequate internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

TELUS' Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, in accordance with the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer (CEO) and the Executive Vice-President and Chief Financial Officer (CFO) and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this assessment, management has determined that the Company's internal control over financial reporting is effective as of December 31, 2008. In connection with this assessment, no material weaknesses in the Company's internal control over financial reporting were identified by management as of December 31, 2008.

Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, audited the Company's Consolidated Financial Statements for the year ended December 31, 2008, and as stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

/s/ Robert G. McFarlane

Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 11, 2009

/s/ Darren Entwistle

Darren Entwistle
President
and Chief Executive Officer
February 11, 2009

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the accompanying consolidated statements of financial position of TELUS Corporation and subsidiaries (the Company) as of December 31, 2008 and 2007, and the consolidated statements of income and other comprehensive income, retained earnings and accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of TELUS Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2009, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 11, 2009

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the internal control over financial reporting of TELUS Corporation and subsidiaries (the Company) as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008, of the Company and our report dated February 11, 2009, expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 11, 2009

consolidated statements of income and other comprehensive income

Years ended December 31 (millions except per share amounts)	2008	2007
OPERATING REVENUES	**$ 9,653**	$ 9,074
OPERATING EXPENSES		
Operations	**5,815**	5,465
Restructuring costs *(Note 7)*	**59**	20
Depreciation	**1,384**	1,355
Amortization of intangible assets	**329**	260
	7,587	7,100
OPERATING INCOME	**2,066**	1,974
Other expense, net	**36**	36
Financing costs *(Note 8)*	**463**	440

INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	**1,567**	1,498
Income taxes *(Note 9)*	**436**	233
Non-controlling interests	**3**	7
NET INCOME AND COMMON SHARE AND NON-VOTING SHARE INCOME	**1,128**	1,258
OTHER COMPREHENSIVE INCOME *(Note 19(c))*		
Change in unrealized fair value of derivatives designated as cash flow hedges	**(26)**	82
Foreign currency translation adjustment arising from translating financial statements of self-sustaining foreign operations	**2**	(7)
Change in unrealized fair value of available-for-sale financial assets	**(2)**	(1)
	(26)	74
COMPREHENSIVE INCOME	**$ 1,102**	$ 1,332
NET INCOME PER COMMON SHARE AND NON-VOTING SHARE *(Note 10)*		
– Basic	**$ 3.52**	$ 3.79
– Diluted	**$ 3.51**	$ 3.76
DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE *(Note 11)*	**$ 1.825**	$ 1.575
TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING		
– Basic	**320**	332
– Diluted	**322**	334

The accompanying notes are an integral part of these consolidated financial statements

consolidated statements of retained earnings and accumulated other comprehensive income (loss)

	2008			2007		
Years ended December 31 (millions)	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**	**Retained earnings**	**Accumulated other comprehensive income (loss)**	**Total**
BALANCE AT BEGINNING OF PERIOD	**$ 1,458**	**$ (104)**	**$ 1,354**	$ 1,200	$ (178)	$ 1,022
Income	**1,128**	**(26)**	**1,102**	1,258	74	1,332
	2,586	**(130)**	**2,456**	2,458	(104)	2,354
Common Share and Non-Voting Share dividends paid, or payable, in cash *(Note 11)*	**(584)**	**—**	**(584)**	(521)	—	(521)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital *(Note 19(f))*	**(143)**	**—**	**(143)**	(483)	—	(483)
Other	**—**	**—**	**—**	4	—	4
BALANCE AT END OF PERIOD *(Note 19(a))*	**$ 1,859**	**$ (130)**	**$ 1,729**	$ 1,458	$ (104)	$ 1,354

The accompanying notes are an integral part of these consolidated financial statements

consolidated statements of financial position

As at December 31 (millions)	**2008**	**2007**
ASSETS		
Current Assets		
Cash and temporary investments, net	**$ 4**	$ 20
Short-term investments	**—**	42
Accounts receivable *(Notes 14, 21(b))*	**966**	711
Income and other taxes receivable	**25**	121
Inventories *(Note 21(b))*	**333**	243
Prepaid expenses and other *(Note 21(b))*	**220**	200
Derivative assets *(Note 5(h))*	**10**	4
	1,558	1,341
Capital Assets, Net *(Note 15)*		
Property, plant, equipment and other	**7,317**	7,196
Intangible assets subject to amortization	**1,317**	959
Intangible assets with indefinite lives	**3,849**	2,967
	12,483	11,122
Other Assets		
Deferred charges *(Note 21(b))*	**1,513**	1,318
Investments	**42**	39

Goodwill *(Note 16)*	**3,564**	3,168
	5,119	4,525
	$ 19,160	$ 16,988
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities *(Note 21(b))*	**$ 1,465**	$ 1,476
Income and other taxes payable	**163**	7
Restructuring accounts payable and accrued liabilities *(Note 7)*	**51**	35
Dividends payable	**151**	—
Advance billings and customer deposits *(Note 21(b))*	**689**	632
Current maturities of long-term debt *(Note 18)*	**4**	5
Current portion of derivative liabilities *(Note 5(h))*	**75**	27
Current portion of future income taxes	**459**	504
	3,057	2,686
Long-Term Debt *(Note 18)*	**6,348**	4,584
Other Long-Term Liabilities *(Note 21(b))*	**1,295**	1,718
Future Income Taxes	**1,255**	1,048
Non-Controlling Interests	**23**	26
Shareholders' Equity *(Note 19)*	**7,182**	6,926
	$ 19,160	$ 16,988

Commitments and Contingent Liabilities *(Note 20)*

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Directors:

Director:	Director:
/s/ Brian F. MacNeill	/s/ Brian A. Canfield
Brian F. MacNeill	Brian A. Canfield

consolidated statements of cash flows

Years ended December 31 (millions)	**2008**	**2007**
OPERATING ACTIVITIES		
Net income	**$ 1,128**	$ 1,258
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	**1,713**	1,615
Future income taxes	**161**	377
Share-based compensation *(Note 12(a))*	**5**	96
Net employee defined benefit plans expense	**(102)**	(92)
Employer contributions to employee defined benefit plans	**(104)**	(93)
Restructuring costs, net of cash payments *(Note 7)*	**16**	(18)
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net	**3**	4
Net change in non-cash working capital *(Note 21(c))*	**(1)**	25
Cash provided by operating activities	**2,819**	3,172
INVESTING ACTIVITIES		
Capital expenditures excluding advanced wireless services spectrum licences *(Notes 6, 15)*	**(1,859)**	(1,770)
Payment for advanced wireless services spectrum licences *(Note 6)*	**(882)**	—
Acquisitions *(Note 16)*	**(696)**	—
Proceeds from the sale of property and other assets	**13**	7
Change in non-current materials and supplies, purchase of investments and other	**(9)**	(9)
Cash used by investing activities	**(3,433)**	(1,772)
FINANCING ACTIVITIES		
Common Shares and Non-Voting Shares issued	**—**	1
Dividends to shareholders *(Note 11)*	**(433)**	(521)
Purchase of Common Shares and Non-Voting Shares for cancellation *(Note 19(f))*	**(280)**	(750)
Long-term debt issued *(Notes 18, 21(c))*	**12,983**	7,763
Redemptions and repayment of long-term debt *(Notes 18, 21(c))*	**(11,667)**	(7,857)
Dividends paid by a subsidiary to non-controlling interests	**(5)**	(4)

Other	—	(1)
Cash provided (used) by financing activities	**598**	(1,369)
CASH POSITION		
Increase (decrease) in cash and temporary investments, net	**(16)**	31
Cash and temporary investments, net, beginning of period	**20**	(11)
Cash and temporary investments, net, end of period	**$ 4**	$ 20
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest (paid) *(Note 21(c))*	**$ (457)**	$ (454)
Interest received	**$ 3**	$ 42
Income taxes (inclusive of Investment Tax Credits *(Note 9)*) (paid) received, net	**$ (10)**	$ 123

The accompanying notes are an integral part of these consolidated financial statements

notes to consolidated financial statements

DECEMBER 31, 2008

TELUS Corporation was incorporated under the *Company Act* (British Columbia) on October 26, 1998, under the name BCT.TELUS Communications Inc. (BCT). On January 31, 1999, pursuant to a court-approved plan of arrangement under the *Canada Business Corporations Act* among BCT, BC TELECOM Inc. (BC TELECOM) and the former Alberta-based TELUS Corporation (TC), BCT acquired all of the shares of BC TELECOM and TC in exchange for Common Shares and Non-Voting Shares of BCT. Subsequently on January 31, 1999, BC TELECOM was dissolved. On May 3, 2000, BCT changed its name to TELUS Corporation and in February 2005, the Company transitioned under the *Business Corporations Act* (British Columbia), successor to the *Company Act* (British Columbia). TELUS Corporation maintains its registered office at Floor 21, 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7.

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications service provider in Western Canada and provides data, Internet protocol, voice and wireless services to Central and Eastern Canada.

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1 summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are expressed in Canadian dollars.

The terms TELUS or Company are used to mean TELUS Corporation and, where the context of the narrative permits, or requires, its subsidiaries.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of the Company's subsidiaries, of which the principal one is TELUS Communications Inc. Currently, through the TELUS Communications Company partnership and the TELE-MOBILE COMPANY partnership, TELUS Communications Inc. includes substantially all of the Company's Wireline segment's operations and all of the Wireless segment's operations.

The financing arrangements of the Company and all of its subsidiaries do not impose restrictions on inter-corporate dividends.

On a continuing basis, TELUS Corporation reviews its corporate organization and effects changes as appropriate so as to enhance its value. This process can, and does, affect which of the Company's subsidiaries are considered principal subsidiaries at any particular point in time.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities at the date of the financial statements; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include:

- the key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization;
- the allowance for doubtful accounts;
- the allowance for inventory obsolescence;
- the estimated useful lives of assets;
- the recoverability of tangible assets;
- the recoverability of intangible assets with indefinite lives;
- the recoverability of long-term investments;
- the recoverability of goodwill;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- the accruals for Canadian Radio-television and Telecommunications Commission (CRTC) deferral account liabilities; and
- certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets.

(c) Revenue recognition

The Company earns the majority of its revenue (voice local, voice long distance, data (including data and information technology managed services) and wireless network) from access to, and usage of, the Company's telecommunications infrastructure. The majority of the balance of the Company's revenue (other and wireless equipment) arises from providing products and services facilitating access to, and usage of, the

Company's telecommunications infrastructure.

The Company offers complete and integrated solutions to meet its customers' needs. These solutions may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time. As appropriate, these multiple element arrangements are separated into their component accounting units, consideration is measured and allocated amongst the accounting units based upon their relative fair values and then the Company's relevant revenue recognition policies are applied to the accounting units.

Multiple contracts with a single customer are normally accounted for as separate arrangements. In instances where multiple contracts are entered into with a customer in a short period of time, they are reviewed as a group to ensure that, similar to multiple element arrangements, relative fair values are appropriate.

The Company's revenues are recorded net of any value-added, sales and/or use taxes billed to the customer concurrent with a revenue-producing transaction.

Voice local, voice long distance, data and wireless network: The Company recognizes revenues on the accrual basis and includes an estimate of revenues earned but unbilled. Wireline and wireless service revenues are recognized based upon usage of the Company's network and facilities and upon contract fees.

Advance billings are recorded when billing occurs prior to rendering the associated service; such advance billings are recognized as revenue in the period in which the services are provided. Similarly, and as appropriate, upfront customer activation and connection fees, along with the corresponding direct costs not in excess of the revenues, are deferred and recognized over the average expected term of the customer relationship.

When the Company receives no identifiable, separable benefit for consideration given to a customer (*e.g.* discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense.

The Company follows the liability method of accounting for its quality of service rate rebate amounts that arise from the jurisdiction of the CRTC.

The CRTC has established a portable subsidy mechanism to subsidize Local Exchange Carriers, such as the Company, that provide residential service to high cost serving areas. The CRTC has determined the per line/per band portable subsidy rate for all Local Exchange Carriers. The Company recognizes the portable subsidy on an accrual basis by applying the subsidy rate to the number of residential network access lines it has in high cost serving areas, as further discussed in Note 4(c). Differences, if any, between interim and final subsidy rates set by the CRTC, are accounted for as a change in estimate in the period in which the CRTC finalizes the subsidy rate.

Other and wireless equipment: The Company recognizes product revenues, including wireless handsets sold to re-sellers and customer premises equipment, when the products are delivered and accepted by the end-user customers. Revenues from operating leases of equipment are recognized on a systematic and rational basis (normally a straight-line basis) over the term of the lease. When the Company receives no identifiable, separable benefit for consideration given to a customer (*e.g.* discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense.

Non-high cost serving area deferral account: On May 30, 2002, and on July 31, 2002, the CRTC issued Decision 2002-34 and Decision 2002-43, respectively, pronouncements that affected the Company's wireline revenues initially for the four-year periods beginning June 1, 2002, and August 1, 2002, respectively; subsequently the pronouncements were extended by one year. In an effort to foster competition for residential basic service in non-high cost serving areas, the concept of a deferral account mechanism was introduced by the CRTC, as an alternative to mandating price reductions.

The deferral account arises from the CRTC requiring the Company to defer the statement of income recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. The revenue deferral was based on the rate of inflation (as measured by a chain-weighted Gross Domestic Product Price Index), less a productivity offset, and other exogenous factors that were associated with allowed recoveries in previous price cap regimes that have now expired. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs in qualifying non-high cost serving areas, rate reductions (including those provided to competitors as required in Decision 2002-34 and Decision 2002-43) and/or rebates to customers. To the extent that a balance remains in the deferral account, interest expense of the Company is required to be accrued at the Company's short-term cost of borrowing.

The Company has adopted the liability method of accounting for the deferral account. This results in the Company recording a liability to the extent that activities it has undertaken, realized rate reductions for Competitor Services and other future qualifying events do not extinguish the balance of the deferral account, as further discussed in Note 20(a) and quantified in Note 21(b). This also resulted in the Company continuing to record incremental liability amounts, subject to reductions for the mitigating activities, during the Decisions' initial four-year periods. Other than for the interest accrued on the balance of the deferral account, which would be included in financing costs, substantially all statement of income and other comprehensive income effects of the deferral account are recorded through operating revenues. The CRTC can direct that the Company undertake activities drawing down the deferral account that would not affect the statement of income and other comprehensive income; the financial statement impacts of those activities would be contingent on what the CRTC directed.

(d) Cost of acquisition and advertising costs

Costs of acquiring customers, which include the total cost of hardware subsidies, commissions, advertising and promotion related to the initial customer acquisition, are expensed as incurred and are included in the Consolidated Statements of Income and Other Comprehensive Income as a component of Operations expense. Costs of advertising production, airtime and space are expensed as incurred.

(e) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production, or in the case of serviceable property, plant and equipment, are included in the appropriate property group and are depreciated over its estimated useful life.

(f) Depreciation and amortization

Assets are depreciated on a straight-line basis over their estimated useful life as determined by a continuing program of studies. Depreciation includes amortization of assets under capital leases and amortization of leasehold improvements. Leasehold improvements are normally amortized over the lesser of their expected average service life or the term of the lease. Intangible assets with finite lives (intangible assets subject to amortization) are amortized on a straight-line basis over their estimated lives; estimated lives are reviewed at least annually and are adjusted as appropriate. The continuing program of asset life studies considers such items as timing of technological obsolescence, competitive pressures and future infrastructure utilization plans; such considerations could also indicate that carrying values of assets may not be recoverable. If the carrying values of assets were not considered recoverable, an impairment provision (measured at the amount by which the carrying values of the assets exceed their fair values) would be recorded.

Estimated useful lives for the majority of the Company's capital assets subject to depreciation and amortization are as follows:

	Estimated useful lives[1]
Property, plant, equipment and other	
Network assets	
Outside plant	17 to 40 years
Inside plant	5 to 15 years
Wireless site equipment	6.5 to 8 years
Balance of depreciable property, plant, equipment and other	4 to 20 years
Intangible assets subject to amortization	
Subscriber base	
Wireline	40 years
Wireless	7 years
Software	3 to 5 years
Access to rights-of-way and other	8 to 30 years

(1) The composite depreciation rate for the year ended December 31, 2008, was 5.8% (2007 — 6.0%). The rate is calculated by dividing depreciation expense by an average gross book value of depreciable assets for the reporting period. A result of this methodology is that the composite depreciation rate will be lower in a period that has a higher proportion of fully depreciated assets remaining in use.

The Company chose to depreciate and amortize its assets on a straight-line basis as it believes that this method better reflects the consumption of resources related to the economic lifespan of the assets than use of an accelerated method and thus is more representative of the economic substance of the underlying use of the assets.

The carrying value of intangible assets with indefinite lives, and goodwill, is periodically tested for impairment using a two-step impairment test. The frequency of the impairment test generally is the reciprocal of the stability of the relevant

events and circumstances, but intangible assets with indefinite lives and goodwill must, at a minimum, be tested annually; the Company has selected December as its annual test time. No impairment amounts arose from the December 2008 and December 2007 annual tests. The test is applied to each of the Company's two reporting units (the reporting units being identified in accordance with the criteria in the Canadian Institute of Chartered Accountants (CICA) Handbook section for intangible assets and goodwill): Wireline and Wireless.

The Company assesses its goodwill by applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units. Consistent with current industry-specific valuation methods, a combination of the discounted cash flow approach, the market comparable approach and analytical review of industry and Company-specific facts is used in determining the fair value of the Company's reporting units.

(g) Translation of foreign currencies

Trade transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date with any resulting gain or loss being included in the Consolidated Statements of Income and Other Comprehensive Income as Financing costs, as set out in Note 8. Hedge accounting is applied in specific instances as further discussed in

Note 1(i).

The Company has minor foreign subsidiaries that are considered to be self-sustaining. Accordingly, foreign exchange gains and losses arising from the translation of the minor foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income, as set out in Note 19(c).

(h) Financial instruments — recognition and measurement

In respect of the recognition and measurement of financial instruments, the Company has adopted the following policies:

Financial instrument	Classified as available-for-sale or held as part of a cash flow hedging relationship[1]	Classified as held for trading[1] [2]	Company's reason for classification selection
· Short-term marketable security investments[3]		X	· The Company has selected this method as it better reflects management's investment intentions
· Long-term investments not subject to significant influence of the Company[3]	X		· The Company has selected classification as available-for-sale as it better reflects management's investment intentions
· Stand-alone derivatives which are a part of an established and documented cash flow hedging relationship	X		· The Company believes that classification as held for hedging results in a better matching of the change in the fair value with the risk exposure being hedged

(1) The distinction between classification as available-for-sale (or held as part of a cash flow hedging relationship) or held for trading is that *unrealized* changes in the fair values of financial instruments classified as available-for-sale, or the effective portion of *unrealized* changes in the fair values of financial instruments held for hedging, are included in other comprehensive income and *unrealized* changes in the fair values of financial instruments classified as held for trading are included in net income.

(2) Certain financial instruments that are not required to be classified as held for trading may be classified as held for trading if the Company so chooses.

(3) In respect of investments in securities for which the fair values can be reliably measured, the Company determines the classification on an instrument-by-instrument basis at time of initial recognition.

- Accounts receivable that are available-for-sale to an arm's-length securitization trust are accounted for as loans and receivables. The Company has selected this method as the benefits that would have been expected to arise from using the available-for-sale method were not expected to exceed the costs of selecting and implementing that method.
- Regular-way purchases or sales (those which require actual delivery of financial assets or financial liabilities) are recognized on the trade date. The Company has selected this method as it is consistent with the mandatory trade-date accounting required for derivative instruments.
- Transaction costs, other than in respect of held for trading items, are added to the initial fair value of the acquired financial asset or financial liability. The Company has selected this method as it believes that this results in a better matching of the transaction costs with the periods benefiting from the transaction costs.
- In respect of hedges of anticipated transactions, which in the Company's specific instance currently relates to inventory purchase commitments, hedge gains/losses will be included in the cost of the inventory and will be expensed when the inventory is sold. The Company has selected this method as it believes that a better matching with the risk exposure being hedged is achieved.

(i) Hedge accounting

General: The Company applies hedge accounting to the financial instruments used to:

- establish designated currency hedging relationships for its U.S. Dollar denominated long-term debt future cash outflows (semi-annual interest payments and principal payments at maturity), as set out in Note 5 and further discussed in Note 18(b);

- establish designated currency hedging relationships for certain U.S. Dollar denominated future purchase commitments, as set out in Note 5; and

- fix the compensation cost arising from specific grants of restricted stock units, as set out in Note 5 and further discussed in Note 12(c).

Hedge accounting: The purpose of hedge accounting, in respect of the Company's designated hedging relationships, is to ensure that counterbalancing gains and losses are recognized in the same periods. The Company chose to apply hedge accounting, as it believes this is more representative of the economic substance of the underlying transactions.

In order to apply hedge accounting, a high correlation (which indicates effectiveness) is required in the offsetting changes in the values of the financial instruments (the hedging items) used to establish the designated hedging relationships and all, or a part, of the asset, liability or

transaction having an identified risk exposure that the Company has taken steps to modify (the hedged items). The Company assesses the anticipated effectiveness of designated hedging relationships at inception and for each reporting period thereafter. A designated hedging relationship is considered effective by the Company if the following critical terms match between the hedging item and the hedged item: the notional amount of the hedging item and the principal of the hedged item; maturity dates; payment dates; and interest rate index (if, and as, applicable). As set out in Note 5(i), any ineffectiveness, such as from a difference between the notional amount of the hedging item and the principal of the hedged item, or if a previously effective designated hedging relationship becomes ineffective, is reflected in the Consolidated Statements of Income and Other Comprehensive Income as Financing costs if in respect of long-term debt and as Operations expense if in respect of U.S. Dollar denominated future purchase commitments or share-based compensation.

Hedging assets and liabilities: In the application of hedge accounting, an amount (the hedge value) is recorded on the Consolidated Statements of Financial Position in respect of the fair value of the hedging items. The net difference, if any, between the amounts recognized in the determination of net income and the amount necessary to reflect the fair value of the designated cash flow hedging items on the Consolidated Statements of Financial Position is effectively recognized as a component of other comprehensive income, as set out in Note 19(c).

In the application of hedge accounting to U.S. Dollar denominated long-term debt future cash outflows, the amount recognized in the determination of net income is the amount that counterbalances the difference between the Canadian dollar equivalent of the value of the hedged items at the rate of exchange at the statement of financial position date and the Canadian dollar equivalent of the value of the hedged items at the rate of exchange in the hedging items.

In the application of hedge accounting to the compensation cost arising from share-based compensation, the amount recognized in the determination of net income is the amount that counterbalances the difference between the quoted market price of the Company's Non-Voting Shares at the statement of financial position date and the price of the Company's Non-Voting Shares in the hedging items.

(j) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. The amounts recognized in respect of future income tax assets and liabilities are based upon the expected timing of the reversal of temporary differences or usage of tax losses and application of the substantively enacted tax rates at the time of reversal or usage.

The operations of the Company are complex and the related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company only recognizes the income tax benefit of an uncertain tax position when it is more likely than not that the ultimate determination of the tax treatment of the position will result in that benefit being realized. The Company accrues for interest charges on current tax liabilities that have not been funded, which would include interest and penalties arising from uncertain tax positions. The Company includes such charges as a component of Financing costs.

The Company's research and development activities may be eligible to earn Investment Tax Credits; the determination of eligibility is a complex matter. The Company only recognizes the Investment Tax Credits when there is reasonable assurance that the ultimate determination of the eligibility of the Company's research and development

activities will result in the Investment Tax Credits being received. When there is reasonable assurance that the Investment Tax Credits will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate, as set out in Note 9.

(k) Share-based compensation

Canadian GAAP requires, for share option awards granted after 2001, that a fair value be determined for share option awards at the date of grant and that such fair value be recognized in the financial statements. Proceeds arising from the exercise of share option awards are credited to share capital, as are the recognized fair values of the exercised share option awards.

Share option awards which have a net-equity settlement feature, as set out in Note 12(b), and which do *not* also have a net-cash settlement feature, are accounted for as equity instruments. The Company has selected the equity instrument fair value method of accounting for the net-equity settlement feature so as to align with the accounting treatment afforded to the associated share option awards.

Share option awards which have a net-cash settlement feature, as set out in Note 12(b), are accounted for as liability instruments. If share option awards which have the net-cash settlement feature and which were granted subsequent to 2001 are settled using other than the net-cash settlement feature, they would revert to be being accounted for as equity instruments.

In respect of restricted stock units, as set out in Note 12(c), the Company accrues a liability equal to the product of the vesting restricted stock units multiplied by the fair market value of the corresponding shares at the end of the reporting period (unless hedge accounting is applied, as set out in Note 1(i)). The expense for restricted stock units that do not ultimately vest is reversed against the expense that had been previously recorded in their respect.

When share-based compensation vests in one amount at a future point in time (cliff vesting), the expense is recognized by the Company in

the Consolidated Statements of Income and Other Comprehensive Income on a straight-line basis over the vesting period. When share-based compensation vests in tranches (graded vesting), the expense is recognized by the Company in the Consolidated Statements of Income and Other Comprehensive Income using the accelerated expense attribution method.

(l) Employee future benefit plans

The Company accrues for its obligations under employee defined benefit plans, and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over the expected average remaining service period of active employees of the plan, as are past service costs and transitional assets and liabilities.

The Company uses defined contribution accounting for the Telecommunication Workers Pension Plan and the British Columbia Public Service Pension Plan that cover certain of the Company's employees.

(m) Cash and temporary investments, net

Cash and temporary investments, which may include investments in money market instruments that are purchased three months or less from maturity, are presented net of outstanding items including cheques written but not cleared by the bank as at the statement of financial position date. Cash and temporary investments, net, are classified as a liability on the statement of financial position when the amount of the cheques written but not cleared by the bank exceeds the amount of the cash and temporary investments. When cash and temporary investments, net, are classified as a liability, they may also include overdraft amounts drawn on the Company's bilateral bank facilities, which revolve daily and are discussed further in Note 17.

(n) Sales of receivables

Transfers of receivables in securitization transactions are recognized as sales when the Company is deemed to have surrendered control over the transferred receivables and consideration, other than for its beneficial interests in the transferred receivables, has been received. When the Company sells its receivables, it retains reserve accounts, which are retained interests in the securitized receivables, and servicing rights. When a transfer is considered a sale, the Company derecognizes all receivables sold, recognizes at fair value the assets received and the liabilities incurred and records the gain or loss on sale in the Consolidated Statements of Income and Other Comprehensive Income as Other expense, net. The amount of gain or loss recognized on the sale of receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the receivables sold and the retained interests based upon their relative fair market value at the sale date. The Company estimates the fair value for its retained interests based on the present value of future expected cash

flows using management's best estimates of the key assumptions (credit losses, the weighted average life of the receivables sold and discount rates commensurate with the risks involved).

(o) Inventories

The Company's inventory consists primarily of wireless handsets, parts and accessories and communications equipment held for resale. Inventories are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories. See Note 2(c) and Note 21(b).

(p) Capital assets

General: Capital assets are recorded at historical cost and, with respect to self-constructed property, plant, equipment and other, include materials, direct labour and applicable overhead costs. With respect to internally developed, internal-use software, recorded historical costs include materials, direct labour and direct labour-related costs. Where property, plant, equipment and other construction projects exceed $50 million and are of a sufficiently long duration (generally, longer than twelve months), an amount is capitalized for the cost of funds used to finance construction. The rate for calculating the capitalized financing costs is based on the Company's one-year cost of borrowing.

When property, plant and/or equipment are sold by the Company, the historical cost less accumulated depreciation is netted against the sale proceeds and the difference is included in the Consolidated Statements of Income and Other Comprehensive Income as Other expense, net.

Asset retirement obligations: Liabilities are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property, plant and equipment (primarily certain items of outside plant and wireless site equipment) when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

(q) Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

For the year ended December 31, 2008, real estate and vehicle operating lease expenses, which are net of the amortization of the deferred gain on the sale-leaseback of buildings, were $225 million (2007 — $211 million). The unamortized balances of the deferred gains on the sale-leaseback of buildings are set out in Note 21(b).

(r) Investments

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

The Company accounts for its other investments as available-for-sale at their fair values unless the investment securities do not have quoted market prices in an active market, in which case the Company uses the cost basis of accounting whereby investments are initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable. The cost of investments sold or amounts reclassified out of other comprehensive income into earnings are determined on a specific identification basis.

Unless there is an other than temporary decline in the value of an available-for-sale investment, carrying values for available-for-sale investments are adjusted to estimated fair values with such adjustment being included in the Consolidated Statements of Income and Other Comprehensive Income as a component of other comprehensive income. When there is an other than temporary decline in the value of the investment, the carrying values of investments accounted for using the equity, available-for-sale and cost methods are reduced to estimated fair values with such reduction being included in the Consolidated Statements of Income and Other Comprehensive Income as Other expense, net.

(s) Comparative amounts

Certain of the comparative amounts have been reclassified to conform to the presentation adopted currently.

2 accounting policy developments

(a) Convergence with International Financial Reporting Standards as issued by the International Accounting Standards Board

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011, the date which the Company has selected for adoption.

Canadian GAAP will be fully converged with IFRS-IASB through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; and standards not subject to a joint-convergence project have been exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. As illustrated in Note 2(b)-(e), the first convergence method may, or will, result in the Company either having the option to, or being required to, effectively, changeover certain accounting policies to IFRS-IASB prior to 2011. As discussed further in Note 22(g), the United States' Financial Accounting Standards Board and the International Accounting Standards Board have completed a joint-project on business combinations and non-controlling interests.

The International Accounting Standards Board's work plan currently, and expectedly, has projects underway that are expected to result in new pronouncements that continue to evolve IFRS-IASB, and, as a result IFRS-IASB as at the transition date is expected to differ from its current form.

In November 2008, the United States Securities and Exchange Commission issued a proposed "road map", with seven milestones, that would permit certain United States reporting issuers to use IFRS-IASB in their filings. This proposal is a significant development as it also contemplates mandatory usage of IFRS-IASB by United States reporting issuers as early as 2014 (such a mandatory usage decision — Milestone 6 — is anticipated to be made by the United States Securities and Exchange Commission in 2011). It is not possible to currently assess the impact, if any, this proposal will have on the International Accounting Standards Board's work plan; however, Milestone 1 is a requirement for improvements in accounting standards and a subsequent consideration by the United States Securities and Exchange Commission of whether IFRS-IASB are of high quality and sufficiently comprehensive.

The Company is in the process of assessing the impacts on itself of the Canadian convergence initiative. There are several phases that the Company will have to complete on the path to changing over to IFRS-IASB:

· The initial impact assessment and scoping phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB as relevant to the Company's specific instance.

- The following key elements phase includes the identification, evaluation and selection of the accounting policies necessary for the Company to changeover to IFRS-IASB. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training.

- The subsequent embedding phase will integrate the solutions into the Company's underlying financial system and processes that are necessary for the Company to changeover to IFRS-IASB.

The Company is required to qualitatively disclose its changeover impacts in conjunction with its 2008 and 2009 financial reporting. As activities progress through 2010, the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences is expected to increase.

In its 2010 fiscal year, the fiscal year immediately prior to the one in which it commences reporting under IFRS-IASB, the Company will, effectively, have to maintain two parallel books of account: one set of books of account will be prepared using the contemporary version of Canadian GAAP and would be used for contemporaneous reporting; one set of books of account will be prepared using the contemporary version of IFRS-IASB and would be used for reporting of comparative amounts during the Company's 2011 fiscal year.

Initial impact assessment and scoping phase — status : Based upon the then current state of IFRS-IASB, in the first quarter of 2008 this phase utilized a diagnostic process and identified a modest number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to changeover to IFRS-IASB. The IASB has activities currently underway which may, or will, change IFRS-IASB and such change may, or will, impact the Company; the Company will assess any such change as a component of its key elements phase.

Key elements phase — status: Currently underway are the identification, evaluation and selection of the accounting policies necessary for the Company to changeover to IFRS-IASB; consideration of impacts on operational elements such

as information technology and internal control over financial reporting are integral to this process. Targeted training activities, which leveraged both internal and external resources, occurred during the current reporting period.

Although its impact assessment activities are well underway and progressing ahead of plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences, other than as set out in Note 2(b)-(e).

(b) Financial instruments — disclosure; presentation

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for financial instrument *disclosure* were replaced with new recommendations (CICA Handbook Section 3862); the existing recommendations for financial instrument *presentation* were carried forward, unchanged (as CICA Handbook Section 3863).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for financial instrument disclosures apply to the Company. As set out in Note 5, the new recommendations result in incremental disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the statement of financial position date, and how an entity manages those risks. The transitional provisions provide that certain of the incremental disclosures need not be provided on a comparative basis in the year of adoption.

(c) Inventories

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for accounting for inventories were replaced with new recommendations (CICA Handbook Section 3031).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for accounting for inventories apply to the Company. The new recommendations provide more guidance on the measurement and disclosure requirements for inventories; significantly, the new recommendations allow the reversals of previous write-downs to net realizable value where there is a subsequent increase in the value of inventories. The Company's results of operations and financial position were not materially affected by the new recommendations.

(d) Goodwill and intangible assets

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for goodwill and intangible assets and research and development costs were replaced with new recommendations (CICA Handbook Section 3064).

Commencing with the Company's 2009 fiscal year, the new recommendations of the CICA for goodwill and intangible assets will apply to the Company. The new recommendations provide extensive guidance on when expenditures qualify for recognition as intangible assets. The Company's results of operations and financial position are not expected to be materially affected by the new recommendations.

(e) Business combinations and non-controlling interests

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for business

combinations and consolidation financial statements will be replaced with new recommendations for business combinations (CICA Handbook Section 1582), consolidations (CICA Handbook Section 1601) and non-controlling interests CICA Handbook Section 1602).

Generally, the new recommendations result in measuring business acquisitions at the fair value of the acquired business and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording fair values attributable to non-controlling interests). Unlike the corresponding new U.S. GAAP (see Note 22(g)), which requires the recognition of the fair value of goodwill attributable to non-controlling interests, both the new Canadian GAAP recommendations and IFRS-IASB allow the choice of whether or not to recognize the fair value of goodwill attributable to non-controlling interests on an acquisition-by-acquisition basis.

Measuring business acquisitions at fair value will, among other things, result in:

- acquisition costs being expensed;
- acquisition-created restructuring costs being expensed;
- contingent consideration, which is accounted for as a financial liability, being measured at fair value at the time of the acquisition with subsequent changes in its fair value being included in determining the results of operations; and
- changes in non-controlling ownership interests subsequent to the parent company's acquisition of control, and not resulting in the parent company's loss of control, being accounted for as capital transactions.

Effective January 1, 2009, the Company early adopted the new recommendations and did so in accordance with the transitional provisions; the Company would otherwise have been required to adopt the new recommendations effective January 1, 2011.

Whether the Company will be materially affected by the new recommendations will depend upon the specific facts of business combinations, if any, occurring subsequent to the Company's adoption of the new recommendations. The Company's consolidated financial statements will, however, be subject to a small number of retrospectively applied non-controlling interest-related presentation and disclosure changes:

- the Consolidated Statements of Financial Position will recognize non-controlling interest as a separate component of shareholders' equity (December 31, 2008, shareholders' equity to be reported post-adoption would be $7,205 million); and
- the Consolidated Statements of Income and Other Comprehensive Income will present the allocation of net income and other comprehensive income between the Company's shareholders and non-controlling interests rather than reflecting the non-controlling interest in the results of operations as a deduction in arriving at net income and other comprehensive income.

Had these presentation and disclosure changes been applied to the Consolidated Statements of Income and Other Comprehensive Income for the years ended December 31, 2008 and 2007, the result would be as follows:

	2008		2007	
Years ended December 31 (millions except per share amounts)	**As currently reported**	**To be reported post-adoption**	**As currently reported**	**To be reported post-adoption**
Operating revenues	$ 9,653	$ 9,653	$ 9,074	$ 9,074
Operating expenses				
Operations	5,815	5,815	5,465	5,465
Restructuring costs	59	59	20	20
Depreciation	1,384	1,384	1,355	1,355
Amortization of intangible assets	329	329	260	260
	7,587	7,587	7,100	7,100
Operating income	2,066	2,066	1,974	1,974
Other expense, net	36	36	36	36
Financing costs	463	463	440	440
Income before income taxes (and non-controlling interests) [1]	1,567	1,567	1,498	1,498
Income taxes	436	436	233	233
(Non-controlling interests)[1]	3	N/A	7	N/A
Net income (and Common Share and Non-Voting Income) [1]	1,128	1,131	1,258	1,265
Other Comprehensive Income				
Change in unrealized fair value of derivatives designated as cash flow hedges	(26)	(26)	82	82
Foreign currency translation adjustment arising from translating financial statements of self-sustaining foreign operations	2	2	(7)	(7)
Change in unrealized fair value of available-for-sale financial assets	(2)	(2)	(1)	(1)
	(26)	(26)	74	74
Comprehensive Income	$ 1,102	$ 1,105	$ 1,332	$ 1,339
Net income attributable to:				
Common Shares and Non-Voting Shares		$ 1,128		$ 1,258

Non-controlling interests		3		7
		$ 1,131		$ 1,265
Total comprehensive income attributable to:				
Common Shares and Non-Voting Shares		$ 1,102		$ 1,332
Non-controlling interests		3		7
		$ 1,105		$ 1,339
Net income per Common Share and Non-Voting Share				
- Basic	$ 3.52	$ 3.52	$ 3.79	$ 3.79
- Diluted	$ 3.51	$ 3.51	$ 3.76	$ 3.76

(1) Captioning in parentheses will be deleted post-adoption.

notes to consolidated financial statements

3 capital structure financial policies

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized accounts receivable in the definition of capital.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of sales of trade receivables to an arm's-length securitization trust.

The Company monitors capital on a number of bases, including: net debt to Earnings Before Interest, Taxes, Depreciation and Amortization — excluding restructuring costs (EBITDA — excluding restructuring costs); and dividend payout ratio of sustainable net earnings.

Net debt to EBITDA — excluding restructuring costs is calculated as net debt at the end of the period divided by twelve-month trailing EBITDA — excluding restructuring costs. Net debt is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; the calculation of net debt is as set out in the following schedule. Net debt is one component of a ratio used to determine compliance with debt covenants. The calculation of EBITDA — excluding restructuring costs is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; the calculation of EBITDA — excluding restructuring costs is as set out in the following schedule. This measure, historically, is substantially the same as the leverage ratio covenant in the Company's credit facilities.

Dividend payout ratio of sustainable net earnings is calculated as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the twelve-month trailing period excluding tax-related adjustments and the statement of income and other comprehensive income impacts of the share options with the net-cash settlement feature, which are discussed further in Note 12(b).

During 2008, the Company's strategy, which was unchanged from 2007, was to maintain the financial policies and guidelines set out in the following schedule. The Company believes that these financial policies and guidelines, which are reviewed annually, are currently at the optimal level and, by maintaining credit ratings in the range of BBB+ to A-, or the equivalent, provide reasonable access to capital.

As at, or twelve-month periods ended, December 31 ($ in millions)	Policies and guidelines	2008	2007
Components of debt and coverage ratios			
Net debt[1]		**$ 7,286**	$ 6,141
EBITDA – excluding restructuring costs[2]		**$ 3,838**	$ 3,609
Net interest cost[3]		**$ 463**	$ 440
Debt ratio			
Net debt to EBITDA – excluding restructuring costs	1.5 – 2.0	**1.9**	1.7
Coverage ratios			
Interest coverage on long-term debt[4]		**4.3**	4.2
EBITDA – excluding restructuring costs interest coverage[5]		**8.3**	8.2
Other measure			
Dividend payout ratio of sustainable net earnings	45 – 55%	**54%**	47%

(1) Net debt is calculated as follows:

	2008	2007

Long-term debt (Note 18)	**$ 6,352**	$ 4,589
Debt issuance costs netted against long-term debt	**28**	30
Derivative liabilities, net	**778**	1,179
Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. Dollar denominated debt (excluding tax effects)	**(168)**	(137)
Cash and temporary investments, net	**(4)**	(20)
Cumulative proceeds from accounts receivable securitization (Note 14)	**300**	500
Net debt	**$ 7,286**	$ 6,141

(2) EBITDA – excluding restructuring costs is calculated as follows:

	2008	2007
EBITDA (Note 6)	**$ 3,779**	$ 3,589
Restructuring costs (Note 7)	**59**	20
EBITDA – excluding restructuring costs	**$ 3,838**	$ 3,609

(3) Net interest cost is defined as financing costs before gains on redemption and repayment of debt, calculated on a twelve-month trailing basis (losses recorded on the redemption of long-term debt, if any, are included in net interest cost).

(4) Interest coverage on long-term debt is defined as net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt (including losses recorded on the redemption of long-term debt, if any).

(5) EBITDA – excluding restructuring costs interest coverage is defined as EBITDA – excluding restructuring costs divided by net interest cost. This measure is substantially the same as the coverage ratio covenant in the Company's credit facilities.

The net debt to EBITDA — excluding restructuring costs ratio increased 0.2 as increased net debt was partly offset by increased twelve-month trailing EBITDA — excluding restructuring costs (the net increase in debt supported payment of $882 million for advanced wireless services spectrum licences and $692 million (net of acquired cash) for January 2008 acquisitions, as discussed further in Note 16(b)). When compared to one year earlier, the interest coverage on long-term debt had an increase of 0.1 as a result of a 0.2 increase due to higher income before income taxes and interest expense and a 0.1 decrease due to higher interest expense. The EBITDA — excluding restructuring costs interest coverage ratio had an increase of 0.1 as a result of a 0.5 increase due to higher EBITDA — excluding restructuring costs and a 0.4 decrease due to higher net interest costs.

4 regulation of rates charged to customers

(a) General

The provision of telecommunications services by the Company through TELUS Communications Company partnership and the TELE-MOBILE COMPANY partnership is subject to regulation under provisions of the *Telecommunications Act*. The regulatory authority designated to implement the *Telecommunications Act* is the CRTC, which is established pursuant to the terms of the *Canadian Radio-television and Telecommunications Act*.

Pursuant to Part III of the *Telecommunications Act*, the CRTC may forbear, conditionally or unconditionally, from regulating the rates for certain telecommunications services, or certain classes of telecommunications service providers, where the CRTC finds that the service or class of service provided by the telecommunications service provider is subject to competition sufficient to protect the interests of customers. TELUS Communications Company partnership has, for example, been granted forbearance from regulation in relation to its entire portfolio of wireless and paging services. In the latter half of 2007, TELUS Communications Company partnership was granted forbearance in relation to the setting of rates for a number of its wireline telecommunications services that are currently provided within 96 residential and 47 business exchanges where it was determined that there was significant competition for such services to protect the interests of customers. Previously forborne services, including interexchange voice services, wide area network services and retail Internet services, remain forborne. TELUS Communications Company partnership also operates as a forborne telecommunications service provider when it provides telecommunications services (primarily business local exchange service) outside of its traditional incumbent serving territory (Alberta, British Columbia and parts of Quebec) and, as such, all of its services are not subject to rate regulation.

The fact that a portion of the Company's operations remain subject to rate regulation does not result in the Company selecting accounting policies that would differ from generally accepted accounting principles.

Less than one-quarter of the Company's revenues are from Wireline segment regulated services and subject to CRTC price regulation; none of the Company's Wireless segment revenues are currently subject to CRTC regulation.

The major categories of telecommunications services provided by TELUS Communications Company partnership that are subject to rate regulation or have been forborne from rate regulation are as follows:

Regulated services	Forborne services (not subject to rate regulation)
· Residential wireline local services in incumbent local exchange carrier regions in non-forborne exchanges	· Residential wireline services in incumbent local exchange carrier regions in forborne exchanges[1]
· Business wireline local services in incumbent local exchange carrier regions in non-forborne exchanges	· Business wireline services in incumbent local exchange carrier regions in forborne exchanges[2]
· Competitor services	· Non-incumbent local exchange carrier services
· Public telephone services	· Long distance services
	· Internet services
	· International telecommunications services
	· Interexchange private line services[3]
	· Certain data services
	· Cellular, enhanced specialized mobile radio digital (ESMR digital) and personal communications services digital (PCS digital)
	· Other wireless services, including paging
	· Sale of customer premises equipment (CPE)

(1) Forborne on exchanges where two or more competitors, including wireless service providers, are offering or providing similar services.
(2) Forborne on exchanges where one or more competitors, including wireless service providers, are offering or providing similar services.
(3) Forborne on routes where one or more competitors are offering or providing services at DS-3 or greater bandwidth.

(b) Price caps form of regulation

The CRTC has adopted a form of price cap regulation as the means by which it regulates the prices for the Company's telecommunications rate regulated services. A four-year price regulation regime commenced on June 1, 2002, with the issuance of the CRTC's Decision 2002-34; on December 16, 2005, the CRTC issued Decision 2005-69 that extended that price cap regime, without changes, for a period of one year to May 31, 2007. The CRTC conducted a review of the existing price cap regulation which included an oral hearing held in Gatineau, Quebec. This proceeding was concluded in the fourth quarter of 2006 with the CRTC issuing its decision in this matter on April 30, 2007. The decision was consistent with the Company's current accounting policies.

Rate-setting methodology: Under the prospective price regulation framework, services are separated into seven service categories, or baskets, for those exchanges which continue to be regulated. Price constraints within the individual baskets are outlined in the following table.

Capped and non-forborne basket	Price cap constraint	Overriding maximum annual increase
Residential wireline services in incumbent local exchange carrier regions		
In non-high cost serving areas	Capped at existing rates	0%
In high cost serving areas	Increase by lesser of inflation [1] or 5%	5%
Business wireline services in incumbent local exchange carrier regions	Increase annually by inflation [1]	10%
Other capped services	Increase annually by inflation [1]	10%
Competitor services	Inflation[1] less 3.2% productivity offset	0%
Public telephone services	One-time $0.50 increase	N/A
Services with frozen rates (*e.g.* 9-1-1 service)	Capped at existing rates	0%

(1) As measured by chain-weighted Gross Domestic Product Price Index.

Primary exchange rates for forborne services/exchanges are capped at existing rates.

(c) Other non-price cap regulation

Other: The CRTC has adopted an imputation test filing requirement to set floor prices for rate regulated services. The imputation test filing requirements ensure that the incumbent telephone companies do not reduce rates for services below their costs in an effort to thwart competitive entry or engage in predatory pricing to drive out existing competitors.

Unbundling of essential facilities: In an effort to foster facilities-based competition in the provision of telecommunications services, the CRTC has mandated that certain essential or near-essential facilities be made available to competitors at rates based on their incremental costs plus an approved mark-up. The CRTC has defined essential facilities as facilities which are monopoly controlled, required by competitors as an input to provide services and which cannot be economically or technically duplicated by competitors (which include central office codes, subscriber listings and certain local loops in high cost serving areas). The incumbent local exchange carriers must provide certain non-essential facilities, which the CRTC deems to be near-essential, such as local loop facilities in low cost areas and transiting arrangements, at prices determined as if they were

essential facilities. This obligation on the part of the incumbent local exchange carriers will continue until the market for near-essential loops and transiting arrangements is competitive. The CRTC conducted an oral hearing on this matter in Gatineau, Quebec in the fourth quarter of 2007 and issued its decision in this matter on March 3, 2008. The decision did not impact the treatment of the regulated rates.

Voice contribution expense and portable subsidy revenue: Local exchange carriers' costs of providing the level of basic residential services that the CRTC requires to be provided in high cost serving areas is more than the CRTC allows the local exchange carriers to charge for the level of service. To ameliorate the situation, the CRTC collects contribution payments, in a central fund, from all Canadian telecommunications service providers (including voice, data and wireless service providers) that are then disbursed as portable subsidy payments to subsidize the costs of providing residential telephone services in high cost serving areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per line/per band subsidy rate, as further discussed in Note 1(c). The CRTC currently determines, at a national level, the total contribution requirement necessary to pay the portable subsidies and then collects contribution payments from the Canadian telecommunications service providers, calculated as a percentage of their telecommunications service revenue (as defined in CRTC Decision 2000-745 and Telecom Order CRTC 2001-220). The final contribution expense rate for 2008 is 0.87% and the interim rate for 2009 has been similarly set at 0.87%. The Company's contributions to the central fund, $52 million for the year ended December 31, 2008 (2007 — $60 million), are accounted for as an operations expense and the portable subsidy receipts, $58 million for the year ended December 31, 2008 (2007 — $63 million), are accounted for as local revenue.

5 financial instruments

(a) Risks — overview

The Company's financial instruments and the nature of risks which they may be subject to are as set out in the following table.

	Risks				
				Market risks	
Financial instrument	**Credit**	**Liquidity**	**Currency**	**Interest rate**	**Other price**
Measured at cost or amortized cost					
Cash and temporary investments	X		X	X	
Accounts receivable	X		X		
Accounts payable		X	X		
Restructuring accounts payable		X			
Short-term obligations		X		X	
Long-term debt		X	X	X	
Measured at fair value					
Short-term investments				X	X
Long-term investments					X
Foreign exchange derivatives[(1)]	X	X	X		
Share-based compensation derivatives[(1)]	X	X			X
Cross currency interest rate swap derivatives[(1)]	X	X	X	X	

(1) Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only) and sets criteria for the creditworthiness of the transaction counterparties.

(b) Credit risk

Excluding credit risk, if any, arising from currency swaps settled on a gross basis (see Note 5(c)), the best representation of the Company's maximum exposure (excluding tax effects) to credit risk, which is a worst-case scenario and does not reflect results expected by the Company, is as set out in the following table:

As at December 31 (millions)	**2008**	**2007**
Cash and temporary investments, net	**$ 4**	$ 20
Accounts receivable	**966**	711
Derivative assets	**10**	4
	$ 980	$ 735

Cash and temporary investments: Credit risk associated with cash and temporary investments is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Accounts receivable: Credit risk associated with accounts receivable is minimized by the Company's large and diverse customer base, which covers substantially all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

The following table presents an analysis of the age of customer accounts receivable not allowed for as at the dates of the Consolidated Statements of Financial Position. As at December 31, 2008, the weighted average life of customer accounts receivable is 28 days (2007 — 29 days) and the weighted average life of past-due customer accounts receivable is 64 days (2007 — 63 days). No interest is charged on customer accounts which are current. Thereafter, interest is charged at a regulatory-based rate on non-forborne Wireline segment outstanding balances and a market rate on forborne Wireline segment and Wireless segment outstanding balances.

As at December 31 (millions)	2008	2007
Customer accounts receivable net of allowance for doubtful accounts		
Current	**$ 555**	$ 375
30-60 days past billing date	**121**	91
61-90 days past billing date	**47**	33
Greater than 90 days past billing date	**43**	29
	$ 766	$ 528
Customer accounts receivable (Note 21(b))	**$ 843**	$ 591
Allowance for doubtful accounts	**(77)**	(63)
	$ 766	$ 528

The Company must make significant estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to the allowance account against the customer account receivable. The provision for doubtful accounts is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and on a statistically derived allowance basis for the remainder. No customer accounts receivable are written off directly to the provision for doubtful accounts.

The following table presents a summary of the activity related to the Company's allowance for doubtful accounts.

Years ended December 31 (millions)	2008	2007
Balance, beginning of period	**$ 63**	$ 55
Additions (provision for doubtful accounts)	**71**	43
Net use	**(57)**	(35)
Balance, end of period	**$ 77**	$ 63

Aside from the normal customer accounts receivable credit risk associated with its retained interest, the Company has no continuing exposure to credit risk associated with its trade receivables which are sold to an arm's-length securitization trust, as discussed further in Note 14.

Derivative assets (and derivative liabilities) : Counterparties to the Company's cross currency interest rate swap agreements, share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedging items due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company's derivative liabilities do not have credit-risk-related contingent features.

(c) Liquidity risk

As a component of the Company's capital structure financial policies, discussed further in Note 3, the Company manages liquidity risk by maintaining bilateral bank facilities and syndicated credit facilities, by maintaining a commercial paper program, by the sales of trade receivables to an arm's-length securitization trust, by continuously monitoring forecast and actual cash

flows and by managing maturity profiles of financial assets and financial liabilities. As disclosed in Note 18(g), the Company has significant debt maturities in future years. As at December 31, 2008, the Company has access to a shelf prospectus, in effect until September 2009, pursuant to which it can offer $2.5 billion (2007 — $3.0 billion) of debt or equity securities. The Company believes that its investment grade credit ratings provide reasonable access to capital markets.

The Company's undiscounted financial liability contractual maturities, which include interest thereon (where applicable), are as follows:

	Non-derivative					Derivative			
		Long-term debt (see Note 18)				Other financial liabilities			
As at December 31, 2008 (millions)	Non-interest bearing financial liabilities	All except capital leases[1][2]	Capital leases	Currency swaps amounts to be exchanged[2] (Receive)	Currency swaps amounts to be exchanged[2] Pay	Other	Currency swaps amounts to be exchanged (Receive)	Currency swaps amounts to be exchanged Pay	Total
2009									
First quarter	$ 1,093	$ 44	$ 1	$ —	$ —	$ 62	$ (119)	$ 110	$ 1,191
Balance of year	239	356	2	(187)	250	13	(117)	116	672
2010	15	477	2	(187)	250	8	—	—	565

2011	2	2,641	1	(2,439)	3,077	—	—	—	3,282
2012	—	1,891	—	—	—	—	—	—	1,891
2013	—	447	—	—	—	—	—	—	447
Thereafter	1	2,699	—	—	—	—	—	—	2,700
Total	$ 1,350	$ 8,555	$ 6	$ (2,813)	$ 3,577	$ 83	$ (236)	$ 226	$ 10,748

(1) Interest payment cash outflows in respect of commercial paper and amounts drawn under the Company's credit facility have been calculated based upon the rates in effect as at December 31, 2008.

(2) The amounts included in the undiscounted non-derivative long-term debt in respect of the U.S. Dollar denominated long-term debt, and the corresponding amounts included in the long-term debt "currency swaps" receive column, have been determined based upon statement of financial position date exchange rates. The U.S. Dollar denominated long-term debt contractual maturity amounts, in effect, are reflected in the long-term debt "currency swaps" pay column as gross cash flows are exchanged pursuant to the cross currency interest rate swap agreements (see Note 18(b)).

(d) Currency risk

The Company's functional currency is the Canadian Dollar, but it regularly transacts in U.S. Dollars due to certain routine revenues and operating costs being denominated in U.S. Dollars, as well as sourcing some inventory purchases and capital asset acquisitions internationally. The U.S. Dollar is the only foreign currency to which the Company has a significant exposure.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. Dollar denominated transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts and currency options on an exception basis only.

The Company is also exposed to currency risks in that the fair value or future cash flows of its U.S. Dollar denominated long-term debt will fluctuate because of changes in foreign exchange rates. Currency hedging relationships have been established for the related semi-annual interest payments and principal payment at maturity, as set out in Note 18(b).

(e) Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of temporary investments, short-term investments, short-term obligations, long-term debt and/or cross currency interest rate swap derivatives.

When the Company has temporary investments, they have short maturities and fixed rates, thus their fair value will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows do not change due to changes in market interest rates.

If the balance of short-term investments includes debt instruments and/or dividend-paying equity instruments, the Company could be exposed to interest rate risks.

As short-term obligations arising from bilateral bank facilities (Note 17), which typically have variable interest rates, are rarely outstanding for periods that exceed one calendar week, interest rate risk associated with this item is not material.

In respect of the Company's currently outstanding long-term debt, other than for commercial paper and amounts drawn on its credit facility (Note 18(c)), it is all fixed-rate debt. The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption and/or foreign exchange rate fluctuations, the related future cash flows do not. Due to the short maturities of commercial paper, its fair values are not materially affected by changes in market interest rates but its cash flows representing interest payments may be if the commercial paper is "rolled over".

Amounts drawn on the Company's short-term and long-term credit facilities will be affected by changes in market interest rates in a manner similar to commercial paper.

Similar to fixed-rate debt, the fair value of the Company's cross currency interest rate swap derivatives fluctuates with changes in market interest rates as the interest rate swapped to is fixed; absent early redemption, the related future cash flows do not change due to changes in market interest rates.

(f) Other price risk

Short-term investments: If the balance of short-term investments includes equity instruments, the Company would be exposed to equity price risks.

Long-term investments: The Company is exposed to equity price risks arising from investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes.

Share-based compensation derivatives: The Company is exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share and Non-Voting Share prices increase both the expense and the potential cash outflow). Cash-settled equity swap

agreements have been entered into that establish a cap on the Company's cost associated with its net-cash settled share options (Note 12(b)) and fix the Company's cost associated with its restricted stock units (Note 12(c)).

(g) Market risk

Net income and other comprehensive income for the year ended December 31, 2008, could have varied if the Canadian Dollar: U.S. Dollar foreign exchange rates, market interest rates and the Company's Non-Voting Share prices varied by reasonably possible amounts from their actual statement of financial position date values.

The sensitivity analysis of the Company's exposure to currency risk at the reporting date has been determined based upon the hypothetical change taking place at the current statement of financial position date (as contrasted with applying the hypothetical change to all relevant transactions during the reported period). The U.S. Dollar denominated balances and derivative financial instrument notional amounts as at the statement of financial position date have been used in the calculations.

The sensitivity analysis of the Company's exposure to interest rate risk at the reporting date has been determined based upon the hypothetical change taking place at the beginning of the fiscal year and being held constant through to the current statement of financial position date. The relevant current statement of financial position date principal and notional amounts have been used in the calculations.

The sensitivity analysis of the Company's exposure to other price risk arising from share-based compensation at the reporting date has been determined based upon the hypothetical change taking place at the current statement of financial position date. The relevant current statement of financial position date notional number of shares, including those in the cash-settled equity swap agreements, has been used in the calculations.

The income tax provisions, which are reflected net in the sensitivity analysis, reflect the applicable basic blended federal and provincial statutory income tax rates for the period.

	Reasonably possible changes in market risks[1]		
	Cdn. $: U.S.$ exchange rate	Market interest rate	Non-Voting Share price[2]
Year ended December 31, 2008 ($ in millions)	10%	25 basis points	25%[3]
Net income	$ 7	$ 3	$ 10
Other comprehensive income	$ 34	$ 3	$ 4

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased amount, and unfavourable hypothetical changes in the assumptions result in a decreased amount, of net income and/or other comprehensive income. Changes in net income and/or other comprehensive income generally cannot be extrapolated because the relationship of the change in assumption to the change in net income and/or other comprehensive income may not be linear.

In this table, the effect of a variation in a particular assumption on the amount of net income and/or other comprehensive income is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in more favourable foreign exchange rates (increased strength of the Canadian Dollar)), which might magnify or counteract the sensitivities.

The sensitivity analysis assumes that changes in exchange rates and market interest rates would be realized by the Company; in reality, the competitive marketplace in which the Company operates would impact this assumption.

No provision has been made for a difference in the notional number of shares associated with share-based compensation awards made during the reporting period that may have arisen due to a difference in the Non-Voting Share price.

(2) The hypothetical effects of changes in the price of the Company's Non-Voting Shares are restricted to those which would arise from the Company's share-based compensation items which are accounted for as liability instruments and the associated cash-settled equity swap agreements.

(3) To facilitate ongoing comparison of sensitivities, a constant variance of approximate magnitude has been used. Reflecting a 4.5-year data period and calculated on a monthly basis, which is consistent with the current assumptions and methodology set out in Note 12(b), the volatility of the Company's Non-Voting Share price as at December 31, 2008, was 26.4%; reflecting the twelve-month data period ended December 31, 2008, the volatility was 30.8%.

The Company is exposed to other price risks in respect of its financial instruments, as discussed further in Note 5(f). Changes in the Company's Common Share price would not have materially affected the Company's net income or its other comprehensive income.

(h) Fair values

General: The carrying value of cash and temporary investments, accounts receivable, accounts payable, restructuring accounts payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method do not exceed their fair values.

The carrying value of short-term investments equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices in active markets.

The fair values of the Company's long-term debt are based on quoted market prices in active markets. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated based on quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to the Company for financial instruments of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based upon the Company's Common Share and Non-Voting Share prices as at the statement of financial position dates).

The Company's financial instruments that are measured at fair value on a recurring basis in periods subsequent to initial recognition and the level within the fair value hierarchy used to measure them are as set out in the following table:

		Fair value measurements at reporting date using		
As at December 31, 2008 (millions)	Carrying value	Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Foreign exchange derivatives	$ 10	$ —	$ 10	$ —
Liabilities				
Share-based compensation derivatives	$ 82	$ —	$ 82	$ —
Cross currency interest rate swap derivatives	778	—	778	—
	$ 860	$ —	$ 860	$ —

Non-derivative: The Company's non-derivative financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition and its long-term debt, which is measured at amortized cost, are as set out in the following table.

	2008		2007	
As at December 31 (millions)	Carrying amount	Fair value	Carrying amount	Fair value
Short-term investments designated as held for trading upon initial recognition	**$ —**	**$ —**	$ 42	$ 42
Long-term investments designated as available-for-sale upon initial recognition[1]	**$ —**	**$ —**	$ 14	$ 14
Long-term debt	**$ 6,352**	**$ 6,445**	$ 4,589	$ 4,960

[1] The carrying value for long-term investments presented in this schedule excludes $42 (2007 – $25) of investments in companies over which the Company has significant influence and investments in securities which do not have quoted market prices in an active market.

Derivative: The Company's derivative financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition are as set out in the following table.

		2008			2007		
As at December 31 (millions)	Maximum maturity date	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Current Assets							
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. Dollar transactions to which hedge accounting is not applied							
- Revenues	2009	**$ 29**	**$ —**	**$ —**	$ 22	$ 1	$ 1
- Purchases	2009	**$ 95**	**3**	**3**	$ 25	1	1
Derivatives[1] designated as held for hedging[2] upon initial recognition and used to manage							
- Currency risks arising from U.S. Dollar denominated purchases	2009	**$ 102**	**7**	**7**	$ 44	—	—
- Changes in share-based compensation costs (Note 12(c))	2008		**—**	**—**	$ 27	2	—

		10			4	
Less: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for hedging		**—**			(2)	
		$ 10	**$ 10**		$ 2	$ 2

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As at December 31 (millions)	Maximum maturity date	2008 Notional amount	2008 Carrying amount	2008 Fair value	2007 Notional amount	2007 Carrying amount	2007 Fair value
Current Liabilities							
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. Dollar transactions to which hedge accounting is not applied							
- Purchases	2008		**$ —**	**$ —**	$ 30	$ 1	$ 1
Derivatives used to manage changes in share-based compensation costs and classified as held for							
- Trading (Note 12(b))	2012	**$ 177**	**64**	**64**	$ 220	26	27
- Hedging[1][2] (Note 12(c))	2009	**$ 28**	**11**	**13**	$ —	—	—
			75			27	
Add: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for							
- Trading (Note 12(b))			**—**			1	
- Hedging (Note 12(c))			**2**			—	
			$ 77	**$ 77**		$ 28	$ 28
Other Long-Term Liabilities							
Derivatives[1] used to manage changes in share-based compensation costs and classified as held for hedging[2] (Note 12(c))	2010	**$ 26**	**$ 7**	**$ 8**	$ 23	$ 4	$ 4
Derivatives[1] classified as held for hedging[2] and used to manage currency risks associated with U.S. Dollar denominated debt (Note 18(b))	2011	**$ 2,951**	**778**	**783**	$ 2,951	1,179	1,188
			785			1,183	
Add: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for hedging			**1**			1	
Add: Interest payable in respect of derivatives used to manage currency risks associated with U.S. Dollar denominated debt and classified as held for hedging			**5**			8	
			$ 791	**$ 791**		$ 1,192	$ 1,192

(1) Designated as cash flow hedging items.
(2) Hedge accounting is applied to derivatives that are designated as held for hedging.

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(i) Recognition of derivative gains and losses

The following table sets out the gains and losses on derivative instruments classified as cash flow hedging items and their location within the Consolidated Statements of Income and Other Comprehensive Income.

Years ended December 31 (millions)	Amount of gain (loss) recognized in other comprehensive income (effective portion) (Note 19(c)) 2008	2007	Gain (loss) reclassified from other comprehensive income into income (effective portion) (Note 19(c)) Location	Amount 2008	2007	Gain (loss) recognized in income on derivative (ineffective portion) Location	Amount 2008	2007
Derivatives used to manage currency risks								
-Associated with U.S. Dollar denominated debt	**$ 402**	$ (345)	Financing costs	**$ 436**	$ (475)	Financing costs	**$ (1)**	$ —
-Arising from U.S. Dollar denominated purchases	**14**	(9)	Operations	**7**	(9)	Operations	**—**	—
Derivatives used to manage changes in share-based compensation costs (Note 12(c))	**(11)**	—	Operations	**(3)**	7	Operations	**—**	—
	$ 405	$ (354)		**$ 440**	$ (477)		**$ (1)**	$ —

The following table sets out gains and losses arising from derivative instruments: classified as held for trading items; not designated as being in a hedging relationship as discussed in Note 1(i); and their location within the Consolidated Statements of Income and Other Comprehensive Income.

Years ended December 31 (millions)	Gain (loss) recognized in income on derivatives Location	Amount 2008	2007
Derivatives used to manage currency risks	Financing costs	**$ 15**	$ (16)
Derivatives used to manage changes in share-based compensation costs (Note 12(b))	Operations	**(47)**	(23)
		$ (32)	$ (39)

6 segmented information

The Company's reportable segments are Wireline and Wireless. The Wireline segment includes voice local, voice long distance, data and other telecommunications services excluding wireless. The Wireless segment includes digital personal communications services, equipment sales and wireless Internet services. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, customer characteristics, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties. The following segmented information is regularly reported to the Company's Chief Executive Officer (the Company's chief operating decision maker).

Years ended December 31 (millions)	Wireline 2008	2007	Wireless 2008	2007	Eliminations 2008	2007	Consolidated 2008	2007
Operating revenues								
External revenue	**$ 5,021**	$ 4,810	**$ 4,632**	$ 4,264	**$ —**	$ —	**$ 9,653**	$ 9,074
Intersegment revenue	**131**	114	**28**	27	**(159)**	(141)	**—**	—
	5,152	4,924	**4,660**	4,291	**(159)**	(141)	**9,653**	9,074
Operating expenses								
Operations expense	**3,327**	3,222	**2,647**	2,384	**(159)**	(141)	**5,815**	5,465
Restructuring costs	**51**	19	**8**	1	**—**	—	**59**	20
	3,378	3,241	**2,655**	2,385	**(159)**	(141)	**5,874**	5,485
EBITDA[1]	**$ 1,774**	$ 1,683	**$ 2,005**	$ 1,906	**$ —**	$ —	**$ 3,779**	$ 3,589
Capital expenditures	**$ 1,311**	$ 1,219	**$ 548**	$ 551	**$ —**	$ —	**$ 1,859**	$ 1,770
Advanced wireless services spectrum licences	**—**	—	**882**	—	**—**	—	**882**	—
CAPEX[2]	**$ 1,311**	$ 1,219	**$ 1,430**	$ 551	**$ —**	$ —	**$ 2,741**	$ 1,770
EBITDA less CAPEX	**$ 463**	$ 464	**$ 575**	$ 1,355	**$ —**	$ —	**$ 1,038**	$ 1,819
Operating expenses (as adjusted)[3]								
Operations expense (as adjusted)[3]	**3,327**	3,077	**2,647**	2,360	**(159)**	(141)	**5,815**	5,296
Restructuring costs	**51**	19	**8**	1	**—**	—	**59**	20
	3,378	3,096	**2,655**	2,361	**(159)**	(141)	**5,874**	5,316
EBITDA (as adjusted)[3]	**$ 1,774**	$ 1,828	**$ 2,005**	$ 1,930	**$ —**	$ —	**$ 3,779**	$ 3,758
Capital expenditures	**$ 1,311**	$ 1,219	**$ 548**	$ 551	**$ —**	$ —	**$ 1,859**	$ 1,770
Advanced wireless services spectrum licences	**—**	—	**882**	—	**—**	—	**882**	—
CAPEX[2]	**$ 1,311**	$ 1,219	**$ 1,430**	$ 551	**$ —**	$ —	**$ 2,741**	$ 1,770
EBITDA (as adjusted) less CAPEX	**$ 463**	$ 609	**$ 575**	$ 1,379	**$ —**	$ —	**$ 1,038**	$ 1,988
				EBITDA (as adjusted)(from above)			**$ 3,779**	$ 3,758

Incremental charge[3]	—	169
EBITDA (from above)	**3,779**	3,589
Depreciation	**1,384**	1,355
Amortization	**329**	260
Operating income	**2,066**	1,974
Other expense, net	**36**	36
Financing costs	**463**	440
Income before income taxes and non-controlling interests	**1,567**	1,498
Income taxes	**436**	233
Non-controlling interests	**3**	7
Net income	**$ 1,128**	$ 1,258

(1) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less operations expense and restructuring costs. The Company has issued guidance on, and reports, EBITDA because it is a key measure used by management to evaluate performance of its business segments and is utilized in measuring compliance with certain debt covenants.

(2) Total capital expenditures (CAPEX) is the sum of capital expenditures and advanced wireless services spectrum licences.

(3) Substantially all of the Company's share option awards that were granted prior to January 1, 2005, and which were outstanding on January 1, 2007, were amended by adding a net-cash settlement feature (see Note 12(b)); such amendment resulted in an incremental charge to operations of $NIL (2007 - $169) and did not result in an immediate cash outflow. In respect of 2008 and 2007 results provided to the Company's chief operating decision maker, operations expense and EBITDA are being presented both with, and without, the impact of such amendment.

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7 restructuring costs

Years ended December 31 (millions)	2008	2007
Restructuring costs		
Workforce		
Voluntary	**$ 9**	$ 5
Involuntary	**50**	14
Other	**—**	1
	59	20
Disbursements		
Workforce		
Voluntary	**21**	14
Involuntary and other	**21**	23
Other	**1**	1
	43	38
Expenses greater than (less than) disbursements	**16**	(18)
Restructuring accounts payable and accrued liabilities		
Balance, beginning of period	**35**	53
Balance, end of period	**$ 51**	$ 35

In 2008, arising from its competitive efficiency program, the Company undertook a number of smaller initiatives, such as operational consolidation, rationalization and integration. These initiatives were aimed to improve the Company's operating productivity and competitiveness. The Company's estimate of restructuring costs in 2009 is approximately $50-75 million.

8 financing costs

Years ended December 31 (millions)	2008	2007
Interest on long-term debt	**$ 468**	$ 464
Interest on short-term obligations and other	**13**	—
Foreign exchange (Note 5(i))	**(1)**	13
	480	477
Capitalized interest during construction	**(3)**	—
	477	477
Interest income		
Interest on tax refunds	**(9)**	(27)
Other interest income	**(5)**	(10)
	(14)	(37)
	$ 463	$ 440

notes to consolidated financial statements

9 income taxes

Years ended December 31 (millions)	2008	2007
Current	**$ 275**	$ (144)
Future	**161**	377
	$ 436	$ 233

The Company's income tax expense differs from that calculated by applying statutory rates for the following reasons:

Years ended December 31 ($ in millions)	2008		2007	
Basic blended federal and provincial tax at statutory income tax rates	**$ 486**	**31.0%**	$ 503	33.6%
Revaluation of future income tax liability to reflect future statutory income tax rates	**(41)**		(177)	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	**(21)**		(79)	
Share option award compensation	**6**		(4)	
Other	**6**		(10)	
Income tax expense per Consolidated Statements of Income and Other Comprehensive Income	**$ 436**	**27.8%**	$ 233	15.6%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its future income tax liability. The operations of the Company are complex and the related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. Temporary differences comprising the future income tax liability are estimated as follows:

As at December 31 (millions)	2008	2007
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	**$ (156)**	$ (51)
Intangible assets with indefinite lives	**(830)**	(746)
Partnership income unallocated for income tax purposes	**(556)**	(631)
Net pension and share-based compensation amounts	**(306)**	(219)
Reserves not currently deductible	**70**	71
Losses available to be carried forward	**44**	18
Other	**20**	6
	$ (1,714)	$ (1,552)
Presented on the Consolidated Statements of Financial Position as:		
Future income tax liability		
Current	**$ (459)**	$ (504)
Non-current	**(1,255)**	(1,048)
Net future income tax asset (liability)	**$ (1,714)**	$ (1,552)

The Company expects to be able to utilize its non-capital losses prior to expiry.

The Company has net capital losses and such losses may only be applied against realized taxable capital gains. The Company has included a net capital loss carry-forward of $606 million (2007 — $618 million) in its Canadian income tax returns. During the year ended December 31, 2008, the Company recognized the benefit of $19 million (2007 — $7 million) in net capital losses. Of the net capital losses carried-forward, as at December 31, 2008, $604 million (2007 — $604 million) have been denied on audit by the Canada Revenue Agency and the Company is considering various courses of action with a view to confirming all or a part of such net capital losses.

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits. During the year ended December 31, 2008, the Company recorded Investment Tax Credits of $12 million (2007 — $11 million), $8 million (2007 — $3 million) of which was recorded as a reduction of capital and the balance of which was recorded as a reduction of Operations expense.

10 per share amounts

Basic net income per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income by the total weighted average Common Shares and Non-Voting Shares outstanding during the period. Diluted net income per Common Share and Non-Voting Share is calculated to give effect to share option awards.

The following table presents the reconciliations of the denominators of the basic and diluted per share computations. Net income equalled diluted Common Share and Non-Voting Share income for all periods presented.

Years ended December 31 (millions)	2008	2007
Basic total weighted average Common Shares and Non-Voting Shares outstanding	**320**	332
Effect of dilutive securities		
Share option awards	**2**	2
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	**322**	334

For the year ended December 31, 2008, certain outstanding share option awards, in the amount of 6 million (2007 — 1 million), were not included in the computation of diluted income per Common Share and Non-Voting Share because the share option awards' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods.

11 dividends per share

	2008			2007		
Years ended December 31 (millions except per share amounts)	Declared effective	Paid to shareholders	Total	Declared effective	Paid to shareholders	Total
Dividend per Common Share and Non-Voting Share						
Dividend $0.45 (2007 – $0.375)	Mar. 11, 2008	Apr. 1, 2008	**$ 145**	Mar. 9, 2007	Apr. 1, 2007	$ 126
Dividend $0.45 (2007 – $0.375)	Jun. 10, 2008	Jul. 1, 2008	**144**	Jun. 8, 2007	Jul. 1, 2007	125
Dividend $0.45 (2007 – $0.375)	Sept. 10, 2008	Oct. 1, 2008	**144**	Sept. 10, 2007	Oct. 1, 2007	123
Dividend $0.475 (2007 – $0.45)	Dec. 11, 2008	Jan. 2, 2009	**151**	Dec. 11, 2007	Jan. 1, 2008	147
			$ 584			$ 521

On February 11, 2009, the Board of Directors declared a quarterly dividend of $0.475 per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company payable on April 1, 2009, to holders of record at the close of business on March 11, 2009. The final amount of the dividend payment depends upon the number of Common Shares and Non-Voting Shares issued and outstanding at the close of business on March 11, 2009.

12 share-based compensation

(a) Details of share-based compensation expense

Reflected in the Consolidated Statements of Income and Other Comprehensive Income as "Operations expense" and the Consolidated Statements of Cash Flows are the following share-based compensation amounts:

	2008			2007		
Years ended December 31 (millions)	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment
Share option awards[1]	**$ 18**	**$ (15)**	**$ 3**	$ 184	$ (84)	$ 100
Restricted stock units[2]	**34**	**(32)**	**2**	29	(33)	(4)
Employee share purchase plan	**36**	**(36)**	**—**	34	(34)	—
	$ 88	**$ (83)**	**$ 5**	$ 247	$ (151)	$ 96

(1) The expense (recovery) arising from share options with the net-cash settlement feature, net of cash-settled equity swap agreement effects (see Note 5(i)), was $NIL (2007 — $169).

(2) The expense arising from restricted stock units was net of cash-settled equity swap agreement effects (see Note 5(i)).

For the year ended December 31, 2008, the associated operating cash outflows in respect of share option awards include cash outflows arising from the cash-settled equity swap agreements of $9 million (2007 — cash inflows of $8 million). Similarly, for the year ended December 31, 2008, the associated operating cash outflows in respect of restricted stock units include cash outflows arising from hedging of $9 million (2007 — cash inflows of $5 million). For the year ended December 31, 2008, the income tax benefit arising from share-based compensation was $22 million (2007 — $85 million); as disclosed in Note 9, not all share-based compensation amounts are deductible for income tax purposes.

(b) Share option awards

The Company applies the fair value based method of accounting for share-based compensation awards granted to employees. Share option awards typically vest over a three-year period (the requisite service period), but may vest over periods of up to five years. The vesting method of share option awards, which is determined on or before the date of grant, may be either cliff or graded; all share option awards granted subsequent to 2004 have been cliff-vesting awards.

The weighted average fair value of share option awards granted, and the weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model (a closed-form option pricing model), are as follows:

Years ended December 31	2008	2007
Share option award fair value (per share option)	**$ 7.10**	$ 12.34
Risk free interest rate	**3.6%**	4.1%
Expected lives[1] (years)	**4.5**	4.5
Expected volatility	**24.3%**	26.3%
Dividend yield	**4.1%**	2.7%

(1) The maximum contractual term of the share option awards granted in 2008 and 2007 was seven years.

The risk free interest rate used in determining the fair value of the share option awards is based on a Government of Canada yield curve that is current at the time of grant. The expected lives of the share option awards are based on historical share option award exercise data of the Company. Similarly, expected volatility considers the historical volatility of the Company's Non-Voting Shares. The dividend yield is the annualized dividend current at the date of grant divided by the share option award exercise price. Dividends are not paid on unexercised share option awards and are not subject to vesting.

Had the weighted average assumptions for grants of share option awards that are reflected in the expense disclosures above been varied by 10% and 20% changes, the compensation cost arising from share option awards for the year ended December 31, 2008, would have varied as follows:

	Hypothetical change in assumptions[1]	
($ in millions)	10%	20%
Risk free interest rate	$ —	$ 1
Expected lives (years)	$ 1	$ 1
Expected volatility	$ 2	$ 3
Dividend yield	$ 1	$ 1

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in a decreased amount, and unfavourable hypothetical changes in the assumptions result in an increased amount, of the compensation cost arising from share option awards. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear; in particular, variations in expected lives are constrained by vesting periods and legal lives. Also, in this table, the effect of a variation in a particular assumption on the amount of the compensation cost arising from share option awards is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in risk free interest rates may result in increased dividend yields), which might magnify or counteract the sensitivities.

Some share option awards have a net-equity settlement feature. As discussed further in Note 19(e), it is at the Company's option whether the exercise of a share option award is settled as a share option or settled using the net-equity settlement feature.

Substantially all of the Company's outstanding share option awards that were granted prior to January 1, 2005, have a net-cash settlement feature; the optionee has the choice of exercising the net-cash settlement feature. The affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments. For the outstanding share option awards that were amended and which were granted subsequent to 2001, the minimum expense recognized for them will be their grant-date fair values.

The Company entered into a cash-settled equity swap agreement that establishes a cap on the Company's cost associated with the affected outstanding share option awards. The following table sets out the number of affected outstanding share option awards and the composition of their capped exercise date fair values.

As at December 31, 2008 ($ in millions except per affected outstanding share option award)	Affected share option awards granted for: Common Shares prior to 2002	Non-Voting Shares prior to 2002	Non-Voting Shares after 2001	Total
Weighted average exercise price	$ 35.65	$ 30.51	$ 21.72	$ 27.13
Weighted average grant date fair value	—	—	6.70	3.08
	35.65	30.51	28.42	30.21
Weighted average incremental share-based compensation award expense arising from net-cash settlement feature	18.61	24.64	26.73	24.82
Exercise date fair value capped by cash-settled equity swap agreement	$ 54.26	$ 55.15	$ 55.15	$ 55.03
Affected share option awards outstanding	432,361	1,359,036	1,530,251	3,321,648
Notional amount (Note 5(h))	$ 7	$ 80	$ 90	$ 177

(c) Restricted stock units

The Company uses restricted stock units as a form of incentive compensation. Each restricted stock unit is equal in value to one Non-Voting Share and the dividends that would have arisen thereon had it been an issued and outstanding Non-Voting Share; the notional dividends are recorded as additional issuances of restricted stock units during the life of the restricted stock unit. The restricted stock units become payable when vesting is completed. The restricted stock units typically vest over a period of 33 months (the requisite service period). The vesting method of restricted stock units, which is determined on or before the date of grant, may be either cliff or graded. The associated liability is normally cash-settled.

The following table presents a summary of the activity related to the Company's restricted stock units.

	2008			2007		
	Number of restricted stock units		Weighted average grant date fair value	Number of restricted stock units		Weighted average grant date fair value
Years ended December 31	Non-vested	Vested		Non-vested	Vested	
Outstanding, beginning of period						
Non-vested	**1,398,091**	**—**	**$ 49.19**	1,518,613	—	$ 40.99
Vested	**—**	**31,136**	**48.74**	—	37,251	38.85
Issued						
Initial award	**997,219**	**—**	**43.73**	576,233	—	56.21
In lieu of dividends	**96,864**	**—**	**39.42**	52,132	—	55.84
Vested	**(859,846)**	**859,846**	**44.66**	(662,437)	662,437	37.12
Settled in cash	**—**	**(864,097)**	**44.64**	—	(668,552)	36.67
Forfeited and cancelled	**(125,958)**	**—**	**44.69**	(86,450)	—	42.48
Outstanding, end of period						
Non-vested	**1,506,370**	**—**	**48.15**	1,398,091	—	49.19
Vested	**—**	**26,885**	**$ 50.10**	—	31,136	$ 48.74

With respect to certain issuances of restricted stock units, the Company entered into cash-settled equity forward agreements that fix the cost to the Company; that information, as well as a schedule of the Company's non-vested restricted stock units outstanding as at December 31, 2008, is set out in the following table.

	Number of fixed-cost restricted stock units	Cost fixed to the Company per restricted stock unit	Number of variable-cost restricted stock units	Total number of non-vested restricted stock units
Vesting in years ending December 31:				
2009	400,000	$ 64.26		
	120,000	$ 47.11		
	520,000		196,888	716,888
2010	600,000	$ 49.22	189,482	789,482
	1,120,000		386,370	1,506,370

(d) Employee share purchase plan

The Company has an employee share purchase plan under which eligible employees can purchase Common Shares through regular payroll deductions by contributing between 1% and 10% of their pay. The Company contributed 45%, for employees up to a certain job classification, for every dollar contributed by an employee, to a maximum of 6% of employee pay; for more highly compensated job classifications, the Company contributed 40%. There are no vesting requirements and the Company records its contributions as a component of operating expenses.

During the fourth quarter of 2008, the Company reduced its contributions by 5% to 40% for employees up to a certain job classification and for more highly compensated job classifications the Company reduced its contributions by 5% to 35%.

Years ended December 31 (millions)	2008	2007
Employee contributions	**$ 88**	$ 81
Company contributions	**36**	34
	$ 124	$ 115

Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. For the years ended December 31, 2008 and 2007, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices.

(e) Unrecognized, non-vested share-based compensation

As at December 31, 2008, compensation cost related to non-vested share-based compensation that has not yet been recognized is set out in the following table and is expected to be recognized over a weighted average period of 1.7 years (2007 — 1.7 years).

As at December 31 (millions)[1]	2008	2007

Share option awards	**$ 22**	$ 23
Restricted stock units[2]	**29**	32
	$ 51	$ 55

(1) These disclosures are not likely to be representative of the effects on reported net income for future periods for the following reasons: these amounts reflect an estimate of forfeitures; these amounts do not reflect any provision for future awards; these amounts do not reflect any provision for changes in the intrinsic value of vested restricted stock units; these amounts do not reflect any provision for the impacts of future, if any, modification of share option awards allowing for net-cash settlement; and for non-vested restricted stock units, these amounts reflect intrinsic values as at the statement of financial position dates.

(2) The compensation cost that has not yet been recognized in respect of non-vested restricted stock units is calculated based upon the intrinsic value of the non-vested restricted stock units as at the statement of financial position dates, net of the impacts of associated cash-settled equity forward agreements.

13 employee future benefits

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees. Other benefit plans include a TELUS Québec Inc. retiree healthcare plan. The benefit plan(s) in which an employee is a participant reflects the general development of the Company.

Pension Plan for Management and Professional Employees of TELUS Corporation : This defined benefit pension plan, which ceased accepting new participants on January 1, 2006, and which comprises approximately one-quarter of the Company's total accrued benefit obligation, provides a non-contributory base level of pension benefits. Additionally, on a contributory basis, employees can annually choose increased and/or enhanced levels of pension benefits over the base level of pension benefits. At an enhanced level of pension benefits, the defined benefit pension plan has indexation of 100% of a specified cost-of-living index, to an annual maximum of 2%. Pensionable remuneration is determined by the annualized average of the best sixty consecutive months.

TELUS Corporation Pension Plan: Management and professional employees in Alberta who joined the Company prior to January 1, 2001, and certain unionized employees are covered by this contributory defined benefit pension plan, which comprises slightly more than one-half of the Company's total accrued benefit obligation. The plan contains a supplemental benefit account which may provide indexation up to 70% of the annual change of a specified cost-of-living index and pensionable remuneration is determined by the average of the best five years in the last ten years preceding retirement.

TELUS Québec Defined Benefit Pension Plan (formerly the TELUS Corporation Pension Plan for Employees of TELUS Communications (Québec) Inc.): Any employee not governed by a collective agreement in Quebec who joined the Company prior to April 1, 2006, any non-supervisory employee governed by a collective agreement prior to September 6, 2006, and certain other unionized employees are covered by this contributory defined benefit pension plan, which

comprises approximately one-tenth of the Company's total accrued benefit obligation. The plan has no indexation and pensionable remuneration is determined by the average of the best four years.

TELUS Edmonton Pension Plan: This contributory defined benefit pension plan ceased accepting new participants on January 1, 1998. Indexation is 60% of the annual change of a specified cost-of-living index and pensionable remuneration is determined by the annualized average of the best sixty consecutive months.

Other defined benefit pension plans: In addition to the foregoing plans, the Company has non-registered, non-contributory supplementary defined benefit pension plans which have the effect of maintaining the earned pension benefit once the allowable maximums in the registered plans are attained. As is common with non-registered plans of this nature, these plans are funded only as benefits are paid.

The Company has three contributory, non-indexed pension plans arising from a pre-merger acquisition which comprise less than 1% of the Company's total accrued benefit obligation; these plans ceased accepting new participants in September 1989.

Other defined benefit plans: Other defined benefit plans, which are all non-contributory, are comprised of a disability income plan, a healthcare plan for retired employees and a life insurance plan. The healthcare plan for retired employees and the life insurance plan ceased accepting new participants effective January 1, 1997. In connection with the collective agreement signed in 2005, an external supplier commenced providing a new long-term disability plan effective January 1, 2006. The existing disability income plan will continue to provide payments to previously approved claimants and qualified eligible employees.

Telecommunication Workers Pension Plan: Certain employees in British Columbia are covered by a union pension plan. Contributions are determined in accordance with provisions of the negotiated labour contract and are generally based on employee gross earnings.

British Columbia Public Service Pension Plan: Certain employees in British Columbia are covered by a public service pension plan. Contributions are determined in accordance with provisions of labour contracts negotiated by the Province of British Columbia and are generally based on employee gross earnings.

Defined contribution pension plan: During the latter half of 2006, the Company revised its defined contribution pension plan offerings for 2007. Effective January 1, 2007, the Company offered one defined contribution pension plan, which is contributory, and is the only Company-sponsored pension plan available to non-unionized and certain unionized employees joining the Company after that date. Generally, employees can annually choose to contribute to the plan at a rate of between 3% and 6% of their pensionable earnings. The Company will match 100% of the contributions of the employees up to 5% of their pensionable earnings and will match 80% of employee contributions greater than that.

	2007 and 2008	
Contributions as a percentage of pensionable earnings	**Minimum**	**Maximum**
Employee contribution[1]	3.0%	6.0%
Employer contribution	3.0%	5.8%
Total contribution[2]	6.0%	11.8%

(1) Generally, membership in the defined contribution pension plan is voluntary until an employee's third year service anniversary.
(2) In the event that annual contributions exceed allowable maximums, excess amounts are contributed to a non-registered supplementary defined contribution pension plan.

(a) Defined benefit plans

Information concerning the Company's defined benefit plans, in aggregate, is as follows:

	Pension benefit plans		Other benefit plans	
(millions)	**2008**	**2007**	**2008**	**2007**
Accrued benefit obligation:				
Balance at beginning of year	**$ 6,347**	$ 6,580	**$ 73**	$ 72
Current service cost	**122**	136	**—**	—
Interest cost	**346**	327	**—**	7
Benefits paid (c)	**(298)**	(282)	**(6)**	(6)
Actuarial loss (gain)	**(1,280)**	(408)	**(3)**	—
Plan amendments	**6**	27	**—**	—
Transfers out	**—**	(33)	**—**	—
Balance at end of year (d)-(e)	**5,243**	6,347	**64**	73
Plan assets (g):				
Fair value at beginning of year	**6,913**	6,843	**37**	41
Actual return on plan assets	**(1,101)**	256	**1**	1
Employer contributions (h)	**102**	92	**2**	1
Employee contributions	**38**	37	**—**	—
Benefits paid (c)	**(298)**	(282)	**(6)**	(6)
Transfers out	**—**	(33)	**—**	—
Fair value at end of year	**5,654**	6,913	**34**	37
Funded status – plan surplus (deficit)	**411**	566	**(30)**	(36)
Unamortized net actuarial loss (gain)	**938**	629	**(12)**	(10)
Unamortized past service costs	**33**	31	**—**	—
Unamortized transitional obligation (asset)	**(150)**	(196)	**1**	2
Accrued benefit asset (liability)	**$ 1,232**	$ 1,030	**$ (41)**	$ (44)

In 2001, the Company sold substantially all of the TELUS Advertising Services directory business and the TELUS Québec directory business. As a result of this transaction, the pension obligation relating to the former TELUS Advertising Services employees, contained within the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan, were to be transferred upon receipt of the requisite regulatory approvals; such approvals were received November 14, 2007. The TELUS Corporation Pension Plan pension obligation of $17 million and the TELUS Edmonton Pension Plan pension obligation of $4 million have been actuarially determined as at July 31, 2001. In accordance with the sale agreement, TELUS Corporation Pension Plan assets of $17 million, plus interest accrued to November 30, 2007, of $9 million, were transferred along with the pension obligation; the corresponding amounts in respect of the TELUS Edmonton Pension Plan were $4 million, plus interest accrued to November 30, 2007, of $2 million. Interest accrued, at 7% per annum, up to the date that the assets were transferred.

The accrued benefit asset (liability) is reflected in the Consolidated Statements of Financial Position as follows:

As at December 31 (millions)	**2008**	**2007**
Pension benefit plans	**$ 1,232**	$ 1,030
Other benefit plans	**(41)**	(44)
	$ 1,191	$ 986
Presented on the Consolidated Statements of Financial Position as:		
Deferred charges (Note 21(b))	**$ 1,401**	$ 1,194
Other long-term liabilities (Note 21(b))	**(210)**	(208)
	$ 1,191	$ 986

The measurement date used to determine the plan assets and accrued benefit obligation was December 31.

notes to consolidated financial statements

(b) Defined benefit plans – cost (recovery)

The Company's net defined benefit plan costs (recoveries) were as follows:

Years ended December 31 (millions)	2008 Incurred in period	2008 Matching adjustments[1]	2008 Recognized in period	2007 Incurred in period	2007 Matching adjustments[1]	2007 Recognized in period
Pension benefit plans						
Current service cost (employer portion)	**$ 84**	**$ —**	**$ 84**	$ 99	$ —	$ 99
Interest cost	**346**	**—**	**346**	327	—	327
Return on plan assets	**1,101**	**(1,596)**	**(495)**	(256)	(236)	(492)
Past service costs	**—**	**4**	**4**	—	1	1
Actuarial loss (gain)	**(1,280)**	**1,287**	**7**	(408)	419	11
Amortization of transitional asset	**—**	**(46)**	**(46)**	—	(42)	(42)
	$ 251	**$ (351)**	**$ (100)**	$ (238)	$ 142	$ (96)

[1] Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

Years ended December 31 (millions)	2008 Incurred in period	2008 Matching adjustments[1]	2008 Recognized in period	2007 Incurred in period	2007 Matching adjustments[1]	2007 Recognized in period
Other benefit plans						
Interest cost	**$ —**	**$ —**	**$ —**	$ 7	$ —	$ 7
Return on plan assets	**(1)**	**—**	**(1)**	(1)	—	(1)
Actuarial loss (gain)	**(3)**	**1**	**(2)**	—	(3)	(3)
Amortization of transitional obligation	**—**	**1**	**1**	—	1	1
	$ (4)	**$ 2**	**$ (2)**	$ 6	$ (2)	$ 4

[1] Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

(c) Benefit payments

Estimated future benefit payments from the Company's defined benefit plans, calculated as at December 31, 2008, are as follows:

Years ending December 31 (millions)	Pension benefit plans	Other benefit plans
2009	$ 318	$ 6
2010	325	6
2011	343	6
2012	359	6
2013	376	6
2014-2018	2,106	27

(d) Disaggregation of defined benefit pension plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date. The Company's disaggregation of defined benefit pension plans surplus and deficits at year-end are as follows:

As at December 31 (millions)	2008 Accrued benefit obligation	2008 Plan assets	2008 Funded status - plan surplus (deficit)	2007 Accrued benefit obligation	2007 Plan assets	2007 Funded status - plan surplus (deficit)
Pension plans that have plan assets in excess of accrued benefit obligations	**$ 4,616**	**$ 5,177**	**$ 561**	$ 6,174	$ 6,913	$ 739
Pension plans that have accrued benefit obligations in excess of plan assets						
Funded	**486**	**477**	**(9)**	—	—	—
Unfunded	**141**	**—**	**(141)**	173	—	(173)

	627	**477**	**(150)**	173	—	(173)
(see (a))	**$ 5,243**	**$ 5,654**	**$ 411**	$ 6,347	$ 6,913	$ 566

As at December 31, 2008 and 2007, undrawn Letters of Credit, further discussed in Note 18(d), secured certain of the unfunded defined benefit pension plans.

notes to consolidated financial statements

(e) Disaggregation of other defined benefit plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date. The Company's disaggregation of other defined benefit plans surplus and deficits at year-end are as follows:

	2008			2007		
As at December 31 (millions)	**Accrued benefit obligation**	**Plan assets**	**Funded status - plan surplus (deficit)**	**Accrued benefit obligation**	**Plan assets**	**Funded status - plan surplus (deficit)**
Other benefit plans that have plan assets in excess of accrued benefit obligations	**$ 26**	**$ 34**	**$ 8**	$ 30	$ 37	$ 7
Unfunded other benefit plans that have accrued benefit obligations in excess of plan assets	**38**	**—**	**(38)**	43	—	(43)
(see (a))	**$ 64**	**$ 34**	**$ (30)**	$ 73	$ 37	$ (36)

(f) Accumulated pension benefit obligations

Accumulated benefit obligations differ from accrued benefit obligations in that accumulated benefit obligations do not include assumptions about future compensation levels. The Company's disaggregation of defined pension benefit plans accumulated benefit obligations and plan assets at year-end are as follows:

	2008			2007		
As at December 31 (millions)	**Accumulated benefit obligation**	**Plan assets**	**Difference**	**Accumulated benefit obligation**	**Plan assets**	**Difference**
Pension plans that have plan assets in excess of accumulated benefit obligations	**$ 4,899**	**$ 5,654**	**$ 755**	$ 5,830	$ 6,913	$ 1,083
Pension plans that have accumulated benefit obligations in excess of plan assets[1]	**129**	**—**	**(129)**	160	—	(160)
	$ 5,028	**$ 5,654**	**$ 626**	$ 5,990	$ 6,913	$ 923

(1) For both years presented, only unfunded pension plans had accumulated benefit obligations in excess of plan assets.

(g) Plan investment strategies and policies

The Company's primary goal for the defined benefit plans is to ensure the security of the retirement income and other benefits of the plan members and their beneficiaries. A secondary goal of the Company is to maximize the long-term rate of return of the defined benefit plans' assets within a level of risk acceptable to the Company.

Risk management: The Company considers absolute risk (the risk of contribution increases, inadequate plan surplus and unfunded obligations) to be more important than relative return risk. Accordingly, the defined benefit plans' designs, the nature and maturity of defined benefit obligations and characteristics of the plans' memberships significantly influence investment strategies and policies. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations.

Allowable and prohibited investment types: Allowable and prohibited investment types, along with associated guidelines and limits, are set out in each fund's *Pension Benefits Standards Act, 1985,* required Statement of Investment Policies and Procedures (SIP&P), which is reviewed and approved annually by the designated governing fiduciary. The SIP&P guidelines and limits are further governed by the *Pension Benefits Standards Regulations, 1985*'s permitted investments and lending limits. As well as conventional investments, each fund's SIP&P may provide for the use of derivative products to facilitate investment operations and to manage risk provided that no short position is taken, no use of leverage is made and there is no violation of guidelines and limits established in the SIP&P. Internally managed funds are prohibited from increasing grandfathered investments in securities of the Company; grandfathered investments were made prior to the merger of BC TELECOM

Inc. and TELUS Corporation, the Company's predecessors. Externally managed funds are permitted to invest in securities of the Company, provided that the investments are consistent with the funds' mandate and are in compliance with the relevant SIP&P.

Diversification: The Company's strategy for equity security investments is to be broadly diversified across individual securities, industry sectors and geographical regions. A meaningful portion (15-25% of total plans' assets) of the investment in equity securities is allocated to foreign equity securities with the intent of further increasing the diversification of the plans' assets. Debt securities may include a meaningful allocation to mortgages with the objective of enhancing cash flow and providing greater scope for the management of the bond component of the plans' assets. Debt securities also may include real return bonds to provide inflation protection, consistent with the indexed nature of some defined benefit

obligations. Real estate investments are used to provide diversification of plans' assets, potential long-term inflation hedging and comparatively stable investment income.

Relationship between plan assets and benefit obligations : With the objective of lowering its long-term costs of defined benefit plans, the Company purposely mismatches plan assets and benefit obligations. This mismatching is implemented by including equity investments in the long-term asset mix as well as fixed income securities and mortgages with durations that differ from the benefit obligations. Compensation for liquidity issues that may have otherwise arisen from mismatching of plan assets and benefit obligations comes from broadly diversified investment holdings (including cash and short-term investment holdings) and cash flows from dividends, interest and rents from diversified investment holdings.

Asset allocations: Information concerning the Company's defined benefit plans' target asset allocation and actual asset allocation is as follows:

	Pension benefit plans			Other benefit plans		
	Target allocation	Percentage of plan assets at end of year		Target allocation	Percentage of plan assets at end of year	
	2009	2008	2007	2009	2008	2007
Equity securities	45-55%	**47%**	58%	—	**—**	—
Debt securities	35-45%	**45%**	36%	—	**—**	—
Real estate	4-8%	**6%**	5%	—	**—**	—
Other	0-2%	**2%**	1%	100%	**100%**	100%
		100%	100%		**100%**	100%

At December 31, 2008, shares of TELUS Corporation accounted for less than 1% of the assets held in the pension and other benefit trusts administered by the Company.

(h) Employer contributions

The determination of the minimum funding amounts for substantially all of the Company's registered defined benefit pension plans is governed by the *Pension Benefits Standards Act, 1985* which requires that, in addition to current service costs being funded, both going-concern and solvency valuations be performed on a specified periodic basis. Any excess of plan assets over plan liabilities determined in the going-concern valuation reduces the Company's minimum funding requirement of current service costs, but may not reduce the requirement to an amount less than the employees' contributions. The going-concern valuation generally determines the excess (if any) of a plan's assets over its liabilities, determined on a projected benefit basis. The solvency valuation generally requires that a plan's liabilities, determined on the basis that the plan is terminated on the valuation date, in excess of its assets (if any) be funded, at a minimum, in equal annual amounts over a period not exceeding five years.

The best estimates of fiscal 2009 employer contributions to the Company's defined benefit plans are approximately $211 million and $2 million for defined benefit pension plans and other defined benefit plans, respectively. These estimates are based upon the mid-year 2008 annual funding reports that were prepared by actuaries using December 31, 2007, actuarial valuations. The funding reports are based on the pension plans' fiscal years, which are calendar years. The next annual funding valuations are expected to be prepared mid-year 2009.

(i) Assumptions

Management is required to make significant estimates about certain actuarial and economic assumptions to be used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets. These significant estimates are of a long-term nature, which is consistent with the nature of employee future benefits.

The discount rate, which is used to determine the accrued benefit obligation, is based on the yield on long-term, high-quality fixed term investments, and is set annually. The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.

The significant weighted average actuarial assumptions arising from these estimates and adopted in measuring the Company's accrued benefit obligations are as follows:

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	Pension benefit plans		Other benefit plans	
	2008	2007	2008	2007
Discount rate used to determine:				
Net benefit costs for the year ended December 31	**5.50%**	5.00%	**5.36%**	4.86%
Accrued benefit obligation as at December 31	**7.25%**	5.50%	**7.11%**	5.36%
Expected long-term rate of return[1] on plan assets used to determine:				
Net benefit costs for the year ended December 31	**7.25%**	7.25%	**3.00%**	3.00%
Accrued benefit obligation as at December 31	**7.25%**	7.25%	**3.00%**	3.00%
Rate of future increases in compensation used to determine:				
Net benefit costs for the year ended December 31	**3.00%**	3.00%	**—**	—
Accrued benefit obligation as at December 31	**3.00%**	3.00%	**—**	—

(1) The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations (see (g)). Forecasted returns arise from the Company's ongoing review of trends, economic conditions, data provided by actuaries and updating of underlying historical information.

	Pension benefit plans		Other benefit plans	
2008 sensitivity of key assumptions (millions)	**Change in obligation**	**Change in expense**	**Change in obligation**	**Change in expense**
Impact of hypothetical 25 basis point decrease[1] in:				
Discount rate	$ 151	$ 10	$ 1	$ —
Expected long-term rate of return on plan assets		$ 17		$ —
Rate of future increases in compensation	$ 19	$ 4	$ —	$ —

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in decreased amounts, and unfavourable hypothetical changes in the assumptions result in increased amounts, of the obligations and expenses. Changes in amounts based on a 25 basis point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. Also, in this table, the effect of a variation in a particular assumption on the change in obligation or change in expense is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in discount rates may result in increased expectations about the long-term rate of return on plan assets), which might magnify or counteract the sensitivities.

(j) Defined contribution plans

The Company's total defined contribution pension plan costs recognized were as follows:

Years ended December 31 (millions)	**2008**	**2007**
Union pension plan and public service pension plan contributions	**$ 31**	$ 31
Other defined contribution pension plans	**32**	26
	$ 63	$ 57

14 accounts receivable

On July 26, 2002, TELUS Communications Inc., a wholly owned subsidiary of TELUS, entered into an agreement, which was amended September 30, 2002, March 1, 2006, November 30, 2006, March 31, 2008, and September 12, 2008, with an arm's-length securitization trust associated with a major Schedule I bank under which TELUS Communications Inc. is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. This "revolving-period" securitization agreement had an initial term ending July 18, 2007; the November 30, 2006, amendment resulted in the term being extended to July 18, 2008; the March 31, 2008, amendment resulted in the term being extended to July 17, 2009.

As a result of selling the interest in certain of the trade receivables on a fully serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables.

TELUS Communications Inc. is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service or the securitization trust may require the sale program to be wound down prior to the end of the term; at December 31, 2008, the rating was A (low).

As at December 31(millions)	**2008**	**2007**
Total managed portfolio	**$ 1,272**	$ 1,222
Securitized receivables	**(346)**	(570)
Retained interest in receivables sold	**40**	59
Receivables held	**$ 966**	$ 711

For the year ended December 31, 2008, the Company recognized composite losses of $11 million (2007 — $21 million) on the sale of receivables arising from the securitization.

Cash flows from the securitization were as follows:

Years ended December 31 (millions)	2008	2007
Cumulative proceeds from securitization, beginning of period	**$ 500**	$ 500
Proceeds from new securitizations	**150**	720
Securitization reduction payments	**(350)**	(720)
Cumulative proceeds from securitization, end of period	**$ 300**	$ 500
Proceeds from collections reinvested in revolving-period securitizations	**$ 3,105**	$ 3,947
Proceeds from collections pertaining to retained interest	**$ 382**	$ 477

The key economic assumptions used to determine the loss on sale of receivables, the future cash flows and fair values attributed to the retained interest, as further discussed in Note 1(n), were as follows:

Years ended December 31	2008	2007
Expected credit losses as a percentage of accounts receivable sold	**1.2%**	1.1%
Weighted average life of the receivables sold (days)	**33**	37
Effective annual discount rate	**3.5%**	5.0%
Servicing	**1.0%**	1.0%

Generally, the sold trade receivables do not experience prepayments.

At December 31, 2008, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% changes in those assumptions were as follows:

		Hypothetical change in assumptions[1]	
($ in millions)	2008	10%	20%
Carrying amount/fair value of future cash flows	**$ 40**		
Expected credit losses as a percentage of accounts receivable sold		$ —	$ 1
Weighted average life of the receivables sold (days)		$ —	$ —
Effective annual discount rate		$ —	$ —

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased value, and unfavourable hypothetical changes in the assumptions result in a decreased value, of the retained interest in receivables sold. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in increased credit losses), which might magnify or counteract the sensitivities.

15 capital assets

(a) Capital assets, net

	2008			2007		
As at December 31 (millions)	Cost	Accumulated depreciation and amortization	Net book value	Cost	Accumulated depreciation and amortization	Net book value
Property, plant, equipment and other						
Network assets	**$ 20,609**	**$ 15,119**	**$ 5,490**	$ 19,848	$ 14,345	$ 5,503
Buildings and leasehold improvements	**2,110**	**1,232**	**878**	1,993	1,113	880
Assets under capital lease	**15**	**9**	**6**	18	12	6
Other	**1,681**	**1,272**	**409**	1,549	1,165	384
Land	**49**	**—**	**49**	48	—	48
Assets under construction	**485**	**—**	**485**	375	—	375
	24,949	**17,632**	**7,317**	23,831	16,635	7,196

Intangible assets subject to amortization	**245**	**46**	**199**	250	44	206
Subscriber base						
Customer contracts and the related customer relationships	**138**	**13**	**125**	—	—	—
Software	**2,082**	**1,314**	**768**	1,761	1,243	518
Access to rights-of-way and other	**103**	**75**	**28**	118	67	51
Assets under construction	**197**	**—**	**197**	184	—	184
	2,765	**1,448**	**1,317**	2,313	1,354	959
Intangible assets with indefinite lives						
Spectrum licences[1]	**4,867**	**1,018**	**3,849**	3,985	1,018	2,967
	$ 32,581	**$ 20,098**	**$ 12,483**	$ 30,129	$ 19,007	$ 11,122

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002.

The following table presents items included in capital expenditures and acquisitions. Additions of intangible assets subject to amortization include amounts reclassified from assets under construction.

Years ended December 31 (millions)	2008	2007
Additions of intangible assets		
– Subject to amortization		
– Included in capital expenditures	**$ 332**	$ 513
– Included in acquisitions (see Note 16(b))	**326**	—
	658	513
– With indefinite lives	**882**	—
	$ 1,540	$ 513

The following table presents items included in capital expenditures.

Years ended December 31 (millions)	2008	2007
Capitalized internal labour costs	**$ 371**	$ 335

(b) Intangible assets subject to amortization

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at December 31, 2008, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2009	**$ 344**
2010	**252**
2011	**152**
2012	**81**
2013	**66**

(c) Intangible assets with indefinite lives

As referred to in Note 1(b) and Note 1(f), the carrying value of intangible assets with indefinite lives, and goodwill, is periodically tested for impairment and this test represents a significant estimate for the Company. There is a material degree of uncertainty with respect to this estimate given the necessity of making key economic assumptions about the future. The Company considers a range of reasonably possible amounts and decides upon an amount that represents management's best estimate. If the future was to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to be materially adversely affected, the Company could potentially experience future material impairment charges in respect of its intangible assets with indefinite lives and goodwill.

Consistent with current industry-specific valuation methods, a combination of the discounted cash flow approach, the market-comparable approach and analytical review of industry and Company-specific facts is used in determining the fair value of its spectrum licences and goodwill. The discounted cash flow methodology uses management's best estimate of the cash flows and a discount rate established by calculating a weighted average cost of capital for each reporting unit. The market-comparable approach uses current (at the time of test) market consensus estimates and equity trading prices for U.S. and Canadian firms in the same industry. In addition, the Company ensures that the combination of the valuations of the reporting units is reasonable based on current market values of the Company.

Sensitivity testing was conducted as a part of the December 2008 annual test. Stress testing included moderate declines in annual cash flows with all other assumptions being held constant; this too resulted in the Company continuing to be able to recover the carrying value of its intangible assets with indefinite lives and goodwill for the foreseeable future.

(a) Changes in goodwill

Years ended December 31 (millions)	2008	2007
Balance, beginning of period	**$ 3,168**	$ 3,170
Goodwill arising from current period acquisition	**396**	—
Other	**3**	—
Foreign exchange on goodwill of self-sustaining foreign operations	**(3)**	(2)
Balance, end of period	**$ 3,564**	$ 3,168

(b) Business acquisitions

Emergis Inc.: On November 29, 2007, the Company announced that it had agreed to offer to acquire 100% of the outstanding shares of Emergis Inc. for $8.25 per common share by way of take-over bid (in total, an initially estimated purchase price of approximately $763 million on a fully diluted basis). Emergis Inc. is a business process outsourcer, based in Canada, with a focus on healthcare and financial services sectors, two of the four key industries the Company's Business Solutions team has invested in developing expertise in (the other two being energy and the public sector). The Company believes that its national sales and marketing capabilities will enhance growth in Emergis Inc. solutions, particularly in light of the complementary nature of the parties' businesses and customer bases.

As at December 31, 2007, the Company had made market purchases of 1,017,000 Emergis Inc. common shares for $8 million, as disclosed in the Company's press releases. On January 17, 2008, the Company drew $500 million of bankers' acceptances on its credit facilities, issued incremental commercial paper and, including utilization of cash on hand, remitted $743 million to the depository in payment for:

- the 84,876,494 Emergis Inc. common shares (representing approximately 94% of the outstanding common shares of Emergis Inc. on a fully diluted basis) that were validly deposited to the Company's offer; and
- the remaining outstanding common shares of Emergis Inc. which the Company acquired on January 18, 2008, utilizing the compulsory acquisition provisions of the *Canada Business Corporations Act*.

The primary factor that contributed to a purchase price that resulted in the recognition of goodwill is the degree of net tangible assets and net intangible assets relative to the earnings capacity of the acquired business. Emergis Inc.'s results of operations are included in the Company's Wireline segment effective January 17, 2008. The amounts assigned to goodwill are not expected to be deductible for tax purposes. Acquired intangible assets are not expected to have significant residual values.

As at January 16, 2008 (millions)	Preliminary[1] purchase price amount assigned	Adjustment	Purchase price amount assigned
Assets			
Current assets	$ 113	$ 1	$ 114
Capital assets			
Property, plant, equipment and other	19	(1)	18
Intangible assets subject to amortization[2]			
Customer contracts and the related customer relationships	135	3	138
Software	186	—	186
Other	2	—	2
	323	3	326
	342	2	344
Other assets	5	1	6
Goodwill	366	30	396
	$ 826	$ 34	$ 860
Liabilities			
Current liabilities	$ 52	$ 40	$ 92
Long-term debt	3	(1)	2
Other long-term liabilities	1	3	4
Future income taxes	25	(10)	15
	81	32	113
Purchase price			
Market purchase of shares prior to closing	8	—	8
Remitted to depository (net of amounts for market purchase of shares prior to closing)	735	—	735
	743	—	743
Direct costs of the business combination	2	2	4
	745	2	747
	$ 826	$ 34	$ 860

(1) The purchase price allocation had not been finalized as of the date of issuance of the Company's December 31, 2007, consolidated financial statements, when these amounts were first reported. As is customary in a business acquisition transaction, until the time of acquisition of control, the Company did not have full access to Emergis Inc.'s books and records. Upon having sufficient time to adequately review Emergis Inc.'s books and records, the Company finalized its purchase price allocation.

(2) Customer contracts and the related customer relationships and software are being amortized over amortization periods of 10 years and 5 years, respectively.

Fastvibe Corporation: No goodwill addition arose from the January 29, 2008, $4 million cash acquisition of Fastvibe Corporation, a provider of web streaming solutions. Fastvibe Corporation's results of operations are included in the Company's Wireline segment effective January 29, 2008.

Pro forma supplemental information: The following pro forma supplemental information represents certain results of operations as if the business acquisitions noted above had been completed as at the beginning of the fiscal years presented.

Years ended December 31	2008		2007	
(millions except per share amounts)	As reported	Pro forma	As reported	Pro forma
Operating revenues	**$ 9,653**	**$ 9,660**	$ 9,074	$ 9,268
Net income	**$ 1,128**	**$ 1,123**	$ 1,258	$ 1,215
Net income per Common Share and Non-Voting Share				
– Basic	**$ 3.52**	**$ 3.50**	$ 3.79	$ 3.66
– Diluted	**$ 3.51**	**$ 3.49**	$ 3.76	$ 3.64

The pro forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that actually would have been realized had the business acquisition been completed at the beginning of the periods presented. The pro forma supplemental information includes incremental intangible asset amortization, financing and other charges as a result of the acquisition, net of the related tax effects.

(c) Other transactions; other

TELUS International Philippines Inc.: In 2005, the Company acquired, for cash, an effective 52.5% economic interest in TELUS International Philippines Inc., a business process outsourcing company. The acquisition was effected in two steps: one on February 15, 2005, for an effective 49% economic interest and one on May 13, 2005, for an effective 3.5% economic interest. The initial effective 49% economic interest resulted in the Company controlling TELUS International Philippines Inc. as the Company controlled, but did not wholly own, an intermediate holding company which, in turn, controlled, but did not wholly own, TELUS International Philippines Inc. This investment was made with a view to enhancing the Company's competitiveness in contact centre offerings.

In the second half of 2006, the Company increased its total effective economic interest in the entity to 97.4% and in the third quarter of 2008, to 100%. None of the resulting 2008 goodwill addition of $3 million arising from the $3 million transaction is expected to be deductible for tax purposes.

The primary factor that contributed to a purchase price that resulted in the recognition of goodwill is the low degree of net tangible assets in the industry relative to the market value of established Asian operations. TELUS International Philippines Inc.'s results have been included in the Company's Consolidated Statements of Income and Other Comprehensive Income and the Company's Wireline segment since the acquisition of control on February 15, 2005.

Transactel Barbados, Inc.: On December 22, 2008, the Company acquired a direct 29.99% economic interest in Transactel Barbados Inc., a business process outsourcing and call centre company with facilities in three Central American countries, for $19 million cash. Additional contingent consideration could become payable depending upon Transactel Barbados Inc. earnings for the year ending December 31, 2011.

The Company has provided two written put options to the vendor of Transactel Barbados Inc. The first written put option becomes exercisable on December 31, 2009, expiring on June 30, 2011, and allows the vendor to put up to a further 21.01% economic interest to the Company (the Company's effective economic interest in Transactel Barbados Inc. would become 51% assuming the written put option is exercised in full). The second written put option becomes exercisable on December 31, 2010, with no expiry, and allows the vendor to put whatever interest is not put under the first written put option plus up to an incremental 44% economic interest to the Company (the Company's effective economic interest in Transactel Barbados Inc. would become 95% assuming that the written put option is exercised in full). The written put options set out the share pricing methodology, which is dependent upon Transactel Barbados Inc. future earnings.

The vendor has provided the Company with two purchased call options which substantially mirror the written put options except that they are only exercisable upon achieving certain business growth targets.

The Company currently accounts for its investment in Transactel Barbados Inc. using the equity method.

The investment was made with a view to enhancing the Company's business process outsourcing capacity particularly regarding Spanish language capabilities.

Additional disclosure: As at December 31, 2008, goodwill attributable to the Company's Wireline segment and Wireless segment was $827 million (2007 – $431 million) and $2,737 million (2007 – $2,737 million), respectively.

17 short-term obligations

On March 3, 2008, TELUS Corporation entered into a new $700 million 364-day revolving credit facility with a syndicate of financial institutions, expiring March 2, 2009; on December 15, 2008, the facility was extended to an expiry date of March 1, 2010. The credit facility is unsecured and bears interest at prime rate or bankers' acceptance rate (all such terms as used or defined in the credit facility), plus applicable margins. The credit facility contains customary representations, warranties and covenants that are substantively the same as those for TELUS Corporation's long-term credit facility, as set out in Note 18(d).

	2008			2007
As at December 31 (millions)	Bilateral bank facilities	364-day revolving credit facility	Total	Bilateral bank facilities
Net available	$ 64	$ 700	$ 764	$ 74
Drawn	11	—	11	—
Outstanding, undrawn letters of credit	3	—	3	3
Gross available	$ 78	$ 700	$ 778	$ 77

notes to consolidated financial statements

18 long-term debt

(a) Details of long-term debt

As at December 31 ($ in millions) Series	Rate of interest	Maturity	2008	2007
TELUS Corporation Notes				
U.S. [2]	8.00%[1]	June 2011	**$ 2,333**	$ 1,892
CB	5.00%[1]	June 2013	**299**	298
CC	4.50%[1]	March 2012	**299**	299
CD	4.95%[1]	March 2017	**688**	687
CE	5.95%[1]	April 2015	**497**	—
			4,116	3,176
TELUS Corporation Commercial Paper	2.80%	Through March 2009	**431**	585
TELUS Corporation Credit Facility	2.32%	May 2012	**978**	—
TELUS Communications Inc. Debentures				
1	12.00%[1]	May 2010	**50**	50
2	11.90%[1]	November 2015	**124**	124
3	10.65%[1]	June 2021	**173**	173
5	9.65%[1]	April 2022	**245**	245
B	8.80%[1]	September 2025	**198**	197
			790	789
TELUS Communications Inc. First Mortgage Bonds				
U	11.50%[1]	July 2010	**30**	30
Capital leases issued at varying rates of interest from 4.1% to 13.0% and maturing on various dates up to 2013			**5**	6
Other			**2**	3
Long-Term Debt			**6,352**	4,589
Less: Current maturities			**4**	5
Long-Term Debt – non-current			**$ 6,348**	$ 4,584

[1] Interest is payable semi-annually.
[2] Principal face value of notes is U.S.$1,925 million (2007 – U.S.$1,925 million).

(b) TELUS Corporation notes

The notes are senior, unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all existing and future unsecured, unsubordinated obligations of the Company, are senior in right of payment to all existing and future subordinated indebtedness of the Company, and are effectively subordinated to all existing and future obligations of, or guaranteed by, the Company's subsidiaries.

The indentures governing the notes contain certain covenants which, among other things, place limitations on the ability of TELUS and certain of its subsidiaries to: grant security in respect of indebtedness, enter into sale and lease-back transactions and incur new indebtedness.

2011 Cross Currency Interest Rate Swap Agreements: With respect to the 2011 (U.S. Dollar) Notes, U.S.$1.9 billion (2007 –

U.S.$1.9 billion) in aggregate, the Company entered into cross currency interest rate swap agreements which effectively convert the principal repayments and interest obligations to Canadian dollar obligations with an effective fixed interest rate of 8.493% and an effective fixed economic exchange rate of $1.5327.

The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. TELUS has not required collateral or other security from the counterparties due to its assessment of their creditworthiness.

The Company translates items such as the U.S. Dollar notes into equivalent Canadian dollars at the rate of exchange in effect at the statement of financial position date. The swap agreements at December 31, 2008, comprised a net derivative liability of $778 million (2007 – $1,179 million), as set out in Note 5(h). The asset value of the swap agreements increases (decreases) when the statement of financial position date exchange rate increases (decreases) the Canadian dollar equivalent of the U.S. Dollar notes.

Series	Issued	Issue price	Principal face amount		Redemption present value spread (basis points)[1]
			Originally issued	Outstanding	
8.00% (U.S. Dollar) Notes due 2011	May 2001	U.S.$994.78	U.S.$2.0 billion	U.S.$1.9 billion	30
5.00% Notes, Series CB	May 2006	$998.80	$300 million	$300 million	16
4.50% Notes, Series CC	March 2007	$999.91	$300 million	$300 million	15
4.95% Notes, Series CD	March 2007	$999.53	$700 million	$700 million	24
5.95% Notes, Series CE[2]	April 2008	$998.97	$500 million	$500 million	66

(1) The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 and not more than 60 days' prior notice. The redemption price is equal to the greater of (i) the present value of the notes discounted at the Adjusted Treasury Rate (in respect of the U.S. Dollar denominated notes) or the Government of Canada yield (in respect of the Canadian dollar denominated notes) plus the redemption present value spread, or (ii) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

(2) The Series CE Notes require the Company to make an offer to repurchase the Series CE Notes at a price equal to 101% of their principal plus accrued and unpaid interest to the date of repurchase upon the occurrence of a change in control triggering event, as defined in the supplemental trust indenture.

(c) TELUS Corporation commercial paper

On May 15, 2007, TELUS Corporation entered into an unsecured commercial paper program, which is backstopped by a portion of its $2.0 billion syndicated credit facility, enabling it to issue commercial paper up to a maximum aggregate of $800 million (or U.S. Dollar equivalent), to be used for general corporate purposes, including capital expenditures and investments; in August 2008, the program was expanded to $1.2 billion. Commercial paper debt is due within one year but is classified as long-term debt as the amounts are fully supported, and the Company expects that they will continue to be supported, by the revolving credit facility which has no repayment requirements within the next year.

(d) TELUS Corporation credit facility

On March 2, 2007, TELUS Corporation entered into a $2.0 billion bank credit facility with a syndicate of financial institutions. The credit facility consists of a $2.0 billion (or U.S. Dollar equivalent) revolving credit facility expiring on May 1, 2012, to be used for general corporate purposes including the backstop of commercial paper.

TELUS Corporation's credit facility is unsecured and bears interest at prime rate, U.S. Dollar Base Rate, a bankers' acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the credit facility), plus applicable margins. The credit facility contains customary representations, warranties and covenants including two financial quarter-end financial ratio tests. The financial ratio tests are that the Company may not permit its net debt to operating cash flow ratio to exceed 4.0:1 and may not permit its operating cash flow to interest expense ratio to be less than 2.0:1, each as defined under the credit facility.

Continued access to TELUS Corporation's credit facility is not contingent on the maintenance by TELUS Corporation of a specific credit rating.

As at December 31 (millions)	2008	2007
Revolving credit facility expiring May 1, 2012		
Net available	**$ 387**	$ 1,309
Drawn[1]	**980**	—
Outstanding, undrawn letters of credit	**201**	104
Backstop of commercial paper	**432**	587
Gross available	**$ 2,000**	$ 2,000

(1) Amounts drawn include bankers' acceptances of $930 (2007 – $NIL).

(e) TELUS Communications Inc. debentures

The outstanding Series 1 through 5 debentures were issued by a predecessor corporation of TELUS Communications Inc., BC TEL, under a Trust Indenture dated May 31, 1990, and are non-redeemable.

The outstanding Series B Debentures were issued by a predecessor corporation of TELUS Communications Inc., AGT Limited, under a Trust Indenture dated August 24, 1994, and a supplemental trust indenture dated September 22, 1995. They are redeemable at the option of the Company, in whole at any time or in part from time to time, on not less than 30 days' notice at the higher of par and the price calculated to provide the Government of Canada Yield plus 15 basis points.

Pursuant to an amalgamation on January 1, 2001, the Debentures became obligations of TELUS Communications Inc. The debentures are not secured by any mortgage, pledge or other charge and are governed

by certain covenants including a negative pledge and a limitation on issues of additional debt, subject to a debt to capitalization ratio and interest coverage test.

(f) TELUS Communications Inc. first mortgage bonds

The first mortgage bonds were issued by TELUS Communications (Québec) Inc. and are secured by an immovable hypothec and by a movable hypothec charging specifically certain immovable and movable property of the subsidiary TELUS Communications Inc., such as land, buildings, equipment, apparatus, telephone lines, rights-of-way and similar rights limited to certain assets located in the province of Quebec. The first mortgage bonds are non-redeemable. Pursuant to a corporate reorganization effected July 1, 2004, the outstanding first mortgage bonds became obligations of TELUS Communications Inc.

(g) Long-term debt maturities

Anticipated requirements to meet long-term debt repayments, including related hedge amounts and calculated upon such long-term debts owing as at December 31, 2008, for each of the next five fiscal years are as follows:

	Canadian Dollars		U.S. Dollars				
				Derivative liability			
Debt denominated in Years ending December 31 (millions)	Other debt	Capital leases	Debt[1]	(Receive)[1]	Pay	Total	Total
2009	$ 1	$ 3	$ —	$ —	$ —	$ —	$ 4
2010	80	2	—	—	—	—	82
2011	—	—	2,345	(2,345)	2,950	2,950	2,950
2012	1,712	—	—	—	—	—	1,712
2013	300	—	—	—	—	—	300
Thereafter	1,949	—	—	—	—	—	1,949
Future cash outflows in respect of debt principal repayments	4,042	5	2,345	(2,345)	2,950	2,950	6,997
Future cash outflows in respect of associated interest and like carrying costs[2]	1,700	1	468	(468)	627	627	2,328
Undiscounted contractual maturities (Note 5(c))	$ 5,742	$ 6	$ 2,813	$ (2,813)	$ 3,577	$ 3,577	$ 9,325

(1) Where applicable, principal-related cash flows reflect foreign exchange rates at December 31, 2008.
(2) Future cash outflows in respect of associated interest and like carrying costs for commercial paper and amounts drawn under the Company's credit facility have been calculated based upon the rates in effect as at December 31, 2008.

19 shareholders' equity

(a) Details of shareholders' equity

As at December 31($in millions)		2008	2007
Preferred equity			
Authorized	Amount		
First Preferred Shares	1,000,000,000		
Second Preferred Shares	1,000,000,000		
Common equity			
Share capital			
Shares			
Authorized	Amount		
Common Shares	1,000,000,000		
Non-Voting Shares	1,000,000,000		
Issued			
Common Shares (b)		**$ 2,216**	$ 2,228

Non-Voting Shares (b)	**3,069**	3,192
	5,285	5,420
Retained earnings and accumulated other comprehensive income		
Retained earnings	**1,859**	1,458
Accumulated other comprehensive income (loss) (c)	**(130)**	(104)
Total	**1,729**	1,354
Contributed surplus (d)	**168**	152
Total Shareholders' Equity	**$ 7,182**	$ 6,926

(b) Changes in Common Shares and Non-Voting Shares

	2008		2007	
Years ended December 31 ($ in millions)	**Number of shares**	**Share capital**	**Number of shares**	**Share capital**
Common Shares				
Beginning of period	**175,766,114**	**$ 2,228**	178,667,834	$ 2,265
Common Shares issued pursuant to exercise of share options (e)	**1,700**	**—**	3,180	—
Purchase of shares for cancellation pursuant to normal course issuer bid (f)	**(950,300)**	**(12)**	(2,904,900)	(37)
End of period	**174,817,514**	**$ 2,216**	175,766,114	$ 2,228
Non-Voting Shares				
Beginning of period	**148,581,171**	**$ 3,192**	159,240,734	$ 3,421
Non-Voting Shares issued pursuant to exercise of share options (e)	**13,339**	**—**	29,790	1
Non-Voting Shares issued pursuant to use of share option award net-equity settlement feature (e)	**47,748**	**2**	16,647	—
Purchase of shares for cancellation pursuant to normal course issuer bid (f)	**(5,810,400)**	**(125)**	(10,706,000)	(230)
End of period	**142,831,858**	**$ 3,069**	148,581,171	$ 3,192

The amounts credited to the Common Share and Non-Voting Share capital accounts upon exercise of share options in the preceding table are all for cash received from exercise.

(c) Accumulated other comprehensive income (loss)

	2008					2007				
	Other comprehensive income (loss)			**Accumulated Other comprehensive income (loss)**		**other comprehensive income (loss)**			**Accumulated other comprehensive income (loss)**	
Years ended December 31 (millions)	**Amount arising**	**Income taxes**	**Net**	**Beginning of period**	**End of period**	**Amount arising**	**Income taxes**	**Net**	**Beginning of period[1]**	**End of period**
Change in unrealized fair value of derivatives designated as cash flow hedges (Note 5(i))										
Gains (losses) arising in current period	**$ 405**	**$ 58**	**$ 347**			$ (354)	$ (40)	$ (314)		
(Gains) losses arising in prior periods and transferred to net income in the current period	**(440)**	**(67)**	**(373)**			477	81	396		
	(35)	**(9)**	**(26)**	**$ (96)**	**$ (122)**	123	41	82	$ (178)	$ (96)
Cumulative foreign currency translation adjustment	**2**	**—**	**2**	**(9)**	**(7)**	(7)	—	(7)	(2)	(9)
Change in unrealized fair value of available-for-sale financial assets and recognition of amounts realized	**(2)**	**—**	**(2)**	**1**	**(1)**	(1)	—	(1)	2	1
	$ (35)	**$ (9)**	**$ (26)**	**$ (104)**	**$ (130)**	$ 115	$ 41	$ 74	$ (178)	$ (104)

[1] Beginning of period amounts are the transitional amounts arising from adoption of new accounting standard and arise primarily from cross currency interest rate swaps (Note 18(b)) and are net of income taxes of $82.

The net amount of the existing gains (losses) arising from the unrealized fair value of the 2011 cross currency interest rate swap agreements, which are derivatives that are designated as cash flow hedges and are reported in accumulated other comprehensive income, would be reclassified to net income if the agreements (see Note 18(b)) were early terminated; the amount of such reclassification would be dependent

upon fair values and amounts of the agreements terminated. As at December 31, 2008, the Company's estimate of the net amount of existing gains (losses) arising from the unrealized fair value of derivatives designated as cash flow hedges, other than in respect of the 2011 cross currency interest rate swap

agreements, which are reported in accumulated other comprehensive income and are expected to be reclassified to net income in the next twelve months, excluding tax effects, is $4 million.

(d) Contributed surplus

Years ended December 31 (millions)	2008	2007
Balance, beginning of period	**$ 152**	$ 163
Share option award expense		
- Recognized in period[1]	**18**	15
- Reclassified to Non-Voting Share capital account upon use of share option award net-equity settlement feature	**(2)**	—
- Reclassified from current liabilities as awards exercised and eligible for net-cash settlement were settled other than through the use of net-cash settlement feature	**—**	(26)
Balance, end of period	**$ 168**	$ 152

(1) This amount represents the expense for share option awards accounted for as equity instruments; the difference between this amount and the amount disclosed in Note 12(a), if any, is the expense for share option awards accounted for as liability instruments.

(e) Share option plans

The Company has a number of share option plans under which officers and other employees may receive options to purchase Non-Voting Shares at a price equal to the fair market value at the time of grant; prior to 2001, options were also similarly awarded in respect of Common Shares. Prior to 2002, directors were also awarded options to purchase Non-Voting Shares and Common Shares at a price equal to the fair market value at the time of grant. Option awards currently granted under the plans may be exercised over specific periods not to exceed seven years from the time of grant; prior to 2003, share option awards were granted with exercise periods not to exceed ten years.

The following table presents a summary of the activity related to the Company's share option plans.

	2008		2007	
Year ended December 31	Number of share options	Weighted average share option price	Number share options	Weighted average share option price
Outstanding, beginning of period	**8,284,634**	**$ 37.17**	10,569,462	$ 31.46
Granted	**2,949,957**	**43.81**	1,347,893	56.59
Exercised[1]	**(582,286)**	**27.54**	(3,041,122)	26.60
Forfeited	**(466,489)**	**45.61**	(591,599)	33.74
Expired	**(32,500)**	**46.72**	—	—
Outstanding, end of period	**10,153,316**	**$ 39.23**	8,284,634	$ 37.17

(1) The total intrinsic value of share option awards exercised was $9 million (2007 — $94 million) (reflecting a weighted average price at the dates of exercise of $42.54 per share (2007 — $57.44 per share)). The tax benefit realized for the tax deductions from share option exercises was $2 million (2007 — $36 million).

In 2006, certain outstanding grants of share option awards, which were made after 2001, had a net-equity settlement feature applied to them. This event did not result in the optionees receiving incremental value and therefore modification accounting was not required for it. The optionee does not have the choice of exercising the net-equity settlement feature. It is at the Company's discretion whether an exercise of the share option award is settled as a share option or using the net-equity settlement feature. In 2007, certain outstanding grants of share option awards had a net-cash settlement feature applied to them, as further discussed in Note 12(b); the optionee has the choice of exercising the net-cash settlement feature.

The following table reconciles the number of share options exercised and the associated number of Common Shares and Non-Voting Shares issued.

Years ended December 31	2008 Common Shares	2008 Non-Voting Shares	2008 Total	2007 Common Shares	2007 Non-Voting Shares	2007 Total
Shares issued pursuant to exercise of share options	**1,700**	**13,339**	**15,039**	3,180	29,790	32,970
Impact of optionee choosing to settle share option award exercises using net-cash settlement feature	**34,667**	**341,421**	**376,088**	339,002	2,643,953	2,982,955
Shares issued pursuant to use of share option award net-equity settlement feature	**N/A**[1]	**47,748**	**47,748**	N/A[1]	16,647	16,647
Impact of Company choosing to settle share option award exercises using net-equity settlement feature	**N/A**[1]	**143,411**	**143,411**	N/A[1]	8,550	8,550
Share options exercised	**36,367**	**545,919**	**582,286**	342,182	2,698,940	3,041,122

(1) Share option awards for Common Shares do not have a net-equity settlement feature.

The following is a life and exercise price stratification of the Company's share options outstanding as at December 31, 2008.

							Options exercisable	
						Total	Number of shares	Weighted average price
Options outstanding[1]								
Range of option prices								
Low	$ 8.43	$ 14.63	$ 21.99	$ 33.14	$ 50.47	$ 8.43		
High	$ 10.75	$ 19.92	$ 32.83	$ 47.22	$ 64.64	$ 64.64		
Year of expiry and number of shares								
2009	2,944	285,802	93,642	62,315	—	444,703	444,703	$ 21.85
2010	—	58,071	536,377	254,217	—	848,665	848,665	$ 27.93
2011	—	3,500	1,035,413	790,984	—	1,829,897	1,829,897	$ 28.98
2012	7,083	126,300	65,000	1,438,019	—	1,636,402	1,045,827	$ 33.07
2013	—	—	—	1,335,571	53,032	1,388,603	—	$ —
2014	—	—	—	12,495	1,201,632	1,214,127	—	$ —
2015	—	—	—	2,790,919	—	2,790,919	—	$ —
	10,027	473,673	1,730,432	6,684,520	1,254,664	10,153,316	4,169,092	
Weighted average remaining contractual life (years)	2.7	1.8	2.3	4.5	5.2	4.1		
Weighted average price	$ 10.14	$ 16.05	$ 24.71	$ 41.41	$ 56.66	$ 39.23		
Aggregate intrinsic value[2] (millions)	$ —	$ 9	$ 18	$ —	$ —	$ 27		
Options exercisable								
Number of shares	10,027	473,673	1,730,432	1,954,960	—	4,169,092		
Weighted average remaining contractual life (years)	2.7	1.8	2.3	2.5	—	2.3		
Weighted average price	$ 10.14	$ 16.05	$ 24.71	$ 36.09	$ —	$ 29.03		
Aggregate intrinsic value[2] (millions)	$ —	$ 9	$ 18	$ —	$ —	$ 27		

(1) As at December 31, 2008, 9,603,650 share options, with a weighted average remaining contractual life of 4.0 years, a weighted average price of $38.95 and an aggregate intrinsic value of $27 million, are vested or were expected to vest; these amounts differ from the corresponding amounts for all share options outstanding due to an estimate for expected forfeitures.

(2) The aggregate intrinsic value is calculated upon December 31, 2008, per share prices of $37.17 for Common Shares and $34.90 for Non-Voting Shares.

As at December 31, 2008, less than one million Common Shares and approximately 15 million Non-Voting Shares were reserved for issuance, from Treasury, under the share option plans.

(f) Purchase of shares for cancellation pursuant to normal course issuer bid

As referred to in Note 3, the Company may purchase shares for cancellation pursuant to normal course issuer bids in order to maintain or adjust its capital structure. The Company has purchased, for cancellation, through the facilities of the Toronto Stock Exchange or other means permitted by the Toronto Stock Exchange and other securities regulators, including privately negotiated block purchases, Common Shares and Non-Voting Shares pursuant to successive normal course issuer bids; the Company's most current normal course issuer bid runs for a twelve-month period ending December 22, 2009, for up to 4 million Common Shares and 4 million Non-Voting Shares. The excess of the purchase

price over the average stated value of shares purchased for cancellation was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

Years ended December 31 ($ in millions)	Number of shares	Purchase price		
		Paid	Charged to share capital	Charged to retained earnings
Common Shares purchased for cancellation				
Program commencing December 20, 2004	10,259,011	$ 440	$ 129	$ 311
Program commencing December 20, 2005	6,125,069	290	77	213
Program commencing December 20, 2006				
During fiscal 2006 year	—	—	—	—
During fiscal 2007 year	2,904,900	167	37	130
Program total	2,904,900	167	37	130
Program commencing December 20, 2007				
During fiscal 2007 year	—	—	—	—
During fiscal 2008 year	950,300	39	12	27
Program total	950,300	39	12	27
All programs — inception to date	20,239,280	$ 936	$ 255	$ 681
All programs — during fiscal 2008 year	**950,300**	**$ 39**	**$ 12**	**$ 27**
All programs — during fiscal 2007 year	2,904,900	$ 167	$ 37	$ 130
Non-Voting Shares purchased for cancellation				
Program commencing December 20, 2004	11,500,000	$ 473	$ 241	$ 232
Program commencing December 20, 2005	11,309,100	557	241	316
Program commencing December 20, 2006				
During fiscal 2006 year	186,723	10	4	6
During fiscal 2007 year	10,571,800	577	227	350
Program total	10,758,523	587	231	356
Program commencing December 20, 2007				
During fiscal 2007 year	134,200	6	3	3
During fiscal 2008 year	5,810,400	241	125	116
Program total	5,944,600	247	128	119
All programs — inception to date	39,512,223	$ 1,864	$ 841	$ 1,023
All programs — during fiscal 2008 year	**5,810,400**	**$ 241**	**$ 125**	**$ 116**
All programs — during fiscal 2007 year	10,706,000	$ 583	$ 230	$ 353
Common Shares and Non-Voting Shares purchased for cancellation				
Program commencing December 20, 2004	21,759,011	$ 913	$ 370	$ 543
Program commencing December 20, 2005	17,434,169	847	318	529
Program commencing December 20, 2006				
During fiscal 2006 year	186,723	10	4	6
During fiscal 2007 year	13,476,700	744	264	480
Program total	13,663,423	754	268	486
Program commencing December 20, 2007				
During fiscal 2007 year	134,200	6	3	3
During fiscal 2008 year	6,760,700	280	137	143
Program total	6,894,900	286	140	146
All programs — inception to date	59,751,503	$ 2,800	$ 1,096	$ 1,704
All programs — during fiscal 2008 year	**6,760,700**	**$ 280**	**$ 137**	**$ 143**
All programs — during fiscal 2007 year	13,610,900	$ 750	$ 267	$ 483

(g) Dividend Reinvestment and Share Purchase Plan

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible shareholders may acquire Non-Voting Shares through the reinvestment of dividends and making additional optional cash payments to the trustee.

Excluding Non-Voting Shares purchased by way of additional optional cash payments, the Company, at its discretion, may offer the Non-Voting Shares at up to a 5% discount from the market price. Effective January 1, 2005, the Company did not offer Non-Voting Shares at a discount. Shares purchased through optional cash payments are subject to a minimum investment of $100 per transaction and a maximum investment of $20,000 per calendar year.

Under this Plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior

to July 1, 2001, when the acquisition of shares from Treasury commenced, all Non-Voting Shares were acquired in the market at normal trading prices; acquisition in the market at normal trading prices recommenced on January 1, 2005.

In respect of Common Share and Non-Voting Share dividends declared during the year ended December 31, 2008, $21 million (2007 — $17 million) was to be reinvested in Non-Voting Shares.

20 commitments and contingent liabilities

(a) Canadian Radio-television and Telecommunications Commission Decisions 2002-34, 2002-43 and 2006-9 deferral accounts

As further discussed in Note 4, on May 30, 2002, and on July 31, 2002, the CRTC issued Decisions 2002-34 and 2002-43, respectively, and introduced the concept of a deferral account as a component of the price caps form of regulation. The Company must make significant estimates and assumptions in respect of the deferral accounts given the complexity and interpretation required of Decisions 2002-34 and 2002-43. Accordingly, the Company estimates, and records, an aggregate liability of $146 million as at December 31, 2008 (2007 — $147 million), to the extent that activities it has undertaken, other qualifying events and realized rate reductions for Competitor Services do not extinguish it; management is required to make estimates and assumptions in respect of the offsetting nature of these items. If the CRTC, upon its periodic review of the Company's deferral account, disagrees with management's estimates and assumptions, the CRTC may adjust the deferral account balance and such adjustment may be material. Ultimately, this process results in the CRTC determining if, and when, the deferral account liability is settled.

On March 24, 2004, the CRTC issued Telecom Public Notice CRTC 2004-1, *Review and disposition of the deferral accounts for the second price cap period*, which initiated a public proceeding inviting proposals on the disposition of the amounts accumulated in the incumbent local exchange carriers' deferral accounts. Although amounts were accumulated in the deferral account only during the four-year period ended May 31, 2006, the proceeding was to address only the amounts accumulated in the deferral account during the two-year period ended May 31, 2004. The outcomes of this proceeding are as set out in the following table.

Initiative Decision	Issued	Expansion of broadband services in respective incumbent local exchange carrier operating territories to rural and remote communities	Enhance accessibility to telecommunications services for individuals with disabilities	Rebate balance of deferral account to local residential customers in non-high cost serving areas
Decision CRTC 2006-9, *Disposition of funds in the deferral account*	February 16, 2006	Majority of accumulated balance of deferral account to be used for this initiative	Minimum of 5% of accumulated balance of deferral account to be used for this initiative	Remaining amount of accumulated balance of deferral account to be used for this initiative
Decision CRTC 2007-50, *Use of deferral account to expand broadband services to certain rural and remote communities*	July 6, 2007	Expansion of broadband services to 115 communities in British Columbia and Quebec approved		
Decision CRTC 2008-1, *Use of deferral account funds to improve access to telecommunications services for persons with disabilities and to expand broadband services to rural and remote communities*	January 17, 2008	Expansion of broadband services to an additional 119 rural and remote communities approved; determination that no further communities can be submitted to exhaust remaining funds in the deferral account	Approved the use of approximately 5% of the accumulated balance of the Company's deferral account	Confirmed that remaining amount of accumulated balance of deferral account to be used for this initiative

There have been a series of escalating court actions since the issuance of CRTC Telecom Decision 2006-9 and Telecom Decision 2008-1 and the litigants have included the Consumers Association of Canada, the National Anti-Poverty Organization, Bell Canada and the Company. The consumer groups have appealed to the courts to direct that rebates be made to local telephone subscribers rather than have the accumulated deferral account funds used for purposes determined by the CRTC, as noted above. Bell Canada has appealed to the courts that the CRTC has exceeded its jurisdiction to the extent it approved rebates from the deferral account. The Company has appealed to the courts to permit incumbent local exchange carriers to file for approval further lists of communities that would be eligible for broadband expansion from the remaining funds in the deferral account rather than rebating the remaining funds to local telephone subscribers. The Supreme Court of Canada has granted a stay of CRTC Telecom Decision 2006-9 in so far as it requires a rebate to local telephone subscribers. The appeals pertaining to the disposition of the accumulated amounts in the deferral account by the consumer groups, Bell Canada and the Company are currently scheduled to be heard by the Supreme Court of Canada in March 2009. The Company anticipates a decision on this matter in the latter half of 2009.

Due to the Company's use of the liability method of accounting for the deferral account, the CRTC Decision 2005-6, as it relates to the Company's provision of Competitor Digital Network services, is not expected to affect the Company's consolidated revenues. Specifically, to the extent that the CRTC Decision 2005-6 requires the Company to provide discounts on Competitor Digital Network services, through May 31, 2006, the Company drew down the deferral account by an offsetting amount; subsequent to May 31, 2006, the statement of income and other

comprehensive income effects did not change and the Company no longer needed to account for these amounts through the deferral account. For the year ended December 31, 2008, the Company drew down the deferral account by $1 million (2007 — $18 million) in respect of discounts on Competitor Digital Network services and other qualifying expenditures.

(b) Leases

The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases. At December 31, 2008, the future minimum lease payments under capital leases and operating leases are as follows:

		Operating lease payments				
		Land and buildings			Vehicles and other equipment	
Years ending December 31 (millions)	Capital lease payments	Rent	Occupancy costs	Gross		Total
2009	$ 3	$ 156	$ 82	$ 238	$ 23	$ 261
2010	2	155	83	238	19	257
2011	—	142	82	224	15	239
2012	—	133	79	212	8	220
2013	—	124	79	203	1	204
Total future minimum lease payments	5					
Less imputed interest	1					
Capital lease liability	$ 6					

Total future minimum operating lease payments at December 31, 2008, were $2,261 million. Of this amount, $2,195 million was in respect of land and buildings; approximately 60% of this amount was in respect of the Company's five largest leases, all of which were for office premises over various terms, with expiry dates which range from 2016 to 2026.

(c) Guarantees

Guarantees: Canadian generally accepted accounting principles require the disclosure of certain types of guarantees and their maximum, undiscounted amounts. The maximum potential payments represent a "worst-case scenario" and do not necessarily reflect results expected by the Company. Guarantees requiring disclosure are those obligations that require payments contingent on specified types of future events. In the normal course of its operations, the Company enters into obligations that GAAP may consider to be guarantees. As defined by Canadian GAAP, guarantees subject to these disclosure guidelines do not include guarantees that relate to the future performance of the Company. As at December 31, 2008, the Company's maximum undiscounted guarantee amounts, without regard for the likelihood of having to make such payment, were not material.

Indemnification obligations: In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The terms of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of the obligations under such indemnification obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share would have been 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. As well, should the CRTC take any action which would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred.

As at December 31, 2008, the Company had no liability recorded in respect of indemnification obligations.

(d) Claims and lawsuits

General: A number of claims and lawsuits (including class actions) seeking damages and other relief are pending against the Company. As well, the Company has received or is aware of certain intellectual property infringement claims and potential claims against the Company and, in some cases, numerous other wireless carriers and telecommunications service providers. In some instances, the matters are at a preliminary stage and the potential for liability and magnitude of potential loss cannot be readily determined currently. It is impossible at this time for the Company to predict with any certainty the outcome of any such claims, potential claims and lawsuits. However, subject to the foregoing limitations, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, excepting the items enumerated following.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan: Two statements of claim were filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, respectively, by plaintiffs alleging to be either members or business agents of the Telecommunications Workers Union. In one action, the plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and in the other action, the plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Edmonton Pension Plan. The statement of claim in the TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of $445 million. The statement of claim in the TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan and claims damages in the sum of $16 million. On February 19, 2002, the Company filed statements of defence to both actions and also filed notices of motion for certain relief, including an order striking out the actions as representative or class actions. On May 17, 2002, the statements of claim were amended by the plaintiffs and include allegations, *inter alia*, that benefits provided under the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan are less advantageous than the benefits provided under the respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted. The Company filed statements of defence to the amended statements of claim on June 3, 2002. The Company believes that it has good defences to the actions. As a term of the settlement reached between TELUS Communications Inc. and the Telecommunications Workers Union that resulted in a collective agreement effective November 20, 2005, the Telecommunications Workers Union has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the Telecommunications Workers Union's desire and recommendation that these proceedings be dismissed or discontinued. The Company has been advised by the Telecommunications Workers Union that the plaintiffs have not agreed to dismiss or discontinue these actions. Should the lawsuits continue because of the actions of the court, the plaintiffs or for any other reason, and their ultimate resolution differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Certified class action: A class action was brought August 9, 2004, under the *Class Actions Act* (Saskatchewan), against a number of past and present wireless service providers including the Company. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. The class was certified on September 17, 2007, by the Saskatchewan Court of Queen's Bench. On February 20, 2008, the same court removed from the class all customers of the Company who are bound by an arbitration clause, applying two recent decisions of the Supreme Court of Canada. The Company has applied for leave to appeal the certification decision. The Company believes that it has good defences to the action.

Similar proceedings have also been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions.

Should the ultimate resolution of this action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result; management's assessments and assumptions include that a reliable estimate of the exposure cannot be made at this preliminary stage of the lawsuit.

Uncertified class action: A class action was brought on June 26, 2008, in the Saskatchewan Court of Queen's Bench alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 9-1-1 charges to the public and have been deceitfully passing it off as government charges. The Plaintiffs seek restitution and direct and punitive damages in an unspecified amount. The Company is assessing the merits of this claim but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

Emergis Inc.: As set out in Note 16, on January 17, 2008, the Company acquired all of the outstanding securities of Emergis Inc.

In April 2005, MultiPlan, Inc. filed in federal court in New York a complaint seeking, among other relief, compensation in excess of U.S.$64 million for damages allegedly incurred in connection with its purchase of the U.S. health subsidiary of Emergis Inc. The complaint alleged a variety of claims relating to the sales agreement. This lawsuit was settled during the third quarter of 2008 in consideration for the payment by the Company of an amount of U.S.$4 million, such amount, net of insurance coverage, approximating the related accrual.

21 additional financial information

(a) Statement of income and other comprehensive income

Years ended December 31 (millions)	2008	2007
Operations expense[1]**:**		
Cost of sales and service	**$ 3,235**	$ 2,949
Selling, general and administrative	**2,580**	2,516
	$ 5,815	$ 5,465
Advertising expense	**$ 312**	$ 294
Employee benefits expense		

Wages and salaries[2]	**$ 2,226**	$ 2,242
Pensions — defined benefit (Note 13(b))	**(100)**	(96)
Pensions — defined contribution (Note 13(j))	**63**	57
Other defined benefits (Note 13(b))	**(2)**	4
Restructuring and workforce reduction (Note 7)	**59**	19
Other	**140**	123
	2,386	2,349
Capitalized internal labour costs (Note 15(a))	**(371)**	(335)
	$ 2,015	$ 2,014

(1) Cost of sales and service excludes depreciation and amortization of intangible assets and includes cost of goods sold and costs to operate and maintain access to and usage of the Company's telecommunications infrastructure. Selling, general and administrative costs include sales and marketing costs (including commissions), customer care, bad debt expense, real estate costs and corporate overhead costs such as information technology, finance (including billing services, credit and collection), legal, human resources and external affairs.

Employee salaries, benefits and related costs are included in one of the two components of operations expense to the extent that the costs are related to the component functions.

(2) Wages and salaries include share-based compensation amounts of $88 (2007 — $247), as disclosed in Note 12.

(b) Statement of financial position

As at December 31 (millions)	2008	2007
Accounts receivable		
Customer accounts receivable	**$ 843**	$ 591
Accrued receivables — customer	**110**	113
Allowance for doubtful accounts	**(77)**	(63)
	876	641
Accrued receivables — other	**87**	67
Other	**3**	3
	$ 966	$ 711
Inventories		
Wireless handsets, parts and accessories	**$ 268**	$ 179
Other	**65**	64
	$ 333	$ 243
Prepaid expense and other		
Prepaid expenses	**$ 109**	$ 118
Deferred customer activation and connection costs	**44**	39
Other	**67**	43
	$ 220	$ 200
Deferred charges		
Recognized transitional pension assets and pension plan contributions in excess of charges to income	**$ 1,401**	$ 1,194
Deferred customer activation and connection costs	**95**	109
Other	**17**	15
	$ 1,513	$ 1,318

As at December 31 (millions)	2008	2007
Accounts payable and accrued liabilities		
Accrued liabilities	**$ 527**	$ 447
Payroll and other employee-related liabilities	**347**	422
Accrual for net-cash settlement feature for share option awards (Note 12(b))	**27**	82
Asset retirement obligations	**3**	4
	904	955
Trade accounts payable	**441**	406
Interest payable	**58**	51
Other	**62**	64
	$ 1,465	$ 1,476
Advance billings and customer deposits		
Advance billings	**$ 475**	$ 409
Regulatory deferral accounts (Note 20(a))	**146**	147
Deferred customer activation and connection fees	**44**	39
Customer deposits	**24**	37
	$ 689	$ 632
Other long-term liabilities		
Derivative liabilities (Notes 5(h), 18(b))	**$ 785**	$ 1,183

Pension and other post-retirement liabilities	**210**	208
Other	**108**	116
	1,103	1,507
Deferred customer activation and connection fees	**95**	109
Deferred gain on sale-leaseback of buildings	**54**	62
Asset retirement obligations	**43**	40
	$ 1,295	$ 1,718

(c) Supplementary cash flow information

Years ended December 31 (millions)	2008	2007
Net change in non-cash working capital		
Short-term investments	**$ 42**	$ 68
Accounts receivable	**(217)**	(32)
Inventories	**(90)**	(19)
Prepaid expenses and other	**(15)**	(4)
Accounts payable and accrued liabilities	**(31)**	6
Income and other taxes receivable and payable, net	**253**	(19)
Advance billings and customer deposits	**57**	25
	$ (1)	$ 25
Long-term debt issued		
TELUS Corporation Commercial Paper	**$ 7,831**	$ 5,962
TELUS Corporation Credit Facility	**4,652**	801
Long-term debt other than TELUS Corporation Commercial Paper and TELUS Corporation Credit Facility	**500**	1,000
	$ 12,983	$ 7,763
Redemptions and repayment of long-term debt		
TELUS Corporation Commercial Paper	**$ (7,985)**	$ (5,377)
TELUS Corporation Credit Facility	**(3,674)**	(921)
Long-term debt other than TELUS Corporation Commercial Paper and TELUS Corporation Credit Facility	**(8)**	(1,559)
	$ (11,667)	$ (7,857)
Interest (paid)		
Amount paid in respect of interest expense	**$ (457)**	$ (444)
Forward starting interest rate swap agreement termination payments	**—**	(10)
	$ (457)	$ (454)

notes to consolidated financial statements

22 differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP. As discussed further in Note 2(a), Canadian GAAP is being converged with IFRS-IASB. The United States Securities and Exchange Commission, effective March 4, 2008, will no longer require certain reporting issuers, such as the Company, to reconcile their financial statements included in their filings with the United States Securities and Exchange Commission and prepared in accordance with IFRS-IASB to U.S. GAAP. Upon the commencement of presenting the Company's financial statements in accordance with IFRS-IASB, the Company currently expects that it will cease reconciling its financial statements to U.S. GAAP.

The principles currently adopted in these financial statements conform in all material respects to those generally accepted in the United States except as summarized below. Significant differences between Canadian GAAP and U.S. GAAP would have the following effect on reported net income of the Company:

Years ended December 31 (millions except per share amounts)	2008	2007
Net income in accordance with Canadian GAAP	**$ 1,128**	$ 1,258
Adjustments:		
Operating expenses		
Operations (b)	**(62)**	(23)
Amortization of intangible assets (c)	**(50)**	(50)
Taxes on the above adjustments and tax rate changes (e)	**42**	69
Net income in accordance with U.S. GAAP	**1,058**	1,254
Other comprehensive income (loss), net of taxes (f)		
In accordance with Canadian GAAP	**(26)**	74
Change in pension related other comprehensive income accounts	**(225)**	109
In accordance with U.S. GAAP	**(251)**	183
Comprehensive income in accordance with U.S. GAAP	**$ 807**	$ 1,437
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share		
- Basic	**$ 3.30**	$ 3.78

- Diluted	**$**	**3.29**	$	3.75

The following is an analysis of retained earnings (deficit) reflecting the application of U.S. GAAP:

Years ended December 31 (millions)	2008	2007
Schedule of retained earnings (deficit) under U.S. GAAP		
Balance at beginning of period	**$ (61)**	$ (420)
Net income in accordance with U.S. GAAP	**1,058**	1,254
	997	834
Common Share and Non-Voting Share dividends paid, or payable, in cash	**(584)**	(521)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital	**(89)**	(374)
Balance at end of period	**$ 324**	$ (61)

The following is an analysis of major statement of financial position categories reflecting the application of U.S. GAAP:

As at December 31 (millions)	2008	2007
Current Assets	**$ 1,558**	$ 1,341
Capital Assets		
Property, plant, equipment and other	**7,317**	7,196
Intangible assets subject to amortization	**2,824**	2,516
Intangible assets with indefinite lives	**3,849**	2,967
Other Assets	**734**	932
Goodwill	**3,966**	3,570
	$ 20,248	$ 18,522
Current Liabilities	**$ 3,057**	$ 2,686
Long-Term Debt	**6,376**	4,614
Other Long-Term Liabilities	**1,256**	1,718
Deferred Income Taxes	**1,444**	1,349
Non-Controlling Interest	**23**	26
Shareholders' Equity	**8,092**	8,129
	$ 20,248	$ 18,522

notes to consolidated financial statements

The following is a reconciliation of shareholders' equity incorporating the differences between Canadian and U.S. GAAP:

	Shareholders' Equity					
As at December 31, 2008 (millions)	Common Shares	Non-Voting Shares	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Contributed surplus	Total
Under Canadian GAAP	$ 2,216	$ 3,069	$ 1,859	$ (130)	$ 168	$ 7,182
Adjustments:						
Merger of BC TELECOM and TELUS (a), (c), (d)	1,732	883	(1,438)	(390)	—	787
Share-based compensation (b)	10	53	(93)	—	30	—
Acquisition of Clearnet Communications Inc.						
Goodwill (d)	—	131	(8)	—	—	123
Convertible debentures	—	(3)	4	—	(1)	—
Under U.S. GAAP	$ 3,958	$ 4,133	$ 324	$ (520)	$ 197	$ 8,092

	Shareholders' Equity					
As at December 31, 2007 (millions)	Common Shares	Non-Voting Shares	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Contributed surplus	Total
Under Canadian GAAP	$ 2,228	$ 3,192	$ 1,458	$ (104)	$ 152	$ 6,926
Adjustments:						
Merger of BC TELECOM and TELUS (a), (c), (d)	1,741	922	(1,418)	(165)	—	1,080
Share-based compensation (b)	10	55	(97)	—	32	—
Acquisition of Clearnet Communications Inc.						
Goodwill (d)	—	131	(8)	—	—	123
Convertible debentures	—	(3)	4	—	(1)	—
Under U.S. GAAP	$ 3,979	$ 4,297	$ (61)	$ (269)	$ 183	$ 8,129

(a) Merger of BC TELECOM and TELUS

The business combination between BC TELECOM and TELUS Corporation (renamed TELUS Holdings Inc., which was wound up June 1, 2001)

was accounted for using the pooling of interests method under Canadian GAAP. Under Canadian GAAP, the application of the pooling of interests method of accounting for the merger of BC TELECOM and TELUS Holdings Inc. resulted in a restatement of prior periods as if the two companies had always been combined. Under U.S. GAAP, the merger is accounted for using the purchase method. Use of the purchase method resulted in TELUS (TELUS Holdings Inc.) being acquired by BC TELECOM for $4,662 million (including merger related costs of $52 million) effective January 31, 1999.

(b) Operating expenses – Operations

Future employee benefits: Under U.S. GAAP, TELUS' future employee benefit assets and obligations have been recorded at their fair values on acquisition. Accounting for future employee benefits under Canadian GAAP changed to become more consistent with U.S. GAAP effective January 1, 2000. Canadian GAAP provides that the transitional balances can be accounted for prospectively. Therefore, to conform to U.S. GAAP, the amortization of the transitional amount needs to be removed from the future employee benefit expense.

Unlike Canadian GAAP, U.S. GAAP requires the full recognition of obligations associated with its employee future benefit plans as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans*. Applying this standard, the funded status of the Company's plans is shown gross on the consolidated statements of financial position and the difference between the net funded plan states and the net accrued benefit asset or liability is included as a component of accumulated other comprehensive income.

Share-based compensation: Both Canadian GAAP and U.S. GAAP require the use of the fair value method of accounting for share-based compensation for awards made after 2001 and 1994, respectively.

On a prospective basis, commencing January 1, 2006, there is no longer a difference between Canadian GAAP and U.S. GAAP share-based compensation expense recognized in the results of operations arising from current share-based compensation awards accounted for as equity instruments. As share option awards granted subsequent to 1994 and prior to 2002 are captured by U.S. GAAP, but are not captured by Canadian GAAP, differences in shareholders' equity accounts arising from these awards will continue.

Substantially all of the Company's outstanding share option awards that were granted prior to January 1, 2005, have a net-cash settlement feature; the optionee has the choice of exercising the net-cash settlement feature. The affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments; the minimum expense recognized for the affected share option awards will be their grant-date fair values. Under U.S. GAAP, the grant-date fair values of affected outstanding share option awards granted subsequent to 1994 affect the transitional amount whereas Canadian GAAP only considers grant-date fair values for affected outstanding share option awards granted subsequent to 2001; for the year ended December 31, 2008, this resulted in the U.S. GAAP expense being greater than the Canadian GAAP expense by $NIL (2007 – $25 million).

(c) Operating expenses – Amortization of intangible assets

As TELUS' intangible assets on acquisition have been recorded at their fair value (see (a)), amortization of such assets, other than for those with indefinite lives, needs to be included under U.S. GAAP; consistent with prior years, amortization is calculated using the straight-line method.

The incremental amounts recorded as intangible assets arising from the TELUS acquisition above are as follows:

As at December 31 (millions)	Cost	Accumulated amortization	Net book value 2008	Net book value 2007
Intangible assets subject to amortization				
Subscribers – wireline	$ 1,950	$ 443	**$ 1,507**	$ 1,557
Intangible assets with indefinite lives				
Spectrum licences[1]	1,833	1,833	**—**	—
	$ 3,783	$ 2,276	**$ 1,507**	$ 1,557

[1] Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at December 31, 2008, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2009	**$ 394**
2010	**302**
2011	**202**
2012	**131**
2013	**116**

(d) Goodwill

Merger of BC TELECOM and TELUS: Under the purchase method of accounting, TELUS' assets and liabilities at acquisition (see (a)) have been

recorded at their fair values with the excess purchase price being allocated to goodwill in the amount of $403 million. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill is periodically tested for impairment.

Additional goodwill on Clearnet purchase: Under U.S. GAAP, shares issued by the acquirer to effect an acquisition are measured at the date the acquisition was announced; however, under Canadian GAAP, at the time the transaction took place, shares issued to effect an acquisition were measured at the transaction date. This results in the purchase price under U.S. GAAP being $131 million higher than under Canadian GAAP. The resulting difference is assigned to goodwill. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill is periodically tested for impairment.

(e) Income taxes

Years ended December 31 (millions)	2008	2007
Current	**$ 275**	$ (144)
Deferred	**131**	309
	406	165
Investment Tax Credits	**(12)**	(11)
	$ 394	$ 154

The Company's income tax expense, for U.S. GAAP purposes, differs from that calculated by applying statutory rates for the following reasons:

Years ended December 31 ($ in millions)	2008		2007	
Basic blended federal and provincial tax at statutory income tax rates	**$ 451**	**31.0%**	$ 475	33.6%
Revaluation of deferred income tax liability to reflect future statutory income tax rates	**(40)**		(213)	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	**(21)**		(79)	
Share option award compensation	**6**		(12)	
Investment Tax Credits, net of tax	**(8)**		(7)	
Other	**6**		(10)	
U.S. GAAP income tax expense	**$ 394**	**27.1%**	$ 154	10.9%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its deferred income tax asset and deferred income tax liability. The operations of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. Temporary differences comprising the deferred income tax liability are estimated as follows:

As at December 31 (millions)	2008	2007
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	**$ (559)**	$ (474)
Intangible assets with indefinite lives	**(830)**	(746)
Partnership income unallocated for income tax purposes	**(556)**	(631)
Net pension and share-based compensation amounts	**(92)**	(97)
Reserves not currently deductible	**70**	71
Losses available to be carried forward	**44**	18
Other	**20**	6
	$ (1,903)	$ (1,853)
Deferred income tax liability		
Current	**$ (459)**	$ (504)
Non-current	**(1,444)**	(1,349)
Deferred income tax asset (liability)	**$ (1,903)**	$ (1,853)

Effective January 1, 2007, the Company adopted the method of accounting for uncertain income tax positions prescribed by Financial Accounting Standards Board Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This Interpretation is intended to standardize accounting practice for the recognition, derecognition and measurement of tax benefits to enable consistency and comparability among reporting entities for the reporting of income tax assets and liabilities. No consequential adjustments were required in the Company's financial statements as a result of that adoption.

The total amount of unrecognized tax benefits, excluding net capital losses, that, if recognized, would affect the effective tax rate at December 31, 2008, is $221 million (2007 – $196 million). Unrecognized tax benefits related to net capital losses, if recognized, amount to $156 million (2007 – $162 million), of which $12 million (2007 – $NIL) would have affected the effective tax rate for the year ended December 31, 2008.

The gross amount of unrecognized tax benefits is calculated as the undiscounted cumulative impact of such positions on taxable income before timing-related reversals that have yet to be realized and before the application of losses carried forward multiplied by the applicable tax rate for the estimated period when such benefit will be realized.

notes to consolidated financial statements

Years ended December 31 (millions)	2008 Unrecognized tax benefits Gross	2008 Component sheltered by losses carried forward	2008 Component comprised of capital losses	2007 Unrecognized tax benefits Gross	2007 Component sheltered by losses carried forward	2007 Component comprised of capital losses
Balance, beginning of period	**$ 951**	**$ 630**	**$ 162**	$ 848	$ 368	$ 186
Tax positions related to prior years						
Additions for tax returns filed during the year, less prior year estimates	**7**	**(11)**	**—**	222	168	—
	958	**619**	**162**	1,070	536	186
Tax positions related to prior years						
Reduction for timing items deductible in the year	**(119)**	**(119)**	**—**	(49)	(49)	—
Acquisitions	**25**	**28**	**—**	—	—	—
Other changes in estimates	**52**	**(10)**	**—**	—	—	—
Tax positions related to current year						
Estimated additions	**71**	**69**	**—**	110	110	—
Reductions	**—**	**—**	**—**	—	—	—
Settlements	**(94)**	**(57)**	**—**	(135)	50	—
Current period reduction in losses	**—**	**(207)**	**—**	—	—	—
Lapses in statutes of limitations	**(12)**	**(7)**	**—**	(4)	—	—
Adjustments for tax rate changes	**(14)**	**(6)**	**(6)**	(41)	(17)	(24)
Balance, end of period	**$ 867**	**$ 310**	**$ 156**	$ 951	$ 630	$ 162

Included in the balance at December 31, 2008 and 2007, excluding net capital losses, are tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. In addition, the Company has losses carried forward that are available to be applied against unrecognized tax benefits. As a result, the impact on the annual effective tax rate is significantly less than the gross amount of gross unrecognized tax benefits noted above.

The gross reserves are adjusted for tax rate changes applicable to current and future taxation years based on the expected timing of loss utilization.

In the application of both Canadian GAAP and U.S. GAAP, the Company accrues for interest charges on current tax liabilities that have not been funded, which would include interest and penalties arising from uncertain tax positions. The Company includes such charges as a component of Financing costs. As at January 1, 2007, the Company had recorded accrued interest payable of $8 million in respect of differences between the times tax-related exposures have been funded compared to the times the tax-related exposures may have come into existence, as well as interest receivable of $9 million. During the year ended December 31, 2008, the Company recorded interest income of $8 million (2007 – $26 million) in respect of income taxes, recorded interest expense of $5 million (2007 – $NIL), reversed interest expense of $NIL (2007 – $4 million) and collected $1 million (2007 – $34 million) of interest receivable.

As at December 31, 2008, it is reasonably possible that the Company's net unrecognized tax benefits will significantly increase and decrease in the next twelve months for the following items:

- It is expected that Notices of Reassessment will be issued and/or settlements will be reached with various government authorities over the next twelve months that are expected to effectively settle a number of uncertain tax positions and result in adjustments to the effective tax rate and gross unrecognized tax benefits including the abandonment of any remaining unrecognized tax benefits. Certain presently unrecognized tax benefits pertain to a number of items involving uncertainty as to the exact taxation period tax deductions may be claimed among periods of changing statutory tax rates. It is estimated the gross amount of the unrecognized tax benefits that are expected to be resolved ranges from $120 million to $140 million (2007 – $25 million to $35 million).
- For those items that are timing in nature, it is reasonably possible that the gross unrecognized tax benefits will decrease by $50 million to $60 million (2007 – $70 million to $80 million) as temporary differences are drawn down.
- It is reasonably possible that the Company's net and gross unrecognized tax benefits will decrease due to the expected lapse of the statute of limitations that would otherwise allow governmental authorities to challenge positions taken in tax returns for certain prior taxation years. Such unrecognized tax benefits are reasonably estimated at $1 million (2007 – $2 million).
- During the next twelve months, the Company will file tax returns covering the period ended December 31, 2008, as required by statute. The returns are likely to contain unrecognized tax benefits that are different than what has been

quantified above. As the positions will only be finalized at the time the tax returns are prepared, the amount of such benefits cannot be estimated with certainty prior to that time.

As at December 31, 2008, income tax returns, whether filed or not, pertaining to taxation years that remain open to examination by major jurisdictions are as follows:

	2008		2007	
As at December 31	Restricted to appeals	Other	Restricted to appeals	Other
Canada – Federal	1999 – 2001, 2003	2002, 2004 – 2008	1999 – 2000	2001 – 2007
Canada – provincial	1999 – 2000	2001 – 2008	1999 – 2000	2001 – 2007
United States	N/A	2005 – 2008	N/A	2004 – 2007

(f) Comprehensive income (loss)

U.S. GAAP requires that a statement of comprehensive income be displayed with the same prominence as other financial statements. Comprehensive income, which incorporates net income, includes all changes in equity during a period except those resulting from investments by and distributions to owners.

	2008			2007		
Years ended December 31 (millions)	Canadian GAAP other comprehensive income (loss)	Pension and other benefit plans	U.S. GAAP other comprehensive income (loss)	Canadian GAAP other comprehensive income (loss)	Pension and other benefit plans	U.S. GAAP other comprehensive income (loss)
Amount arising	**$ (35)**	**$ (307)**	**$ (342)**	$ 115	$ 154	$ 269
Income tax expense (recovery)	**(9)**	**(82)**	**(91)**	41	45	86
Net	**(26)**	**(225)**	**(251)**	74	109	183
Accumulated other comprehensive income (loss), beginning of period	**(104)**	**(165)**	**(269)**	(178)	(274)	(452)
Accumulated other comprehensive income (loss), end of period	**$ (130)**	**$ (390)**	**$ (520)**	$ (104)	$ (165)	$ (269)

The closing accumulated other comprehensive income amounts in respect of components of net periodic benefit costs not yet recognized, and the amounts expected to be recognized in fiscal 2009, are as follows:

	2008				2007		
	Accumulated other comprehensive income amounts			Amounts expected to be recognized in 2009	Accumulated other comprehensive income amounts		
As at December 31 (millions)	Gross	Tax effect	Net		Gross	Tax effect	Net
Pension benefit plans							
Unamortized net actuarial loss (gain)	**$ 938**	**$ 277**	**$ 661**	$ 36	$ 629	$ 197	$ 432
Unamortized past service costs	**33**	**11**	**22**	4	31	10	21
Unamortized business combination difference	**(413)**	**(128)**	**(285)**	5	(412)	(130)	(282)
	558	**160**	**398**	45	248	77	171
Other benefit plans							
Unamortized net actuarial loss (gain)	**(12)**	**(3)**	**(9)**	(2)	(10)	(3)	(7)
Unamortized business combination difference	**1**	**—**	**1**	1	2	1	1
	(11)	**(3)**	**(8)**	(1)	(8)	(2)	(6)
	$ 547	**$ 157**	**$ 390**	$ 44	$ 240	$ 75	$ 165

(g) Recently issued accounting standards not yet implemented

Business combinations and non-controlling interests: Under U.S. GAAP, effective for its 2009 fiscal year, the Company will be required to comply with new standards in respect of business combinations and accounting for non-controlling interests, as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 141(R), *Business Combinations,* and Financial Accounting Standards Board Statement of Financial Accounting Standards No. 160, *Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*, respectively. The issuance of these standards is the culmination of the first major collaborative convergence undertaking of the Financial Accounting Standards Board and the International Accounting Standards Board. Whether the

Company would be materially affected by the new standards would depend upon the specific facts of the business combinations, if any, occurring on or after January 1, 2009. Generally, the new standards will result in measuring business acquisitions at the fair value of the acquired entities and a prospectively applied shift from a parent company conceptual view of consolidation (which results in the parent company recording the book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording the fair values attributable to non-controlling interests). Early adoption of these standards is prohibited. As discussed further in Note 2(e), effective January 1, 2009, the Company early adopted the corresponding new Canadian standards.

Derivative instrument disclosure requirements: Under U.S. GAAP, effective for its 2009 fiscal year, the Company will be required to comply with new standards in respect of derivative instrument disclosures, as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. The Financial Accounting Standards Board notes that there are a number of similarities between the disclosures required under the new standard and those required under International Financial Reporting Standard, *Financial Instruments: Disclosure* (IFRS 7), but that the new standard was developed under a more limited scope of derivatives and non-derivative hedging instruments than was IFRS 7 (the changes in financial instrument disclosures referred to in Note 2(b) were the result of Canada's Accounting Standards Board's converging Canadian GAAP with IFRS 7). The Company will not be materially affected by the provisions of this standard.

Other: As would affect the Company, there are no other U.S. accounting standards currently issued and not yet implemented that would differ from Canadian accounting standards currently issued and not yet implemented.

Caution regarding forward-looking statements

This document and Management's discussion and analysis contain forward-looking statements about expected future events and financial and operating results of TELUS Corporation (TELUS or the Company, and where the context of the narrative permits, or requires, its subsidiaries). By their nature, forward-looking statements require the Company to make assumptions, and forward-looking statements are subject to inherent risks and uncertainties. There is significant risk that assumptions (see Section 1.5 Financial and operating targets for 2009), predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, and reserves the right to change, at any time at its sole discretion, its current practice of updating annual targets and guidance. Targets for 2009 and assumptions are described in Section 1.5.

Factors that could cause actual results to differ materially include, but are not limited to:

Competition (including more active price competition and the likelihood of new wireless competitors beginning to offer services in late 2009 and into 2010 as a result of the 2008 advanced wireless services (AWS) spectrum auction); economic growth and fluctuations (including the global credit crisis, and pension performance, funding and expenses); capital expenditure levels (increasing in 2009 and potentially in future years due to the Company's fourth generation (4G) wireless deployment strategy and any new Industry Canada wireless spectrum auctions); financing and debt requirements (including ability to carry out refinancing activities and fund share repurchases); tax matters (including acceleration or deferral of required payments of significant amounts of cash taxes); human resource developments; business integrations and internal reorganizations (including ability to successfully implement cost reduction initiatives); technology (including reliance on systems and information technology, broadband and wireless technology options, choice of suppliers and suppliers' ability to maintain and service their product lines, expected technology and evolution path and transition to 4G technology, expected future benefits and performance of high-speed packet access (HSPA) / long-term evolution (LTE) wireless technology, successful implementation of the network build and sharing arrangement with Bell Canada to achieve cost efficiencies and reduce deployment risks, successful deployment and operation of new wireless networks and successful introduction of new products, services and supporting systems); regulatory approvals and developments (including interpretation and application of tower sharing and roaming rules, the design and impact of future spectrum auctions, the r eview of new media and Internet traffic management practices, and possible changes to foreign ownership restrictions); process risks (including conversion of legacy systems and billing system integrations, and implementation of large complex deals); health, safety and environmental developments; litigation and legal matters; business continuity events (including manmade and natural threats); any prospective acquisitions or divestitures; and other risk factors discussed herein and listed from time to time in TELUS' reports and public disclosure documents including its annual report, annual information form, and other filings with securities commissions in Canada (on sedar.com) and in its filings in the United States, including Form 40-F (on EDGAR at sec.gov).

For further information, see Section 10: Risks and risk management *in Management's discussion and analysis.*

Management's discussion and analysis
February 11, 2009

The following is a discussion of the consolidated financial position and results of operations of TELUS Corporation for the years ended December 31, 2008 and 2007, and should be read together with TELUS' audited Consolidated financial statements. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the *Caution regarding forward-looking statements* above.

TELUS' Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), which differ in certain respects from U.S. GAAP. See Note 22 to the Consolidated financial statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS. The Consolidated financial statements and Management's discussion and analysis were reviewed by TELUS' Audit Committee and approved by TELUS' Board of Directors. All amounts are in Canadian dollars unless otherwise specified.

TELUS has issued guidance on and reports on certain non-GAAP measures used by management to evaluate performance of business units, segments and the Company. Non-GAAP measures are also used to determine compliance with debt covenants and manage the capital structure. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled with their nearest GAAP measure. For the reader's reference, the definition, calculation and reconciliation of consolidated non-GAAP measures are provided in *Section 11: Reconciliation of non-GAAP measures and definition of key operating indicators*.

Management's discussion and analysis contents

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1. Introduction, performance summary and targets

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

1.1 Materiality for disclosures

Management determines whether or not information is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated.

1.2 Canadian economy and telecommunications industry

Economic and telecom industry growth

In early 2009, economic uncertainty related to the tightening of credit markets worldwide remains. The credit situation remains fluid and it is difficult to predict future outcomes. TELUS' capital structure financial policies, which are discussed under *Capabilities — Section 4.3 Liquidity and capital resources*, were designed with credit cycles in mind. The Company believes that these financial policies and guidelines, and maintaining credit ratings in the range of BBB+ to A-, or the equivalent, provide reasonable access to capital markets.

The Government of Canada, in its January 2009 public budget documents, noted there was a broad-based consensus that the Canadian economy entered into recession in the fourth quarter of 2008, and that private sector forecasters expected the recession to last three quarters. The economic weakness and stock market decline that began in 2008 are expected to increase TELUS' net defined benefit pension plans expense and funding in 2009, as reflected in the Company's public targets for 2009. See *Section 1.5 Financial and operating targets for 2009*.

The Company estimates that revenues for the Canadian telecom industry grew by approximately 4.4% in 2008, due to continued wireless growth, which more than offset the declines of a mature wireline segment. TELUS' 2008 revenues increased by 6.4% to $9.65 billion due to wireless growth and wireline data revenue growth assisted by acquisitions completed in January.

Key industry development

In December 2008, the pending sale of Canada's largest incumbent telecommunications company BCE (Bell Canada) was terminated due to its failure to satisfy a solvency condition. BCE is taking action to attempt to recover a $1.2 billion deal break fee from the acquiring consortium led by Teachers Private Capital, the private investment arm of the Ontario Teachers' Pension Plan. BCE in mid-2008 had a change in Chief Executive Officer (CEO) embarked on a reorganization and efficiency program,

and changed its branding. On the collapse of the acquisition, dividend payments were resumed and a modest share repurchase program was announced. Had the proposed acquisition been completed, BCE was expected to be highly levered with debt and extremely focused on maximizing short-term cash flow. With less leverage, BCE is expected to remain a strong competitor to TELUS and other communications companies in Canada.

Wireless developments

TELUS estimates that Canadian wireless revenues grew by 11% in 2008 as market penetration for the industry increased by an estimated 4.6 percentage points to approximately 65% of the population. The expectation for 2009 is an approximate 4.5 percentage point gain in the proportion of the population using wireless services, which are less likely than many other consumer expenditures to be eliminated in an economic downturn.

In 2008, TELUS' wireless segment achieved 9% revenue growth (including 55% data revenue growth) and 10% subscriber growth. The Company's Mike® service has exposure to the transport, construction, automotive and oil and gas sectors, which have been particularly affected by the economic downturn, resulting in a weakening in Mike service average revenue per subscriber unit (ARPU). Overall wireless ARPU decreased by 2% in the fourth quarter and 1% for the full year of 2008 when compared to 2007. The economic downturn is expected to place continued downward pressure on wireless ARPU for the Company's existing subscriber base and new subscriber additions, as well as on voice roaming revenues, as compared to results achievable in non-recessionary times.

As in recent years, a key driver of wireless growth continues to be the increased smartphone adoption and usage of data services such as text messaging and mobile computing. Canadian wireless providers continue the roll-out of faster next generation high-speed wireless networks to capture this growth opportunity. In 2008, TELUS announced its wireless technology evolution strategy toward fourth generation (4G) LTE, including the current joint HSPA network build and expected service launch by early 2010. See *Section 2.2 Vision and strategy - Building national capabilities*.

Competition remains intense due to a number of factors including introduction of TELUS' basic brand and service (Koodo Mobile®) in March 2008; the presence of mobile virtual network operators (MVNOs) such as Virgin Mobile and Videotron Ltd.; and discount brand offerings by Bell (Solo) and Rogers (Fido). Wireless number portability first introduced in March 2007 facilitates customers moving to a different provider while retaining their existing phone number. Competition is expected to increase in future years as a result of new entrants acquiring spectrum in the 2008 advanced wireless services (AWS) spectrum auction.

AWS and other spectrum auction in the 2 GHz range

Industry Canada conducted a wireless spectrum licence auction between May 27 and July 21, 2008 for 90 MHz of AWS spectrum (including 40 MHz set aside for new entrants), 10 MHz for personal communications network (PCS) service extension, and 5 MHz for another small band. The auction concluded after 331 rounds with Industry Canada reporting total proceeds of $4,255 million (average of $1.55/MHz/POP for AWS and PCS spectrum, where POP refers to one person in a population area). Proceeds from the auction were up to three times more than original expectations before the auction began.

TELUS was the successful bidder on 59 spectrum licences, providing additional spectrum depth nationally in markets TELUS already covers. Of the 59 licences acquired, 32 were 20 MHz licences covering geographic areas of Quebec, Southwestern Ontario, Ottawa Region, Manitoba, Saskatchewan, Alberta and B.C., while 27 were 10 MHz licences covering Toronto, Central and Northern Ontario, Yukon, Northwest Territories and Nunavut, Newfoundland and Labrador, Nova Scotia, New Brunswick, and P.E.I. The average spectrum acquired in the AWS auction by TELUS was 16.2 MHz at a cost of $1.82/MHz/POP.

TELUS paid Industry Canada $882 million for the licences and related auction charges in the third quarter, through a combination of drawing on its credit facilities and utilization of cash on hand. Each of the successful spectrum bidders was required to demonstrate compliance with Canadian ownership requirements and other licence conditions. TELUS received its ownership compliance decision from Industry Canada effective December 2008. For additional discussion, see *Section 2.2 Vision and strategy — Building national capabilities* and *Section 10.3 Regulatory.*

Wireless competition is expected to increase in the future as a result of several entrants acquiring regional spectrum in the AWS spectrum auction, as summarized below. Subject to meeting Industry Canada's eligibility requirements, some entrants are expected to begin offering services in late 2009 and in 2010, as they establish operations, and build wireless networks in areas where they have acquired spectrum.

Existing and potential competitors acquiring licences in the 2008 Industry Canada spectrum auction

Competitor	Primary geographic focus
Incumbent national facilities-based competitors	
Rogers Communications Inc.	Expansion of existing national capacity
Bell Mobility Inc. (Bell Canada)	Expansion of existing national capacity
TELUS	Expansion of existing national capacity for future LTE technology deployment
Incumbent provincial facilities-based competitors	
MTS Allstream	Expansion of existing Manitoba capacity
SaskTel	Expansion of existing Saskatchewan capacity
Entrants [(1)]	
Globalive Wireless LP	Spectrum in most regions, but excluding most of Quebec
Data & Audio-Visual Enterprises	Spectrum in most major centres outside of Saskatchewan, Manitoba, Quebec and Atlantic Canada
BMV Holdings (6934579 Canada Inc.)	Spectrum in Southern and Eastern Ontario and Southern and Eastern Quebec
Québecor Inc. (9193-2962 Québec Inc.)	Regional spectrum in Quebec and parts of Ontario, including Toronto
Shaw Communications Inc.	Regional spectrum in Western Canada and Northern Ontario
Bragg Communications Inc.	Regional spectrum in Atlantic Canada and Southwestern Ontario, as well as Grande Prairie, Alberta
Novus Wireless Inc.	Provincial spectrum in B.C. and Alberta
Blue Canada Wireless Inc.	Provincial spectrum in Nova Scotia and P.E.I.
Others	Three local areas in total

[(1)] Subject to building a wireless network in the geographic areas where they elect to compete.

Wireline developments

As in 2007, the industry is continuing to focus its attention on broadband services to moderate the losses in network access lines. As penetration in this area approaches a saturation point, telecom and cable-TV companies have started to compete on speed, applications and price to differentiate their product offerings. Internet protocol (IP) telephony has facilitated a growing revenue stream for cable-TV companies. Telecom companies are strategically positioning themselves to encroach into the TV entertainment market with existing satellite TV service and/or new IP TV offerings. Consumers continue to substitute wireless and voice over IP (VoIP) services for traditional wired telephony services. Competitive losses and substitution have resulted in certain North American telecom companies having residential access line losses around 12%. At December 31, 2008, TELUS' estimated wireline share of the local residential telephony market in B.C. and Alberta was 66%. Approximately 12% of households in B.C. and Alberta have only wireless telephone service amongst all providers, including TELUS.

The Company operates its incumbent wireline business in B.C., Alberta and Eastern Quebec, which have been less exposed to the manufacturing downturn in Central Canada, but recently exposed to certain cyclical commodity sectors, such as oil and lumber. The Company's national business growth strategy is focused on four vertical markets that do not include manufacturing and TELUS continues to see growth in the public and healthcare sectors in particular.

TELUS' wireline segment external revenues increased 4% in 2008. Growth from wireline data services, including data revenues from two acquisitions, more than offset losses in voice services. While business network access lines increased by 2% in both 2008 and 2007 from the Company's focus on non-incumbent growth, TELUS' residential access lines decreased by 7.5% in 2008 and 6.5% in 2007, due to continued strong competition particularly from cable telephony and technological substitution.

Building capability in business markets

TELUS' approach to the business market is through growth in Central Canada as well as nationally, with a focus on key vertical markets, including the public sector, healthcare, financial services and energy. In 2008, TELUS advanced its capabilities in the healthcare and financial services sectors with the January 2008 acquisition of Emergis Inc., a business process outsourcer specializing in these areas. TELUS has become a national leader in the provision of advanced data solutions to the healthcare sector. See *Section 2.2 Vision and strategy — Partnering, acquiring and divesting.*

TELUS continues to expand its broad suite of call centre and business process outsourcing services for the benefit of a large roster of Canadian, U.S. and international clients, as well as for internal requirements. These services are reliant on TELUS' growing call centre operations at various locations around the world including the Philippines. More recently, bilingual Spanish and English language capabilities have been expanded by acquiring a minority investment in a company with call centre operations in three

Central American countries, and soon at a new TELUS call centre being opened in Clark County, Nevada. This geographic expansion and augmented bilingual Spanish-English language support improves the Company's competitive offering for this growing line of business.

1.3 Consolidated highlights

The Chief Executive Officer, who is the chief operating decision-maker, regularly received TELUS' 2008 and 2007 consolidated reports on two bases: including and excluding (labelled *as adjusted*) an incremental charge for introducing a net-cash settlement feature for share option awards granted prior to 2005. The net-cash settlement feature was introduced in the first quarter of 2007. The highlights table below presents the unadjusted and adjusted views.

Consolidated highlights ($ millions, except per share amounts, subscribers and ratios)	Years ended December 31		
	2008	2007	Change
Consolidated statements of income			
Operating revenues	**9,653**	9,074	6.4%
Operating income	**2,066**	1,974	4.7%
Net-cash settlement feature expense	**—**	169	(100)%
Operating income (as adjusted)	**2,066**	2,143	(3.6)%
Income before income taxes	**1,567**	1,498	4.6%
Net-cash settlement feature expense	**—**	169	(100)%
Income before income taxes (as adjusted)	**1,567**	1,667	(6.0)%
Net income	**1,128**	1,258	(10)%
Net-cash settlement feature expense, after tax	**—**	105	(100)%
Net income (as adjusted)	**1,128**	1,363	(17)%
Earnings per share (EPS), basic ($)	**3.52**	3.79	(7.1)%
Net-cash settlement feature expense per share	**—**	0.32	(100)%
Earnings per share, basic (as adjusted) ($)	**3.52**	4.11	(14)%
Earnings per share, diluted ($)	**3.51**	3.76	(6.6)%
Cash dividends declared per share ($)	**1.825**	1.575	16%
Consolidated statements of cash flows			
Cash provided by operating activities	**2,819**	3,172	(11)%
Cash used by investing activities	**3,433**	1,772	94%
Capital expenditures	**1,859**	1,770	5.0%
Payment for advanced wireless spectrum licences	**882**	—	n.m.
Acquisitions	**696**	—	n.m.
Cash provided (used) by financing activities	**598**	(1,369)	n.m.
Subscribers and other measures			
Subscriber connections [1] (thousands)	**11,595**	11,147	4.0%
EBITDA [2]	**3,779**	3,589	5.3%
Net-cash settlement feature expense	**—**	169	(100)%
EBITDA (as adjusted)	**3,779**	3,758	0.6%
Free cash flow [3]	**567**	1,573	(64)%
Debt and payout ratios [4]			
Net debt to EBITDA — excluding restructuring costs	**1.9**	1.7	0.2
Dividend payout ratio [5] (%)	**56**	54	2pts

n.m. — not meaningful; pts — percentage points

(1) The sum of wireless subscribers, network access lines and Internet access subscribers measured at the end of the respective periods based on information in billing and other systems. The measure excludes TELUS TV® subscriber connections.

(2) EBITDA is a non-GAAP measure. See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)* .

(3) Based on defined benefits plans net recovery and including the $882 million payment for AWS spectrum licences in 2008. See *Section 11.2 Free cash flow*.

(4) See *Section 7.4 Liquidity and capital resource measures* and *Section 11.4 Definitions of liquidity and capital resource measures* .

(5) Based on earnings per share excluding favourable tax-related adjustments and net-cash settlement feature expense.

Highlights from operations:

- The Company met two of four original consolidated targets, and met three of the four original segmented targets for 2008. See *Section 1.4 Performance scorecard for 2008 results*.

- Subscriber connections reported exclude TELUS TV subscribers. Connections increased by 448,000 during 2008, net of approximately 28,000 subscriber deactivations resulting from turning down the analog wireless network in September. The number of wireless subscribers grew by 10% to 6.13 million, the number of Internet subscribers grew by 3.8% to 1.22 million and the number of network access lines decreased by 3.6% to 4.25 million. Excluding the analog wireless subscriber deactivations, subscriber connections increased by approximately 476,000.

- The Company's wireless gross subscriber additions for 2008 set TELUS fourth quarter and full year records, and were positively influenced by the introduction of the new postpaid basic service and brand Koodo Mobile in March 2008. Wireless ARPU was $62.73 in 2008, down 1% from 2007, reflecting price competition in voice services, offset by strong data ARPU growth.

- Operating revenues increased by $579 million in 2008 when compared to 2007, due primarily to growth in wireless network revenues and wireline data revenues, which more than offset revenue declines in wireline voice local and long distance. Growth in wireline data revenues included revenues from two acquisitions, Emergis Inc. and, to a much lesser extent, Fastvibe, completed in January 2008.

- Operating income adjusted to exclude the net-cash settlement feature decreased by $77 million in 2008, when compared to 2007. The decrease was primarily due to additional software amortization from the January acquisition of Emergis and implementation of a new phase of the converged wireline billing and client care platform in July 2008, as well as a 2.1% increase in depreciation, partially offset by slightly higher EBITDA (as adjusted). EBITDA (as adjusted) increased by $21 million for the full year when compared to 2007, as increased data revenues were partly offset by costs supporting the growth, including costs of acquisition supporting strong wireless subscriber additions and upfront implementation costs for new wireline enterprise customers.

- Income before income taxes (as adjusted) decreased by $100 million in 2008 when compared to 2007. The decrease was due to lower operating income (as adjusted) and higher net financing costs. Net financing costs include increased interest expenses mainly from debt added in 2008 to help fund acquisitions in January and payment for AWS spectrum licences in the third quarter. Net financing costs also include interest income, which decreased significantly in 2008, due to lower amounts of interest on tax refunds and cash and temporary investments.

- Net income decreased by $130 million or 27 cents per share (basic) in 2008 when compared to 2007. The decrease included lower net income tax recoveries and related interest of $208 million (63 cents per share). Net income before income tax-related adjustments increased by $78 million or 36 cents per share. Average shares outstanding in 2008 were 3.4% lower than in 2007, due to market repurchases under normal course issuer bid (NCIB) programs.

Net income changes ($ millions)	**Years ended December 31**
Net income in 2007	1,258
Deduct favourable income tax-related adjustments in 2007 (see *Section 5.2)*	(257)
	1,001
Tax-effected changes:	
Lower net-cash settlement feature expense	105
Higher EBITDA as adjusted [(1)]	14
Higher depreciation and amortization [(1)], excluding investment tax credits	(69)
Interest expenses [(1)]	2
Other	26
	1,079
Favourable income tax-related adjustments in 2008 (see *Section 5.2)*	49
Net income in 2008	**1,128**

[(1)] For the purposes of this presentation, the 2008 blended statutory tax rate was used.

Highlights — liquidity and capital resources:

- At December 31, 2008, TELUS had unutilized credit facilities of $1.15 billion, as well as unutilized availability under its accounts receivable securitization program, consistent with its objective of generally maintaining more than $1 billion of unutilized liquidity. In addition, the Company continues to meet the two other key guidelines. Net debt to EBITDA at December 31, 2008 was 1.9 times, within the Company's long-term target policy range of 1.5 to 2.0 times. The dividend payout ratio, based on the annualized fourth quarter dividend and earnings for 2008 (excluding favourable income tax-related adjustments), was 56%, slightly above the Company's prospective guideline of 45% to 55% of

sustainable net earnings. In December, the Company renewed its $700 million, 364-day credit facility with a syndicate of Canadian banks, extending the term to March 1, 2010.

- The Company renewed its NCIB program for another year. Under Program 5, which will expire on December 23, 2009, the maximum number of TELUS shares that may be purchased is eight million, or 2.5% of the shares outstanding at December 31, 2008. See *Section 7.3 Cash used by financing activities.*

- Cash provided by operating activities decreased by $353 million in 2008 when compared to 2007, primarily due to lower recoveries of income taxes and related interest. In addition, proceeds from securitized accounts receivable were reduced by $200 million in 2008 (as compared to

no change for 2007).

- Cash used by investing activities increased by $1,661 million in 2008 when compared to 2007, due to payment of $882 million for AWS licences, the January 2008 acquisition of Emergis for $692 million (net of acquired cash) and higher capital expenditures. The increase in capital expenditures in 2008 was directed to investments supporting high bandwidth services for business and residential customers, the next generation wireless HSPA network, healthcare and financial services solutions and upfront expenditures to support new enterprise customers.

- Net cash provided by financing activities was $598 million in 2008. This compares to net cash used by financing activities of $1,369 million in 2007. Net cash provided by financing activities in 2008 included higher utilization of the 2012 bank facility and the April 2008 issue of $500 million Notes maturing in 2015, partly offset by a reduction in issued commercial paper, which helped support payment of $882 million for AWS spectrum licences in the third quarter and $692 million for January acquisitions, net of acquired cash. In addition, fewer shares were repurchased under NCIB programs and the dividend for the fourth quarter of 2008 was remitted on the January 2, 2009 payment date (while the dividend for the fourth quarter of 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date). Net cash used by financing activities in 2007 included the June repayment of $1.5 billion of matured Notes.

- The dividend declared in the fourth quarter of 2008 increased by 5.6% to 47.5 cents per Common Share and Non-Voting Share, up from 45 cents per share declared in each of the four preceding quarters. This is the fifth consecutive annual increase in the quarterly dividend rate.

- Free cash flow decreased by $1,006 million in 2008 when compared to 2007, due mainly to the $882 million payment for AWS spectrum licences in 2008 and increased capital expenditures, as well as receipt of larger income tax recoveries and related interest in 2007. Financing activities in 2008 supplemented free cash flow to help fund January acquisitions and the purchase of AWS spectrum licences.

1.4 Performance scorecard

Five of the eight original consolidated and segmented targets for 2008 were met, while three were not achieved. Targets for consolidated revenue, wireline revenue and EBITDA, and wireless revenue were achieved. Consolidated and wireless EBITDA fell below their respective target ranges due to several factors, including lower wireless ARPU, higher subscriber acquisition and retention expenses and costs associated with data growth. Earnings per share fell within the target range only as a result of favourable income tax recoveries; hence, the 2008 EPS target was not achieved. The consolidated capital expenditures target was achieved with actual expenditures 2% below the $1.9 billion target.

During the year, management provided revised annual 2008 guidance and assumptions when the results for the second and third quarters were announced. Annual guidance revisions for 2008 were also provided for revenues and capital expenditures in the 2009 targets news release and investor call on December 16, 2008. Actual results met the eight metrics from the final guidance, except for capital expenditures.

In the following scorecard, TELUS' results for 2008 are compared to its original targets. Targets for 2009 are also presented and are fully qualified by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis and *Section 10: Risks and risk management*. Additional information on expectations and assumptions for 2009 may be found in *Section 1.5 Financial and operating targets for 2009*, *Section 1.6 TELUS segments at a glance* and *Section 9: General outlook*.

Scorecards Legend ü Met target X Missed target	Performance for 2008 Actual results	Change from 2007	Original 2008 targets	Target result	2009 targets Targets	Change from 2008 actual results
Consolidated						
Revenues	**$9.653 billion**	6.4%	$9.6 to $9.8 billion	ü	**$10.025 to $10.275 billion**	4 to 6%
EBITDA [1] [2]	**$3.779 billion**	0.6%	$3.8 to $3.95 billion	X	**$3.75 to $3.9 billion**	(1) to 3%
EPS — basic [3]	**$3.52**	(14)%	$3.50 to $3.80	—	**$3.40 to $3.70**	(3) to 5%
EPS — basic, [3] (excluding income tax-related adjustments) [4]	**$3.37**	1.2%	$3.50 to $3.80	X	**$3.40 to $3.70**	1 to 10%
Capital expenditures (excluding expenditures for AWS spectrum licences in 2008) [5]	**$1.859 billion**	5.0%	Approx. $1.9 billion	ü	**Approx. $2.05 billion**	10%
Wireline segment						
Revenue (external)	**$5.021 billion**	4.4%	$4.975 to $5.075 billion	ü	**$5.05 to $5.175 billion**	0 to 3%
EBITDA [2]	**$1.774 billion**	(3.0)%	$1.725 to $1.8 billion	ü	**$1.65 to $1.725 billion**	(3) to (7)%

Wireless segment						
Revenue (external)	**$4.632 billion**	8.6%	$4.625 to $4.725 billion	ü	**$4.975 to $5.1 billion**	7 to 10%
EBITDA [2]	**$2.005 billion**	3.9%	$2.075 to $2.15 billion	X	**$2.1 to $2.175 billion**	5 to 8%

(1) See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)* for the definition.
(2) For comparative purposes, EBITDA for 2007 was adjusted to exclude an incremental pre-tax charge that related to the introduction of a net-cash settlement feature for share option awards granted prior to 2005. Of the $169 million charge, approximately $145 million was recorded in wireline and $24 million was recorded in wireless.
(3) For comparative purposes, basic EPS for 2007 was adjusted to exclude an incremental after-tax charge of $0.32 per share for the introduction of a net-cash settlement feature.
(4) A non-GAAP measure.
(5) The target for 2008 capital expenditures was set excluding expenditures in the AWS spectrum auction held from May to July 2008.

The following key assumptions were made at the time the 2008 targets were announced in December 2007.

Assumptions for 2008 targets	Actual or estimated result for 2008
Canadian real GDP growth estimate of 2.8% and above average growth in the provinces of Alberta and B.C.	Growing economic uncertainty in 2008 resulted in the Conference Board of Canada, Canadian banks and others reducing forecasts several times. Real GDP growth rates for 2008 are estimated to be less than one per cent for Canada with above average growth for B.C. and Alberta. These estimates were aggregated from recent reports from the Bank of Canada and several Canadian banks.
Canadian dollar at or near parity with the U.S. dollar	The Canadian dollar closed at U.S. $0.821 on December 31, 2008, after averaging U.S. $0.94 for the full year, based on daily closing rates. Influenced by declining commodity prices and growing economic uncertainty, the Canadian dollar averaged U.S. $0.825 in the fourth quarter of 2008, down from an average U.S. $0.98 for the first nine months. (Source: the Bank of Canada.) TELUS maintained its position of fully hedging foreign exchange exposure for the 8.00% U.S. dollar Notes due 2011. The Company's foreign exchange risk management also includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. dollar transactions and commitments
Increased wireline competition in both business and consumer markets, particularly from cable-TV and VoIP companies	Confirmed by: (i) a western cable-TV competitor reporting strong high-speed Internet and telephone net additions and expansion of its product offerings to appeal to a wider consumer and small and medium-sized business base in more locations; and (ii) TELUS' network access line losses of 3.6% in 2008
The impact of the acquisition of Emergis to begin in March 2008	The transaction closed in mid-January 2008 and had only a minor impact on TELUS' 2008 targets

Assumptions for 2008 targets	Actual or estimated result for 2008
Canadian wireless industry market penetration gain of 4.5 to five percentage points for the year	Wireless market penetration gain of 4.6%, down slightly as compared to 2007
Capital expenditures target set excluding potential purchases of wireless spectrum in the AWS spectrum auction	Actual results were as noted above. Payments of $882 million for AWS spectrum licences were recorded in the third quarter
No new wireless competitive entrant assumed for 2008	Correct assumption. Eight regional competitive entrants acquired spectrum licences in the AWS auction concluded July 2008, but it is expected that entrants are not likely to offer services until late 2009 or 2010
Restructuring expenses of approximately $50 million including the integration of Emergis	Actual result of $59 million for the full year supported efforts aimed at improving cost structures and enhancing efficiency that gained traction towards the end of the year
A blended statutory income tax rate of 31 to 32%	The blended statutory rate was 31% as a result of enacted British Columbia tax rate changes
A discount rate of 5.5% (50 basis points higher than 2007) and expected long-term return of 7.25% for pension accounting (unchanged from 2007)	Pension accounting assumptions are set at the beginning of the year. See *Section 1.5* for the 2009 assumptions

Average shares outstanding of approximately 320 million	Average shares outstanding for 2008 were 320 million, 3.4% lower than in 2007.

1.5 Financial and operating targets for 2009

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, as well as *Section 10: Risks and risk management*. The following assumptions apply to TELUS' 2009 targets shown in the table in the previous section. The 2009 targets and assumptions were originally announced on December 16, 2008.

For 2009, TELUS is targeting 4 to 6% consolidated revenue growth, an increase of $372 to $622 million. EBITDA growth is expected to be in a range of up to 3%, moderated by an increased pension expense in 2009 due to equity market weakness in 2008. Restructuring costs in 2009 have been estimated between $50 million and $75 million. EPS is targeted to be $3.40 to $3.70, similar to 2008, which was positively impacted by income tax adjustments. Excluding positive 2008 tax adjustments, 2009 EPS is targeted to increase by up to 10%.

Wireless revenues are forecast to increase by 7 to 10% in 2009 due to continued growth in subscribers, increased smartphone adoption and increased wireless data service adoption and usage. Wireless EBITDA is expected to increase 5 to 8% in 2009.

Wireline revenue is expected to increase by up to 3% in 2009, driven by data growth. Wireline EBITDA is expected to decrease by 3 to 7% as a result of increased pension expenses, upfront expenses associated with growth services (including early phase implementation costs for large business contracts), and expected increased restructuring charges, offset in part by results from ongoing efficiency initiatives.

TELUS expects its 2009 EPS to be impacted by slightly increased depreciation and amortization expenses, and higher financing costs. The expected increase in financing costs is caused by a higher average debt level from the payment for AWS spectrum licences in the third quarter of 2008.

Capital expenditures in 2009 are forecast to be approximately $2.05 billion, in part due to deferral of some expenditures from 2008. The higher level of capital expenditures in 2009 also reflects significant investment in TELUS' shared national next generation wireless network build, investments in network infrastructure to improve wireline broadband capabilities, and the development of new applications. In addition, this spending will support the capital required to implement new large enterprise contracts in Ontario and Quebec that are expected to generate significant revenues in future years.

TELUS has reaffirmed its long-term financial policy guidelines, including Net debt to EBITDA of 1.5 to 2.0 times, and a dividend payout ratio guideline of 45 to 55% of sustainable net earnings. The 2009 targets align with these guidelines. EPS, cash balances, net debt and common equity may be affected by the purchase of up to eight million TELUS shares under the Company's NCIB program.

Assumptions for 2009 targets

Ongoing wireline competition in both business and consumer markets, particularly from cable-TV and VoIP companies

Canadian wireless industry market penetration gain of approximately 4.5 percentage points for the year, similar to 2008

Downward pressure on wireless ARPU

New competitive wireless entry beginning in the fourth quarter of 2009 with most entrants starting in 2010

Restructuring expenses of approximately $50 million to $75 million ($59 million in 2008)

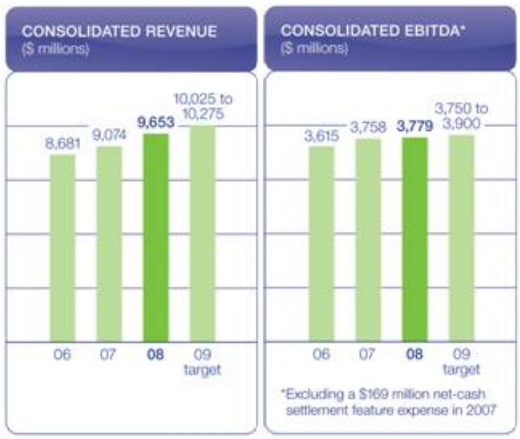
A blended statutory tax rate of approximately 30 to 31% (31% in 2008)

Net income tax payments of approximately $320 to $350 million ($10 million in 2008)

Forecast average exchange rate of U.S. $0.80 per Canadian dollar (U.S. $0.94 in 2008)

A pension accounting discount rate was estimated at 7.00% (subsequently set at 7.25%) and expected long-term return of 7.25% (unchanged from 2008, and consistent with the Company's long-run returns and its future expectations). Defined benefit pension plans net expenses and funding were both estimated to increase in 2009, mainly due to the decline in value of defined benefits pension plans assets in 2008.

- Defined benefit pension plans net expenses were estimated to be $nil in 2009, subsequently revised to approximately $18 million (compared to a $100 million recovery in 2008)
- Defined benefit pension plans contributions were estimated to be approximately $200 million in 2009, subsequently revised to $211 million ($102 million in 2008).







1.6 TELUS segments at a glance

The Company has two reportable segments: wireline and wireless. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value. Segmented information is regularly reported to the Company's Chief Executive Officer (the chief operating decision-maker). Segmented disclosure is reported in Note 6 of the Consolidated financial statements.

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, as well as *Section 10: Risks and risk management*.

Wireline segment

Offers the following solutions:

Voice — reliable phone service with long distance and call management services such as Voice Mail, Call Display and Call Waiting, and the sale, rental and maintenance of telephone equipment;

Internet — secure high-speed or dial-up access with a comprehensive suite of security and entertainment services;

TELUS TV — flexible digital entertainment service with high-definition TV, personal video recorder (PVR), Video on Demand and Pay Per View services;

Data — IP networks, private line, switched services, network wholesale, network management and hosting;

Converged voice and data solutions — integrated and hosted IP telephony solutions through TELUS IP-One® business services;

Hosting and infrastructure — managed information technology and infrastructure solutions delivered through TELUS' IP networks and connected to the Company's Internet data centres;

Security solutions — managed and non-managed solutions to protect business networks, messaging and data, in addition to security consulting services; and

Customized solutions — global multi-language contact centre solutions including CallCentreAnywhere, remote agent solutions with TELUS AgentAnywhere®, interactive voice response (IVR) and speech recognition services, conferencing and collaboration services, and performance

optimization, human resource and health and safety outsourcing solutions.

Wireline segment 2009 targets

See *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis.



Wireless segment

Offers the following solutions:

Digital voice — PCS (postpaid and Pay & Talk® prepaid) and Mike all-in-one (iDEN); Push to Talk™ capability on both Mike (Direct Connect®) and PCS (Instant Talk®);

Internet and data services — SPARK™ services including TELUS Mobile TV®, TELUS Mobile Radio®, TELUS Mobile Music®, web browsing, Windows Live Messenger, social networking, text and picture messaging, and downloadable games, videos, ringtones and images; and

Data devices — including smartphones and wireless connect cards available for use on wireless high-speed and Mike packet data networks.

Wireless segment 2009 targets

See *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis.



2. Core business, vision and strategy

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

2.1 Core business

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications provider in Western Canada and also provides data, IP, voice and wireless services to Central and Eastern Canada. TELUS earns the majority of its revenue from access to, and the use of, the Company's telecommunications infrastructure, or from providing products and services that facilitate access to and usage of this infrastructure.

At December 31, 2008, the Company's principal subsidiary was wholly owned TELUS Communications Inc. (TCI).

2.2 Vision and strategy

TELUS' strategic intent, or vision, is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move. TELUS' strategy for growth is to focus on its core telecommunications business in Canada.

For nine years, TELUS has focused consistently on six strategic imperatives that management believes to be as relevant in 2009 as when the imperatives were developed in 2000. The six imperatives guide the Company's actions and contribute to the achievement of its financial goals. Despite intense competition, evolving technology, and changing regulatory and competitive environments, TELUS has generated good operational results and has continued to advance its national growth strategy, as highlighted below.

Building national capabilities across data, IP, voice and wireless

In July 2008, TELUS successfully concluded bids on 59 licences of advanced wireless services (AWS) spectrum in the 1700 MHz / 2100 MHz ranges in the Industry Canada auction. The average licensed spectrum acquired by TELUS was 16.2 MHz nationally, which increases TELUS' strong spectrum position, and is expected to provide capacity for the introduction of future fourth generation (4G) service offerings.

In September, the Company turned down its first generation, analog wireless network, deployed in the mid-1980s. This network had reached the end of its useful service life and only 27,600 customers were still using it. TELUS included the deactivations of analog subscribers in its net subscriber additions and in the calculation of its wireless churn rate. Competitors may have reported such deactivations differently. TELUS began notifying customers of the network turndown about one year earlier and offered options of free digital phones and higher-powered

long-range phones at below-cost prices. The deactivation of this network frees up more spectrum for digital capacity and allows the Company to focus on improvements in the current third generation (3G) network and prepare for future 4G services.

In October, TELUS announced it had chosen long-term evolution (LTE) as the technology path for its 4G wireless broadband network, and as an interim step, the Company began a national build of a next generation wireless service to be launched commercially by early 2010, based on the latest version of HSPA technology using existing 1900 MHz and 850 MHz spectrum. The HSPA service is expected to augment TELUS' existing wireless service portfolio and position the Company for an optimal future transition to LTE. TELUS' existing portfolio of wireless services includes CDMA (code division multiple access) providing access to 3G high-speed data services (EVDO), and iDEN-based Mike service, the Company's Push To Talk network and business service. LTE is an emerging worldwide 4G technology that has gained support from many of the world's largest carriers and manufacturers, but it is not expected to be available commercially for a number of years. The benefits of the investment in HSPA are expected to include increased international roaming for existing TELUS customers, access to increased global roaming revenues for TELUS, faster network speeds, lower handset costs due to the larger HSPA device ecosystem, and lower network development and ongoing operating costs. TELUS plans to support its CDMA and iDEN (Mike service) customers for the foreseeable future.

After a comprehensive review process, the Company selected two suppliers, Nokia Siemens Networks and Huawei Technologies, for TELUS' next generation wireless network. TELUS also announced it has entered into an HSPA network sharing agreement with Bell Canada using existing 1900 MHz and 850 MHz spectrum. This agreement builds on and enhances an agreement signed in 2001 and is expected to enable TELUS to lower the cost, accelerate deployment of next generation wireless voice and data services on a national basis, optimize cell-site utilization, and maximize potential operating efficiencies. Initial capital expenditures for the new network were included in TELUS' original capital expenditure guidance for 2008 and are included in the 2009 targets. See *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis and risks described in *Section 10.2 Technology*. TELUS' HSPA and LTE evolution strategy is also consistent with the objectives of focusing on the growth markets of data, IP and wireless, and partnering to accelerate TELUS' strategy.

Focusing relentlessly on the growth markets of data, IP and wireless

In February, the City of Montreal selected TELUS to provide and manage IP-based voice and data services for the city's more than 300 administrative offices. TELUS' advanced telecommunications framework supports the city's goals of accessing a cost-effective infrastructure, while providing a secure IP backbone for new services and solutions. The total value of the 10-year contract is approximately $87 million.

Also in February, TELUS completed the roll-out of wireless high-speed capability in B.C. and Alberta, using EVDO Rev A technology. TELUS' wireless high-speed service reaches about 95% of the population of B.C. and Alberta, providing typical download speeds of 450 to 800 Kbps and typical upload speeds of 300 to 400 Kbps.

In March, TELUS' wireless postpaid Koodo® brand and service was launched to better address segments of the wireless market and complement the fully featured TELUS brand service. The expected benefits of this basic brand include more flexibility in serving various market segments, increasing postpaid customer additions, protecting revenue on the premium TELUS brand, and improving client retention programs.

During the year, the Company continued to invest in increasing the speed and coverage of its broadband infrastructure in B.C., Alberta, and Eastern Quebec, while continuing to increase its high-speed subscriber base. TELUS TV service was launched in several Quebec communities and moved to mass marketing in Calgary and Edmonton, with the inclusion of high-definition (HD) capabilities and, late in the year, personal video recorders (PVR).

In December, the Company was selected by the Government of Quebec, through a competitive bid process, to deliver and manage the province's next generation data network, the Réseau intégré de télécommunications multimédias. The contract is for a term of seven to 10 years and worth up to $900 million, the largest contract in TELUS' history. The new network is expected to meet the current and future needs of the government's new electronic health initiative and online services, providing connections to 160 ministries and agencies, as well as 350 health institutions province-wide.

Providing integrated solutions that differentiate TELUS from its competitors

In March, the Company launched the TELUS Visual Voice Mail service that provides a voice mail-to-text function and, for the first time in Canada, a voice mail-to-e-mail function. With this service, TELUS' wireless customers can access their phone messages wherever they can access e-mail using smartphones, such as personal digital assistants (PDAs) and BlackBerry devices, or computers. The customer can respond easily to the messages or e-mails, either by voice or by text, at the touch of a button and optionally include an audio recording of the message as an attachment.

In June, the Company launched three new global positioning system (GPS) solutions for businesses with mobile workers, such as those in the energy sector. TELUS Asset Tracker enables businesses to keep track of their assets, whether large

or small. TELUS Resource Tracker allows businesses to increase safety and productivity through real-time location monitoring of workers. TELUS Track and Dispatch gives businesses the ability to determine the closest mobile worker to a new job assignment or to immediately dispatch help if a worker needs assistance. These new solutions are part of the Company's suite of wireless GPS solutions on the PCS network that also features TELUS Fleet Tracker, a fleet monitoring and tracking solution, and TELUS Navigator, a GPS turn-by-turn navigation solution.

Partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy and focus TELUS' resources on core business

TELUS completed the acquisition of Emergis in January 2008, having financed and paid $743 million for all of the then issued and outstanding Emergis common shares by drawing down TELUS' syndicated bank credit facility and utilizing available cash resources, primarily proceeds from commercial paper issuance. In January, TELUS also made a small acquisition of privately held Fastvibe, a provider of web-streaming solutions for business to strengthen the Company's technology solutions portfolio.

Emergis is a business process outsourcer that specializes in the healthcare and financial services sectors. TELUS has targeted and invested in serving the healthcare and financial business sectors. Emergis' complementary expertise, applications and customer base are expected to strengthen TELUS' existing industry solutions and allow it to better compete in the fast-growing and transforming healthcare industry. This acquisition is consistent with three of TELUS' strategic imperatives: building national capabilities; focusing relentlessly on the growth markets of data, IP and wireless; and partnering, acquiring and divesting.

TELUS Ventures received a $6 million gain from its 2001 minority investment in Hostopia, a provider of private-branded web hosting, e-mail and e-commerce solutions to telecommunications and cable-TV companies, Internet service providers, domain registrars, and other web service providers. Deluxe Corporation's all-cash offer for Hostopia closed in early August. TELUS Ventures invested in Hostopia to complement TELUS' existing services, as part of TELUS' strategy to benefit from emerging technologies that fill the Company's capability gaps.

Going to the market as one team under a common brand, executing a single strategy

On completion of Emergis and Fastvibe acquisitions, TELUS immediately began implementing post-merger integration plans to ensure a seamless transition for team members and customers, while ensuring a continued focus on achieving the business goals of the transactions. Consistent with TELUS' standard process for acquisitions, Emergis and Fastvibe team members were welcomed at multiple city in-person events and videoconferences. Customers were provided with notice of the transactions, together with the strategic rationale, while sales specialist teams from TELUS and the acquired businesses met to learn about one another's products and services with a focus on cross-selling complementary solutions. Emergis was quickly re-branded as Emergis, a TELUS company, and Fastvibe commenced operating under the TELUS brand.

The post-merger integration process included the identification of top joint-sales opportunities and working together to close multimillions of dollars of new contracts. The teams also initiated an update to the three-year strategic business plans for healthcare and financial services. In addition, certain business functions were aligned, including Finance, Human Resources and Marketing. In November, the Company launched TELUS Health Solutions, Backed by Emergis, and made a commitment to invest $100 million over three years in the healthcare sector.

Investing in internal capabilities to build a high-performance culture and efficient operations

In July, following a large pilot implementation for 150,000 residential customers in British Columbia, TELUS successfully converted more than one million B.C. wireline residential subscribers to a new billing and client care platform. This platform is converged with the one in Alberta, and for the first time most residential customers in Alberta and B.C. are on the same billing and client care platform. During the B.C. conversion, TELUS applied learnings from the Alberta conversion in 2007 and the B.C. implementation was successful. The critical billing function performed as expected and billing cycles were maintained. The order entry system also performed well without capacity and stability issues experienced initially with the Alberta conversion. Service levels have not been materially impacted following the 2008 conversion. The expected customer service and cost benefits of this project include streamlined and standardized processes and the elimination over time of multiple legacy information systems.

In September, a new collective agreement with the members of the Syndicat des agents de maîtrise de TELUS (SAMT) was ratified, and will remain in effect until December 31, 2011. The SAMT agreement covers more than 500 professional and supervisory team members employed in Quebec. TELUS currently employs approximately 5,000 team members in the province.

The Company embarked on a number of operational efficiency initiatives, as described further in *Section 3*.

In October, TELUS and the Government of Quebec announced a training program and the creation of 149 jobs in the Company's technical support team located in the province. More than $1.6 million will be invested in this value-added

training program, of which $405,000 is from Emploi-Québec. As TELUS' wireless service customers increasingly adopt smartphones with diverse functions, they call more frequently for technical assistance. The new training program will provide advanced skills to technicians who provide support to TELUS customers across Canada.

TELUS continues to focus on engaging its team members (up five points in the 2008 fall Pulsecheck survey) and creating a culture of high performance and appreciation based on shared values and continuous learning. Initiatives included launching Career Alert, which provides team members with an enhanced career planning and progression tool to explore internal career opportunities; providing access to online learning courses, literature and mentoring opportunities; enhancing TELUS' performance development program; introducing Bravo, an upgraded team member recognition and rewards program; and expanding TELUS' Healthy Living program to support the well-being and safety of team members.

3. Key performance drivers

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis. It is also qualified by *Section 10: Risks and risk management*.

Management confirms or sets corporate priorities each year to advance TELUS' strategy, focus on the near-term opportunities and challenges to create value for shareholders.

Corporate priorities

2007		2008 (see Progress, following)		2009
Advancing TELUS' position in the consumer, business and wholesale markets Driving TELUS' technology evolution and improvements in productivity and service excellence Strengthening the spirit of the TELUS team and brand, and developing the best talent in the global communications industry.	à	Drive profit from strategic services with a focus on data Build scale in vertical markets and leverage the Emergis acquisition Exact productivity gains from efficiency improvement initiatives Elevate the client experience and build enhanced loyalty Execute technology initiatives, including broadband and IT platforms.	à	Execute on TELUS' broadband strategy, leveraging investments in leading wireline and wireless networks to deliver winning solutions for customers Increase the efficiency of operations to improve TELUS' cost structure and economic performance Outpace the competition and earn the patronage of clients through an engaged TELUS team.

Corporate priorities for 2008 — Progress

Drive profit from strategic services with a focus on data

- Growth in wireless included record TELUS gross subscriber loading and very strong 55% wireless data revenue growth
- TELUS saw strong smartphone adoption in 2008, with the launch of a wide selection of PCS devices backed by innovative marketing campaigns. Devices included the Pink BlackBerry Pearl 8130, Curve 8330 and new touchscreen BlackBerry Storm; Samsung Instinct; LG KEYBO, LG Dare, LG Voyager and LG Venus; and HTC Touch Diamond
- Starting at mid-year, wireless margins were negatively impacted by the low $199 price point introduced on the Apple iPhone by a competitor, which increased device discounts for all smartphones in Canada that have a typical cost of $500 to $600. In addition, the late delivery of the BlackBerry Storm largely missed the Christmas sales season and reduced the effectiveness of associated advertising
- Wireline data growth was 17% due largely to the strategic acquisition of Emergis (see below).

Build scale in vertical markets and leverage the Emergis acquisition

- The Company continued to implement large complex deals in the public sector, including contracts with the Government of Ontario, Department of National Defence and City of Montreal, plus several corporate deals in other industry vertical markets
- While TELUS continues to win contracts based on the excellence of its implementation track record, not all implementations go smoothly given the scale, complexity of the IT solutions and reliance on third parties. The Company has addressed the issue by consolidating three business units into two, refocused on project process planning and risk mitigation, and conducting reviews to identify learnings for other project implementations
- Late in year, won a seven-to-10-year contract, worth up to $900 million, with the Government of Quebec for a managed data network to serve 160 offices and 350 health institutions across the province
- TELUS' capability in the healthcare and financial vertical markets increased with the acquisition and successful integration of Emergis. Emergis' service portfolio and eastern presence provided a good geographical and service fit with TELUS' existing services in the West, as described more fully in *Section 2*
- TELUS Health Solutions was launched, including a $100 million investment over three years, demonstrating commitment to this important growth area

- TELUS was named 2008 Health Company of the Year by the Information Technology Association of Canada.

Corporate priorities for 2008 — Progress

Exact productivity gains from efficiency improvement initiatives

- Progress on efficiency initiatives was disappointing in the first half of the year, leading to a refocused effort in the second half. Restructuring charges were $48 million in the second half of 2008 and only $11 million in the first six months. The Company expects a more consistent focus in 2009
- In the fall, the Company began reorganization of three enabling business units, Technology strategy, Network operations, and Business transformation, into two integrated teams: Technology strategy and Business transformation and technology operations. Expected benefits include streamlined operations, more effective deployment of technologies and supporting systems, cost efficiencies and improved customer service
- Operational efficiency initiatives also include redirecting resources to growing parts of the business, optimization of layers of management and spans of control to reduce staff, organization-wide expense control, increased use of business process outsourcing and internal off-shoring, rationalization of products in low-value activities, consolidation of vendor management and reducing the number of vendors. In addition to team redeployments, reductions in positions were made in December 2008 and January 2009, mostly in management ranks
- Year-end employee performance bonuses were reduced due to below plan operational performance, and management compensation has been frozen for 2009.

Elevate the client experience and build enhanced loyalty

- TELUS continued to achieve high retail service levels, as measured by an array of quality of service measures
- Wireless churn (a measure of the monthly customer disconnect rate) was up slightly in 2008 at 1.57%, including deactivations from turning down the Company's analog network
- Created new training initiatives for call centre agents, including the introduction of a video that clarifies processes and policies between Customer Care and the Customer Solutions Delivery teams
- Launching two-hour appointment windows, offering weekend and evening service for residential and small and medium-sized business customers, and leveraging customer surveys to build upon customer feedback.

Execute technology initiatives, including broadband and IT platforms

- LTE was chosen for future wireless 4G technology, and TELUS began implementing an HSPA next generation wireless network as an optimal path to transition to LTE, more fully described in *Section 2*. The project included an enhanced, joint network sharing agreement with Bell Canada to speed the network launch and maximize coverage, and selection of two world-leading equipment suppliers — Nokia Siemens Networks and Huawei Technologies
- Broadband coverage was expanded, facilitating high-speed Internet sales and increased traction in TELUS TV sales. Commercially launched high-definition (HD) TELUS TV in select areas and, late in year, personal video recorder (PVR) service
- The broadband coverage footprint in Edmonton, Calgary and Rimouski is sufficient for mass marketing TELUS TV, but not yet in the major market of Lower Mainland of B.C. (Vancouver area), which remains a priority for 2009
- Smoothly consolidated legacy wireline ordering, provisioning, customer management and billing software onto a single advanced platform for more than one million residential subscribers in B.C. — the same platform most Alberta residential subscribers migrated to in 2007. Front-line agents can better manage customers' services from a single application in both B.C. and Alberta.

4. Capabilities

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis. It is also qualified by *Section 10: Risks and risk management.*

4.1 Principal markets addressed and competition

National wireless services for consumers and businesses

TELUS capability	Competition

TELUS capability	Competition
Licensed national wireless spectrum, with network covering most of Canada's population, with domestic and international roaming agreements Wireless networks interconnected with TELUS' wireline networks Provider of integrated digital wireless voice, data and Internet services on a nationwide digital PCS (CDMA) network, including a 3G high-speed coast-to-coast network in Canada with high-speed evolution data optimized (EVDO) overlay. Services are further described in *Section 1.6* · Access to 96% of the Canadian population, when roaming/resale agreements principally with Bell Canada are included · High-speed EVDO overlay reaches 88% of the Canadian population, when roaming/resale agreements are included TELUS' iDEN network-based Mike service, a Push To Talk service focused on the commercial marketplace TELUS' wireless technology and service evolution is described in *Section 2.2 Vision and Strategy — Building national capability* · Build-out of a next generation wireless HSPA network began in 2008 with services expected to be launched commercially by early 2010, augmenting TELUS' existing wireless service portfolio and providing for an optimal future transition to LTE 4G services · HSPA network sharing agreement with Bell Canada, building on and enhancing an agreement signed in 2001.	Existing wireless service competition includes services offered by: · Facilities-based national competitors Rogers Wireless and Bell Mobility · Facilities-based provincial telecommunications companies SaskTel and MTS Mobility · Resellers of Bell Mobility's and Rogers Communications Inc.'s networks, such as the Virgin Mobile Group, 7-Eleven and certain cable-TV companies Emerging wireless service competition includes: · New wireless competitors, including cable-TV companies, expected to begin offering services with various regional coverage, beginning in late 2009, or 2010, as a result of the AWS spectrum auction in 2008 · Potential alliances and integrations among new regional competitors Foreign ownership restrictions apply to facilities-based wireless service providers.

National wireline business services

TELUS capability	Competition
An IP-based national network overlaying an extensive switched network in incumbent territories in B.C., Alberta and Eastern Quebec Global interconnection arrangements Services are further described in Section 1.6 and include: · Voice and data services · Converged voice and data solutions · Hosting and infrastructure · Wholesale services provided to telecommunications carriers, resellers, Internet service providers (ISPs), wireless providers, competitive local access providers and cable-TV operators · Global contact solutions · Customized solutions, such as provision of business process outsourcing services to the healthcare, human resources and financial services sectors · Certain services facilitated by multi-lingual international call centres Majority of service revenue in incumbent territories and services in non-incumbent areas, such as Ontario and Quebec, are not rate regulated.	Competition for voice and data communications services includes: · Principally Bell Canada, as well as MTS Allstream and cable-TV companies competing with their own national infrastructures · Substitution to wireless services including those offered by TELUS. Wholesale service competitors include Bell Canada, MTS Allstream, and Rogers Competitors for call centre services include Convergys, Sykes and Verizon LiveSource Competitors for customized managed outsourcing solutions include system integrators CGI, EDS and IBM.

Wireline consumer services in incumbent territories of British Columbia, Alberta and Eastern Quebec

TELUS capability	Competition

Access to almost every urban and rural home and business in incumbent territories in B.C., Alberta and Eastern Quebec. TELUS wireline residential access line services are provided to an estimated 66% of households in B.C. and Alberta	· Substitution of wireless services, including TELUS' own wireless offerings, for local and long distance services. Households with wireless telephone services only (amongst all providers, including TELUS) are estimated to be 12% in B.C. and Alberta
Extensive switched network and significant investment in Internet infrastructure, and access to an IP-based national network	· Cable-TV providers Shaw Communications Inc. in B.C. and Alberta, and Cogeco Cable in Eastern Quebec, that have access to urban and suburban homes to provide Internet, entertainment and VoIP-based telephony services
· Provision of local, long distance and Internet services	
Broadcasting distribution licences to offer digital television services in select communities in incumbent territories and licences to offer commercial video-on-demand services	· Rogers Communications, Bell Canada and potentially Shaw Communications, providing a varying combination of local, long distance, Internet and entertainment services
· TELUS TV services have been available to an increasing number of communities since 2005	· Various others (e.g. Vonage) that offer resale or VoIP-based local and long distance and Internet services
· High-definition (HD) TV and personal video recorder (PVR) capabilities are increasingly available starting in 2008.	· Satellite-based entertainment and Internet services (Bell Canada and Shaw Communications).

4.2 Operational resources

Operational resources	Operational risks and risk management
People	Employee compensation, retention and labour relations — See *Section 10.4 Human resources*
The Company employs 35,900 full-time equivalent multi-skilled TELUS team members across a wide range of operational functions	General safety — See *Section 10.8 Health, safety and environment*
TELUS uses a small number of external contractors or consultants	Due to overheating in the Alberta economy, the Company did experience some difficulties in retaining and hiring qualified staff in 2008. However, this has abated in 2009 due to the economic slowdown
Wireless service is dependent on extensive distribution network of exclusive dealers and third-party electronics retailers (e.g. Future Shop, London Drugs)	Approximately 14,650 team members are covered by a collective agreement, with a large majority (approximately 13,500) covered by collective agreements expiring in 2010 or 2011.
The Company has adequate employee resources to cover ongoing retirements, and ready access to labour in Canada and, for call centres, in various locations internationally	
The Company has extensive training programs in place and has universal scorecard metrics that tie personal and corporate performance to bonus pay.	
Brand and services	Industry and economy — See *Section 9: General outlook* and *Section 10.11 Economic growth and fluctuations.*
The Company has a well established and recognizable national brand that is supported by extensive advertising across all media	Competition — See *Section 4.1* above and *Section 10.1*
Successfully introduced the new wireless Koodo Mobile basic brand and service in March 2008	Regulation — See *Section 10.3*
Services are summarized in *Section 4.1* above.	· None of the Wireless segment revenues are currently subject to CRTC price regulation
	· Less than one-quarter of the Company's revenues are from Wireline segment regulated services and subject to CRTC price regulation
	· Deregulation of local phone services for residential markets covering approximately 80% of its residential lines in non-high cost serving areas, or 67% of total residential and business lines
	· Non-incumbent local exchange carrier (non-ILEC) services, long distance, Internet, international telecommunications, inter-exchange private line and certain data services, as well as the sale of customer premises equipment, continue to be forborne from regulation.

Technology and systems	Technology — See *Section 10.2*
TELUS is a highly complex technology-dependent company with a multitude of interconnected wireline and wireless telecommunications networks, IT systems and processes.	Process risks — *See Section 10.5* Manmade and natural threats — See *Section 10.10.*

4.3 Liquidity and capital resources

The following discussion is qualified in its entirety by Risks and risk management — *Section 10.6 Financing and debt requirements*.

Capital structure financial policies (Note 3 of the Consolidated financial statements)

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner that balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized accounts receivable in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of sales of trade receivables to an arm's-length securitization trust.

The Company monitors capital utilizing a number of measures, including: net debt to EBITDA — excluding restructuring costs; and dividend payout ratio of sustainable net earnings. For further discussion and specific guidelines, see *Section 7.4 Liquidity and capital resource measures* .

Financing and capital structure management plans

Activities supporting the 2008 financing plan, as outlined in 2007's Management's discussion and analysis, are described below and are followed by plans for 2009.

Reporting back on TELUS' 2008 financing and capital structure management plan

Repurchase TELUS Common Shares and TELUS Non-Voting Shares under the normal course issuer bid (NCIB)

In 2008, the Company repurchased for cancellation approximately one million Common Shares and 5.8 million Non-Voting Shares for a total outlay of $280 million. *See Section 7.3 Cash used by financing activities.* Since December 20, 2004, TELUS has repurchased 20.2 million of its Common Shares and 39.5 million of its Non-Voting Shares for $2.8 billion under four NCIB programs, consistent with the Company's intent to return surplus cash to shareholders.

Pay dividends

The dividend declared for the fourth quarter of 2008 (paid January 2, 2009) was 47.5 cents per share, up by 5.6% from 45 cents per share in the same period in 2007, and representing the fifth consecutive annual increase in the quarterly dividend.

Use proceeds from securitized receivables and bank facilities, as needed, to supplement free cash flow and meet other cash requirements

At December 31, 2008, the balance of proceeds from securitized accounts receivable was $300 million, up by $50 million from September 30, 2008, up by $150 million from June 30, 2008, and reduced by $200 million from March 31, 2008 and December 31, 2007. The reduction in securitized accounts receivable of $350 million during the second quarter was completed following the closing of the public debt issue in April, while the increase in the second half can be attributed to the purchase of AWS wireless spectrum in the third quarter.

In January 2008, the Company increased utilization of the $2 billion 2012 credit facility. The proceeds were used for general corporate purposes, including the purchase of Emergis. At December 31, 2008, the balance drawn on the 2012 revolving credit facility was $980 million, up from $430 million at September 30, 2008, $162 million at June 30, 2008, $321 million at March 31, 2008, and the nil amount drawn at the beginning of the year. The increase during the first quarter helped fund the acquisition of Emergis, while the increase in the third quarter was used to fund payment for AWS spectrum licences. The increase in the fourth quarter was offset by a reduction in outstanding commercial paper.

Maintain compliance with financial objectives, policies and guidelines

Maintain a minimum $1 billion in unutilized liquidity — On March 3, 2008, the Company closed a new $700 million, 364-day credit facility with a select group of Canadian banks. In December, the Company renewed this $700 million, 364-day credit facility, extending the term to March 1, 2010 under substantially the same terms and conditions, except for increased cost. The 364-day facility provides incremental liquidity to TELUS and allows the Company to continue to meet one of its financial objectives, which is to generally maintain $1 billion in available liquidity. The Company had unutilized credit facilities of $1.15 billion at December 31, 2008, including the 364-day facility, as well as unutilized availability under its accounts receivable securitization program. See *Section 7.5 Credit facilities*.

Net debt to EBITDA excluding restructuring costs ratio of 1.5 to 2.0 times — Actual result of 1.9 times at December 31, 2008.

Dividend payout ratio of 45 to 55% of sustainable net earnings on a prospective basis — The ratio was 56% when calculated based on the annualized fourth quarter dividend rate and earnings per share adjusted to exclude the impacts of favourable tax-related adjustments for 2008. The ratio was 54%, based on the annualized fourth quarter dividend rate and actual earnings per share for 2008.

Maintain position of fully hedging foreign exchange exposure for indebtedness

Maintained for the 8.00% U.S. dollar Notes due 2011, the one remaining foreign currency-denominated debt issue.

Give consideration to accessing the public debt markets in 2008 to refinance short-term financing sources with long-term financing

In April, TELUS successfully closed its offering of 5.95%, Series CE Notes due April 15, 2015, for aggregate gross proceeds of approximately $500 million. The net proceeds of the offering were used for general corporate purposes including repayment of amounts under the 2012 credit facility, and to refinance short-term financing sources. In August 2008, the Company increased the maximum size of its commercial paper program from $800 million to $1.2 billion, which is backstopped by the Company's 2012 credit facility. At December 31, 2008, $432 million of commercial paper was outstanding. Generally, the Company employs the lowest-cost sources of funds, which may vary over time among various debt instruments.

Reporting back on TELUS' 2008 financing and capital structure management plan

Preserve access to the capital markets at a reasonable cost by maintaining investment grade credit ratings and targeting improved credit ratings in the range of BBB+ to A—, or the equivalent, in the future

At February 11, 2009, investment grade credit ratings from the four rating agencies that cover TELUS were in the desired range. TELUS' April 2008 debt issue was assigned credit ratings of: A (low) by DBRS Ltd., Baa1 by Moody's Investors Service, BBB+ by Fitch Ratings, and BBB+ by Standard and Poor's, all with a stable trend or outlook and all consistent with the agencies' existing ratings for TELUS debt securities. On August 7, 2008, DBRS Ltd. confirmed its R-1 (low), stable, rating for TELUS' commercial paper program. See *Section 7.7 Credit ratings*.

TELUS' 2009 financing and capital structure management plan

At December 31, 2008, TELUS had access to undrawn credit facilities of more than $1.15 billion, as well as availability under its accounts receivable securitization program. The Company has no significant maturities of long-term debt until 2011. The Company believes it has sufficient capability to fund its requirements from these facilities and expects to generate free cash flow in 2009, which would be available to, among other things, repurchase shares and pay dividends to shareholders. While anticipated cash flow is expected to be more than sufficient to meet current operating requirements, TELUS may issue long-term public debt or establish new term credit facilities in 2009 to refinance short-term financing sources or upcoming debt maturities.

In 2009, TELUS plans to remain in compliance with its financial policies, and these intentions could constrain TELUS' ability to invest in its operations for future growth or to complete share repurchases. TELUS has set its financial policies with the expectation that substantial cash tax payments will commence in 2009 both in respect of 2008 and on an instalment basis in respect of 2009. Payment of cash income taxes will reduce the after-tax cash flow otherwise available to return capital to shareholders. The Company also expects to make increased contributions to its employee defined benefit pension plans in 2009, as described in *Section 1.5*. If actual results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, including its intention to repurchase shares under the NCIB program, or pay dividends according to the target payout guideline.

TELUS expects to maintain its current position of fully hedging its foreign exchange exposure for indebtedness. At the end of 2008, 77% of TELUS' total debt was on a fixed-rate basis, and the weighted average term to maturity was approximately four years.

At December 31, 2008, TELUS also has access to a shelf prospectus pursuant to which it can issue $2.5 billion of debt and equity. TELUS believes that its investment grade credit ratings provide reasonable access to capital markets to facilitate future debt issuance. For the related risk discussion, see *Section 10.6 Financing and debt requirements.*

Debt maturities as at December 31, 2008

	Long-term debt maturities [1], principal		
($ millions)	**All except capital leases**	**Capital leases**	**Interest and like carrying costs [2]**
2009	1	3	462
2010	80	2	460
2011	2,950	—	330
2012	1,712	—	179
2013	300	—	147
Thereafter	1,949	—	750
Total	6,992	5	2,328

(1) Where applicable, principal-related maturities reflect foreign currency exchange rates at December 31, 2008.

(2) Interest and like carrying costs for commercial paper and amounts drawn under the Company's credit facility have been calculated based

upon rates in effect as at December 31, 2008.

4.4 Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and the Executive Vice-President and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of Management's discussion and analysis and the Consolidated financial statements. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the Consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP and the requirements of the Securities and Exchange Commission in the United States, as applicable. TELUS' CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008 in accordance with *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, TELUS' CEO and CFO have determined that the Company's internal control over financial reporting is effective as at December 31, 2008 and expect to certify TELUS' annual filings with the U.S. Securities and Exchange Commission on Form 40-F, as required by the United States *Sarbanes-Oxley Act*, and with Canadian securities regulatory authorities.

Deloitte & Touche LLP, the Company's auditor, has audited internal controls over financial reporting of TELUS Corporation as at December 31, 2008.

Changes in internal control over financial reporting

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

5. Results from operations

5.1 Selected annual information

The following selected three-year consolidated financial information has been derived from and should be read in conjunction with the Consolidated financial statements of TELUS for the year ended December 31, 2008, and its annual Consolidated financial statements for previous years.

Years ended December 31 **($ in millions, except per share amounts)**	**2008**	**2007**	**2006**
Operating revenues	**9,653**	9,074	8,681
Operations expense [1]	**5,815**	5,465	4,998
Restructuring costs	**59**	20	68
Depreciation and amortization	**1,713**	1,615	1,576
Total operating expenses	**7,587**	7,100	6,642
Financing costs and other expense	**499**	476	533
Income before income taxes and non-controlling interest	**1,567**	1,498	1,506
Income taxes	**436**	233	353
Net income and Common Share and Non-Voting Share income	**1,128**	1,258	1,145
Earnings per share [2] — basic	**3.52**	3.79	3.33
Earnings per share [2] — diluted	**3.51**	3.76	3.30
Cash dividends declared per share [2]	**1.825**	1.575	1.20
Total assets	**19,160**	16,988	16,661
Current maturities of long-term debt	**4**	5	1,434

Long-term debt	**6,348**	4,584	3,475
Derivative and other long-term financial liabilities	**1,103**	1,507	1,037
Total long-term financial liabilities	**7,451**	6,091	4,512
Future income taxes	**1,255**	1,048	1,077
Non-controlling interests	**23**	26	24
Common equity	**7,182**	6,926	7,048

(1) Including net-cash settlement feature expense of $169 million in 2007.
(2) Common Shares and Non-Voting Shares.

Changes over the three years include:

- Revenues increased in 2008 and 2007 due to growth in wireless services and wireline data services, with wireline including two acquisitions in January 2008. Wireless revenues and wireline data revenues represent approximately 69% of consolidated revenues in 2008, as compared to 67% in 2007 and 63% in 2006;
- Total operating expenses include increased amortization of intangible assets in 2007 and 2008, which is primarily from implementation of converged billing and client care software supporting residential customers in Alberta and B.C., as well as amortization of software from the acquisition of Emergis in January 2008. Acquisitions in January 2008 contributed to the increase in operations expense in that year. In 2007, the introduction of a net-cash settlement feature for share option awards granted prior to 2005 increased operations expense by $169 million;
- Financing costs and other expenses include varying amounts of interest income; and
- Net income included significant favourable income tax-related adjustments, resulting from legislated income tax changes, settlements and tax reassessments for prior years, including any related interest. The amounts were approximately $49 million (15 cents per share) in 2008, $257 million (78 cents per share) in 2007 and $171 million (50 cents per share) in 2006.

5.2 Quarterly results summary and fourth quarter recap

($ in millions, except per share amounts)	**2008 Q4**	**2008 Q3**	**2008 Q2**	**2008 Q1**	**2007 Q4**	**2007 Q3**	**2007 Q2**	**2007 Q1**
Operating revenues	**2,454**	2,450	2,399	2,350	2,330	2,310	2,228	2,206
Operations expense (1)	**1,479**	1,465	1,477	1,394	1,371	1,317	1,340	1,437
Restructuring costs	**38**	10	4	7	6	6	3	5
EBITDA (2)	**937**	975	918	949	953	987	885	764
Depreciation	**351**	344	343	346	386	333	318	318
Amortization of intangible assets	**84**	92	77	76	68	70	73	49
Operating income	**502**	539	498	527	499	584	494	397
Other expense (income)	**11**	6	2	17	6	8	18	4
Financing costs	**118**	122	114	109	109	86	127	118
Income before income taxes and non-controlling interest	**373**	411	382	401	384	490	349	275
Income taxes (recovery)	**88**	125	114	109	(19)	79	94	79
Non-controlling interests	**—**	1	1	1	3	1	2	1
Net income	**285**	285	267	291	400	410	253	195
Income per Common Share and Non-Voting Share - basic	**0.90**	0.89	0.83	0.90	1.23	1.24	0.76	0.58
- diluted	**0.89**	0.89	0.83	0.90	1.22	1.23	0.75	0.57
Dividends declared per Common Share and Non-Voting Share	**0.475**	0.45	0.45	0.45	0.45	0.375	0.375	0.375
(1) Includes net-cash settlement feature expense (recovery):	**—**	—	—	—	1	(7)	1	174

(2) EBITDA is a non-GAAP measure. See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)* .

Trends

The consolidated revenue trend continues to reflect both growth in wireless network revenues generated from an increasing subscriber base, as well as strong growth in wireline data revenue, which includes new revenues from two January 2008 acquisitions. In 2008, wireless average revenue per subscriber unit per month (ARPU) decreased by 1% from 2007, as declining voice ARPU more than offset strong growth in data ARPU. The voice ARPU decline reflects pricing competition, increased use of in-bucket or included-minute service plans, and the recent launch of the postpaid basic brand. TELUS' Mike service has a significant exposure to the transport, construction, automotive and oil and gas sectors, which have been affected by the economic downturn in 2008, resulting in a weakening in Mike ARPU, particularly later in the year.

Prior to 2008, wireline data revenue growth was fully offset by declining wireline voice local and long distance revenues, due to substitution for wireless and Internet services, as well as competition from VoIP service providers, resellers and facilities-based competitors. Residential network access line losses continue at recent run rate levels, as TELUS' main cable-TV competitor expanded its product offerings, competitive pricing and coverage. Partially offsetting the residential line losses were continued gains in business network access lines.

Historically, there has been significant fourth quarter seasonality with respect to higher wireless subscriber additions, related acquisition costs and equipment sales, resulting in lower fourth quarter wireless EBITDA. The third quarter is becoming more significant as well, with back-to-school offers. Historically, there was a less pronounced fourth quarter seasonal effect for wireline high-speed Internet subscriber additions and related costs, which is no longer significant.

Starting in 2008, consolidated Operations expense includes expenses from two January acquisitions. Beginning with the first quarter of 2007, Operations expenses include expenses or recoveries for introducing a net-cash settlement feature for share option awards granted prior to 2005.

Depreciation expense increased beginning in the second half of 2007 with a reduction in estimated useful service lives for certain circuit switching, network management and other assets in the third and fourth quarters of 2007 and first quarter of 2008.

Amortization of intangible assets in the fourth quarter of 2008 and first quarter of 2007 is net of investment tax credits of $6 million and $5 million, respectively. The investment tax credits were each applied following a determination of eligibility by a government tax authority and relate to assets capitalized in prior years that are now fully amortized. Amortization increased by $18 million beginning in the second quarter of 2007 from a major new wireline billing and client care platform put into service for Alberta residential customers in March 2007. The sequential increase in amortization of intangible

assets in the first quarter of 2008 was due mainly to acquisitions. Implementation of the new phase of the billing platform for B.C. residential customers in mid-July 2008 increased amortization in the third quarter of 2008 by $5 million and an additional $3 million in the fourth quarter of 2008.

Financing costs shown in the preceding table are net of varying amounts of interest income, including interest from the settlement of prior years' income tax-related matters, particularly in the third quarter of 2007. Interest expenses had been trending lower due primarily to a lower effective interest rate from financing activities in the first half of 2007 and April 2008. An increase in interest expenses in the third and fourth quarters of 2008 resulted from a higher debt balance that helped fund January acquisitions and the payment for advanced wireless services spectrum licences.

The trends in Net income and earnings per share (EPS) reflect the items noted above, as well as adjustments arising from legislated income tax changes, settlements and tax reassessments for prior years, including any related interest on reassessments. EPS has been positively impacted by decreased shares outstanding from ongoing share repurchases.

Income tax-related adjustments ($ in millions, except EPS amounts)	**2008 Q4**	**2008 Q3**	**2008 Q2**	**2008 Q1**	**2007 Q4**	**2007 Q3**	**2007 Q2**	**2007 Q1**
Approximate Net income impact	**32**	—	—	17	143	93	17	4
Approximate EPS impact	**0.10**	—	—	0.05	0.44	0.28	0.05	0.01
Approximate basic EPS excluding tax-related impacts	**0.80**	0.89	0.83	0.85	0.79	0.96	0.71	0.57

In addition to income tax-related adjustments, unfavourable adjustments for sales tax reassessments for prior years were recorded in the third quarter of 2008 and second quarter of 2007. The after-tax adjustments were approximately $8 million (two cents per share) in the third quarter of 2008, and approximately $7 million (two cents per share) in the second quarter of 2007.

Fourth quarter

Management's review of operations contained in TELUS' fourth quarter news release on February 13, 2009, discussed fourth quarter results in more detail. The following summarizes changes in the fourth quarter operating results in 2008, as compared to 2007.

Operating revenues increased by $124 million, or 5%, in the fourth quarter of 2008 when compared to the same period in 2007 as a result of 7% growth in wireless revenue and 4% growth in wireline revenue. Operating income adjusted to exclude the net-cash settlement feature increased by $2 million in the fourth quarter of 2008 when compared to 2007, primarily due to lower depreciation expenses, net of $17 million lower wireline EBITDA (as adjusted) and increased amortization of software assets. Income before income taxes (as adjusted) decreased by $12 million in the fourth quarter of 2008 when compared to 2007 due to lower operating income (as adjusted) and higher net financing costs.

Net income decreased by $115 million or 33 cents per share (basic) in the fourth quarter of 2008, when compared to the same period in 2007.

The decrease included lower net income tax recoveries and related interest of $111 million (34 cents per share). Net income before income tax-related adjustments decreased by $4 million.

Net income changes ($ millions)	Fourth quarters ended December 31
Net income in 2007	400
Deduct favourable income tax-related adjustments in 2007	(143)
	257
Tax-effected changes:	
Lower net-cash settlement feature expense	1
Lower EBITDA as adjusted [1]	(12)
Lower depreciation and amortization [1], excluding investment tax credits	9
Interest expenses [1]	(8)
Other	6
	253
Favourable income tax-related adjustments in 2008	32
Net income in 2008	**285**

[1] For the purposes of this presentation, the 2008 blended statutory tax rate was used.

Cash provided by operating activities decreased by $71 million in the fourth quarter of 2008 when compared to 2007, primarily due to lower recoveries of income taxes and related interest, partly offset by an increase in proceeds from securitized accounts receivable. Cash used by investing activities increased by $171 million in the fourth quarter of 2008 when compared to 2007, primarily due to higher capital expenditures.

Net cash used by financing activities decreased by $191 million in the fourth quarter of 2008 when compared to the same period in 2007, as fewer shares were repurchased under NCIB programs and the dividend for the fourth quarter of 2008 was remitted on the January 2, 2009 payment date (while the dividend for the fourth quarter of 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date).

5.3 Consolidated results from operations

($ in millions, except EBITDA margin and employees)	Years ended December 31		
	2008	2007	Change
Operating revenues	**9,653**	9,074	6.4%
Operations expense	**5,815**	5,465	6.4%
Restructuring costs	**59**	20	195%
EBITDA [1]	**3,779**	3,589	5.3%
Depreciation	**1,384**	1,355	2.1%
Amortization of intangible assets	**329**	260	27%
Operating income	**2,066**	1,974	4.7%
Operations expense (as adjusted) [2]	**5,815**	5,296	9.8%
EBITDA (as adjusted) [2]	**3,779**	3,758	0.6%
Operating income (as adjusted) [2]	**2,066**	2,143	(3.6)%
EBITDA margin (%) [3]	**39.1**	39.6	(0.5)pts
EBITDA margin (as adjusted) (%) [3]	**39.1**	41.4	(2.3)pts
Total full-time equivalent (FTE) employees	**35,900**	33,400	7.5%

[1] EBITDA is a non-GAAP measure. See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA).*
[2] Excluding net-cash settlement feature expense of $169 million in 2007.
[3] EBITDA or EBITDA (as adjusted) divided by Operating revenues.

The following discussion is for the consolidated results of TELUS. Segmented discussion is provided in *Section 5.4 Wireline segment results, Section 5.5 Wireless segment results* and *Section 7.2 Cash used by investing activities — capital expenditures .*

Operating revenues

Operating revenues increased by $579 million in 2008 when compared to 2007. Revenue and subscriber growth continued in 2008 in wireless operations and wireline data services. Wireline data revenue was also positively impacted by two acquisitions completed in January 2008. Voice long distance revenue continued to erode, while voice local revenue showed a year-over-year decrease due to the effects of local competition and technological substitution.

Operations expense

Operations expense for 2008 increased by $350 million when compared to 2007. Operations expense adjusted to exclude the net-cash settlement feature increased by $519 million. Wireline expense increases were due to acquisitions, increased cost of sales, and initial

implementation costs for new wireline enterprise customers, partly offset by the absence of post-conversion expenses recorded in 2007 for a new Alberta wireline billing and client care platform. Wireless expenses increased to support the 10% year-over-year growth in the wireless subscriber base and 9% growth in wireless network revenue, and included support costs for growing data service adoption and start-up costs associated with the launch of the new Koodo brand. Expense increases in both segments were net of lower accrued year-end employee performance bonuses resulting from below plan operational performance. Full-time equivalent employees increased by 2,500, mainly due to an increase of 1,300 wireline staff in business process outsourcing services for customers, and 1,100 from the January acquisition of Emergis, net of a reduction of 400 in other wireline operations. Wireless FTE employees increased by 500 to support its subscriber growth.

TELUS' defined benefit pension plan net amortization did not change significantly in 2008. In 2009, management expects the net expense for, and contributions to, defined benefits plans to increase. See assumptions for 2009 in *Section 1.5 Financial and operating targets for 2009* . Bad debt expense increased by $28 million in 2008, due to growing and broadening subscriber bases.

Restructuring costs

Restructuring costs increased by $39 million in 2008 when compared to 2007. Restructuring expenses in 2008 were in respect of approximately 35 efficiency initiatives, which included a reorganization of three enabling business units (Technology strategy, Network operations, and Business transformation) into two integrated teams, redirection of resources to growing parts of the business, optimization of layers of management and spans of control to reduce staff, increased use of business process outsourcing, rationalization of products in low-value activities, re-alignment of sales forces, simplification of marketing strategies, and consolidation of vendor management. An expense between $50 million to $75 million is expected for efficiency initiatives in 2009.

EBITDA

Consolidated EBITDA increased by $190 million in 2008 when compared to 2007. Excluding the net-cash settlement feature, consolidated EBITDA (as adjusted) increased by $21 million, as a $75 million increase in wireless EBITDA (as adjusted) more than offset the $54 million decrease in wireline EBITDA (as adjusted).

Depreciation

Depreciation increased by $29 million in 2008 when compared to 2007. The increase resulted from a reduction in estimated useful service lives for certain digital circuit switching assets in 2008, partly offset by $67 million in accelerated depreciation recorded in 2007 to reflect a reduction in estimated useful service lives for certain digital remote circuit switching, network management and other assets.

Amortization of intangible assets

Amortization increased by $69 million in 2008 when compared to 2007. The increase included: (i) $51 million for January 2008 acquisitions (primarily software amortization); (ii) $13 million for the July 2008 implementation of the converged wireline billing and client care platform in B.C.; (iii) $19 million of additional amortization in 2008 arising from the Alberta implementation of the new wireline billing and client care platform put into service in March 2007; and (iv) net increases in other intangible assets subject to amortization. The increases were partly offset by lower amortization of wireless subscriber base assets, which are now fully amortized, as well as accelerated amortization in 2007 related to the discontinuation of AMP'D Mobile Canada services.

In addition, amortization was reduced through application of investment tax credits (ITCs) of $6 million in 2008 and $5 million in 2007. The ITCs were applied following determination of eligibility by the taxation authority, and were for assets capitalized in prior years that were fully amortized.

Amortization is expected to increase for the full year of 2009 as compared to 2008, mainly due to an additional seven months amortization for the B.C. phase of the converged wireline client care and billing platform. See *Caution regarding forward-looking statements* .

Annual testing for impairment of intangible assets with indefinite lives and goodwill was conducted in December. It was determined that there were no impairments. See *Section 8.1 Critical accounting estimates — Capital assets and Goodwill* .

Operating income

Operating income increased by $92 million in 2008 when compared to 2007. Operating income adjusted to exclude the net-cash settlement feature in 2007 decreased by $77 million, as increased depreciation and amortization more than offset higher EBITDA (as adjusted).

Other income statement items

Other expense, net ($ millions)	Years ended December 31		
	2008	2007	Change
	36	36	—%

Other expense includes accounts receivable securitization expense, income (losses) or impairments in equity or portfolio investments, gains and losses on disposal of real estate, and charitable donations. Accounts receivable securitization expenses were $11 million in 2008 as compared to $21 million in 2007. The decrease reflected lower proceeds from securitized accounts receivable (see *Section 7.6 Accounts receivable sale*). Net losses on investments were $10 million in 2008. In 2007, a $12 million write-off of an equity investment in AMP'D Mobile, Inc. was largely offset by other net gains. In addition, approximately $4 million was recorded in 2007 for various costs of assessing whether to acquire BCE, which ultimately led to the decision to not bid for BCE. Charitable donations were $17 million in 2008 and $16 million in 2007.

Financing costs	Years ended December 31

($ millions)	2008	2007	Change
Interest on long-term debt, short-term obligations and other	**481**	464	3.7%
Foreign exchange (gains) losses	**(1)**	13	n.m.
Capitalized interest during construction	**(3)**	—	—
Interest income	**(14)**	(37)	62%
	463	440	5.2%

Interest expenses on long-term and short-term debt and other increased by $17 million in 2008 when compared to 2007, mainly due to a higher debt balance used to finance acquisitions and pay for AWS spectrum licences, partly offset by a lower effective interest rate. An adjustment recorded in 2007 for application of the effective rate method for issue costs

required under CICA Handbook Section 3855 (recognition and measurement of financial instruments) also contributed to the increase in 2008.

Interest income decreased by $23 million in 2008 when compared to 2007, mainly due to lower interest from tax settlements and lower average temporary investment and bank balances in 2008.



Income taxes ($ millions)	Years ended December 31 2008	2007	Change
Basic blended federal and provincial tax at statutory income tax rates	**486**	503	(3.4)%
Revaluation of future income tax liability to reflect future statutory income tax rates	**(41)**	(177)	—
Tax rate differential on, and consequential adjustments from, reassessments of prior years' tax issues	**(21)**	(79)	—
Share option award compensation	**6**	(4)	—
Other	**6**	(10)	—
	436	233	87%
Blended federal and provincial statutory tax rates (%)	**31.0**	33.6	(2.6)pts
Effective tax rates (%)	**27.8**	15.6	12.2pts

Blended statutory income taxes decreased in 2008 due to lower blended statutory tax rates, partly offset by the 5% increase in income before taxes. A 1% reduction in B.C. provincial income tax rates beginning July 1, 2008 was substantively enacted in the first quarter of 2008. Previous reductions to federal income tax rates for 2008 to 2012 were enacted in 2007. The effective tax rates in both years were lower than the statutory tax rates due to revaluations of future income tax liabilities resulting from enacted reductions to future provincial and federal income tax rates, future tax rates being applied to temporary differences, and reassessments of prior years' tax matters.

Income tax instalment payments were $14 million in 2008 ($10 million net of tax refunds received). Based on the assumption of the continuation of the rate of the Company's earnings, the existing legal entity structure, and no substantive changes to tax regulations, TELUS expects net income tax payments to increase substantially in 2009, in respect of final 2008 tax year remittances and 2009 instalments. See *Section 1.5 Financial and operating targets for 2009*.

Non-controlling interests ($ millions)	Years ended December 31 2008	2007	Change
	3	7	(57)%

Non-controlling interests represents minority shareholders' interests in small subsidiaries.



Comprehensive income

Currently, the concept of comprehensive income for purposes of Canadian GAAP, in the Company's specific instance, is primarily to include changes in shareholders' equity arising from unrealized changes in the fair values of financial instruments. The calculation of earnings per share is based on Net income and Common Share and Non-Voting Share income, as required by GAAP.

5.4 Wireline segment results

Operating revenues — wireline segment ($ millions)	Years ended December 31 2008	2007	Change
Voice local	**1,973**	2,064	(4.4)%
Voice long distance [1]	**700**	715	(2.1)%
Data [2]	**2,072**	1,772	17%
Other	**276**	259	6.6%
External operating revenue [3]	**5,021**	4,810	4.4%
Intersegment revenue	**131**	114	15%
Total operating revenues[3]	**5,152**	4,924	4.6%

(1) Voice long distance revenue decreased by 4% in 2008 when the impact of a second quarter 2007 adjustment, associated with the Alberta billing system conversion, is excluded.

(2) Data revenue increased by approximately 6% in 2008, when revenues from acquisitions are excluded from 2008 and the impact of mandated retroactive competitor price reductions are excluded from both years.

(3) External and total operating revenue growth was essentially flat in 2008, when excluding revenues from acquisitions and regulatory adjustments.

Wireline segment revenues increased by $228 million in 2008 when compared to 2007, due to the following:

- Voice local revenue decreased by $91 million. The decrease was mainly due to: (i) lower revenues from basic access and optional enhanced services caused by increased competition for residential subscribers and consequent decline in local residential access lines, offset in part by growth in business local services and access lines; and (ii) lower recoveries from the price cap deferral account.

  The 2007 deferral account recovery of approximately $14.5 million included previously incurred amounts associated with mandated local number portability and start-up costs, and it offset unfavourable mandated retroactive rate adjustments in the same period for basic data revenue pursuant to two CRTC regulatory decisions (see the discussion for wireline data revenue below).

Network access lines (NALs) (000s)	As at December 31 2008	2007	Change
Residential NALs	**2,402**	2,596	(7.5)%
Business NALs	**1,844**	1,808	2.0%
Total NALs	**4,246**	4,404	(3.6)%

(000s)	Years ended December 31 2008	2007	Change
Change in residential NALs	**(194)**	(179)	(8.4)%
Change in business NALs	**36**	35	2.9%
Change in total NALs	**(158)**	(144)	(9.7)%

Residential line losses reflect the effect of increased competition from resellers and VoIP competitors (including cable-TV companies), as well as technological substitution to wireless services. The increase in business lines was experienced in Ontario and Quebec urban areas.

- Voice long distance revenues decreased by $15 million in 2008 when compared to 2007. The decrease was partly offset by a $13 million negative one-time adjustment in the second quarter of 2007, associated with implementation of a new billing platform for Alberta residential customers. Excluding the one-time adjustment in 2007, revenue decreased by $28 million, due mainly to lower average per-minute rates resulting from industry-wide price competition and a lower base of residential subscribers, partly offset by higher minute volumes.

- Wireline data revenues increased by $300 million in 2008 when compared to 2007. Data revenue increased primarily due to: (i) revenues from two acquisitions in January 2008; (ii) increased Internet, enhanced data and hosting service revenues from growth in business services and high-speed Internet subscribers; (iii) increased broadcast, videoconferencing and data equipment sales; (iv) mandatory retroactive rate reductions recorded in 2007 (as noted in the next paragraph); and (v) increased provision of digital entertainment services to consumers in urban incumbent markets. The underlying growth in 2008, absent acquisitions and regulatory adjustments, was approximately 6%.

  Pursuant to CRTC Decision 2007-6 (relating to digital network access link charges) and CRTC Decision 2007-10 (relating to basic service extension feature charges), retroactive rate reductions totalling approximately $11 million in basic data services revenues were recorded in the first quarter of 2007.

Internet subscribers	**As at December 31**		
(000s)	**2008**	**2007**	**Change**
High-speed Internet subscribers	**1,096**	1,020	7.5%
Dial-up Internet subscribers	**124**	155	(20)%
Total Internet subscribers	**1,220**	1,175	3.8%

	Years ended December 31		
(000s)	**2008**	**2007**	**Change**
High-speed Internet net additions	**76**	103	(26)%
Dial-up Internet net reductions	**(31)**	(39)	21%
Total Internet subscriber net additions	**45**	64	(30)%

High-speed Internet subscriber net additions were lower in 2008 when compared to the same period in 2007, due to a maturing market and a cable-TV competitor's expanded product offerings.

- Other revenue increased by $17 million in 2008 when compared to 2007. The increase was due primarily to higher voice equipment sales, net of 2007 recoveries for quality of service rate rebates following CRTC decisions that clarified the application of such rebate rules to TELUS.

- Intersegment revenue represents services provided by the wireline segment to the wireless segment. These revenues are eliminated upon consolidation together with the associated expense in the wireless segment.

Operating expenses — wireline segment	**Years ended December 31**		
($ millions, except employees)	**2008**	**2007**	**Change**
Salaries, benefits and other employee-related costs, before net-cash settlement feature	**1,853**	1,729	7.2%
Net-cash settlement feature expense	**—**	145	(100)%
Other operations expenses	**1,474**	1,348	9.3%
Operations expense	**3,327**	3,222	3.3%
Restructuring costs	**51**	19	168%
Total operating expenses	**3,378**	3,241	4.2%
Operations expense (as adjusted) [1]	**3,327**	3,077	8.1%
Total operating expenses (as adjusted) [1] [2]	**3,378**	3,096	9.1%
Wireline FTE employees [3]	**27,700**	25,700	7.8%

(1) Excluding net-cash settlement feature expense.
(2) Total operating expenses (as adjusted), excluding acquisitions in 2008, increased by approximately 4%.
(3) FTE employees include TELUS International FTE employees (8,000 in 2008 and 6,700 in 2007) and Emergis FTE employees (1,100 in 2008 as a result of the January acquisition). Excluding TELUS International and Emergis FTEs, the change was a reduction of 400 or 2.1%.

Total operating expenses excluding the net-cash settlement feature expense increased by $282 million in 2008 when compared to 2007, mainly due to acquisitions, increased cost of sales, base compensation increases in the first quarter, and initial costs incurred to implement services for new enterprise customers. These increases were partly offset by a reduction of year-end employee performance bonuses in the fourth quarter reflecting below plan operational performance, and absence in 2008 of billing system post-conversion expenses recorded in the second and third quarters of 2007. The 2007 system post-conversion expenses totalled $24 million for temporary labour to perform system fixes and maintain service levels after implementation of the wireline billing and client care platform in Alberta.

- Salaries, benefits and employee-related costs increased by $124 million in 2008 when compared to 2007. The increase resulted from Emergis operations acquired in January 2008 and implementation of new services for enterprise customers, as well as base compensation

increases earlier in the year, partly offset by a reduction of year-end employee performance bonuses in the fourth quarter, as well as efficiency initiatives targeting discretionary employee-related expenses such as travel in the latter part of the year.

- Other operations expenses increased by $126 million in 2008 when compared to 2007. The increase was due to: (i) higher costs of sales for increased data equipment sales with lower margins; (ii) expenses in acquired companies; (iii) higher costs for the provision of digital entertainment services; (iv) higher U.S. and international transit and termination costs in the fourth quarter due to a lower Canadian dollar; and (v) higher off-net facility costs to support new enterprise customers. These increases were partly offset by higher capitalized labour and lower advertising and promotional costs. Capitalized labour costs increased in parallel with higher wireline capital expenditures. Due to a successful conversion of B.C. residential subscribers to the converged wireline billing platform in 2008, conversion costs did not have the extra system post-conversion expenses required in 2007 for implementing the wireline billing and client care platform in Alberta.

- Restructuring costs increased by $32 million in 2008 when compared to 2007 and were for a number of initiatives under the Company's competitive efficiency program.

EBITDA ($ millions) and EBITDA margin (%) wireline segment	Years ended December 31		
	2008	2007	Change
EBITDA	**1,774**	1,683	5.4%
EBITDA (as adjusted) (1) (2)	**1,774**	1,828	(3.0)%
EBITDA margin	**34.4**	34.2	0.2pts
EBITDA margin (as adjusted)	**34.4**	37.1	(2.7)pts

(1) Excluding net-cash settlement feature expense of $145 million in 2007.
(2) EBITDA (as adjusted), excluding acquisitions in 2008, decreased by approximately 5%.

Wireline segment EBITDA increased by $91 million in 2008 when compared to 2007, mainly due to the net-cash settlement feature expense recorded in 2007. Wireline EBITDA (as adjusted) decreased by $54 million due to increased restructuring charges, lower margins on increased data equipment sales, initial costs to implement services for new enterprise customers, and higher costs for the provision of digital entertainment services.

The EBITDA margin increase for 2008 resulted mainly from the significant net-cash settlement feature expense recorded in 2007. EBITDA margin (as adjusted) decreased due to early stage expenses for implementing large complex deals, as well as lower incremental margins on growing data services and higher restructuring charges.

5.5 Wireless segment results

Operating revenues — wireless segment ($ millions)	Years ended December 31		
	2008	2007	Change
Network revenue	**4,369**	4,008	9.0%
Equipment revenue	**263**	256	2.7%
External operating revenue	**4,632**	4,264	8.6%
Intersegment revenue	**28**	27	3.7%
Total operating revenues	**4,660**	4,291	8.6%

Key wireless operating indicators (000s)	As at December 31		
	2008	2007	Change
Subscribers — postpaid	4,922	4,441	11%
Subscribers — prepaid	1,207	1,127	7.1%
Subscribers — total	6,129	5,568	10%
Proportion of subscriber base that is postpaid (%)	80.3	79.8	0.5pts
Digital POPs(1) covered (millions)(2)	32.6	31.6	3.2%

	Years ended December 31		
	2008	2007	Change
Subscriber gross additions — postpaid	1,062	850	25%
Subscriber gross additions — prepaid	593	584	1.5%
Subscriber gross additions — total	1,655	1,434	15%
Subscriber net additions — postpaid	481	365	32%
Subscriber net additions — prepaid	80	150	(47)%
Subscriber net additions — total (3)	561	515	8.9%
Subscriber net additions — total adjusted (3)	588	515	14%
ARPU ($) (4)	62.73	63.56	(1.3)%
Churn, per month (%)(3)(4)	1.57	1.45	0.12pts

Adjusted churn, per month (%) [3]	1.52	1.45	0.07pts
COA [5] per gross subscriber addition ($) [4]	346	395	(12)%
Average minutes of use per subscriber per month (MOU)	411	404	1.7%
EBITDA (as adjusted) [6] to network revenue (%)	45.9	48.2	(2.3)pts
Retention spend to network revenue [4] (%)	9.1	7.6	1.5pts
EBITDA (as adjusted) excluding COA [4] ($millions)	2,579	2,495	3.4%

pts — percentage points

(1) POPs is an abbreviation for population. A POP refers to one person living in a population area, which in whole or substantial part is included in the coverage areas.

(2) Including roaming/resale agreements. At December 31, 2008, TELUS' wireless PCS digital population coverage included expanded coverage of approximately 7.5 million PCS POPs due to roaming/resale agreements principally with Bell Canada.

(3) Net additions and blended churn for 2008 include the impact of TELUS' analog network turndown on September 15, 2008. Adjusted subscriber net additions and churn exclude the impact of 27,600 subscriber deactivations resulting from turning down the analog network.

(4) See *Section 11.3 Definitions of key wireless operating indicators* . These are industry measures useful in assessing operating performance of a wireless company, but are not defined under accounting principles generally accepted in Canada and the U.S.

(5) Cost of acquisition.

(6) Excluding net-cash settlement feature expense of $24 million in 2007.

Wireless segment revenues increased by $369 million in 2008 when compared to 2007, due to the following:

· Network revenue increased by $361 million, due primarily to strong wireless data revenues and the 10% growth in the subscriber base over the past year. Wireless data revenues were $690 million in 2008, up 55% from 2007, and now represent 16% of network revenue (11% of network revenue in 2007). Growth in data revenues continues to reflect strength in text messaging (including incoming text messages) and smartphone service revenues driven by increased usage and features, data roaming, migration of existing subscribers to full-function smartphones and EVDO-capable handsets.

  Blended ARPU of $62.73 in 2008 was down by $0.83 when compared to 2007, as competitive pressures on voice revenues and strong growth in the basic brand service were largely offset by growth in data services. Data ARPU in 2008 was $9.84, up $2.82 or 40% as compared to 2007. Voice ARPU was $52.89 in 2008, down $3.65 or 6.5% as compared to 2007. The decrease in voice ARPU was due to pricing competition, lower Mike service ARPU, increased use of included-minute rate plans, penetration of the new basic brand service, and lower voice roaming revenue. This

was partially offset by strong feature upsell, including long distance and calling packages. Lower volume non-push-to-talk-centric Mike subscribers continue to be actively migrated to PCS smartphones for the enhanced data applications, contributing to future revenue growth opportunities.

Gross and net subscriber additions in 2008 include the results of TELUS' postpaid basic brand first launched in March 2008. Consistent with industry practice, the Company does not break out the results for this service for competitive reasons. Despite softening economic conditions, gross subscriber additions in 2008 were a TELUS record 1.66 million, up 15% when compared to 2007. The proportion of postpaid gross additions for 2008 was 64%, up five percentage points when compared to 2007.

Net additions in 2008 (excluding deactivation of analog subscribers) were 588,000, up 14% from 2007, and included 86% postpaid subscribers, up from 71% postpaid subscribers in 2007.

Blended churn (excluding deactivation of analog subscribers) for the full year of 2008 was 1.52%, increasing from 1.45% in 2007. The increase reflected greater competitive intensity, including the impact of higher prepaid churn, in part due to the growth of basic postpaid brands in the market. The blended churn rate including deactivation of analog subscribers was 1.57% in the full year of 2008.

· Equipment sales, rental and service revenue increased by $7 million in 2008 when compared to 2007. Equipment sales increased due to higher gross subscriber additions and retention volumes, which were partly offset by lower per-unit revenues. Lower per-unit revenues were due to increased promotional activity driving smartphone adoption, including lower industry-wide smartphone pricing and penetration of the Koodo brand.

· Intersegment revenues represent services provided by the wireless segment to the wireline segment and are eliminated upon consolidation along with the associated expense in the wireline segment.

Operating expenses — wireless segment ($ millions, except employees)	**Years ended December 31**		
	2008	**2007**	**Change**
Equipment sales expenses	**720**	656	9.8%
Network operating expenses	**603**	514	17%
Marketing expenses	**470**	439	7.1%
General and administration expenses	**854**	775	10%
Operations expense	**2,647**	2,384	11%
Restructuring costs	**8**	1	n.m.
Total operating expenses	**2,655**	2,385	11%

Operations expense (as adjusted) [1]	**2,647**	2,360	12%
Total operating expenses (as adjusted) [1]	**2,655**	2,361	12%
Wireless FTE employees	**8,200**	7,700	6.5%

[1] Excluding net-cash settlement feature expense of $24 million in 2007.

Wireless segment total operating expenses increased by $270 million in 2008 when compared to 2007. Total operating expenses adjusted to exclude the net-cash settlement feature increased by $294 million to promote, acquire, support and retain the 10% and 9% year-over-year growth in the subscriber base and Network revenue, respectively.

- Equipment sales expenses increased by $64 million in 2008 when compared to 2007. Higher combined gross subscriber additions and retention volumes, including smartphone activity, were partially offset by lower smartphone per-unit costs and sales of the Koodo service.

- Network operating expenses increased by $89 million in 2008 when compared to 2007. In addition to supporting the larger subscriber base, the increase was principally in support of the 55% growth in data revenues and was primarily volume in nature, as increased usage and smartphone adoption drove increases in roaming costs, revenue share to third parties and licensing costs to service providers.

- Marketing expenses increased by $31 million in 2008 when compared to 2007. The increase was primarily due to higher advertising in support of the 15% increase in gross subscriber additions, the introduction of a new brand, and the fourth quarter launch of the BlackBerry Storm, which had delayed deliveries that negatively impacted gross subscriber additions and COA.

  COA per gross subscriber addition decreased by $49 or 12% for 2008, when compared to 2007, due to the mix in gross subscriber loading towards lower variable cost channels and efficiency in marketing spend, partly offset by higher subsidies on smartphones in response to competitor pricing, and handset inventory valuation adjustments.

  Retention costs as a percentage of network revenue were 9.1% in 2008 as compared to 7.6% for 2007. The increase in retention costs was due primarily to continued handset upgrades to full-function smartphones to support data revenue growth and the continued migration of non-push-to-talk-centric Mike service clients to PCS postpaid services.

- General and administration expenses increased by $79 million in 2008 when compared to 2007. General and administration expenses adjusted to exclude the net-cash settlement feature increased by $103 million, due to higher costs associated with restructuring efforts, contracted labour costs to support data products and service offerings, growth in the subscriber base, expansion of company-owned retail stores and Koodo outlets, and an increase in bad debt expense. These increases were partly offset by a reduction of year-end employee performance bonuses in the fourth quarter from below plan operational performance, as well as efficiency initiatives targeting discretionary employee-related expenses such as travel in the latter part of the year.

- Restructuring costs included several initiatives under the Company's competitive efficiency program.

Wireless segment EBITDA ($ millions) and EBITDA margin (%)	**Years ended December 31**		
	2008	**2007**	**Change**
EBITDA	**2,005**	1,906	5.2%
EBITDA (as adjusted) [1]	**2,005**	1,930	3.9%
EBITDA margin	**43.0**	44.4	(1.4)pts
EBITDA margin (as adjusted)	**43.0**	45.0	(2.0)pts

[1] Excluding net-cash settlement feature expense of $24 million in 2007.

Wireless segment EBITDA increased by $99 million in 2008 when compared to 2007, while wireless EBITDA adjusted to exclude the net-cash settlement feature increased by $75 million. The increase in EBITDA (as adjusted) was due to higher Network revenue offset by increased COA expenses (associated with higher gross loading), higher retention spend (continued smartphone and voice upgrades), and increased network costs related to data usage and outbound roaming activities, as well as higher general and administrative costs to support business growth.

EBITDA margin (as adjusted) decreased mainly due to lower incremental margins on growing data service adoption and higher retention expenses.

6. Changes in financial position

Changes in the Consolidated statements of financial position for the year ended December 31, 2008, are as follows:

($ millions)	**As at December 31**		**Changes**	**Explanation of the change**
	2008	**2007**		

Current Assets					
Cash and temporary investments, net	**4**	20	(16)	(80)%	See *Section 7: Liquidity and capital resources*
Short-term investments	**—**	42	(42)	(100)%	Liquidation of short-term investments in the second quarter
Accounts receivable	**966**	711	255	36%	Mainly due to a $200 million reduction in proceeds from securitized accounts receivable and increases related to higher revenues and acquisitions, partly offset by a faster accounts receivable turnover (approximately 48 days versus 49 days) and increased provisions for bad debts
Income and other taxes receivable	**25**	121	(96)	(79)%	Most jurisdictions moved into a liability position with the current income tax expense recorded in 2008
Inventories	**333**	243	90	37%	Primarily receipt of new wireless handset models for new product launches and dealers accepting lower volumes in the fourth quarter of 2008, as well as a separate line of handsets for the new basic wireless brand
Prepaid expenses and other	**220**	200	20	10%	Mainly an increase in deferred wireless customer activation and connection fees associated with subscriber growth
Derivative assets	**10**	4	6	150%	Fair value adjustments to foreign exchange hedges, restricted share units and other operational hedges
Current Liabilities					
Accounts payable and accrued liabilities	**1,465**	1,476	(11)	(1)%	Includes lower accrued payroll costs from seven fewer year-end payroll days outstanding, and a reduction in accrued employee performance bonuses, partly offset by increases from acquisitions
Income and other taxes payable	**163**	7	156	n.m.	Mainly due to current income tax expense booked during 2008 and income taxes payable from acquisitions, less instalments paid
Restructuring accounts payable and accrued liabilities	**51**	35	16	46%	New obligations in 2008 exceeded payments under previous and current programs
Dividends payable	**151**	—	151	n.m.	Dividends payable as at December 31, 2008 were remitted on the January 2, 2009 payment date. In 2007, dividends were remitted on December 31 for the January 1, 2008 payment date
Advance billings and customer deposits	**689**	632	57	9%	Includes an increase in billings for new enterprise customers and wireless postpaid subscriber growth, and higher wireless deferred customer activation and connection fees, net of a reduction in customer deposits
Current maturities of long-term debt	**4**	5	(1)	(20)%	Primarily a net decrease in capital leases
Current portion of derivative liabilities	**75**	27	48	178%	Fair value adjustments for share option, restricted share unit and operational hedges, net of options exercised or forfeited
Current portion of future income taxes	**459**	504	(45)	(9)%	A decrease in temporary differences for current assets and liabilities, as well as changes in partnership taxable income that will be allocated in the next 12 months
Working capital [(1)]	**(1,499)**	(1,345)	(154)	(11)%	Includes dividends payable at December 31, 2008, that were paid on January 2, 2009 and income taxes payable over the next 12 months, net of reduced securitization of accounts receivable.

[(1)] Current assets subtracting Current liabilities – an indicator of the ability to finance current operations and meet obligations as they fall due.

Changes in financial position, continued from the previous page.

($ millions)	As at December 31 2008	2007	Changes		Explanation of the change
Capital Assets, Net	**12,483**	11,122	1,361	12%	Includes $882 million for AWS spectrum licences acquired in Industry Canada's 2008 auction, $326 million for acquired software, customer contracts and related customer relationships and other capital assets, as well as capital expenditures net of depreciation and amortization. See *Section 5.3 Consolidated results from operations – Depreciation*, *Amortization of intangible assets*, as well as *Section 7.2 Cash used by investing activities*
Other Assets					
Deferred charges	**1,513**	1,318	195	15%	Primarily related to pension plan funding, favourable cumulative returns on plan assets to the end of 2007 and continued amortization of transitional pension assets
Investments	**42**	39	3	8%	Purchases, revaluations and sales of small investments, net of the value of Emergis shares purchased in the open market in December 2007 that were exchanged at the close of acquisition in January 2008, as well as the sale of a minority stake in Hostopia
Goodwill	**3,564**	3,168	396	13%	Primarily the January 2008 acquisition of Emergis
Long-Term Debt	**6,348**	4,584	1,764	38%	Includes the April 2008 publicly issued $500 million, seven-year Notes, and draws of $980 million from the 2012 credit facility, partly offset by a reduction of $155 million in issued commercial paper. Also included is a $436 million increase in the Canadian dollar value of the 2011 U.S. dollar Notes, which is largely offset by a lower derivative liability (see Other Long-Term Liabilities)
Other Long-Term Liabilities	**1,295**	1,718	(423)	(25)%	Primarily changes in U.S. dollar exchange rates and a fair value adjustment of the derivative liabilities associated with 2011 U.S. dollar Notes
Future Income Taxes	**1,255**	1,048	207	20%	An increase in temporary differences for long-term assets and liabilities, partly offset by lower tax rates being applied
Non-Controlling Interests	**23**	26	(3)	(12)%	Payment of dividends by a subsidiary to a non-controlling interest and an increase in the Company's total effective economic interest in TELUS International Philippines Inc. from 97.4% to 100.0%, net of non-controlling interests' share of earnings
Shareholders' Equity					
Common equity	**7,182**	6,926	256	4%	Primarily Net income of $1,128 million, less dividends declared of $584 million and NCIB purchases of $280 million

7. Liquidity and capital resources

The Company's capital management strategies and financing plan results and expectations, are described in *Section 4.3*. In the normal course, the Company has generated annual cash flow from operations exceeding annual capital investment needed to support business growth and re-investment in technology. In 2008, cash provided by operating activities was supplemented by financing activities as the Company made two strategic acquisitions in January (Emergis and Fastvibe) and acquired 59 spectrum licences in the AWS auction, which ended in July.

($ millions)	Years ended December 31 2008	2007	Change
Cash provided by operating activities	**2,819**	3,172	(11)%
Cash (used) by investing activities	**(3,433)**	(1,772)	(94)%
Cash provided (used) by financing activities	**598**	(1,369)	n.m.
(Decrease) increase in cash and temporary investments, net	**(16)**	31	—
Cash and temporary investments, net, beginning of period	**20**	(11)	—
Cash and temporary investments, net, end of period	**4**	20	(75)%

7.1 Cash provided by operating activities

Cash provided by operating activities decreased by $353 million in 2008 when compared to 2007. Changes in 2008 include the following:

- Changes in proceeds from securitized accounts receivable (which are included in non-cash working capital changes) contributed a $200 million reduction in cash flow for the full year. Specifically, proceeds were reduced by $200 million in 2008, as compared to no change in 2007. Utilized proceeds from securitized accounts receivable were lower in 2008 as other sources of funding were used. See *Section 7.6 Accounts receivable sale*;

- EBITDA increased by $190 million as described in *Section 5: Results from operations;*

- Share-based compensation expense in excess of payments decreased by $91 million due to recording of the net-cash settlement feature expense in 2007 and lower cash outflows resulting from fewer option exercises;

- Contributions to employee defined benefit plans in excess of the net employee defined benefit plans recovery increased by $21 million. Net contributions are expected to increase in 2009. See assumptions in *Section 1.5 Financial and operating targets for 2009* ;

- Interest paid increased by $3 million in 2008 when compared to 2007, due to higher outstanding debt in 2008, partly offset by a lower effective interest rate in 2008 and repayment of forward starting interest rate swaps in 2007;

- Interest received decreased by $39 million due mainly to receipt of interest on income tax refunds in 2007;

- Income tax recoveries received net of instalments paid decreased by $133 million in 2008 when compared to 2007, as a result of larger settlements of income tax-related matters in 2007; and

- Other changes in non-cash working capital, including (i) liquidation of short-term investments of $42 million in 2008 as compared to liquidations of $68 million in 2007, and (ii) increases in inventories, net of increases in advance billings and customer deposits in 2008.



7.2 Cash used by investing activities

Cash used by investing activities increased by $1,661 million in 2008 when compared to 2007. The increase was due to the $882 million payment for AWS spectrum licences, acquisitions totalling $696 million net of acquired cash, and increased capital expenditures.

Assets under construction were $682 million at December 31, 2008, up by $123 million from December 31, 2007, primarily reflecting a $110 million increase in property, plant and equipment under construction, including construction of the wireless HSPA network. Software intangible assets under construction increased by $13 million over the year, as expenditures in 2008 for the billing platform and other systems exceeded the transfer of $117 million to software subject to amortization resulting from implementation of the British Columbia phase of the converged wireline billing and client care platform in July.

Capital expenditures excluding AWS spectrum licences ($ millions)	Years ended December 31 2008	2007	Change

Wireline segment	**1,311**	1,219	7.5%
Wireless segment	**548**	551	(0.5)%
TELUS consolidated	**1,859**	1,770	5.0%
EBITDA (as adjusted) less capital expenditures [1]	**1,920**	1,988	(3.4)%

[1] See *Section 11.1 EBITDA* for the calculation and description.

Capital expenditures in 2008 increased by $89 million when compared to 2007, and were in line with targeted annual expenditures of approximately $1.9 billion.

- Wireline segment capital expenditures increased by $92 million in 2008 when compared to 2007. The increase included investment to support high bandwidth services for business and residential customers, investment in healthcare and financial services solutions, and upfront expenditures to support new enterprise customers, partly offset by lower demand in 2008 for network access builds resulting from more moderate residential construction activity in B.C. and Alberta. Wireline cash flow (EBITDA as adjusted less capital expenditures) was $463 million in 2008, a decrease of 24% when compared to 2007. The decrease reflects higher capital expenditure levels and lower EBITDA (as adjusted).

- Wireless segment capital expenditures decreased by $3 million in 2008 when compared to 2007. Expenditures in 2008 were relatively flat compared to 2007, as new spending on the HSPA network build in 2008 was offset by lower expenditures for the CDMA wireless network (including the EVDO RevA data network roll-out). Wireless cash flow (EBITDA as adjusted less capital expenditures) was $1,457 million in 2008, an increase of 6% when compared to 2007.

Payment for AWS spectrum licences	**Years ended December 31**		
($ millions)	**2008**	**2007**	**Change**
Capital expenditures for AWS spectrum licences	**882**	—	—
EBITDA (as adjusted) less capital expenditures and payment for AWS spectrum licences [1]	**1,038**	1,988	(48)%

[1] See *Section 11.1 EBITDA* for the calculation and description.

The Company acquired 59 licences in Industry Canada's AWS spectrum auction that concluded in July for $880 million plus auction process charges of $2 million. The amount of successful bids was paid through a combination of drawing on credit facilities and utilization of cash on hand. Industry Canada advised the Company that it had met eligibility conditions of the AWS spectrum licences effective December 31, 2008. The licences are now classified as intangible assets with indefinite lives. In 2008, EBITDA (as adjusted) less capital expenditures and payment for the AWS spectrum licences decreased by $950 million. Wireless cash flow in 2008, including payment for AWS spectrum, was $575 million, down 58% from 2007.

Capital intensity [1]	**Years ended December 31**		
(in %)	**2008**	**2007**	**Change**
Capital expenditure intensity	**19**	20	(1)pt
Capital expenditure intensity, including payment for AWS spectrum licences in 2008	**28**	20	8pts

[1] Capital intensity is the measure of capital expenditures divided by operating revenues. This measure provides a basis for comparing the level of capital expenditures to other companies of varying size within the same industry.

TELUS' capital expenditure intensity ratio in 2008, excluding payment for spectrum licences, reflects intensity levels of 25% for wireline and 12% for wireless, consistent with intensity levels of 25% and 13%, respectively, in 2007. Payment for AWS spectrum licences in 2008 temporarily increased TELUS' overall capital intensity ratio to 28% and the wireless capital intensity ratio to 31%.

7.3 Cash provided (used) by financing activities

Net cash provided by financing activities was $598 million in 2008. This compares to net cash used by financing activities of $1,369 million in 2007.

- Cash dividends paid to shareholders in 2008 were $433 million in 2008 as compared to $521 million in 2007. The decrease in dividend payments resulted from different remittance dates for dividends declared in the fourth quarter of 2008 and 2007. The fourth quarter dividend for 2008 was remitted on the January 2, 2009 payment date, while the fourth quarter dividend for 2007 was remitted on December 31, 2007 for the January 1, 2008 payment date. Otherwise, dividend payments in 2008 reflected higher quarterly declared dividend rates (see *Section 5.2 Quarterly results summary*), partly offset by lower shares outstanding from NCIB share repurchase programs.

- The Company purchased 34% of the maximum 20 million shares allowed under the fourth NCIB program that ended December 19, 2008.

Purchases of shares under NCIB programs decreased by $470 million in 2008 when compared to 2007, as fewer shares were repurchased at a lower average price.

The Company renewed its NCIB program, which has been in place since December 2004. The renewed program (Program 5) came into effect on December 23, 2008 and is set to expire on December 22, 2009. The maximum number of shares that may be purchased under Program 5 is four million Common Shares and four million Non-Voting Shares. Daily purchases under Program 5 may not exceed 462,444 Common Shares and 254,762 Non-Voting Shares until March 31, 2009, and thereafter may not exceed 231,222 Common Shares and 127,381 Non-Voting Shares. The shares are to be purchased on the Toronto Stock Exchange (TSX) and all repurchased shares will be cancelled. Investors may obtain a copy of the notice filed with the TSX without charge by contacting TELUS Investor Relations.

Shares repurchased for cancellation under normal course issuer bid programs

	Shares repurchased			Purchase cost ($ millions)		
	Common Shares	Non-Voting Shares	Total	Charged to Share capital [1]	Charged to Retained earnings[2]	Paid
2007						
Program 3 ended Dec. 19	2,904,900	10,571,800	13,476,700	264	480	744
Program 4 beginning Dec. 20	—	134,200	134,200	3	3	6
	2,904,900	10,706,000	13,610,900	267	483	750
2008						
Program 4 ended Dec. 19	**950,300**	**5,810,400**	**6,760,700**	**137**	**143**	**280**
Program 5 beginning Dec. 23	**—**	**—**	**—**	**—**	**—**	**—**
	950,300	**5,810,400**	**6,760,700**	**137**	**143**	**280**

(1) Represents the book value of shares repurchased.
(2) Represents the cost in excess of the book value of shares repurchased.

Long-term debt issues net of redemptions and repayments were $1,316 million in 2008, resulting from the following:

- In April 2008, the Company publicly issued $500 million 5.95%, Series CE Notes at a price of $998.97 per $1,000 of principal. The Notes mature in April 2015. The net proceeds of the offering were used for general corporate purposes, including repayment of amounts under the 2012 revolving credit facility, and to refinance short-term financing sources, which had been utilized in January for purchase of the then issued and outstanding Emergis common shares for $743 million. The Series CE Notes require that the Company make an offer to repurchase the Notes at a price equal to 101% of their principal plus accrued and unpaid interest to the date of repurchase upon the occurrence of a change in control triggering event, as defined in the supplemental trust indenture.

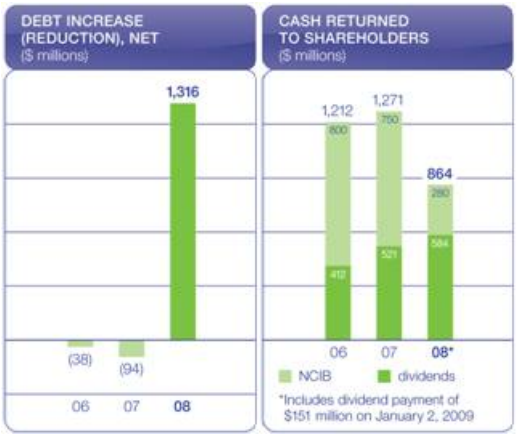
- On August 6, 2008, the Board of Directors approved an increase in the authorized commercial paper program from $800 million to $1.2 billion.

- Amounts drawn on the 2012 bank facility increased to $980 million at December 31, 2008 from $nil one year earlier, while commercial paper issues decreased by $155 million during the year.

  During the first quarter of 2008, the Company increased utilization of the 2012 bank facility from $nil to $321 million and increased commercial paper issues by $213 million for general corporate purposes, including acquisitions in January. During the second quarter of 2008, the Company reduced the amount drawn on the 2012 bank facility to $162 million. Utilized bank facilities increased to $430 million during the third quarter to help pay for the AWS spectrum licences. In the fourth quarter, amounts drawn on the 2012 facility increased by $550 million, offsetting a reduction in outstanding commercial paper. Commercial paper outstanding was $432 million at December 31, 2008, as compared to $968 million at September 30, $800 million at June 30 and March 31, and $587 million at December 31, 2007.

In comparison, debt financing activities in 2007 included the March issue of Series CC and CD Notes totalling $1 billion, establishment of a commercial paper program in May, and repayment of approximately $1.5 billion of Notes matured in June. These activities contributed to a lower effective interest rate in subsequent periods.

For the anticipated requirements to meet long-term debt repayments, see TELUS' 2009 financing and capital structure management plan in *Section 4.3*, as well as the Contractual obligations table in *Section 7.8 – Commitments and contingent liabilities.*



7.4 Liquidity and capital resource measures

Liquidity and capital resource measures As at, or years ended, December 31	2008	2007	Change
Components of debt and coverage ratios [1] ($ millions)			
Net debt	**7,286**	6,141	1,145
Total capitalization – book value	**14,621**	13,197	1,424
EBITDA – excluding restructuring costs	**3,838**	3,609	229
Net interest cost	**463**	440	23
Debt ratios			
Fixed-rate debt as a proportion of total indebtedness (%)	**77**	82	(5)pts
Average term to maturity of debt (years)	**4.0**	5.3	(1.3)
Net debt to total capitalization (%) [1]	**49.8**	46.5	3.3pts
Net debt to EBITDA – excluding restructuring costs [1]	**1.9**	1.7	0.2
Coverage ratios [1]			
Interest coverage on long-term debt	**4.3**	4.2	0.1
EBITDA – excluding restructuring costs interest coverage	**8.3**	8.2	0.1
Other measures			
Free cash flow ($ millions) [2]			
- based on defined benefit plans net recovery	**567**	1,573	(1,006)
- based on defined benefit plans contributions	**361**	1,388	(1,027)
Dividend payout ratio of sustainable net earnings guideline – 45 to 55% [1]			
Dividend payout ratio – actual earnings (%)	**54**	47	7pts
Dividend payout ratio – actual earnings excluding income tax-related adjustments and net-cash settlement feature (%)	**56**	54	2pts

[1] See *Section 11.4 Definitions of liquidity and capital resource measures.*

[2] See *Section 11.2 Free cash flow* for the definitions.

Net debt at December 31, 2008 increased from one year earlier mainly due to the $500 million debt issue in April 2008, $980 million drawn on the 2012 credit facility and a reduction of $16 million in the cash balance, net of a $200 million decrease in proceeds from securitized accounts receivable and a reduction of $155 million in the amounts of commercial paper issued. The net increase in debt supported payment of $882 million for AWS spectrum licences in the third quarter and $692 million (net of acquired cash) for January acquisitions. Total capitalization increased because of higher net debt and retained earnings, partly offset by lower share capital due to share repurchases.

The average term to maturity of debt of four years at December 31, 2008 decreased from 5.3 years at December 31, 2007 due to larger amounts drawn against the 2012 credit facility, partly offset by the issuance in April 2008 of $500 million, Series CE seven-year Notes and lower amounts of issued commercial paper. The proportion of debt on a fixed-rate basis

decreased mainly due to amounts drawn against the 2012 credit facility, partly offset by a decrease in proceeds from securitized accounts receivable and the April 2008 seven-year Note issue and lower amounts of commercial paper issued.

The interest coverage on long-term debt ratio was 4.3 for 2008, reflecting an increase of 0.1 from 2007 (+0.2 from higher income before income taxes and long-term interest, net of -0.1 from increased long-term interest). The EBITDA interest coverage ratio of 8.3 for 2008 reflected an increase of 0.1 from 2007 (+0.5 from higher EBITDA before restructuring, net of -0.4 from higher net interest costs).

Free cash flow for 2008, calculated using the net defined benefit plans recovery as reported previously, decreased by $1,006 million when compared to one year earlier, largely due to the $882 million payment for AWS spectrum licences and higher capital expenditures, as well as lower income tax recoveries and interest income, partly offset by higher EBITDA after share-based compensation and restructuring payments. Prospectively, the Company has chosen to present free cash flow adjusted for funding of defined benefit plans, as the funding requirements are largely non-discretionary and calculated independently of the net defined benefit plans recovery reflected in the calculation previously. Free cash flow for 2008, based on defined benefit plans contributions, decreased by an additional $21 million.

The Company's strategy is to maintain the financial policies and guidelines set out below. The Company believes that these measures are currently at the optimal level and by maintaining credit ratings in the range of BBB+ to A-, or the equivalent, provide reasonable access to capital markets.

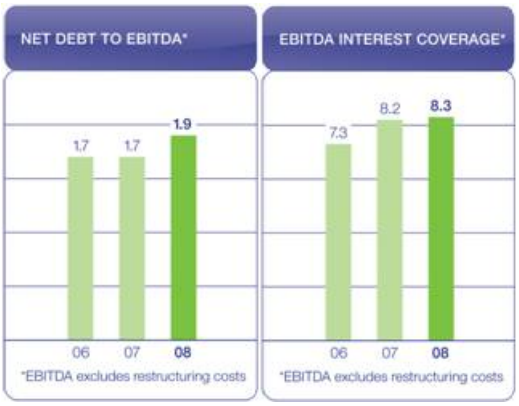
TELUS' long-term financial guidelines and policies are:

- Net debt to EBITDA – excluding restructuring costs of 1.5 to 2.0 times

  The ratio for 2008 was 1.9 times, an increase of 0.2 from 2007, as higher net debt was partly offset by improved EBITDA before restructuring costs.

- Dividend payout ratio of 45 to 55% of sustainable net earnings

  The target guideline for the annual dividend payout ratio is on a prospective basis, rather than on a trailing basis, and is 45 to 55% of sustainable net earnings. The ratios based on actual earnings for 2008 and 2007 were 54% and 47%, respectively. The ratio calculated to exclude income tax-related adjustments from earnings in 2008 was 56%. The comparable ratio for 2007, also excluding the net-cash settlement feature expense, was 54%.



7.5 Credit facilities

On March 3, 2008, TELUS Corporation closed a new $700 million, 364-day credit facility with a select group of Canadian banks. On December 15, the Company renewed this credit facility, extending the term to March 1, 2010, under substantially the same terms and conditions, except for increased cost. This new facility provides incremental liquidity to TELUS and allows the Company to continue to meet one of its financial objectives, which is to generally maintain $1 billion in available liquidity. The financial ratio tests in the new facility are substantially the same as those in the 2012 $2 billion syndicated facility, which states that the borrower will not permit its net debt to operating cash flow ratio to exceed 4 to 1 and may not permit its operating cash flow to interest expense ratio to be less than 2 to 1, each as defined. The 364-day credit facility is unsecured and bears interest at Canadian prime and Canadian bankers' acceptance rates, plus applicable margins.

At December 31, 2008, TELUS had available liquidity of $1.15 billion from unutilized credit facilities, as well as unutilized availability under its accounts receivable securitization program, consistent with the Company's objective of maintaining at least $1 billion of available liquidity.

TELUS credit facilities at December 31, 2008

($ in millions)	Expiry	Size	Drawn	Outstanding undrawn letters of credit	Backstop for commercial paper program	Available liquidity
Five-year revolving facility [1]	May 1, 2012	2,000	(980)	(201)	(432)	387
364-day revolving facility [2]	March 1, 2010	700	—	—	—	700
Other bank facilities	—	78	(11)	(3)	—	64
Total	—	2,778	(991)	(204)	(432)	1,151

(1) Canadian dollars or U.S. dollar equivalent.
(2) Canadian dollars only. Originally due March 2, 2009, the term of this facility was extended in December 2008.

TELUS' revolving credit facilities contain customary covenants, including a requirement that TELUS not permit its consolidated Leverage Ratio (debt to trailing 12-month EBITDA) to exceed 4 to 1 (approximately 1.9 to 1 at December 31, 2008) and not permit its consolidated Coverage Ratio (EBITDA to interest expense on a trailing 12-month basis) to be less than 2 to 1 (approximately 8.3 to 1 at December 31, 2008) at the end of any financial quarter. There are certain minor differences in the calculation of the Leverage Ratio and Coverage Ratio under the credit agreements as compared with the calculation of Net debt to EBITDA and EBITDA interest coverage. Historically, the calculations have not been materially different. The covenants are not impacted by revaluation of capital assets, intangible assets and goodwill for accounting purposes. Continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.

7.6 Accounts receivable sale

TELUS Communications Inc. (TCI), a wholly owned subsidiary of TELUS, is a party to an agreement with an arm's-length securitization trust associated with a major Schedule I bank, under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. As a result of selling the interest in certain of the trade receivables on a fully serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables. A March 31, 2008 amendment resulted in the term being extended to July 17, 2009, for this revolving-period securitization agreement.

TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd. or the securitization trust may require the sale program to be wound down. The necessary credit rating was exceeded by three levels at A (low) as of February 11, 2009.

Balance of proceeds from securitized receivables ($ millions)	2008, Dec. 31	2008, Sept. 30	2008, June 30	2008, Mar. 31	2007, Dec. 31	2007, Sept. 30	2007, June 30	2007, Mar. 31
	300	250	150	500	500	550	500	150

7.7 Credit ratings

There were no changes to the Company's investment grade credit ratings in 2008. DBRS Ltd. confirmed its credit ratings and trend for TELUS and TCI on March 27, 2008, and on April 7, assigned a rating and trend of A (low), stable, to TELUS' new $500 million 5.95%, seven-year unsecured Note issue. DBRS confirmed its rating for TELUS Corporation's commercial paper program at R-1 (low), stable, on August 7, 2008.

On April 2, Moody's Investors Service (Moody's) assigned a Baa1 rating with a stable outlook to TELUS' new debt issue, while confirming the same for TELUS' existing senior unsecured Notes. On April 3, FitchRatings assigned a BBB+ rating with a stable outlook to the new TELUS debt issue. Standard and Poor's assigned a BBB+ rating with a stable outlook to the new Series CE Notes. On December 17, FitchRatings re-affirmed its ratings with a stable outlook.

Credit rating summary	DBRS Ltd.	S&P	Moody's	FitchRatings
Trend or outlook	Stable	Stable	Stable	Stable
TELUS Corporation				
Notes	A (low)	BBB+	Baa1	BBB+
Commercial paper	R-1 (low)	—	—	—
TELUS Communications Inc.				
Debentures	A (low)	BBB+	—	BBB+
Medium-term notes	A (low)	BBB+	—	BBB+
First mortgage bonds	A (low)	A-	—	—

7.8 Financial instruments, commitments and contingent liabilities

Financial instruments (Note 5 of the Consolidated financial statements)

The Company's financial instruments and the nature of risks that they may be subject to are set out in the following table:

	Risks				
			Market risks		
Financial instrument	Credit	Liquidity	Currency	Interest rate	Other price
Measured at cost or amortized cost					
Cash and temporary investments	X		X	X	
Accounts receivable	X		X		
Accounts payable		X	X		
Restructuring accounts payable		X			
Short-term obligations		X		X	
Long-term debt		X	X	X	
Measured at fair value					
Short-term investments				X	X
Long-term investments					X
Foreign exchange derivatives(1)	X	X	X		

Share-based compensation derivatives[1]	X	X			X
Cross currency interest rate swap derivatives[1]	X	X	X	X	

[1] Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only) and sets criteria for the creditworthiness of the transaction counterparties.

Credit risk

Credit risk associated with cash and temporary investments is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Company's large and diverse customer base, which covers substantially all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Counterparties to the Company's cross currency interest rate swap agreements, share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedging items due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company's derivative liabilities do not have credit-risk-related contingent features.

Liquidity risk

As a component of capital structure financial policies, discussed under *Capabilities – Section 4.3 Liquidity and capital resources* , the Company manages liquidity risk by maintaining bilateral bank facilities and syndicated credit facilities, by maintaining a commercial paper program, by the sales of trade receivables to an arm's-length securitization trust, by

continuously monitoring forecast and actual cash flows and by managing maturity profiles of financial assets and financial liabilities.

The Company has significant debt maturities beginning in 2011. The Company has access to a shelf prospectus, in effect until September 2009, pursuant to which it can offer $2.5 billion of debt or equity securities, which may be renewed and extended. The Company has credit facilities available, including a $2 billion facility until 2012 (see *Section 7.5 Credit facilities*). The Company believes that its investment grade credit ratings provide reasonable access to capital markets.

Currency risk

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars due to certain routine revenues and operating costs being denominated in U.S. dollars, as well as sourcing some inventory purchases and capital asset acquisitions internationally. The U.S. dollar is the only foreign currency to which the Company has a significant exposure.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. dollar denominated transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts and currency options on an exception basis only.

The Company is also exposed to currency risks in that the fair value or future cash flows of its U.S. dollar denominated long-term debt will fluctuate because of changes in foreign exchange rates. Currency hedging relationships have been established for the related semi-annual interest payments and principal payment at maturity, as set out in Note 18(b) of the Consolidated financial statements.

Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of temporary investments, short-term investments, short-term obligations, long-term debt and/or cross currency interest rate swap derivatives.

When the Company has temporary investments, they have short maturities and fixed rates, thus their fair value will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows do not change due to changes in market interest rates.

If the balance of short-term investments includes debt instruments and/or dividend-paying equity instruments, the Company could be exposed to interest rate risks.

As short-term obligations arising from bilateral bank facilities, which typically have variable interest rates, are rarely outstanding for periods that exceed one calendar week, interest rate risk associated with this item is not material.

In respect of the Company's currently outstanding long-term debt, other than for commercial paper and amounts drawn on its credit facility, it is all fixed-rate debt. The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption and/or foreign exchange rate fluctuations, the related future cash flows do not. Due to the short maturities of commercial paper, its fair values are not materially affected by

changes in market interest rates but its cash flows representing interest payments may be if the commercial paper is rolled over.

Amounts drawn on the Company's short-term and long-term credit facilities will be affected by changes in market interest rates in a manner similar to commercial paper.

Similar to fixed-rate debt, the fair value of the Company's cross currency interest rate swap derivatives fluctuates with changes in market interest rates as the interest rate swapped to is fixed; absent early redemption, the related future cash flows do not change due to changes in market interest rates.

Other price risk

If the balance of short-term investments includes equity instruments, the Company would be exposed to equity price risks. The Company is exposed to equity price risks arising from long-term investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes. The Company is exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share and Non-Voting Share prices increase both the expense and the potential cash outflow). Cash-settled equity swap agreements have been entered into that establish a cap on the Company's cost associated with its net-cash settled share options and fix the Company's cost associated with its restricted stock units.

Market risk

Net income and other comprehensive income for the year ended December 31, 2008, could have varied if the Canadian dollar to U.S. dollar foreign exchange rates, market interest rates and the Company's Non-Voting Share prices varied by reasonably possible amounts from their actual statement of financial position date values.

The sensitivity analysis of the Company's exposure to currency risk, interest rate risk, and other price risk arising from share-based compensation is shown in Note 5(g) of the Consolidated financial statements.

Fair value

The carrying value of cash and temporary investments, accounts receivable, accounts payable, restructuring accounts payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method do not exceed their fair values.

The carrying value of short-term investments equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices in active markets.

The fair values of the Company's long-term debt are based on quoted market prices in active markets. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated based on quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to the Company for financial instruments of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities.

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based upon the Company's Common Share and Non-Voting Share prices as at the statement of financial position dates).

Commitments and contingent liabilities

Contractual obligations

The Company's known contractual obligations at December 31, 2008, are quantified in the following table. Interest obligations are included in long-term debt maturities. Long-term debt principal maturities and associated interest obligations, as at December 31, 2008, are presented separately in *Capabilities - Section 4.3 Liquidity and resources*.

	Long-term debt maturities [1]					
($ millions)	**All except capital leases**	**Capital leases**	**Other long-term liabilities [2] [3]**	**Operating leases [4]**	**Purchase obligations [5]**	**Total**
2009	463	3	17	261	437	1,181
2010	540	2	30	257	50	879
2011	3,279	1	19	239	19	3,557
2012	1,891	—	20	220	16	2,147
2013	447	—	20	204	3	674
Thereafter	2,699	—	164	1,080	1	3,944
Total	9,319	6	270	2,261	526	12,382

(1) Where applicable, long-term debt maturities reflect hedged foreign exchange rates as at December 31, 2008. Interest payment cash outflows in respect of commercial paper and amounts drawn under the Company's credit facility have been calculated based on rates in effect as at December 31, 2008.

(2)

(2) Items that do not result in a future outlay of economic resources, such as deferred gains on sale-leasebacks of buildings and deferred customer activation and connection fees, have been excluded.

(3) Uncertain income tax positions that could result in current income taxes being payable have been, or will be, substantially funded over the next 12 months.

(4) Of the total minimum operating lease payments of $2,261 million, $2,195 million was in respect of land and buildings; approximately 60% was in respect of the Company's five largest operating leases, all of which were for office premises over various terms, with expiry dates that range between 2016 and 2026. See Note 20(b) of the Consolidated financial statements for further details on operating leases.

(5) Where applicable, purchase obligations reflect foreign exchange rates as at the current year-end, December 31, 2008. Purchase obligations include both future operating and capital expenditures that have been contracted for as at the current year-end and include the most likely estimates of prices and volumes, where necessary. As purchase obligations reflect market conditions at the time the obligation was incurred for the items being purchased, they may not be representative of future years. Obligations from personnel supply contracts and other such labour agreements have been excluded.

Price cap deferral accounts

The price cap deferral account concept was introduced by the CRTC in 2002 in *Telecom Decisions 2002-34* and *2002-43*, as discussed further in Note 20(a) of the Consolidated financial statements. From June 2002 through May 2006, the deferral account concept required the Company to defer income statement recognition of a portion of monies received in respect of residential basic services provided to non-high cost serving areas. Subsequent decisions were issued in respect of application and disposition of funds in the deferral

accounts. The Company may recognize amounts in the deferral account upon undertaking qualifying actions, such as service improvement programs in qualifying non-high cost serving areas, rate reductions (including those provided to competitors), expansion of broadband services in incumbent local exchange areas to rural and remote communities, and enhancement of access to telecommunications services for individuals with disabilities. To the extent the deferral account balance exceeds approved initiatives, the remaining balance is to be distributed in the form of a one-time rebate to residential subscribers in non-high cost serving areas.

The Company must make significant estimates and assumptions in respect of the deferral account given the complexity and interpretation required of these decisions. The CRTC may, upon its periodic review of the deferral account, disagree with management's estimates and assumptions and adjust the deferral account balance and such adjustment could be material. The CRTC ultimately decides when the deferral account is settled. An aggregate liability of $146 million was recorded as at December 31, 2008 (2007 — $147 million).

There have been a series of escalating court actions since the issuance of CRTC Telecom Decision 2006-9 and Telecom Decision 2008-1 and the litigants have included the Consumers Association of Canada, the National Anti-Poverty Organization, Bell Canada and the Company. The deferral account is currently the subject of appeals to the Supreme Court of Canada. The Company filed its appeal asking the Supreme Court of Canada to permit incumbent local exchange carriers to file for approval further lists of communities that would be eligible for broadband expansion from the remaining funds in the deferral account rather than rebating the remaining funds to local telephone subscribers. The Supreme Court of Canada further granted the Company a motion for a stay of CRTC Telecom Decision 2006-9 in so far as it requires a rebate to local telephone subscribers. The appeals by the Company, Bell Canada and certain consumer groups are currently scheduled to be heard by the Supreme Court of Canada in March 2009. The Company anticipates a decision on this matter in the latter half of 2009.

Guarantees (Note 20(c) of the Consolidated financial statements)

Canadian GAAP requires the disclosure of certain types of guarantees and their maximum, undiscounted amounts. As at December 31, 2008, the Company's maximum undiscounted guarantee amounts, without regard for the likelihood of having to make such payment, were not material.

In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share would have been 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. Should the CRTC take any action that would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred. As at December 31, 2008, the Company has no liability recorded in respect of indemnification obligations.

Claims and lawsuits

A number of claims and lawsuits seeking damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, other than as disclosed in Note 20(d) of the Consolidated financial statements and *Section 10.9 Litigation and legal matters*.

7.9 Outstanding share information

The table below contains a summary of the outstanding shares for each class of equity at December 31, 2008. The total number of outstanding and issuable shares is also presented, assuming full conversion of outstanding options and shares reserved for future option grants. The number of outstanding and issuable shares at January 31, 2009 was not materially different from December 31, 2008.

Outstanding shares (millions of shares)	Common Shares	Non-Voting Shares	Total shares
Common equity			
Outstanding shares at December 31, 2008	175	143	318 [1]
Options outstanding and issuable [2] at December 31, 2008	—	15	15
	175	158	333

[1] For the purposes of calculating diluted earnings per share, the number of shares was 322 million for the year ended December 31, 2008.

[2] Assuming full conversion and ignoring exercise prices.

8. Critical accounting estimates and accounting policy developments

8.1 Critical accounting estimates

TELUS' significant accounting policies are described in Note 1 of the Consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Management's estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's critical accounting estimates are described below and are generally discussed with the Audit Committee each quarter.

General

- Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the items identified in the *Caution regarding forward-looking statements* section of this Management's discussion and analysis.
- In the normal course, changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions, updating of historical information used to develop the assumptions and changes in the Company's debt ratings, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or from selection of a different estimate from within a valid range of estimates.
- All critical accounting estimates are uncertain at the time of making the estimate and affect the following Consolidated statements of income line items: income taxes (except for estimates about goodwill) and Net income. Similarly, all critical accounting estimates affect the following Consolidated statements of financial position line items: Current assets (Income and other taxes receivable); Current liabilities (Income and other taxes payable and Current portion of future income taxes); Future income tax liabilities; and Shareholders' equity (retained earnings). Generally, the discussion of each critical accounting estimate does not differ between the Company's two segments: wireline and wireless.
- The critical accounting estimates affect the Consolidated statements of income and Consolidated statements of financial position line items as follows:

	Consolidated statements of income				
		Operating expenses			
Consolidated statements of financial position	Operating revenues	Operations	Depreciation	Amortization of intangible assets	Other expense, net
Accounts receivable		X			
Inventories		X			
Capital assets and goodwill [1]			X	X	
Investments					X
Advance billings and customer deposits	X	X	X	X	
Employee defined benefit pension plans		X	X [2]	X [2]	

[1] Accounting estimate, as applicable to intangible assets with indefinite lives and goodwill, primarily affects the Company's wireless segment.

[2] Accounting estimate impact due to internal labour capitalization rates.

Accounts receivable

General

- The Company considers the business area that gave rise to the accounts receivable, performs statistical analysis of portfolio delinquency trends and performs specific account identification when determining its allowance for doubtful accounts. This information is also used in conjunction with current market-based rates of borrowing to determine the fair value of its residual cash flows arising from accounts receivable securitization. The fair value of the Company's residual cash flows arising from the accounts receivable securitization is also referred to as its retained interest.

- Assumptions underlying the allowance for doubtful accounts include portfolio delinquency trends and specific account assessments made when performing specific account identification. Assumptions underlying the determination of the fair value of residual cash flows arising from accounts receivable securitization include those developed when determining the allowance for doubtful accounts as well as the effective annual discount rate.
- These accounting estimates are in respect of the Accounts receivable line item on the Company's Consolidated statements of financial position comprising approximately 5% of total assets as at December 31, 2008 (4% as at December 31, 2007). If the future were to adversely differ from management's best estimates of the fair value of the residual cash flows and the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge does not result in a cash outflow.

Key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization

- The estimate of the Company's fair value of its retained interest could materially change from period to period due to the fair value estimate being a function of the amount of accounts receivable sold, which can vary on a monthly basis. See Note 14 of the Consolidated financial statements for further analysis.

The allowance for doubtful accounts

- The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues, from a variance in the amount of accounts receivable sold to the securitization trust and from variances in accounts receivable collection performance.

Inventories

The allowance for inventory obsolescence

- The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings.
- Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. The estimate of the Company's allowance for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.
- This accounting estimate is in respect of the Inventory line item on the Company's Consolidated statements of financial position, which comprises approximately 2% of total assets as at December 31, 2008 (1% as at

December 31, 2007). If the allowance for inventory obsolescence were inadequate, the Company could experience a charge to operations expense in the future. Such an inventory obsolescence charge does not result in a cash outflow.

Capital assets and Goodwill

General

- Capital assets and Goodwill represent approximately 65% and 19%, respectively, of TELUS' Consolidated statements of financial position, as at December 31, 2008 (proportions unchanged from December 31, 2007). If TELUS' estimated useful lives of assets were incorrect, it could experience increased or decreased charges for amortization of intangible assets or depreciation in the future. If the future were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Company could potentially experience future material impairment charges in respect of its capital assets, including intangible assets with indefinite lives and goodwill. If intangible assets with indefinite lives were determined to have finite lives at some point in the future, the Company could experience increased charges for amortization of intangible assets. Such charges do not result in a cash outflow and of themselves would not affect the Company's immediate liquidity.

The estimated useful lives of assets; the recoverability of tangible assets

- The estimated useful lives of assets are determined by a continuing program of asset life studies. The recoverability of tangible assets is significantly impacted by the estimated useful lives of assets.

- Assumptions underlying the estimated useful lives of assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans.

The recoverability of intangible assets with indefinite lives ; *the recoverability of goodwill*

- Consistent with current industry-specific valuation methods, the Company uses a discounted cash flow model combined with a market-based approach in determining the fair value of its spectrum licences and goodwill. See Note 15(c) of the Consolidated financial statements for further discussion of methodology.

- The most significant assumptions underlying the recoverability of intangible assets with indefinite lives and goodwill include: future cash flow and growth projections, including economic risk assumptions and estimates of achieving desired key operating metrics and drivers; future weighted average cost of capital; and annual earnings multiples. Significant factors impacting these assumptions include estimates of future market share, key operating metrics such as churn and ARPU, level of competition, technological developments, interest rates, market economic trends, debt levels and the cost of debt. Sensitivity testing is discussed in Note 15(c) of the Consolidated financial statements.

Investments

The recoverability of long-term investments

- The Company assesses the recoverability of its long-term investments on a regular, recurring basis. The recoverability of investments is assessed on a specific identification basis taking into consideration expectations about future performance of the investments and comparison of historical results to past expectations.

- The most significant assumptions underlying the recoverability of long-term investments are the achievement of future cash flow and operating expectations. The estimate of the Company's recoverability of long-term investments could change from period to period due to the recurring nature of the recoverability assessment and due to the nature of long-term investments (the Company does not control the investees).

- If the allowance for recoverability of long-term investments were inadequate, the Company could experience an increased charge to Other expense in the future. Such a provision for recoverability of long-term investments does not result in a cash outflow.

Income tax assets and liabilities

The amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits

- Assumptions underlying the composition of income tax assets and liabilities, including the amount of unrecognized tax benefits, are based upon an assessment of tax positions as to whether, on their technical merit, they are more likely than not of being sustained upon examination, and then an estimate of the amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with taxing authorities. Such assessments are based upon the applicable income tax legislation, regulations and interpretations, all of which in turn are subject to interpretation.

- Current income tax assets and liabilities are estimated based upon the amount of tax that is calculated as being owed to taxing authorities, net of periodic instalment payments. Future income tax liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities as well as the tax effect of undeducted tax losses. The timing of the reversal of the temporary differences is estimated and the tax rate substantively enacted for the periods of reversal is applied to the temporary differences. The carrying amounts of

assets and liabilities are based upon the amounts recorded in the financial statements and are therefore subject to accounting estimates that are inherent in those balances. The tax basis of assets and liabilities as well as the amount of undeducted tax losses are based upon the assessment of tax positions and measurement of tax benefits as noted above. Assumptions as to the timing of reversal of temporary differences include expectations about the future results of operations and cash flows. The composition of income tax liabilities is reasonably likely to change from period to period because of changes in the estimation of these significant uncertainties.

- This accounting estimate is in respect of material asset and liability line items on the Company's Consolidated statements of financial position comprising less than 1% of total assets and approximately 10% of total liabilities and shareholders' equity as at December 31, 2008 (less than 1% of total assets and approximately 9% of total liabilities and shareholders' equity as at December 31, 2007). If the future were to adversely differ from management's best estimate of the likelihood of tax positions being sustained, the amount of tax benefit that is greater than 50% likely of being realized, the future results of operations, the timing of reversal of deductible temporary differences and taxable temporary differences, and the tax rates applicable to future years, the Company could experience material future income tax adjustments. Such future income tax adjustments could result in an acceleration of cash outflows at an earlier time than might otherwise be expected.

Advance billings and customer deposits

The accruals for CRTC deferral account liabilities

- The deferral account arose from the CRTC requiring the Company to defer the income statement recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. This deferral requirement ended May 31, 2006. The critical estimate arises from the Company's recognition of the deferred amounts. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as service improvement programs in qualifying non-high cost serving areas, expansion of broadband services to rural and remote communities in incumbent local exchange carrier operating territories, initiatives to enhance accessibility of telecommunications services for individuals with disabilities, rate reductions (including those mandated by the CRTC in respect of discounts on Competitor Digital Network services) and/or rebates to customers. As described in Note 20(a) of the Consolidated financial statements and *Section 10.3 Regulatory – Price cap regulation*, amounts in the deferral account are currently the subject of appeals to the Supreme Court of Canada by TELUS, Bell Canada and certain consumer groups.

- Assumptions underlying the accruals for the CRTC deferral account that are uncertain at the time of making the estimate include: (i) what actions will ultimately qualify for recognition of deferred amounts; and (ii) over what period of time will qualifying deferred amounts be recognized in the Company's Consolidated statements of income. The manner in which deferred amounts are recognized, and the amounts thereof, are reasonably likely to change as such recognition is ultimately dependent upon future decisions by the CRTC and resolution of appeals to the Supreme Court of Canada.

- This accounting estimate is in respect of an item within the advance billings and customer deposits line item on TELUS' Consolidated statements of financial position and which, itself, comprises approximately 4% of total liabilities and shareholders' equity as at December 31, 2008 (4% as at December 31, 2007). If the Company's estimate of deferred amounts recognized, and the timing of the recognition thereof, were to differ materially from what the CRTC ultimately decides is allowable, revenues could be materially impacted. Such a revenue impact

would not be expected to be accompanied by a corresponding impact in net cash inflows. Should the consumer groups be successful in their appeal of the use of deferral account amounts, the Company may be required to remit a one-time refund to the majority of its local residential subscriber base. As the deferral account balance was fully provided for in previous financial statements, the potential refund will not impact TELUS' subsequent income from operations. Such a refund would result in a net cash outflow, potentially offset by reduced capital investment as the Company re-addresses its intent to extend broadband services to uneconomic remote and rural communities. In the event that Bell Canada is successful in its appeal, TELUS may realize additional revenue equal to the amount of the deferral account that would otherwise have been rebated by the CRTC. Such a revenue impact would not be expected to be accompanied by a corresponding impact in net cash inflows. If TELUS is successful in its appeal, the Company expects to file for CRTC approval further lists of rural and remote communities that would be eligible for broadband expansion from the remaining funds in the deferral account.

Employee defined benefit pension plans

Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets

- The Company reviews industry practices, trends, economic conditions and data provided by actuaries when developing assumptions used in the determination of defined benefit pension costs and accrued pension benefit obligations. Pension plan assets are generally valued using market prices, however, some assets are valued using

market estimates when market prices are not readily available. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets. Actuarial support is obtained for interpolations of experience gains and losses that affect the defined benefit pension costs and accrued benefit obligations. The discount rate, which is used to determine the accrued benefit obligation, is based upon the yield on long-term, high-quality fixed term investments, and is set annually at the end of each calendar year, based upon yields on long-term corporate bond indices in consultation with actuaries. The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.

- Assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets include: discount rates, long-term rates of return for plan assets, market estimates and rates of future compensation increases. Material changes in overall financial performance and financial statement line items would arise from reasonably likely changes, because of revised assumptions to reflect updated historical information and updated economic conditions, in the material assumptions underlying this estimate. See Note 13(i) of the Consolidated financial statements for further analysis.

- This accounting estimate is in respect of a component of the largest operating expense line item on the Company's Consolidated statements of income. If the future were to adversely differ from management's best estimate of assumptions used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets, the Company could experience future increased defined benefit pension expense. The magnitude of the immediate impact is lessened, as the excess of net actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees of the plan.

8.2 Accounting policy developments (Note 2 of the Consolidated financial statements)

Transition to International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by publicly accountable enterprises, being replaced with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) over a transitional period to be complete by 2011. TELUS will be required to report using the IFRS-IASB standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011, the date that the Company has selected for adoption.

Canada's Accounting Standards Board will phase in or transition to IFRS-IASB through a combination of three methods: (i) as current joint-convergence projects of the United States Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the publicly accountable enterprises' transition date to IFRS-IASB; (ii) standards identified by Canada's Accounting Standards Board as key or significant in which the Accounting Standards Board has undertaken a project to converge Canadian GAAP with the related IFRS prior to transition date and issued as Canadian GAAP; and (iii) standards not subject to a joint-convergence project have been exposed in an omnibus manner for introduction at the time of the publicly accountable enterprises' transition date to IFRS-IASB. The first two transition methods may, or will, result in the Company either having the option to, or being required to, effectively, change over certain accounting policies to IFRS-IASB prior to 2011 in the event a new standard is issued or early adoption is permitted.

The International Accounting Standards Board's work plan currently, and expectedly, has projects underway that are expected to result in new pronouncements that continue to evolve IFRS-IASB, and as a result, IFRS-IASB as at the transition date is expected to differ from its current form. In November 2008, the United States Securities and Exchange Commission issued a proposed road map, with seven milestones, that would permit certain United States reporting issuers to use IFRS-IASB in their filings. This proposal is a significant development as it also contemplates mandatory usage of IFRS-IASB by United States reporting issuers as early as 2014 (such a mandatory usage decision – Milestone 6 – is anticipated to be made by the United States Securities and Exchange Commission in 2011). It is not possible to currently assess the impact, if any, this proposal will have on the International Accounting Standards Board's work plan; however, Milestone 1 is a requirement for improvements in accounting standards and a subsequent consideration by the United States Securities and Exchange Commission of whether IFRS-IASB are of high quality and sufficiently comprehensive.

There are several phases that the Company will have to complete on the path to changing over to IFRS-IASB:

Implementation phase	Description and status
Initial impact assessment and scoping	This phase includes the identification of significant differences between existing Canadian GAAP and IFRS-IASB, as relevant to the Company's specific instance. Based upon the current state of IFRS-IASB, this phase was completed in the first quarter of 2008, using a diagnostic process, and identified a modest number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to change over to IFRS-IASB. This diagnostic resulted in the development of a detailed plan under which activities are being conducted. The IASB has activities currently underway which may, or will, change IFRS-IASB and such change may, or will, impact the Company. The Company will assess any such change as a component of its key elements phase.
Key elements	This phase includes identification, evaluation and selection of accounting policies necessary for the Company to change over to IFRS-IASB. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training. Currently underway are the identification, evaluation and selection of accounting policies necessary for the Company to change over to IFRS-IASB; consideration of impacts on operational elements, such as information technology and internal control over financial reporting, are integral to this process. As at December 31, 2008, approximately two-thirds of the standards that relate to TELUS have been reviewed. Targeted training and communications activities, which leveraged both internal and external resources, occurred during the current reporting period. Training has also been made available by way of an internal IFRS website dedicated to the conversion. The Company has regularly updated its Audit Committee of the Board of Directors on the status of the project, implications and expected range of impacts.
Embedding	This phase will integrate the solutions into the Company's underlying financial system and processes that are necessary for the Company to change over to IFRS-IASB.

The Company will present its results for fiscal 2010 using contemporary Canadian GAAP. In 2011, the Company will present its comparative results for fiscal 2010 using contemporary IFRS-IASB. To accomplish this, in 2010 the Company will effectively maintain two parallel books of account.

In 2009, the Company will continue to review remaining standards for application to TELUS, carry out impact assessments and provide targeted training. The Company will also make accounting policy choices and prepare its accounting systems accordingly, to enable preparation of its opening financial position under IFRS-IASB for 2010. Although its impact assessment activities are underway and progressing according to plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS-IASB changeover accounting policy differences, other than as set out below:

Financial instruments – disclosure; presentation

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the existing recommendations for financial instrument disclosure were replaced with new recommendations (CICA Handbook Section 3862); the existing recommendations for financial instrument presentation were carried forward, unchanged (as CICA Handbook Section 3863).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for financial instrument disclosures apply to the Company. As set out in Note 5 of the Consolidated financial statements, the new recommendations result in incremental disclosures, relative to those previously required, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the statement of financial position date, and how an entity manages those risks. The transitional provisions provide that certain of the incremental disclosures need not be provided on a comparative basis in the year of adoption.

Inventories

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for accounting for inventories were replaced with new recommendations (CICA Handbook Section 3031).

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for accounting for inventories apply to the Company. The new recommendations provide more guidance on the measurement and disclosure requirements for inventories; significantly, the new recommendations allow the reversals of previous write-downs to net realizable value where there is a subsequent increase in the value of inventories. The Company's results of operations and financial position are not materially affected by the new recommendations.

Goodwill and intangible assets

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for goodwill and intangible assets and research and development costs were replaced with new recommendations (CICA Handbook Section 3064).

Commencing with the Company's 2009 fiscal year, the new recommendations of the CICA for goodwill and intangible assets will apply to the Company. The new recommendations provide extensive guidance on when expenditures qualify for recognition as intangible assets. The Company's results of operations and financial position are not expected to be materially affected by the new recommendations.

Business combinations and non-controlling interests

As an activity consistent with Canadian GAAP being converged with IFRS-IASB, the previously existing recommendations for business combinations and consolidation financial statements will be replaced with new recommendations for business combinations (CICA Handbook Section 1582), consolidations (CICA Handbook Section 1601) and non-controlling interests (CICA Handbook Section 1602).

Generally, the new recommendations result in measuring business acquisitions at the fair value of the acquired business and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording fair values attributable to non-controlling interests). Unlike the corresponding new U.S. GAAP, which requires the recognition of the fair value of goodwill attributable to non-controlling interests, both the new Canadian GAAP recommendations and IFRS-IASB allow the choice of whether or not to recognize the fair value of goodwill attributable to non-controlling interests on an acquisition-by-acquisition basis.

Measuring business acquisitions at fair value will, among other things, result in:

- acquisition costs being expensed;
- acquisition-created restructuring costs being expensed;
- contingent consideration, that is accounted for as a financial liability, being measured at fair value at the time of the acquisition with subsequent changes in its fair value being included in determining the results of operations; and
- changes in non-controlling ownership interests subsequent to the parent company's acquisition of control, and not resulting in the parent company's loss of control, being accounted for as capital transactions.

Effective January 1, 2009, the Company early adopted the new recommendations and did so in accordance with the transitional provisions; the Company would have otherwise been required to adopt the new recommendations effective January 1, 2011.

Whether the Company will be materially affected by the new recommendations will depend upon the specific facts of business combinations, if any, occurring subsequent to the Company's adoption of the new recommendations. The Company's consolidated financial statements will, however, be subject to a small number of retrospectively applied non-controlling interest-related presentation and disclosure changes:

- the Consolidated statements of financial position will recognize non-controlling interest as a separate component of shareholders' equity; and
- the Consolidated statements of income and other comprehensive income will present the allocation of net income and other comprehensive income between the Company's shareholders and non-controlling interests rather than reflecting the non-controlling interest in the results of operations as a deduction in arriving at net income and other comprehensive income.

Had these presentation and disclosures changes been applied to the Consolidated statements of income and other comprehensive income for the year ended December 31, 2008, Net income would have increased by $3 million, as illustrated in Note 2(e) of the Consolidated financial statements.

9. General outlook

Outlook for the telecommunications business in 2009

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

In 2008, the Canadian telecom industry generated estimated revenues of approximately $40 billion, with Bell Canada and affiliated companies representing about 41% of the total. As the second largest telecommunications provider in Canada, TELUS generated $9.7 billion in revenues in 2008, or approximately 24% of the total.

Revenue in the Canadian telecom market grew an by approximately 4.4% in 2008, consistent with the mid-point of the 3.5 to 5.5% growth experienced in recent years and higher than overall GDP growth. Wireless and enhanced data continued to be the focus of increased investment and act as growth engines for the sector. Offsetting this growth was continued wireline industry weakness in voice service revenue, with declining long distance and legacy data revenues.

TELUS' continued focus on national growth in wireless, data and IP, and the impact of a stronger Western economy, were partially offset by wireline losses to cable telephony, resulting in 6.4% consolidated revenue growth. The Company expects competition in the Canadian telecommunications industry to remain intense in 2009 and 2010. One contributing factor is the re-emergence of BCE as a moderately leveraged, dividend-paying public operating company, following the December 2008 termination of its pending sale to a consortium led by the Ontario Teachers Pension Plan, which would have seen BCE become highly levered with debt and focused on maximizing short-term cash flow.

It is expected that 2009 will be a challenging year from a macroeconomic perspective. The low positive growth currently forecast in Western Canada is expected to be more than offset by negative growth in Central and Eastern Canada, leading to an overall negative GDP growth forecast for the national economy. Given these and other factors, TELUS expects its revenue growth to moderate slightly in 2009 in the range of

4 to 6%.

Wireless

The wireless industry continued to experience robust growth with estimated 2008 year-over-year industry revenue and EBITDA growth of approximately 11% and 7%, respectively.

The Canadian industry continues to represent a meaningful growth opportunity, due to a national penetration rate that is lower than other developed countries because of structural and timing differences. Penetration rates in many Western European countries have surpassed 100%. Asian countries, such as Korea, are approaching 95% penetration. These rates are not exactly comparable to North America due to higher-quality, lower-cost, fixed-rate local service, multiple subscriptions being possible on one GSM handset in Europe and differences in postpaid and prepaid mix. The U.S. wireless industry is more comparable to Canada, with a penetration rate of approximately 87%, a 22 percentage point difference relative to Canada, which can be attributed in part to a two-year head start in the U.S. Canada continues to grow strongly with almost 1.6 million new subscribers in 2008 and an estimated 4.6 point increase in penetration to approximately 65%, with a penetration gain of approximately 4.5 percentage points expected in 2009. This forecast growth is supported by the view that wireless services are less likely than many other consumer expenditures to be eliminated in an economic downturn.

A key driver of wireless growth continues to be the increased adoption and usage of data services such as text and picture messaging, mobile computing, applications, gaming, ringtones, music, video downloads, mobile TV and an expanded range of commercially available smartphones. To capture this opportunity, Canadian wireless providers continue the roll-out of faster, next generation high-speed wireless networks, with TELUS committing to build a next generation wireless network in 2009 for launch by early 2010. In 2008, wireless data in Canada represented an estimated 16% of industry ARPU. This compares to approximately 38% in Asia-Pacific, 22% in Europe and 24% in the U.S., indicating an ongoing growth opportunity.

In addition to TELUS, Rogers and Bell, mobile virtual network operators such as Virgin Mobile, Videotron Ltd. and President's Choice remain active in the market. In addition, wireless incumbents have become increasingly competitive with their separately branded basic or discount service offerings. In this cost-conscious and growing market, Bell and Rogers continue to aggressively promote and price their respective Solo and Fido brand offerings. In March 2008, TELUS successfully began the launch of its Koodo Mobile branded basic service, focused on talk and text, to more effectively and efficiently compete in this market segment.

Competition in the Canadian wireless market is expected to remain intense due to continued aggressive competition from basic service offerings, and new entrant wireless service providers as a result of Industry Canada's AWS spectrum auction. The auction concluded in mid-2008, raising $4.25 billion for the federal government, or up to three times more than initially anticipated. Consistent with TELUS' national growth strategy focused on wireless and data, the Company acquired approximately 16 MHz of spectrum across Canada for $882 million. This further strengthened TELUS' ample spectrum position and provides capacity for the introduction of future 4G service offerings. As a result of government policy to reserve spectrum for new wireless entrants, a number of potential new entrants acquired spectrum in various regions of Canada, although no potential national provider emerged. TELUS expects to face new entrant competition beginning in late 2009 at the earliest and most likely in 2010. However, the number and long-term viability of new entrants in various markets remain uncertain because of, amongst other things, the significant amount of capital needed for build-out requirements, the high cost of the spectrum and launching new brands and services, weak capital market conditions, and restrictions on foreign investment.

Long term evolution (LTE) is quickly emerging as the global standard for 4G wireless technology. In a 2008 report prepared for the UMTS Forum, Analysys Research forecast more than 400 million LTE subscribers worldwide by 2015. To

enable the optimal transition to a 4G LTE wireless network, TELUS is building a next generation wireless service based on high-speed packet access (HSPA) technology with a national service launch expected by early 2010. This enhancement of TELUS' mobile network complements the Company's existing wireless network portfolio, which includes code division multiple access (CDMA) and Mike (iDEN) networks, providing access to a nationwide 3G high-speed EVDO network and the industry-leading Push To Talk network, respectively. The new network is expected to allow TELUS to continue providing customers with the widest choice of wireless solutions to best meet their needs.

Given TELUS' high and increasing exposure to wireless (48% of 2008 consolidated revenue), strong established brands, and consistent focus on leading-edge, value-added products and profitable subscriber growth, TELUS is well positioned to benefit from ongoing growth in the Canadian wireless market.

Wireline

In contrast to wireless, expectations for the mature wireline segment are more modest. The wireline telecom landscape is expected to remain very competitive in 2009 as traditional services (such as local and long distance telephony) are expected to continue declining due to consumer migration to wireless and VoIP services. Canada's four major cable-TV companies had almost 2.6 million telephony subscribers at the end of 2008, up by close to 700,000 from 2007, or an estimated 21% consumer market share nationally. TELUS' total line losses of 3.6% in 2008 compare favourably to North American peers, partly due to growth in TELUS business lines in Central Canada mitigating residential line erosion in the Company's incumbent regions. The long distance market faces further pressure, due to continued aggressive pricing and promotion of voice packages by VoIP providers, and migration to other technologies such as e-mail.

To help alleviate the competitive challenges in the traditional wireline segment, TELUS' Future Friendly Home strategy is positioned to grow wallet share with consumers, while enhancing retention and loyalty through multiple service offerings. TELUS is continuing the roll-out of higher speed Internet services and TELUS TV, including new products such as HD TV and PVRs, to markets in B.C., Alberta and Eastern Quebec. Notably, Internet connectivity and basic home entertainment services are viewed as fairly non-discretionary and are expected to be reasonably resilient in an economic downturn. Combined with wireline local and long distance, wireless and high-speed Internet services, TELUS is increasingly offering bundled products to achieve competitive differentiation with an integrated set of services that provides customers more freedom, flexibility and choice. At the same time, cable-TV companies have shown a greater ability to increase pricing without regulatory

oversight, and are continuing to roll out higher-speed Internet services, Internet telephony and digital cable-TV services to fuel their growth.

In 2007, the federal government moved the telecommunications industry towards a more open and deregulated wireline environment by directing the CRTC to grant residential local exchange forbearance in markets with three independent facilities-based competitors that serve at least 75% of residential lines, and business forbearance in markets with two facilities-based competitors that serve at least 75% of business lines. Approvals for forborne exchanges continued in 2008, providing TELUS and other incumbent telecom companies enhanced competitive flexibility in pricing, promotions and bundling of services. By the end of 2008, the majority of residential and business markets across Canada were forborne from regulation, and the CRTC eliminated for the incumbents the majority of retail quality-of-service indicators as well as restrictions on winback offers and promotions.

The opportunities presented by forbearance, such as bundled product offerings, are heavily contingent on TELUS implementing its new integrated billing and client care platform that consolidates multiple legacy systems. Anticipated benefits include increased customer service efficiencies — greater flexibility, differentiation, enhanced marketing opportunities and accuracy — as well as future expense savings. TELUS has successfully converted the vast majority of consumer wireline customers in Alberta and British Columbia to the new system, and intends to convert business customers, and those outside of B.C. and Alberta, in the coming years.

In the business market, the convergence of IT and telecom, facilitated by the ubiquity of Internet protocol (IP), continues to shape competitive investments. Telecoms are providing network-centric managed applications, while IT service providers attempt to bundle network connectivity with their software as a service (SaaS) offerings. In addition, manufacturers are bringing all-IP and converged (IP plus legacy) equipment to market, enabling a steady migration to IP-based solutions. The development of IP-based platforms providing combined IP voice, data and video solutions creates cost efficiencies to compensate, in part, for margin pressures from the migration from legacy to IP-based services. At the same time, this opens new opportunities for integrated solutions that have greater business impact than traditional telecom services. TELUS is aggressively pursuing this opportunity with a series of solutions targeting specific high-value segments, including the industry verticals of healthcare, financial services, public sector, and energy, as well as small and medium-sized business.

The addressable market for healthcare, for example, is approximately $3.5 billion and is forecast to grow at 7% annually over the next several years. Recognizing this opportunity, in 2008 TELUS acquired and integrated Emergis, and placed all TELUS healthcare solution assets under the newly launched TELUS Healthcare Solutions brand. Over three years, TELUS plans to invest more than $100 million in healthcare solutions, ranging from electronic health records

management and health insurance processing to pharmacy management and home care. While the current challenging economic environment is expected to impact the business segment, it also means that many organizations will be looking for new data and IP-based solutions to support efficiency initiatives. In addition, increased infrastructure-related spending, as a result of fiscal stimulus efforts by various levels of government, will impact other sectors such as healthcare and the public sector. For instance, the January 2009 federal budget allocated $500 million to help attain the goal of providing 50% of Canadians with an electronic health record by 2010.

The medium-sized business market, often viewed as underserved because it looks for big-business solutions at close to small-business price points, is forecast to be a sustained growth opportunity. TELUS is investing in a range of affordable solutions for this segment, including security, videoconferencing, and managed hosting solutions for everything from e-mail to web applications. In the small business market, TELUS has countered increased cable-TV company competition by creating a small business solution platform called TELUS Business One ®, which includes connectivity (data and voice, wireline and mobility), security, audio and video conferencing, and other IP-based tools.

Despite an expected challenging economic climate and competitive environment in 2009, TELUS believes its consistent strategic focus on providing a full suite of valuable and reliable communications services; delivering differentiated, premium national business solutions in data and IP; exposure to growth services such as wireless, data and IP including high-speed Internet and TELUS TV; and the continued enhancement of national wireless and broadband networks, solidly position TELUS for continued growth in the years ahead. At the same time, TELUS' management is particularly focused on monitoring macroeconomic and regional trends in 2009 to ensure timely adjustments can be made to maintain profitability, cash flow and financial strength.

10. Risks and risk management

TELUS' risk and control assessment process



TELUS uses a three-level enterprise risk and control assessment process that solicits and incorporates the expertise and insight of team members from all areas of the Company. TELUS initially implemented its three-level risk and control assessment process in 2002 and tracks multi-year trends for various key risks and control environment perceptions across the organization.

TELUS' definition of business risk

TELUS defines business risk as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, the reliability of financial reporting, compliance with laws and regulations, and the safeguarding of assets within an ethical organizational culture.

TELUS' enterprise risks are largely derived from the Company's business environment and are fundamentally linked to TELUS' strategies and business objectives. TELUS strives to proactively mitigate its risk exposures through rigorous performance planning and effective and efficient business operational management. Residual exposure for certain risks is mitigated through appropriate insurance coverage where this is judged to be efficient and commercially viable.

TELUS strives to avoid taking on undue risk exposures whenever possible and ensure alignment with business strategies, objectives, values and risk tolerances.

Enterprise risk and control assessment process

Level one	Annual risk and control assessment Key inputs into this process include interviews with senior managers, data and updates from TELUS' ongoing strategic planning process and the results of an annual web-enabled risk and control assessment survey. The survey is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) enterprise risk management and internal control frameworks and is widely distributed to TELUS' management leadership team (all executive vice-president, vice-president and director level team members and a random sample of management). Survey responses were received from 1642 individuals in 2008. Additionally, TELUS' assessment process incorporates input from recent internal and external audits, as well as input from management's SOX 404 (*Sarbanes Oxley Act* of 2002) internal control over financial reporting compliance activities. Key enterprise risks are identified, defined and prioritized, and risks are classified into one of seven risk categories. Results of the annual risk and control assessment drive the development of TELUS' annual internal audit program and are presented to senior management and the Audit Committee. Risk assessments are also incorporated back into the Company's strategic planning processes and shared with the Board.
Level two	Quarterly risk assessment review TELUS conducts a quarterly risk assessment review with key internal stakeholders across all business units to capture and communicate the dynamically changing business risks, identify key risk mitigation activities and provide ongoing updates and assurance to the Audit Committee.
Level three	Granular risk assessments TELUS conducts granular risk assessments for specific audit engagements and various risk management, strategic and operational initiatives (e.g. project, environmental management, safety, business continuity planning, network and IT vulnerability, and fraud and ethics risk assessments). The results of the multiple risk assessments are evaluated, prioritized, updated and integrated into the key risk profile throughout the year.

The following sections summarize the principal risks and uncertainties that could affect TELUS' future business results going forward, and TELUS' associated risk mitigation activities.

10.1 Competition

Aggressive competition may adversely affect market shares, volumes and pricing

TELUS faces intense competition across all key business lines and market segments, including consumer, small and medium-sized businesses (SMB), and the large enterprise market.

Technological advances have blurred the traditional boundaries between broadcasting, Internet and telecommunications. Cable-TV companies continue to expand offerings of basic voice and enhanced phone services resulting in intensified competition in the residential and certain SMB, local access, long distance, and high-speed Internet access (HSIA) markets. Furthermore, as a result of the recent AWS spectrum auction, TELUS expects to face new wireless competition in the future from new carriers, including cable-TV operators. Overall, industry pricing pressure and customer acquisition efforts have intensified across most product and service categories and market segments, and this is expected to continue in the face of economic uncertainty.

Risk mitigation, general: Recent Canadian Radio-television and Telecommunications Commission (CRTC) decisions approving wireline deregulation have provided TELUS with improved flexibility to respond to intensifying competition (see *Section 10.3 Regulatory*). Active monitoring of competitive developments in product and geographic markets enables TELUS to rapidly respond to competitor offers and leverage the Company's full suite of integrated solutions and national reach. TELUS continues to expand its TELUS TV offering in its incumbent territories in order to provide a premium television experience and enhance its bundles to better address customer needs and respond to cable-TV offerings. In order to offset increasing competitive intensity and losses in its incumbent areas, TELUS continues to expand into and generate growth in non-incumbent markets in Central Canada with its business services and mobility offerings. In addition to expanding services, TELUS also continues to actively pursue the most competitive cost structure possible. With the operational integration of its wireless and wireline teams, TELUS is now better aligned across distribution channels and product and service roadmaps, and can provide more integrated and differentiated offerings and joint account planning.

Wireline voice and data

Competition is expected to remain intense from traditional telephony, data, IP and IT service providers, as well as from new voice over Internet protocol (VoIP) focused entrants. Competitors are focusing on both business and consumer markets.

The industry transition from legacy voice infrastructure to IP telephony, and from legacy data platforms to Ethernet, IP virtual private networks (VPN), multi-protocol label switching (MPLS) IP platforms and IP-based service delivery models, continues at a robust pace. Legacy data revenues and margins continue to decline. This decline has been only partially offset by increased demand and/or increased migration of customers to IP-based platforms. IP-based solutions are also subject to downward pricing pressure, lower margins and technological evolution. Significant capital investments in wireline infrastructure will be required to facilitate this ongoing transition process for all traditional incumbent local exchange carrier (ILEC) entities including TELUS.

Wireline voice and data — Business

In the business market, price-discounted bundling of local access, wireless and advanced data and IP services has evolved to include web-based and e-commerce services, as well as other IT services and support. Non-traditional competitors such as Microsoft have entered the telecom space through new products such as Unified Communications, which provides the ability to redirect and deliver, in real time, e-mail, voice and text messages from a variety of telecom and IT systems to the device nearest to the intended recipient. With this broader bundling of traditional telecom services with IT services, TELUS increasingly faces competition from pure Internet and information technology hardware, software and business process/consulting related companies. Cable-TV companies have begun to target the SMB market with their VoIP services. The result is that traditional and non-traditional competitors are now focused on providing a broad range of telecommunications services to the business market, particularly in the major urban areas.

Risk mitigation in the business wireline market: TELUS continues to increase its capabilities in the overall business market through a combination of strategic acquisitions and partnerships, a focus on priority vertical markets (public sector, healthcare, financial services and energy), expansion of strategic solution sets in the enterprise market, and a mass modular approach in the SMB market (including services such as TELUS Business One). Through the Emergis acquisition and launch of TELUS Health Solutions, TELUS can now leverage systems and proprietary software to extend the Company's footprint in healthcare, benefit from the investment made by government in eHealth, pursue the transformation of the Canadian Pharmacy Benefit model and cross-sell more traditional telecom products and services. TELUS is also

focused on engaging in appropriate large longer-term deals that best leverage the Company's capital investments and capabilities.

Wireline voice and data — Consumer

In the consumer wireline market, cable-TV companies and other competitors encounter minimal regulation and continue to combine a mix of residential local VoIP, long distance, HSIA and, in some cases, wireless services into one bundled and/or discounted monthly rate, along with their traditional broadcast or satellite-based TV services. In addition, cable-TV companies continue to increase the speed of their HSIA offerings. To a lesser extent, other non-facilities-based competitors offer local and long distance VoIP services over the Internet and resell HSIA solutions. Erosion of TELUS' residential network access lines (NALs) is expected to continue from this competition, as well as ongoing technological and wireless substitution. Competitors are anticipated to capture a majority of the share in growth marketplace opportunities; thus, access line associated revenues, including long distance, can be expected to continue to decline. Although the HSIA market is maturing, subscriber growth is expected to continue over the next several years. With a more mature HSIA market, and the potential for higher speed Internet offerings from competitors, TELUS may be constrained in its ability to maintain market share in its incumbent territories, because of the amount and timing of capital expenditures associated with maintaining competitive network access speeds.

Risk mitigation in the consumer wireline market: TELUS continues to expand its own broadband infrastructure, in both coverage area and increased speed of service, to enter new market segments such as video, and enhance current services. TELUS has initiated a targeted neighbourhood commercial launch of TELUS TV in Edmonton, Calgary, Fort McMurray, Grande Prairie, Vancouver and Lower Mainland and Rimouski area markets, with additional serving areas in B.C., Alberta, and Eastern Quebec targeted for 2009. TELUS TV helps TELUS counter the threat from the cable-TV competition in its incumbent markets, and to retain and grow revenues with a bundled offering of local and long distance telephony, HSIA, TV entertainment services and wireless.

Broadcasting

The Company offers TELUS TV in select areas of B.C., Alberta, and Eastern Quebec, as noted above, and continues targeted roll-outs to new areas in order to generate new revenues and gain the ability to create new service bundles for enhanced competitiveness and customer retention. TELUS TV is an IP-based, fully digital TV service offering more than 200 broadcast TV channels, Pay Per View, personal video recorder (PVR), and Video on Demand services similar to those offered by direct competitors Shaw Cable, StarChoice and Bell TV. TELUS also offers HD capability in select areas through the deployment of ADSL2+ technology. Though still at an early stage of roll-out, TELUS expects its HD TV service to increase penetration in 2009 as additional ADSL2+ build-outs expand TELUS' addressable market. While IP TV provides significant interactivity and customization advantages relative to both cable and satellite, there can be no assurance that TELUS TV will be successful in achieving its plans of obtaining a sizable share of the TV services market or that implementation costs or projected revenues for TELUS' television service will be as planned. TELUS will continue to monitor the situation and may explore alternative distribution channels for entertainment services.

Risk mitigation: IP TV provides TELUS with unique competitive advantages relative to analog cable-TV, such as time-shifted programming flexibility, on-screen caller ID, limited web-surfing and an all-digital, broad selection of channels. TELUS TV also provides the Company with the ability to offer customers a bundled product, incorporating local and long distance telephony, HSIA, TV and wireless services. However, IP TV is still at a relatively early stage of development and adoption. Per-unit capital and operating costs are expected to decline with technological advances and as TELUS increases scale. Additionally, TELUS continues to explore other options for enhancing its service bundles relative to its TV-focused competitors.

Wireless

Competition in the Canadian wireless market intensified with the launch of wireless number portability (WNP) in March 2007, and the proliferation and promotion of additional discount brands. WNP removed a barrier to switching providers for many wireless subscribers, and the addition of new brands has all carriers actively introducing price promotions to attract new customers from other carriers and retain their customer base. TELUS has experienced modestly higher churn rates since the introduction of WNP. The initial post-WNP phase of pent-up demand to switch has subsided, but churn rates may be permanently higher in the future.

The AWS spectrum auction in May 2008 resulted in eight new competitors conditionally acquiring spectrum in separate and overlapping regions, collectively covering most markets in Canada. New entrants are expected to begin offering services in late 2009, but may face further delays because of the currently challenged financing environment. (See *Section 10.3 Regulatory*.) To win market share, strategies of potential competitors are expected to include price discounting relative to incumbents and increased competition at the distribution level. TELUS expects that competition from new entrants will put additional pressures on margins. However, with its robust wireless networks, including a new high-speed

packet access (HSPA) network being built under a network sharing agreement, and a new basic brand and service, TELUS expects to be well-positioned to respond to the arrival of these new entrants.

To compete more effectively in serving various customer segments, TELUS launched a basic brand and service called Koodo Mobile in March 2008. Koodo Mobile has been successful to date, positively affecting subscriber loading. TELUS anticipates average revenue per subscriber unit (ARPU), cost of acquisition (COA) and cost of retention (COR) pressures as competitors increase subsidies for handsets particularly for smartphones, lower airtime and wireless data prices and other incentives to attract new customers. As Canadian wireless penetration increases, industry net loading is expected to shift towards value brands and prepaid products.

Wireless competition has also intensified due to an increased emphasis on multi-product bundles and new data plans. This emphasis could pressure TELUS' ARPU and increase its churn and COA. TELUS' Mike Push To Talk (PTT) service also faces increasing competition, due primarily to the emergence of e-mail and wireless data products as a substitute for the dispatch and fleet management applications of Mike PTT.

In October 2008, TELUS announced its commitment to long-term evolution (LTE) as the technology for its fourth generation (4G) wireless broadband network. As an interim step, TELUS began building a national next generation wireless network based on HSPA technology with service expected to be launched by early 2010. The Company also announced it has entered into an HSPA network sharing agreement with Bell Canada. This agreement builds on and enhances an agreement signed in 2001 and is expected to enable TELUS to lower the cost, accelerate deployment on a national basis, optimize cell-site utilization, and maximize potential operating efficiencies.

Currently, TELUS operates CDMA and iDEN wireless networks. These technologies are estimated to represent less than 20% of global wireless subscribers. TELUS' global system for mobile communication (GSM) competitor, Rogers, currently enjoys advantages in breadth of handset selection, earlier availability of certain devices and lower handset costs. With TELUS' announced HSPA build, these advantages may decrease beginning in early 2010.

Competition from adjunct wireless technologies may increase

While adjunct wireless technologies, like fixed WiMax and Wi-Fi (wireless fidelity), are continuing to develop, their associated economic viability remains unproven. Regardless, increased competition is expected through the use of licensed and/or unlicensed spectrum to deliver higher-

speed data services. At the end of November 2008, Industry Canada granted a licence to Craig Wireless to move its fixed service in Vancouver to mobile, consistent with this policy. Look Communications announced that it was looking to sell similar spectrum in Ontario and Quebec. These technologies offer portable data capabilities that can overlap in some instances with mobile 3G such as EVDO. (See *Section 10.2 Technology*.) TELUS considers this Craig Wireless licence change to be a sign that the 2.5/2.6 GHz band may increase competitive intensity in the mobile market.

Certain non-traditional telecom players, such as municipalities, may contemplate launching fixed wireless ventures in urban and suburban locations, as has been the case in the United States. Though many municipal Wi-Fi network initiatives have failed to gain meaningful share in the marketplace, there can be no assurance that new or existing services offered by TELUS will be competitive with such fixed wireless services, or will be available on time, or that TELUS will be able to charge incrementally for the services.

Risk mitigation in wireless markets: TELUS launched its basic brand, Koodo, to compete with other basic brands and gain market share in Canada. TELUS has a strong premium brand, a robust EVDO network, and an expected national HSPA footprint by early 2010 to respond to increasing competition. TELUS intends to continue the marketing and distribution of innovative and differentiated wireless services; investing in its extensive network; evolving technologies when deemed prudent; and acquiring spectrum, as appropriate, to facilitate service development and profitable expansion of the Company's subscriber base. In the May 2008 AWS auction, TELUS acquired sufficient spectrum assets to support long-term growth. TELUS continues to monitor wireless technology developments and takes a proactive approach to product testing and development.

10.2 Technology

Technology is a key enabler for TELUS and its customers, however, technology evolution brings risks, uncertainties and opportunities. TELUS is vigorous in maintaining its short-term and long-term technology strategy to optimize the Company's selection and timely use of technology, while minimizing the associated costs, risks and uncertainties. The following identifies the main technology risks and uncertainties and how TELUS is proactively addressing them.

Evolving wired broadband access technology standards may outpace projected access infrastructure investment lifetimes

The technology standards for broadband access over copper loops to customer premises are evolving rapidly. This evolution enables higher broadband access speeds and is fuelled by user appetite for faster connectivity, the threat of increasing competitor capabilities and offerings, and the desire of service providers like TELUS to offer new services, such

as IP TV, that require greater bandwidth. In general, the evolution to higher broadband access speeds is achieved by deploying fibre further out from the central office, thus shortening the copper loop portion of the access network and using faster modem technologies on the shortened copper loop. However, new access technologies are evolving faster than the traditional investment cycle for access infrastructure. The introduction of these new technologies and the pace of adoption could result in increased requirements for capital funding not currently planned, as well as shorter estimated useful lives for certain existing infrastructure, which would increase depreciation expenses.

Risk mitigation: TELUS actively monitors the development and carrier acceptance of competing proposed FTTx standards (fibre to the Home, Curb, Pedestal or Neighbourhood). One or more of these fibre-based solutions may be a more practical technology to deploy in new greenfield neighbourhoods or multiple-dwelling units than the current copper loops. In addition, TELUS is exploring business models for the economical deployment of fibre-based technologies in areas currently connected by copper.

In 2005, TELUS began shortening copper loops using a fibre to the neighbourhood (FTTN) access architecture by deploying remote digital subscriber line access multiplexers (DSLAMs) at extended reach access (ERA) sites. At this time, TELUS is deploying ADSL2+ technology, a generation of ADSL technology that enables link rates at up to 24 megabits per second (Mbps) to the customer premises, compared with up to 8 Mbps for ADSL. ADSL2+ technology is backward-compatible with ADSL and takes advantage of TELUS' investments in ERA copper/fibre access infrastructure and in the installed base of ADSL modems. In 2008, TELUS anticipated starting the deployment of very high bit rate digital subscriber line (VDSL2) and VDSL2 bonding technologies in certain urban areas to extend the capabilities of the copper loops to at least double previous speeds, up to 80 Mbps. However, chipset delays have resulted in the delay of VDSL2 introduction until 2009.

In 2007, TELUS began partnering with developers of multiple-dwelling units (MDUs) to build future-friendly buildings. In these greenfield buildings, TELUS placed fibre to the building and deployed category 5E data cables within the building to deliver up to 100 Mbps services to customers in these buildings. In 2008, TELUS also completed field trials of FTTH technologies utilizing standards-based gigabit passive optical network (GPON) technology.

The evolution of these access architectures and corresponding standards, enabled with Quality of Service standards and network traffic engineering, all support the TELUS Future Friendly Home strategy to deliver IP-based Internet, voice and video services over a common broadband access infrastructure.

IP-based telephony as a replacement for legacy analog telephony is evolving and cost savings are uncertain

TELUS continues to monitor the evolution of IP-based telephony technologies and service offerings and is developing and testing a consumer solution for IP-based telephony over broadband access in accordance with TELUS' strategy and standards. This solution could provide additional telephone services over the same line as legacy analog telephone service or could replace the legacy analog telephone service. One of the realities of VoIP in the consumer space is that the actual state of technology developed to inter-work telephony, video and Internet access on the same broadband infrastructure is in its infancy and there are risks and uncertainties to be addressed, such as ensuring all services can be delivered simultaneously to the home (and to different devices within the home) with uncompromised quality. These issues are exacerbated when the exchange of information is between service providers with different broadband infrastructures.

A long-term technology strategy is to move all services to IP to simplify the network, reduce costs and enable advanced Future Friendly Home

services. Pursuing this strategy to its full extent would involve transitioning TELUS' standard telephone service offering to IP-based telephony and phasing out legacy analog-based telephone service. To this point, TELUS' legacy voice network infrastructure could be simplified if regular analog telephone lines were discontinued in favour of digital-only broadband access lines supporting all services including telephony, Internet and video. This would, for example, allow inexpensive high-bandwidth conventional Ethernet to be used as the broadband access technology in the multiple-dwelling unit model. However, digital-only broadband access may not be feasible or economical in many areas for some time, particularly in rural and remote areas. TELUS needs to support both legacy and broadband voice systems for some time and, therefore, is expected to continue to incur costs to maintain both systems. There is a risk that investments in broadband voice may not be accompanied by decreased costs of maintaining legacy voice systems. There is also the risk that broadband access infrastructure and corresponding IP-telephony platforms may not be in place in time to avoid some re-investment in traditional switching platforms to support the legacy public switched telephone network access base in certain areas, resulting in some investment in line adaptation in non-broadband central offices.

Risk mitigation: TELUS continues to monitor and conduct trials of IP-based voice technologies to better assess their technical applicability and evolving cost profiles, as well as to determine the appropriate timing for implementation by service area in line with TELUS' commitments to the CRTC and its customers. TELUS is making investments in FTTN technologies and access technologies that enable a smoother future evolution of IP-based telephony. TELUS is also working with manufacturers to optimize the operations and cost structure of analog systems.

The convergence in a common IP-based application environment for telephony, Internet and video is complex

Traditionally the technology and systems associated with telephony, Internet and video were different from each other and provided little opportunity for common platforms for cost savings and little flexibility to integrate media, services and service development environments. The convergence in a common IP-based application environment, carried over a common IP-based network, provides opportunity for cost savings and for the rapid development of more advanced services that are more flexible and easier to use. Further, the global standards for drawing together classic wireline and wireless services into a combined architecture using an IP multimedia subsystem are being actively ratified. However, the transformation from individual traditional silo systems and architectures to a common environment is very complex.

TELUS has commercially launched an IP TV system, called TELUS TV. In 2008, TELUS launched HD TV for both broadcast and VOD content as well as PVR technologies. TELUS TV utilizes middleware designed specifically for video delivery. The middleware is designed to allow complex signalling communication between application software and system hardware in the network, and in the set-top box in the home. Given that IP TV is in an early stage of development, there are potential quality and reliability risks, and risk of obsolescence with middleware technology.

Risk mitigation: TELUS has the ability, if advantageous or necessary, to switch middleware without disruption to its TV offering in the marketplace. TELUS is also mitigating this risk through modular architectures, lab investments, partnering with system integrators where appropriate, and using hardware that is common to most other North American IP TV deployments. TELUS is striving to ensure that its IP TV deployment is part of an open framework that will fit into the overall transformation strategy once standards are ratified and the actual implementations have stabilized, particularly with the set-top box. In addition, TELUS is active in a number of standards bodies such as the MEF and IP Sphere to ensure its IP infrastructure strategy leverages standards-based functionality to further collapse and simplify the TELUS networks.

Support systems will increasingly be critical to operational efficiency

TELUS currently has a very large number of interconnected operational and business support systems, and the complexity is increasing. This is typical of incumbent telecommunications providers that support a wide variety of legacy and emerging telephony, mobility, data and video services. The development and launch of a new service typically requires significant systems development and integration. The associated developmental and ongoing operational costs are a significant factor in maintaining competitive position and profit margins. TELUS is proactive in evolving to next generation support systems. As next generation services are introduced, they should be designed to work with both legacy and next generation support systems, which introduces uncertainty with respect to the costs and effectiveness of the solutions and the evolution.

Risk mitigation: In line with industry best practice, TELUS' approach is to separate the business support systems from the operational support systems and underlying network technology. The aim is to decouple the introduction of new network technologies from the services sold to customers. This should allow TELUS to optimize network costs while limiting the impact on customer services and to facilitate the introduction of new services by removing, where possible, any development dependency on the operational support systems. In addition, TELUS is an active participant in the TeleManagement Forum that is working to develop standard industry-defined modules in order to reduce cost through scale and increase adoption through scope. TELUS has established a next generation OSS-BSS (operations support system — business support system) framework to ensure that, as new services and technologies are developed, they are part of the next generation framework to ease the retirement of legacy systems in accordance with TeleManagement Forum's Next Generation Operations Systems and Software (NGOSS) program.

Restructuring of equipment vendors may impact the services and solutions TELUS provides

TELUS has a number of relationships with equipment vendors, which are important to supplying the services and solutions TELUS provides to its retail and business customers. TELUS faces the risk that some equipment vendors may experience business difficulties, may not remain viable or may have to restructure their operations, which could impact their ability to support all of their products in future. This may negatively impact the services and solutions TELUS provides.

In January 2009, Nortel Networks filed for creditor protection, which was soon approved by the Ontario Superior Court, shielding the company from creditors and lawsuits while it attempts to restructure. Nortel has advised TELUS that it does not expect this process to impact its normal, day-to-day operations and has assured the Company that maintenance contracts in place with TELUS will continue to be supported and Nortel will continue to perform the services and support under these agreements without interruption. In addition, TELUS sells/resells Nortel solutions to its business customers and as a result may be impacted.

Risk mitigation: TELUS planned for this possibility in terms of future growth, maintenance and support of existing Nortel equipment and services.

TELUS has a comprehensive contingency plan for multiple scenarios that might be realized if the situation changes, including exposure to multiple suppliers, and ongoing strong vendor relations. TELUS has selected Nokia Siemens Networks and Huawei Technologies as vendors for its next generation HSPA network build occurring in

2009 and 2010. There can be no guarantee that the outcome of the Nortel restructuring will not affect the services that TELUS provides to its customers, or that TELUS will not incur additional costs to continue providing services.

CDMA and iDEN wireless technologies may become inferior and new HSPA network build may not go as planned

The wireless industry continues to expand the deployment of second generation (2G), third generation (3G) and emerging 4G technologies to deliver increased data speeds required for many new wireless, IP and data services. TELUS' evolution to next generation wireless technologies involves services and devices that meet the requirements of the Company's current and future subscriber base.

TELUS continues to support CDMA2000 3G wireless services on its digital CDMA PCS (personal communication services) and cellular networks. TELUS has deployed technology enabling EVDO revision A (DOrA) services that were turned up in most markets in 2007. While TELUS has enjoyed commercial success with the CDMA2000-based technologies, and believes the economies of scale for CDMA2000 will continue for some time in the future, there can be no assurance that these economies of scale will continue without disruption. Further, there can be no assurance that the CDMA2000 path will continue to mature beyond DOrA into capabilities that will effectively compete with the emerging UMTS/HSPA path in terms of speeds and device types.

Implementation of HSPA and 4G network technologies and systems : TELUS and Bell Canada have previously announced a joint HSPA network build with service expected by early 2010, demonstrating TELUS' commitment to a technology path that provides an optimal transition to 4G LTE. Though this agreement builds the foundation for reducing capital and operating costs, there is no limitation on either party from building further network infrastructure to meet future and changing business requirements. Accordingly, there is the risk that TELUS' future capital expenditures may be higher than those recorded historically and expected for 2009.

In addition, the expected timing and completion of the HSPA network are subject to various risks and uncertainties, including vendor performance and delivery related to completion of the network build and sharing agreement with Bell Canada; risks of relying on Bell Canada to complete its respective HSPA network build-out on schedule; handset incompatibility with network technology; roaming revenue risk from foreign carriers; risks associated with the integration of billing and IT systems (see *Section 10.5 Process risks*); and other anticipated and unanticipated costs, expenses and risk factors relating to TELUS or affecting Bell Canada or the selected suppliers. Other risks and uncertainties include: expected benefits, efficiencies and cost savings from the new HSPA or LTE technology or related services may not be fully realized; transition of services or technology will be more difficult and/or expensive than expected; new HSPA services may lead to faster than expected transition from TELUS' existing services causing increased COA and COR expenses; and LTE may not emerge as the worldwide 4G technology standard as expected.

While TELUS plans to leverage the HSPA economies of scale found in the family of Third Generation Partnership Project (3GPP) technologies, there can be no assurance that these economies of scale will be better or worse than past experiences with CDMA2000-based technologies.

In 2008, CDMA2000 operators Verizon, MetroPCS, and Telstra announced their intentions to migrate to LTE. Similarly, many HSPA operators such as AT&T, T-Mobile Germany, Vodafone, NTT DoCoMo and China Mobile have announced their intentions to migrate to LTE. Although LTE is part of the technology evolution of a mature HSPA platform deployed by over 50 operators worldwide, some operators seeking to deploy LTE could influence the diversion of resources from HSPA development by the vendor and operator communities.

TELUS' Mike service is differentiated against current CDMA-based PTT services in Canada in that Mike's Direct Connect (iDEN PTT) has superior call set-up time and inter-call latency. With its Mike service and CDMA-based Instant Talk service, TELUS remains the Canadian leader with the largest number of subscribers using PTT. Notably, there is currently no GSM-based PTT service in the Canadian market, but there is risk that one could be introduced in the future.

Sprint-Nextel, the largest single operator of the iDEN technology, has publicly committed to improve and market the iDEN network for PTT-centric customers in the United States to 2012 and beyond. Sprint-Nextel announced that it will utilize Q-Chat technology, developed by Qualcomm, to provide future PTT services on its EVDO revision A (DOrA) CDMA network in addition to its PTT services on the iDEN network. Sprint-Nextel is expected to promote interoperability between its iDEN PTT base and Q-Chat PTT service through a gateway technology once the Q-Chat service is launched. While a strong iDEN technology ecosystem has also developed at Nextel International outside of the U.S., there is no assurance that Sprint-Nextel will remain committed to iDEN technology.

Risk mitigation: As common and continual practice, TELUS optimizes capital investments to enable positive payback periods and strong flexibility to consider future technology evolutions. Certain capital investments, such as towers, leasehold improvements and power systems, are technology agnostic. TELUS has chosen to invest in HSPA to offset the risk of the uncertain long-term competitiveness of CDMA and iDEN technologies. TELUS also has a migration initiative underway to strategically move certain CDMA2000 and Mike subscribers to high-speed data capable PCS services, thereby providing the potential to increase utilization of data services and revenue stability. TELUS expects to leverage the

economies of scale and handset variety with the HSPA device portfolio, while continuing to take advantage of both the CDMA and iDEN device portfolios.

By reaching an agreement with Bell Canada to jointly build out an HSPA network, TELUS is better able to manage its capital expenditures and

more quickly deliver a commercial network than it could otherwise accomplish. TELUS' continued roaming/resale agreements with Bell Canada are possible because both companies have a similar mobile technology path and vendors, and an existing relationship in this arena. TELUS' continued partnership with Bell Canada is expected to provide cost savings beyond the initial network build and flexibility to invest in service differentiation.

TELUS maintains a close liaison with its network technology suppliers and operator partners to influence and benefit from developments in iDEN, CDMA, and HSPA technologies. By contracting TELUS' suppliers to provide technology solutions that are amenable to future advancements like LTE, TELUS can mitigate the operational disruption during technology transitions. Fundamental to TELUS' strategy is the reuse and redeployment of application servers and network elements that are access-agnostic, such as messaging (voice and text), into the latest radio access technology such as HSPA. This enables TELUS to invest in radio-based technologies as they evolve and as required, without the need to replace these application servers.

Emerging wireless technologies represent both an opportunity and a competitive threat

Wireless technologies and protocols continue to be developed and extended for a variety of applications and circumstances, such as the Institute of Electrical and Electronics Engineers (IEEE) 802.xx suite of standards. A number of wireless technologies are capable of exploiting both licensed and unlicensed spectrum for fixed and future mobile applications. While TELUS constantly reviews and examines such developments, and may from time to time choose to utilize a number of these technologies, there can be no assurance that these developments may not adversely impact TELUS in the future.

In particular, the emergence of new WiMax and Wi-Fi networks may have a significant impact on traditional wireless services. Further, this may also trigger an accelerated incremental investment in next generation wireless infrastructures.

In recent years, TELUS and certain of its current and potential competitors have acquired, through auction, regional radio spectrum licences in the 3.5 GHz and 2.3 GHz frequency bands. This spectrum can be used for the deployment of high bandwidth wireless services utilizing fixed WiMax (802.16) wireless technology. WiMax is an emerging wide area wireless technology standard that will allow high bandwidth services that could compete with 3G wireless services. Future mobile WiMax (802.16e) service could operate in 3.5 GHz and 2.3 GHz bands, though no current licence holders have commercially deployed to date in those bands and there is no guarantee that these technologies will be commercially successful using those bands.

U.S. operator Sprint is expected to sell its WiMax business and merge it with Clearwire. Under the newly formed company, Clearwire is deploying mobile WiMax (802.16e) in the 2.5 GHz spectrum band, largely marketed to date as an alternative connectivity service. In Canada, the same 2.5 GHz spectrum band is restricted to fixed and portable services only. There is no assurance that Canadian carriers with spectrum in this band cannot use 2.5 GHz for mobility services through Industry Canada provisions or that Canadian carriers will not deploy and market WiMax wireless services more aggressively. In 2006, Industry Canada issued a policy that provides for a claw back of a portion of the 2.5 GHz band for auction when mobile service is implemented in the band. *(See Section 10.3 Regulatory.)* Inukshuk, a joint venture of Bell and Rogers with spectrum in this band, could upgrade to mobile WiMax (802.16e) once it matures to offer capabilities similar to existing 3G networks. There can be no assurance that these emerging wireless technologies will represent a greater opportunity than threat for TELUS.

Risk mitigation: TELUS proactively analyzes and tests emerging and alternative wireless access technologies to assess the opportunities and threats. In parallel, TELUS continues to invest in network upgrades that are technology-agnostic and can be levered across various access technologies, such as towers, leasehold improvements and power systems. TELUS supports global standards and the technology strategy team has executed numerous trials to gauge the benefits and costs. Emerging wireless technologies are enabled only by spectrum, whether licensed or unlicensed, provided by Industry Canada. TELUS actively engages with the governing bodies to elicit and influence the regulatory environment towards an amenable, healthy, and free market framework for TELUS and the wireless industry at large.

10.3 Regulatory

Regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues

TELUS' telecommunications and broadcasting services are regulated under federal legislation by the Canadian Radio-television and Telecommunications Commission (CRTC), Industry Canada and Canadian Heritage. The CRTC has taken steps to forbear from regulating prices for services offered in competitive markets, such as local residential and business services in selected exchanges, long distance and some data services, and does not regulate the pricing of wireless services. Local telecommunications services that have not been forborne are regulated by the CRTC using a price cap

mechanism. Major areas of regulatory review currently include the regulatory framework for wholesale services (services provided on a mandated basis to competitors) and the utilization of the funds in the ILECs' deferral accounts.

The outcome of the regulatory reviews, proceedings and appeals discussed below and other regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues.

Implementation of phase II wireless enhanced 911 (E9-1-1) services

On February 2, 2009, the CRTC issued *Telecom Policy CRTC 2009-40*, directing Canadian wireless service providers to implement wireless phase II E9-1-1 service by February 1, 2010, and ruling that wireless service providers are responsible for their own costs of implementation. Wireless phase II E9-1-1 services will automatically provide E9-1-1 call centres with more precise location information when a person calls 9-1-1 emergency services from their wireless handsets. Wireless phase II E9-1-1 services will provide the caller's location using a GPS-based system, a triangulation method using the nearest cellular towers, or a combination thereof. The CRTC has ordered all Canadian wireless providers to implement wireless phase II E9-1-1 services in the same areas where wireline E9-1-1 services were already available by February 1, 2010

(stage 1). The CRTC is expected to issue a decision on stage 2 of phase II E9-1-1 (providing mid-call location updates) after a working group tables its recommendations later in 2009. TELUS is working to meet the requirements of this CRTC decision, but there can be no assurance that TELUS can successfully implement the first stage of wireless phase II E9-1-1 services across its entire wireless operating territory by February 1, 2010.

2008 AWS spectrum auction

In July 2008, Industry Canada completed the spectrum auction for mobile wireless services at 1.7/2.1 GHz (AWS). This auction contained favourable conditions for new entrants such as a 40 MHz spectrum set-aside and mandated roaming and tower sharing. Industry Canada outlined detailed rules surrounding the implementation of mandated roaming and tower sharing, chief among which is the imposition of arbitration to settle any disputes between new entrants and incumbents relating to roaming or tower/site sharing. TELUS expects to face new competition in the future as a result of this auction, which is expected to adversely affect the market share of existing wireless carriers. Notwithstanding, the number, geographic coverage, and timing of launch of new entrants remain uncertain due to build-out costs, capital market conditions and restrictions on foreign investment.

Future availability of wireless spectrum

Industry Canada plans to auction spectrum in both the 700 MHz and 2.5/2.6 GHz bands in the 2010 to 2011 timeframe. The release of future wireless spectrum in these bands could facilitate expansion for incumbents and provide additional opportunities for new entrants to offer wireless broadband services. There is uncertainty regarding the government's timing and position in regulating these potential spectrum bands. TELUS expects a 700 MHz spectrum auction discussion paper sometime in mid- to late 2009. However, it is possible that most new spectrum will not be available for mobile purposes prior to 2011 or 2012.

Currently, spectrum at 2.5 GHz has been used for fixed wireless and fixed wireless broadcast applications. However, this spectrum band has been given a primary mobile designation by Industry Canada and is anticipated to become a common global band for mobile services. In 2006, Industry Canada issued a policy that provides for a claw back of a portion of the band for auction when mobile service is implemented within the band, and has announced that it intends to auction unassigned portions of the multipoint distribution service portion of the band. At the end of November 2008, Industry Canada granted a licence to Craig Wireless to move its fixed service in Vancouver to mobile, consistent with this policy. At the same time Look Communications announced that it was looking to sell similar spectrum in Ontario and Quebec.

TELUS expects a 2.5 GHz spectrum auction discussion paper to be announced in mid- to late 2009 and an auction to be scheduled sometime in 2010 or later.

Competitors Bell and Rogers hold significant amounts of spectrum at 2.5 GHz through their Inukshuk partnership, have deployed a fixed wireless solution in major cities including Toronto, Montreal, Calgary, Edmonton and Vancouver, and are marketing portable DSL service with moderate print and billboard campaigns. Although TELUS has experienced only limited competition from this and similar services to date, there can be no assurance that future marketing of these services will not negatively impact TELUS' wireless or wireline services.

Local forbearance

On December 14, 2006, the Governor in Council issued a direction to the CRTC to rely on market forces to the maximum extent feasible; to ensure technological and competitive neutrality and enable competition from new technologies; to use tariff approval mechanisms that are as minimally intrusive as possible; to complete a review of the framework for mandated access to wholesale services; to publish and maintain performance standards for its various processes; and to continue to explore new ways of streamlining its processes.

On April 4, 2007, the Governor in Council issued Order in Council P.C. 2007-532 and varied Decision 2006-15 by changing the criteria for local forbearance for residential and business local exchange services. Instead of requiring at least 25% market share loss in large local forbearance regions (Decision 2006-15), the Order in Council requires two independent facilities-based competitors (of which one can be a wireless service provider) capable of serving at least 75% of the residential lines for forbearance based on local exchange areas. For business local exchange service, forbearance is granted when one facilities-based competitor is able to serve at least 75% of the business lines.

The Order in Council reduced the number of quality-of-service indicators that must be met for the six-month period prior to the forbearance application. The Order in Council also removed restrictions on winbacks (i.e. delays on actions to regain customers who have changed to a competing service provider) and promotions by the incumbent telephone companies.

Since the Order in Council was issued, TELUS has obtained forbearance for about two-thirds of its incumbent local residential service lines and local business service lines in B.C., Alberta and Eastern Quebec.

As a result of the forbearance granted for local residential and business services, TELUS believes it has significantly enhanced flexibility in pricing, promotions and bundling to compete with other providers of these services. However, TELUS has no assurance that it will be able to prevent further market share loss in these markets or that it will be able to obtain forbearance in other exchanges where it is facing competition for residential and business customers.

Price cap regulation

Price cap regulation continues to apply to a basket of local services provided by ILECs. TELUS is subject to price cap regulation as an ILEC in B.C., Alberta, and Eastern Quebec. On April 30, 2007, the CRTC issued Decision 2007-27 (third price cap period) and established an open-ended price cap regime.

The CRTC removed the productivity adjustment from the Residential Services in non-high cost serving areas (non-HCSA or urban) price cap basket and the Other Capped Services price cap basket. For the Competitor Services price cap basket, the CRTC reduced the productivity

adjustment from inflation minus 3.5% to inflation minus 3.2%. The Commission moved residential optional local services and service bundles containing residential local exchange service to the Uncapped Services basket (no upward pricing constraints).

The CRTC capped residential service rates in urban areas at existing levels and limited annual rate increases in rural areas to the rate of inflation (to a maximum of 5%). However, the CRTC removed restrictions on rate de-averaging for residential local service and optional local services. Subsequent to the price cap decision (Decision 2007-106), the CRTC also removed restrictions on rate de-averaging for business and pay telephone services.

The CRTC incorporated a deferral account into the second price cap period to which an amount equivalent to the cumulative annual productivity adjustments for residential services in non-high cost serving areas was added. Since the CRTC removed these productivity adjustments in Decision 2007-27, the CRTC also determined that the deferral account was no longer required.

In February 2006, the CRTC determined in Decision 2006-9 that the funds accumulated in the ILEC deferral accounts would be used to expand broadband services to rural and remote communities and to improve accessibility to telecommunications services for individuals with disabilities. After receiving proposals from the ILECs in response to Decision 2006-9, the CRTC launched a further proceeding in November 2006 (Public Notice 2006-15) to further explore the ILECs' proposals.

On July 6, 2007, the CRTC issued Decision 2007-50, which partially approved TELUS' broadband expansion proposal for locations in B.C. and Eastern Quebec. TELUS is still waiting for the CRTC's final decision in this proceeding on the balance of its broadband expansion proposal and its proposals to improve accessibility to telecommunications services for individuals with disabilities.

On January 17, 2008, the CRTC issued Decision 2008-1 and approved an additional 119 communities in B.C., Alberta and Eastern Quebec for broadband expansion (subsequently reduced to 102 communities following a competitor's appeal). The CRTC also approved TELUS' proposed initiatives to enhance accessibility to telecommunications services for the disabled. The CRTC determined in Decision 2008-1 that any funds remaining in the ILEC deferral accounts after the initiatives to expand broadband services and to improve accessibility to telecommunications services for individuals with disabilities are completed will be refunded to customers.

TELUS is also waiting for three appeals to be heard by the Supreme Court of Canada on how the funds in the ILECs' deferral accounts should be treated. There is no guarantee that the ILECs will be able to proceed with their proposals for the use of deferral account funds pending the outcome of the appeals to the Supreme Court, as described in *Section 7.8* under *Commitments and contingent liabilities*.

Review of certain Phase II costing issues

In Decision 2008-14, issued on February 21, 2008, the CRTC standardized many aspects of the Phase II costing methodology used by the ILECs to determine costs for regulated telecommunications services. In the first quarter of 2009, the CRTC will complete a review of the remaining components of Phase II costing not addressed in the proceeding leading to Decision 2008-14. TELUS has no assurance that the costing methodologies adopted by the CRTC will not dampen TELUS' ability to effectively market its products and services.

Essential services

In March 2008, the CRTC issued Decision 2008-17, which established a new regulatory framework for wholesale services. The CRTC revised the definition of an essential service and assigned wholesale services to six categories of services. Only one category of services will be phased out after a period of three to five years and the pricing rules for wholesale services are generally the same as in the previous regime. TELUS has no assurance that the new regulatory regime for the continued provision of essential and non-essential services to competitors will not be more onerous than the previous regime. The CRTC indicated that it will conduct another review of the regulatory framework for wholesale services after six years.

Quality-of-service monitoring

In November 2008, the CRTC issued Decision 2008-105, which eliminated the rate adjustment plan and associated rate rebates for ILECs that do not meet approved quality-of-service standards. As well, the CRTC reduced the number of quality-of-service standards indicators from 17 to three and established a process to determine the quality-of-service monitoring regime that will be used in non-forborne areas. TELUS has no assurance that the regulatory regime for quality-of-service monitoring will not be more onerous than the current regime.

TELUS' broadcasting distribution undertakings

TELUS holds licences from the CRTC to operate terrestrial broadcasting distribution undertakings to serve various communities in B.C. and Alberta (both licensed in August 2003) and Eastern Quebec (licensed in July 2005). TELUS also holds a licence to operate a national VOD undertaking (licensed in September 2003). TELUS is in the process of renewing its licences which were issued in 2003. TELUS expects to be granted renewal of these licences for another full seven-year term although there can be no assurance that this will be the case.

The CRTC has issued a revised policy for broadcasting distribution undertakings in Broadcasting Public Notice 2008-100. In this policy, the CRTC has increased contribution requirements of distribution undertakings by 1% of gross revenues. This policy also altered the framework regarding the offering of distant over-the-air television signals, which will likely make the offering of time-shifting packages more expensive. The new policy framework also provides for new flexibility for broadcasting distribution undertakings (BDUs) in packaging of Canadian and foreign programming services. These changes will take effect at the same time as the digital conversion of analog over-the-air signals in August 2011.

CRTC review of new media and Internet traffic management practices

The CRTC has initiated a proceeding to review its exemption orders regarding new media broadcasting undertakings (which dates back to 1999)

and mobile television broadcasting undertakings (which was issued in 2005). The CRTC has a policy of reviewing its exemption orders every five years and so it may be considered that a review of the new media exemption order is long overdue. The CRTC has launched a public hearing (Broadcasting Notice of Public Hearing 2008-11) for this review and initial comments have been filed. Some of the proposals made in this first round of comments, which will be considered by the CRTC at the oral hearing beginning in February 2009, include mandating a contribution requirement for ISPs to create a fund to subsidize the creation of Canadian new media content and implementing incentives for the promotion of Canadian new media content on the Internet. These proposals all raise significant jurisdictional, public policy and enforcement issues for the CRTC but there can be no assurance that the CRTC will not attempt to implement some measures to benefit Canadian new media content. A decision is expected by the end of 2009.

The CRTC has also initiated a separate proceeding to investigate the traffic management practices of Canadian ISPs. This follows a decision by the CRTC denying a request to have Bell halt its traffic shaping (or throttling) on its wholesale ADSL access service. The CRTC's review of traffic management practices will include both wholesale and retail services and will discuss such issues as the growth of Internet traffic and how this has affected ISP networks and what (if any) practices might violate the unjust discrimination or control of content rules in the *Telecommunications Act*. An oral hearing is scheduled for July 2009 and a decision (which may set out some broad principles or guidelines under which the Commission will review future contested network management practices) is not expected until early 2010.

Radiocommunication licences regulated by Industry Canada

All wireless communications depend on the use of radio transmissions and, therefore, require access to radio spectrum. Under the *Radiocommunication Act*, Industry Canada regulates, manages and controls the allocation of spectrum in

Canada and licenses frequency bands and/or radio channels within various frequency bands to service providers and private users. Voice and data wireless communications via cellular, specialized mobile radio (SMR), enhanced specialized mobile radio and PCS systems, among others, require such licences. TELUS' PCS and cellular licences include various terms and conditions, such as: meeting Canadian ownership requirements, meeting obligations regarding coverage and build-out, spending at least 2% of certain PCS and cellular revenues on research and development, annual reporting and resale to competitors. While TELUS believes that it is substantially in compliance with its licence conditions, there can be no assurance that it will be found to comply with all licence conditions, or if found not to be compliant that a waiver will be granted, or that the costs to be incurred to achieve compliance will not be significant. Initial licence fees and annual renewal fees are payable for licences that have not been obtained via spectrum auction. There can be no assurance that Industry Canada will not seek to increase these fees in the future.

700 MHz spectrum: The U.S. had a spectrum auction for the 700 MHz spectrum in January 2008. There is speculation that Industry Canada may also initiate an auction consultation process for spectrum at 700 MHz. There is no guarantee that the Canadian government will not reserve spectrum for new entrants or that it will not adopt some open access provisions for some of this spectrum as was done in the U.S.

800 MHz re-banding: In 2004, the U.S. Federal Communications Commission (FCC) released a Report and Order adopting a plan to resolve interference to public safety radio systems in the 800 MHz band. Sprint-Nextel's iDEN system was identified as the primary contributor of this interference. The U.S. is planning to realign the band so that public safety systems would be relocated to the bottom of the 800 MHz band and Sprint-Nextel's iDEN system would operate in the upper part of the band.

In Canada, the TELUS Mike (iDEN) network also uses this same frequency spectrum. Because each site for the Mike network is analyzed and licensed individually, TELUS and Industry Canada have been able to minimize the number of public safety interference issues to a few across the country versus more than 1,500 in the U.S.

However, TELUS has an existing special co-ordination procedure (SCP), endorsed by both Industry Canada and the FCC, wherein TELUS and Sprint-Nextel utilize each other's channels within their respective iDEN networks at specific border areas across the country. These channels serve to increase the number of available channels available to both networks to better serve the area. The re-alignment threatens the continued use of the channels specified in the SCP.

While discussions with both the Canadian and U.S. regulators indicate that TELUS should be able to continue to have access to a certain number of SCP channels in the border areas, until such time as the U.S. announces its final decision, there is no assurance that TELUS will be able to continue to use these channels.

Foreign ownership restrictions

TELUS and its subsidiaries are subject to the foreign ownership restrictions imposed by the *Telecommunications Act*, the *Radiocommunication Act* and the *Broadcasting Act*. Although TELUS believes that TELUS Corporation and its subsidiaries are in compliance with the relevant legislation, there can be no assurance that a future CRTC, Industry Canada or Heritage Canada determination, or events beyond TELUS' control, will not result in TELUS ceasing to comply with the relevant legislation. If such a development were to occur, the ability of TELUS' subsidiaries to operate as Canadian carriers under the *Telecommunications Act* or to maintain, renew or secure licences under the *Radiocommunication Act* and *Broadcasting Act* could be jeopardized and TELUS' business could be materially adversely affected.

In June 2008, the Competition Policy Review Panel provided its final report to the Minister of Industry. The Panel made a number of recommendations to liberalize foreign ownership rules pertaining to the telecommunications and broadcasting sectors. TELUS anticipates that the chances for removal of foreign ownership restrictions under a minority government are low. If foreign ownership restrictions were reduced or eliminated, the risk of entry of a new telecommunications carrier that is foreign-owned or financed would be heightened.

Risk mitigation for regulatory matters: TELUS advocates a regulatory environment that relies, to the greatest extent possible, on market competition rather than regulatory intervention. TELUS believes this is in the best interest of customers. TELUS has also supported the relaxation of foreign ownership restrictions in the past, but believes that any such relaxation must be on an equal basis for all broadcasting and

telecommunications companies.

10.4 Human resources

Reliance on key personnel

The success of TELUS is largely dependent on the abilities and experience of its key employees. Competition for highly skilled and entrepreneurial management and other key employees is intense in the communications industry. The loss of certain key employees, or deterioration in employee morale resulting from organizational changes, unresolved collective agreements or ongoing cost reduction, could have an adverse impact upon TELUS' growth, business and profitability. The largest contributor to this risk is the expected near-term increase in retirements by team members from Canada's post-Second World War baby boom generation.

Risk mitigation: The compensation program at TELUS is designed to support its high-performance culture and is both market-driven and performance-based. This includes medium-term and long-term performance incentives including employee performance bonuses at an individual, business unit and organizational level; share option awards, restricted stock units (RSUs) and the TELUS Employee Share Purchase Plan; and a benefits program that allows the tailoring of personal benefits choices to suit individual needs. Medium and long-term performance incentives for certain key personnel include primarily three-year vesting periods for share options and RSUs. By striving to ensure TELUS' compensation remains competitive, the Company seeks to maintain the ability to attract and retain key personnel. Recent global economic turmoil and reduced value of shares and equity portfolios may reduce the effectiveness of some retention incentives, as well as reduce employee turnover.

For 2009, the need to maintain operating margins and fund strategic growth initiatives along with current pressures in the global economy and the capital markets led to a decision to freeze the annual management compensation review program this year. As a result, base salaries and individual target percentages for performance bonuses will remain unchanged in 2009, except in extraordinary cases. To help contain expenses further, the Company is having employees increase their share of the increased costs associated with the 2009 benefits program, such as helping fund increased long-term disability premiums, and absorbing a portion of increased inflation costs for extended health and dental plans. Through direct and upfront communication to all employees, the Company hopes to manage engagement and morale issues with respect to the compensation program. The Company will continue to focus on other factors which have a clear alignment with engagement including performance management, career opportunities, training and development and recognition. TELUS also continues to implement targeted retention solutions for employees with talents that are scarce in the marketplace.

Collective bargaining at TELUS Québec

Collective bargaining in the TELUS Québec region is expected to continue in 2009 for two small collective agreements. The first is with the Syndicat des agents de maîtrise de TELUS (SAMT) covering 20 professional and supervisory team members in Quebec that expired on March 31, 2007. The second is with the Syndicat québécois des employés de TELUS (SQET) covering approximately 1,000 trades, clerical and operator services team members that will expire on December 31, 2009. In any set of labour negotiations, there can be no assurance that the negotiated compensation expenses or changes to operating efficiency will be as planned or that reduced productivity and work disruptions will not occur during the course of collective bargaining prior to settlement. However, the SQET collective agreement does not expire until the end of 2009 and under the terms of the Canada Labour Code, no legal work stoppage can occur until after certain statutory conditions are met, including expiration of the collective agreement. Risks associated with a legal work stoppage in 2009 are considered low.

Risk mitigation: A governance model is in place to ensure the financial and operating impact of any proposed terms of settlement are assessed and determined to be aligned with TELUS' strategic direction. As is prudent in any round of collective bargaining, while negotiations proceed, any potential need to continue operations in response to work disruptions will be addressed through contingency planning.

10.5 Process risks

TELUS systems, processes and internal reorganizations could negatively impact financial results and customer service.

Systems and processes

TELUS has numerous complex systems and process change initiatives underway, including a multi-year, multi-phase development of a new billing system for the wireline segment. However, risks were reduced in 2008 with the successful implementation of the next phase of the converged billing and client care system for residential customers in B.C. For the first time, a majority of more than two million residential customers in B.C. and Alberta are supported by one integrated system. Future development and integration activities include migration of remaining B.C. and Alberta residential customers to the integrated system, strengthening the foundation and providing additional capabilities to enhance the customer and call centre agent experience. In addition, the organization will leverage components of the system to address needs in other areas of business within the Company.

There can be no assurance that the full complement of the Company's various systems and process change initiatives will be successfully implemented, or that sufficiently skilled resources will be available to complete all key initiatives planned for 2009 and beyond. For example, the successful commercial launch of the Company's HSPA service by early 2010 (see *Section 10.2 Technology*) is dependent in part on the successful implementation of new billing and IT systems. There is usually risk that some projects may be deferred or cancelled, which could negatively impact TELUS' processes and ability to effectively launch new products and services; achieve and maintain a competitive cost structure; provide competitive customer service; and deliver better information and analytics to management.

Risk mitigation: In general, TELUS strives to ensure that system development priorities are selected in an optimal manner. TELUS' project management approach includes extensive risk identification and contingency planning, scope and change control, and resource and quality management. The quality assurance of the solutions includes extensive functional, performance and revenue assurance testing, as well as capturing and utilizing lessons learned. In addition, TELUS often

moves its business continuity planning and emergency management operations centre to a heightened state of readiness in advance of major systems conversions.

Large complex deals

TELUS' operating efficiency and earnings may be negatively impacted by challenges with (or ineffective) implementation of large, complex deals for enterprise customers, which may be characterized by significant upfront expenses and capital expenditures, and a need to anticipate, understand and respond to complex and multi-faceted enterprise customer specific requirements and stakeholders. There can be no assurance that service implementation will proceed as planned and expected efficiencies will be achieved, which may impact return on investment or desired margins to be realized. The Company may also be constrained by available staff, system resources and co-operation of existing service providers, which may limit the number of large contracts that can be implemented concurrently in a given period and/or increase the cost to TELUS related to such implementations.

Risk mitigation for large complex deals: TELUS has recently implemented internal reorganizations, such as one that consolidated three enabling units, Technology strategy, Network operations and Business transformation, into two integrated teams: *Technology strategy* and *Business transformation and Technology operations*. The expected future benefits include streamlined operations, more effective deployment of technologies and supporting systems, cost efficiencies, improved customer service, and better capability to implement large complex deals. TELUS follows industry standard practices for rigorous project management including executive (senior) level governance and project oversight; appropriate project resources, tools and supporting processes; and proactive project specific risk assessments and risk mitigation planning. TELUS also conducts independent project reviews and internal audits to help monitor progress and identify areas which may require additional focus, and to identify systemic issues and learnings in project implementations which may be shared between projects.

Reorganizations

Arising from its operating efficiency program, the Company carries out a number of operational consolidation, rationalization and integration initiatives each year. The initiatives are aimed to improve the Company's operating productivity and competitiveness. TELUS' estimate of restructuring costs in 2009 is approximately $50 million to $75 million, compared to $59 million in 2008. There can be no assurance that all planned efficiency initiatives will be completed, or that such initiatives will provide the expected benefits or not have a negative impact on operating and financial results and customer service.

Risk mitigation: TELUS focuses on and manages organizational changes through a formalized business transformation function by leveraging the expertise, key learnings and best practices gained from mergers, business integrations and efficiency-related reorganizations in recent years.

Foreign operations

The increase of resources in TELUS' international operations (particularly in TELUS International Philippines Inc. call centres in Manila, as well as the Company's newly expanded activities in the United States and other foreign jurisdictions including Panama, Guatemala, El Salvador, and Barbados) presents unique risks, including country-specific risks (such as different political, legal and regulatory regimes and cultural values), lack of diversity in geographical locations, concentration of customers, different taxation regimes, infrastructure and security challenges, different exposure to and frequency of natural disasters, and the requirement for system processes that work across multiple time zones, cultures and countries. The Philippines operating costs are in pesos, while the revenues are generally in U.S. dollars, exposing TELUS to certain foreign currency risks. There is no assurance that international initiatives and risk mitigation efforts will provide the benefits and efficiencies expected, or that there will not be significant difficulties in combining the different management and cultures, which could result in a negative impact on operating and financial results.

Risk mitigation: TELUS' strategy is to improve the diversity and geographic distribution of its operations, its customers and conduct of business processing outsourcing activities. The continued expansion of international operations, as noted above, provides TELUS with more geographic diversity, spreads political risk among the foreign jurisdictions, and provides the Company an ability to serve customers in multiple languages and in multiple time zones. In the spring of 2009, TELUS expects to open a call centre in Clark County, Nevada to add on-shore Spanish-language support to its broad suite of call centre and business process outsourcing services for large corporate customers. The new call centre will complement TELUS' recent purchase of a minority share in an established call centre operation in three Central American countries. TELUS has also implemented a currency hedging program to reduce certain foreign currency exposures. In addition, the Company continues to work with its international operations to extend operational best practices, to integrate and align international and domestic Canadian operations, as appropriate, and to strive to ensure that internal controls are implemented, tested, monitored and maintained.

Integration of acquisitions

Post-merger and post-acquisition activities, such as followed the acquisition of Emergis and Fastvibe in January 2008, include the review and alignment of accounting policies, employee transfers and moves, information systems integration, optimization of service offerings and establishment of control over new operations. Such activities may not be conducted efficiently and effectively, negatively impacting service levels, competitive position and expected financial results.

Risk mitigation: TELUS has a team that performs a post-merger integration (PMI) function. The PMI team applies an integration model, based on learnings from numerous previous post-acquisition integrations, which enhances and accelerates the standardization of TELUS' business processes and strives to preserve the unique qualities of acquired operations. PMI begins with strategic, pre-closing analysis and planning, and

continues after closing with execution of a plan. Initial plans are re-evaluated and assessed regularly, based on timely feedback received from the integration teams.

10.6 Financing and debt requirements

TELUS' business plans and growth could be negatively affected if existing financing is not sufficient to cover funding requirements

Risk factors such as disruptions in the capital markets, increased bank capitalization regulations, reduced lending in general, or a reduced number of active Canadian chartered banks as a result of reduced activity or consolidation, could reduce capital available, or increase the cost of such capital, for investment grade corporate credits such as TELUS.

Risk mitigation: TELUS may finance future capital requirements with internally generated funds as well as, from time to time, borrowings under the unutilized portion of its bank credit facility, use of securitized accounts receivable, use of commercial paper or the issuance of debt or equity securities. TELUS has access to a shelf prospectus pursuant to which it can offer $2.5 billion of debt and equity. TELUS believes its adherence to its stated financial policies and resulting investment grade credit ratings, coupled with its efforts to maintain a constructive relationship with banks, investors and credit rating agencies, continue to provide reasonable access to capital markets.

On March 3, 2008, the Company closed a new $700 million, 364-day credit facility with a select group of Canadian banks. This facility provides incremental liquidity to TELUS and allows the Company to continue to meet one of its financial objectives, which is to generally maintain $1 billion in available liquidity. The Company had unutilized credit facilities of $1.15 billion at December 31, 2008, including the 364-day facility. On December 15, 2008, TELUS reached agreement with the participating banks to extend this agreement to March 1, 2010. This extension of the credit agreement in the current difficult credit markets demonstrates TELUS' capability to finance itself in a challenging environment.

As described in *Section 7.6 Accounts receivable securitization,* TELUS Communications Inc. (TCI) entered into an agreement with an arm's-length securitization trust under which it is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. At December 31, 2008, TCI had received aggregate cash proceeds of $300 million. TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd — currently A (low) — failing which, the Company may be required to wind down the program prior to the July 2009 termination date of the agreement. The Company has routinely extended the termination date of the agreement in the past and plans to seek an extension or establish a replacement agreement prior to the current termination date but there can be no assurance it will be successful.

Ability to refinance maturing debt

On August 6, 2008, TELUS' commercial paper program was increased from a maximum of $800 million to a maximum of $1.2 billion to permit increased access to low-cost funding. At December 31, 2008, TELUS had $432 million of commercial paper issued, which will need to be refinanced on an ongoing basis to enable the cost savings relative to borrowing on the 2012 credit facility to be realized. Capital market conditions may prohibit the rolling of commercial paper at low rates.

Risk mitigation: The Company's commercial paper program is fully backstopped by the 2012 credit facility. TELUS may refinance amounts drawn on its credit facilities with longer-term maturities. At December 31, 2008, TELUS had no significant amounts of long-term debt maturing until 2011 and 2012. Consistent with past practice, TELUS may also pre-fund or refinance long-term debt prior to maturity. TELUS could also reduce repurchase activity under its normal course issuer bid (NCIB) share repurchase plan to conserve funds for operations or servicing debt. The NCIB program annual approved maximum amount to December 2009 is eight million shares or approximately 2.5% of TELUS' outstanding shares (2008 program was for a maximum 20 million shares with 6.8 million purchased).

A reduction in TELUS credit ratings could impact TELUS' cost of capital and access to capital

TELUS' cost of capital could increase and access to capital might be affected by a reduction in TELUS' and/or TCI's credit ratings. There can be no assurance that TELUS can maintain or improve current credit ratings.

Risk mitigation: TELUS seeks to achieve, over time, debt credit ratings in the range of BBB+ to A-, or equivalent. The four credit rating agencies that rate TELUS currently have ratings that are in line with this target with a stable outlook. TELUS

has financial policies in place that were established to help maintain or improve existing credit ratings. (See *Section 7.4 Liquidity and capital resource measures.*) TELUS' credit ratings were confirmed in 2008 by the four credit rating agencies that cover the Company.

Lower than expected free cash flow could constrain ability to invest in operations or make purchases under NCIB share repurchase programs

TELUS expects to generate free cash flow in 2009, which would be available to, among other things, pay dividends to shareholders and possibly repurchase shares. While anticipated cash flow is expected to be more than sufficient to meet current requirements and remain in compliance with TELUS' financial policies, these intentions could constrain TELUS' ability to invest in its operations for future growth or to complete share repurchases. TELUS has set its financial policies with the expectation that taxable income will be generated and that substantial net cash tax payments of approximately $320 to $350 million will commence in 2009, in respect of payments for the 2008 tax year in February 2009 and on an instalment basis for 2009. In addition, the Company expects funding of employee defined benefit pension plans to increase in 2009, as described in *Section 1.5*. Payment of net cash income taxes and funding of defined benefits plans in the future will reduce the after-tax cash flow otherwise available to return capital to shareholders. If actual results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, including its intention to repurchase TELUS shares, or pay dividends according to the target payout guideline.

Risk mitigation: From December 2004 through December 2008, TELUS had sufficient cash flow to repurchase shares under five NCIB programs.

See *Section 7.3 Cash used by financing activities.* As the Company begins paying cash income taxes, it may choose to not renew or to reduce the size of the NCIB share repurchase program, as warranted.

The TELUS Board reviews the dividend each quarter, based on a number of factors including a target dividend payout ratio guideline of 45 to 55% of sustainable net earnings. This review resulted in a 2.5 cent or 5.6% increase in the quarterly dividend payout rate effective with the dividend paid on January 2, 2009. Based on the beginning-of-year level of quarterly dividend and shares outstanding, dividend payments would total approximately $600 million in 2009.

10.7 Tax matters

Income and commodity tax amounts, including tax expense, may be materially different than expected

The operations of TELUS are complex and related tax interpretations, regulations and legislation that pertain to TELUS' activities are subject to continual change. The Company collects and pays significant amounts of commodity taxes, such as provincial sales taxes and federal goods and services taxes, to various taxation authorities. The Company also has significant amounts of income taxes receivable and payable, future income tax liabilities and income tax expense. Income tax amounts are based on TELUS management's estimates, using accounting principles that recognize the benefit of income tax positions that are more likely than not of being sustained upon examination on an issue-by-issue basis. The benefit is measured at the largest amount with greater than 50% probability of being realized. The assessment of the likelihood and amount of income tax benefits, as well as the timing of realizing such amounts, can materially affect the determination of net income or cash flows in future periods. As noted in *Section 1.5 Financial and operating targets for 2009* , TELUS currently expects cash income tax payments to increase substantially in 2009, with cash income taxes, net of recoveries, of approximately $320 to $350 million, as the Company pays 2008 taxes in February 2009 and begins paying instalments for the 2009 tax year. The 2009 blended statutory income tax rate is expected to be 30 to 31%. These expectations can change as a result of changes in interpretations, regulations, legislation or jurisprudence.

The timing concerning the monetization or realization of future income tax accounts is uncertain, as it is dependent on future earnings of TELUS and other events. The amounts of future income tax liabilities are also uncertain, as the amounts are based upon substantively enacted future income tax rates in effect at the time, which can be changed by governments. The amount of future income tax liabilities is also based upon the Company's anticipated mix of revenues among the jurisdictions in which it operates, which is also subject to change.

The review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the actual amounts of commodity taxes payable or receivable, income taxes payable or receivable, future income tax liabilities and income tax expense. Therefore, there can be no assurance that taxes will be payable as anticipated and/or the amount and timing of receipt or use of the tax-related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived tax issues and have increased the resources they put to these efforts.

In order to provide comprehensive solutions to primarily Canadian-based customers operating in foreign jurisdictions, the Company has entered into further arrangements for the supply of services in such foreign jurisdictions, thus exposing itself to multiple forms of taxation.

In 2008, the Company continued to further expand its activities into the United States and other foreign jurisdictions including the Philippines, Panama, Guatemala, El Salvador and Barbados. In the U.S., federal, state and local jurisdictions

have created varying complex regimes for income, revenue, sales and use, and property taxes. The number and variation of such regimes in the U.S. jurisdictions where the Company has transactions causes additional financial risk to the Company.

Not only does each foreign jurisdiction have complexities with language and currency differences, each has its own taxation peculiarities in the forms of taxation imposed, such as value-added tax, gross receipts tax or income tax, as well as its legislation and tax treaties with Canada. Furthermore, the telecommunications industry has unique issues that lead to uncertainty in the application or division of tax between domestic and foreign jurisdictions. Accordingly, TELUS' foreign expansions during 2008 have increased the Company's exposure to tax risks, from both financial and reputation perspectives.

Risk mitigation: The Company maintains an internal Taxation department composed of professionals who are trained and educated in taxation administration and who maintain an up-to-date knowledge base of new developments in the underlying Canadian law, its interpretations and jurisprudence. This team is also responsible for the specialized accounting required for income taxes and accordingly this group is charged with maintaining state-of-the-art knowledge of tax accounting developments and the implementation of such relevant measures as are required from time to time.

The transactions of the Company are under continual review by the Company's Taxation department whereby transactions of an unusual or non-recurring nature, in particular, are assessed from multiple risk-based perspectives. Tax-related transaction risks are regularly communicated to and reassessed by tax counsel as a check to initial exposure assessment. As a matter of regular practice, large and international transactions are reviewed by external tax counsel, while other third-party advisors may also be engaged to express their view as to the potential for tax exigibility. The Company has also established an enterprise-wide program to develop world-class processes and information technology to deal with the income and indirect tax consequences of its expanding foreign sales and investments. (See *Legal and regulatory compliance* in *Section 10.9 Litigation and legal matters.)* Furthermore, the Company is adding internal resources with international income and indirect tax experience to provide advice on its international sales contracts and investments.

The Company engaged external counsel and advisors as appropriate to provide advice and to comply with tax laws in the jurisdictions outside of Canada in which it has operations of any significance. The advice and returns provided by such advisors and counsel are reviewed for reasonableness by TELUS' Taxation team.

10.8 Health, safety and environment

Team member health, wellness and safety

Lost work time, resulting from the illness or injury of TELUS team members, can negatively impact organizational productivity and employee benefit healthcare costs.

Risk mitigation: To minimize absences in the workplace, TELUS supports a holistic and proactive approach to team member health by providing comprehensive wellness, disability, ergonomic and employee assistance programs. To promote safe work practices, the Company has long-standing training and orientation programs for team members, contractors and suppliers who access TELUS facilities. However, there can be no assurance that these health and safety programs and practices will be effective in all situations.

Radio frequency emission concerns

Some studies and various media reports have asserted that radio frequency emissions from wireless handsets may be linked to certain adverse health effects. There can be no assurance that future health studies, government regulations or public concerns about the health effects of radio frequency emissions will not have an adverse effect on the business and prospects for TELUS. For example, public concerns could reduce subscriber growth and usage, and increase costs as a result of modifying handsets, relocating wireless towers, and addressing incremental legal requirements and product liability lawsuits. TELUS continues to monitor developments in this area.

Risk mitigation: Evidence in the scientific community, as determined and published in numerous studies worldwide, supports the conclusion that there is no demonstrated public health risk associated with the use of wireless phones. These include a study published in the Journal of the National Cancer Institute in 2006, involving 420,000 cell phone users in Denmark. This study found that cell phone users are no more likely than anyone else to suffer a range of cancer types. Government agencies in Canada responsible for establishing safe limits for signal levels of radio devices also support the conclusion that wireless telephones are not a health risk. TELUS believes that the handsets it sells comply with all applicable Canadian and U.S. government safety standards.

Responsible driving

Research has shown an increase in distraction levels for drivers using wireless phones while driving. Three Canadian provinces, Quebec, Nova Scotia, and Newfoundland and Labrador, have legislated bans on the use of handheld mobile phones while driving, but these provinces do allow the use of hands-free wireless kits. Comparable legislation is pending in

Ontario and similar bans exist in parts of the United States and in other parts of the world. There can be no assurance that additional laws against using mobile phones or hands-free devices while driving will not be passed and that, if passed, such laws will not have a negative effect on subscriber growth rates, usage levels or wireless revenues.

Risk mitigation: TELUS promotes responsible driving and recommends that driving safely should be every wireless customer's first responsibility. TELUS believes that existing laws adequately address the matter.

Concerns related to contaminated property and the associated risk to human health or wildlife

To conduct business operations, TELUS owns or leases a large number of properties. The presence of fuel systems for back-up power generation enables the provision of reliable service, but also poses the most significant environmental risk for the Company. Spills or releases of fuel from these systems have occurred occasionally, with the maximum cost incurred at any site being approximately $1 million. In the telecommunications industry, small volumes of hazardous chemicals are commonly used at many sites. As well, certain hazardous materials are found at some locations. Based on the volume and the nature of some of the specific chemicals handled, there is a risk posed to the Company, its directors and its officers by the liability from potential spills and releases of hazardous chemicals into the environment. A significant portion of this risk is associated with the clean-up of sites contaminated by historic TELUS practices or by previous owners. There were no significant changes to TELUS' environmental risks during 2008. Although TELUS takes proactive measures to identify and mitigate environmental exposures and employs an environmental management system (EMS) based on ISO14001:2004, there can be no assurance that specific environmental incidents will not impact TELUS operations in the future.

Risk mitigation: While TELUS' environmental risks are considered immaterial to the Company's financial results, they are important from a corporate social responsibility perspective, which TELUS takes seriously. Poorly executed environmental performance or risk mitigation could have negative legal, brand or community relations impacts. The Company's EMS is designed to identify and prioritize these risks. The specific risk posed by fuel systems is being addressed through a program to install containment and monitoring equipment at sites with systems of qualifying size. Further detailed assessment of environmental risks and mitigation activities can be found in the TELUS corporate social responsibility report at telus.com/csr.

Concerns related to climate change

TELUS recognizes and supports the general view of the worldwide scientific community that anthropogenic sources of carbon dioxide (CO_2) and other greenhouse gases (GHGs) are accelerating the rate of global climate change. If left unchecked, the continued increase in global GHG production may have far-reaching implications in terms of sea level rise, drought, flooding, propagation of disease, pestilence, increased frequency of severe weather events and many other potential effects. These changing circumstances could lead to increased threats to network infrastructure that may negatively impact the ability to provide telecommunications services. It may also lead to increased insurance premiums that directly increase the cost of delivering service.

TELUS' current estimate for its annual North American CO_2 emissions is 330,000 tonnes with the final audited figure to be published in the Company's 2008 corporate social responsibility report. The majority of emissions are indirect, related to the consumption of electricity in the

Company's networks and real estate. Direct emissions include those from TELUS' vehicle fleet and generators, while other emissions include those associated with employee air travel.

Risk mitigation: While the Company's CO_2 and GHG emissions are not considered significant on an industrial scale, TELUS recognizes its responsibility to identify and act upon efficiency opportunities in its business that will minimize its contribution to climate change. Measures being implemented to address this include: mandating that all new real estate construction meets, at a minimum, leadership in energy efficiency and design (LEED) silver requirements; optimization of real estate space; promotion of alternative work styles such as teleworking; adopting server virtualization technology where multiple virtual operating systems can run on one physical server; reduced employee travel; increased use of conventional and enhanced tele/video conferencing; and the replacement of older fleet vehicles with new, more fuel-efficient models. Further detailed assessment of climate change risks and TELUS' strategy can be found in the TELUS corporate social responsibility report on telus.com/csr.

10.9 Litigation and legal matters

Investigations, claims and lawsuits

Given the size of TELUS, investigations, claims and lawsuits seeking damages and other relief are regularly threatened or pending against the Company and its subsidiaries. TELUS cannot predict with any certainty the outcome of such actions and as such, there can be no assurance that results will not be negatively impacted.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan

Two lawsuits were commenced in Alberta in 2001 and 2002, respectively, by plaintiffs alleging to be either members or business agents of the Telecommunications Workers Union (TWU), and suing allegedly on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan, respectively. The TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of $445 million. The TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan as defendants, and claims damages in the sum of $15.5 million. The statements of claim were subsequently amended in 2002 by the plaintiffs to include allegations, *inter alia*, that benefits provided under the two pension plans are less advantageous than those provided under their respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted.

The Company believes that it has good defences to the actions. Should the ultimate resolution of these lawsuits differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Risk mitigation: As a term of the 2005 settlement reached between TELUS Communications Inc. and the TWU that resulted in a collective agreement, the TWU has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the TWU's desire and recommendation that these proceedings be dismissed or discontinued. However, the Company has been advised by the TWU that the plaintiffs have not agreed to dismiss or discontinue these actions, and the Company has not been informed of any change in this regard.

Certified class action

A class action was brought in 2004 under class action legislation in Saskatchewan against a number of past and present wireless service providers including the Company. The claim alleges that each of the carrier defendants is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings were commenced in other provinces. A national class was certified on September 17, 2007 by the Saskatchewan Court of Queen's Bench. On February 20, 2008, the same court removed from the class all customers of the Company who are bound by an arbitration clause, applying two recent decisions of the Supreme Court of Canada. The Company has applied for leave to appeal the 2007 certification decision. Certification is a procedural step. If the Company is unsuccessful on appeal of the certification decision, the plaintiff would still be required to prove the merits of the claim.

Risk mitigation: The Company believes that it has good defences to the action. Should the ultimate resolution of the action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Uncertified class actions

TELUS and certain subsidiaries are defendants in a number of uncertified class actions. The Company has observed an increased willingness on the part of claimants to launch class actions whereby a representative plaintiff seeks to pursue a legal claim on behalf of a large group of persons. A successful class action lawsuit, by its nature, could result in a sizable damage award that negatively affects a defendant's results.

One such lawsuit is a class action was brought on June 26, 2008, in the Saskatchewan Court of Queen's Bench alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 9-1-1 charges to the public and have been deceitfully passing it off as government charges. The Plaintiffs seek restitution and direct and punitive damages in an unspecified amount. The Company is assessing the merits of this claim, but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

Risk mitigation: The Company is vigorously defending certification of these actions. Certification is a procedural step that determines whether a

particular lawsuit may be prosecuted by a representative plaintiff on behalf of a class of individuals. Certification of a class action does not determine the merits of the claim, so that if the Company were unsuccessful in defeating certification, the plaintiffs would still be required to prove the merits of their claims. In addition, the Company believes that it has put in place reasonable policies, processes and awareness designed to enable compliance with legal obligations and reduce exposure to legal claims.

Civil liability in the secondary market

On December 31, 2005, Bill 198 came into force in Ontario, creating liability for misrepresentations by public companies in written disclosure and oral statements. These amendments also created liability for fraud and market manipulation. Since then, other provinces and territories have adopted similar legislation.

The legislation creates a right of action for damages against TELUS, its directors and certain of its officers in the event that TELUS or a person with actual, implied or apparent authority to act or speak on behalf of TELUS releases a document or makes a public oral statement that contains a misrepresentation or TELUS fails to make timely disclosure of a material change.

The legislation permits action to be taken by any person or company that acquires or disposes of TELUS securities in the secondary market during the period of time that the misrepresentation remains uncorrected in the public or, in the case of an omission, until such time as the material change has been disclosed. It is not necessary for the person or company to establish that they relied on the misrepresentation in making the acquisition or disposition.

Risk mitigation: In 2005, TELUS conducted a review of its disclosure practices and procedures and the extent to which they are documented. As part of that review, TELUS consulted external advisors. This review indicated that TELUS has well-documented and fulsome processes in place, including a corporate disclosure policy that restricts spokespersons to specifically designated senior management, provides a protocol for dealing with analysts and oral presentations, outlines the communication approach to issues, and has a disclosure committee to review and determine disclosure of material information. TELUS monitors legal developments and re-evaluates annually its disclosure practices and procedures, including in 2008, and believes that they continue to be appropriate and prudent and that its risk exposure is reasonable and has not changed significantly over the past 12 months. However, there can be no assurance that TELUS' processes will be followed by all team members at all times.

Legal and regulatory compliance

TELUS relies on its employees, officers, Board of Directors, key suppliers and partners to demonstrate reasonable legal and ethical standards. Situations might occur where individuals do not adhere to TELUS policies, or where personal information of a TELUS customer or employee is inadvertently collected, used or disclosed in a manner that is not fully compliant with legislation, thereby exposing TELUS to the possibility of damages, sanctions and fines, or negatively affecting financial or operating results.

In 2008, the Company continued to expand its activities into the United States and other foreign jurisdictions. Its subsidiaries that operate in foreign jurisdictions are required to comply with local laws and regulations, which may differ substantially from Canadian laws and add to the legal and tax exposures the Company faces.

Risk mitigation: Although management cannot predict outcomes with certainty, management believes it has reasonable policies, processes and awareness in place for proper compliance and that these programs are having a positive effect on reducing risks. Since 2002, TELUS has instituted for its employees, officers and directors an ethics policy and in 2003, established a toll-free EthicsLine for anonymous reporting by anyone who has issues or complaints. Since 2003, TELUS has had a designated compliance officer, whose role is to work across the enterprise to ensure that the business has the appropriate controls and measurements in place to facilitate legal and regulatory compliance, including compliance under privacy legislation. For example, as a proactive measure on privacy compliance, TELUS places a control in the project development stage of major projects by requiring a privacy impact assessment to be performed for all major projects involving the use of customer or team member personal information.

In 2008, and in response to the Company's expansion of its activities into the United States and other foreign jurisdictions, the Company neared completion of testing and implementation of major billing and financial reporting system upgrades to accommodate present and future cross-border service requirements. Also in 2008, the Company launched a program to support TELUS' business plans for limited expansion and service extension into additional foreign jurisdictions. In the first phase of this program, TELUS completed its assessment of the Company's business processes and gating controls that strive to ensure that all foreign expansion initiatives receive appropriate review by regulatory, legal and taxation advisors. Such reviews support ongoing compliance with domestic and foreign regulatory, legal and taxation requirements.

The compliance officer reports jointly to the Audit Committee and the Senior Vice-President and Chief General Counsel. This dual reporting provides direct line-of-sight reporting to the Audit Committee to address identified risks. In addition, legal counsels qualified in the relevant foreign jurisdictions are engaged by TELUS' subsidiaries to provide legal advice as appropriate.

Intellectual property and proprietary rights

Technology evolution also brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under statute, such as patent, copyright and industrial design legislation, or under common law, such as trade secrets. With the growth and development of technology-based industries, the value of these intellectual property and proprietary rights has increased. Significant damages may be awarded in intellectual property infringement claims advanced by rights holders. In addition, defendants may incur significant costs to defend such claims and that possibility may prompt defendants to settle claims more readily, in part to mitigate those costs. Both of these factors may incent intellectual property rights holders to more aggressively pursue infringement claims.

Given the vast array of technologies and systems used by TELUS and its affiliates to deliver their products and services, and with the rapid change and complexity of such technologies, disputes over intellectual property and proprietary rights can reasonably be expected to increase. As a user of technology, TELUS and its affiliates receive from time to time communications, ranging from solicitations to demands and legal actions, from third parties claiming ownership rights over intellectual property used by TELUS and its affiliates and asking them to pay a settlement or licensing fees for the continued use of such intellectual property. There can be no assurance that TELUS and its affiliates will not be faced with significant claims based on the alleged infringement of intellectual property rights, whether such claims are based on a legitimate dispute over the validity of the intellectual property rights or their infringement, or whether such claims are advanced for the primary purpose of extracting a settlement. TELUS and its affiliates may incur significant costs in defending infringement claims, and may suffer significant damages and lose the right to use technologies that are essential to their operations should any infringement claim prove successful.

Risk mitigation: While TELUS and its affiliates incorporate many technologies into their products and services, they are not primarily in the business of creating or inventing technology. In acquiring products and services from suppliers, it is the practice of TELUS and its affiliates to seek and obtain contractual protections consistent with industry practices, to help mitigate the risks of intellectual property infringements.

10.10 Manmade and natural threats

Concerns about natural disasters and intentional threats to TELUS' infrastructure, Canadian and international business operations

TELUS is a key provider of critical communications infrastructure in Canada and has certain supporting business functions located internationally in several countries (including the Philippines). The Company's network, information technology, physical assets, team members and business results may be materially impacted by exogenous threats, including natural disasters, seismic and severe weather-related events such as ice, snow and wind storms, flooding, wildfires, typhoons/hurricanes, tornadoes and tsunamis; intentional threats such as sabotage, terrorism, labour disputes and political and civil unrest; dependence on the provision of service to the Company by other infrastructure providers (e.g. power); and public health threats such as pandemics.

TELUS continues to recognize that global climate change may exacerbate certain of these threats, including the frequency and severity of weather-related events.

Risk mitigation: TELUS has an extensive ongoing enterprise-wide business continuity program (BCP) with resources dedicated to design, exercise, maintain, execute and monitor business continuity/disaster recovery policies, plans and processes that address a range of scenarios. This approach is focused on supporting TELUS' continued ability to serve customers, protect corporate assets, and strive to ensure employee protection and safety by instituting resiliency planning in the Company's day-to-day business operations. In regard to internationally situated business support and outsourcing functions, TELUS has acquired and/or announced expansion of these activities to four additional countries in different geographic regions to mitigate the risk of locating these functions in one country.

Although TELUS has business continuity planning processes, there can be no assurance that specific events will not materially impact TELUS operations and results.

Security — Electronic attack

Electronic attacks are intentional acts by people to gain unauthorized access to TELUS information or to prevent legitimate users from gaining access. Such attacks may use a range of techniques, from social engineering (non-technical intrusion relying heavily on human interaction and trickery to break normal security procedures) to the use of sophisticated software/hardware.

Risk mitigation: Using a layered security approach, TELUS has implemented a number of proactive, reactive and containment processes and systems to safeguard its IT infrastructure, information repositories and information distribution. Security policies and procedures are in place to govern the duties of those responsible for information confidentiality and integrity. Intrusion detection systems, access controls and incident response procedures are in place to provide continuous monitoring of TELUS' IT infrastructure.

Security — Vandalism and theft

TELUS has a number of publicly situated physical assets that are subject to vandalism and/or theft, including public payphones, copper cable, and network and telephone switch centres.

Risk mitigation: The Company has implemented an array of physical and electronic barriers, controls and monitoring systems to protect its assets, considering such factors as asset importance, exposure risks and potential costs incurred should a particular asset be damaged or stolen. As an additional level of risk management, TELUS has a corporate

security group that continually investigates and evaluates the risks and, in co-operation with law enforcement and other external agencies, adjusts its protection to meet changing risks.

Although TELUS has IT and network security planning processes and thorough physical asset security planning processes, there can be no assurance that specific events will not materially impact TELUS operations and results.

10.11 Economic growth and fluctuations

It is expected that the slower Canadian economic growth in the fourth quarter of 2008 will continue into much of 2009, reflecting a significant

reduction in commodity prices, a U.S. economy in recession, weakened global economic growth, and continued tight global credit conditions. The principal risk to the current view of the Canadian economy is the impact of the continued negative developments occurring globally on Canadian business and consumer confidence, and thus is expected to impact both the business and consumer sectors.

Continuation of economic uncertainty or recessions may adversely impact TELUS

An extended economic downturn may cause residential and business telecommunications customers to delay new service purchases, reduce volumes of use, discontinue use of services or seek lower-priced alternatives. Significant economic downturns or recessions could adversely impact TELUS' profitability, free cash flow and bad debt expense, and potentially require the Company to record impairments to the carrying value of its assets including, but not limited to, its intangible assets with indefinite lives (spectrum licences) and its goodwill. Impairments to the carrying value of assets would result in a charge to earnings and a reduction in shareholders' equity, but would not affect cash flow.

Risk mitigation: The Company cannot completely mitigate economic risks. TELUS has continued to benefit from healthy ongoing growth in the Canadian wireless sector. Through most of 2008, TELUS continued to benefit from growth in the cyclical resource economies in B.C. and Alberta, which are now expected to experience lower future growth. TELUS has continued to add business customers in Central Canada, focusing on four key vertical markets of the public sector, healthcare, financial services and energy, which are generally expected to be less exposed to the economic downturn than the manufacturing and export-oriented industries in Ontario and Quebec. To mitigate worsening economic impacts, TELUS may pursue additional cost reduction and efficiency initiatives, as well as reduce NCIB share repurchases and/or capital expenditures.

Pension funding

Economic fluctuations could also adversely impact the funding and expense associated with the defined benefit pension plans that TELUS sponsors. There can be no assurance that TELUS' pension expense and funding of its defined benefit pension plans will not increase in the future and thereby negatively impact earnings and/or cash flow. Defined benefit funding risks may occur if total pension liabilities exceed the total value of the respective trust funds. Unfunded differences may arise from lower than expected investment returns, reductions in the discount rate used to value pension liabilities, and actuarial loss experiences.

Risk mitigation: TELUS seeks to mitigate this risk through the application of policies and procedures designed to control investment risk and ongoing monitoring of its funding position. Pension expense and funding for 2009 were largely determined by the rates of return on the plans' assets for 2008 and interest rates at year-end 2008. As at December 31, 2008, the Company's best estimate for defined benefit pension plans expense in 2009 is $18 million, as compared to a recovery of approximately $100 million in 2008, and the Company's estimate of cash contributions to its defined benefit pension plans in 2009 is $211 million ($102 million in 2008).

11. Reconciliation of non-GAAP measures and definition of key operating indicators

11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)

TELUS has issued guidance on and reports EBITDA because it is a key measure used by management to evaluate performance of business units, segments and the Company. EBITDA is also utilized in measuring compliance with debt covenants. (See *Section 11.4 — EBITDA excluding restructuring costs*.) EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to Operating income or Net income in measuring the Company's performance, nor should it be used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the Consolidated statements of cash flows. Investors should carefully consider the specific items included in TELUS' computation of EBITDA. While EBITDA has been disclosed herein

to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by TELUS may not be comparable in all instances to EBITDA as reported by other companies.

The following is a reconciliation of EBITDA with Net income and Operating income. EBITDA (as adjusted) excludes a charge for introducing a net-cash settlement feature for share option awards granted prior to 2005. EBITDA and EBITDA (as adjusted) are regularly reported to the chief operating decision-maker.

	Years ended December 31	
($ millions)	**2008**	**2007**
Net income	**1,128**	1,258
Other expense (income)	**36**	36
Financing costs	**463**	440
Income taxes	**436**	233
Non-controlling interest	**3**	7
Operating income	**2,066**	1,974
Depreciation	**1,384**	1,355
Amortization of intangible assets	**329**	260
EBITDA	**3,779**	3,589

Net-cash settlement feature expense	—	169
EBITDA (as adjusted)	**3,779**	3,758

In addition to EBITDA, TELUS calculates EBITDA less capital expenditures as a simple proxy for cash flow at a consolidated level and in its two reportable segments. EBITDA less capital expenditures may be used for comparison to the reported results for other telecommunications companies over time and is subject to the potential comparability issues of EBITDA described above.

	Years ended December 31	
($ millions)	**2008**	**2007**
EBITDA	**3,779**	3,589
Capital expenditures	**(1,859)**	(1,770)
EBITDA less capital expenditures	**1,920**	1,819
Net-cash settlement feature expense	**—**	169
EBITDA (as adjusted) less capital expenditures	**1,920**	1,988
Payment for AWS spectrum licences	**(882)**	—
EBITDA (as adjusted) less capital expenditures and payment for AWS spectrum licences	**1,038**	1,988

11.2 Free cash flow

TELUS reports free cash flow because it is a key measure used by management to evaluate its performance. Free cash flow excludes certain working capital changes and other sources and uses of cash, as found in the Consolidated statements of cash flows. Free cash flow is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to the Consolidated statements of cash flows. Free cash flow is a measure that can be used to gauge TELUS' performance over time. Investors should be cautioned that free cash flow as reported by TELUS may not be comparable in all instances to free cash flow as reported by other companies. While the closest GAAP measure is Cash provided by operating activities less Cash used by investing activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures, but before acquisitions, proceeds from divested assets and changes in certain working capital items (such as trade receivables, which can be significantly distorted by securitization changes that do not reflect operating results, and trade payables).

Prospectively, the Company has chosen to present free cash flow adjusted for contributions to employee defined benefit plans, as the contributions have a significant non-discretionary component and are determined separately from the net defined benefit plans expense previously included in the calculation. The following tables present free cash flow on both bases.

The following reconciles free cash flow with Cash provided by operating activities less Cash used by investing activities:

	Years ended December 31	
($ millions)	**2008**	**2007**
Cash provided by operating activities	**2,819**	3,172
Cash (used) by investing activities	**(3,433)**	(1,772)
	(614)	1,400
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net	**(3)**	(4)
Reduction (increase) in securitized accounts receivable	**200**	—
Non-cash working capital changes except changes from income tax payments (receipts), interest payments (receipts) and securitized accounts receivable, and other	**86**	(10)
Acquisitions	**696**	—
Proceeds from the sale of property and other assets	**(13)**	(7)
Other investing activities	**9**	9
Free cash flow based on defined benefit plans employer contributions	**361**	1,388
Net employee defined benefit plans recovery (expense)	**102**	92
Employer contributions to employee defined benefit plans	**104**	93
Free cash flow based on defined benefit plans net expense	**567**	1,573

The following shows management's calculation of free cash flow.

	Years ended December 31	
($ millions)	**2008**	**2007**
EBITDA	**3,779**	3,589
Share-based compensation	**5**	96
Net employee defined benefit plans expense (recovery)	**(102)**	(92)
Employer contributions to employee defined benefit plans	**(104)**	(93)
Restructuring costs net of cash payments	**16**	(18)
Donations and securitization fees included in Other expense	**(30)**	(37)
Cash interest paid	**(457)**	(454)
Cash interest received	**3**	42

Income taxes received (paid) and other	**(8)**	125
Capital expenditures	**(1,859)**	(1,770)
Payment for AWS spectrum licences	**(882)**	—
Free cash flow based on defined benefit plans employer contributions	**361**	1,388
Employer contributions to employee defined benefit plans in excess of net employee defined benefit plans expense (recovery)	**206**	185
Free cash flow based on defined benefit plans net expense	**567**	1,573

11.3 Definition of key wireless operating indicators

These measures are industry metrics and are useful in assessing the operating performance of a wireless company.

Average revenue per subscriber unit per month (ARPU) is calculated as Network revenue divided by the average number of subscriber units on the network during the period and expressed as a rate per month. Data ARPU is a component of ARPU, calculated on the same basis for revenues derived from services such as text messaging, mobile computing, personal digital assistance devices, Internet browser activity and pay-per-use downloads.

Churn per month is calculated as the number of subscriber units disconnected during a given period divided by the average number of subscriber units on the network during the period, and expressed as a rate per month. A prepaid subscriber is disconnected when the subscriber has no usage for 90 days following expiry of the prepaid card.

Cost of acquisition (COA) consists of the total of handset subsidies, commissions, and advertising and promotion expenses related to the initial subscriber acquisition during a given period. As defined, COA excludes costs to retain existing subscribers (retention spend).

COA per gross subscriber addition is calculated as cost of acquisition divided by gross subscriber activations during the period.

EBITDA excluding COA is a measure of operational profitability normalized for the period costs of adding new customers.

Retention spend to Network revenue represents direct costs associated with marketing and promotional efforts aimed at the retention of the existing subscriber base divided by Network revenue.

11.4 Definition of liquidity and capital resource measures

Dividend payout ratio and dividend payout ratio of sustainable net earnings: For actual earnings, the measure is defined as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the 12-month trailing period. The target guideline for the annual dividend payout ratio is on a prospective basis, rather than on a trailing basis, and is 45 to 55% of sustainable net earnings. The dividend payout ratio on an actual basis, excluding income tax-related adjustments and the net-cash settlement feature, is considered more representative of a sustainable calculation.

EBITDA — excluding restructuring costs is used in the calculation of Net debt to EBITDA and EBITDA interest coverage, consistent with the calculation of the Leverage Ratio and the Coverage Ratio in credit facility covenants. Restructuring costs were $59 million and $20 million, respectively, for the years ended December 31, 2008 and 2007.

EBITDA — excluding restructuring costs interest coverage is defined as EBITDA excluding restructuring costs divided by Net interest cost. Historically, this measure is substantially the same as the Coverage Ratio covenant in TELUS' credit facilities.

Interest coverage on long-term debt is calculated on a 12-month trailing basis as Net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt.

Net debt is a non-GAAP measure whose nearest GAAP measure is Long-term debt, including Current maturities of long-term debt, as reconciled below. Net debt is one component of a ratio used to determine compliance with debt covenants (refer to the description of Net debt to EBITDA below).

	As at December 31	
($ millions)	**2008**	**2007**
Long-term debt including current portion	**6,352**	4,589
Debt issuance costs netted against long-term debt	**28**	30
Derivative liability	**778**	1,179
Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. dollar denominated debt	**(168)**	(137)
Cash and temporary investments	**(4)**	(20)
Proceeds from securitized accounts receivable	**300**	500
Net debt	**7,286**	6,141

The derivative liability in the table above relates to cross currency interest rate swaps that effectively convert principal repayments and interest obligations to Canadian dollar obligations, and is in respect of the U.S.$1,925 million debenture maturing June 1, 2011. Management believes that Net debt is a useful measure because it incorporates the exchange rate impact of cross currency swaps put into place that fix the value of U.S. dollar denominated debt, and because it represents the amount of long-term debt obligations that are not covered by available cash and temporary investments.

Net debt to EBITDA — excluding restructuring costs is defined as Net debt as at the end of the period divided by the 12-month trailing EBITDA — excluding restructuring costs. TELUS' guideline range for Net debt to EBITDA is from 1.5 to 2.0 times. Historically, Net debt to EBITDA — excluding restructuring costs is substantially the same as the Leverage Ratio covenant in TELUS' credit facilities.

Net debt to total capitalization provides a measure of the proportion of debt used in the Company's capital structure.

Net interest cost is defined as Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis. No gains on redemption and repayment of debt were recorded in the respective periods. Should they occur, losses recorded on the redemption of long-term debt are included in net interest cost. Net interest costs for the years ended December 31, 2008 and 2007 are equivalent to reported financing costs for those periods.

Total capitalization — book value excludes accumulated other comprehensive income or loss and is calculated as follows:

($ millions)	As at December 31 2008	2007
Net debt	**7,286**	6,141
Non-controlling interests	**23**	26
Shareholders' equity	**7,182**	6,926
Accumulated other comprehensive loss	**130**	104
Total capitalization — book value	**14,621**	13,197

Exhibit 99.5

Consent of Independent Registered Chartered Accountants

We consent to the incorporation by reference in Registration Statement No. 333-145107 on Form F-10 and Registration Statement No.'s 333-125486, 333-121629, 333-115750, 333-110964 and 333-103562 on Form S-8 and to the use of our reports dated February 11, 2009 relating to the consolidated financial statements of TELUS Corporation, and the effectiveness of TELUS Corporation's internal controls over financial reporting, appearing in this Annual Report on Form 40-F of TELUS Corporation for the year ended December 31, 2008.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
February 11, 2009

Exhibit 99.6



TELUS ETHICS POLICY

February 2008

TELUS Ethics Policy

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All TELUS team members:

Central to TELUS' purpose is to make the future friendly for our stakeholders. One of the critical elements in realizing this ambition is to ensure

our individual and collective reputation is above reproach. *How* we work is just as important as *what* we do. Our goal is to demonstrate the highest level of ethics and integrity in our business dealings with all stakeholders (customers, shareholders, suppliers, colleagues and our communities). This is a corporate priority and a shared responsibility for all TELUS team members as each one of our actions and decisions affect our company and its reputation.

This Ethics Policy outlines the responsibilities and guidelines that describe the *ethical standard expected of all team members.* In addition, it provides a decision making process supporting the resolution of ethical issues and identifies members of the TELUS team who are available for help and advice. Real life case studies are provided to illustrate how ethical responsibilities and guidelines apply in everyday situations.

Please read this document carefully and make it an integral part of the way you conduct business at TELUS. You play an important role in representing our organization. Guided by these ethical standards, we build trusted relationships with our customers, shareholders, suppliers, fellow team members and the communities in which we live, work and serve.

Darren Entwistle
President and Chief Executive Officer

Robert McFarlane
Executive Vice-President and Chief Financial Officer

Josh Blair
Executive Vice-President, Human Resources

Introduction

This Policy applies to all of TELUS, including members of the Board of Directors, officers and employees of TELUS Corporation and its subsidiaries (referred to as Team TELUS or team members).

It is not intended that there be any waivers to this Policy. In the unlikely event that a waiver is considered and granted it must receive prior approval by the Board of Directors or their delegate. The delegate must be a Board committee for any waivers granted to members of the Board of Directors or executive officers. In such circumstances, any waivers granted to members of the Board of Directors or executive officers will be disclosed subject to the TELUS Policy on Corporate Disclosure and Confidentiality of Information.

In reviewing this Policy, team members are reminded that TELUS reserves the right to vary, revoke or amend any terms of the Policy as is required by the needs of the business. TELUS will notify team members of any amendments to the Ethics Policy prior to the changes becoming binding. Nevertheless, team members are encouraged to periodically review this Policy (at least annually) in order to remain familiar with its terms. To assist this review, team members are required to complete the ethics training module each year. The Ethics Policy constitutes a term of the employment contract.

This Policy is available on the Company's intranet and is publicly available on the Company's website, at www.telus.com, www.telusinternational.com and www.telusmobility.com.

Responsibilities

Team TELUS

All members of the TELUS team are expected to act honestly in all dealings, comply with the laws and regulations governing our businesses, and maintain an ethical work environment**.** *This standard requires that each member of our team understand and apply the guidelines in this policy to everyday actions and decisions.*

At TELUS, we not only do things right, but we should strive to *do the right things*. Each member of our team takes responsibility for their actions including:

- Observance of the guidelines outlined in this and other company policies wherever in the world we are working
- Compliance with applicable local laws and regulations

All business activities should be able to stand up to possible public scrutiny and further investigation if required.

The guidelines in this policy are based upon generally accepted standards of ethical business conduct and applicable civil and criminal laws. The absence of a guideline covering a particular situation does not relieve any of us from the responsibility for acting ethically.

Team TELUS members, or any person acting under the direction thereof, are prohibited from directly or indirectly taking any action to improperly influence, coerce, manipulate or mislead the Company's external or internal auditors or their representatives.

Compliance/Exceptions

In situations where the right ethical behaviour is unclear, or where there may be the appearance of a contravention of these guidelines, we support each other in seeking advice and clarification. If you are unsure as to the ethical course of action, you should first discuss the situation

with your manager or the applicable department identified in this policy.

If you become aware of a possible violation of the Ethics Policy you are required to report this to the Director- Ethics and Controls Compliance. For more details please refer to the TELUS EthicsLine section. Members of the TELUS Board of Directors may also advise the Chair of the Board of potential violations. The Chair will refer the matter to the Director — Ethics and Controls Compliance for investigation, resolution and reporting.

Failure to act in accordance with the guidelines outlined in this policy may have consequences for the individual, may create potential harm to TELUS' reputation and brand, and may put TELUS at risk for legal penalty. Individual consequences may include disciplinary action, up to and including dismissal as well as civil and criminal penalties. Corporate consequences may include civil and criminal penalties. Therefore, please regard the requirement to understand and to act in accordance with the TELUS Ethics Policy as a most serious matter.

Managers

In addition to the aforementioned responsibilities, TELUS managers have the additional responsibility to:

- Be familiar with the TELUS Ethics Policy and resolution procedures
- Promote and maintain a climate in which honest, ethical and legal business conduct is the norm
- Encourage open discussion and resolution of all business concerns
- Accept and investigate reports of possible business misconduct
- Maintain, without compromise, our ethical standards in achieving goals and objectives, no matter how important the goal or objective may be
- Review the Ethics Policy with teams and colleagues on a regular basis (at least annually)

Senior Managers (directors and above)

In addition to the aforementioned responsibilities, TELUS team members who have roles regarding internal controls and financial reporting and disclosure controls have, as outlined in the Policy on Corporate Disclosure and Confidentiality of Information, the responsibility to make full, fair, accurate, timely and understandable disclosure in reports and documents that TELUS files with, or submits to, securities commissions and in other public communications made by TELUS.

TELUS Board of Directors Members and Employees who represent TELUS as Directors on other organization boards

In addition to the aforementioned responsibilities, but subject to the requirement that such individuals comply with their fiduciary obligations as a director of another organization, TELUS Board members have the responsibility to notify the Chair of the Board of TELUS or, in case of TELUS employees who represent TELUS on the Boards of other organizations, the TELUS Ethics Work Group of any potential perceived conflict of interest or other Ethics Policy issues which arise during the course of their Board service.

Ethics Office

The Ethics Office is established to provide Team TELUS with a resource regarding ethical matters. This Office conducts investigations, provides advice on ethical dilemmas, develops ethics training, establishes and updates appropriate policies, guidelines and processes for TELUS' expected standards of business conduct, and reports on EthicsLine complaints to the Audit Committee of the Board of Directors on a quarterly basis.

Ethics Work Group

An Ethics Work Group oversees the Ethics Policy and annual reporting to senior management and the Audit Committee of the TELUS Board of Directors. If an ethical issue is unresolved, as a body of last resort, the Ethics Work Group is available to discuss and guide issue resolution and provide input on any ethical situations brought forward. Members of the Ethics Work Group include representatives from Risk Management, Human Resources, Corporate Affairs, Corporate Security and the Chief Financial Officer.

Ethical Decision Making

This policy reflects our commitment to high standards of ethical behaviour in our professional and business dealings. The TELUS Ethics Policy is intended as a living document that supports open and frank discussion and the satisfactory resolution of ethical dilemmas.

Each of us is responsible for striving to ensure our behaviour is ethical and for taking steps to resolve ethical dilemmas. The guidelines in this policy are provided to assist with ethical decision-making. As business becomes increasingly complex, the policy cannot provide guidance about every possible situation. In these circumstances, discuss your situation with your manager or with colleagues to determine the appropriate, ethical course of action.

If you would like to discuss ethics further or have a dilemma with which you would like help, follow the process below, stopping at the point at which your situation has been resolved.

1. Questions to Ask Yourself

Gather information and then determine if the situation you face is an ethical dilemma. The questions below may help to clarify your situation and

ethical action.

- What is my immediate feeling about this?
- Does this comply with company policies and procedures?
- Is this legal?
- Is this an expected part of my job?
- How would others perceive this action?
- Would I or TELUS be embarrassed if this situation were discussed in the media?
- Would I be putting TELUS or myself at unnecessary risk?
- What impact would this have on my or the company's reputation?
- Is this taking revenue or customers away from TELUS?

2. Review Guidelines and Policies

Review the guidelines in this policy and the case studies. If you need further assistance, consider the following related policies as they may apply to your situation.

Signing Authority Policy
Corporate Security Policies and Corporate Security Manual
Respectful Workplace Policy
Alcohol and Drug Corporate Policy
TELUS Health and Safety Policy
Environmental Policy
TELUS Privacy Code
Corporate Credit Card Policy
Corporate Disclosure and Confidentiality of Information
Insider Trading Policy
Records Retention Policy

3. Talk to Your Manager

Often your manager is in the best position to help you work through the dilemma. Your manager is responsible for supporting open discussion, working through the ethical questions you have, and guiding your access to further assistance as required. In situations where you are uncomfortable talking with your manager, or your manager is unable to help, you should refer to the next level of management or seek expert assistance as detailed in the next section.

4. Expert Assistance

If you have tried the above sources but still have questions, assistance is available through designated subject matter experts in Human Resources, Legal, Privacy, Corporate Security, Regulatory Affairs and Accounting Policies. Names and contact telephone numbers are listed on the company's internal website, under Ethics. TELUS Québec team members should seek advice from the TELUS Québec Director-Labour Relations and TELUS International Philippines team members should contact their Vice President for Human Resources.

5. TELUS EthicsLine

You may also contact the TELUS EthicsLine to request guidance or make a good-faith report about misconduct or a perceived violation of this Policy, another company policy or procedure or a government law or regulation, questionable business practices, potential fraud or accounting or auditing matters that may not be in compliance with this Policy. Reports may be made anonymously.

EthicsLine is staffed by a live operator from an independent company who reports the call or web contact to TELUS to enable it to respond to your concerns. It operates 24 hours a day and 7 days a week in many languages.

Phone toll free: 1-888-265-4112 in North America. See website for other international dialing instructions
Web: link from www.telus.com or company intranet

Handling of the Report

For Inquiries:

The Ethics Office will assist team members in ethical decision-making by providing guidance concerning this Policy. The Ethics Office may also refer team members to or involve subject matter experts within TELUS for assistance. Inquiries regarding labour relations and employment matters or customer service complaints will be re-directed as indicated in the section below.

For Complaints:

a) Assessment of complaint

The Ethics Office will assess the nature of the complaint under the direction of Legal Services where appropriate. The following matters for which other remedies exist will not be investigated by the Ethics Office and will be redirected as follows:

- **Labour relations issues** — Immediate manager or other members of management
- **Employment matters** such as promotions, remuneration, reprimands, suspensions, dismissals, harassment, discrimination — Human Resources

- **Customer service complaints** — Customer Care or Client Care

With the exception of issues relating to union collective agreements, the Ethics Office will track all complaints, including those that are redirected to other areas of expert assistance, until they are resolved.

b) Investigation

All reports are taken seriously. Each allegation will be promptly investigated by the Ethics Office in conjunction with subject matter experts within TELUS if necessary. The Ethics Office may request the assistance of TELUS Corporate Security or other departments for investigation of the allegation or other related issues. If substantiated, the allegation will be resolved through appropriate corrective action and/or discipline. If you choose to identify yourself, you will be provided with feedback when the Ethics Office has completed its review. Every effort will be made to maintain confidentiality for those who contact the Ethics Office or who are accused of a breach of this Policy (although disclosure may be necessary in some cases to effectively conduct an investigation or support legal proceedings). It is expected that all reports to the Ethics Office will be made in good faith. Deliberately making false claims will result in disciplinary action.

c) Protection for Reporting

Retaliation or retribution against a team member for contacting the Ethics Office or for assisting or participating in an investigation of a complaint violates our ethical principles and will not be tolerated. If you feel you have been retaliated against, you should contact Human Resources or the Director-Ethics & Controls Compliance immediately.

d) Opportunity to Respond

If it has been found that a team member has breached or may likely have breached the Policy, this team member will be informed of the allegations in due course and be provided the opportunity 1) to respond to them, and 2) where appropriate, to contribute to the correction of the breach.

e) Reporting of Breaches

Any breach of the Policy will be reported to senior management with recommendations for action. Ethical issues reported to the Ethics Office will be summarized quarterly and reported to the Audit Committee of the Board of Directors, together with results of investigations, recommendations and management action.

f) File Documentation

Records of the report and investigation, including contents of meetings, interviews, results of investigations and other relevant material, will be maintained by the Ethics Office in a separate file, and managed in accordance with the TELUS Privacy Code and Record Retention Policy. Disclosure of information will be strictly limited on a need-to-know basis only.

6. Last Resort Resolution

If an ethical issue remains unresolved, the Ethics Work Group is available as the body of last resort to discuss the issue and guide the resolution of any conflict of interest or other ethical situation brought forward. Members of the Ethics Work Group are drawn from

Risk Management, Corporate Affairs, Corporate Security, Chief Financial Officer and Human Resources. Their names and contact telephone numbers are listed on the company's internal website, under Ethics.

The Ethics Work Group has a reporting relationship with the Audit Committee of the Board of Directors to ensure compliance with this Policy, and a process for reporting potential breaches of the Policy through the Director — Ethics & Controls Compliance without fear of retribution.

Ethical Guidelines

Customer and Team TELUS Information

Privacy of Communications

As a telecommunications service provider we may have access to content of communications transmitted on our facilities. We protect the privacy of customer communications, ensuring no tampering, intrusion or disclosure except as authorized by law. This includes ensuring the content, nature and existence of telephone calls and data transmissions are not released to third parties.

A team member may intercept a private communication only when such interception is necessary for the purpose of providing the service, for the purpose of quality control checks, to protect the company's facilities from fraudulent abuse, or when authorized by law.

If a team member comes across a suspected illegal activity (e.g. child pornography) in the course of their work, they should report it to Corporate Security who will determine the appropriate course of action such as reporting to the appropriate authority.

Confidentiality of Information

We respect customer and team member related information and protect its security, confidentiality and integrity. The definition of 'customer' includes our direct customers, customers who are our competitors, third party customers (customers of our clients), and team members. All customer and team member personal information is confidential and may not be disclosed except as outlined in the TELUS Privacy Code and permitted by law or by applicable regulations.

Access to customer and team member personal information is strictly controlled on a "need to know" basis and is used for legitimate business purposes only.

The TELUS Privacy Code and related practices set out guidelines for managing customer and team member personal information. Various areas of the company may have additional supporting management practices in place. Refer to your manager for more information.

Case Studies

Problem

I sell TELUS products and services in the business market and, in meeting with a customer in a specific industry, I learn that this customer has plans to aggressively expand their business to another city; however this information is not publicly known. The next day, I meet with a competitor to this previous day's customer. The competitor indirectly asks several questions about the first customer's business strategy. I know if I subtly mention the first customer's business plans, I can sell more TELUS products and services.

Action

My job is to sell TELUS products and services; however, I must not disclose this confidential information to my second customer.

Problem

We recently hired someone who held an executive position with one of our competitors. This person was deeply involved in planning the competitor's expansion strategy, and has information that would be very valuable to us. Can we ask him to disclose this information?

Action

Absolutely not. The new team member has an obligation to protect his former company's confidential or proprietary information, just as you would be obliged to protect the confidential or proprietary information of TELUS if you were to leave the company. You must respect the team member's personal integrity as well as his obligation to his former employer.

Problem

I am a customer service representative for the residential market. A competitor informed me that a customer authorized him to obtain information about the customer's service record from TELUS. Should I provide the information?

Action

As a general rule, TELUS does not disclose any customer information other than what is listed in published directories: name, address and telephone number. Since only the customer can authorize the release of further information, you should check that the customer did indeed authorize the competitor's representative to obtain the information. If you do not find written authorization, ask the competitor's representative to obtain the customer's consent in writing and send it to TELUS.

Problem

My friend calls me at work in the Call Centre to talk about the TV personality who has just moved to the city. She asks me to look up his address and phone number since this information is not listed in the public directory. Should I look this up and provide the information?

Action

Absolutely not. Unless you have a business reason to look up the information, you should not even access this customer's account and should certainly not provide the requested information to your friend.

Problem

My next-door neighbour is a good friend of the family of one of my former team members who now works for a different manager. My neighbour and I are having a casual conversation one day in my back yard, and my neighbour asks me how my team member is doing. I explain that he no longer works on my team and is away from the

office on stress leave. Should I have discussed my former team member's status with a close family friend?

Action

No. It is not appropriate for you to discuss the status of your former team member even though you know your neighbour is a close family friend. Team members are reminded that, as a general rule, it is inappropriate to disclose personal information of our employees for non-work related purposes. Of particular concern is sensitive personal information such as health or financial information and information about disciplinary action. This is contrary to our Privacy Code.

Problem

Today I had a challenging experience with a customer and I could not make them happy. I have my own blog on our intranet and would like to post my experience so that I can get suggestions from my team members on how to handle similar situations. Should I post this?

Action

Soliciting feedback from your team members is an excellent idea; however you should act cautiously. Even though you are posting this internally, you must protect the privacy of your customer. Review what you intend to post to ensure you are not identifying your customer and if in doubt discuss with your manager before posting.

Integrity

Personal and Corporate Integrity

Individually and collectively, our personal integrity supports the honest use of time, funds and property in ethical dealings with co-workers and others. Business needs must take priority in the allocation of our time at work. Use of company time and property is for business purposes only unless otherwise authorized by management.

We consciously apply high standards of courtesy, professionalism, and honesty in our interactions with customers, shareholders, suppliers, co-workers and the community. We do not support any form of corruption, including extortion and bribery. We are fair in representing others' products and services and do not improperly seek corporate trade secrets or confidential information belonging to others. This does not preclude gathering information with the owner's consent or from the public domain.

We are committed to free competition based upon the merits of our products and services and do not support any agreements, actions or concerted actions that restrict or impede fair competition in contravention of applicable law. Under certain circumstances, we may, for strategic marketing reasons, develop and contract services exclusively with a given partner. Legal Services must be consulted before all such arrangements are established.

Human Rights

We establish and maintain an ethical work place. We treat people fairly and respect human rights. We recognize that there are differences among individuals that go beyond race and gender, and value the contribution our differences bring to the business. We provide team members with the training, tools, and coaching necessary for the job, including the Respectful Workplace Policy to which team members are referred for further information.

Proprietary Rights of Others

We honour the proprietary rights of others as expressed in patents, copyrights, trademarks and industrial designs. Examples of intellectual and real property that may be protected include, but are not limited to, written materials, logos, creative suggestions, pictures, audio and video products and computer software. We respect conditions of use. Copyright materials are not copied in whole or in part, or used in violation of any law or agreement with vendors, licensors or other similar parties. Software license conditions may be included in instruction manuals, in separate documents, or on the disk itself, and breaking the seal on a disk package may constitute acceptance of the stated agreement.

Compliance with Laws

We comply with all applicable laws and regulations wherever we conduct business. Team members should be familiar with the laws and regulations that relate to their work and to comply with them. It is the responsibility of managers to ensure that members of their team are aware of their responsibilities in this regard and to seek advice from Legal Services or Regulatory Affairs if they are unsure.

International Operations

Many countries have laws that regulate the import and export of goods, services, software and technology for a variety of reasons, including national security and foreign policy. We will comply with all the laws of Canada and those of other countries that may apply, concerning the import and export of goods, services, software and technology.

In countries outside of Canada, customs vary regarding exchanging business courtesies, particularly when dealing with government employees. We understand that government officials are often prohibited from accepting any gift or entertainment, regardless of value, and that special care needs to be taken in this highly regulated area. Team members should exercise care to avoid having their actions or the actions of their agents being construed as an attempted bribe or kickback. Team members considering making payments, or gifts outside the limits of responsible and generally accepted business practices, to government officials outside of Canada must seek advice from TELUS EthicsLine or Legal Services in advance.

Public Safety

When working on customer premises and public thoroughfares, we safeguard the rights and safety of the customer, the public and ourselves as outlined in the Health and Safety Policy. We are expected to report fit for work; such that our ability to work safely is not impaired by alcohol, drugs, medications or any other substance. Our actions in these instances not only reflect on us as individuals, but on TELUS as a whole. Team members are referred to the Alcohol and Drug Corporate Policy for further details.

Environment

TELUS is committed to being an environmental leader by meeting or surpassing our regulatory requirements. We embrace this responsibility to all of our stakeholders by integrating environmental considerations into our business. We support sustainable development and offer innovative telecommunications solutions that include environmental benefits and we look to minimize waste generation and energy consumption in all of our activities. Striving for continuous improvement guides our approach.

Detailed information on our commitment to the environment can be found in our on-line Environmental Policy.

Political Activities

As private citizens, we are free to make contributions to causes, candidates or political parties of our choice. Unless expressly approved by TELUS, we will not associate TELUS with our personal political activities. TELUS will comply with all relevant laws regulating its participation in political affairs, including political contributions.

Case Studies

Problem

As an installer, I am called to an out of town, visibly neglected acreage in an area where TELUS is the only service provider. The customer, an elderly woman, tells me several times that she is never very comfortable when the phone does not work. It is important to her, being out in the country, to have reliable service. I discover her repair is very minor, consisting of a simple adjustment, and I am hesitant to inform her of the service charge. I look around her modest home and feel she cannot afford the service charge.

Action

Your compassion is understandable. However, you should inform your customer of the service charge. TELUS is legally required to apply tariff charges to every customer in areas where there is no local service competition and rates are still regulated. Also, you are presuming the elderly woman's financial status. In fact, she may be very able to pay the service charge. If she says she has a problem paying, you can suggest some of TELUS' payment options or identify areas of the company where she can get more information.

Problem

My manager frequently makes racist comments about one of my co-workers. This personally offends me but, because my manager is involved, I don't feel I can speak up. What should I do?

Action

Racist comments are unacceptable. You have a right to express your disapproval of such comments — without fear of reprisal. If you are uncomfortable approaching your manager, you should speak to the Respectful Workplace Office in Human Resources or your manager's manager.

Problem

TELUS, in partnership with a supplier, is offering Canadian-based team members an on-line discount program on the purchase of books, CD's, and magazines. We would like to place orders, but do not have a PC at home from which to access the web site. A co-worker suggests we use our work PC's to place our personal orders. We are very busy at present dealing with a backlog of ADSL service requests. Is this an appropriate use of company equipment and time?

Action

Being a member of the TELUS team has privileges. From time to time, TELUS offers programs and incentives specifically for team members. Personal use of company property such as PC's is permitted, when approved by a team member's manager or corporately authorized, to enable team members to take advantage of these opportunities. You may use company PC's to place your orders *since the discount program has been authorized by management.* Team members are reminded that authorized personal use should not

interfere with business priorities and should be conducted on personal time.

Problem

We use a contractor to dispose of hazardous materials such as lead. I know the contractor's crew chief and I get the feeling that they may not be disposing of the materials correctly, at least not according to the law. Should I care about this? After all, it is not my company and they are probably saving us money.

Action

Yes, you should care. What the contractor is doing may expose the company to liability. But even if there would be no liability, we still care. Improper waste disposal is inconsistent with our commitment to reduce the environmental impact of our activities. Doing things the right way means not looking the other way if you have any reason to think someone we work with is doing something wrong. Not all substances are equally harmful, but all must be properly disposed of. And we should never "second guess" the law. Do the right thing. Talk with your supervisor, environment department or call the EthicsLine.

Company Assets

Company assets are both physical (people, equipment, real estate, supplies, tools, non-public information, funds) and logical (communication networks, information systems, intellectual property, brand, goodwill, reputation). We take appropriate care to protect team members and assets against undue risks, exposures and liabilities.

Company Information

As members of team TELUS, we have access to information about our company that belongs to TELUS and is used by the company for its business. Unless specifically published for external use, and public dissemination has occurred, all company records, information, reports, data, plans, processes and methods are considered company information and are prohibited from disclosure without proper authorization. Access should be limited to those team members with a legitimate business reason to seek the information. Team members are referred to the Corporate Security Policies for further details on the classification and safeguarding of TELUS' information assets.

Team members, including members who have left the employ of TELUS, must not use or disclose corporate trade secrets, competitive information or other confidential, proprietary information to benefit themselves or others. In situations where we would be willing to share information, our Legal Services Department can draw up a confidentiality agreement or license agreement to protect TELUS.

No team member should knowingly invoke a software program or code that could damage TELUS' information assets. All team members are responsible for taking reasonable measures to ensure that software and data is clear of malicious code and safe for use in TELUS' electronic data processing environment. It is also important that you not share your computer access password.

Public Disclosure

TELUS is subject to strict securities rules regarding disclosure of financial and other material information to the public. Selective disclosure of confidential information by any team member can create liabilities for TELUS and for that team member. All discussions about TELUS in a public environment should comply with the TELUS Policy on Corporate Disclosure and Confidentiality of Information , to which team members are referred for further details.

Examples of situations that may lead to inappropriate public disclosure include:

- Participating in an investment-related discussion forum, chat room, blog or bulletin board on the Internet. The team member must not disclose any confidential or material information about TELUS.
- Contact with a member of the investment community or the media. All inquiries from these groups must be referred to those team members authorized to communicate on behalf of TELUS. For further information, contact Investor Relations or Public & Community Affairs.
- Presentations to business, educational, community groups or large internal TELUS audiences. Team members invited to make such presentations should receive approval from the VP Investor Relations prior to accepting the invitation.

In addition, all such public speeches and presentations must be provided in advance to Investor Relations for review where requested by them.

Business Records

Accurate, reliable records are essential for effective company management to enable us to meet our business, legal and financial obligations. We strive to ensure all reports (whether for external or internal use), records, and other data are factual, fair, complete, timely and understandable. Information of significant confidentiality should be properly identified, and respected as such. To protect the accuracy of our records, only legal

and approved software is to be used on TELUS equipment.

Every business needs an orderly process for retaining and disposing of records and documents in order to comply with legal and regulatory requirements. Team members are referred to the Records Retention Policy for guidance on minimum and maximum retention periods, storage of records, suspension of disposal by reason of a potential or on-going litigation or investigation, and where to obtain further information.

Financial Transactions

It is expected all team members understand their role and responsibility for the company's financial transactions and records and follow approved procedures to protect, report, control, and accurately reflect these transactions. Team members are referred to the Signing Authority Policy for further details.

It is a violation to falsify company records or documents (including, for example, contracts, orders, time sheets, adjustments and expense statements) and to misuse company-issued credit cards.

Team members whose duties involve authentication are responsible for the close scrutiny and timely verification of all documents upon which monies are paid out or received.

Property

We display pride of ownership on behalf of the TELUS team as we protect company facilities, equipment, tools, supplies, vehicles, funds, communication networks and information systems against loss, theft, damage, vandalism, gross neglect, unauthorized use and unauthorized disposal.

Team members are expected to take reasonable measures to safeguard access controls such as passwords, identification cards, keys, cards and hand-held user authentication devices. We are careful not to compromise access security to sites by leaving access doors open and unattended, we do not tamper with the network to bypass billing and we do not make unauthorized charges or credits to customer accounts. Team members are the first line of defense in protecting TELUS assets.

Team members must not make adjustments to their own accounts or services, or to those of family members, friends, co-workers or acquaintances. Customer facing business units may exercise their discretion to establish procedures for the adjustment

of team member accounts. Team members in Network Operations may only do so if specifically authorized by trouble ticket or customer order.

Personal Use of Communication Devices

In our future friendly world, communication devices (whether the company's or our own) are used for both business and personal purposes. Electronic communication may occur via a wide range of technologies including, but not limited to computers, telephones, personal digital assistants (PDA), fax machines and Internet connections. This can take the form of emails, texting, research, blogs, social networking, peer to peer file transfers and physical exchange of media (e.g. CD's, USB storage devices and devices such as iPods). As we communicate in any of these ways, we may identify ourselves as TELUS team members either by naming the company or by our email or IP addresses.

While we permit team members to use TELUS-provided communications devices for personal purposes, such use should be limited, should not interfere with our duties or negatively impact TELUS in any way. We expect any such personal use to take place before or after the normal working day, or during reasonable permitted breaks from business work subject to local management approval and the needs of the business.

Team members must comply with all TELUS policies when using TELUS-provided communications devices for personal use. We are responsible for all of our actions while using TELUS-provided communication devices. TELUS routinely monitors the use of its systems and equipment, including emails and Internet access. Abuse may result in disciplinary action. Team members are referred to the Corporate Security Policies for further details on the acceptable use of company equipment (including email and Internet use).

In our personal electronic communications using either TELUS-provided devices or personal devices where we are identified as a TELUS team member, we should:

- Remember that these communications provide a permanent record and we may be operating in a public space.
- Use common sense when offering our personal opinions to avoid subjecting either TELUS or ourselves to legal action. To help avoid confusion, add the following notice: "the views expressed on this website/weblog/email are mine alone and do not necessarily reflect the views of my employer".
- Not disclose information that is confidential to TELUS or to any third party that has disclosed information to us.
- Show respect towards other persons and organizations and avoid defamatory or discriminatory messages.
- Avoid offensive content of any kind, including pornography and materials promoting violence, discrimination or hatred.
- Not display the TELUS logo or brand images in personal communications without written permission from a senior manager or the Brand Office.
- Not disclose personal information about ourselves that we do not want the public to be aware of, nor disclose personal information about others.

Case Studies

Problem

How do I tell if a document (paper or electronic) is proprietary if it is not marked as such?

Action

You should begin by asking the person who issued the document. If you cannot find the source of the information, consider the nature of the information itself. For example, does the information deal with highly sensitive company strategy, sales and marketing initiatives, or important human resources issues? If you are still uncertain, speak to your manager.

Problem

I am attending an important sales meeting next week and I have to prepare a presentation using slides and fairly complicated charts. My co-worker has the software I need to put the presentation together, and he has offered to lend it to me so I can install the program on my computer. Can I go ahead?

Action

No. The use of software on unlicensed computers is strictly prohibited by law. You must verify and respect the manufacturer's conditions of license or the agreement under which the software was acquired. By copying your colleague's software into your computer, you may be breaking the software company's agreement as well as copyright laws and placing the company at risk of prosecution for copyright infringement. You should speak to your group's computer administrator to discuss your software needs.

Problem

I am part of a team working on a piece of the quarterly financial results. In the course of my work, I regularly see the draft package of all the results before they are approved for release. One evening, my neighbor asks me, "How is TELUS doing these days?" In this casual conversation, is it acceptable if I answer, "Well, I can tell you one thing; the results are really good this quarter.

Action

No, it is not. This information is not yet public and therefore it should be regarded as confidential proprietary company information. In addition, if this information is material (i.e. would reasonably be expected to have a significant effect on the value or price of TELUS shares), you may also have engaged in "tipping" in violation of securities law.

Problem

I am traveling on business and have brought my corporate credit card for these business related expenses. When I am shopping one evening, I spot the perfect gift for my parents' 40th wedding anniversary. Without thinking, I pull out my corporate credit card and buy it right away. When I return to the office, I realize I have made a mistake. What should I do?

Action

Corporate credit cards are for business use only, and should not be used for personal purchases of any kind. Intent to repay does not negate the fact that the credit card has been used inappropriately. Since you have misused the credit card you should inform your manager, code your expense statement so that this expense is deducted from your next pay cheque and ensure this does not happen again. Otherwise, you may face discipline as a result of your actions.

Problem

I would like to search for a new car on the Internet and compare notes with friends on a social networking site. Is this allowed from my workstation?

Action

Reasonable personal use of your TELUS-provided communication device (e.g. computer, cell phone, PDA) to access the Internet is allowed provided it complies with our policies, is carried out on personal time, does not interfere with your work or negatively impact TELUS in any way. Remember that business needs must take priority in the allocation of our time at work and that TELUS monitors such traffic and logs of this activity may be used in an investigation of a breach of our policies.

Problem

While surfing the web, I came across a forum where people discuss TELUS products and services. I saw questions, praise and some criticism of TELUS. What should I do?

Action

We encourage you not to participate in discussions about TELUS on the Internet. You may open yourself and TELUS to unacceptable risk since you may inadvertently disclose confidential information about TELUS as you defend the company or be viewed as speaking on behalf of TELUS when you have not been authorized to do so. If you do participate in such discussions in a personal capacity, you may

not discuss confidential information about TELUS.

Conflict of Interest

As team members, our first business loyalty must be to TELUS. We must avoid situations or relationships that may be harmful or detrimental to the best interests of the Company and result in a conflict of interest. A conflict arises whenever we face a choice between what is in our personal interest (financial or otherwise) and the interests of TELUS. We must not only avoid any actual or potential conflict of interest, but also situations where there is an appearance of conflict of interest. In such circumstances, team members must take action to eliminate the conflict of interest or the perception of conflict of interest.

We must disclose actual or potential conflicts of interest to our manager . Each situation must be considered individually and the potential for conflict of interest determined based on the parties involved, level of access to business information, decision-making authority, job duties / responsibilities, position within the organization, and potential impact on others.

This section is intended as a guide in those areas in which conflicts of interest most often arise. It is not intended to be definitive or all-inclusive, as guidelines cannot cover every situation that could give rise to a conflict of interest.

Relationships

Conflict of interest may occur when a team or family member gains personal benefit from a business relationship with TELUS, or from an outside business with which TELUS has a relationship such as a customer, supplier, contractor, consultant, agent, vendor, channel partner or dealer. This personal benefit may take the form of an ownership interest in or a role as a director, officer or employee of an entity that is engaged in a business relationship with TELUS.

This guideline does not prohibit team members from holding publicly traded shares of an entity with which TELUS has a business relationship or a competitor provided that the team member does not have a significant investment in the entity and does not acquire the shares based on material undisclosed confidential information obtained as a result of employment with TELUS or by being a member of the Board of Directors of a TELUS company.

Team members may not participate in a decision to hire, transfer or promote a family member, or be in a position of direct or indirect position of influence over a family member. Team members may not supervise a family member nor have direct or indirect authority over employment-related decisions that impact a family member such as pay, performance ratings, work assignments, discipline, training or termination. Team members who have authority over decisions that impact former team members should be cognizant that real or perceived conflicts of interest may continue to arise when they make decisions that affect a family member who is also a former TELUS team member.

Family member is defined as a spouse (including common-law spouse and same sex partner), child, stepchild, parent, sibling, niece, nephew, aunt, uncle, cousin, grandparent, grandchild, in-law (including mother-in-law, father-in-law, son-in-law,

daughter-in-law, sister-in-law, brother-in-law) or any person (other than domestic employees) residing in the same household as the TELUS team member.

TELUS Board members must disclose any family or personal relationship with TELUS team members or with TELUS job applicants to the Chair of the Corporate Governance Committee in order that the Committee may determine whether the relationship impacts the Director’s independent status.

Situations may arise where broader familial relationships and other close personal associations cause real or perceived conflicts of interest or the possibility of real or perceived improper influence. Team members should be sensitive to these concerns and demonstrate good business judgment in the best interest of TELUS and in keeping with the spirit and intent of this policy. Any uncertainty should be discussed with the appropriate HR business partner.

Team members must not be involved in any negotiations or transactions with customers, suppliers, contractors, consultants, agents, vendors, or outside parties where the team member has a personal, commercial or financial interest in the outcome of the negotiations.

Board Members, Executives and Senior Finance Managers have a duty to disclose whether they have a relationship with the Company’s External Auditor.

Competition

Conflict of interest may occur when a team member or family member gains personal benefit from an outside business in competition with TELUS.

Future Business

Over time, TELUS may expand into new businesses or change its product lines or services. Team members are responsible for re-examining their individual situations on a regular basis to avoid becoming involved in a conflict of interest situation where no such conflict previously existed.

Outside Demands

It is a conflict of interest to have an outside interest that demands so much time and energy that it interferes with the team member's ability to do TELUS work. This could include any charitable activities that require time and effort during normal working hours, except for situations where the individual is acting in a representative capacity at the request of TELUS with the explicit and written permission of his or her manager.

Information

Team members may not disclose or use for any personal reason, including personal gain, any confidential information (including competitive intelligence) obtained through employment with TELUS or by being a member of the Board of Directors of a TELUS company.

Insider Trading

As detailed in the TELUS Insider Trading Policy and summarized here, team members may not trade in shares or other securities of TELUS or any other company while in possession of undisclosed material information relative to the company whose securities are being traded. Nor may team members inform or tip any other person, including their immediate family, of any undisclosed material information, other than in the "necessary course of business". The "necessary course of business" exception is a limited one and exists so as not to unduly interfere with a company's ordinary business activities. Please see the TELUS Insider Trading Policy for more information.

Material information in respect of a company is information that could reasonably be expected to have a significant effect on the market price or value of any securities of that company.

Gifts and Benefits

TELUS team members shall not offer or accept, directly or indirectly, gifts, gratuities, rewards, favours or benefits from any organization or person having business dealings with TELUS other than as described below. These guidelines apply at all times and do not change during traditional gift-giving seasons.

It is not a conflict of interest to accept hospitality or entertainment, provided it is reasonable, and is within the limits of responsible and generally accepted business practices. However, team members should not accept gifts or receive benefits that are intended to influence, or appear to influence, a particular business decision. Acceptable benefits in the normal course of business for TELUS employees typically are less than $250 Canadian or the close equivalent in other currencies and include

- Transportation to or from the customer's or supplier's place of business
- Hospitality suites
- Attendance at sporting or cultural events
- Business lunches or dinners
- Small seasonal holiday gifts or prizes to be used in office draws and raffles

Third party-paid seminars or conferences may be appropriate if there is a clear benefit to TELUS for attending and the attendance is approved in advance by the manager. In order to avoid a real or perceived conflict of interest, team members should consider TELUS funding incremental expenses (e.g. airfare and hotel).

Team members with supplier selection, negotiation, purchasing or contract management roles within TELUS are subject to more stringent professional purchasing requirements regarding gifts and benefits and maintaining appropriate relationships with suppliers **and should therefore not accept any gifts or benefits from suppliers or potential suppliers without the explicit and written permission of his or her manager.**

Case Studies

Problem

My wife and I have been looking for a way to make some extra money. Our neighbor introduces us to a multi-level marketing firm that distributes hundreds of products at wholesale prices to individuals. The individuals, in turn, sell the items to others at higher-than-wholesale prices. My wife is confident she can sell the products and we would benefit from the extra income. However, as I flip through the company catalogue, I see the company sells products from a TELUS competitor. Our neighbor insists my wife can and should sell everything in the catalogue. When I point out the products in competition with products offered by TELUS, our neighbor tells me that since my wife is not a team TELUS member it is okay for her to give her customers what they want.

Action

Although your wife is selling a competitor's product, this does not automatically create a conflict of interest position. A conflict of interest will exist if your ability to act in the best interests of TELUS is compromised. You and your wife need to carefully consider whether one or both of you have access to confidential or proprietary information such as, but not limited to, product specifications, marketing plans, or confidential team member, supplier, contractor, or customer information. Obtaining from, or disclosing to, one another such information will create a conflict of interest. Assuming no such situation exists, it is possible that you would not be in a conflict of interest position. If you are in any doubt, you should disclose and discuss the situation with your manager.

Problem

I work in a senior marketing position at TELUS and operate my own business after hours. Though I use my marketing skills, the business in no way competes with TELUS business. I started small - out of my basement. But my business is gradually generating more and more revenue. I am considering hiring a part-time manager, as I am not ready to leave my full time employment. Once my own business can pay me as much as my salary does, I will devote my full attention to it. I have the best of both worlds - a salary and a blossoming business for future security. Is this a conflict of interest?

Action

No. If, however, TELUS decides in the future to enter the same line of business that your company is in, you will be in a conflict of interest position, even though you were in that business first. You must then decide which of your two interests, your own company or your employer's, will receive your full attention. Since TELUS is not currently in the same line of business as your company, you are operating ethically, as long as it remains an after-hours pursuit.

Problem

I recently married someone who runs their own business: they own a local franchise selling a competitor's cellular phone service. We have agreed not to talk about our business days. Instead our private conversations are filled with hopes and dreams for our future, discussion of hobbies and mutual family events. One day, my manager advises me that I could be in a conflict of interest position. What should I do?

Action

You are in a situation that may leave the impression of a conflict of interest. Even though you and your new spouse have decided not to talk about your business lives, people outside the marriage—including your employer—may perceive you are in a conflict of interest position. You should discuss your situation with your manager and identify the extent to which your access to TELUS' information could benefit your spouse's company and develop alternatives to avoid any appearance of a conflict of interest.

Problem

I install telecommunications inside wiring for small-and medium-sized business customers. With the growth of the Internet and other communications services, demand for my expertise is booming. Can I take advantage of this opportunity and start up an installation business on my own time?

Action

No. You cannot engage in any outside activity that might take business away from TELUS or any of its subsidiaries. Furthermore, as a team member, you are expected to contribute your energy and ideas to your job at TELUS. To avoid a conflict of interest, or even the appearance of such a conflict, you should discuss your planned outside business activities with your manager.

Problem

My spouse has just become an executive sales manager for a company that services the computers in my department. Do I need to tell anyone about this?

Action

Yes. One of your spouse's competitors or a fellow TELUS team member could claim that your spouse gets TELUS' business because you are a TELUS team member. You should notify your manager and make sure you are not involved in any decisions regarding your spouse's company.

Problem

I am a contract administrator with TELUS and love the mountains. I have mentioned my fondness for mountain parks a few times in general conversations with a particular company supplier. While seeking bids for a major order, I receive a phone call from that supplier. He offers me and my family free use of his luxury vacation condominium. He says he is not using it and says it would be a shame to have it sit empty when he knows how much I enjoy the mountains.

Action

The supplier has made a generous offer. Too generous. Your use of the condominium appears offered in exchange for future special treatment from you in your position with TELUS. You should decline the offer.

Problem

While at lunch, I overheard a conversation between two other TELUS team members regarding company plans to make a minority investment in a business that develops communications software. Can I buy shares in the software company or suggest to my spouse that she do so?

Action

No. Although you found out about TELUS' planned investment by accident, you are prohibited from buying shares by virtue of the fact that you are a member of the TELUS team. Your spouse is also prohibited, because she obtained information about the proposed investment from you, a TELUS team member. However, you and your spouse will be able to buy shares when TELUS' investment in the software company becomes publicly disclosed.

Problem

As a network engineer with TELUS, I have significant influence over the selection of the company's suppliers. I have known the owner of one of TELUS' suppliers since we were kids and have always maintained a close personal relationship. I have no personal, commercial or financial interest in the supplier. Is there still an appearance of conflict?

Action

Yes. Although you may not have a personal, commercial or financial interest in the outcome of the business relationship with this person, there may still be an appearance of bias or preferential treatment towards their company. You must take action to eliminate the perception of conflict of interest. Examples of such actions include removing your involvement from the selection of the company's preferred suppliers or having a second person (a superior or a peer) co-approve the supplier selection decision.

Problem

I am a customer service manager with TELUS and my nephew is seeking employment as an engineer with TELUS. Am I able to recommend him for employment?

Action

To avoid a conflict of interest, you should have no involvement in the selection decision. However, you may provide a written personal reference to the appropriate HR recruitment manager.

Problem

One of my vendors offered to send me to a conference at no cost to TELUS. Can I accept the invitation?

Action

Not without considering if there is a real or perceived conflict of interest and obtaining the approval of your manager. One way to avoid this conflict is for

TELUS to fund the incremental costs associated with your attendance at the conference (e.g. travel and hotel).

Problem

As a senior member of team TELUS, I have been asked to approve the expansion of high speed service to a rural area where my family has recreation property. Should I be concerned about a possible conflict of interest?

Action

Yes. Although you are approving the expansion of service in the interests of TELUS and its rural customers, the fact that your family will also benefit could lead to perceptions of a conflict of interest. In order to eliminate this perception, you should inform your manager of the relationship. Actions that could be taken to eliminate this perception include removing your involvement from the approval process or have a second person (a superior or peer) co-approve the expansion decision.

Dealing with Suppliers, Contractors, Consultants and Agents

We value our relationship with suppliers, contractors, consultants and agents and those acting on behalf of TELUS because they contribute to our overall success. We strive to ensure our business dealings with them are ethical and that they understand our expectations of them for compliance with applicable TELUS policies.

Selecting Suppliers, Contractors, Consultants and Agents

- We strive to award business to suppliers, contractors, consultants and agents who are in compliance with applicable laws and regulations in their business relationships, including those with their employees, their communities and TELUS.
- We strive to select our suppliers, contractors, consultants and agents based upon objective and fair criteria including but not necessarily limited to business need, price, service, quality, reputation for ethical conduct and health, safety and environmental business

considerations.

Adherence to applicable TELUS policies

- We expect the suppliers, contractors, consultants and agents with whom we do business to demonstrate similar values and standards as the applicable TELUS policies.

- We strive to ensure that our suppliers, contractors, consultants and agents are made aware of applicable TELUS policies specific to the work for which they are being engaged.

Case Study

Problem

Our team was tasked to construct a specialized telephone network for a customer in a very restricted timeline. We chose a locally reputable contractor that was not on TELUS' preferred list of contractors because none of these contractors had the resources or skills to complete this project by the deadline. In our contractor selection we ensured it was not done at the expense of objective fair criteria such as quality service and price. What else should we do?

Action

We should also ensure our contractor is made aware of applicable TELUS policies specific to the work for which they are being engaged.