

human resources and compensation committee: mandate and report

Mandate

The Human Resources and Compensation Committee of the Board of Directors is responsible for developing the compensation philosophy and guidelines on executive compensation, overseeing succession planning for the executive team, determining CEO goals and objectives relative to compensation and evaluating CEO performance, reviewing and recommending CEO compensation based on its evaluation, and determining compensation for executives other than the CEO. The Committee annually reviews and reports to the Board on senior management organizational structure, and manages the Board-approved equity-based incentive plans and supplemental retirement arrangements (other than registered pension plans) for the executive team.

Membership

Name	Independent
Charlie Baillie (Chair)	Yes
John Butler	Yes
John Lacey	Yes

Meetings

The Committee meets at least once each quarter and reports on its activities to the Board. Activities reviewed are based on its mandate and annual work plan. At each regularly scheduled quarterly meeting, the Committee holds an in-camera session without management present. It met four times in 2008 and held four in-camera sessions.

Compensation Committee advisors

The Committee has retained the services of an external executive compensation consultant, Hewitt Associates. The mandate of the consultant is to serve the Company and work for the Committee in its review of executive compensation, including the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations. The nature and scope of services rendered by Hewitt Associates to the Committee are described below:

- competitive market pay analyses and market trends for executive compensation;
- ongoing support with regard to the latest relevant regulatory, technical and accounting considerations impacting executive compensation and executive benefit programs, including proxy disclosure; and

- preparation for and attendance at Committee meetings and selected management meetings.

The Committee did not direct Hewitt Associates to perform the above services in any particular manner or under any particular method. The Committee has the final authority to hire and terminate the consultant, and the Committee evaluates the consultant annually.

The Committee approves the annual work plan and all invoices for executive compensation work performed by the compensation consultant. Hewitt Associates may perform other services for the Company. Since 2005, Hewitt Associates is required to notify the Committee of any material engagement by TELUS management on non-Board related work. For 2008, this work included consulting on benefits design, employee engagement, and certain employee-related communications. The Hewitt Associates representative who advises the Committee has no involvement in the provision of any non-Board work by Hewitt Associates to TELUS management. Since 2007, Hewitt Associates has been required to obtain prior approval from the Committee Chair (or his or her delegate) for any material non-Board work.

In addition, Hewitt Associates was engaged by the Corporate Governance Committee in 2008 to assist in determining a comparator group and to gather comparators' information on director compensation. This information was used by the Corporate Governance Committee in its determination of the Company's director compensation.

For 2008, the Company paid to Hewitt Associates fees totaling approximately \$222,510 for services to the Human Resources and Compensation Committee and Corporate Governance Committee. The Company also paid to Hewitt Associates approximately \$195,184 for non-Board work.

Highlights

The following sets forth highlights of the actions taken by the Committee in 2008.

President and CEO

- reviewed and approved the corporate goals and objectives relevant to CEO compensation;
- assessed performance of the CEO with the input of the Board and reported the results to the Board;
- reviewed the form and adequacy of CEO total compensation;

human resources and compensation committee: mandate and report continued

- reviewed and recommended to the Board for approval the succession plan for the CEO; and
- reviewed and recommended to the Board for approval the CEO's compensation, based on the evaluation of his performance and the Committee's review of the form and adequacy of CEO compensation.

Executive management

- reviewed and approved pension service changes for certain executives (see page 45 for further detail);
- reviewed and discussed findings of a Hewitt Associates analysis to evaluate the degree of challenge incorporated in the Company's corporate financial scorecard goals, to allow the Committee to be satisfied as to the degree of stretch incorporated in the goals and to affirm management is using appropriate scorecard measures;
- reviewed and recommended for approval to the Board the proposed appointment of individuals as executives and as corporate officers of the Company;
- reviewed and approved changes in role and employment terms of certain executives;
- reviewed the Company's compensation philosophy and guidelines for executives by assessing the linkage of executive compensation philosophy and executive incentive plans to the Company's financial and non-financial performance, support of the Company's business strategy, and alignment with the Company's employee compensation philosophy;
- reviewed the CEO's evaluation of the performance of individual executives;
- reviewed and approved the selection of a comparator group for benchmarking executive compensation;
- considered market trends and data, and then reviewed and approved the form and adequacy of compensation for executives other than the CEO;
- reviewed and approved the compensation of individual executives other than the CEO, after considering the evaluation and recommendations of the CEO and applying the Company's compensation principles as described below;
- received updates on the share ownership of executives relative to target; and
- reviewed and approved the succession plan for each executive.

Equity plans

- reviewed and recommended to the Board for approval the annual stock option and restricted stock unit grants (RSUs) to management (including executives) for 2008 performance;
- approved annual grants of restricted stock units (ESUs) under the Executive Stock Unit Plan (ESU Plan) to non-executive management for 2008 performance;
- approved ad hoc grants under the Restricted Stock Unit Plan (RSU Plan) to certain non-executive management for retention purposes;
- considered and recommended to the Board for approval a change to the Employee Share Purchase Plan to reduce the employer contribution by five per cent;
- reviewed and recommended to the Board for approval certain changes to the Directors' Share Option and Compensation Plan, RSU Plan and ESU Plan to reflect the final regulations issued under the U.S. Jobs Creation Act;
- received reports on the status of the option share reserves, and monitored discretionary long-term incentive awards; and
- reviewed and recommended to the Board for approval the replenishment of a discretionary pool of options that may be granted at the CEO's discretion to non-executive management for reward, retention and recognition purposes, subject to the parameters specified by the Committee and oversight by the Committee.

Governance

- reviewed the Committee's terms of reference and determined that no amendment was necessary;
- reviewed and approved the Committee's annual work plan;
- received regular updates from management and the compensation consultant, and considered proposed and new Canadian and U.S. regulatory requirements and case law, as well as evolving best practices on executive compensation matters;
- received compliance reports on a quarterly basis from the Respectful Workplace Office;
- approved the annual work plan, budget and fees of the compensation consultant and conducted an annual performance assessment of the compensation consultant; and
- received an overview on executive pension plans as part of the Committee's education program.

Public disclosure

- reviewed and approved for publication the compensation discussion and analysis that follows.

compensation discussion and analysis

The Human Resources and Compensation Committee (the Compensation Committee) is responsible for reviewing and approving the compensation arrangements of all executives other than the CEO, and for reviewing and recommending to the Board for approval the compensation arrangements of the CEO.

Compensation philosophy

A key mandate of the Compensation Committee is to maintain an executive compensation program that achieves three objectives:

- to advance the business strategy of the Company;
- to enhance the growth and profitability of the Company; and
- to attract and retain the key talent necessary to achieve the business objectives of the Company.

The Compensation Committee is a strong proponent of pay for performance. The Company creates a clear and direct linkage between compensation and the achievement of business objectives – in the short-term, medium-term and long-term – by providing an appropriate mix of fixed versus at-risk compensation, and immediate income versus future income linked to the Company's share performance.

To achieve those objectives, the Compensation Committee utilizes both a market-based approach and a performance-based approach. An executive's actual compensation is determined using his or her personal performance, together with corporate and business unit performance and competitive market compensation data.

Benchmarking

Every three years, or more frequently if required, the Compensation Committee (with input from the compensation consultant and management) selects for benchmarking purposes a comparator group made up of competitors of the Company as well as companies in other Canadian industries with revenue similar to that of the Company and executive positions of similar scope and complexity with which the Company would compete for executive talent in the marketplace. In order not to over-estimate competitive practices, benchmarking results are regressed (size-adjusted) to the Company's revenues using statistical analysis where appropriate. At least once annually, the Compensation Committee reviews the composition of the comparator group to ensure it remains appropriate, and will make adjustments as the Compensation Committee deems necessary.

The companies included in the 2008 comparator group had revenue which ranged from \$2.10 billion to \$19.1 billion (based on 2007 results), with an average of \$8.6 billion and a median of \$7.7 billion compared to the Company's revenue of \$9.1 billion (as at December 31, 2007). The companies in the 2008 comparator group were:

Company	Company
BCE Inc.	Quebecor Inc.
Canadian Tire Corporation	Rogers Communications Inc.
Celestica Inc.	Sears Canada Inc.
EnCana Corporation	Shaw Communications
Hudson's Bay Company	Shell Canada Limited
Husky Energy Inc.	Sobeys Inc.
Noranda Inc./Falconbridge	Suncor Energy Inc.
Petro-Canada	Talisman Energy Inc.
	The Thomson Corporation

The Compensation Committee reviews and benchmarks the compensation mix and total proposed compensation of the Company's executives against the compensation mix and total compensation of executives in the comparator group to ensure that the Company provides competitive compensation. The Compensation Committee also benchmarks and considers against the comparator group the value of the other elements of an executive's total compensation such as benefits, retirement programs and perquisites. The Compensation Committee engages and receives expert advice from the compensation consultant who conducts surveys and provides competitive data and market trends, and considers any management recommendations that may be offered. The benchmarking data along with other relevant factors such as internal equity and strategic significance of the role are used to develop a base salary range and a total compensation target for each executive position, as well as the appropriate mix of benefits and perquisites. Actual compensation is measured against the benchmark data but is driven by an executive's performance.

Named executive officers

The named executive officers are Darren Entwistle, CEO; Robert McFarlane, Executive Vice-President and CFO; Joe Natale, Executive Vice-President and President, Business Solutions; Kevin Salvadori, Executive Vice-President, Business Transformation and Technology Operations; and Eros Spadotto, Executive Vice-President, Technology Strategy.

Compensation mix and 2008 awards

The key components of the Company’s executive compensation program consist of fixed base salary and variable at-risk compensation. The Company targets annual base salary at the 50th percentile of the selected comparator group, and total compensation (base salary and all at-risk compensation) at or about the 75th percentile of the selected comparator group, but only if performance warrants. Applying the above principles has generally resulted in executive base salary making up approximately 25 per cent of the executives’ total compensation with at-risk incentive pay making up the remaining 75 per cent at target.

Additional compensation, such as retention awards and signing bonuses, may be paid from time to time if the Compensation Committee deems it is appropriate.

Elements of compensation and compensation mix (at target) for executives

The following table depicts the key compensation elements and desired mix that the Company has adopted to achieve its compensation objectives, as well as the results of the actual mix achieved in 2008. More details follow the table.

Compensation element and mix at target	Provided as	2008 actual for entire executive team
Annual long-term incentive 50% of total compensation (at-risk compensation)	Stock options and/or RSUs	Averaged 52.9%
Annual medium-term incentive 12.5% of total compensation (at-risk compensation)	ESUs	Averaged 7.1%
Annual variable pay 12.5% of total compensation (at-risk compensation)	Cash	Averaged 10.1%
Annual base salary 25% of total compensation (fixed compensation)	Cash	Averaged 29.9%

2008 actual compensation mix

For 2008, base salary paid to the executives averaged approximately 29.9 per cent of their overall total compensation while at-risk pay averaged approximately 70.1 per cent of their overall total compensation, thus reflecting the Company’s focus on pay-for-performance. Total compensation for the executive team (base salary and all at-risk pay) was below the 50th percentile of the selected comparator group. The breakdown among at-risk pay is depicted in the above chart.

2008 actual base salary compensation

The 2008 base salary of the CEO and the other named executive officers were unchanged from 2007, except for increased base salaries to Kevin Salvadori and Eros Spadotto to reflect the results of the annual market compensation study and, in the case of Mr. Salvadori, to also reflect his significantly expanded role and responsibilities. The total base salary paid to the entire executive team was below the 50th percentile of the selected comparator group.

Base salary

Methodology

The Company targets base salary at the 50th percentile of the comparator group, and then makes adjustments to individual base salaries that it considers appropriate to recognize the executives’ varying levels of responsibility, prior experience, breadth of knowledge, overall individual performance and internal equity, and the pay practices of companies in the comparator group. The Compensation Committee considers and approves base salaries of the executive vice-presidents (EVPs), while the Board approves the CEO’s base salary based on the Compensation Committee’s recommendations.

At-risk incentive pay methodology

At-risk incentive pay consists of three components:

- annual variable pay (annual cash bonus);
- medium-term incentives (ESU awards); and
- long-term incentives (RSU and/or option awards).

The annual cash bonus and ESU awards are directly linked to and determined by corporate, business unit and individual performance measured against objective targets set for the Company, each business unit and each executive, respectively. RSU and option awards are based on the executive’s individual performance and value, as measured by his or her personal value-add assessment model (PVAAM) rating (described below on page 37).

The Company does not have a formal policy regarding the retroactive adjustment or recovery of awards, earnings, payments or payables if the performance goal or similar condition on which they are based is restated or adjusted to reduce the award, earning, payment or payable. The Company believes that such adjustment is inherent in the compensation mix and form of payment, since a significant portion of an executive's total compensation is tied to future share price performance. In addition, the Company may make ad hoc adjustments when it deems appropriate, as it did for 2008 compensation (see page 31).

At-risk pay: annual variable pay (annual cash bonus)

Methodology

The annual cash bonus is designed to reward the achievement of business objectives in the short-term by providing immediate income in cash.

This element of at-risk compensation is determined at the end of the year by rating the extent to which the performance of the Company, the business units, as well as individual performance, met or exceeded objectives. This component equals 50 per cent of annual base salary for at-target performance.

Performance of the Company is measured against objectives set out in a balanced scorecard (the corporate scorecard) and approved by the Compensation Committee. Performance of a business unit is measured against objectives set out in a balanced scorecard for that business unit (the business unit scorecard) and approved by the CEO. Individual performance is measured against personal objectives of that executive as well as the display of leadership skills by that executive (the personal performance objectives). The Committee oversees the personal performance objectives of the CEO, and the CEO oversees the personal performance objectives of all EVPs.

Objective setting – corporate, business unit and individual

For the determination of incentive payments to the CEO and EVPs, corporate, business unit and individual performance objectives are set each year. Financial metrics in the objectives are largely set based on targets that meet or exceed the annual budget approved by the Board.

The Company largely selects quantifiable performance metrics that are measurable and auditable and stress tests these targets against prior year actual performance before adoption to check for year-over-year consistency.

The Company also stress tests its current year results to its prior year's scorecard to determine year-over-year continuous improvement. Targets and stretch targets to determine when these metrics have been met or exceeded are set out in the corporate scorecard, business unit scorecards and the individual's personal performance objectives.

Partially meeting objectives would result in a reduced award. Payout on the corporate and business unit components of performance can range from zero for substandard performance to a maximum of 250 per cent for exceptional performance, while payout on the individual component of performance can range from zero for substandard performance to a maximum of 250 per cent for exceptional performance. This approach ensures that at-risk incentive pay reflects actual performance and requires truly outstanding results to deliver payments exceeding the target award.

All performance metrics are tied to the six strategic imperatives of TELUS:

- focus relentlessly on the growth markets of data, Internet protocol (IP) and wireless;
- build national capabilities across data, IP, voice and wireless;
- partner, acquire and divest as necessary to accelerate the implementation of the Company's strategy and focus its resources on core business;
- provide integrated solutions that differentiate TELUS from its competitors;
- invest in internal capabilities to build a high-performance culture and efficient operation; and
- go to market as one team, under a common brand, executing a single strategy.

The performance metrics selected, at either the corporate or applicable business unit level, measure performance relating to profitable growth, customer service and loyalty excellence, business efficiency and effectiveness, and TELUS team engagement.

Individual performance objectives of the CEO consist of strategic and operational objectives that support that year's strategic priorities for the Company plus any other goals that may be set by the Board.

Individual performance objectives of each EVP support the individual performance objectives of the CEO and primarily consist of the strategic and operational objectives from the CEO's performance objectives that are led by the business unit of that EVP, other goals that are set by the CEO including those that are contained within their business

compensation discussion and analysis continued

unit scorecards, and that individual's leadership as measured by the CEO.

The CEO assesses the personal performance results achieved by each EVP. The Compensation Committee then reviews the CEO's assessments, his recommendations on incentive payments, the corporate and business unit results, and determines the annual cash bonus and ESU award of each EVP. The Compensation Committee with input from the Board assesses the personal performance results achieved by the CEO. Based on such assessment and corporate and business unit results, the Committee recommends to the Board for approval the annual cash bonus and ESU award of the CEO.

Increased difficulty in achieving performance targets

The targets for both disclosed and undisclosed performance metrics are made more difficult each year in order to promote continuous stretch and performance improvement year over year. As a general principle, the threshold target for any metric (yielding a 0.5x multiplier) must meet or exceed the actual result on that metric in the previous year. The target (yielding a 1.0x multiplier) for any budget-related metric is generally set at or above the corresponding number in the corporate budget approved by the Board.

Undisclosed performance metrics

Certain performance metrics, primarily found in the business unit scorecards and individual performance objectives, can be used to identify specific strategies, business plans and programs at the Company or specific business unit levels that are not publicly disclosed. TELUS is of the view that disclosure of these performance metrics, including various supporting indices and underlying benchmarking and standards, would seriously prejudice the Company's interests in the highly competitive industry in which the Company operates, including the anticipated imminent entry of new wireless service providers who can be expected to intensify the competition for customers and a highly talented and knowledgeable workforce. These undisclosed metrics, and their associated targets and results, are generally described rather than specifically disclosed in the relevant sections below.

2008 corporate performance metrics

The following chart describes the corporate performance metrics and results that make up the 2008 corporate objectives. Business unit and individual performance metrics and results for each named executive officer are discussed starting on page 32.

Objectives	Performance metrics	2008 targets (1.0x)	2008 results	Quadrant multiplier
Profitable growth	Consolidated revenue	\$ 9,819 million	\$ 9,653 million	The objectives in this quadrant were partially met, resulting in a quadrant multiplier of 0.56
	Free cash flow	\$ 1,458 million	\$ 1,341 million	
	Earnings per share (EPS)	\$ 3.58	\$ 3.33	
Customer excellence	Network access line (NAL) losses (wireline)	NAL losses (wireline): -3.50%	NAL losses (wireline): -3.58%	The objectives in this quadrant were partially met, resulting in a quadrant multiplier of 0.60
	Various indices that aid in assessing different aspects of customer excellence ⁽¹⁾	Targets for indices were set based on various benchmarks and standards	Targets exceeded threshold and were partially met	
Business efficiency and effectiveness	Consolidated earnings before interest and taxes (EBIT) before restructuring	\$ 2,128 million	\$ 2,021 million	The objectives in this quadrant were partially met, resulting in a quadrant multiplier of 0.43
	Corporate project performance index ⁽²⁾	Target was based on various benchmarks and standards	Target was not met	
TELUS Team	Team member engagement index	58%	58%	The objectives in this quadrant were partially met, resulting in a quadrant multiplier of 0.67
	Attrition (high performers)	Not disclosed	Target was not met	
	Team TELUS Cares participation	37%	37%	

(1) Internally developed indices made up from a composite of various benchmarks and standards; designed to measure the quality of customer service provided by the Company, customer loyalty, and the Company's ability to attract and retain customers and expand its share of their business.

(2) Internally developed index designed to measure the Company's effectiveness in planning and carrying out major initiatives.

Of the metrics outlined in the above chart, EBIT (earnings before interest and taxes) and free cash flow are both non-GAAP (generally accepted accounting principles) financial measures. For the purpose of the scorecard metrics, consolidated EBIT before restructuring, free cash flow and EPS were derived from the Company's 2008 audited consolidated financial statements as follows:

- Consolidated EBIT before restructuring: net income and common share and non-voting share income, adding back restructuring costs, financing costs, income taxes and non-controlling interests, as reported; then subtracting the impact of performance bonus adjustments.
- Free cash flow: free cash flow based on defined benefit plans net expense (as reported in Section 11.2 of the Management's discussion and analysis (MD&A) in the TELUS 2008 annual report – financial review); then adding

back the AWS spectrum licences payment, and subtracting the impact of performance bonus adjustments and the difference between original 2008 targeted and 2008 actual capital expenditures (see Section 1.4 of the MD&A).

- EPS: basic earnings per share as reported; then subtracting income tax-related adjustments (see Section 1.4 of the MD&A) and the impact of performance bonus and other adjustments.

The undisclosed performance metrics in the corporate scorecard (the specific indices and underlying benchmarking and standards, and the attrition rate of high-performing employees) accounted for 40 per cent of the 2008 corporate scorecard and, for named executive officers, are as specified in the respective discussions below. Please see page 30 for a general discussion on the difficulty in achieving these performance targets.

2008 scorecard results

2008 corporate, business unit and individual performance results, and the resulting impact on the value of the annual cash bonuses (annual variable pay) and ESU awards (medium-term incentives) to all executives, are set forth in the table below.

	Corporate scorecard	Business unit scorecard	Individual performance	Cash award as % of base salary	ESU award as % of base salary
At-target performance	1.0	1.0	1.0	50%	50%
Actual 2008 performance results (after downward adjustments)	0.57	Averaged 0.67	Averaged 0.86	Averaged 33.6%	Averaged 23.8%

The undisclosed performance metrics in the corporate scorecard accounted for 0.16 of the 2008 corporate scorecard multiplier of 0.57.

2008 actual at-risk compensation of named executive officers

The 2008 compensation program once again demonstrated the strong alignment between the Company's compensation program and its pay-for-performance philosophy. Below-target performance against corporate and business objectives, despite strong individual performances, led to reduced annual cash bonuses and ESU awards for all executives. The overall annual cash bonus to all executives ranged from 29.3 per cent to 36.9 per cent of their base salaries compared to at-target performance of 50 per cent.

Reflecting its strong commitment to linking at-risk incentive pay to actual performance, the Company did not relax or waive any performance target to reflect the impact of the economic downturn in 2008. Furthermore, the Company reduced at-risk compensation in several ways. First, the value of ESU awards (medium term incentives) was automatically reduced by virtue of how they are calculated (see page 36). In addition, the CEO felt it was appropriate to make further downward adjustments to reflect modest corporate performance against targets as evidenced by the corporate scorecard result. He proposed to the Compensation Committee, and it approved, the following reductions:

- a 30 per cent reduction was applied to all business unit multipliers;
- the personal performance multipliers of all executives were reduced such that the average of these multipliers equaled 70 per cent of the average executive multiplier for the previous three years; and

compensation discussion and analysis continued

- the value of the RSU and option grants (long-term incentive awards) was reduced, resulting in total compensation to the executive team that was below the 50th percentile despite the Company's executive compensation philosophy of targeting the 75th percentile for at-target performance. Please see page 37 for further details.

Details for each component (annual cash bonuses, ESU grants, option and RSU grants) that were awarded to each named executive officer following these adjustments are outlined below.

At-risk pay – Darren Entwistle

Mr. Entwistle's annual cash bonus and ESU award were each determined by multiplying his target award (50 per cent of base salary) by a formula that reflected the relative weighting of corporate, business and individual performance in 2008, as follows:

$(50\% \times \text{base salary}) \times (30\% \times \text{corporate scorecard multiplier} + 20\% \times \text{average of all business unit multipliers} + 30\% \times \text{average of all customer-facing business unit multipliers} + 20\% \times \text{his individual performance results})$.

Business unit performance

Since the CEO is responsible for the performance of all business units in the organization, his annual cash bonus and ESU award were specifically tied to the performance of all business units. Given the nature of the Company's business, a portion of Mr. Entwistle's annual cash bonus and ESU award were also specifically tied to the performance of the customer-facing business units (Consumer Solutions, Business Solutions, Partner Solutions and TELUS Québec) that have direct line of sight to customers.

As stated above, each business unit scorecard measures that business unit's performance relating to various specific factors that demonstrate profitable growth, customer excellence, business efficiency and excellence, and TELUS team engagement. Details regarding the specific performance metrics for the business units led by the named executive officers (Finance, Business Solutions, Business Transformation and Technology Operations, Technology Strategy), are set forth below.

With respect to the remaining business units (Consumer Solutions, Partner Solutions, TELUS Québec, Corporate Affairs and Human Resources), these performance metrics include, by business unit, the following as applicable: EBITDA contribution,

strategic revenue, customer additions and churn, customer service and loyalty, major project management performance, various operating ratios, cost effectiveness, communications effectiveness, community engagement, specific legal and regulatory proceedings and outcomes, various team engagement metrics including quality of hire and impact of learning, attrition of higher performers and corporate reputation.

Individual performance

In 2008, the CEO's personal performance objectives comprised of specific strategic and operational objectives that supported the following priorities:

- drive profitable growth from TELUS' strategic products portfolio;
- build scale economies in TELUS' vertical strategy for the business and public sector markets;
- realize increased market coverage for TELUS' consumer and small/medium-size business segments by augmenting its distribution strength, brand segmentation and customer coverage;
- deliver continued improvements in the client experience;
- optimize the strength of the Company's capital structure and cash flow to implement and successfully operationalise TELUS' new technology initiatives; and
- elevate the engagement of the TELUS team and the power of the Company's brand to outpace the competition, earn improved levels of client loyalty and make a positive difference to the quality of life in the communities.

Similar to corporate and business unit scorecard metrics, these individual performance metrics were also tied to targets and stretch targets and, like the corporate and business unit scorecard metrics, require continuous improvements year-over-year.

Undisclosed metrics

Please see page 30 for a discussion on undisclosed metrics contained in the business unit scorecards.

2008 actual

Based on the modest corporate performance against targets resulting in a 0.57 corporate multiplier, an average business unit scorecard multiplier of 0.67, and effective personal performance, the Board awarded to Mr. Entwistle an annual cash bonus of \$451,413 equal to 36.9 per cent of his base salary, and an ESU award of \$319,900 equal to 26.1 per cent

of his base salary, in each instance against a target of 50 per cent. Assuming at-target performance, undisclosed corporate performance results accounted for approximately 12 per cent of these two elements of pay. Please see page 30 for a discussion on the difficulty in achieving undisclosed performance targets.

In light of his already significant ownership in TELUS shares, the Compensation Committee recommended and the Board approved an all-cash payment of the ESU award to the CEO for 2008 performance, and accordingly, no ESUs were awarded to him. However, to demonstrate his commitment to the Company and belief in the future success of the Company, Mr. Entwistle felt it was appropriate to apply his entire annual cash bonus and ESU award, net of taxes, towards the purchase of TELUS shares. The Board supported this initiative notwithstanding its preference that he accept the award in cash.

At-risk pay – Robert McFarlane, Finance

Mr. McFarlane's annual cash bonus and ESU award were each determined by multiplying the target award (50 per cent of base salary) by a formula that reflected the relative weighting of corporate, business and individual performance in 2008, as follows:

$(50\% \times \text{base salary}) \times (30\% \times \text{corporate scorecard multiplier} + 20\% \times \text{Finance business unit multiplier} + 30\% \times \text{average of all customer facing business unit multipliers} + 20\% \times \text{his individual performance results})$.

Since Finance is a support function, Mr. McFarlane's incentive was also based in part on the success of the Company's customer-facing business units to ensure direct line of sight to the achievement of customer-facing business unit objectives.

Business unit performance

The Finance business unit scorecard measures the following performance metrics: profitable growth (including revenue assurance, operating expenses and improvements at a corporate and business unit level, and pension plan performance), customer excellence (based on annual report disclosure, post-merger integration effectiveness, and internal service satisfaction), business efficiency and excellence (including the finance operation and management of financial matters), and Finance team member engagement.

They include the following specific metrics:

- public debt issuance index (target: 1.0; result: 0.52);
- TELUS pension performance – basis points above/below benchmark (target: 0; result: 27);
- IFRS readiness index (target: 1.0; result: 1.08);
- annual report excellence (target: 1.0; result: 2.5);
- Finance team member engagement (target: 59 per cent; result: 61 per cent); and
- Team TELUS Cares participation by Finance team members (target: 52 per cent; result: 61 per cent).

Individual performance

Mr. McFarlane's individual performance objectives are made up of goals divided into: the extent to which the Finance business unit contributes to Company performance as measured by various strategic and operational objectives that support the 2008 strategic priorities and the CEO's 2008 individual performance plan; goals as set and measured by the CEO including those that are contained within the Finance scorecard; and Mr. McFarlane's leadership as measured by the CEO.

Undisclosed metrics

The undisclosed metrics in the Finance scorecard and Mr. McFarlane's individual performance objectives contain confidential data pertaining to the Company and the business units that are highly sensitive and in the Company's view, their disclosure would seriously prejudice the Company in this intensely competitive market as they provide valuable information to competitors regarding the Company's 2009 and future financial and operating plans.

Assuming at-target performance, undisclosed corporate and business unit results accounted for approximately 25 per cent of these two elements of pay. Please see page 30 for a discussion on the difficulty in achieving performance targets, including undisclosed targets.

2008 actual

Based on modest corporate performance against targets, business unit performance that exceeded the business unit average, and effective personal performance, the Compensation Committee approved an overall annual cash bonus of \$171,250 equal to 34.3 per cent of Mr. McFarlane's annual base salary, and an ESU award of \$121,359 equal to 24.3 per cent of his annual base salary, in each instance against a target of 50 per cent.

compensation discussion and analysis continued

At-risk pay – Joe Natale, Business Solutions

Mr. Natale's annual cash bonus and ESU award are each determined by multiplying the target award (50 per cent of base salary) by a formula that reflected the weighting of corporate, business and individual performance in 2008, as follows:

$(50\% \times \text{base salary}) \times (50\% \times \text{corporate scorecard multiplier} + 30\% \times \text{Business Solutions business unit multiplier} + 20\% \times \text{his individual performance results}).$

Business unit performance

The Business Solutions business unit scorecard measures a series of defined metrics within the following performance objectives as they relate to the business market and Business Solutions team: profitable growth (primarily related to targeted EBITDA and revenue contribution), customer excellence (loyalty and service), business efficiency and excellence (primarily related to specific savings and major project management performance), and Business Solutions team member engagement and attrition.

Individual performance

Mr. Natale's personal objectives are made up of goals divided into: the extent to which the Business Solutions business unit contributes to company performance as measured by various strategic and operational objectives that support the 2008 strategic priorities and the CEO's 2008 individual performance plan; goals as set and measured by the CEO, including those that are contained within the Business Solutions scorecard; and Mr. Natale's leadership as measured by the CEO.

Undisclosed metrics

Aside from the metric of Business Solutions team engagement (target: 58 per cent; result: 61 per cent) and Team TELUS Cares participation by Business Solutions team members (target: 45 per cent; result: 44.8 per cent), and other performance metrics disclosed in the circular where applicable, the remaining metrics in the Business Solutions scorecard and Mr. Natale's individual performance objectives contain confidential data pertaining to the business market and business unit that are highly sensitive and are not publicly disclosed. In TELUS' determination, their disclosure would seriously prejudice the Company in this intensely competitive market by providing valuable information to competitors regarding the Company's 2009 and future business plans.

Assuming at-target performance, undisclosed corporate and business unit results accounted for approximately 47 per cent of these two elements of pay. Please see page 30 for a discussion on the difficulty in achieving performance targets, including undisclosed targets.

2008 actual

Based on modest corporate performance against targets, business unit performance that was below the business unit average, and effective personal performance, the Compensation Committee approved an overall annual cash bonus of \$153,825 equal to 29.3 per cent of Mr. Natale's annual base salary, and an ESU award of \$109,011 equal to 20.8 per cent of his annual base salary, in each instance against a target of 50 per cent. Mr. Natale elected (and the Compensation Committee approved) to receive one-third of his annual cash bonus in the form of ESUs to demonstrate his commitment to the Company and belief in its future success.

At-risk pay – Kevin Salvadori, Business Transformation and Technology Operations (BTTO)

Mr. Salvadori's annual cash bonus and ESU award were each determined by multiplying his target award (50 per cent of base salary) by a formula that reflected the relative weighting of corporate, business and individual performance in 2008, as follows:

$(50\% \times \text{base salary}) \times (30\% \times \text{corporate scorecard multiplier} + 20\% \times \text{BTTO business unit multiplier} + 30\% \times \text{average of all customer facing business unit multipliers} + 20\% \times \text{his individual performance results}).$

Since BTTO is a support function, Mr. Salvadori's incentive was also based in part on the success of the Company's customer-facing business units to ensure direct line of sight to the achievement of customer-facing business unit objectives.

Business unit performance

The BTTO business unit scorecard measures certain wireline and wireless build targets, service delivery and reliability, cost effectiveness, project performance, systems performance, and BTTO team engagement and attrition.

Individual performance

Mr. Salvadori's individual performance objectives are made up of goals divided into: the extent to which the BTTO business unit contributes to Company performance as measured by various strategic and operational objectives that support the 2008 strategic priorities and the CEO's 2008 individual performance plan; goals as set and measured by the CEO, including those that are contained within the BTTO scorecard, and Mr. Salvadori's leadership as measured by the CEO.

Undisclosed metrics

BTTO targets and results are derived from those of Business Transformation (BT) and Technology Operations (TO), developed and determined separately as these two business units merged to form the BTTO business unit during 2008. Aside from the metric of BTTO team engagement (BT target: 56 per cent; result: 57 per cent and TO target: 51 per cent; result: 48 per cent) and Team TELUS Cares participation by BTTO team members (BT target: 44 per cent; result: 48 per cent; TO target: 32 per cent; TO result: 34 per cent), the remaining metrics in the BTTO scorecard and Mr. Salvadori's individual performance objectives contain confidential data pertaining to the Company and the business unit that are highly sensitive and are not publicly disclosed. In TELUS' determination, their disclosure would seriously prejudice the Company in this intensely competitive market by providing valuable information to competitors regarding the Company's 2009 and future business plans.

Assuming at-target performance, undisclosed corporate and business unit results accounted for approximately 30 per cent of these two elements of pay. Please see page 30 for a discussion on the difficulty in achieving performance targets, including undisclosed targets.

2008 actual

Based on modest corporate performance against targets, business unit performance that was near the business unit average, and effective personal performance, the Compensation Committee approved an overall annual cash bonus of \$144,869 equal to 33.0 per cent of Mr. Salvadori's annual base salary, and an ESU award of \$102,664 equal to 23.4 per cent of his annual base salary, in each instance against a target of 50 per cent.

At-risk pay – Eros Spadotto, Technology Strategy

Mr. Spadotto's annual cash bonus and ESU award were each determined by multiplying his target award (50 per cent of base salary) by a formula that reflected the relative weighting of corporate, business and individual performance in 2008, as follows:

$$(50\% \times \text{base salary}) \times (30\% \times \text{corporate scorecard multiplier} + 20\% \times \text{Technology Strategy business unit multiplier} + 30\% \times \text{average of all customer facing business unit multipliers} + 20\% \times \text{his individual performance results}).$$

Since Technology Strategy is a support function, Mr. Spadotto's incentive was also based in part on the success of the Company's customer-facing business units to ensure direct line of sight to the achievement of customer-facing business unit objectives.

Business unit performance

The Technology Strategy business unit scorecard measures service delivery and reliability, specific major project performance, cost effectiveness, and Technology Strategy team engagement and attrition.

Individual performance

Mr. Spadotto's individual performance objectives are made up of goals divided into: the extent to which the Technology Strategy business unit contributes to Company performance as measured by various strategic and operational objectives that support the 2008 strategic priorities and the CEO's 2008 individual performance plan; goals as set and measured by the CEO, including those that are contained within the Technology Strategy business unit; and Mr. Spadotto's leadership as measured by the CEO.

Undisclosed metrics

Aside from the metric of the Technology Strategy team engagement (target: 48 per cent; result: 55 per cent) and Team TELUS Cares participation by the Technology Strategy team members (target: 48 per cent; result: 62 per cent), the remaining metrics in the Technology Strategy scorecard and Mr. Spadotto's individual performance objectives contain confidential data pertaining to the Company and the business unit that are highly sensitive and are not publicly disclosed.

In TELUS' determination, their disclosure would seriously prejudice the Company in this intensely competitive market by providing valuable information to competitors regarding the Company's 2009 and future business plans.

Assuming at-target performance, undisclosed corporate and business unit results accounted for approximately 29 per cent of these two elements of pay. Please see page 30 for a discussion on the difficulty in achieving performance targets, including undisclosed targets.

2008 actual

Based on modest corporate performance against targets, business unit performance that was near the business unit average, and effective personal performance, the Compensation Committee approved an overall annual cash bonus of \$146,790 equal to 35.0 per cent of Mr. Spadotto's annual base salary, and an ESU award of \$104,025 equal to 24.8 per cent of his annual base salary, in each instance against a target of 50 per cent.

At-risk pay: medium-term incentives (ESU awards)

Methodology

Medium-term incentives are awarded in the form of ESUs under the ESU Plan. ESUs are designed to promote the retention of executives and reward the achievement of business objectives in the medium-term (up to three years) by providing future income that is linked to share price performance and payable rateably over three years. This is achieved by pegging the value of ESUs to the value of the non-voting shares and by paying them out on a schedule whereby the ESUs vest one-third per year in just under three years.

Like the annual cash bonus, this element of at-risk compensation is determined based on the achievement of results and an executive's leadership skills and equals 50 per cent of annual base salary for at-target performance, subject to the performance of the share price as noted below.

The amount and terms of ESU awards to EVPs are approved by the Committee annually, while the ESU award to the CEO is approved by the Board annually upon the recommendation of the Committee. Certain members of non-executive senior management are eligible for ESU grants and their awards are also determined in the same manner, except that their target awards may differ from those of the executive team.

To further align the interests of the executives to that of the shareholders, the actual number of ESUs awarded to an executive is determined by taking the dollar value of the ESU award granted to that individual and multiplying it by the following ratio:

$$\frac{\text{market value of non-voting shares at the end of the performance year}}{\text{market value of non-voting shares at the beginning or end of the performance year, whichever is higher.}}$$

Thus, any decline in the value of non-voting shares of the Company over the performance year directly reduces the value of the executive's ESU award, despite the fact that performance objectives for the year have been met. This was in fact the case for ESUs granted in 2009 for 2008 performance; see below and the table on page 37.

If an executive resigns, all unvested ESUs are forfeited. See page 61 for a description of the key terms of the ESU Plan.

Determination of actual 2008 ESU grants

The dollar value of the ESU awards that would have been awarded to the named executive officers based on their 2008 performance, if no adjustment were made to reflect share price performance in 2008, is set forth in the first column in the table below. To adjust for share price performance in 2008, the number of ESUs actually awarded (see the second column in the table) was determined based on the weighted average trading price of the non-voting shares for the 15 trading days preceding January 1, 2008 of \$45, which was higher than the weighted average trading price for the 15 trading days preceding December 31, 2008 of \$31.89. By doing so, the number and value of the ESUs actually awarded to the named executive officers for their 2008 performance was reduced proportionately by the share price decline in 2008 to reflect the principle of alignment with shareholder value.

For the named executive officers, ESU awards ranged from 20.8 per cent to 26.1 per cent of their base salaries, compared to at-target performance of 50 per cent, as shown in the following table.

	Value of ESU awards if they were not adjusted for share price performance		Value of allotted ESUs after adjustment for share price performance	
	Value of ESUs (\$)	As a % of base salary	Value of ESUs (\$)	As a % of base salary
Darren Entwistle	451,413	36.9	319,900 ⁽¹⁾	26.1
Robert McFarlane	171,250	34.3	121,359	24.3
Joe Natale ⁽²⁾	153,825	29.3	109,011	20.8
Kevin Salvadori	144,869	33.0	102,664	23.4
Eros Spadotto	146,790	35.0	104,025	24.8

(1) This amount was paid in cash to Mr. Entwistle; no ESU was awarded. See page 32.

(2) These numbers do not reflect the fact that Mr. Natale elected to receive one-third of his annual cash bonus in ESUs in lieu of cash. See page 34.

At-risk pay: long-term incentives (RSU and option awards)

Methodology

Long-term incentives are awarded in the form of share options and RSUs granted under the TELUS Management Share Option Plan (the "Management Plan") and the RSU Plan respectively. The options and RSUs are designed to promote retention and reward the achievement of business objectives in the longer-term (three years and beyond) by providing future income that is linked to share price performance. The value of share options and RSUs is in each instance pegged to the value of the non-voting shares. In particular, the Compensation Committee typically approves share option grants with a seven-year term and a three-year cliff vesting period, and RSUs that cliff vest in just under a three-year period. Share options are granted at an exercise price not less than the market value of the non-voting shares, determined in accordance with the Management Plan. See page 55 for further details. RSUs are awarded based on the market value of the non-voting shares at the time of grant, determined in accordance with the RSU Plan. See page 62 for further details.

The size of these awards is determined based on an executive's PVAAM rating and competitive market compensation. PVAAM is an assessment tool used to evaluate each executive individually in the following areas:

- the extent to which an executive has achieved results based on his or her personal performance objectives;
- the extent to which an executive has exhibited leadership skills (through living and championing the TELUS values);
- the value of that executive to achieving TELUS' strategy; and
- retention risk.

Awards can range from zero for executives with lower PVAAM ratings to an amount that would place the total direct compensation (base + annual cash bonus + ESU awards + RSU/option awards) of the executive at or about the 75th percentile of the comparator group for an executive who is a crucial resource to the Company.

All incentive grants to the CEO require Board approval upon the recommendation of the Committee. Annual grants of options and RSUs to executives other than the CEO are also subject to Board approval. The CEO first recommends to the Compensation Committee the total value of options and RSUs to be granted to the EVPs, and the Compensation Committee then recommends to the Board the total value of options and RSUs to be granted after considering the recommendation of the CEO. Annual grants of options and RSUs to non-executive management are also determined in the same manner. Discretionary long-term incentive grants to executives other than the CEO require the approval of the Compensation Committee or the Board, as the case may be, upon the recommendation of the CEO.

Determination of actual 2008 RSU and option grants

Previous option grants generally are not taken into account when considering new option grants. However, given the uncertain economic environment and the Company's modest performance against targets in 2008, the number of RSUs awarded to each executive was capped at the average number of RSUs granted over the previous four years, effectively reducing the award value due to the decline in share price. This resulted in reductions ranging from 17 to 22 per cent on long-term incentive grants to the executive team for 2008 performance. Annual long-term incentive grants to the named executive officers in 2008 totalled \$6.6 million compared to \$9.0 million in 2007.

compensation discussion and analysis continued

Overall, the Compensation Committee recommended and the Board approved long-term incentives that represented 52.9 per cent of total compensation for all executives in 2008, with the result that total overall at-risk pay accounted for 70.1 per cent of total compensation for them. Total compensation for all executives (base salary and all at-risk compensation) was below the 50th percentile of the selected comparator group.

For the named executive officers, their long-term incentive awards ranged from \$625,000 to \$4,000,000, as shown in the following table, with total compensation, based on performance, ranging from below the 50th percentile to just above the 50th percentile of the benchmarked comparator group.

	Three-year options value (\$) ⁽¹⁾	Three-year RSUs value (\$)	Total value (\$)
Darren Entwistle	2,500,000	1,500,000	4,000,000
Robert McFarlane	375,000	250,000	625,000
Joe Natale	375,000	250,000	625,000
Kevin Salvadori	375,000	250,000	625,000
Eros Spadotto	450,000	250,000	700,000

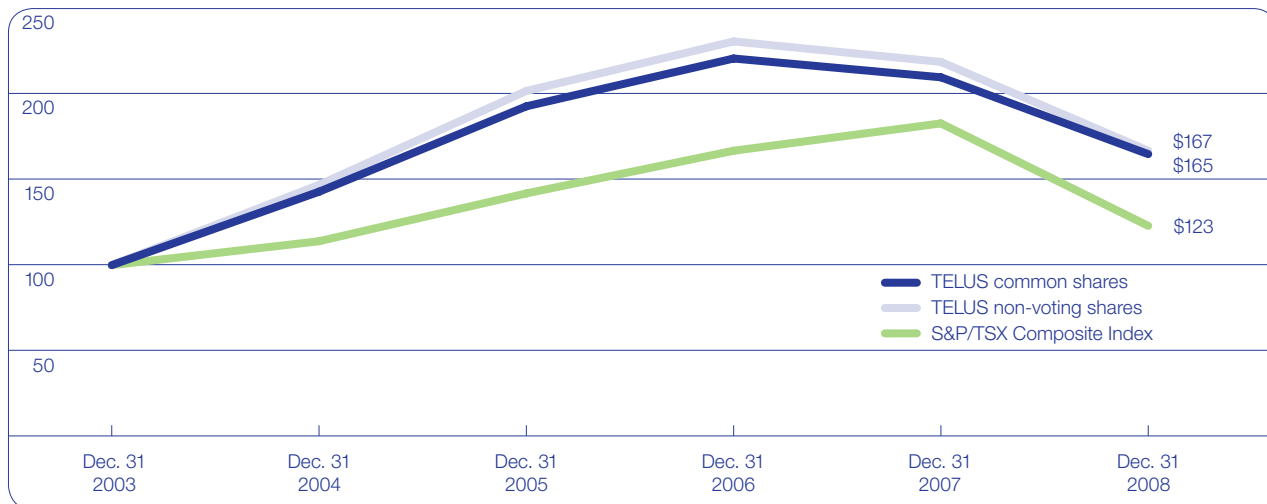
(1) Based on Black-Scholes value.

To provide a balanced mix of long-term incentives, the February 2009 long-term incentive compensation grant was split between share options that vest in three years and expire in seven years and RSUs that vest in under three years under the RSU plan, and the size of the RSU awards was then reduced as described above. This split represented an approximate allocation of 62 per cent in options and

38 per cent in three-year vesting RSUs to the named executive officers on a collective basis, based on an estimated after-tax equivalency between the value of the RSUs and options to be granted, using a Black-Scholes valuation. The total of long-term incentives awarded to the named executive officers for 2008 was 27 per cent lower than in the previous year.

Performance graph

The following graph compares the yearly change over the past five years in the cumulative total shareholder return on the common shares and non-voting shares of TELUS with the cumulative total return on the Toronto Stock Exchange S&P/TSX Composite Index, assuming a \$100 investment on December 31, 2003 and reinvestment of dividends.



(\$)	Dec. 31 2003	Dec. 31 2004	Dec. 31 2005	Dec. 31 2006	Dec. 31 2007	Dec. 31 2008
TELUS common shares	100	143	193	221	210	165
TELUS non-voting shares	100	147	202	231	219	167
S&P/TSX Composite Index	100	114	142	167	183	123

Given the direct linkage between the various elements of performance and all at-risk pay calculations and allotments, the significant weighting of share-based incentives in the executive compensation mix, and the methodology for determining ESU awards, TELUS executive compensation, by its design, generally follows changes in shareholder return.

As shown in the graph and table above, the annual total return (share price changes plus reinvested dividends) to TELUS shareholders of both common shares and non-voting shares (compared to the 2003 year-end value) consistently out-performed the S&P/TSX Composite Index for the five-year period from 2004 to 2008. Annual total return to TELUS shareholders also consistently exceeded the percentage change in the combined total compensation paid over the same five-year period to the named executive officers identified in this information circular. In fact, relative to the S&P/TSX Composite Index, the percentage change in total compensation to the named executive officers was at or below the S&P/TSX Composite Index line for 2004, 2006, 2007, and 2008. Total compensation paid to the named executive officers declined 22 per cent between 2007 and 2008, while the TELUS total

return on its two share classes declined by 21 per cent and 24 per cent over the same period. In contrast, the S&P/TSX Composite Index declined 33 per cent over this same period.

Share ownership guidelines

Share ownership guidelines were introduced for the executive leadership team members in 2002 to provide a further link between the interest of executives and shareholders, thereby demonstrating the ongoing alignment of executives' interests with the interests of shareholders.

The current share ownership guidelines, as outlined in the below table, are determined solely on the basis of the number of Company shares the executive beneficially owns either directly or indirectly. In the Company's view, shares purchased by an executive using his or her own funds more precisely and demonstrably measure the executive's commitment to the Company through chosen investment in the Company.

Current share ownership guidelines	
CEO	3x annual base salary
EVPs	1x annual base salary

compensation discussion and analysis continued

The guidelines have been met by all current executives in 2008 other than a member newly appointed in late 2007 who has three years to reach the target. Four members of the executive team who met the ownership guidelines earlier in the year fell below the guidelines as at December 31, 2008 solely due to share price fluctuations. Given that circumstance, those executives were not required to top up their share ownership

before the 2008 year-end. Management will continue to report to the Compensation Committee on these guidelines and share price fluctuations in 2009. The Company prohibits executives and certain senior management from engaging in short selling or trading in puts, calls or options in respect of TELUS securities.

Executive shareholdings summary

The following table shows total TELUS shareholdings held by each named executive officer (as set out in the executive compensation summary table on pages 41 and 42), dollar value of shareholdings and share ownership level (dollar value to base salary ratio), as at December 31, 2008 (see share ownership guidelines above).

Name	TELUS equity (common shares/non-voting shares/ESUs/RSUs) ⁽¹⁾	Dollar value of equity (\$) ⁽²⁾	Dollar value of shareholdings (\$) ⁽³⁾	Share ownership level as a multiple of base salary
Darren Entwistle	209,210/-/-/159,562 ⁽⁴⁾	13,345,050	7,776,336	6.35
Robert McFarlane	-/113,329/4,638/24,181	4,960,965	3,955,182	7.91
Joe Natale	9,571/6,724/6,473/26,572	1,743,692	590,422	1.12
Kevin Salvadori	5,054/41,713/4,581/26,778	2,738,070	1,643,641	3.75
Eros Spadotto	9,405/1,699/3,556/31,273	1,624,411	408,879	0.97

(1) Excludes any non-voting shares that may be acquired by an executive in 2009 in payment of ESUs that vested in 2008.

(2) At the close of trading on December 31, 2008 the market price of common shares was \$37.17 and the market price of non-voting shares was \$34.90.

(3) Excludes all RSUs and ESUs.

(4) For the purpose of year-end financial planning, Mr. Entwistle converted his investment in TELUS non-voting shares into common shares through a series of trades conducted in late December 2008. Mr. Entwistle's total approximate financial investment in TELUS shares remained unchanged as he sold and then bought back approximately \$6.2 million of TELUS shares for his personal account. In February 2009, Mr. Entwistle further increased his TELUS shareholdings beyond the amounts shown in the table.

Conclusion

The Compensation Committee believes that the various components of compensation are appropriately balanced to provide direction and motivation for the executive leadership team to make a positive contribution to the Company's overall success, thereby enhancing the value of the Company for its shareholders.

Signed, members of the Human Resources and Compensation Committee



Charlie Baillie (Chair)



John Butler



John Lacey