

# questions & answers

**Q** Why did Verizon sell its 21% stake in TELUS, and what does it mean for TELUS shareholders?

**A** The December 2004 sale was consistent with Verizon's strategy to focus more on its U.S. home market. Notably, this is similar to TELUS' existing strategy here in Canada. Verizon is investing billions of dollars in its core business growth opportunities focused primarily on wireless, wireline broadband and the national expansion of its wireline infrastructure to address the enterprise market segment in the U.S. To help fund these investments in its domestic business, Verizon has divested many of its international holdings in the last two years, including all of its 73.5 million TELUS shares for gross proceeds of Cdn \$2.24 billion.

A long-term relationship agreement between the companies required Verizon to have approval from a majority of TELUS' independent directors in order to sell its equity stake. This condition allowed TELUS to negotiate favourable terms to permit the transaction to proceed in the best interests of both parties. TELUS received an immediate lump-sum payment of Cdn \$148 million (US \$125 million) from Verizon, with benefits to TELUS totalling Cdn \$245 million (US \$207 million) including reduced annual fees payable to Verizon under the amended wireline software and technology agreement.

Verizon and TELUS continue to have a mutually beneficial relationship to better serve our wireline and wireless customers, respectively. For example, TELUS Mobility and Verizon Wireless expanded their current roaming arrangements under a consolidated, long-term wireless roaming agreement.

This gives our 3.9 million customers access to Verizon's nationwide state-of-the-art wireless network in the U.S. It also makes TELUS Mobility the preferred roaming partner for an ever-increasing number of Verizon Wireless' 44 million customers when they travel to Canada.

This was a sizable equity offering – the fourth largest ever completed in Canada. Demand from retail and institutional buyers significantly exceeded the number of shares being offered. From the day of the announced sale to the end of 2004, TELUS common shares were up 11% and TELUS non-voting shares were up 14%. A significant portion of the shares were placed in Canada, including 10 million allocated to smaller retail shareholders, thereby increasing Canadian ownership of TELUS. Moreover, we increased the breadth of our shareholder base with many new Canadian and, in particular, international institutional holders. Finally, the addition of 73.5 million shares to our public float, which increases it by a significant 26% and provides more trading liquidity, is a key consideration for large institutional investors.

TELUS believes that the amended wireline and wireless agreements, significant cash compensation received, very successful placement of the share offering and expansion of our shareholder base were all very positive developments for our shareholders.



**Darren Entwistle**  
President and Chief Executive Officer  
Member of the TELUS Team



**Q** Given that the company is still generating significant cash flow, will TELUS use this to pay down debt in 2005, or will TELUS consider returning some of this to shareholders including a further dividend increase?

**A** TELUS is producing significant free cash flow and we have made tremendous progress, reducing net debt in the past two years by \$1.9 billion and, by the third quarter of 2004, meeting two out of three long-term leverage policy targets, a full 15 months ahead of schedule. Our net debt to total capital ratio at the end of the year stood at 48%, which is comfortably within the 45 to 50% target. In addition, our net debt to total EBITDA ratio at 2.1 is favourable to our target of less than or equal to 2.2. We also expect, over time, to see debt rating agencies recognize this performance and move our current triple B-mid ratings into our long-term target of triple B-high to A-low.

In 2005, our target is to generate between \$1.2 to 1.3 billion in free cash flow. While a portion of this cash is required to fund working capital and other uses, TELUS has no significant debt maturities to be repaid until June 2006, other than our recently announced intention to redeem early, on June 16, 2005, \$150 million of 6.75% convertible debentures due June 2010. We expect to maintain substantial cash balances in advance of the 2006 debt maturity and our positive cash flow gives us the additional flexibility to consider alternative, shareholder-friendly uses of the cash. Accordingly, we announced a series of shareholder value-enhancing initiatives in October 2004.

First, TELUS announced a 33% increase to our quarterly dividend to 20 cents, from 15 cents.

Second, TELUS established for the first time a going-forward public dividend guideline, targeting a dividend payout ratio of 45 to 55% of net earnings. TELUS is targeting an earnings per share increase next year of 4 to 17%, and is striving to grow earnings over the coming years. The dividend payout guideline provides a useful framework for investors to assess the potential for possible future dividend increases.

Third, we have embarked on a program to repurchase up to 25.5 million TELUS common and non-voting shares. This Normal Course Issuer Bid (NCIB) commenced on December 20, and in the last 12 days of 2004, TELUS repurchased 2.2 million shares for \$78 million. Share repurchases are a method of returning

capital to shareholders and increasing the scarcity value of the remaining outstanding shares.

Based on our public dividend payout ratio guideline, the early stage of the NCIB, and an ongoing assessment of appropriate uses of our free cash flow, TELUS should continue to be in a good position to evaluate future opportunities to enhance shareholder value.



Robert McFarlane

Executive Vice-President and Chief Financial Officer  
Member of the TELUS Team

**Q** TELUS Mobility experienced very strong performance in 2004. How does the company plan to maintain this momentum in 2005 and beyond?

**A** TELUS Mobility is a key component of value creation for TELUS shareholders, and the wireless business remains the fastest growing segment in the telecommunications industry.

With wireless penetration in Canada expected to surpass 50% in 2005, the growth opportunity for wireless in Canada remains impressive. TELUS and industry observers expect the Canadian market to add about 1.5 million new subscribers each year for at least the next several years. TELUS Mobility is targeting 425,000 to 475,000 net additions in 2005, an 11 to 12% increase in our national base. This growth, coupled with our industry-leading average revenue per unit (ARPU), low customer disconnect rate (churn) and disciplined expense control, is expected to support double-digit revenue, earnings and cash flow growth at TELUS Mobility in 2005.

We expect continued revenue growth in 2005 from the expanded subscriber base, robust ARPU and uptake in new services. We continue to see strong ARPU – at an approximate 20% premium above our national competitors – as we remain focused on pricing discipline and as customers increase their usage and adopt new services, particularly our data offerings. We are seeing strong demand for new data services and

products offered on both our PCS and Mike networks, and ongoing exponential growth in the use of mobile e-mail solutions, text messaging, picture messaging, and now, video messaging.

TELUS' investments in customer service and superior network quality also continue to pay off as we enjoy one of the highest customer satisfaction rates in the industry, evidenced by our low 1.4% churn rate. While TELUS Mobility has done very well in a four-player environment over the past few years, over time we expect to realize the benefits from the industry consolidation to a three-player market that occurred late in 2004, including improved industry churn and lower cost of acquisition for new subscribers.

Continuing double-digit growth, an intense focus on retention and disciplined cost containment are driving increased economies of scale and profitability. While TELUS Mobility is targeting 14 to 16% revenue growth in 2005, we expect a higher 18 to 23% increase in EBITDA. With capital expenditures flat, or up only modestly, we expect to generate approximately \$1 billion in cash flow (EBITDA less capex) in 2005, up significantly from \$788 million last year and \$456 million in 2003.

TELUS Mobility remains at the forefront of the North American wireless industry, and we expect to build on that leadership role for the benefit of both our customers and our investors in 2005 and beyond.



George Cope

President and Chief Executive Officer, TELUS Mobility  
Member of the TELUS Team

**Q** Competition, technological substitution and regulation are putting downward pressure on wireline revenue industry-wide. What is TELUS doing given these challenges?

**A** TELUS' wireline business in Canada is experiencing increased pressure, which is being specifically addressed in its business plans for both the short and mid-term. While these challenges, as shown on the right-hand side of the diagram, are causing declines in traditional revenue sources at TELUS Communications, TELUS has some unique offsetting factors.

### Technological substitution and our wireless advantage

In respect of technological substitution, it is important to note that the trend of wireline to wireless substitution is a net positive for TELUS overall. We capture a portion of this shift to wireless phones in our incumbent regions in the West and Eastern Quebec, but elsewhere in Canada, where we are not the incumbent wireline telco, we enjoy a 100% gain for customers who choose TELUS Mobility as their primary phone line.

We are also well positioned to offset wireline revenue declines, compared to most telcos in the world, by our large national exposure to wireless. In 2005, we expect more than 40% of the company's total revenue and EBITDA to be generated by our fast-growing wireless operations, whereas many telcos have significantly less wireless exposure. It is also noteworthy that TELUS, as a full-service telecom operator, should increasingly benefit from wireless and wireline synergistic bundling opportunities. This is a differentiating competitive advantage for us compared to competitors with narrow or stand-alone service offerings.

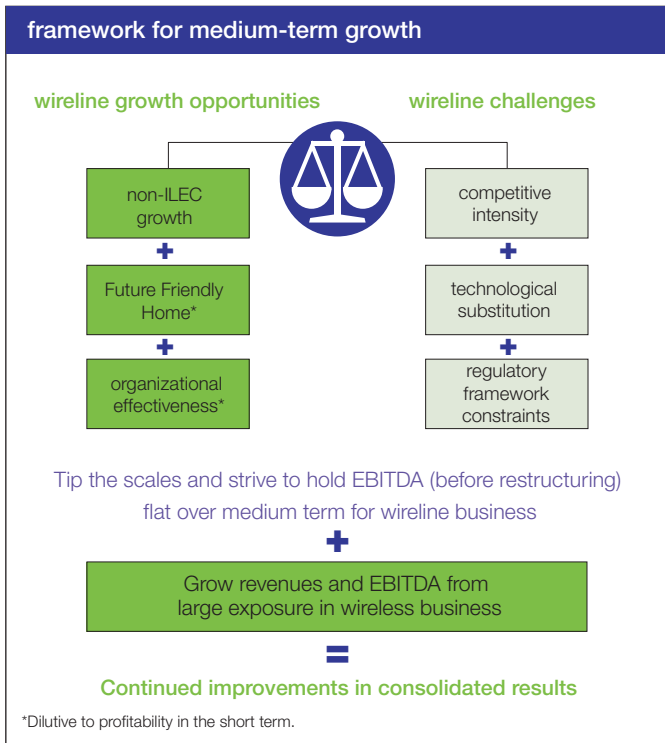
### Our regulatory hedge

Another hedge is our strategy to grow TELUS' presence into the much larger business market in Central Canada. This non-incumbent local exchange carrier (non-ILEC) expansion not only provides data revenue growth but also acts as a partial hedge, in respect of regulatory decisions emanating from the CRTC. Therefore, adverse regulatory rulings that impact our incumbent operations often provide relief to our non-ILEC operations and, obviously, the logic also holds in reverse.

The diagram outlines a specific three-pronged approach to the TELUS strategy to offset the wireline challenges we face.

### Pursuing balanced competition

As shown on the left-hand side of the diagram, the most significant growth opportunity is in our non-ILEC operations, focused on the business and public sectors. TELUS is leveraging its distinct leadership position in managed data and IP solutions and utilizing its next generation IP network to successfully implement long-term contracts being won in Ontario and Quebec. In 2005, we expect to generate \$600 million to \$650 million in revenue, a significant 7 to 16% increase, and to deliver positive operating earnings for the first time.



An important second element of our growth strategy is the TELUS Future Friendly Home initiative on the consumer side of our business. We have begun to offer a suite of advanced digital and wireless services that are easy to use, exploiting our significant investment in high-speed Internet infrastructure. The first two services, TELUS Home Networking and TELUS HomeSitter, were launched in 2004. We plan to launch exciting new retail consumer solutions in 2005 to add to the Future Friendly Home portfolio.

#### A focus on continuous improvements in productivity

The third opportunity we are progressing in is to maintain wireline profitability by delivering continued improvements in operational effectiveness, building on the success of our past operational efficiency programs. To this end, up to \$100 million is set aside for select restructuring and productivity initiatives in 2005.

While the early implications of the Future Friendly Home and ongoing operational efficiency activities may be dilutive to operating earnings in the short term, when combined with our Central Canadian expansion, the goal is to keep wireline EBITDA stable.

This would allow expected significant growth in our wireless business to flow through to TELUS' consolidated revenue, earnings and cash flow for the benefit of investors.

**Darren Entwistle**  
President and Chief Executive Officer  
Member of the TELUS Team

**Q** A number of small providers have launched voice over IP (VoIP) telephony in TELUS' incumbent areas and your cable-TV competitors are launching telephony this year. What are the implications for TELUS?

**A** To date, we have not seen a significant impact from the VoIP service launched by smaller providers. The VoIP products that have been introduced into the market in 2004 have been positioned as a less expensive alternative for consumers to make long distance calls. Since long distance calling is already very inexpensive, many have found that the promised cost savings simply do not justify the subscription cost. However, our major Western-based cable-TV competitor has recently launched a more robust and feature-rich telephony service in Calgary and is expected to roll out service to other cities in 2005. We may also see a smaller scale cable-TV telephony launch in Eastern Quebec this year.

TELUS is the largest service provider in Western Canada and Eastern Quebec. Telephony is TELUS' core business and we continue to focus on providing high-quality, integrated and innovative communications solutions to customers. This focus naturally includes IP telephony, which has been the focal point of our data growth strategy since 2000 and has made us a leader in introducing IP-based solutions. In November 2003 we launched IP-One Innovation service, Canada's first carrier-grade hosted and managed VoIP service, targeting business customers in Ontario and Quebec. Building on this head start, we expanded our suite of IP telephony solutions in 2004, which has been a competitive advantage as we market into the large Central Canadian market.

In the residential market, we see good potential to apply our expertise in business VoIP technology to create innovative solutions for consumers that will enrich and simplify their lives. For example, customers would be able to provide their family and friends with a single contact number that could find them wherever they may be – instead of a list of numbers for home, cellular phone and office. Today, these separate devices have separate mailboxes that need to be checked and cleared. VoIP should simplify this down to one mailbox for all devices. In addition, VoIP should allow TELUS to cost effectively add high-quality video to telephone calls.

A range of potential new IP services, including VoIP, could lead to new revenue streams. Our decision regarding when and how to move forward with residential VoIP service in B.C., Alberta and Eastern Quebec is being affected in the short term as we wait for the CRTC regulatory decision on the rules for VoIP providers, which is expected in the first half of 2005. Our proactive approach to this type of IP opportunity is illustrated by the 2004 launch of the TELUS Future Friendly Home, a suite of integrated services that allow customers to experience the power of the Internet using their TELUS high-speed Internet connection. We intend to continue developing new applications such as VoIP and potentially TELUS TV, which we have been trialing with our employees.

On balance, IP is core to our business and we are confident in our strategy of differentiation based on the development and launch of unique Future Friendly Home applications, including a feature-rich IP telephony solution. We believe this strategy should create new revenue streams, ultimately save network costs and help alleviate the competitive inroads being made by new VoIP entrants.



Darren Entwistle  
President and Chief Executive Officer  
Member of the TELUS Team

**Q** What is the current status of reaching a new collective agreement? When do you expect a settlement and what would be the financial impact?

**A** The process to achieve a collective agreement moved significantly forward with the February 2, 2005 Canada Industrial Relations Board (CIRB) decision to overturn its year-old ruling that imposed binding arbitration on TELUS. In addition, the CIRB set aside its April 2004 communications ban that was broad in nature and reinstated its January 2004 narrower ban on communications with bargaining unit employees specifically on labour relations issues and negotiations. The lifting of the binding arbitration order allows TELUS and the Telecommunications Workers Union (TWU) to resume negotiations on a new collective agreement covering approximately 11,500 unionized employees.

The timing of reaching a settlement is still somewhat indeterminate and now depends on negotiating time, time for acceptance or rejection of any offer(s) presented to employees, whether any potential work interruption occurs, and potential further legal or CIRB appeals.

TELUS has accrued expenses in its income statements for wage and other related cost increases since the collective agreements expired in December 2000. A settlement will have an impact on our cash position at the time of settlement and going forward from wage and other potential payments or increases.

TELUS remains committed to reaching a collective agreement as indicated by this remaining as one of our 2005 corporate priorities. We are looking for a contract that reflects the competitive realities of the Canadian telecommunications industry and that meets the needs of our team members, customers and investors.



Judy Shuttleworth  
Executive Vice-President, Human Resources  
Member of the TELUS Team