

questions and answers



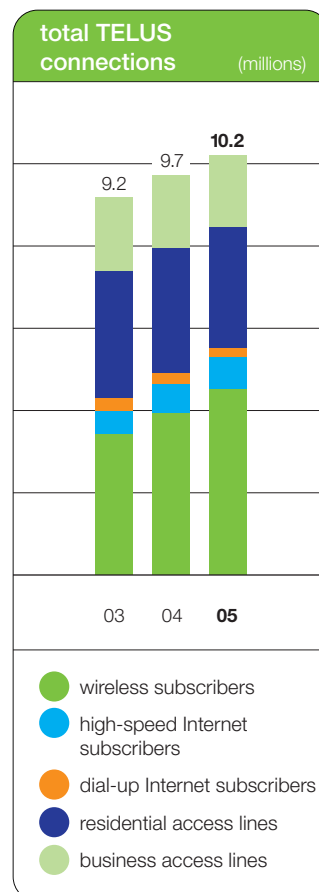
Competition is heating up for local residential telephone service with more people migrating to wireless phones as well as with the ongoing launch of IP-based cable telephony by your major cable-TV provider. What is the impact on TELUS, and how are you responding?



John Watson
Executive Vice-President
and President, Consumer Solutions
Member of the TELUS Team

Competition is indeed intensifying in the traditional local and long distance markets industry-wide. The popularity and convenience of wireless technology are persuading more Canadians to move to wireless services and give up their home phone. TELUS is also now competing with new IP telephony service providers, the most capable of which is cable-TV company Shaw Communications.

The impact of wireless substitution and IP telephony was anticipated by TELUS with an expected increase in network access line (NAL) losses and increasing pressure on local and long distance voice revenues. In 2005, the Shaw launch of cable telephony in Calgary and Edmonton, Alberta and Victoria, B.C. contributed to TELUS losing 110,000 or 3.6% of its residential lines, compared to 1.3% in 2004. With Shaw launching in the large Vancouver, B.C. market in January and potentially other smaller cities, we expect NAL erosion to moderately increase in 2006.



However, TELUS is well positioned to weather the increase in wireline competition. Since 2000, we have focused on a national strategy based on data, IP and wireless growth. By the end of 2005, data and wireless accounted for more than 59% of total revenues, compared to only 28% in 2000. We also continue to experience growth in Central Canada. The increases in wireless and data revenues are expected to be much higher than the declines we expect in local and long distance services.

In terms of wireless substitution of local phone lines, TELUS is a net beneficiary on a consolidated basis. Let me explain. In our incumbent regions, we capture a solid portion of the business that comes from customers migrating from wireline to wireless phones. In our non-incumbent regions in Canada, where the market is three times larger, we enjoy a 100% gain in customers who choose TELUS wireless as their primary phone.

As shown in the bar chart, TELUS in the past has been successful in more than offsetting the losses in residential NALs and dial-up Internet subscribers through growth in wireless and high-speed Internet subscribers.

In the consumer wireline market, TELUS is prepared for increased competition from IP telephony. Telephony is our core business and TELUS provides a full-service package of reliable and innovative solutions. This is an integrated quadruple-play consumer offering that includes local and long distance, high-speed Internet, wireless service, and now TELUS TV in certain areas. Our Future Friendly Home products and services deliver enhanced functionality and convenience for consumers, and increased revenues and customer loyalty for TELUS. Furthermore, we expect to enhance customer service as a result of significant information technology and system investments, and the increased flexibility afforded by the new collective agreement reached in late 2005.

Over the past five years, TELUS has also increased operational efficiency with productivity-enhancing measures. These measures are meant to ensure costs are aligned with market pressures to maintain wireline profitability in the face of increased competition.

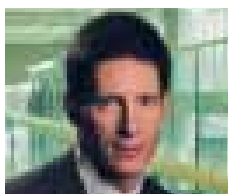
A silver lining in increased wireline competition is that it may lead to less regulation and give TELUS increased flexibility to market wireline services.

So, while TELUS expects continued challenges in maintaining local market share, we are confident in our wireless, data and IP growth strategy, differentiated by a full and integrated suite of services. We believe this strategy will create new revenue streams and mitigate our competitive losses.

John



Given debt repayments made in recent years, might TELUS become under-leveraged? What are your plans for the significant free cash flow expected in 2006?



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

To ensure that TELUS' balance sheet reflects an optimal financial structure, a moderate level of debt is necessary to maintain a low cost of capital. With this in mind, our Board of Directors has established long-term leverage policy targets for the net debt to EBITDA ratio in the range of 1.5 to 2.0 and net debt to total capitalization of 45 to 50%.

We have continued to fulfill our commitment to act in a manner that balances the interests of equity and debt holders. In recent years, this was best accomplished by an orderly reduction of debt to attain more modest leverage levels. This period has been characterized by strong performance by both TELUS share and debt prices, reflecting the effectiveness of our approach. More recently in 2005, we notably retired early \$1.6 billion of debt. This action is expected to generate a positive economic return to TELUS by reducing interest expense in the future and contributing to a reduction in our gross debt leverage ratios. By year-end 2005, we reported a net debt to EBITDA ratio of 1.7 and achieved our policy target range. This resulted in upgrades from all four major credit rating agencies during 2005.

Maintaining a balance between shareholder and debt holder interests in the future remains a priority for TELUS. Having achieved our long-term leverage targets, we expect to refinance our future debt maturities through the issuance of additional notes, commercial paper or other such instruments. Surplus cash flow can then be returned to shareholders.

In 2006, TELUS expects to continue to utilize a significant portion of its expected \$1.55 billion to \$1.65 billion of free cash flow to pursue further return of capital to shareholders through dividends and share repurchases.

Following a 33% dividend increase for 2005, TELUS announced a substantial 37.5% increase to the quarterly dividend effective January 1, 2006. TELUS now pays a quarterly dividend of 27.5 cents per share.

Our current implied forward dividend payout ratio, based on 2006 targeted earnings per share, is 42 to 46%, which is at the low end of the range of our dividend policy

guideline of 45 to 55% of sustainable net earnings. This indicates that, if TELUS continues to be successful in growing earnings as planned, there would be an opportunity for the Board to consider, in the future, further increases in the dividend.

TELUS also continues to return capital to shareholders through share repurchase programs. TELUS has repurchased 23 million shares for \$970 million since December 2004 under two Normal Course Issuer Bids. We are currently in the midst of a second repurchase program for up to 24 million shares, or 7% of outstanding shares, for a 12-month period ending in December 2006. We believe that share repurchases constitute an attractive investment opportunity that should enhance the value of the remaining shares.

By achieving our 2006 free cash flow target of \$1.55 billion to \$1.65 billion, TELUS should be well positioned to operate within our long-term leverage policy targets and continue to pursue future opportunities to enhance shareholder value.

Many TELUS unionized employees were involved in a four-month labour disruption in 2005. What are the advantages of the new collective bargaining agreement for TELUS' customers and investors?

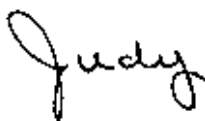


Judy Shuttleworth
Executive Vice-President,
Human Resources
Member of the TELUS Team

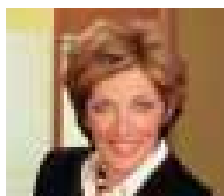
TELUS and its largest union achieved a landmark five-year negotiated collective agreement in November 2005. A key advantage is that we have gained labour certainty to the end of 2010, which contrasts with the uncertainty of the last several years. For our team members, the new agreement provides best-in-class compensation, growth opportunities and employment protection. For our investors and customers, the advantages of this new agreement are many as it modernizes a contract that had long impeded our ability to fully integrate our operations between B.C. and the rest of Canada to effectively and efficiently serve customers in the increasingly competitive communications market.

For example, we have increased flexibility to serve customers when they want to be served, and we have increased the company's ability to schedule employees based on customer needs and to use temporary and part-time staff to deal with fluctuating service requirements. We have increased productivity by more than 50,000 person-days a year by buying out time off (over and above vacation time) in B.C. We have made a significant step forward in our performance culture with at-risk, variable pay for all employees based on a scorecard of metrics covering financial performance, customer service, business efficiency and effectiveness, and spirited teamwork. In addition, contractual provisions have been updated to ensure that employee qualifications, experience and aptitude are taken into consideration, along with seniority, when staffing decisions are being made. We have also increased our efficiency by contracting out non-core functions, like janitorial services, to third parties so we can focus our resources on our core communications business.

Given the significant changes that were negotiated, we are training management to fully understand and administer this agreement. The company and the union have agreed to work to dismiss or withdraw various legal proceedings and establish a Common Interest Forum to constructively discuss important issues. In addition, TELUS team members have a common focus towards better serving our customers. While it is difficult to quantify all the benefits, this agreement clearly allows TELUS to be a better-performing company for the benefit of our customers, team members and investors.



What are the key regulatory issues investors should keep an eye on?



Janet Yale
Executive Vice-President,
Corporate Affairs
Member of the TELUS Team

The regulatory framework remains a part of life for TELUS and other telecommunications companies and could represent a positive or negative impact for us going forward. TELUS has certain mandated local revenue "price cap" reductions in our wireline business, and regulatory rulings will likely continue to remain somewhat unpredictable. TELUS has the advantage from our non-incumbent local exchange carrier (non-ILEC) operations, which provide a partial hedge against adverse ILEC

rulings. Overall there is increasing pressure in Canada for the federal regulatory bodies to consider greater deregulation as competition and technology convergence increases.

TELUS' telecommunications and broadcasting services are regulated under federal legislation by Industry Canada, as well as the Canadian Radio-television and Telecommunications Commission (CRTC), which reports to Parliament through the Minister of Canadian Heritage. Areas of regulatory and policy developments that TELUS investors should keep an eye on include:

- **Forbearance decision** – The CRTC's pending decision on local forbearance will signal how long it will be before, and under what conditions, ILECs obtain more freedom and flexibility to compete with cable-TV and other providers, which are not regulated. A decision is anticipated in the first half of 2006.
- **Deferral account** – A decision on how the CRTC treats the use of ILEC deferral account funds for rural wireline serving areas was released in February 2006. The decision indicated TELUS had a preliminary liability balance of \$130 million. The company is to submit applications to fund uneconomic portions of the network backbone and access infrastructure to provide broadband services to rural areas of B.C., Alberta and Eastern Quebec. After provincial consultation, projects are to be submitted to the CRTC for approval by June 30, 2006. Use of the funds to support the extension of broadband connectivity to rural areas allows customers in these areas to benefit from TELUS' high-speed Internet services, and responds to government policies to expand high-speed Internet availability. Approved projects, for example capital expenditures, will result in revenue recognition by TELUS spread over the life of the assets.
- **Price cap review** – The CRTC plans to undertake a review in 2006 of the existing price cap regime in place since 2001 to determine how local services and services provided to competitors will be regulated beyond June 2007. While the results of this review will not be applied in 2006, it will attract significant attention and speculation in 2006 as the outcome will set the regulatory framework for price-capped services for an extended period of time.
- **Wireless number portability and spectrum** – Of particular interest for the wireless business is wireless number portability (WNP). In December 2005, the CRTC set out the implementation timetable for WNP directing that full number portability must be implemented by TELUS, Rogers and Bell by March 2007 in those areas of B.C., Alberta, Ontario and Quebec where wireline local number portability is currently available. Other carriers and other regions of Canada are to follow suit by September 2007. Investors may consider what the net impact could be from increased competitive

churn compared to the benefit of being more effective in marketing to the business market in Central Canada where TELUS is under-represented.

There is a possibility that Industry Canada could ask for comments on setting up a new mobile wireless spectrum auction in the future. TELUS, at this point, has adequate spectrum for a number of years.

- **Telecom policy review** – The Telecom Policy Review Panel, formed in April 2005, is expected to report to the new Minister of Industry in the first half of 2006, and to provide recommendations to the government on many issues including foreign ownership restrictions and structural changes in the way communications companies are regulated. Observers will consider how quickly a minority federal government will be willing or able to act to create new policies and if the recommendations signal a less interventionist regulator and telecom policy moving forward.

As noted above, there are a number of regulatory issues that could affect TELUS and the telecom industry in general in 2006. TELUS supports the CRTC's facilities-based competition framework. While we are strategically focused on less regulated data and wireless growth markets on a national basis, we welcome any relief or change in regulation in our incumbent markets that may enhance our competitiveness and allow for more innovative product offerings for consumers and business.



Could the integration of TELUS' wireless and wireline operations cause the company to lose focus on the growing and competitive Canadian wireless market?



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

No, in fact it is quite the opposite. The integrated structure focuses our business on customer groups rather than distinct products, enhancing our focus on the expanding wireless market while strengthening our ability to deliver applications to our customers over a wired and wireless medium.

Consistent with TELUS' national growth strategy to provide integrated solutions, the merger is designed to:

- Advance our industry-leading strategy;
- Achieve meaningful commercial differentiation in the markets we serve;
- Capitalize on the technology convergence of wireless and wireline; and
- Drive continued operating efficiency and effectiveness.

Our ability to offer a full range of services, including wireless, is a competitive advantage for TELUS. Furthermore, many of the new communications solutions, like wireless home networking or TV broadcasting, increasingly involve converging wireline and wireless technologies that support the delivery of the aforementioned data applications. Bringing our wireline and wireless operations together presents another significant opportunity to harness our broad multi-product capabilities to more effectively differentiate ourselves from our telecommunications and cable-TV competitors.

Combining these customer-facing business units allows TELUS to offer a better one-stop customer experience and align our technology infrastructure. Moreover, the merger should realize increased efficiencies from a consolidated operation that support robust margins, as well as EBITDA and cash flow growth. It also facilitates improved productivity by permeating best practices and concentrating our leadership talent pool following the consolidation of our wireline and wireless operations.

Wireless remains a key value driver for TELUS and a critical growth area in both our consumer and business markets. TELUS recognizes the importance of maintaining separate wireless operating indicators and financial results to ensure strong management financial controls and, as well, to support an accurate investor valuation perspective. Therefore, TELUS' wireless and wireline operating results will continue to be reported separately in the public domain, allowing investors to properly value TELUS.

Combining TELUS' wireless and wireline operations into one operating structure is entirely consistent with TELUS' national growth strategy to provide integrated data and wireless solutions that differentiate TELUS in a meaningful way. This integration clearly strengthens our focus on being one team, united under one strategy and defined by one brand.

