

questions & answers



Q TELUS is targeting capital spending of approximately \$1.75 billion in 2007, more than in 2006. What is driving the increase and what are the expected future benefits?

A Since 2000, TELUS has been a growth-oriented company. In 2006, revenues grew by more than \$500 million. This year, we are targeting a similar increase, to approximately \$9.2 billion. As a growth company, management is investing to secure the long-term future for our customers and our investors, as we have consistently done over the last six years.

All of the capital spending in 2007 will be directed toward our core business and advancing our national growth strategy, with the aim of maintaining leading growth metrics in the global telecommunications industry.

In wireless, where revenues are expected to increase 12 to 13% in 2007, we plan to invest \$550 million in our infrastructure, an increase of \$123 million from 2006. This will include continued strategic investments in our high-speed wireless network (EVDO), expansion in additional markets and enhancement of our digital wireless capacity. We will also be upgrading parts of the network to the next generation of CDMA technology,

EVDO Rev A. The benefits will be even faster data transfer rates and higher system capacity, as well as improved quality of service for data applications. Whilst higher than in 2006, the \$550 million investment represents less than 13% of revenues, consistent with our guidance range and low compared to wireless carriers globally.

We plan to invest \$1.2 billion in our wireline infrastructure, similar to 2006. Whilst this is a higher percentage of wireline revenues than many other telcos currently, we believe it is a wise investment for the long term. A major focus of this investment is to increase the speed, capacity and coverage of our broadband network. This includes a three-year initiative to install advanced Internet equipment in more than 7,000 sites and to run fibre-optic cable within 1,500 metres of customers' homes. Bringing fibre closer to customers' homes is expected to provide Internet access speeds of 15 to 30 megabits per second and beyond, enabling TELUS to offer new services including higher-speed Internet and high-definition TELUS TV. This, in turn, allows us to better compete with competitor offerings and advances our strategy of increasing our 40% share of the high-speed Internet market in our Western incumbent region.

Furthermore, we are enjoying continued strong housing growth in Western Canada as the economies of B.C. and Alberta continue to outpace the national average. This requires increased investment in network access infrastructure including fibre to new homes and multiple dwelling units.

Another ongoing initiative is an information technology (IT) investment program focused on consolidating and upgrading multiple order-entry, billing and customer systems. This is expected to greatly improve efficiency and customer service levels, and also provide marketing flexibility to offer integrated services that differentiate TELUS from the competition.

The wireline capital budget for 2007 also entails success-based capital expenditures in Central Canada as we continue to win additional business, such as our five-year contract with the Government of Ontario to provide fully managed network access services. This contract includes building out new infrastructure in the first few years.

Our superior asset mix and relatively low capex intensity on the wireless side, coupled with the strong margins and cash flow we are generating compared to other telcos, provide TELUS with a proven ability to invest in the future whilst increasing the return of capital to our shareholders through dividend increases. Much of our success in the past several years has been based on the large investments we made from 2000 to 2002. Consistent with our national growth strategy, TELUS will continue to invest in capital spending in 2007 for the long-term benefit of our investors, customers and team members.



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

Q What is TELUS' approach to the increasingly competitive residential phone and TV market?

A Competition is nothing new for the TELUS Consumer Solutions team, which supports the mobility and residential services market in Canada. For us, the main issue is not increased competition but the regulatory restrictions that impede our team from responding to the changing market dynamics. That being said, progress was made in the second half of 2006 and we believe the regulatory environment is likely to improve during 2007.

With the integration of our wireline and wireless businesses starting in late 2005, we are creating a greater focus on our

clients' needs and enhancing our productivity. For example, a number of improvements have been made to the strategy and execution capabilities of our Future Friendly Home portfolio. Our high-speed Internet, local phone and long distance service results improved as we progressed through 2006, which was gratifying given that competitive pressures intensified over the same period of time.

The following is a brief summary of our 2006 highlights:

- Launched two generations of Home Solutions Bundles, which have assisted materially in reducing churn, gaining new clients and increasing winback success
- Increased direct marketing and channel activities to ensure clients are on the best plan for their needs and, wherever possible, have the full suite of TELUS services
- Introduced new higher-speed Internet services, made wireless networking part of our standard offer and doubled the speed of our TELUS High-speed Lite Internet service. These changes resulted in the highest net additions since 2002 and the lowest churn ever experienced with this service
- Expanded TELUS TV coverage into certain areas of Vancouver as well as additional neighbourhoods in Calgary and Edmonton. Growth was managed to ensure clients received a high-quality experience while maximizing the productivity of our field teams
- Increased customer service transaction quality scores by 25%, reflecting the sharing of best practices and management between the formerly separate wireline and wireless businesses.

While we are concerned with the level of local and long distance revenue losses experienced during 2006, we are positively encouraged by our performance versus the telco peer group and the success of our marketing and sales activities in the latter half of 2006. Our approach is focused on the delivery of a superior level of service, features and execution, which is much more difficult for competitors to match than simple price reductions or price matching.

We learned a great deal about what worked and what didn't last year, which allows us to evolve and build on our strategy going forward. We have a number of new ideas to bring to market to further support the momentum created last year.

Opportunities for 2007 include:

- Continuing to raise the bar on client service, through an organization-wide focus on end-to-end process quality and execution
- Incrementally investing in field technical resources to ensure alignment between demand and supply during peak volume periods
- Encouraging regulatory reform that allows greater flexibility in responding more quickly to competitors' actions

- Leveraging the experience of our team to drive better client insight and opportunities
- Implementing our new billing and client care systems to accelerate productivity and quality enhancements
- Continuing the roll-out of TELUS TV to more neighbourhoods in B.C., Alberta and Eastern Quebec. In addition, introducing new services such as high-definition TV
- Increasing market share in the multi-billion dollar mobile and Future Friendly Home entertainment industry – an exciting, key growth area for TELUS in the years to come.

TELUS is positioned to leverage the potential of advanced wireline services with our wireless consumer offerings.

Through continued investments in our networks, the strength of our brand and marketing, and ongoing enhancements to our customer service systems, TELUS can increasingly offer integrated and differentiated services to our customers. Stay tuned!



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

Q Will TELUS consider directing more of its cash flow toward dividend increases rather than share buybacks?

A TELUS has a strong track record of returning capital to investors and has been paying dividends since 1916. In order to provide investors with more clarity on the outlook for our dividend, TELUS has had, since 2004, a Board-approved dividend payout guideline range of 45 to 55% of sustainable net earnings.

While there is no current intention to change the existing financial policy target on the dividend, TELUS' financial policies are periodically reviewed and approved by our Board of Directors. Income tax rates and any changes to federal and provincial taxation are factors that are taken into account in the dividend setting process. The actual and proposed changes to significantly reduce taxes on dividends for Canadians in 2006 and 2007 could, theoretically, be a factor in directing

more cash toward dividends than share buybacks, especially for income-oriented investors. However, TELUS also has many growth-oriented investors who prefer capital appreciation to dividend increases. As demonstrated by our past practice, any changes to our dividend policies would reflect a balanced approach to debt and equity holders.

TELUS' goal is significant dividend growth on a sustained basis, and we continue to have a positive outlook reflecting continued growth in earnings. For instance, we announced a 36% increase in the quarterly dividend to 37.5 cents per share, effective January 1, 2007, which is the third sizeable increase in the past three years. The resulting annualized dividend of \$1.50 is now the highest in the Company's history.

We also have an active share buyback program in place under which we have purchased, on a cumulative basis, 39.4 million shares for a total of \$1.77 billion from December 2004 to the end of 2006. This includes approximately 16.5 million shares repurchased for \$800 million in 2006. TELUS believes that such repurchases constitute an attractive investment opportunity and a desirable use of Company funds that should enhance the value of the remaining shares.

Notably, with both the increased dividend and continued share repurchases in 2007, TELUS would be distributing most of its free cash flow, after capital expenditures, to its shareholders.

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



Q Given the number of government and regulatory developments that occurred in 2006, what should investors anticipate in 2007?

A TELUS' telecommunications and broadcasting services are regulated under federal legislation by Industry Canada, as well as by the Canadian Radio-television and Telecommunications Commission (CRTC), which reports to Parliament through the Minister of Canadian Heritage.

Areas that TELUS investors should keep an eye on include:

- **Proposed change to local forbearance rules** – In December 2006, the Minister of Industry issued a proposed order-in-council that would make significant changes to the April 2006 CRTC framework for forbearance from regulation of residential and business local exchange services.

The proposal would eliminate the current marketing restrictions on winbacks and most other promotions. The proposal would replace the CRTC's market share loss test with a much simpler competitive presence test. In addition, it would reduce the competitor quality of service criteria that must be met as a precondition for forbearance.

The proposal is subject to a public comment period, following which the Federal Cabinet can implement the proposed framework in its present or revised form. This order must be issued by April 6, 2007. If it comes into effect substantially as proposed, we believe TELUS will be in a position to achieve deregulation in most of our urban local exchanges in 2007.

- **Reliance on market forces policy direction to CRTC** – Also in December 2006, the federal government issued an unprecedented direction to the CRTC that requires it to:
 - Rely on market forces to the maximum extent feasible
 - Ensure technological and competitive neutrality and enable competition from new technologies
 - Use tariff approval mechanisms that are as minimally intrusive as possible
 - Complete a review of the framework for mandated access to wholesale services
 - Publish and maintain performance standards for its various processes
 - Continue to explore new ways of streamlining its processes.

TELUS has advocated these measures in the past and believes their implementation by the CRTC will lead to more efficient and effective regulation while enhancing industry competitiveness.

- **Deferral account in limbo** – The incumbent local exchange carriers (ILECs) are awaiting the outcome of two Court appeals of the CRTC's February 2006 deferral account decision.

The Federal Court's decisions on the two appeals are expected by year-end. The decisions could change the way that deferral account funds are utilized.

- **Price cap framework review** – In May 2006, the CRTC initiated a review of the current local price regulation regime for the purpose of establishing the parameters for the next price cap period beginning June 1, 2007. TELUS proposed a single price cap for its ILEC operations in B.C., Alberta and Quebec and that there be no mandated rate reductions for regulated services in the next price cap regime. The CRTC is expected to render its decision in this proceeding by the end of April 2007.
- **Wireless spectrum auction** – In February 2007, Industry Canada released a discussion paper for the upcoming auction for advanced wireless services (AWS) spectrum. Comments on the consultation paper are due in May 2007, with further reply in June 2007. It is currently expected that the final auction rules will be issued this fall with an auction likely in early 2008. Existing carriers, cable-TV companies and others may be interested in acquiring AWS spectrum. TELUS supports an open and fair auction with the same rules for all participants.

TELUS supports the Canadian government's push to rely on market forces where feasible. While we are strategically focused on data and wireless, which are largely unregulated, we welcome any deregulation in our incumbent wireline markets that may enhance our competitiveness.



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

