

GENUITY CAPITAL MARKETS

Conference Call

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Good afternoon, ladies and gentlemen. Welcome to the Genuity Capital Markets conference call.

I would like to introduce your chairperson, Mr. Dvai Ghose. Please go ahead.

DVAI GHOSE: Yes. Thanks very much, everyone, and thanks to those of you in the room who cared to join us today on a rainy afternoon. I'm very pleased to present Darren Entwistle, the CEO of TELUS Corporation and Bob MacFarlane, the CFO. I think you know both of them very well, so I won't waste a lot of time with introductions, but I'd really like to thank TELUS for their support. It means a lot to me to have them here.

As you know, in my prior career, TELUS has consistently been my top pick over the last few years and I think with very good reason. What we're going to do today is we're going to start off with a sort of fireside chat format where I'm going to ask Darren and Bob a few questions, go through some of the most fervent issues that I think are important for investors and TELUS and then we'll open it to the floor, so you should have a good 45 minutes to an hour to ask questions. So please be ready to actively participate.

Just a couple of housekeeping matters. There's a folder and a presentation in front of you. The presentation is just background slides. As I said, it's a fireside chat, not a presentation. And the blue folders are from Genuity. It's just basically my latest research and model on TELUS Corporation. So if you have any questions after the meeting, please feel free to contact me and if you have any questions for TELUS, John Wheeler is over there, who heads the Investor Relations group at TELUS.

So with that, let's begin. So again, thank you very much for joining us this afternoon. Appreciate it. Why don't I go straight to what I think is probably one of the most pertinent issues facing investors today when looking at TELUS, which is a question of whether you should convert into an income trust or not. Now, I want to put it in the context of a few things. You've had exceptional cash flow performance over the last three to four years, your Clearnet tax shield is expiring at the end of '06, beginning of '07, even if you only pay cash taxes in '08 onward, and your multiples, despite all your significant cash flow growth, seem to be fairly modest when compared to cable operators such as a Shaw or a Rogers or, indeed,

the new income trusts that we see out there such as the Bell Aliant Rural Fund or, indeed, even Bell Nordique. So given the importance of having a high cost of -- low cost of equity in a high multiple, given the fact there may be consolidation, and given the fact that your Clearnet tax shield runs out in the relatively short term, in that context how do you look at a trust?

DARREN ENTWISTLE: All right. Well, it's a real surprise to us that you've asked the question concerning an income trust. We never would have guessed that that would have been on today's agenda. Firstly, I think it's important to point out that we are neither anti-income trust nor pro-income trust. We're income trust agnostic. And if nothing else, we're analytical as an organization, wanting to evaluate every opportunity, which is our responsibility to make sure that we make the right long-term decisions for security-holders of the TELUS organization.

Let me maybe peel the onion to illustrate to a certain degree our thinking in respect of this matter. Firstly, I think it's important to point out that financial engineering in and of itself is not a strategy. So for us, financial engineering is subordinated to our overall strategy and is viewed through the lens that at the end of the day, any financial engineering that we would want to undertake would have to advance the strategy of the TELUS organization. Financial engineering, in isolation, is not something that would pique our interest, so to speak. And certainly I think there is evidence in the marketplace amongst our peer group, empirical evidence that financial engineering in the absence of a strategy does not create the valuation lift that maybe people originally would aspire to. Let's set the record straight on that.

And maybe to give you a point of illustration to put this into context, I remember back in 2001 and 2002 people saying that we should release value by taking our wireless business public. And I said no, I want to keep the wireless and wireline businesses together and create value. And I think we've done just that. Because at the end of the day, a piece of financial engineering like doing an IPO for our wireless business would not have furthered the interests of our strategy. It would not have progressed our strategy. It was not the right thing to do for the organization, so we didn't do it and I think we have demonstrated that was the right decision at the time. And certainly most of our peers around the world are now striving to bring wireless and wireline closer together rather than further apart.

Next thing to point out is that at the end of the day, we are an operational entity. We are not a bunch of people that run a holding company structure. At the end of the day, you know, what I value most in the leadership team of this organization, whether it's Bob as the CFO or the people that run the business units, is their strategic and operational acumen. So for us, we want to make decisions that are the right decisions to allow us to operationalize the strategy and continue to create value. So any structure insofar as an income trust was concerned that would see us divide the company structurally, let's say doing an income trust on rural access lines, is not a structural segregation of the company that we would be supportive of. That segregation is problematic from our perspective from a governance view, it's problematic from our perspective in terms of operational considerations. We don't think that segregation is right for technology

deployment and we also think it confuses the operation and drives complexity into the business, particularly when you think about things like the deregulation that is currently on the agenda within the Canadian landscape.

Next thing to talk about in terms of analysis, at the end of the day, you know, you need to take a long-term view of the organization and that means you need to consider what is going to be the future tax environment, what opportunities are there out there where let's say for an acquisition perspective, maybe that acquisition has tax losses and if you do an income trust, maybe those tax losses no longer embellish the economics of that acquisition. You just need to think things through at a very clear level. Also you need to have a view of your cash flow going forward, and how much of that cash flow can be surrendered within a trust to drive the valuation associated with that trust and how much cash flow you would want to retain if you're going to see your strategy through to fruition. And if you don't know the answer to that question, then you could enter into a trust structure and not have sufficient cash because of the representations that you've made under the trust structure to see your strategy through to fruition.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And in that case, the trust structure would be impeding your strategy, rather than advancing it.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And probably the last comment that would be worth making, and hopefully this gives you a view that, you know, we're not pro, we're not anti, we're just considered in all of the approaches in terms of taking this organization forward, I would say here's an organization and you made the comment yourself, Dvai, that has a very good track record, very good credentials in terms of executing our strategy over a continued period, and by executing that strategy, creating value for shareholders. And in creating value for shareholders, we've made the move to return some of that value creation through successive increases to the dividend or through successive share repurchase programs. And I believe that going forward into the future we can continue to create value for shareholders through the effective implementation of our strategy and consistent with our past behaviour, return that value creation to shareholders through mechanisms like, again, future increases to the dividend or, again, future share repurchase programs. And certainly if we are capable of executing on our strategy, we will be capable of continuing to return cash to shareholders.

In that particular vein, if we elect not to do an income trust, hypothetically speaking, while there's still value creation opportunity and certainly we will still be returning cash to shareholders. If, hypothetically, we determined that an income trust would help advance the strategy of the organization, then that is up-side over and above that if we would invoke an income trust which would only be done if it advances strategy and whether the circumstances were correct.

DVAI GHOSE: No. I think that's a very good and thorough and thoughtful answer. Bob, do you want to add anything, because I want to come back on some of those points, but --

BOB MacFARLANE: I thought it was a good answer, Dvai.

DVAI GHOSE: Well, let me ask you about some of the points that you made. I absolutely agree with you that the only way you should consider the trust is if it enhances your strategy rather than assuming that it's a strategy in itself, and clearly I think separating the company into different pieces does not create shareholder value, at least in my opinion. Having said that, if you look at your other points, which is number 1, will we have sufficient cash for that sort of structure, I think the fact that you've had successive dividend increases and share repurchases and the fact that you have the strongest free cash flow growth in the sector suggests that that's not something that particularly concerns me as an analyst and, let's face it, you don't have to have a 90-95% payout ratio, just because other trusts do. You, I believe, could have a 75-80% payout ratio, you'd probably, you know, reflect that in a relatively low yield because, you know, low payout ratio to an extent will be rewarded, I think, and still have, I think, a lot of room for rainy day risk. Do you believe that or not?

And the second issue, when it comes to acquisitions and your point being that perhaps you can acquire tax losses, well, you acquired a major tax loss in 2000 when you bought Clearnet and Clearnet, I think, was highly justifiable as an acquisition in many ways, including the tax shield, but not because of the tax shield, but ultimately you never got the valuation of a permanent tax shield because the market would fully tax your earnings. In fact, your earnings are always fully taxed as per GAAP rules, so you never got that valuation, I think - maybe you disagree with me - and so by nature, it's not a --

DARREN ENTWISTLE: I thought, Dvai, it was because the analyst community did not do a sufficiently good job communicating that \$800 million PV tax shield out into the markets and ensuring that it was factored into our stock price.

DVAI GHOSE: No, that's right. But it nonetheless wasn't factored in. And last, but not least, when it comes to the question of acquisitions in general, I think you recognize the importance of currency and having a low cost of equity to match your sector-leading cost of debt, which is quite amazing considering that Moody's downgraded you to junk in 2002 but now you have a 5% cost of debt on your latest \$300 million note. Surely that's a very powerful combination and really quite elusive, having the lowest cost of debt and the lowest cost of equity in the sector.

BOB MacFARLANE: Well, Dvai, I don't think that it would serve great purpose to go into a detailed discussion of --

DVAI GHOSE: Yes, fair enough.

BOB MacFARLANE: -- the merits. I think there is common theme to your comment could TELUS be an income trust, would we qualify as an income trust, is that something that our financial structure could facilitate? And the answer is generally yes.

DVAI GHOSE: Yes.

BOB MacFARLANE: So from that perspective, it then goes back really to what Darren is saying and that is from a variety of considerations, some of which are generic in the industry as it relates to income trusts and the stability of the efficiency advantages, et cetera, and others which are specific to TELUS as it relates to furthering our strategy, that's an assessment that we will make in due course and I think that as Darren said, we don't approach this from a particular bias one way or the other, and our job is to make the optimal decisions for our shareholders, so we'll continue to do that. The only other point that I'll maybe emphasize on top of Darren's comments is that unlike other organizations that may have done financial engineering, if you will, which is not our primary driver, nor are we under a particular pressure from a timing perspective, it's not as if we need to make a decision on this today from the standpoint that notwithstanding your intro, the reality is we're still not taxable.

DVAI GHOSE: True.

BOB MacFARLANE: We won't be for awhile. So therefore, I think just events in the past year showed how volatile, if you will, some of the benefits of income trust are. Maybe one would come to the conclusion that it's a more stable environment from a tax regime perspective, but events in the past year have certainly taught a lesson that things can change. And so we're talking, this topic is about a relatively permanent structural change in an organization. And if you are going to do that, you want to ensure that the advantages of all sorts are also sustainable long-term and therefore we're going to take our time to analyze this thoroughly.

DVAI GHOSE: So to conclude, and I want to put this topic to bed for a minute - I'm sure it'll come up again in the open question and answer session, but you're agnostic on the structure, the structure is only of interest to you if it enhances your strategy, it is not an immediate consideration because you don't have to immediately pay tax and it is something that you will consider in terms of pros and cons, both in context, as well as in the big picture sort of level over the next little while.

DARREN ENTWISTLE: Yes. And regardless of what we do from a structural perspective, we are still committed to value creation and what we're talking about within this context is up-side opportunity over and above that. And the other important point is that if you're going to embark upon a structural change that has a degree of permanency associated with it, right, you're crystallizing that structure, then you better make damn sure that at the end of the day all of the attributes that were laudable to entering that structure in the first place are sustainable.

DVAI GHOSE: Yes. Yes.

DARREN ENTWISTLE: Because you don't want to end up in a situation where they turn out not to be sustainable and you're left looking foolish, seeking to reverse that structure at some point in the future.

DVAI GHOSE: No. I think that's clearly right. Obviously, this is going to be a monumental decision one way or the other and one which wouldn't be taken lightly or taken under pressure either. It has to be done in the

interests of longer-term value creation. But I appreciate that because obviously it's a very topical issue and I think it's one that you've given us a very comprehensive answer to.

DARREN ENTWISTLE: Dvai, I would just hope that at the end of the day amongst our shareholder base, right, that when they look to the management of this organization that any decision of this type of magnitude is evaluated extremely thoroughly --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- to make sure that we are making the right decisions for this organization for the long term.

DVAI GHOSE: No. And I think that's all we'd expect from this management team, so absolutely, I think that's a prudent course.

So let's talk about the underlying cash flows though, because I sometimes find it amusing that people talk about income trusts as if they're a panacea for all the challenges in the industry without perhaps recognizing that the underlying cash flows either make or break the cost structure, as you've alluded to yourself. So let's talk about your results and, quite frankly, we've been used to several quarters of huge upside surprises. You've certainly made us look good as analysts who were positive in the stock. Within that backdrop, however, I think you would agree that Q1-06 results were somewhat disappointing, inasmuch as saw a fairly significant margin decline on the wireline side which precipitated a 10% decline in EBITDA, and while you still reported a very robust 17% increase in wireless EBITDA, your margins were relatively flat year-over-year. You did a 17% increase in network revenue.

So I'd like to think there were some unusual circumstances. Certainly we've talked about what we think were some of the unusual circumstances and why we expect to see better margin and EBITDA performance during the course of the year, but certainly the question I get asked a lot is if you did a 10% decline in wireline EBITDA in Q1, how can you do 0-3% for the year as a decline which is your guidance, and if you did 17% wireless EBITDA growth, how can you do 18-22%, which is your guidance for the year? So perhaps you can explain why Q1 was unusual.

DARREN ENTWISTLE: Well, firstly, I wouldn't describe Q1 as disappointing. I would say yes, certainly there are some deviations from the trend line that you had made reference to, Dvai, but at the end of the day, I don't think you can judge an organization based on a quarter's performance --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- and we have to get out of that mentality where people draw complete inference from one quarter's worth of results and project into the long term based on those results.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Number 2, I also say that I don't find it disappointing because if we had put forward results in Q1 that were causing us to revise our guidance downwards for the full year, then I would accept the characterization of disappointing.

DVAI GHOSE: Okay.

DARREN ENTWISTLE: All right? So let's put that on the table. I've indicated that, yes, there are some deviations from the trend line and certainly we had some events in Q1 that were challenging for the organization. It would be fair to say that, you know, effectively the strike ran for the duration of the second half of 2005. So it would be fair to say that we have some operating cost hangovers associated with the labour aftermath of the work stoppage that characterized almost the entirety of the second half of 2005.

So, for example, we've got increased overtime charges making up for latent work that was not answered during the course of the work stoppage when we were focused on more immediate concerns. We have maintenance op-ex that we've been unable to capitalize as a result of the allocation of our resources in terms of correcting some issues within our network or dealing with problems in respect of the very wet winter that we've been experiencing within Western Canada, the West Coast in particular, over the course of the 1st Quarter that has driven for us perhaps more significant op-ex than what we would have anticipated. And to have, you know, that particular weather challenge augmenting our ability, if you will, or the challenge of dealing with the labour aftermath, you know, exacerbated some of the overtime costs and, of course, we saw bias a little bit more towards maintenance versus network deployment activity again as a result of those factors.

Additionally, we have taken on some new business opportunities on the business process outsourcing front. A very significant deal that we, of course, realized in Central Canada was, of course, the deal with Hamilton Health Services where we've got an HRBPO underway with them. And when you embark upon an HRBPO you, of course, take the manpower, the people power, the resources of that entity onto your P-and-L and it would be fair to say that the operating costs come first. As you absorb that, you know, as you absorb those resources, and you also have operating costs associated with the implementation of that particular relationship and thereafter down the line you have the benefits in terms of the revenue and the profit creation. So I would say that's an element that is again colouring our Q1 results and I think if we execute well in that particular deal, what we'll see is that with the up-front op-ex investment, we will see the revenue and the profit begin to flow through.

And it would also be fair to say that whilst those factors that I've just mentioned have been more non-recurring in nature in terms of overtime bumps because of the labour aftermath or the weather or more maintenance because of the weather than network deployment, the Hamilton Health comments, they're more non-recurring in nature. I think we have another element that impacted our op-ex and that's the fact that we've been making a little bit more of an investment from a COA perspective in driving forth with our high-speed internet access offering in Western Canada. And I would say that that increased COA, which we can, you know, perhaps expect to see on a more continued basis - not every quarter but it's a repeatable investment, I would describe it as that - I think that's been a relatively good investment --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- for us. I think you can see that insofar as the subscriber net-additions are concerned, we're generating some pretty good results from that investment and we are experiencing historical lows in terms of customer churn on ADSL. So customer loyalty and retention is very good and again, that underpins the economics of the COA investment.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: On the wireless front, let me just pause because yes, you know, margins were almost flat.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: They were up by ten basis points from forty-four, you know, five to 44.6.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: I just would like to point out that, you know, here we are, you know, in the Province of Quebec and *je me souviens* and I remember a time when I was having discussions with analysts and institutional investors whether it would ever be feasible, okay, talking not about network revenue margins, okay, but all end margins on the Mobility business, whether it would ever be feasible, whether it was even conceivable that we would hit 45% margins in the wireless business. It was considered to be that aspirational. So, you know, I would just like to point out that yeah, when we're talking about flat margins, we're talking about flat margins at a zone where, you know, only, you know, 24 to 36 months ago people were posing the query of whether they'd ever be attainable in the first place.

Next thing to point out is that if you peel out the COA component, right --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- the margins do reflect improved marketing efficiencies. They're up about 150 basis points on a year-over-year basis.

Third thing to point out is yeah, we were a little bit more aggressive on COA, but, you know, it was not aggressiveness in isolation. It was aggressiveness in response to certain behaviour out there in the marketplace that was, you know, that was somewhat frustrating for us. I would say when organizations have exclusivity on a piece of mobile hardware that's iconic in nature, has a tremendous pull value into the marketplace and they are discounting the value of that iconic hardware quite aggressively, both within the main organization but also within the sub-branding, you know, it behoves us to, you know, respond by, you know, tweaking our COA a little bit more than what might otherwise be the case if there was more, you know, pervasive rational behaviour out there within the wireless industry.

Next thing I think that's worth pointing out is let's talk about COA affordability.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And I think, you know, how much absorption factor is there at TELUS to increase our COA in response to perhaps non-recurring irrational pricing behaviour that we're seeing from our competitors out there in the marketplace? Well, here's an organization where, you know, we can augment our COA and you see that in Q1, yet the affordability is excellent, both in absolute terms but on a relative

basis because if you do, you know, COA as a percentage of lifetime revenue, we stand at 9.5%. And I would say that COA augmentation is pretty affordable when it stands at 9.5%. And on a relative basis, you compare that to a Bell who's at 13.1% COA divided by lifetime revenue or a Rogers organization which is 15.8% because of their 2.1% churn rate that was evidenced in Q1. Relatively speaking, it's a more affordable investment for us on a relative basis, but also on an absolute basis, making sure that we get a good return from that COA because if we do augment the COA and we drive up, you know, increased subscriber growth well, you know, ARPU is up two bucks, so we're getting more from that subscriber base, you know, and churn was at 1.33%, which was the second-lowest in all of North America.

I guess, you know, to conclude my answer to your question in terms of future prospects for the organization, I think there's a lot of latent potential to be realized within the wireless industry and if you look at our ARPU numbers, you know, they are doing well on a three-year trend basis. If you look at our customer loyalty and retention, doing extremely well, and we have significant scale economies still to be realized as, you know, as we see, you know, 5 million more new subscribers potentially coming on board within the Canadian wireless industry over the next 36 months. And I think, you know, that's -- you know, that's an attractive opportunity for this organization so, you know, I continue to feel very positive about the prospects for continued operational execution and how that's going to manifest itself in terms of the overall value of this company.

DVAI GHOSE: So let me come back on two points, and Bob, please come in if you care to. On the margin question, your earlier point was you've exceeded 45% margins which clearly, 24, 36 months ago I think even, you know, very bullish wireless analysts like myself would have questioned. But -- and the latter part of your comments you give us the ideas as to how margins can continue to improve. So I'd like to think there's no feeling, artificial or otherwise, and that it's progressively perhaps more difficult to increase your margins when they're industry high, such as yourself, rather than industry low, such as Rogers, but nonetheless, I think your conclusion is that there are still significant margin improvements to be had.

DARREN ENTWISTLE: Okay. I'll just pick it up, I'll hand over. Just be careful. It's not like we view this as a ceiling.

DVAI GHOSE: Right.

DARREN ENTWISTLE: But let's be prudent, right? I mean, I think you need to make decisions that are correct for the longer term and I think if short-term avarice, you know, causes you to drive, you know, levels of profit margin on the wireless business that would invite regulatory scrutiny, regulatory intervention, you know, or let's say, you know, a lobbying effort for a fourth player because the margins are so fat, then I don't think you're marketing your services with a mentality that's geared towards long-term value creation. It's geared towards short-term margin avarice and I don't think that's in the best interests of shareholders. So it's not that I think there's a ceiling, but I wouldn't be so categorical as to say that you don't -- you know, you don't need to be mindful of the fact that when you see margins, you know, hit certain areas, you know,

you need to be mindful that they could invite regulatory scrutiny that I, you know, I think should be avoided, if you will, or a change to the competitive dynamic, again that would be not in the long-term interests of the shareholders of this organization.

I'll let you take over.

BOB MacFARLANE: Yes. I'd just add onto that, Dvai, that if you look at the pre-marketing margin in the wireless business and it doesn't matter how you look at it, it's very attractive, whether in absolute or in growth terms, so that where your EBITDA margin ends up in a particular quarter is really a function of what your volume is in gross additions, as well as your COA per gross addition. I think people have focused on the COA per addition here in absence of all the other positive metrics we have and, of course, we had record loading --

DVAI GHOSE: Yes.

BOB MacFARLANE: -- you know, both 4th Quarter, for our 4th Quarter and 1st Quarter, for 1st Quarter, so --

DVAI GHOSE: Which puts pressure on your margins.

BOB MacFARLANE: So, you know, it wasn't too long ago when analysts didn't even know how to get down to EBITDA and sort of start and stopped at subscriber level. And here we have a quarter where, you know, we have record loading, ARPU increasing for, you know, we're now on a three-year track record of quarterly ARPU increases, churn rate at 1.3% and, you know, we seem to spend a disproportionate time on a COA level when as Darren points out, the COA per lifetime revenue is less than 10%.

DVAI GHOSE: Yes.

BOB MacFARLANE: So from that standpoint, I think, you know, I think the results were actually quite good and so where they're going to be in subsequent periods is going to be a function of, I think, more to do with what is the loading and what is the COA per and given that we've just had a couple of quarters of great loading, it certainly builds in a foundation, as you know, of flow-through that's very positive. So we're going to be responsive from a competitive standpoint.

DVAI GHOSE: Right.

BOB MacFARLANE: There are, through gaming theory, there's all sorts of scenarios where it could go lower or it could be higher, and we're certainly not a leader in terms of taking it up, but we certainly will defend our position.

DVAI GHOSE: No, and I think that makes sense. So you've both brought up a lot of excellent points, so I just want to hone in on three of them. First of all --

DARREN ENTWISTLE: Just before you do, Dvai, you know, the one thing we haven't talked about is, one, is we're not hitting our heads, which was my point about, you know, the opportunity for further subscriber growth in terms of the potential of the Canadian wireless industry in totality, so it's not like we're hitting our heads in terms of penetration saturation and we're at the point effectively of diminishing returns. And I made the comment about, you know, you've got a three-year trend line that's pretty encouraging. And what

we have seen also in terms of industry penetration is we've seen that, you know, pick up. If you look back to '04 the penetration gain was about 410 basis points, you know, in that particular zone, and, you know, if you look, you know, 12 months thereafter, 440 and then you look at, you know, '05, sort of in the 510, you know, zone.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: So we've seen a nice acceleration of penetration gain. We're not hitting our head on a ceiling. So that doesn't mean we're not concerned about, you know, the -- you know, the maturity of the market, but it doesn't say to me that, you know, the point of diminishing returns is imminent.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: The other point that hasn't been discussed is data.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And I would say TELUS has been a laggard in data.

DVAI GHOSE: Exactly.

DARREN ENTWISTLE: So if you look at data within our ARPU, it's not like here we are, you know, having exhausted the data opportunity and we're looking to, you know, wring blood out of a stone at this particular juncture. We're really, you know, at the beginning element of data.

DVAI GHOSE: 75% of your ARPU.

DARREN ENTWISTLE: Yeah. I mean, you know, let's look. It was, you know, what, \$3.71 in Q1, so, you know, here's an area of significant future potential for this organization as we catch up. I mean, take a look at -- let's say at Sprint Nextel, for example, you know. It's about ten bucks in their ARPU --

DVAI GHOSE: Yeah.

DARREN ENTWISTLE: -- in terms of where data is at, and you've got a point, as well, where Rogers is at.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- so -- and the other thing that's interesting is that, you know, as you sit astride wireline and wireless, right, typically new data services within the wireline IP domain, they've got margins of 20 to 25%. You look at data revenues on the wireless front, they've got margins of 60 to 65%. You know? And so, you know, I think to the extent to which, yeah, there will be elements of our wireless ARPU, same as what we faced historically on wireline, VoIP services, for example, that will experience pricing pressure and margin, you know, compression to a certain extent, but we have a lot of up-side opportunity, whether it's future growth or data services or what we can do on the mike front, so on and so forth, I think to more to mitigate that type of inevitable margin pressure and I think, you know, that's again a differentiating factor at TELUS that, you know, maybe it's not so great that we've been laggards, okay, so shame on us for not moving more quickly, but from a potential perspective --

DVAI GHOSE: It's very significant.

DARREN ENTWISTLE: -- you know, I think there's -- you know, there's value to be mined in that regard.

DVAI GHOSE: No, those are good points. Now, let me -- one thing you didn't mention about the COA in the quarter, which surprised me, is you did launch SPARK and broadband on the fly - for those of you who are not aware, SPARK is a consumer wireless data branding, I guess, and broadband on the fly similarly for business customers with things like BlackBerry and other PDAs, so I assume that that had some materiality in the quarter, would that be fair to say, Bob?

BOB MacFARLANE: Well, it did. I think -- you know, I think we've covered the main points --

DVAI GHOSE: Yeah.

BOB MacFARLANE: -- in relation to COA. If one wants to get micro in terms of a particular quarter --

DVAI GHOSE: No, that's fine.

BOB MacFARLANE: -- for what that's worth, I think there is some new experimentation in that typically your major campaigns are driven for loading, to drive loading to stores. These were campaigns more to drive adoption of a service, so while the costs of those campaigns record in your COA and enumerator, they don't necessarily drive the denominator in terms of the number of gross --

DVAI GHOSE: Exactly.

BOB MacFARLANE: -- so the real test of that, of course, goes back to Darren's point. If they are meant to drive adoption, did you see any difference in your ARPU? Did you see --

DVAI GHOSE: Yeah.

BOB MacFARLANE: -- any difference in your data? And in both accounts we certainly did.

DVAI GHOSE: Yes.

BOB MacFARLANE: And --

DVAI GHOSE: And we should continue to. These are relatively new.

BOB MacFARLANE: And I think that just to, you know, undermark maybe from a more indirect fashion about the confidence and lay it on the line in respect of the opportunity ahead of us in terms of data, is the fact that we have, you know, disclosed publicly our data --

DVAI GHOSE: Absolutely.

BOB MacFARLANE: -- for ARPU and we're doing so on a quarterly basis. That's hardly a sign of an organization that's concerned about being transparent in terms of its performance.

DVAI GHOSE: No, and I think we all appreciate that as analysts and investors, that greater disclosure. So --

DARREN ENTWISTLE: Dvai, I mean seriously though, I mean, do you really want to get into a world where we actually say to ourselves well, the right thing to do for the business is to run two campaigns in the quarter, which is atypical, not typical, right?

DVAI GHOSE: Yes. Right.

DARREN ENTWISTLE: But we don't want to run two campaigns in the quarter because despite the fact that it's the right thing to do operationally for the company, we're worried about having, you know, 67 hours of dialogue on the COA thereafter.

DVAI GHOSE: Yes. Good point.

DARREN ENTWISTLE: I mean, it's just -- it's not the way to run the business, right?

DVAI GHOSE: No. That's exactly right.

DARREN ENTWISTLE: And so, you know, for us, you know, we made that decision. You know, at the end of the day, you know, we're sort of playing catch-up on the data front, right, so the Spark introduction was important to us because it wasn't like, you know, our data ARPU was six bucks.

DVAI GHOSE: Yeah.

DARREN ENTWISTLE: Right? So, yeah, we've got to, you know, pump up the volume a little bit to, you know, get things going, break through the inertia on data because it's the right thing to do in terms of the management of the business. And, you know, if typically we run one campaign a quarter, well, if we want to deviate from that, if it makes good business sense, let's do that without having incessant discussions on the COA.

The other thing that I think would be interesting to note is that don't draw inference from this that, you know, we've now taken our eye off the ball on COA.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: We're now no longer concerned in terms of, you know, marketing efficiency. The same discipline that's been the hallmark of this organization in terms of marketing efficiency focusing on the economics of the business is, you know, is pervasive across our management culture and that's never going to disappear from the TELUS fold. Okay? It's part of our DNA and that's not going to change. All right? And to draw inference from Q1 and deduct otherwise is a flawed assumption for you to make. And if you want a point of empirical evidence, okay, well, here we have, you know, a situation over the past six months where one of our competitors had an iconic piece of hardware --

DVAI GHOSE: Right.

DARREN ENTWISTLE: -- all right, and discounted the heck out of that iconic piece of hardware, despite the fact that they had exclusivity over two of their competitors.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Well, who now has a piece of iconic hardware out in the marketplace? We do with the Q.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Right? And where's the price point on the Q?

DVAI GHOSE: I think it starts at two-ninety-nine or something like that.

DARREN ENTWISTLE: Two forty-nine.

DVAI GHOSE: Two forty-nine, yes.

DARREN ENTWISTLE: Right?

DVAI GHOSE: Yes.

DARREN ENTWISTLE: So, you know, here we have, you know, an attractive form factor, all right, to compete with or provide an alternative, if you will, with what we're doing on the BlackBerry. It's got the same form factor attributes from Motorola as the Q.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: We have exclusivity for a window of opportunity in respect to that product and here we are pricing it at a level that says here's an organization that's focused on creating economic value for shareholders.

DVAI GHOSE: I think that's very wise. I mean, you know, if you look at carriers like Telecom Italia Mobile in Italy, I've always salivated at the prospect of actually making some margin on your hardware, as opposed to having subsidized it at all. It's probably a little elusive in Canada, but let's be candid here. So the comments you're making about iconic hardware and heavy subsidization are essentially comments made about Rogers and, in particular, the pricing of the RAZR handset at the end of last year and beginning of this year through the Fido channel.

DARREN ENTWISTLE: I didn't say Rogers, Dvai.

DVAI GHOSE: No, I understand.

DARREN ENTWISTLE: You said Rogers.

DVAI GHOSE: My conclusion. And I've had several conversations with Rogers about it, as you can imagine. I think there's a conceptual issue here. I don't know if you agree with me. Rogers believes that they should take their one-third market share of gross post-paid additions, that's where their focus is, plus about a 10% share for Fido equals about 43%. And if you look at their subscriber market share of gross post-paid since they bought Fido, it's almost exactly 43% on average during that period. I think Bell and TELUS would both argue that it's a three-player environment. Is this the fundamental problem in terms of the COA issue?

DARREN ENTWISTLE: I don't think 43% is an economically viable strategy for Rogers to pursue, nor is it sustainable. And so let's check the logic out. If that's true, then if that really is true and you're advising us to do that, then I think Bob and I should launch the Clearnet sub-brand tomorrow, okay? And, you know, we'll take 43% --

DVAI GHOSE: Exactly.

DARREN ENTWISTLE: -- okay? And then Bell can, you know, launch, you know, a sub-brand or --

DVAI GHOSE: Oh, they already have one.

DARREN ENTWISTLE: No, no. Because -- no, because, you know, some people like to create further competition than what's already going on in the MVNO front, and all of a sudden, you know, we've got 150%, you know, being divided up. But, of course, mathematically that's not feasible, right? So...

DVAI GHOSE: I agree with you. I'm not a big fan of multiple branding, as you know. Having said that, okay, let's talk about the other issue which I think is more interesting long-term, which is this whole question of regulatory risk and I was very surprised before, you know, joining this current employer, in my in-between

phase of enjoying life how this sort of risk of a fourth player really reached almost a crescendo level. And I think people looked at the telecom review panel, which didn't explicitly say anything about a fourth player, and suggested that the panel is not happy with wireless and Bernier is listening to the panel.

In fact, when I listened to Maxime Bernier speak a few weeks ago in Toronto in a session at which you were speaking in -- at, he didn't mention anything about wireless in any sort of nefarious sense. In fact, his only mention was wireless substitution of wireline and he proudly announced that he was one of those 5% of Canadians who only has a wireless phone as his only phone.

So where is this issue arising from? Because when I talk to regulators, when I talk to government, I think that wireline deregulation is a focus, not wireless re-regulation.

BOB MacFARLANE: Well, perhaps I can start. I think we're -- you know, we're here in an investor forum and institutions tend to recycle ideas is my observation, and analysts have been focused, because what makes a valuation different to the public companies? Well, okay, gee, if -- it would be a pretty landmarked development if --

DVAI GHOSE: Sure.

BOB MacFARLANE: -- there was a fourth carrier. Little harder to get into the nuances of price cap regulation for --

DVAI GHOSE: Right.

BOB MacFARLANE: You know, what's the stock price impact to the VoIP decision, you know, and those sort of things, and so what can be a simple one or two-sentence theme people can understand and translate to and get people to sell or to buy on for a wireless carrier? So my comments come from the fact that if you look at that telecom review panel as you may have sifted through the 300-odd pages of it --

DVAI GHOSE: I read the summary, but yes.

BOB MacFARLANE: Well, there you go. I wonder how many people have actually read the report, which is a telling sign. And the fact that it really didn't comment whatsoever on a fourth wireless player and there were I forget how many, something like 90 set questions that were set up in advance --

DVAI GHOSE: Yes.

BOB MacFARLANE: -- for the panel to comment on --

DVAI GHOSE: Yes.

BOB MacFARLANE: -- none of which were "Should there be a fourth wireless player?" And yet all the investment community focused on, it distilled, well a telecom review goes to the risk of a fourth player and therefore there was speculation on that basis. I think just shows how the market sometimes can get steered off of what is really at play and what's really at play was the foundation of what the regulatory regime in Canada is going to be going forward in respect to the CRTC and what is this default approach going to be? To regulate and only exceptional circumstance to forebear or the other way around? I think we've heard the minister speak, the review is underway and I think that that is a, you know, a landmark transition in

terms of the regulation of our industry and that's what people should be focusing on, rather than something to induce buy and sell orders for traders.

DVAI GHOSE: I would agree, and I think the fact that the -- ironically, the panel had the CEO of the fourth player on it and yet there was no explicit comments I found quite interesting.

DARREN ENTWISTLE: You should speak to Gerry Sinclair though or --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- Frank Eifen (phonetic) and ask them about it, if you want. But, you know, people need to have a better memory on this particular matter, because the speculation predated the telecom policy review --

DVAI GHOSE: It did.

DARREN ENTWISTLE: -- being issued, right? And I would make the argument, having read the report, right, that the report at a granular level, would quell --

DVAI GHOSE: Yes. I agree.

DARREN ENTWISTLE: -- any concern about a fourth player, right?

DVAI GHOSE: I agree.

DARREN ENTWISTLE: So yet all this speculation up front thinking okay, this is what's going to come out of this report, right?

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Maybe because of the constituency of the panel, right? And then you read the report, all right? I would say that that report is comforting in respect of a fourth player coming to fruition, right? Well, let's -- I mean, you know, the superficiality needs to, you know, be expunged and I think that's a primary responsibility of the analyst community.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: How much investment has gone on in the Canadian wireless industry?

DVAI GHOSE: Billions.

DARREN ENTWISTLE: \$16 billion. All right? \$16 billion invested in totality in that industry, and one of the key reasons that money was invested, because of the benign regulatory environment, the right -- you know, light regulatory touch, all right, induced people to, you know, to make an investment in an industry that's been very positive for Canada.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And I think refraining from that, you know, from that realization right now is not something that, you know, the government is well-disposed to considering.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: I think that would be, you know, a fair comment. Second thing, you know, that I think is, you know, worth pointing out, at a macro level, wireline and wireless, let me ask you a question. Is the

regulatory risk, okay, today less than what it's been in the past, okay, or greater than what it's been in the past?

DVAI GHOSE: Well, it depends what your perspective is on this .

DARREN ENTWISTLE: I would say holistically, right, from an incumbent's perspective, you're hosting TELUS here today, so we can stick to the subject in that regard, Dvai, that would be good, right? Yeah? From a TELUS perspective, projecting forward into the future, okay, are we looking for, you know, a more negative regulatory environment or a more positive regulatory environment?

DVAI GHOSE: More positive.

DARREN ENTWISTLE: Right. Would you say decidedly so in terms of what's on the table right now?

DVAI GHOSE: Yeah. Let's talk about that, because I remember --

DARREN ENTWISTLE: We are talking about that right now.

DVAI GHOSE: But I remember speaking to you briefly just after Bernier's comments and I also spoke to Michael Sabia briefly, as well, from BCE and I think you were both rightly disappointed that both your stock prices were down, despite Bernier's announcement, and I think it was despite, rather than because of, obviously. But what I suggested to both of you is the street is uncertain about signing and impact: signing, because I don't think anyone can really tell us when deregulation is going to evolve; and impact, because the RBOCs don't say some of the issues that you do in the United States. For example, they can bundle regulated and unregulated services. They have tariffing restrictions on circuit products but not on VOIP products and they don't have the same onerous win-back restrictions that you do, which I think are three of the major issues when it comes to deregulation, and yet they're losing significantly greater share of access lines than you are.

So my questions to you are why should the street be excited about deregulation if you can't give us a timeline and if you can't really justify the impact or are we being too negative?

DARREN ENTWISTLE: Well, it's not so much being negative, but, you know, Dvai, what would you have me do on the regulatory front, you know, to try and strive for an immediate crystallization of that future regulatory environment in today's stock price? I can't make that happen, right?

DVAI GHOSE: Exactly.

DARREN ENTWISTLE: So the best thing that we can do, and we've been doing it and we've been doing it to good effect, by the way, right --

DVAI GHOSE: Mm-hmm.

DARREN ENTWISTLE: -- is to continue to progress an agenda of deregulation.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And, you know, progress it not in an emotive basis where we've seen some people do that, right?

DVAI GHOSE: Yes.

DARREN ENTWISTLE: But on a considered basis, on a logical basis, on an analytical basis, the same way we run our company, right?

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And I would put forward the argument that, you know, at the end of the day the future holds less regulation than more.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And that's got to be a good thing for our organization in terms of forbearance, the ability to bundle unequivocally, unshackled, unimpeded, our ability to differentiate price according to market segment or according to geography, our ability to pursue win-back campaigns unimpeded by win-back restrictions. These are significant benefits to our organization that are not factored into our stock price today. So I would say isn't that an up-side opportunity --

DVAI GHOSE: I think so.

DARREN ENTWISTLE: -- you know, for people to, you know, to pursue and, you know, I can't get bent out of shape, all right, about, you know, short-term, you know, stock fluctuations. You know, if you'd asked Bob and I, okay, is our stock going to \$49.99 during the strike, okay, we would have said, "No way, man," okay? You know, typical strike empirical evidence would indicate that it's going to fall, a buck, buck-fifty, maybe two bucks, right? But it went, you know, close to 50 bucks --

DVAI GHOSE: Yeah.

DARREN ENTWISTLE: -- during the course of the work stoppage. So, you know, that's short-term, you know, volatility driven by a variety of factors. What we can say is that we've got a smart strategy --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- for pursuing deregulation. We have a situation right now where it's no longer us in isolation with a smart strategy hoping for deregulation. We now have a policy recommendation, all right, from the telecom policy review that is being received well by the government in general and by the minister in particular.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: That's a very positive development, right? And if you read what's in that document, effectively it says pursue deregulation, let market forces reign.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: That's got to be a great thing for our industry --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- and a great thing for the large players in our industry. So it's no longer really in my view a question of "if" but "when".

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Right? And, you know, I think in the fullness of time that will come to fruition. Additional evidence beyond the TPR and the receptivity of government is what's gone on with the VoIP appeal.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Here you have, you know -- you know, what more do you want where you've got a government, okay, almost in an unprecedented fashion, okay --

DVAI GHOSE: Absolutely.

DARREN ENTWISTLE: -- you know, overturning, you know, a VoIP decision and kicking it back to the CRTC, saying make a decision that's consistent with the TPR.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: All right? That's as close to legislation as you're going to get, right? And I would expect to see the same in terms of how the CRTC rethinks their position in respect of forbearance, right? You know, that's positive stuff at the end of the day.

DVAI GHOSE: And unprecedented, as you correctly said.

DARREN ENTWISTLE: Yes. So next, okay, how have we done under pretty onerous regulatory environment?

DVAI GHOSE: Not too badly.

DARREN ENTWISTLE: Not too badly. Right? So under an onerous regulatory environment, we've generated some pretty darn good results. Right? Also, have we sat there as an organization and whined about the regulatory environment? No, we have not. Right? Where have we made our investments? Wireless. Right? So we now have a situation where wireless accounts for 57% of our simple cash flow.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Is wireless regulated?

DVAI GHOSE: No.

DARREN ENTWISTLE: So we've made investments, okay, in areas that have not been subject to regulation, getting more balance, okay, in terms of the asset base of the organization --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- assets under regulation, assets not under regulation. We have, let's say just to make the math easy, we have, you know, sort of \$5 billion of wireline revenue, right? Well, as we've moved into Ontario and Quebec, as we've aspired to have \$650-700 million of revenue coming from our non-ILEC business in Ontario and Quebec, that is not revenue under regulation. In fact, as a new entrant in the provinces of Ontario and Quebec, you know, regulation for us is an advantage, because that's the shackle that Bell has to live with and that's not a limitation that we face, you know, as an organization. And I mean these are pretty important considerations.

And, you know, the wireless one is really interesting, okay? So let's just talk facts again. Let's just talk facts. All right? The competition bureau adjudicated upon both TELUS and Rogers striving to buy Microcell.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: And we all know who was successful in that regard. But --

DVAI GHOSE: But you're both accepted.

DARREN ENTWISTLE: Yes. What was their adjudication? They said yes, TELUS could buy it, okay, a little bit late, okay, from our perspective, all right, you know, and then latterly they said Rogers could buy it. So they were saying a three-player market - this is the competition bureau, right, this is what these guys are paid to adjudicate upon, right - determined that that was an acceptable competitive dynamic within the Canadian landscape.

Lastly, lastly let's -- you want to be -- we live now, and I think I'll always live for the rest of my career, in a world where the bias is towards the negative, you know, and we can live with that. The glass is half empty, rather than half full. How has TELUS fared within a four-player wireless industry? We competed pretty darn effectively.

DVAI GHOSE: Yes. That's very true.

DARREN ENTWISTLE: Right? So it wasn't like everything that we've generated in terms of our excellent results in wireless have only come to --

DVAI GHOSE: Is post-Microcell.

DARREN ENTWISTLE: -- you know, is post-Microcell. You know, we were generating those ARPU differences and best-in-class customer (indiscernible) and retention in a four-player market, right? And so, you know, I think we've proven that we can compete and create value in a four-player market.

And lastly, if a fourth player ever did come to fruition, all right --

DVAI GHOSE: Yes.

DARREN ENTWISTLE: -- what's the earliest you think that they can get going?

DVAI GHOSE: 2008, '09, '10, something like that.

DARREN ENTWISTLE: Right. Where are we going to be in terms of market penetration at that juncture?

DVAI GHOSE: Yes. Absolutely.

DARREN ENTWISTLE: Right? Who's going to have economies of scale at that point? Rogers will, Bell will and TELUS will.

DVAI GHOSE: Yes.

DARREN ENTWISTLE: Right? What is going to be the form that fourth player coming into the market? Right? Are they going to get roaming as a regulatory right or not? Okay? Because it hasn't been a regulatory right in the past, right, and if they don't get it, then they're going to have to deploy a lot of infrastructure to

be competitive. And we all know by Microcell what happens, okay, when you get stalled at, what, Microcell had about 60% coverage?

DVAI GHOSE: Yes.

DARREN ENTWISTLE: You get stalled at 60% coverage when you're up against, you know, competitors that have 95 to close to 100% coverage, right, that is not a sustainable competitive position. So, you know, those are -- that's just facts, Dvai, and, you know, that's got to, you know, in my view supplant the, you know, the superficial discussion that's happened.

DVAI GHOSE: No, I think that's absolutely right and you know that I agree with you. I think the street should look at the issue more carefully because it does arise a lot. And I think you've given us a lot to think about.

Listen, I said I'd give 45 minutes or so for questions from the floor, so in the interests of time, let's move it to the floor. If you have a question, please raise your hand. I will repeat your question so that everyone can hear on the line, as well as in the room, and listen to the answers. So if you have a question, please raise your hand.

QUESTIONS AND ANSWERS:

DVAI GHOSE: Yes, please?

VOICE: Yes, going back to the first question, when I look at the income trust, I usually ask myself are the capital expenditures stable?

DVAI GHOSE: Yes.

VOICE: And I'm not -- like I'm analyst and I'm asking myself here, like in your industry can you say that the capital expenditures will remain stable, given that you can have disruptive technologies coming in like (indiscernible) or a competitor coming with disruptive behaviours or let's say a deep pocket new fourth player in the market that would require either some marketing pending or capital expenditures? So do you believe that the capital expenditure issue is a relative one when you are questioning yourself on the income trust --

DVAI GHOSE: Right. So thank you for the question. I think it's a good question. So to summarize, the question is does the sector, especially given disruptive technological and competitive challenges, have stable enough cap-ex or rather not the sector, does TELUS, which I think is quite different from a lot of your peers, have the stability in terms of capital expenditures to justify a trust structure?

DARREN ENTWISTLE: Okay. Let's -- can we bifurcate this response and let's put the trust structure to one side, right? Because whether you're talking about trust structure or not, right, I think it's, you know, a valid question in terms of valuation, in terms of the stability of our cap-ex. And so if you're asking us do we think cap-ex is stable, the answer is yes. Does that mean it's going to be constant? No. And when we talk about stability, we talk about stability within a cap-ex intensity range.

And so what we've said, you know, publicly is that, you know, if you want to segment our businesses, we think that we can operate effectively and discharge all of our responsibilities in terms of making sure that we've got an ongoing concern as a business and we've got the right competitive position in the marketplace on the wireless front with a, you know, cap-ex intensity envelope of 11-13%. So that's stable in my view, that we would operate within that cap-ex intensity envelope, and it reflects the correlation of cap-ex to revenue and we think within that zone we can do what we need to do in terms of infrastructure deployment from a network perspective or IT deployment or product development from an investment perspective, we can do what we need to do from an investment perspective to make sure that we've got the complete ability to realize our strategy going forward and that we remain highly competitive.

On the wireline front, we have postulated a cap-ex intensity envelope between 20 and 22% in that particular zone, those are the bookends. And in that envelope, we think we can do what we need to do in terms of our major IT programs which we're undertaking right now at the TELUS organization to rationalize our information technology infrastructure and simultaneously upgrade it. We can do what we need to do to do things like upgrade our access infrastructure to support new applications like TELUS TV. We can have a pretty smooth capital investment profile within those bookends on the wireline front, and that's the type of guidance that we're giving the marketplace. And so if you look at how we're managing our cap-ex, you know, we want to avoid having lumpy capital events.

And, you know, to give you a case in point that I think is particularly prudent is the way that we're approaching TELUS TV. This is not an endeavour where we are rushing into this particular commercial opportunity, but we've taken a view that we will upgrade our access infrastructure in a smooth, capital profile, sweating each technology stage along the way to make sure that we maximize the available ROI from that technology investment and only make the move to the next technology when it's warranted by market conditions and applications where we can derive a good economic rent from our customer in delivering that application over our high-speed internet access infrastructure.

So for us, we are believers in a smooth capital profile. We can provide comfort that we will have a stable situation within the cap-ex intensity envelopes that I've just discussed, and I think, you know, we're pretty prudent in that regard because if you look at the cash position of this organization, we're postulating cash flow, free cash flow growth of 5-12% this year. That's despite the fact that our cap-ex this year is skewed by cap-ex that we could not deploy in 2005 because of the work stoppage. So that's an atypical element of our 2006 capital. But if you normalized for that, we are saying stable cap-ex within cap-ex intensity envelope ranges that even when we've got a major technology deployment like upgrading our access infrastructure or something that we would contemplate on wireless, we will do it with a smooth capital profile and that's going to support the type of free cash flow generation that we would like to deliver and the type of free cash flow that's going to support share repurchase programs that we would like to carry forward into the future.

And then the last thing to talk about is if you think about major capital events, we don't have a lot of major capital events in front of us beyond the ones that I've been articulating. I mean, if you look at the wireless business, we got our coverage. Right? We covered 30 million Canadians. We've done the digitization of our network. We've got EVDO deployed now within 17 urban markets. We've done the IT rationalization. I mean, back in 2001, just after the Clearnet acquisition, we had five billing engines. Now we have one billing engine supporting both our CDMA network and our IDEN network. We've got, you know, a heck of a spectrum position with 55 megahertz of spectrum on a coast-to-coast basis so, you know, a lot more of the capital going forward for this organization is going to be variable in nature, it's going to be program-specific. And that's a good thing for shareholders, because, you know, when it's program-specific capital, you can see pretty clearly the ROI on that particular program and it's your decision, it's not a necessity to deploy the capital, it's a market-based decision to say hey, here's an initiative. It's variable in nature. It's our choice. And we're going to make the investment or not, you know, contingent upon the economics of that initiative. And that's, you know, that's a nice position to be in. But a lot of our fixed capital investment has already come to fruition.

On the wireline front, we've built out our national wireline infrastructure. It's done. We've done that deployment. We've built out our metropolitan area networks in Toronto, Ottawa, Montreal and Quebec City. So future capital in terms of deployment on the wireline front to support national expansion? Again, that will be deal-specific. If we go after a large piece of business and we're successful in securing that customer and there's capital associated with that deployment, well, we make that investment knowing the economics at a very detailed level and making sure that we can generate a good return from that capital investment. So, you know, I think that's a pretty granular view in terms of where we're at from a capital perspective, but we'll be stable within the cap-ex intensity envelopes that I've just articulated.

DVAI GHOSE: Thanks, Darren. Do you want to add anything, Bob, or...? No. That was a comprehensive answer.

Next question, please?

DARREN ENTWISTLE: Well, what Bob could have, you know, added would have been if we have an acquisition or, you know, let's say a major spectrum option, that would be an atypical event, right, which we would have to consider in due course. That would -- you know, that would be a caveat to the comments that I've just made.

DVAI GHOSE: But presumably that's a one-off and you --

DARREN ENTWISTLE: That's correct.

DVAI GHOSE: -- your leverage isn't particularly high.

DARREN ENTWISTLE: Which is why it's a caveat.

DVAI GHOSE: Right. Fair enough. Next question, please? Okay. Maybe as people are thinking about -- do you have one question?

VOICE: Yes.

DVAI GHOSE: Go ahead.

VOICE: You guys talk about long-term view. I think as far as the increasing ARPU and focusing on increasing (indiscernible) was that a pre-paid mix increase? I know that you guys have the highest pre-paid ARPU, like, in Canada but I was just wondering what's the strategy? Was it just (indiscernible) or is there a strategy here on the pre-paid side?

DVAI GHOSE: Okay.

VOICE: You used to talk a lot about post-paid (indiscernible). Has it changed now or are you...?

DVAI GHOSE: Okay. Let me just quickly repeat the question. So the pre-paid/post-paid mix has changed somewhat in the last few quarters in terms of your net-additions, with greater pre-paid net-additions than you've had in the past as a percentage. Is that a strategic decision? Is it a change in focus? How would you explain that, given the context of your pre-paid business is a lot more profitable than your peers?

BOB MacFARLANE: I think it's important to start, the first point is that the market has sort of distilled pre-paid/bad, post-paid/good, and that is a derivative for the fact that pre-paid tends to have higher churn rates, lower ARPU, et cetera. So I think a point goes to, in our case, our pre-paid ARPU of around \$25 is double that of our competitors. Our churn rate, hard to see, they don't exactly disclose this, but looks to be less, certainly suggestive our overall churn rates are less, and so consequently the point is we do make money and there's a good return on pre-paid. So that's a segment of the market that we react to demand. There's an element of the market that wants to buy in that fashion. We can make money selling in that fashion, so but that's fine. So I think that's the first point to understand.

That's not necessarily the case for other providers. I don't want to go into their specifics, but the economic situation clearly is not as clear in respect of pre-paid as it is for ourselves, so that simple formula, post-paid/good, pre-paid/bad isn't, I think, you know, the right way to look at it in respect of TELUS.

The second point goes to is it a strategic direction, Dvai, I think the question of having a much higher, you know, pre-paid share of our mix, I think the answer is no. I think that will fluctuate from period to period, subject to competitive dimensions in the marketplace and our earlier comments, you know, about gross additions, et cetera, the issue there is primarily in respect to the post-paid space. That's what Rogers' focus is. Clearly, they are desirous of saying they have in excess of 100% loading, if you've noticed the post-paid --

DVAI GHOSE: Yes.

BOB MacFARLANE: -- of their mix. I said in excess of 100%. So that suggests that they, you know, don't feel that pre-paid is that economic or they wouldn't be emphasizing the merits of being over 100% of their mix being in post-paid of net-additions. So the point goes to -- that's where the battle is. We had an offering that was attractive in the marketplace and we sort of rode with that. If you're close to it, we've made adjustments to some of our pre-paid plans back in 1st Quarter. And so consequently it would be normal to

expect that perhaps we don't ride that wave as much as before. But I think the fundamental answer to your question is there is not a strategic objective of having a systemic increase in our pre-paid mix.

DVAI GHOSE: Thanks. Next question, please? Yes, go ahead, Nick.

NICK: A two-part question, the first one on (indiscernible) behaviour (indiscernible) market share and how you'll be able to react to that. And secondly, if you could give a bit more clarification on your (indiscernible) strategy (indiscernible) but how you differentiate your product and, you know, your ability to (indiscernible) how that's coming along.

DVAI GHOSE: Okay. If I could just quickly summarize the question. So there's two parts to it, but they both relate to your competition in your incumbent territories mainly on the residential side vis-à-vis Shaw. How would you characterize the competitive environment on the voice side and as far as your entry onto the TV side, one of the questions which is often asked is do you have enough bandwidth, especially for high-bandwidth intensive applications such as high-definition television?

BOB MacFARLANE: Perhaps Dvai, I'll start off and -- on the first part of the question as it relates to Shaw. I think from an industry-wide standpoint there has been different strategies -- entry strategies by respective cable operators in terms of their cable telephony offerings. In the case of Shaw, I think as people generally would know, they've come in at -- on a fairly rational basis and reflecting, I think, the culture of that organization, which is fairly responsible to its shareholders. And so if, Dvai, as you know, when you've asked me the question any time in the past couple of years do you expect cable telephony to be successful in getting subscribers, what has our answer been?

DVAI GHOSE: Your answer is always yes.

BOB MacFARLANE: Always yes. So it was "yes" before they launched, while they're launching and after they launched. Just want to make sure that's plain. So basically, things -- the world is unfolding as expected in that regard. The move to -- while they launched with one price point in the marketplace more at the higher end, I think it would be naïve if one thought that one was going to offer only at one price point of a product forevermore and not address other segments of the marketplace. So not surprising that they have added on to another price point or at least a promotion and add the minutes.

I think you also see an organization based in Alberta, where they launched first in Alberta. Their home territory, territory where their brand is certainly more recognized, if you will, and then subsequently going into the British Columbia markets, where, of course, greater immigrant population, et cetera, and so perhaps they found that long distance matters a little more in a bundle. Hard to say. That's for them to tell you, but clearly, that's the change that they made.

So I think it's fairly predictable that there's changes, et cetera. Suffice to say, if you look at the -- our 1st Quarter or their most recent public quarter, which don't overlap exactly, because of different year-ends, but they are in more markets today and more markets in their most recent quarter than they were a year ago and they have lower net-additions. So that's sort of, you know, that is the opposite of what one

would expect if you were having the same adoption rate in the new markets and maintaining it in the ones that have been open for a year. Sort of in retail, I think if you look at that as same store sales, right, as the year-over-year comparison.

DVAI GHOSE: Right.

BOB MacFARLANE: If you did a similar thing, clearly it wasn't as good going as it was in the beginning. Should that be a surprise? Well, last year we were either on the mark of a strike with the press covering that, or we're in the midst of a general strike in the very markets that they launched, so clearly a different competitive environment today than it was before.

So having said that, I think from an investor's perspective, you know, cable will get its share of subscribers. The more relevant question for an investor for a cable company is what is the return on the capital that's invested in that activity that they're expecting, as opposed to what's the market share that they're driving to. That's the more relevant question and answer and so some of the -- I guess the competitive environment is essentially as we would expect and therefore that leads to certain strategic activities that we've been planning for some time, one of which is IT TV.

DARREN ENTWISTLE: And I wouldn't mind just making some points here, because Bob has been very effective at covering the ground on this. I would ask you to reflect upon the comment that you get the competitor that you deserve. And I would say if, in the run-up to Shaw's launch we had out in the marketplace a \$5/1000 minute LD plan, then Shaw might have taken a different bent in terms of how they priced themselves into the market. But, of course, that was not the philosophy followed by TELUS. And so the extent to which we continued to compete based on innovation and differentiation on factors other than price, I think that creates a dynamic where we will see proper competition from our rivals rather than non-economic competition from our rivals. And that's an important point to put across. Okay? If you look at Bob's comment about, you know, the breadth of the cable industry across Canada, you know, they make their decisions predicated upon their market conditions and certainly when Shaw entered, there wasn't a position being adopted by TELUS where we were effectively destroying value in the legacy voice business by having campaigns and price points out in the marketplace that severely discounted things like our long distance services. So let's lay that out, because you can expect to see that behaviour continue from us and the realization that you continue to get the competitor that you deserve. And we will continue to compete on innovation and differentiation on factors other than price.

Number 2, given a choice, if you ask any of the executive at TELUS, "What would you rather have, a smart cable competitor or an onerous regulator," every single executive at TELUS would say give us the smart competitor any day of the week. And if you look back at TELUS, right, and Bob can give you, you know, the numbers in some detail in this regard, you know, what has been the most significant impact on our P-and-L over the last six years? It hasn't come from Bell or from Rogers or from the Shaw organization. It's come from a succession of regulatory decisions, three regulatory decisions - the

contribution decision, the re-banding decision and the price cap decision has amortized a lot of EBITDA off of our P-and-L, all right, to the tune of \$350-400 million. That's been the most significant negative event for us, not the advent of competition. And so if the price that we have to pay to get deregulation and regulatory liberalization is vibrant competition, then we say bring it on.

Also, I think if you look at our network access line erosion, which was, you know, kind of in Q1 at 2.7%, you know, it's to Bob's point, access line erosion with the advent of cable is inevitable, but I would say relatively speaking, you know, we are doing as well or better than our peers in this particular area. And I say that, you know, in the broadest sense, not just within Canada but across North America and I think that speaks to the quality of our wireline operation.

On the TV front, you know, here's a situation where -- I'll try and go from financial and economic back into what is the product in and of itself. So we're not saying all right, we have a massive undertaking as a result of our desire to progress TELUS TV and as a result of the implications of that undertaking, financial and economic, we're going to have to reduce our dividend to bring this particular initiative to fruition. Quite the reverse. You know, we have postulated a dividend growth model and we are looking, you know, contingent upon continued quality execution on our part, to increase our dividend going forward, not to cut it to fund that type of initiative.

We are on our second NCIB, you know, and if we can continue to execute against our strategy and generate significant cash flow, despite the capital investments that we need to take to remain competitive on wireline and wireless, you know, we will look to continue those share repurchase programs if that's feasible for this organization, rather than cut them to fund a major initiative like TELUS TV. So all that to say is we can get this initiative done and still deliver shareholder-friendly activities like continuing our dividend growth model, you know, and also evaluating the potential for successive NCIBs on a go-forward basis, contingent upon our ability to execute on our strategy and generate cash.

Next, in terms of our approach to TELUS TV, it's fundamentally different than the approach in high-speed internet access, which was a foot race between Shaw and TELUS for virgin customers. The TELUS TV market is quite the antithesis of that. It's a well-established market so we don't have to rush. We can move forward in a progressive fashion, in a prudent fashion. We can have a city-by-city geographic roll-out as we make the capital investments with a smooth profile from a capital profile perspective to bring this capability to fruition in each of our operating geographies on a sequential basis.

Next thing to point out on TELUS TV is that we are not going to enter the entertainment market and say we have a me-too proposition that resembles the cable incumbent where the only differentiating factor is price. Again, we're the reverse of that. We're going to come into this market and we're going to compete on innovation and differentiation on factors other than price and we're not going to be a discounter. In fact, to the extent feasible, we may even price at a premium if the innovation supports that, and that's an important consideration because if you go back to my opening comment, you get the

competition you deserve. And I think if we are prudent on entertainment, then that sends a signal or that engenders behaviour in Shaw on the telephony front to remain sanguine in respect to their pricing behaviour.

And then lastly, I think over the fullness of time we could have, you know, a very highly-differentiated product with IP TV. I think we can deliver this service in a way that would be very attractive, leveraging the key differentiating factors of the TELUS organization. So for example, and here's a service where we can deliver IP TV in a traditional fashion to a TV in a living room via set-top box, but because it's IP-based, we can also deliver it to computer, perhaps resident within the bedroom of a teenager within the household and provide them with a very interesting customized entertainment solution that fits their viewing preferences. We also have a wireless business, so we can take TV or entertainment distribution not just within the household, but we can take it outside the household and bring that solution, you know, to customers via our EVDO network, right now taking that across 17, you know, cities or villages across Canada. And that's a product continuum from the TV set to the mobile handset that I think is leveraging TELUS' distinct strengths in this regard.

And then lastly from a capital perspective, I talked about sweating each asset in terms of technology stage as we upgrade our access infrastructure. I think in the future our access infrastructure in terms of the technology and the topology of that access infrastructure will give us an advantage over the cable tree and branch, tree and bush type situation where their technology is purely predicated upon distribution, rather than interactivity. And I think the fact that with TELUS TV the switching takes place at the head end allows us to have almost limitless content without sweating our access infrastructure because the switching takes place at the head end. And that means we can customize that content down to the household, even to individuals within that household, in a way that's very attractive in our view. And whether that's customizing it to the viewing preferences within a household or to key ethnic constituencies, clearly what we can do is differentiate ourselves from very standard packages within the cable world with very customized packages within the IP TV world that leverages the technology advantage that we have when the switching takes place at the head end, rather than the tuning or filtering taking place at the set-top box.

DVAI GHOSE: And presumably that helps you with bandwidth utilization, as well, for things like HD TV, you're not broadcasting 300 channels at the same time.

DARREN ENTWISTLE: Well, as I said, with a distribution model with Shaw they've got to broadcast all their content. We can have almost limitless content with the switching taking place at the head end, so, you know, we can have you know, 50,000 channels of HD. You know, we're broadcasting, you know, today two or streaming two. In the future, with the ADSL2+ deployment, we'll be streaming three channels of video, in the future four and five. All of those channels that sit within the head end can be HD --

DVAI GHOSE: Yeah.

DARREN ENTWISTLE: -- without sweating our asset infrastructure because we only stream what the viewer wants to watch. So it allows us to much more efficiently utilize our access infrastructure, and that's a big, long-term advantage that we have where we have a situation with cable, where they broadcast everything. For us, you know, we broadcast what the viewer wants to watch.

BOB MacFARLANE: Dvai, I think it's time for one last question.

DVAI GHOSE: Yes. Why don't we do that? I know everyone has commitments. Please.

VOICE: On the (indiscernible) differentiation, I'd like to get your view on the potential integration of wireline and (indiscernible) if I'm at home and I'm receiving a call on my cell phone (indiscernible) and in that view could a telco be at a disadvantage (indiscernible).

DVAI GHOSE: Okay. So just to repeat the question, it's to do with differentiated solutions for customers using a hybrid of wireline and wireless and does cable have an advantage because of the IP -- sorry, because of...?

VOICE: Because your cable has an IP telephony offering.

DVAI GHOSE: Oh, because of their IP telephony offering, although I would suggest the fact that Rogers is the only cable company that has wireless, there's probably some interest, as well, but carry on.

DARREN ENTWISTLE: I think for us, you know, one of the reasons that we brought together our wireless and wireline business in the first place is for exactly the reasons that you've just described, so, you know, it was a recognition that (a) if our strategy was about growth from data and wireless and data is now a big part of wireless, you know, let's, you know, fuel that strategy by harnessing and integrating the capabilities of both our wireline and our wireless business. It also recognizes two other factors that touch upon your point. When we're going to compete against cable, one of the major differentiating factors that we have is our wireless business, because when you're looking at the Shaw organization per se, they don't have that capability and even if they pursue resale, they won't be able to achieve the same cost efficiencies that we can obtain by having integrated wireline and wireless networks and they won't be able to obtain the same product differentiation that we can obtain, again operating both a wireline and a wireless network. So insofar as commercial differentiation is concerned, it allows us to leverage our wireless business to good effect when competing against cable. And, of course, we're seeing a technology convergence happening in that regard, as well, between wireline and wireless.

So for us, you know, when we're looking at cable within our ILEC territory per se, a lot of the product development that we are now pursuing, whether it's entertainment applications or security applications, has both a wireline and a wireless component to it, so let's give you some points of illustration. We have a wireless local area network solution for people's homes across Western Canada. Shaw does not offer a wireless LAN, they don't offer an 802.11 solution on a network basis within people's homes. We do. So what we're saying is here we are as an organization, going from high-speed connectivity to the house on a wireline basis, we're offering high-speed mobility throughout the house with a wireless LAN in terms of their ability to access the internet on a mobile basis throughout their homes,

and network their computer equipment together. And then when they step outside of the house in the future, you know, here we have an opportunity once we get the form factor and price point, to have a BlackBerry or a Q solution that's appropriate for the consumer market. So we can have high-speed activity to the desktop via high-speed internet access with ADSL. We can have high-speed internet access on a mobile basis throughout the house with the wireless LAN and then we can have high-speed access through EVDO with a BlackBerry or a Q product for consumers when they're fully mobile outside their homes. And again, that's a product continuum that we think is very advantageous.

Next area of the product continuum for us that's a differentiating factor is our security solution. We have a product called HomeSitter, which is wireless cameras throughout the household on the back of that wireless local area network which gives us video and audio footage that we can deliver to both a computer, where an individual can access it via computer or we can deliver that video and audio to a TELUS Mobility handset. And that video and audio can be set up where the individual through their wireless handset can be alarmed if video activity is picked up in the household. They can view with real time video what's going on in the household and hear with the audio, and they can record it if they want, as well, all via their TELUS Mobility handset. All right? Be alarmed, see, hear and record. So that's how wireless would fit into our security solution. And I've already made the reference about TELUS TV. Here we have TELUS TV from the set-top box to the computer to once again on a wireless basis outside of the household.

And, you know, what's interesting talking about, you know, regulation on again the wireless industry and whether the regulator wants to get more involved or less involved, here we have another precedent because the regulator, in this case on the broadcasting front, reviewed whether they wanted to involve themselves in regulating something like mobile TV, and imposing things like foreign content limitations, so to speak, and decided that no, it would not be regulated because wireless was different. So clearly, there is not an appetite, if you will, to again be interventionist in terms of how things are developing on the wireless front.

So that's how we would intend to, you know, drive that product forward and in terms of intermodal phones, that's something that we need to evaluate because, you know, at the end of the day, we want to make sure that what we do in terms of wireline and wireless integration is Prado optimal for TELUS as a whole and we don't want to do things where we drive wireless and wireline integration where we advance margin in one particular area but we erode it through cannibalization in another. We want to make the right, you know, holistic decision for TELUS Corporation in terms of how we integrate our wireline and wireless operations and make sure as a whole we create value, rather than undermine it.

DVAI GHOSE: Thank you very much. I think that was a very comprehensive session. I really appreciate it, appreciate the support, I appreciate the clients who came in today and those who dialled in. And as you like to say at TELUS, the future looks very friendly. Thank you very much.

OPERATOR: Thank you, ladies and gentlemen. This concludes the Genuity Capital Markets Conference Call. On behalf of myself and the rest of the TELUS conferencing team, thank you for choosing TELUS.

[CONFERENCE CALL CONCLUDED]