

# Corporate Governance

## A CFO's Perspective

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### Slide 2 - Agenda

I will start with a brief background on TELUS for those of you who may not be familiar with us. I'll then provide some historical perspective on the corporate governance crisis of the past few years and the resulting legislative response in North America. Then I'll highlight a bit of colour regarding TELUS' corporate governance journey both pre - and post - SOX.....and I'll provide some thoughts on the current debate concerning proposed Canadian rules regarding establishing similar regulation and certification requirements as the U.S. has with SOX 404. I'll try to share with you our approach at TELUS to these challenges and what advice I have to share with both fellow CFOs and regulators. So let's start.

### Slide 3 – About TELUS

For those of you not familiar with TELUS, we are about the 20th largest corporation in Canada based on revenues of about \$7.8 billion. In the last 12 months we have generated EBITDA of \$3.2 billion, net income of over \$700 million and \$1.4 billion of Free Cash Flow. As our strong financial results reflect, we have been very successful since 2000 in executing our national growth strategy focused on data, IP & wireless.

Strategically, we have been transforming TELUS in terms of its networks, customer applications and expertise... to unleash the power of the internet to deliver the best solutions to Canadians at home, in the workplace and on the move.

With corporate headquarters in Vancouver, we operate two business segments, our high growth TELUS Mobility business as well as our TELUS Communications wireline business. We are dual listed on the TSX and NYSE with about \$6.1 billion of public debt issued in both the Canadian and U.S. capital markets. TELUS' total enterprise value is currently about \$22 billion.

### Slide 4 – Corporate governance defined

Before we review how we got into this situation of unprecedented corporate governance concerns and regulation, perhaps we should first define what we mean by the term "corporate governance". At TELUS, my team has arrived at the definition shown on this slide. We define corporate governance to consist of the structures, policies, processes, practices and behaviours to enable the five points listed here:

1. While one can never ensure ethical conduct, one should create an organizational culture which fosters and promotes ethical conduct.
2. It's also critical to have a capable board of directors who is independent and functions in a manner where it is clear that the CEO reports to the Board and not the other way around. For example, the contrast is stark when you compare the situation at TELUS where all the Board members but the CEO are independent including our Chairman Brian Canfield versus the situation at Hollinger, for example, where Lord Black apparently had little real oversight or control exerted by its Board.

3. Of course just as it is necessary for the CEO to be accountable to an independent Board, it is also important for the Board to be accountable to corporate stakeholders.
4. The fourth element is the necessity to have strong internal controls over financial reporting. Of course this item has received lots of regulatory oversight with various certification requirements being imposed in both the U.S. as well as Canada in recent times.
5. The fifth element refers to enabling effective, competent and independent external and internal risk assurance capabilities. Often the danger here is to rely excessively on external audit assurance rather than develop an appropriate risk based internal audit assurance function.

#### Slide 5 – Crisis? What Crisis?

Perhaps if you are my generation you will recall the name of a popular 1975 album by the English group Supertramp titled “Crisis? What Crisis?” Does that album ring a bell with anyone here? Well one doesn’t have to look far to hear of a CEO, CFO or Board Member complaining against the recent imposition of regulatory requirements related to “Corporate Governance”. Almost daily I hear of various members of our corporate elite in Canada complain that:

- you can’t regulate good behaviour so why burden the 99% who are honest – by the way, would the 1% who are dishonest please stand up... seeing no one, perhaps it is not so easy to tell who’s who!
- or why does it have to be so costly or be so time consuming;
- or Canada is different so don’t copy the U.S. This view is sometimes expressed in a superior manner by claiming the so-called “principles-based” approach typical of Canadian GAAP, etc., is superior to the American “rule oriented” regulatory approach;
- or...well there are many more refrains but I think you get the idea.

It is this situation that makes me think of Supertramp’s record...Crisis? What Crisis? Now does anyone here recall what the title of Supertramp’s blockbuster break-out album that preceded Crisis? What Crisis?.....yes, it was called “Crime of the Century”. Perhaps that is a very fitting lead-in to my next section. Let’s step back for a few minutes and reflect on where we’ve been and how we got to our current situation.

#### Slide 6 – Why does corporate governance matter?

Well the corporate names on this slide together comprise enough “Crimes” for a whole “Century” if you will, yet they happened in only the first few years of this decade.

These Corporate names have become infamous: ENRON (“the crooked ‘E’), WorldCom (now renamed MCI), Adelphia, Qwest and Global Crossing are just a few of what became a score of companies with accounting scandals and corporate governance malfeasance, all of which shook investor confidence, destroyed shareholder value, in some cases wiped out the life savings and retirement funds of investors and resulted in painful downsizings, restructuring and, lest we forget, the destruction of good old Arthur Andersen, LLP.

The landmark governance failure that was the catalyst for major governance reform was Enron. This story has been well covered in the book, *The Smartest Guys in the Room*,

and, more recently, *Conspiracy of Fools*, by Kurt Eichenwald. To quote Charles D. Niemeiter of the Public Company Accounting Oversight Board:

*“The most disturbing aspect of Enron and similar scandals was not what was done that was wrong, but what was done that was right. Enron did not ignore the rules and regulations, but instead it took them and used them to achieve results that were never intended. The smartest guys in the room created the illusion of a prosperous company by taking advantage of the holes in our system. Before its demise, Enron was actually considered to be a model citizen of good corporate governance practices.”*

#### Slide 7 – Why does corporate governance matter?

Although a number of these scandals occurred in the US, lest we, in Canada, become complacent and think that it can't happen here with our “principles-based” GAAP approach, Canadians have been provided with very recent examples north of the border.

Let's start with the sad example of Nortel's so-called “return to profitability” incentive program coinciding with aggressive accounting for revenue recognition, the eventual firing for cause of the CEO who was the former CFO, along with the two highest ranking financial executives and the near endless wait for the eventual re-statement of Nortel's financial statements. To quote Donald H Thain, Professor Emeritus of the Richard Ivey School of Business,

*“An enabling failure that made the fraud possible was the lack of an adequate control system to red-flag the manipulation of accounting data. No effective internal audit, no evidence of a clear and effective warning from the outside auditor, no instinct for forensic problems. This made for a perfect set-up for managers who wanted to cook the books. Where indeed was the audit committee? And the compensation committee?”*

*[Reflections of a veteran director: The unsatisfactory performance of Nortel's “distinguished board”, Ivey Business Journal May/June 2004]*

Then there is Bre-X and its fraudulent \$6 billion plus promotion of a bogus Indonesian gold find and purported suicide of the CEO.

More recently we have seen that Canadian governance failures extend to entities formerly regarded as “blue-chip” organizations with Board of Directors consisting of a who's who of Canadian establishment. At Hollinger, hundreds of millions in funds were allegedly diverted for personal gain of certain insiders while a Board seemingly undertook no effective oversight responsibility whatsoever.

As for the debate over Canadian principles versus American rules, isn't it obvious that solid principles backed by specific rules and examples is superior to either approach? The saddest part is that these situations are merely a few of the large governance failures experienced in recent years. So let's be clear, the scandals that occurred (in many cases which were outright frauds perpetrated by those at the top of various organizations) not surprisingly created a crisis in investor confidence that warranted a reform of governance legislation!

#### Slide 8 – Alleged governance deficiencies

On this slide you can see a simple categorization of governance deficiencies for some of these profile governance failures which I have mentioned. It appears each case suffered from inadequate Board of Director oversight and Board governance structure and practices.

Each case also suffered from deficient internal controls over financial reporting and practiced aggressive and in many cases inappropriate accounting. And they almost all suffered from fraud at the top, had questionable cultures that did not promote and foster ethical behaviour and had compromised, deficient or non-existent assurance capabilities. Clearly, the governance deficiencies of these highly material corporate failures were pervasive.

Unfortunately for TELUS, you may have noticed that a number of these governance failures occurred in the telecommunications industry. It didn't take long for investors to shift perspective that where there are a few bad apples there are likely many more. The investment community shifted to almost a "guilty until your proven innocent" mentality, where hedge funds exploited the situation to their advantage by seeding rumours of negative issues for companies, which they not surprisingly had taken a sizeable short position.

In this environment all it took to start the snowball down the hill was a sign of any weakness, real or perceived, whether it be poor quarterly results, a pessimistic analyst review or a negative media article. After Enron and Worldcom shook the markets and AT&T Canada and TeleGlobe defaulted unexpectedly in Canada, TELUS became the next high-profile victim of the "Telecom Perfect Storm" of 2002. Due to a combination of events, including a negative CRTC regulatory decision and the short sighted action of credit agencies, TELUS had been burned one too many times by the credit implosions of many of our peer telecom companies.

#### Slide 9 – Telecom value destruction

To understand how material was the value destruction, look at this slide where we show the enterprise value in June 2000 contrasted against the blue bars which represent the enterprise value at the height of the governance and telecom perfect storms in June 2002.

Well it was quite a fall! Nortel lost 97% or an unbelievable \$200B of its value. MCI/Worldcom defaulted on U.S. \$30B of debt and in total lost about 94% or about \$140B of its equity and debt value. Qwest lost about 70% of its value. Remember that we are talking about a corporation, US West, whose heritage was that of a staid and stable Regional Bell Operating Company. But U.S. West seemingly changed its ethical culture as well as its operations following its acquisition of the aggressive high revenue growth competitive carrier Qwest Communications.

Oh yes, massive performance based compensation awards at the post merger Qwest were associated with very aggressive revenue recognition on asset swap transactions. CEO Joseph Nacchio's 2001 compensation totalled U.S. \$102 million, including a long-term incentive plan payment of \$24.4 million based on an increase in the value of Qwest. Later, Nacchio was forced to resign in June 2002 as the SEC investigated Qwest for its accounting and eventually charges of fraud were laid. Qwest also re-stated its revenue down by U.S. \$2.5 billion for 2000 and 2001.

Investors began to think to themselves that if Worldcom and Qwest's numbers couldn't be trusted, then whose could?

By the way, I should point out - the reason you cannot see any blue bars for Global Crossing or Adelphia is because they destroyed 100% of their value. In aggregate, just these five companies lost \$459 billion dollars in value!

While each of these telecom failures had serious governance deficiencies, there were also many other telecom's, particularly the younger negative cash flow CLEC's whose financial condition deteriorated rapidly during this timeframe. The investor flight to quality and away from the telecom sector became a vicious circle as ever declining valuations led to lenders and investors culling their portfolios to reduce telecom sector exposure even more. Suffice to say it was not a fun time to be a CFO in the telecom industry!

#### Slide 10 – Telecom meltdown and investor fear

The perfect storm that hit the telecom sector was now so great that many believed that only a select few telco's were sure to survive the maelstrom. This quote in The New York Times on June 18th, 2002, clearly showed the unprecedented extent of investor fear caused by fraud and corporate governance failure. No less an authority than the Times was saying that 24 of 29 or 83% of telecom firms could be falling into bankruptcy in a few months. Needless to say this type of article was not very helpful for TELUS particularly as the annual review process with our credit agencies was going on at this time.

#### Slide 11 – Media coverage no one wants!

In 2003, headline news stories about corporate malfeasance became an almost daily event. And the image of well dressed former corporate leaders being handcuffed and taken into custody has now, unfortunately, become commonplace.

#### Slide 12 – More media coverage no one wants!

Corporate defaults or severe value declines often were followed by stories of excessive executive compensation paid right up to the time of collapse. These stories eventually uncovered various governance failures and eventually led to criminal prosecutions. Given this unprecedented situation of corporate governance failures being associated with huge value destruction, there was grave concern about the stability and viability of the capital markets.

The confidence of many investors in the reliability of GAAP financial statements had been severely shaken. The accounting firms seemed to blame management for lack of forthright disclosure, the CFOs said that the CEO authorized or told them to do it while the CEOs claimed innocence by saying they did not have the accounting sophistication or specific awareness of the financial irregularities that surfaced. It seemed everyone was shirking responsibility and blaming someone else.

When Worldcom imploded and other corporate frauds and governance failures increasingly became regular front page news, no longer could Enron be viewed an isolated case. So the governance problem was becoming viewed as a systemic issue.

#### Slide 14 – The US Sarbanes-Oxley Act of 2002 (SOX)

These developments caused U.S. politicians to rush to solve a serious problem that the SEC apparently had been unable to prevent. At the time in 2002, many believed that the future viability of the capital markets was at stake. With investor confidence in corporate America and the capital market severely shaken, U.S. federal politicians reacted in near record breaking time. Putting aside typical partisan political differences, the US Sarbanes-Oxley Act was drafted and signed into law in only six weeks in July 2002. This was only eight months after the Enron collapse and 6 weeks after Worldcom defaulted on its debt.

#### Slide 15 – What did the government/regulators do?

Essentially the SOX Act ordered the SEC to quickly come-up with a detailed set of rules to implement the general principles of the new legislation. Given the widespread believe that the accounting firms had become overly dependent on their clients and had not followed consistently thorough auditing practices, the Public Company Accounting Oversight Board was established in the U.S. Since this time, Peek-a-Boo, for short, has been issuing proposed and final standards and auditing the audit firms themselves. Canada has followed a similar path although generally on a much more prudent timeframe and often incorporating learnings from the U.S. precedent experience.

#### Slide 16 – Impact on TELUS

Now I will turn my attention to how this governance crisis affected TELUS specifically.

#### Slide 17 – TELUS yield spread analysis

In the midst of the emerging corporate governance crisis and severely weakened capital markets, TELUS EBITDA was negatively impacted to the tune of \$268 million in 2002 and an estimated \$340 million per annum in 2003 and beyond as a combined result of two unfavourable CRTC regulatory decisions. Following our disclosure of the first negative decision in April 2001, TELUS share prices began an unprecedented free-fall despite good operating results. Following the 2nd decision dealing with “Price Cap” regulation in the spring of 2002, TELUS’ public debt prices also began to weaken and our bond yields started to rise.

The damn finally burst when, ironically, our competitor, BCE, announced it would not stand behind the debt of its subsidiary TeleGlobe, causing some of the largest single name credit losses in Canadian banking history. Of course the credit rating agencies did not see this one coming just as they had not predicted that AT&T Corp. would walk away from supporting the debt of AT&T Canada leading to a \$4.7 billion debt write-off. In fact six Canadian telcos, TeleGlobe/BCE, AT&T Canada, Call-Net, 360 Networks, Microcell and Group Telecom together destroyed over \$15 billion of debt value.

While in some cases the debt forgiveness which occurred in CCAA was accompanied by significant equity losses, the competitive result was that these operators emerged out of receivership with clean balance sheets, typically the same management teams (I note with new re-priced options) and ironically had less leverage than the firms like TELUS who always lived up to their debt obligations.

#### Slide 18 – TELUS debt downgraded

With virtually no forewarning and despite meeting all credit agency commitments made previously, Moody's cut the debt rating of TELUS an unexpected two notches to non-investment grade only two business days prior to our 2nd quarter 2002 results. The hedge funds had a field day as false rumours spread that Moody's must know something negative about our pending results.

As a result of what I believe was a knee jerk reaction by Moody's to the unanticipated problems of our Cdn. competitors and the governance failures of U.S. telecoms, the bond market panicked and TELUS bonds incurred one of the fastest deteriorations of any Canadian investment grade company in history as our bonds lost up to 50% of their value in only one day. From the start of 2001 until mid 2002 about \$11 billion dollars of TELUS equity value was lost in addition to another \$4 billion in reduced market value of TELUS debt.

Interestingly, two business days after the Moody's announcement, we reported better than expected 2nd quarter results. But in the "Perfect Telecom Storm" of 2002 on the back of the accounting irregularities and governance failures that had struck much of the North American telecom sector, this was not enough to immediately repair the damage.

#### Slide 19 – Regaining shareholder confidence

So we embarked on a comprehensive program to address the unprecedented challenge facing TELUS.

We increased our disclosure to unprecedented levels by taking the following measures:

- voluntarily making our bank agreements public to reassure investors that we were not anywhere close to being offside;
- providing new detailed cash flow guidance including year ahead guidance some 5 months earlier than normal;
- adopting early many accounting pronouncements; and,
- expanding our already comprehensive MD&A disclosure.

Notably, we turned the situation to our advantage by buying back \$410 million of debt at an average discount of 21% and, after announcing the debt repurchase, issued \$337million of public equity in an oversubscribed bought deal. This generated a financial gain of approximately \$80 million. And we continued to successfully execute our business plan. We met most objectives and when we came up short, we discussed, not avoided, our shortcomings and outlined action plans for future improvements. As we began to generate significant increases in free cash flow we delivered ahead of plan building support among both debt and equity investors.

Of course, we enhanced our already strong foundation of good corporate governance which was already a TELUS focus and culture even prior to SOX rules.

#### Slide 20 – TELUS yield spread analysis

As shown on this slide the swift response by TELUS management and the continued quarterly progress in financial performance led to an incredible rebound in value for our debt securities. I am advised that the re-bounce in TELUS debt prices was the single

most pronounced in Canadian corporate debt history. If you look carefully at this slide you will notice that the yield spread of TELUS Notes actually declined to well below where they traded prior to the "Perfect Storm" crisis! Those investors who supported us were rewarded with one of the best bond returns in recent memory.

#### Slide 21 - Relative equity price performance index

The remarkable turnaround for TELUS was not limited to our debt prices. The TELUS share price has increased ever since where today it trades at over \$40 or about 7 times the low experienced following the Moody's credit downgrade. When one looks at the entire timeframe from April 2001 to June 2005, the TELUS shares have outperformed the Morgan Stanley world telecom index by about 80%.

#### Slide 22 – TELUS corporate governance journey

I will now outline TELUS's corporate governance journey covering the application of SOX to TELUS and how we responded to the requirements of this legislation as well as emerging Canadian requirements.

#### Slide 23 – Why SOX applies to TELUS?

Since TELUS is classified as a foreign private issuer in the U.S. with both publicly traded equity and debt in the U.S., we have been subject to SOX regulation from the outset. We were also publicly supportive of requirements imposed by SOX and subsequently generally supported Canadian governance regulations such as the National Policy on Disclosure and Ontario's Bill 198, which are effectively a made-in-Canada equivalent to the U.S.'s SOX requirements.

#### Slide 24 – How SOX applies to TELUS?

This slide summarizes how SOX and related Canadian rules apply to TELUS.

A major deficiency resulting from the hasty implementation of SOX in the U.S. has been that the rules were often made binding prior to the SEC issuing its detailed interpretations on the rules. This meant that in the case of CEO/CFO certification of financial statements for example, CEOs and CFOs were incurring personal liability for certifications whose exact meaning and interpretation was yet to be clarified. So TELUS decided not to certify quarterly results under SOX, as was our choice being a foreign private issuer. This provided us the prudent advantage of awaiting such rule clarification prior to certifying. Of course, we have been certifying our annual statements and annual information ever since commencing in the spring of 2003 for the annual information pertaining to 2002.

We applaud the more measured and thoughtful Canadian approach in regards to implementation timeline of corporate governance securities rules. Of course, we have been certifying under the Canadian system on a quarterly as well as annual basis since the first quarter of 2004.

A major advantage for Canadian cross-border issuers has been that we can take advantage of the delayed implementation requirements of SOX 404 for foreign issuers by learning from the rushed implementations and precedents of U.S. issuers. We have

tried to do this and, currently, TELUS is well positioned, and we have already completed over 75% of documentation necessary to be ready for 2006 SOX 404 compliance.

Slide 25 – Sarbanes-Oxley matrix (1 of 5)

On the following slides we show a listing of the various governance efforts that TELUS undertook to comply with regulatory requirements. In many cases, TELUS voluntarily adopted these measures well before legally required. I will not review each one but let me make a few comments about some of the notable items.

Slide 26 – Sarbanes-Oxley matrix (2 of 5)

In regards to our Code of Ethics, we kept in mind that Enron had an apparently excellent policy in place, but it seemed impotent to prevent the massive fraud and non-ethical culture that prevailed in practice. So with that in mind TELUS took a different approach than merely to comply with the regulatory requirement to implement a policy. I will return to this topic in a few minutes.

Slide 27 – Sarbanes-Oxley (3 of 5)

From the perspective of a seasoned CFO of a major Canadian public company, the requirements related to enhancing the oversight role and responsibility of audit committees was quite appropriate. In addition, the efforts to raise the bar by ensuring audit committees were comprised by independent directors who had sufficient financial expertise was also quite appropriate.

At TELUS, audit committee meetings average over 5 hours each. So it's a real commitment to be a member of our audit committee and we compensate our board members accordingly. I view this as a positive development. We don't just spend 5 hours ticking compliance boxes, we regularly cover topics such as the background of material accounting estimates, non-auditing fees to auditors, internal audits, ethics matter, comprehensive risk assessment reviews, financial developments and policies amongst other agenda items.

So in my experience, even a well functioning audit committee such as TELUS' has experienced a positive shift in value-added oversight responsibility as a consequence of SOX and other governance regulation introduced in recent years.

Slide 28 – Sarbanes-Oxley (4 of 5)

On the topic of auditor independence, I note that ENRON was one of the first companies which completely outsourced their internal audit department TO THEIR EXTERNAL AUDITOR, NO LESS! It is comforting to note that the recent regulatory changes expressly prohibit this practice!

Slide 29 – Sarbanes-Oxley (5 of 5)

The final SOX requirement I will comment on relates to whistleblowing. TELUS established an internal two person "Ethics Office" whose mandate was not only to respond and coordinate the investigation of any ethics concerns but also to promote itself as a source of advice and clarification concerning dilemmas or uncertainties that

team members may have about future actions. In this manner we believe our education effort has been successful in promoting an “Ask Questions” first, “Act Later” mentality that has likely avoided some unfortunate situations from occurring. More about this later.

#### Slide 30 – TELUS before SOX – solid foundation

TELUS and its predecessor companies have had an unwavering commitment to good corporate governance and a legacy of seeking out and early adopting practices.

To name a few:

- TELUS has long separated the roles of CEO and Chair and all of the members of our Board of Directors except the CEO are unrelated (as defined by the various securities rules).
- We have long had an internal audit department which reports jointly to the Audit Committee and to me, the CFO. My personal belief is that internal audit departments should not be outsourced as a rule due to the value of the objective and independent view of the internal control environment which they can and do provide to the Audit Committee and Management.
- Our Audit Committee meetings of the BOD are regularly held five times annually and provide a comprehensive, some might say exhaustive review, of subject matter consistent with Committee’s oversight role.
- Also, each of our AC meetings include scheduled time for the external and internal auditors to each meet with the AC members without management present. As the CFO, I also have a regular scheduled in-camera session with the AC.

These are just a few of the practices which we had in place well prior to SOX and Canadian governance rules! Two points I would make are:

1. TELUS has been a leader in proactively adopting corporate governance measures; and,
2. therefore our costs of compliance regarding a number of practices were already largely built into how we do business.

#### Slide 31 –TELUS responds to SOX (1 of 2)

Upon learning of the signing into law of SOX in July 2002, TELUS quickly formed an internal action team made up of representatives from Legal Services, Risk Management/Internal Audit and the Corporate Controller/Financial Reporting teams. The teams reviewed and assessed the implications of the multitude of proposed and final rules which then issued forth from the SEC and subsequently Peek-A-Boo, and which continues today in regards to SOX 404 and recently with the corresponding Canadian rules. Consequently, we have implemented a number of practices, which in many cases represented formalized practices which had been previously in place.

#### Slide 32 – TELUS responds to SOX (2 of 2)

A couple of points I would note here are:

- Most of the practices we have implemented in response to SOX have been beneficial from a corporate governance standpoint and have been implemented at a reasonable cost.

- I would also note that the changes which we made to our Enterprise Risk and Control Assessment process in 2002 (prior to SOX) -- in which we adopted the so-called COSO internal Control model to help us assess our control environment at the enterprise and business unit level -- have provided a four year head start (2002, 2003, 2004 and 2005) in assessing, tracking and trending the perceptions of TELUS team members regarding our company's control environment covering:
  - 1) Tone at the Top;
  - 2) Risk Assessment;
  - 3) Control Activities; and
  - 4) Information and Communication and Monitoring processes.

Slide 33 – TELUS builds on culture of strong ethics (1 of 2)

Key to our Corporate Governance approach, and I believe to TELUS' continued success, is our commitment to maintaining and sustaining an ethical culture. To enable this, the CEO of TELUS, Darren Entwistle, and I asked in 2002 that one TELUS-wide ethics policy and associated e.training be developed for the entire TELUS team. We previously had four ethics policies originating from our predecessor companies. This was accomplished and rolled out in 2002 and subsequently expanded to include Board members in early 2003. On an annual basis, all 28,000 TELUS team members from our front line bargained for employees, to our mid and senior level managers and to our BOD are expected to review the ethics policy and complete our e.ethics training on-line which includes a certification that they understand what is recognized of team members under our ethics policy. This is a condition of employment and is not negotiable.

At the beginning of 2003, we implemented our e.Ethics Hotline so that team members and others could call with whistle blowing and other complaints and questions regarding, ethics, accounting and auditing matters. I know that some companies have approached this largely from a compliance perspective to accommodate the whistle-blowing provisions of SOX. We have done that, but we have also gone beyond in that we actively encourage team members to "Ask First" so that they are clear on the ethical choice when a situation might be a shade of "grey".

As a learning organization we review the questions and issues which have come up through our ethics line and annually update our ethics policy and training accordingly. Last, on a quarterly basis, our Chief Internal Auditor, provides our Audit Committee and myself a summary of all of the calls, complaints and inquiries which have come in as well as a status update of any investigation outcomes.

Slide 34 – TELUS builds on culture of strong ethics (2 of 2)

Perhaps more unique to TELUS is that my Finance team internally developed and implemented a Financial Management Course for operational decision makers across the company commencing in the fall of 2003. This course was developed to:

- improve financial acumen throughout the company;
- improve better knowledge of TELUS' reporting requirements, controls, and financial situation;
- educate about SOX, insider trading and our goal for reporting excellence; and

- focus on better financial decision making.

By the end of 2005, over 2,000 managers will have voluntarily attended this course. We are continuing to roll-out the course in 2005 with certain mandatory attendance, including our “leadership now” program for high potential managers.

#### Slide 35 – Excellence in corporate governance

We have been encouraged that our comprehensive efforts in the corporate governance area have been recognized externally. As you can see, ironically, Moody’s validated TELUS’ approach, which is not only focused on governance excellence but also disclosure excellence.

#### Slide 36 – Excellence in investor communications

TELUS has a strong record in this regard. Our Annual report was ranked 9th globally by Corporate Essentials, in their “Annual Report of Annual Reports”:

- We placed 1st in Canada; and 2nd in North America.
- In fact, we were given the #1 ranking in the world for “strategy, objectives & outlook”.

We have also been recognized for 10 straight years of disclosure excellence in corporate reporting by CICA and our 2003 annual report was rated the best in Canada. In addition, TELUS has been a member of the Dow Jones Sustainability Index for 4 consecutive years – and is the only North American telco in the index - and has also been rated one of Canada’s Best Environmental Corporate Citizen. So as you can tell, TELUS has become widely known in the investment community as a leader in comprehensive and relevant disclosure. This reduces so-called information risk and I believe contributes to a higher valuation for TELUS securities.

#### Slide 37 – SOX 404 debate in US and Canada

Now let’s look at the next big requirement that has become increasingly controversial...the SOX Section 404 requirement to certify the adequacy of internal controls over financial reporting.

#### Slide 38 – The next step – SOX 404

The US companies and auditing firms were faced with working towards early compliance dates prior to the rules being fully established and clarified. For example, here are some of the notable 404 milestones:

- July 29, 2002, the Act became law;
- March 9, 2004, the final standard was issued;
- June 23, 2004, the first guidance was provided from the Peek-A-Book;
- March 2, 2005, the deferred timeline was announced for foreign private issuers;
- April 13, 2005, the SEC roundtable was held; and
- May 16, 2005, Peek-A-Boo and the SEC clarified risk-based assessment.

The U.S. experience was characterized by rushed implementations, stressed resources, and accounting firms tending towards arguably excessive conservatism in their audit

approach in the face of uncertain standards and the unprecedented nature of 404 attestations which posed new liability risk for the Big 4 accounting firms. FEI's US March 2005 survey on the costs of complying with SOX 404 indicates that total costs for year one averaged US\$4.36 million, up 39 percent from the \$3.14 million they previously expected to pay based on the FEI's July 2004 cost survey. So this has led to a hue and cry about the considerable cost and resource burden of SOX 404 and whether benefits justify the cost.

#### Slide 39 – Recent SOX 404 clarification

On May 16th, the SEC provided SOX 404 guidance which TELUS believes is critical. This guidance is a very positive development as it indicates companies and auditors inappropriately sought “absolute” assurance as opposed to “reasonable” assurance.

In summary the guidance said that:

- the scope and process should be reasonable and management should not allow the goal of producing reliable financial statements to be overshadowed by the process.
- use a top-down, risk-based process to scope down the effort and focus on those processes most likely to have a material impact on the financials.
- seek opportunities to reduce/increase scope and number of controls under review.

Management in corporate America have reported a 'chilling' of communications with the auditor; however, the SEC believes exchanging viewpoints does not impair independence and can only strengthen reporting. This is evidence that the SEC is working hard to minimize the impact on the registrants.

#### Slide 40 – SOX 404 at TELUS

At TELUS we are revisiting our 404 scope as a result of the May 16 SEC guidance. This includes:

- pursuing a risk-based approach with reasonable assurance as opposed to absolute assurance;
- using a top-down, risk-based process to scope down the effort and focus on those processes most likely to have a material impact on the financials;
- using both qualitative and quantitative (i.e. materiality) factors to define scope of the project; and
- exchanging viewpoints on scope well in advance with our external auditor...consistent with SEC guidance, this does not impair independence and can only strengthen reporting.

We are currently asking for external auditor interpretation of the new guidance and the impact to TELUS. As a result of this, we believe we can reduce our SOX 404 implementation project compliance cost by 25 to 30%. In addition to the scope changes, we are reassessing our planning for IT areas that will change in 2006, such as new system implementations to make sure they have the controls that are needed. We believe that new IT systems and upgrades or conversions should provide for optimal controls. With an extra year to comply, we now plan to launch full remediation in 2005 so gaps may be retested for the 2006 SOX cycle. In the meantime, we intend to further train

staff and re-assess resources to ensure we have the skills to succeed on a cost-effective and sustainable basis.

#### Slide 41 – Praise of SOX 404

As seen on this slide there are notable supporters of SOX such as Allan Greenspan and Moody's Credit Agency.

#### Slide 42 – Criticism of SOX

But it would only be fair to say that there has been widespread frustration and criticism from many corporate leaders. I note with interest that many highly respected Canadian executives have not been shy lately about publicly expressing their disdain for the high cost and alleged ineffectiveness of SOX 404 regulation. They implore Canadian regulators to not follow the U.S. approach.

#### Slide 43 – My perspective for CFOs on SOX 404

In my view the Crisis of Investor Confidence is a material risk to the capital markets, the examples of governance failure have been too frequent, and Canada is certainly not immune to these problems.

So my view is that effective leadership is required of CFOs and other Canadian business leaders to embrace the necessity for change and not to “throw the baby out with the bathwater” so to speak. Rather than merely complaining about a new regulatory compliance burden, effective leadership should seek to provide the regulators with constructive input so Canada can incrementally improve upon the U.S. approach.

Effective leadership also means being an internal advocate within one's own organization of the importance of implementing and sustaining effective internal controls to support the accuracy of financial statements and the efficiency and effectiveness of operational processes.

If you treat SOX 404 and the forthcoming Canadian 52-111 regulation as merely a compliance activity then you will get the result you deserve. Remember that no single checklist can give you good governance.

Rather, you should use this as an opportunity to challenge your organization to drive a ROI on your internal control assurance activities. We advocate taking a “SOX Smart” approach. This means taking a proactive and balanced risk-based approach that directs where you invest your assurance efforts.

To contain costs and improve effectiveness, we suggest you clarify specifications with your external auditor upfront and assign adequate internal financial and operational resources to ensure that understanding of your business processes is imbedded in the implementation team. You should ensure learnings are internalized rather than externalized and avoid excessive reliance on external consultants.

Slide 44 – My perspective for CFOs on ethics

CFOs must also lead by example and be the champions of promoting an ethical and well controlled culture in their organizations. Remember that ethical behaviour cannot be assured by regulation but can be promoted. Perhaps the effort should start in business schools and professional bodies by making business ethics a mandatory course where it is not already. Don't write an ethics policy for the sake of compliance. Rather use it as a tool to train all employees and board members. Promote an "Ask First" and "Act Later" philosophy when faced with ethical uncertainty. And remember, as the Enron case demonstrated, if ethics are poor at the top, there will be problems regardless of how good your ethics policy is on paper or other measures taken.

Slide 45 – My perspective of 52-111 to Cdn Regulators (1 of 2)

Before concluding, let me outline some of the highlights of TELUS' comments to the regulators concerning 52-111.

Firstly, since Canada has not been immune to corporate fraud and accounting related scandals, we believe that Canada needs to adopt similar measures as SOX 404. As a cross border issuer, we applaud the proposed CSA approach to align with the provisions of US SOX 404. However, we can learn and improve on the American approach whose implementation timeline was too rushed, and has turned out to be very costly and require significant resources.

We recommend that 52-111 be modified to ensure that it reflects the essence of the May 16th SEC guidance encouraging reasonable assurance rather than absolute assurance and the use of a top-down, risk-based process.

Testing standards should be established and guidance given on what reliance can be placed on entity level versus transactional controls. A potential problem is that audit firms are doing the interpretation and there is no incentive for them to be efficient. This is a major deficiency with the SOX 404 approach which we have witnessed to date and we strongly encourage you to provide sufficient guidance for management and auditors to contain their requirements to reasonable levels of materiality based on risk. This should have a significant impact on lowering compliance costs without compromising the compliance effort. Such a result would be a significant positive factor in obtaining broadened support for 52-111 by making it more cost effective.

We emphasize that regulation in itself cannot guarantee exclusively the effectiveness of internal control over financial reporting so there should be more focus on measures to promote an "ethical environment".

TELUS believes that effective internal control starts at the top. It begins with promoting and demonstrating ethical behaviour that is visible to the entire organization and to its investors.

Slide 46 - My perspective of 52-111 to Cdn Regulators (2 of 2)

Since material control deficiencies tend to be inversely correlated with firm size, we wonder why any public company or investment trust, regardless of size or exchange listing, should be exempt from acceptable governance, ethics and internal control over financial reporting requirements. TELUS also recommends the Canadian dates be

shifted one year, except for those who are U.S. Foreign Private Issuers, to smooth the conflict and allow the Canadian business community to benefit from further learnings and ensure qualified resources are available for all business segments at reasonable costs.

#### Slide 47 - Summary

In summary:

The TELUS experience shows that the investor confidence crisis of 2002 was not limited to adversely affecting only those with governance failures but it also seriously impacted many other “good” firms such as TELUS. As explained, Canada has not been immune from serious governance failures and we cannot allow our capital market to become disadvantaged by failing to respond adequately.

In each of the various major governance failures I have mentioned, the issues were pervasive. In each case the root cause appears to be related to a combination of a lack of adequate Board oversight, poor ethical cultures and for that matter, poor overall company level controls. Clearly promoting an ethical “tone at the top” is essential. So we support the regulators’ goal to implement investor confidence measures that are generally harmonized with those of the SEC.

At TELUS, we have strived to be a leader in excellence in financial reporting and disclosure as well as excellence in governance. We believe this provides us with a valuation advantage and was an important element in defeating the so-called “Perfect telecom storm” of 2002.

Our experience to date in preparing for SOX 404 indicates a need for a “top down”, risk based approach – or what we call being “SOX Smart”. It is not about grids and checklists, it is about knowing where the risk is in your enterprise – what can go wrong and addressing it.

In conclusion, with appropriate executive leadership, the governance challenge the capital market has faced in recent years can be effectively met in a manner that adds shareholder value. I invite you to accept the challenge!