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TELUS CORP
Form 40-F
March 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

[] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE
ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13(A) OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006 Commission File Number 000-24876

TELUS Corporation
(Exact Name of Registrant as specified in its charter)
British Columbia, Canada
(Province or other jurisdiction of incorporation or organization)
4812
(Primary Standard Industrial Classification Code Number (if applicable))

8 - 555 Robson Street
Vancouver, British Columbia V6B 3K9, Canada
(604) 697-8044

(Address and telephone number of Registrant's principal executive offices)

CT Corporation System, 111 Eighth Avenue, 13th Floor
New York, New York 10011
(212) 590-9200
(Name, Address (including zip code) and Telephone Number of Agent
for Service in the United States)

Securities registered pursuant to section 12(b) of the Act.

| Title of Each Class | Name of each exchange On Which Registered |
|---------------------|--|
| Non-Voting Shares | New York Stock Exchange |

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d)
of the Act.

7.5% Notes due 2007
8.0% Notes due 2011
5.00% Notes due 2013
4.50% Notes due 2012
4.95% Notes due 2017

(Title of Class)

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located under the heading "Management's Annual Report on Internal Control Over Financial Reporting" in our audited consolidated financial statements, which are filed as Exhibit 4 to this annual report on Form 40-F and is incorporated by reference herein.

Attestation Report of the Registered Public Accounting Firm

The attestation report on management's assessment of our internal control over financial reporting is located under the heading "Independent Auditor's Report on Internal Controls" in our audited consolidated financial statements, which are filed as Exhibit 4 to this annual report on Form 40-F and is incorporated by reference herein.

Changes in Internal Controls

There were no changes in our internal control over financial reporting identified in connection with the above evaluation that occurred during the period covered by this annual report on Form 40-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

IDENTIFICATION OF AUDIT COMMITTEE

TELUS has a separately designated standing Audit Committee. The current members of the Audit Committee are Brian F. MacNeill (Chair), A. Charles Baillie, Micheline Bouchard, Ruston Goepel and Pierre Ducros. All members of the Committee are "independent" as such term is defined under applicable securities laws and applicable New York Stock Exchange ("NYSE") rules.

AUDIT COMMITTEE FINANCIAL EXPERT

The Board of Directors (the "Board") of TELUS Corporation ("TELUS" or the "Registrant") has determined that the Audit Committee Chair is an "audit committee financial expert" as such term is defined by U.S. securities laws and "independent" as noted above. The information contained under the heading "Audit Committee" on page 37 of TELUS' 2006 Annual Information Form, filed as Exhibit 3 to this annual report on Form 40-F, is incorporated by reference herein.

CODE OF ETHICS

The Registrant has adopted an Ethics Policy that applies to all directors, officers, including the Chief Executive Officer and the Chief Financial Officer, and employees. The Policy has been posted on the Registrant's Internet website at telus.com. The Policy is also available to any person, upon request, without charge by contacting TELUS Investor Relations at 1-800-667-4871 or 555 Robson Street, Vancouver, B.C. V6B 3K9.

The Board amended the Policy in February and May 2006 to add guidance on hiring and supervising family members and close personal friends and to make other amendments that were housekeeping in nature.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table is a summary of billing by Deloitte & Touche, LLP, as external auditors of TELUS, during the period from January 1, 2006 to December 31, 2006:

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| Type of work | Deloitte & Touche | % |
|--------------------|-------------------|-------|
| ----- | | |
| Audit fees | \$3,757,244 | 94.11 |
| Audit-related fees | \$ 162,000 | 4.06 |
| Tax fees | \$ 72,763 | 1.83 |
| All other fees | | |
| ----- | | |
| Total | \$3,992,007 | 100 |
| ===== | | |

The following table is a summary of billing by Deloitte & Touche, LLP, as external auditors of TELUS, during the period from January 1, 2005 to December 31, 2005:

| Type of work | Deloitte & Touche | % |
|--------------------|-------------------|------|
| ----- | | |
| Audit fees | \$2,237.606 | 90.7 |
| Audit-related fees | \$ 195,584 | 7.9 |
| Tax fees | \$ 33,180 | 1.4 |
| All other fees | -- | -- |
| ----- | | |
| Total | \$2,466,370 | 100 |
| ===== | | |

TELUS' policy regarding pre-approval of all audit, audit related and non-audit services provided by its External Auditor is based upon compliance with the Sarbanes-Oxley Act of 2002, the subsequent implementation rule from the SEC titled "Final Rule: Strengthening the Commission's Requirements Regarding Auditor Independence" and any additional determinations regarding impermissible services issued by the Public Company Accounting Oversight Board (PCAOB).

All requests for non-prohibited audit, audit related and non-audit services provided by TELUS' External Auditor and its affiliates to TELUS are required to be pre-approved by the Audit Committee of TELUS' Board of Directors. To enable this, TELUS has implemented a process by which all requests for services involving the External Auditor are routed for review by the VP Risk Management and Chief Internal Auditor to validate that the requested service is a non-prohibited service and to verify that there is a compelling business reason for the request. If the request passes this review, it is then forwarded to the Chief Financial Officer for further review. Pending the Chief Financial Officer's affirmation, the request is then presented to the Audit Committee for its review, evaluation and pre-approval or denial at its next scheduled quarterly meeting. If the timing of the request is urgent, it is provided to the Audit Committee Chair for his review, evaluation and pre-approval or denial on behalf of the Audit Committee (with the full committee's review at the next scheduled quarterly meeting). Throughout the year, the Audit Committee monitors the actual versus approved expenditure for each of the approved requests.

OFF-BALANCE SHEET ARRANGEMENTS

The information provided under the subheading "Off-Balance Sheet Arrangements,

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Commitments and Contingent Liabilities" set forth in the "Management's Discussion and Analysis" filed as Exhibit 4 to this annual report on Form 40-F, is incorporated by reference herein.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided under the heading "Contractual Obligations" (Note 19(b)) set forth under the heading "Commitments and Contingent Liabilities" set forth in the notes to the audited consolidated financial statements filed as Exhibit 4 to this annual report on Form 40-F, is incorporated by reference herein.

UNDERTAKING

Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the SEC staff, and to furnish promptly, when requested to do so by the SEC staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

Registrant: TELUS Corporation

By: s/s Audrey T. Ho

Audrey T. Ho

Vice President, Legal Services and General Counsel
and Corporate Secretary

Date: March 16, 2007

EXHIBIT INDEX

The following documents are filed as exhibits to this Form 40-F:

Exhibit

Number

Document

1. Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
2. Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
3. Annual Information Form dated March 16, 2007
4. Audited Consolidated Financial Statements as at and for the year ended December 31, 2006 and Management's Discussion and Analysis
5. Consent of Independent Registered Chartered Accountants
6. Amended 2006 Ethics Policy

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Exhibit 1:

Certification

I, Darren Entwistle certify that:

1. I have reviewed this annual report on Form 40-F of TELUS Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report.
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

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- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 16, 2007.

/s/ Darren Entwistle

Darren Entwistle
President and Chief Executive Officer

Certification

I, Robert G. McFarlane certify that:

1. I have reviewed this annual report on Form 40-F of TELUS Corporation.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report.
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

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5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing equivalent function):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 16, 2007.

/s/ Robert G. McFarlane

Robert G. McFarlane
Executive Vice President and Chief Financial Officer

Exhibit 2:

Certifications

Pursuant to 18 U.S.C. 1350, each of the undersigned officers of TELUS Corporation ("TELUS") hereby certifies that to his knowledge, (a) the annual report for the period ended December 31, 2006 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934 and (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of TELUS.

Date: March 16, 2007.

/s/ Darren Entwistle

Darren Entwistle
President and Chief Executive Officer

Date: March 16, 2007.

/s/Robert G. McFarlane

Robert G. McFarlane
Executive Vice President and Chief Financial Officer

Exhibit 3: Annual Information Form dated March 16, 2007.

TELUS Corporation
annual information form
for the year ended December 31, 2006

March 16, 2007

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FORWARD LOOKING STATEMENTS

TELUS

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ADDITIONAL INFORMATION

Appendix A: Terms of Reference for the Audit Committee

Exchange Rate Information

TELUS publishes its consolidated financial statements in Canadian dollars. In this annual information form, except where otherwise indicated, all reference, to "dollars" or "\$" are to Canadian dollars. The Bank of Canada noon spot exchange rate on March 9, 2007 was Cdn. \$1.1712= U.S. \$1.00. The following table sets forth, for the fiscal years and dates indicated, certain exchange rate information based on the noon spot rate:

| | |
|------------------------|--------|
| December 31, 2004..... | 1.2036 |
| December 31, 2005..... | 1.1659 |
| December 29, 2006..... | 1.1653 |

FORWARD LOOKING STATEMENTS

This annual information form and management's discussion and analysis incorporated by reference hereto, contain statements about expected future events and financial and operating results of TELUS Corporation ("TELUS" or the "Company") that are forward looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers of this document are cautioned not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the operating targets, expectations, estimates or intentions expressed in the forward-looking statements. Factors that could cause actual results to differ materially include but are not limited to: competition; technology (including reliance on systems and information technology); regulatory developments (including local forbearance, local price cap reductions, wireless number portability and the timing, rules, process and cost of future spectrum auctions); human resource developments (including possible labour disruptions; process risks (including internal reorganizations, conversion of legacy systems and billing system integrations); financing and debt requirements (including share repurchases, debt redemptions, potential issuance of commercial paper and changes to credit facilities); tax matters (including acceleration or deferral of required payments of significant amounts of cash taxes); health, safety and environmental developments; litigation and legal matters; business continuity

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events (including manmade and natural threats); economic growth and fluctuations (including pension performance, funding and expenses); and other risk factors discussed herein and listed from time to time in TELUS' reports, public disclosure documents or other filings with securities commissions in Canada (filed on SEDAR at www.sedar.com) and the United States (filed on EDGAR at www.sec.gov). See "Management's Discussion and Analysis - Section 10 Risks and risk management" in TELUS' 2006 Annual Report - Financial Review for further information.

TELUS

TELUS was incorporated under the Company Act (British Columbia) (the "BC Company Act") on October 26, 1998 under the name BCT.TELUS Communications Inc. ("BCT"). On January 31, 1999, pursuant to a court-approved plan of arrangement under the Canada Business Corporations Act ("CBCA") among BCT, BC TELECOM Inc. ("BC TELECOM") and the former Alberta-based TELUS Corporation ("TC"), BCT acquired all of the shares of BC TELECOM and TC in exchange for Common Shares and Non-Voting Shares of BCT, and BC TELECOM was dissolved. On May 3, 2000, BCT changed its name to TELUS Corporation and in February 2005, the Company transitioned under the Business Corporations Act (British Columbia) (the "New BC Act"), successor to the BC Company Act. TELUS maintains its registered office at Floor 21, 3777 Kingsway, Burnaby, British Columbia ("B.C.") and its executive office at Floor 8, 555 Robson, Vancouver, B.C.

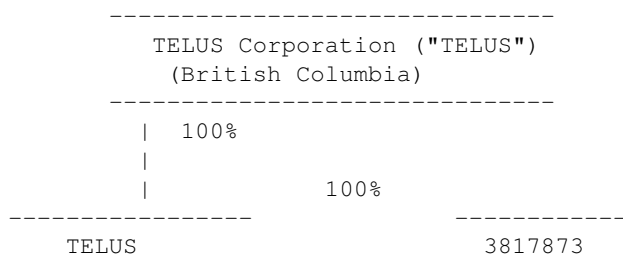
Subsidiaries of TELUS

As of December 31, 2006, the only material subsidiary of TELUS was TELUS Communications Inc. ("TCI"), being the only subsidiary which owned assets that constitute more than 10 per cent of the consolidated assets of TELUS as at December 31, 2006 and generated sales and operating revenues that exceed 10 per cent of the consolidated sales and operating revenues of TELUS for the year ended December 31, 2006.

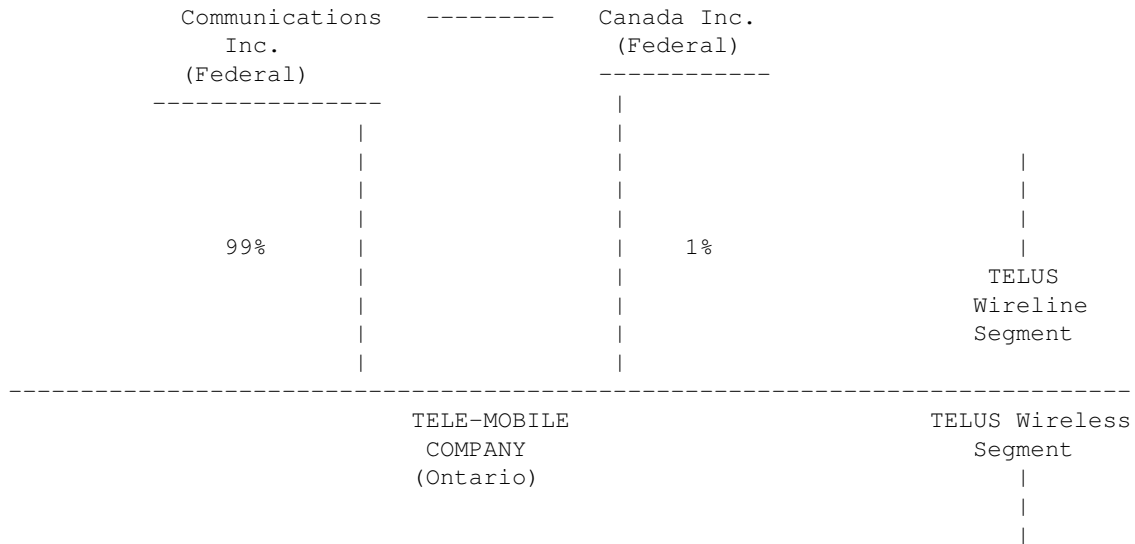
TELUS' wireline and wireless businesses were formerly located in TCI and TELE-MOBILE Company ("TELE-MOBILE") respectively. On November 24, 2005, TELUS announced the merger of those segments into a single operating structure (the "wireline-wireless merger"). This was partly effected by way of a legal entity restructure on March 1, 2006 (the "2006 legal entity restructure"), at which time TELUS combined its wireline and wireless businesses into TELUS Communications Company ("TCC").

TCC is a partnership organized under the laws of B.C. whose partners are TCI and TELE-MOBILE. Immediately prior to the 2006 legal entity restructure, 3817873 Canada Inc., a partner in TELE-MOBILE, was continued into Alberta as 1219723 Alberta ULC. TELUS owns 100 per cent of the voting shares in TCI directly, and 100 per cent of the partnership interests in TELE-MOBILE and TCC indirectly.

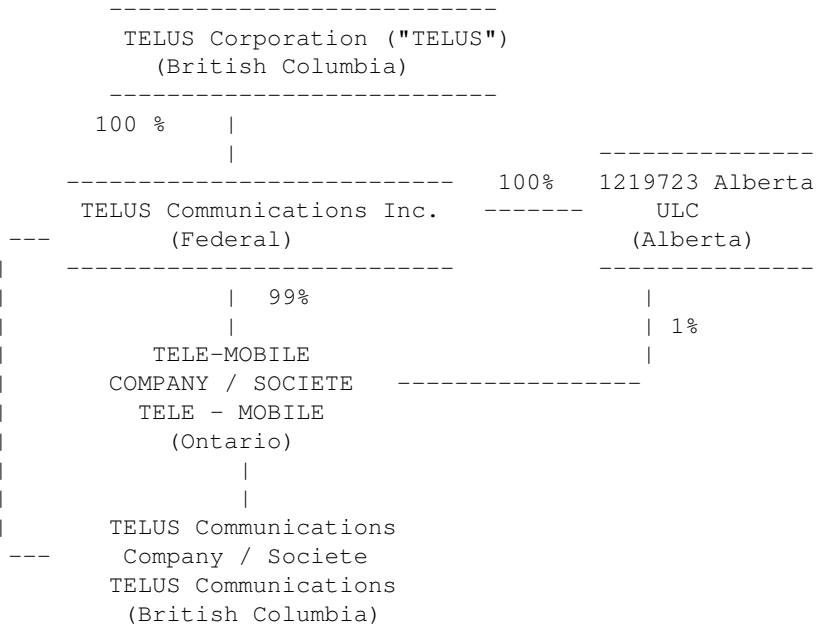
The following organization chart sets forth the material TELUS subsidiaries and partnerships, as well as their respective jurisdictions of incorporation or establishment and TELUS ownership prior to March 1, 2006:



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The following organization chart sets forth the material TELUS subsidiaries and partnerships, as well as their respective jurisdictions of incorporation or establishment and TELUS ownership from March 1, 2006:



In this annual information form, references to "TELUS" are to TELUS Corporation and all of its subsidiaries and partnerships as a whole, except where it is clear that these terms mean only TELUS Corporation. Unless the context otherwise requires, "TELUS wireline" refers to the wireline businesses carried on primarily through TCC presently and through TCI within the TELUS Communications segment prior to the wireline-wireless merger, and "TELUS Mobility" or TELUS wireless refers to the wireless businesses carried on through TCC presently and through TELE-MOBILE prior to the wireline-wireless

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merger.

OPERATIONS, ORGANIZATION AND CORPORATE DEVELOPMENTS

Operations

TELUS is a leading national telecommunications company in Canada, offering a wide range of wireline and wireless communications products and services including data, voice and entertainment. TELUS generated \$8.7 billion in annual revenue in 2006 and has 10.7 million customer connections including 5.1 million wireless subscribers, 4.5 million wireline network access lines and 1.1 million Internet subscribers. As a result of TELUS' national growth strategy, revenue grew by seven per cent in 2006 and total customer connections increased by 504,000.

Organization

TELUS is organized into four customer facing business units:

- * Consumer Solutions, which provides wireline, and wireless Internet Protocol ("IP") data services, voice and entertainment services to households and individuals across Canada;
- * Business Solutions, which delivers innovative wireline and wireless data, IP, voice and business process in-sourcing solutions to small and medium-sized businesses and entrepreneurs, and brings customized wireline and wireless voice and data, IP, Information Technology ("IT") and e.business solutions to large multinational, corporate and public sector customers;
- * TELUS Quebec, which focuses on the unique needs of the Quebec marketplace by offering businesses and consumers comprehensive and integrated wireless and wireline telecommunications solutions, including data, Internet and voice; and
- * Partner Solutions, which provides services to wholesale customers, including telecommunications carriers, resellers, Internet service providers ("ISPs"), wireless communications companies, competitive local access providers and cable-TV operators.

These customer facing business units receive essential support from the business capabilities units comprised of Network Operations, Business Transformation and Technology Strategy, as well as from the business enabling units comprised of Finance, Corporate Affairs (which includes public policy, law, regulation, government relations and corporate communications) and Human Resources.

In addition to the wireline-wireless merger, the corporate structure of TELUS underwent other changes during the three years ended December 31, 2006. On July 1, 2004, through an internal reorganization, TCI acquired substantially all of the assets and the wireline operations of TELUS Communications (Quebec) Inc. ("TELUS Communications (Quebec)"). TCI assumed substantially all the liabilities of TELUS Communications (Quebec) including \$30 million principal amount of First Mortgage Bonds and \$70 million principal amount of Medium Term Notes, which were the publicly held debt of TELUS Communications (Quebec). By combining in a single entity ownership of the network assets in Quebec with those outside of Quebec, TELUS expects to be able, over the long-run, to build common systems and processes that otherwise would have been more difficult to build due to communications regulatory requirements. These changes should allow TELUS to better serve customers whose service requirements span Canada.

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On December 14, 2004, Verizon Communications Inc. ("Verizon") divested all of its 20.5 per cent equity investment in the Company by way of a public secondary offering. Post divestiture, Verizon and the Company ceased to be related parties. Concurrently with the divestiture, Verizon and the Company further adjusted their business relationships to reflect changes in their business requirements since the alliance was first established. See section "Alliances" on page 15 of this annual information form for further information.

On December 30, 2004, through an internal reorganization, a subsidiary of TELUS, TELUS Solutions Holdings Inc., was wound up into TCI. Upon this wind up, TELUS Services Partnership ceased to exist and its business was transferred by operation of law to TCI.

In 2005 and 2006, TELUS proceeded with additional internal reorganizations that were modest in nature.

On September 11, 2006, the Company announced that its Board of Directors had unanimously approved a proposal to reorganize the Company in its entirety into an income trust. On October 31, 2006, the federal Minister of Finance announced a new tax plan that would increase the taxation of income trusts. The Company re-evaluated its proposal in light of the Minister's announcement and, on November 24, 2006, the Company announced that it would not proceed with the proposal as TELUS management and the Board of Directors believed it was no longer in the best interests of the Company and its shareholders to do so.

DESCRIPTION OF THE BUSINESS AND GENERAL DEVELOPMENTS

TELUS is the largest incumbent telecommunications company in Western Canada and one of the largest telecommunications companies in Canada. It has two reportable segments: wireline and wireless.

In the wireline segment, TELUS offers the following solutions: voice (local, long distance, call management and the sale, rental and maintenance of telephone equipment); Internet (high-speed or dial-up with security features); TELUS TV available in select neighbourhoods with Video on Demand and Pay Per View; data (IP networks, private line, switched services, network wholesale, network management and hosting); converged voice and data solutions (TELUS IP-One Innovation(R) and TELUS IP-One Evolution(R)); hosting and infrastructure (managed IT and infrastructure solutions delivered through TELUS' IP networks connected to TELUS' Internet Data Centres); security solutions (managed and non-managed solutions to protect business networks, messaging and data, in addition to security consulting services); and customized solutions such as contact centre services including Call Centre Anywhere(TM), conferencing services (webcasting, audio, web and video) and human resource and health and safety outsourcing solutions

In the wireless segment, TELUS offers the following solutions: digital voice services (PCS postpaid, PCS Pay & Talk(R) prepaid, Mike(R) all-in-one (iDEN) and Push To Talk(TM) capability on both Mike (Direct Connect(R)) and PCS (Instant Talk(R))); Internet (TELUS Spark(TM) including wireless web, text, picture and video messaging, music, ringtones, image and game downloads, TELUS Mobile Music(R), TELUS Mobile Radio(TM) and TELUS Mobile TV(TM), and Wi-Fi Hotspots); and data devices including PC cards and personal digital assistants (PDAs) available for use on wireless high-speed (evolution data optimized or EVDO), 1X and Mike packet data networks.

TELUS earns the majority of its revenue (voice data and wireless network revenue) from access to, and usage of, its telecommunication infrastructure. The majority of the balance of TELUS' revenue (other revenue and wireless equipment revenue) arises from providing products that facilitate access to, and usage of, TELUS' telecommunication infrastructure.

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TELUS' national growth strategy

Since 1999, the Company has been pursuing a national wireline and wireless growth strategy outside Alberta and B.C. into the rest of Canada. This has been implemented by both organic growth and through a series of acquisitions which have provided TELUS with a regional full service presence in the province of Quebec, national digital wireless communications networks and subscribers, PCS (personal communication service) and other wireless spectrum nationally, employees, infrastructure and sales distribution channels in central and eastern Canada.

Non-core assets, including real estate properties, were sold in 2004, 2005 and 2006 for total proceeds of approximately \$55 million.

TELUS' networks

The Company has a coast-to-coast fibre optic network, which interconnects cities between Halifax and Vancouver and extends into the U.S. via points of presence in Albany, Ashburn, Palo Alto, Buffalo, Chicago, Detroit, New York and Seattle. This network is fully integrated with TELUS' extensive metropolitan networks in Alberta and B.C. and connects into networks constructed in Montreal, Ottawa, Toronto and other cities. As at December 31, 2006, the total amount of network fibre reached over 15,000 kilometres.

TELUS wireline networks

TELUS' wireline network includes the Alberta and B.C. portion of the transcontinental high-density fibre optic transmission system used by the various incumbent local exchange carriers ("ILECs") across Canada. As part of the national strategy, TELUS also built its own national inter-city fibre optic backbone network that interconnects the network in Alberta and B.C. with major centres in Ontario and Quebec. This fibre optic network is supplemented by new local fibre optic networks in 34 competitive local exchange carrier ("CLEC") exchanges or metropolitan areas. TELUS' network interconnects with the networks of Verizon and other carriers in the U.S. for the exchange of U.S. and international traffic.

TELUS wireless networks

TELUS is one of three national Canadian facilities-based wireless service providers, and offers wireless voice and data services to consumers and businesses nationally on two networks. As a result of acquisitions and purchases completed in previous years, TELUS holds a significant mobile spectrum position.

PCS/cellular networks

TELUS owns and operates a national digital PCS network and analogue/digital cellular facilities in Alberta, B.C., and eastern Quebec, with 40 to 45 MHz of PCS spectrum throughout all major population regions of Canada. Its national PCS wireless network utilizes 1X, CDMA (code division multiple access) and EVDO digital technology.

TELUS expanded its network coverage through roaming/resale agreements originally entered into in 2001 ("the Roaming/Resale Agreements"), principally with Bell Canada and certain of its affiliates. These agreements expanded TELUS' digital PCS coverage areas outside of major urban markets in Ontario, Quebec and Atlantic Canada and were subsequently amended to include 1X and the EVDO high-speed network.

The Roaming/Resale Agreements expanded TELUS' addressable PCS market by approximately 7.5 million people as of the end of 2006, while allowing TELUS to avoid estimated capital expenditures of approximately \$800 million over the

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10-year term of the agreements. At the end of 2006, TELUS' national digital networks, combined with coverage provided by the Roaming/Resale Agreements, reached approximately 31.0 million Canadians.

In 2004, TELUS and Verizon Wireless expanded their Canada and U.S. roaming arrangements under a consolidated long-term roaming agreement to improve each other's ability to provide more consistent and comprehensive roaming services to each other's customers. Substantially all of TELUS' digital subscribers are provided extended coverage in Canada, the U.S. and various other countries through analogue and digital roaming arrangements with other carriers by means of dual-mode or tri-mode, dual-band handsets.

Beginning in late 2005, EVDO services were introduced in major centers across Canada offering to customers typical wireless data transfers at speeds of 400 - 700 kilobits per second. In 2006, TELUS continued its investment in higher-speed wireless EVDO network technology and continued the enhancement of digital wireless capacity and coverage.

TELUS also operates analogue specialized mobile radio ("SMR") systems in most major urban centres in Canada and paging networks in Alberta, B.C., and eastern Quebec.

iDEN network

TELUS also owns and operates Canada's only national enhanced specialized mobile radio ("ESMR") network. ESMR digital wireless business communications services are offered under the Mike trademark using iDEN technology from Motorola. The Mike network covers the larger population centers and surrounding areas in Alberta, B.C., Manitoba, Ontario and Quebec (including Toronto and Montreal), and many non-urban areas and transport corridors in Ontario, Quebec and western Canada. The Mike network utilizes frequencies in the 800 MHz range which have propagation advantages over higher frequencies such as those used in digital 1900 MHz PCS networks, resulting in more cost effective geographic coverage. While the amount of 800 MHz spectrum licenced to TELUS varies by region, TELUS has in excess of 10 MHz of spectrum available for its Mike network in Montreal, Toronto and Vancouver, Canada's three most populous metropolitan areas. The Mike service is marketed primarily through independent and corporate-owned dealers to businesses and other organizations as a digital PCS-like service with the added benefit of Mike's Direct Connect(TM) Push to Talk(TM) functionality, which provides low-cost instant connectivity for work groups.

In 2006, Sprint/Nextel completed a mandatory shift of channels (rebanding) for its iDEN service due to concerns from the Federal Communications Commission ("FCC") about interference with public safety operations. Part of the TELUS Mike network utilizes channels under control of the FCC.

TELUS - wireline business segment

TELUS operates as an ILEC in Alberta, B.C. and eastern Quebec where it provides comprehensive local, long distance, data, Internet and information services in its incumbent or ILEC territories and is a competitive local exchange carrier ("CLEC") offering services primarily in central Canada through its non-incumbent or non-ILEC operations. TELUS' ILEC operations serve a population of approximately 7.7 million in its incumbent western Canada service territory, and a population of more than one half million in its incumbent eastern Quebec territory. On a combined basis, wireline services accounted for revenue of \$4,823 million for the year ended December 31, 2006 (\$4,847 million for the year ended December 31, 2005) representing 56 per cent of the total revenue of TELUS for 2006 (60 per cent of the total revenue of TELUS for 2005).

Local

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Local wireline services allow customers to complete calls in their local calling areas and to access long distance networks, wireless networks and the Internet. Virtually all homes and businesses in TELUS' incumbent service areas have access to some or all of its local services. In addition to local calling, local services generally include enhanced calling features, such as call display, call waiting, call forwarding and voice mail; Centrex for business customers; public pay telephones; and competitive long distance carrier access. Local access or exchange service is the largest component of local wireline service, and is generally provided on a monthly flat rate basis.

CLECs operating in Canada provide service to their customers over facilities they have constructed or leased from ILECs in a given region or by reselling the local services of the ILECs (including TELUS). CLECs that use their own facilities or facilities leased from TELUS Communications are eligible to receive a subsidy when they provide service to residential customers living in areas where TELUS, as an ILEC, receives a subsidy (see "Regulation - Regulation of Local Services").

TELUS is competing outside its incumbent territories as a non-dominant carrier and has obtained approval to operate as a CLEC in certain targeted markets in central Canada where it concentrates on providing business wireline services. TELUS is continuing to pursue CLEC status in other areas in central and eastern Canada.

Long distance

Wireline long distance services interconnect customers in different local calling areas, and provide domestic and international connectivity. TELUS offers its residential and business customers a range of long distance savings plans, billing options, and call options. The largest component of wireline long distance services is message toll services, which are transmitted through fibre optic cables, microwave radio systems, cable carrier systems and satellite channels. National and international wireline long distance services are provided through TELUS' national network and by way of interconnection with the networks of other facilities-based carriers and resellers.

Data, Internet and IT services

TELUS provides both "traditional" (or "legacy") data services and "enhanced" data services. Traditional data services include circuit switched, packet switched and dedicated private lines. Enhanced data services provide greater functionality to the customer, allowing a customer to compress their telecommunications applications onto a single infrastructure. The primary enhanced data services offered by TELUS are Internet access, private Intranets, wide area network outsourcing and electronic commerce. Customers may choose from a wide range of data services to suit the complexity of their requirements, including required speed and volume.

TELUS is the second largest ISP in Alberta and B.C., and the fourth largest wireline ISP in Canada. As at December 31, 2006, TELUS had 1,110,800 wireline Internet subscribers, including 916,700 high-speed Internet subscribers. In 2006, the number of high-speed subscribers increased by approximately 20 per cent. TELUS has seen an increase in the use of data services such as business Intranets by business customers and in the use of personal computer and Internet access by residential customers. TELUS also offers a range of broadcast, teleconferencing and advanced intelligent network services - services that can be customized to meet the specific needs of individual customers through software changes to network switches. These services include special number services such as toll free 1-800 and 1-900 and enhanced call routing.

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Through growth, investment and a series of strategic acquisitions completed prior to 2002, TELUS also became a leading managed data-hosting provider in Canada with a national network of intelligent Internet data centres.

TELUS provides businesses with IT services such as IT outsourcing, application development and sustainment, and national IT consulting. As a provider of Web hosting services, TELUS also offers managed hosting, co-location including shared Web and e-mail hosting services, media streaming, data storage and security services. In addition, TELUS offers managed applications services and software such as online backup Web conferencing, expense management, customer relationship management and sales force automation. These services are available across Canada and can be enhanced by connection with TELUS' infrastructure through points of presence throughout Alberta and B.C., Winnipeg, Regina, Saskatoon, and many cities in Ontario and Quebec.

Recent developments - consumer

An important element of the Company's wireline revenue growth strategy is the TELUS Future Friendly(R) Home initiative in its incumbent service areas. TELUS offers a suite of integrated, advanced digital and wireless services that leverage its significant investments in high-speed Internet. Two services, TELUS Home Networking and TELUS HomeSitter(R), were launched in 2004. In 2006, TELUS continued the expansion of its digital television service, TELUS TV(R), in select neighbourhoods in Calgary and Edmonton, and launched service in Vancouver following extensive trials with TELUS employees. Employee trials of TELUS TV are underway in Rimouski. In September 2006, TELUS announced that it intends to invest \$600 million between 2007 and 2009 to enhance its broadband infrastructure. This investment will enable emerging high-speed Internet services and expand network coverage across British Columbia, Alberta and Eastern Quebec . The broadband project complements a rural capital investment program to bring high-speed Internet services to more than 450 additional remote communities B.C., Alberta and Eastern Quebec by 2010. (See "Management's Discussion and Analysis - Risks and Risk Management - Section 10.3 Regulatory" in TELUS' 2006 Annual Report - Financial Review).

Recent developments - business

In 2004, TELUS launched the IP-One? product family, offering it to businesses in many cities in Ontario and Quebec. In 2005, the Company expanded its suite of advanced IP-based network applications with the introduction of IP-One Evolution?. This service enables business customers to migrate from their existing Centrex systems to IP telephony at a pace that best suits their needs. The Company also began a transformational billing initiative to re-engineer processes in the wireline segment for order entry, pre-qualification, service fulfillment and assurance, customer care, billing, collections/credit, customer contract and information management. As part of this initiative, in the third quarter of 2006, the Company successfully implemented a pilot billing system conversion for a sample set of customers. A commercial launch of the converged billing system platform for consumer accounts is expected to progress in 2007, with additional phases of conversion planned over the next few years. The expected benefits of this project include streamlined and standardized processes and the elimination over time of multiple legacy information systems. (See "Management's Discussion and Analysis - Risks and Risk Management - Section 10.5 Process risks" in TELUS' 2006 Annual Report - Financial Review).

In 2005, TELUS successfully completed a migration of 99 per cent of its long distance traffic from the old Stentor platform. This fibre-optic network provides TELUS with certain competitive advantages in the business marketplace. For business customers, TELUS provides a full suite of IP-based advanced application services and the ability to integrate voice mail, e-mail, data and video through a user-friendly online Web portal. TELUS is exploiting the competitive advantage it has in managed data and IP solutions, utilizing its IP

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network to secure recurring data revenues in Ontario and Quebec.

A partnership indirectly wholly owned by TELUS delivers human resources and end-to-end solutions to healthcare and other organizations.

In November 2004, TELUS signed a 10-year contract with the Government of B.C., in which the Government transferred approximately 140 staff members and all government payroll and human resource services to TELUS Sourcing Solutions Inc. ("TSS"), an indirect subsidiary of TELUS. In October 2005, TSS entered into a 10-year contract with the Calgary Board of Education, in which 50 Calgary Board employees were transferred to TSS. This contract provides for the delivery of some of the district's human resources services. TSS also signed a 15-year agreement with Hamilton Health Sciences to deliver the process and information technology components of its human resources services.

A number of large national contracts for managed data solutions were signed in 2005, including an eight-year agreement with Intrawest Corporation to be the exclusive supplier of certain IP and telecommunications services at Intrawest resorts across Canada, and an agreement with a large manufacturer to provide and manage Internet-based voice and data services. In 2006, in addition to several other multi-million dollar contracts, TELUS secured a five-year \$140 million contract with the Government of Ontario to provide fully managed network access services.

In 2005, TELUS purchased a controlling interest in Ambergris Solutions Inc. ("Ambergris"), which provides TELUS with international call centre capability and backup capabilities. The international call centre capability provides support for TELUS' bids to offer competitive call centre services to potential new clients. In 2006, TELUS further increased its ownership interest in Ambergris.

In 2006, TELUS strengthened its IT capabilities by acquiring Assurent Secure Technologies, a world-leading Canadian information technology security services and research company. TELUS is leveraging Assurent's global reputation and expertise to provide solutions that help customers protect their assets, identities, and information.

TELUS continues to focus on enhancing operational efficiency and effectiveness in its wireline business. In 2004 and 2005, a number of initiatives were undertaken, noticeably in the information technology resources area and in the merger of two customer-facing business units, aimed to enable greater efficiencies of scale, improve effectiveness of program delivery, improve competitiveness in the marketplace and improve operating and capital productivity. In 2006, TELUS fully or partially contracted out a number of non-core functions including property management, custodial services, building maintenance, mail services, fleet maintenance, and pay phone coin counting. In addition, management rationalized a number of offices into larger centres and completed the consolidation of two field dispatch centres. In addition, a number of process improvement and automation initiatives were undertaken.

The operating profitability of non-ILEC operations has been steadily improving because of continued data-focused growth, cost containment efforts and increases in the proportion of services provided on TELUS facilities ("on-net"). See "TELUS' national growth strategy".

The following table sets forth certain statistical information with respect to the wireline business segment:

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| | 2006 | 2005 | 2004 |
|---|------------|------------|--------|
| Network access lines (000's) | 4,548 | 4,691 | 4,808 |
| High-speed Internet net additions (000's) | 154 | 73 | 128 |
| High-speed Internet subscribers (000's) | 917 | 763 | 690 |
| Dial-up Internet net reductions (000's) | (42) | (46) | (38) |
| Dial-up Internet subscribers (000's) | 194 | 236 | 282 |
| Total Internet subscribers (000's) | 1,111 | 999 | 971 |
| Full-time equivalent employees | 23,884 (2) | n/a (1) | 18,839 |
| Total employees | 24,228 (2) | 22,888 (2) | 19,500 |

TELUS - wireless business segment

TELUS is a leading wireless communications service provider in Canada in terms of average monthly revenue per subscriber unit ("ARPU"), churn, operating margins and operating cash flow yield, based on publicly available information.

For the year ended December 31, 2006, the wireless business segment accounted for revenue of \$3,858 million (\$3,296 million for the year ended December 31, 2005), representing approximately 44 per cent of the total revenue of TELUS in 2006 (40 per cent of the total revenue of TELUS for 2005).

In 2006, TELUS introduced SPARK(TM), a new brand name for its portfolio of mobile entertainment, information and messaging services. TELUS Spark services include TELUS Mobile Music(R) and TELUS Mobile Radio(TM), launched in 2006 and TELUS Mobile TV(TM), launched in August 2005.

EVDO services, first launched in late 2005, are now available in more than 50 regions across Canada, representing two-thirds of the Canadian population.

The following table sets forth certain statistical information with respect to the wireless business segment:

| | December 31 | | |
|---|-------------|---------|-------|
| | 2006 | 2005 | 2004 |
| Net subscriber additions (000's) | 535 | 584 | 512 |
| Gross subscriber additions (000's) | 1,293 | 1,279 | 1,121 |
| Wireless subscribers (000's) | 5,056 | 4,521 | 3,936 |
| Penetration rate (1) | 16.2% | 14.5% | 12.9% |
| Wireless market share, subscriber based | 27% | 27% | 26% |
| Average monthly revenue per subscriber unit | \$63 | \$62 | \$60 |
| Minutes of use per subscriber per month ("MOU") | 403 | 399 | 384 |
| Cost of acquisition, per gross addition | \$412 | \$386 | \$389 |
| Monthly deactivations (churn rate) | 1.3% | 1.4% | 1.4% |
| Digital population coverage (millions) | 31.0 | 30.6 | 30.0 |
| Full-time equivalent employees | 7,210 | n/a (2) | 5,915 |
| Total employees | 7,727 | 6,931 | 6,298 |

EMPLOYEE RELATIONS

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As at December 31, 2006, TELUS had a total of approximately 31,955 employees. Approximately 15,055 of them (approximately 11,629 in the wireline business segment and 3,426 in the wireless business segment) were unionized.

On November 20, 2005, a new five-year collective agreement came into effect covering approximately 14,200 employees (including inactive employees) in both the wireline and wireless business segments. The new agreement replaces six previously separate collective agreements and applies to all unionized team members represented by the Telecommunications Workers Union ("TWU") located predominantly in B.C., Alberta, Ontario and Quebec. The agreement expires on November 19, 2010.

TELUS - wireline business segment

The TWU represents approximately 9,973 unionized employees in TELUS' wireline operations across Canada. These employees are covered by the new collective agreement with the TWU mentioned above. Approximately 1,020 office, clerical and technical employees in the wireline segment in Quebec are represented by the Syndicat Quebecois des employes de TELUS, under a new collective agreement that will expire on December 31, 2009. This collective agreement, signed in September 2006, replaced the former agreement which expired on December 31, 2005. In addition, the Syndicat des Agents de Maitrise de TELUS ("SAMT") represents approximately 511 unionized employees in TELUS' wireline operations in Quebec under a collective agreement that will expire on March 31, 2007. TSS, which employs approximately 125 unionized employees in the payroll and human resources services business, is signatory to three separate collective agreements in the provinces of Alberta and BC.

TELUS - wireless business segment

TELUS' wireless operations employed approximately 3,426 unionized employees in two separate bargaining units with the majority of unionized employees (approximately 3,406 clerical and technical employees across Canada) included in the TWU's national bargaining unit and a smaller number (approximately 20 professional and supervisory employees) represented by the "SAMT" in Quebec under a collective agreement that will expire on March 31, 2007.

Collective Bargaining in 2007

Renewal negotiations on the two collective agreements with the SAMT have commenced in 2007. The terms of these contracts will continue to apply until new collective agreements are put in place. (See "Management's Discussion and Analysis - Risks and Risk Management - Section 10.4 Human Resources" in TELUS' 2006 Annual Report - Financial Review).

CAPITAL ASSETS AND GOODWILL

As at December 31, 2006, the total investment of TELUS in capital assets and goodwill was recorded at a net book value of \$14.2 billion on a consolidated basis.

Capital assets and goodwill

The principal capital assets of TELUS consist of telecommunications property, plant and equipment and intangible assets and do not lend themselves to description by exact location. As at December 31, 2006, the total investment of TELUS in capital assets was recorded at a net book value of \$11.0 billion on a consolidated basis. Such assets, located principally in Alberta, B.C., Ontario

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and Quebec, include network facilities, relay and transmission towers, switching equipment, terminal devices, computers, motor vehicles, tools and test equipment, furniture, office equipment and intangible assets. Spectrum licences, which had a net book value of \$3.0 billion as at December 31, 2006, comprise the majority of identifiable intangible assets included in capital assets.

With the exception of terminal devices located at customer premises, most of the Company's communications plant and equipment are located on land owned or leased, or on rights-of-way obtained, by TELUS.

The properties of TELUS include: (i) office space; (ii) work centres for field service and materials management personnel; and (iii) space for exchange, toll and mobile radio equipment. A small number of buildings are constructed on leasehold land and the majority of the relay stations for TELUS' public service radio-telephone network are situated on lands held under leases or licences for varying terms. The network facilities of TELUS are constructed under or along streets or highways pursuant to rights-of-way granted by the owners of land including municipalities and on land owned by the Crown or on freehold land owned by TELUS. Other communications property, plant and equipment consist of plant under construction and materials and supplies used for construction and repair purposes. Identifiable intangible assets include wireless spectrum licences, subscriber base and computer software.

As at December 31, 2006, goodwill had a net book value of \$3.2 billion. Goodwill represents the excess of cost of acquired businesses over the fair value attributed to the net identifiable assets.

TELUS monitors its operations for compliance with applicable environmental requirements and standards, and implements preventative and remedial actions as required. TELUS' business of telecommunications services does not generate significant waste products that would be considered hazardous. For these reasons, remedial action has not been significant to the ongoing operations and expenditures of TELUS.

Value of intangible assets and goodwill

The carrying value of intangible assets with indefinite lives, and goodwill, are periodically tested for impairment using a two-step impairment test. The frequency of the impairment test generally is the reciprocal of the stability of the relevant events and circumstances, but intangible assets with indefinite lives and goodwill must, at a minimum, be tested annually. The Company has selected December as its annual test time. No impairment amounts arose from the December 2006, 2005 and 2004 annual tests. The test is applied to each of the Company's two reporting units (the reporting units being identified in accordance with the criteria in the Canadian Institute of Chartered Accountants ("CICA") Handbook section for intangible assets and goodwill): wireline and wireless.

Intangible assets with finite lives ("intangible assets subject to amortization") are amortized on a straight-line basis over their estimated lives; estimated lives are reviewed at least annually and are adjusted as appropriate.

RISK FACTORS

Management's discussion and analysis -- Section 10 Risks and risk management in TELUS' 2006 Annual Report - Financial Review is hereby incorporated by reference. Management's discussion and analysis is available at www.sedar.com.

ALLIANCES

Verizon's Sale of TELUS Equity

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Pursuant to the Long-Term Relationship Agreement between TELUS and certain Verizon corporations dated January 31, 1999 (the "Long Term Relationship Agreement"), Verizon was prohibited from selling its equity interest in TELUS to below 19.9 per cent without the approval of the independent directors of TELUS. On November 30, 2004, TELUS and Verizon announced that they had entered into an agreement pursuant to which TELUS' independent directors agreed to accommodate Verizon's sale of all of its equity interest in TELUS, being 48,551,972 Common Shares and 24,942,368 Non-Voting Shares held indirectly through a subsidiary, on certain conditions set out in that agreement. Under that agreement, Verizon paid to TELUS U.S. \$125 million. The Long Term Relationship Agreement was terminated on December 14, 2004 on the completion of the Verizon Sale. Concurrently, the two Verizon executives who sat on the Board of Directors of TELUS resigned.

Verizon software and related technology and services

Concurrently with the 2004 sale by Verizon of its equity interest in TELUS, Verizon and TELUS adjusted their business relationships to reflect changes in their business requirements since the alliance was first established. A number of business agreements (including the agreements described in this section) between Verizon and TELUS or their subsidiaries were amended or terminated.

The alliance agreement between TELUS and Verizon (the "Verizon Agreement"), which came into effect on January 1, 2001, contains provisions which, subject to existing third party rights and certain other exceptions and conditions, give TELUS and its affiliates certain rights to purchase exclusive licences of Verizon software and other technology, trademarks and service marks as specified by TELUS, and to use exclusively the remaining Verizon software and other technology, trademarks and service marks, in each instance in connection with the provision of Telecommunications Services (as defined in the Verizon Agreement) in Canada. Telecommunications Services do not include the provision of content for broadcasting, video, cable or Internet services, or the sale, publication or provision of directories. If Verizon proposes to transfer all or a substantial portion of the software and other technology underlying the intellectual property rights sold or licenced to TELUS to a third party unrelated to Verizon, and the transferred software and other technology were in fact used in the U.S. (excluding Puerto Rico) or Canada by Verizon at the time of transfer, Verizon must use commercially reasonable efforts to obtain for TELUS substantially the same rights obtained by Verizon to use all upgrades, enhancements, additions and modifications to the transferred software and other technology developed by the third party transferee. As amended on December 14, 2004, TELUS retains the exclusive licences in Canada to specified Verizon trademarks, and software and technology where such licences were purchased or such trademarks, software and technology were used by TELUS prior to the closing of the Verizon Sale, together with certain collateral rights associated therewith granted under the Verizon Agreement, but not to any other Verizon trademarks or software and technology. TELUS also has relinquished certain purchasing rights. Verizon is required to continue to provide upgrade and support on the retained software and technology.

Verizon's obligation to provide intellectual property rights, or any other right, service or product called for in the Verizon Agreement is subject to compliance with U.S. regulatory requirements by Verizon and its affiliates.

The Verizon Agreement requires Verizon to provide certain functional and consulting services to TELUS as requested by TELUS. As amended on December 14, 2004, TELUS has the right to require Verizon to provide such services under commercial terms with respect to those software and technology and their upgrades that are licenced to TELUS. The parties have also agreed, subject to existing obligations, to use reasonable efforts to provide services and products that are seamless with each other and each has agreed to use

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reasonable efforts to purchase for itself and its customers the Telecommunications Services of the other party in that party's territory. As amended on December 14, 2004, the two companies will use each other's cross-border services where capabilities and customer requirements permit. The Verizon Agreement also contains certain joint marketing and non-competition provisions, which do not apply to Verizon Wireless or TELUS Mobility. As at December 14, 2004, TELUS was released from its obligation not to compete against Verizon in the U.S., and the exceptions to the remaining non-competition obligations were in some cases clarified or modified.

The Verizon Agreement applies to Verizon and its American and Canadian affiliates, but specifically excludes Verizon Wireless. Independent of the Verizon Agreement, TELUS Mobility and Verizon Wireless negotiated and implemented mutually beneficial changes to their reciprocal roaming arrangements. On November 29, 2004, TELUS Mobility and Verizon Wireless expanded their roaming agreements under a consolidated long-term roaming agreement to improve each other's ability to provide more consistent and comprehensive Canada and U.S. roaming services to each other's customers.

The initial term of the Verizon Agreement was for one year ending December 31, 2001. Prior to the amendment made on December 14, 2004, the term was renewable annually for successive one-year periods at TELUS' sole discretion with a last renewal right for a term ending December 31, 2008. TELUS had renewed the Verizon Agreement each year and as at December 14, 2004, the term of the agreement was further extended to December 31, 2008. In most instances, TELUS will have a right to use the licensed software and technology on a non-exclusive basis following the expiry or other termination of the agreement.

The Verizon Agreement provides for the following annual payments to be made by TELUS (including both licence purchase prices and fees to be paid for all other property rights and services provided or granted to TELUS under the Verizon Agreement): U.S. \$155 million during the initial term (2001), U.S. \$100 million in the first renewal term (2002), U.S. \$20 million in 2003 and in each subsequent annual renewal term up to December 31, 2008. As amended on December 14, 2004, annual payments in the aggregate of U.S. \$82 million for the years 2005 to 2008 were reduced to an aggregate nominal amount of only four U.S. dollars for that time period.

Directory Business

In 2001, TELUS sold its directory advertising services business to Verizon Information Services - Canada Inc. ("VIS"), a subsidiary of Verizon. At the same time, various TELUS subsidiaries and VIS entered into a series of commercial arrangements whereby VIS acquired the exclusive right to publish TELUS directories and provide on-line directories on TELUS portals, in Canada and within 40 miles of the Canada-U.S. border, for an initial term of 30 years with certain renewal rights thereafter, and TELUS agreed not to compete with this business for the term of the agreement.

On November 9, 2004, Verizon announced that it had completed a transaction to sell VIS to Advertising Directory Solutions Holdings Inc. ("ADSHI"), an affiliate of Bain Capital. On May 25, 2005, the Yellow Pages Group announced that it, through Yellow Pages Income Fund, had completed the purchase of ADSHI from an affiliate of Bain Capital.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

On May 8, 1998, an action was commenced against BC TEL (now TCI) by certain holders of the \$117.75 million principal amount of First Mortgage Bonds, 11.35 per cent Series AL (the "Bonds") which were redeemed by BC TEL on December 30, 1997. The action alleged that the Bonds were improperly redeemed and claimed damages as a result thereof. TCI successfully defended the action, which was

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dismissed by the Ontario Superior Court of Justice in January 2003. On June 8, 2005, the Ontario Court of Appeal overturned the lower court decision and ruled that the redemption of the Bonds breached the terms of the First Mortgage Bonds. The Court of Appeal referred the matter back to the lower court for an assessment of damages. On January 26, 2006, the Supreme Court of Canada denied TCI's leave to appeal the decision of the Court of Appeal. On November 2, 2006, the Ontario Superior Court of Justice ruled that the lawsuit should be treated as a representative action by all bondholders and not just the named plaintiffs. The magnitude of damages payable by the Company remains to be determined. The magnitude of damages will depend in part on the method of calculating damages, which remains to be litigated. TELUS had accrued an estimate of damages as part of financing costs for the second quarter of 2005, and increased its accrual in the fourth quarter of 2006 to take into account the November ruling.

On December 16, 1994, the TWU filed a complaint against BC TEL with the Canadian Human Rights Commission (the "CHRC"), alleging that wage differences between unionized male and female employees in British Columbia were contrary to the equal pay for work of equal value provisions in the Canadian Human Rights Act. In December 1998, the CHRC advised it would commence an investigation of the TWU complaint and following the investigation of preliminary matters referred the complaint to conciliation under the Canadian Human Rights Act. Conciliation did not result in resolution and the matter was referred back to the CHRC for further investigation. Included in the terms of the ratified settlement of the 2005 collective agreement between TELUS and the TWU, was a letter of agreement under which the Company has agreed to establish a pay equity fund of \$10,000,000 to be paid out to persons covered by the complaint subject to the TWU's withdrawal of the complaint and the CHRC's acceptance of and concurrence that the complaint is withdrawn and settled. On December 21, 2005, the TWU withdrew and discontinued this complaint. Subsequently, in a letter dated January 30, 2006 TELUS was advised by the CHRC that it would take no further proceedings and close its file on the matter.

Two lawsuits were commenced against TELUS and other defendants in the Alberta Court of Queen's Bench on December 31, 2001 and January 2, 2002 respectively, by plaintiffs alleging to be either members or business agents of the TWU. In one action, the three plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan ("TCPP"), and in the other action, the two plaintiffs allege to be suing on behalf of all current or future beneficiaries of the TELUS Edmonton Pension Plan ("TEPP"). The statement of claim in the TCPP-related action named TELUS, certain of its affiliates and certain present and former trustees of the TCPP as defendants, and claims damages in the sum of \$445 million. The statement of claim in the TEPP-related action named TELUS, certain of its affiliates and certain individuals who are alleged to be trustees of the TEPP and claims damages in the sum of \$15.5 million. In May 2002, the statements of claim were amended by the plaintiffs and include allegations, inter alia, that benefits provided under the TCPP and TEPP are less advantageous than the benefits provided under the respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted. TELUS has filed statements of defence to both the original and the amended statements of claims. As a term of settlement of the 2005 collective agreement between TELUS and the TWU, the TWU has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the TWU's desire and recommendation that these proceedings be dismissed or discontinued. TELUS has been advised by the TWU that the plaintiffs have not agreed to dismiss or discontinue these actions. The likelihood of the actions being determined adversely against TELUS is still being evaluated, but TELUS believes it has good defences to the actions. Should the lawsuits continue because of the actions of the court, the plaintiffs or

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for any other reason, and their ultimate resolution differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

A class action was brought August 9, 2004, under the Class Actions Act (Saskatchewan), against a number of past and present wireless service providers including the Company. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings have been filed by or on behalf of plaintiffs' counsel in other provincial jurisdictions, but will not proceed until the Saskatchewan action has been decided. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Company believes it has good defences to the action.

FOREIGN OWNERSHIP RESTRICTIONS

Certain subsidiaries of TELUS or partnerships in which TELUS has a controlling interest, as Canadian carriers, holders of radio authorizations or licences, and holders of broadcasting licences, are required by the Telecommunications Act (Canada) (the "Telecommunications Act"), the Radiocommunication Act (Canada) (the "Radiocommunication Act") and a Direction to the CRTC (Ineligibility of Non-Canadians) given under the Broadcasting Act (Canada) (the "Broadcasting Act") to be Canadian-owned and controlled. Each of the Canadian carriers, under the Telecommunications Act, is considered to be Canadian-owned and controlled as long as: (a) not less than 80 per cent of the members of its board of directors are individual Canadians; (b) Canadians beneficially own not less than 80 per cent of its issued and outstanding voting shares; and (c) it is not otherwise controlled in fact by persons who are not Canadians. Substantially the same rules apply under the Radiocommunication Act and the Broadcasting Act. After the 2006 legal entity restructure, TELUS filed with the CRTC the requisite documentation affirming TCC's status as a Canadian carrier. TELUS further intends that TCC will remain controlled by TELUS and that it will ensure that TCC remains "Canadian" for the purposes of these ownership requirements.

The Telecommunications Act also provides that in order for a company that holds shares in a carrier to be considered Canadian, not less than 66-2/3 per cent of the issued and outstanding voting shares of that company must be owned by Canadians and that such company must not otherwise be controlled in fact by non-Canadians. Accordingly, not less than 66-2/3 per cent of the issued and outstanding voting shares of TELUS must be owned by Canadians and TELUS must not otherwise be controlled in fact by non-Canadians. To the best of TELUS' knowledge, Canadians beneficially own and control in the aggregate not less than 66-2/3 per cent of the issued and outstanding Common Shares of TELUS and TELUS is not otherwise controlled in fact by non-Canadians.

The regulations under the Telecommunications Act provide Canadian carriers and carrier holding companies, such as TELUS, with the time and ability to rectify ineligibility resulting from insufficient Canadian ownership of voting shares. Under these regulations, such companies may restrict the issue, transfer and ownership of shares, if necessary, to ensure that they and their subsidiaries remain qualified under such legislation. For such purposes, in particular but without limitation, a company may, in accordance with the provisions contained in such regulations:

- (i) refuse to accept any subscription for any voting shares;
- (ii) refuse to allow any transfer of voting shares to be recorded in its

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share register;

- (iii) suspend the rights of a holder of voting shares to vote at a meeting of its shareholders; and
- (iv) sell, repurchase or redeem any voting shares.

To ensure that TELUS remains Canadian and that any subsidiary of TELUS including TCC is and continues to be eligible to operate as a telecommunications common carrier under the Telecommunications Act, to be issued radio authorizations or radio licences as a radiocommunications carrier under the Radiocommunication Act, or to be issued broadcasting licences under the Broadcasting Act, provisions substantially similar to the foregoing have been incorporated into TELUS' Articles permitting the directors to make determinations to effect any of the foregoing actions.

REGULATION

General

The provision of telecommunications services and broadcasting services in Canada is regulated by the Canadian Radio-television and Telecommunications Commission (the "CRTC") pursuant to the Telecommunications Act and the Broadcasting Act, respectively. In addition, the provision of cellular and other wireless services using radio spectrum is subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act.

The Telecommunications Act gives the CRTC the power to regulate the provision of telecommunications services, and to forbear from regulating certain services or classes of services (i.e. not subject them to rate regulation) if they are subject to a degree of competition which is sufficient to protect the interests of customers. However, even when the CRTC forbears from price regulation of certain services, it can continue to regulate these services for certain other matters such as network access and interconnection. The major categories of telecommunications services provided by TELUS that are subject to rate regulation or have been forborne from rate regulation are as follows:

Regulated services

Forborne services (not subject to rate regulation)

-
- * Residential wireline services in incumbent local exchange carrier regions
 - * Business wireline services in incumbent local exchange carrier regions
 - * Competitor services
 - * Public telephone services

- * Non-incumbent local exchange carrier services
- * Long distance services
- * Internet services
- * International telecommunication services
- * Interexchange private line services(1)
- * Certain data services
- * Cellular, enhanced specialized mobile radio and digital personal communications services
- * Other wireless services, including paging
- * Sale of customer premises equipment

(1) Forborne on routes where one or more competitors are offering or providing service at DS-3 or greater bandwidth.

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Regulation of local services

TELUS is subject to regulation as an ILEC in Alberta, B.C. and in eastern Quebec and as a CLEC in other areas of Canada.

Price cap regulation

Price cap regulation applies to a basket of local services provided by ILECs. The current price cap basket structure has separate baskets for residential services in non high-cost serving areas, residential services in high-cost serving areas, business services, other capped services, competitor services, services with frozen rates and payphones. While TELUS has a degree of flexibility to raise and lower rates in response to market pressures, prices within baskets are capped using a formula that depends on the relationship between the inflation rate as measured by the chain-weighted Gross Domestic Product Price Index and an estimate of the telephone companies' productivity gains, which the CRTC has set at 3.5 per cent for each year of the current price cap regulation regime, irrespective of the unique operating conditions of each telephone company. On average, rates for basic residential services should not increase unless inflation goes above 3.5 per cent whereas business services rates are allowed to increase by the annual inflation rate. The current price cap period is scheduled to end on May 31, 2007 for TELUS' ILEC operations in Alberta and B.C. and on July 31, 2007 for TELUS' ILEC operations in eastern Quebec. For specific details on price cap constraints, see Note 4 to the Annual Consolidated Financial statements, on page 77 of the Financial Review in TELUS' 2006 Annual Report.

In May 2006, the CRTC released Public Notice 2006-5 and initiated a review of the current price regulation regime for the purpose of establishing the parameters for the next price cap period beginning June 1, 2007. TELUS proposed a single price cap for its ILEC operations in B.C., Alberta and Quebec. This review was completed in November 2006 and the CRTC is expected to render its decision in this proceeding by the end of April 2007.

On February 16, 2006, the CRTC released Decision 2006-9 and determined that the funds that had accumulated in TCC's and TELUS Quebec's deferral accounts in the current price cap period should be used to extend broadband service in rural and remote areas (95%) and to enhance access to telecommunications services for disabled persons (5%). The CRTC also determined that the recurring balance in the deferral accounts and the required productivity adjustment to the residential services basket on June 1, 2006 will be passed on to residential customers in non high-cost serving areas through reduced rates. As a result, no new funds will be added to these deferral accounts.

On September 1, 2006, TCC filed its proposal for broadband expansion and service enhancement for the disabled with the CRTC. On September 22, 2006, the Federal Court of Appeal granted the Consumers Association of Canada and the National Anti-Poverty Organization leave to appeal CRTC Telecom Decision 2006-9. These consumer groups are expected to ask the Court to direct rebates to local telephone subscribers, rather than have the accumulated deferral account funds used for purposes determined by the CRTC, as noted above. Bell Canada was also granted leave to appeal Decision 2006-9 on the grounds that the CRTC would exceed its jurisdiction to the extent it approves rebates from the deferral account. These matters are expected to be heard in 2007.

Subsequently, on November 30, 2006, the CRTC issued Public Notice 2006-15 to examine in greater detail the ILECs' proposals to dispose of the funds in their deferral accounts.

Quality of Service. On March 24, 2005, the CRTC issued Retail quality of service rate adjustment plan and related issues, Decision 2005-17 in which it finalized the retail quality of service rate adjustment plan. The rate

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adjustment plan sets the maximum rate adjustment at 5% of local service revenues and this amount is divided equally among the 13 quality of service indicators. For each quality of service indicator where the average annual performance is below the standard, a rate adjustment is triggered in a varying amount based on the degree that the average performance is below the standard. In addition, if the results for a quality of service indicator are below the standard for five or more months during the year, but the average performance is above the standard, a rate adjustment is also triggered. The rate adjustment plan allows an ILEC to apply to the CRTC to exclude the impact of natural disasters or other adverse events beyond the control of the company from its quality of service results on a case-by-case basis.

TELUS applied in 2005 to the CRTC to adjust its quality of service results to take into account three adverse events, all of which occurred during the latter half of 2003. These events were severe forest fires in the interior of BC and southwestern Alberta, a major cable cut in Vancouver and unprecedented flooding in the lower mainland. TELUS also applied to the CRTC in 2006 to adjust its quality of service results on retail and competitor services to take into account a series of floods in southern Alberta during the month of June 2005 that resulted in severe damage to the Company's and customers' facilities as well as the impact of TELUS' labour disruption in 2005 on the Company's ability to meet quality of service standards on retail and competitor services for the third and fourth quarters of 2005 and the first quarter of 2006. The CRTC issued a decision for the June 2005 Alberta flooding which resulted in a partial rebate for competitor services. TELUS is awaiting decisions from the CRTC on the remaining applications.

Local Forbearance

The CRTC and federal government announced many changes to local forbearance in 2006, beginning on April 6, 2006, when the CRTC issued Forbearance from the regulation of retail local exchange services, Decision 2006-15, and established the framework for forbearance (price deregulation) for local exchange services. This framework provides guidance on when the ILECs will be eligible for forbearance for their retail residential and business local exchange services. Wholesale regulation related to the provision of local exchange service was not within the scope of this proceeding. As proposed, an ILEC will be eligible for forbearance from price regulation of residential or business retail local exchange services in individual geographic areas known as "Local Forbearance Regions" (LFRs) when all of the following five conditions are satisfied: (1) the ILEC's competitors in the LFR have a combined market share of at least 25%; (2) the ILEC has met the required standards for each of 14 specified competitor quality of service indicators for the six-month period preceding the date of the application; (3) The ILEC makes certain services available to competitors (i.e., bundled ADSL (high speed Internet access), Ethernet access and transport services); (4) the ILEC has implemented competitor access to its operational support systems; and (5) the ILEC has demonstrated that competition exists in the relevant market.

The CRTC also shortened the period during which an ILEC is prohibited from contacting a former residential local exchange customer (regarding any services) for the purpose of attempting to win the former customer back from 12 months to 90 days in all LFRs (though the existing restrictions on promotions, bundling, and waiving of service charges remain in place until forbearance). The equivalent winback restriction for business customers remains at 90 days. In addition, an ILEC will be eligible to have the local winback no-contact rule eliminated entirely in a given LFR when both of the following conditions are satisfied: (1) the ILEC's competitors in the LFR have a combined market share of at least 20%; and (2) the ILEC has met the required standards for each of 14 specified competitor quality of service indicators for the three-month period preceding the date of the application.

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On October 5, 2006, TELUS applied to the CRTC to review and vary Decision 2006-15 by either removing the requirement for the ILECs to meet competitor quality of service standards as part of the forbearance criteria, or to limit the extent to which competitor quality of service standards are included in the forbearance test.

On December 11, 2006, the Minister of Industry announced a proposal to change Decision 2006-15 by revising the criteria for the forbearance of retail local exchange services. His proposal would eliminate the current marketing restrictions on winbacks and other promotions; reduce the geographic area for which forbearance must be applied to either an exchange or a local interconnection region (LIR) at the option of the ILEC; allow forbearance for residential local exchange service when there are three facilities-based providers present within an exchange or local interconnection region and nine quality of service measures have been met for a six-month period; and allow forbearance for business local exchange service when there is another facilities-based provider present within an exchange or local interconnection region and nine quality of service measures have been met for a six-month period.

In addition to the initiatives related to Decision 2006-15, the CRTC initiated Public Notice 2006-9 to determine whether mobile wireless services should be considered to be part of the same relevant market as wireline local exchange services for forbearance analysis purposes. The CRTC also initiated Public Notice 2006-12 to reassess certain aspects of Decision 2006-15 including: (1) whether the market share forbearance criterion threshold of 25 percent should be adjusted; and (2) whether the 20 percent market share loss threshold related to the local winback rule remains appropriate.

In March 2006, the Telecommunications Policy Review panel issued its report on its review of Canada's telecommunications policy and regulatory framework, initiated by the federal government in 2005. The panel recommended, first, an end to the presumption that telecommunications services must be regulated and, second, a shift to reliance on market forces. TELUS endorses these recommendations and will continue to press for their implementation in 2007.

Finally, on December 18, 2006, the Minister of Industry issued a direction to the CRTC to rely on market forces to the maximum extent feasible; to ensure technological and competitive neutrality and enable competition from new technologies; to use tariff approval mechanisms that are as minimally intrusive as possible; to complete a review of the framework for mandated access to wholesale services; to publish and maintain performance standards for its various processes; and, to continue to explore new ways of streamlining its processes.

Local competition framework

The regulatory framework for local services competition has a number of components, the more important of which are summarized below.

Essential Services.

The CRTC requires ILECs like TELUS to make certain "essential or near-essential facilities" available to CLECs, at rates based on the ILEC's incremental cost plus an approved mark-up. The CRTC defines "essential facilities" as facilities that are monopoly-controlled, required by competitors as an input to provide services and that cannot be economically or technically duplicated by competitors. The CRTC issued Public Notice 2006-14 in November 2006 which will review the current definition of an essential service and the classifications and pricing principles for these services and non-essential services made available by the ILECs to their competitors. This proceeding will include an oral hearing and is currently scheduled to conclude in January 2008. TELUS has

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no assurance that the regulatory regime for the provision of essential and non-essential services to competitors will be less onerous than the current regime.

Contribution and portable subsidies. The cost to local exchange carriers of providing the basic level of residential services in high cost serving areas (as required by the CRTC) is higher than the amounts the CRTC allows the local exchange carriers to charge for the level of service. Accordingly, the CRTC collects contribution payments from all Canadian telecommunication service providers (including voice, data and wireless service providers) that are then disbursed as portable subsidy payments to subsidize the costs of providing residential telephone services in these high-cost serving areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per line/per band subsidy rate. The CRTC currently determines, at a national level, the total contribution requirement necessary to pay the portable subsidies and then collects contribution payments from the Canadian telecommunication service providers, calculated as a percentage of their telecommunication service revenue. Internet, paging and terminal equipment revenues are exempt from the revenue charge. In November 2006, the CRTC finalized the contribution revenue percentage charge for 2006 at 1.03 per cent and set an interim rate for 2007 at 1.03 per cent as well (see "Management's Discussion and Analysis - risks and risk management - Section 10.3 Regulatory - Price cap regulation" in TELUS' 2006 Annual Report - Financial Review).

The portable subsidy mechanism provides a portable subsidy for every residential local customer in high-cost serving areas served by an ILEC. The portable subsidy amounts for each high-cost band in the serving territories of the large ILECs are updated annually by the CRTC.

Quality of Service. On March 31, 2005, the CRTC issued Finalization of quality of service rate rebate plan for competitors, Decision 2005-20 in which it finalized the quality of service rate rebate plan for competitors. The rate rebate plan sets the total potential rebate amount ("TPRA") at five per cent of the revenues for services provided to a competitor in the month. The total rebate payable in a month is equal to the TPRA time the number of quality of service indicators that are missed divided by the total number of quality of service indicators active in that month. The rate rebate plan allows an ILEC to apply to the CRTC to exclude the impact of circumstances beyond the control of the company from its quality of service results on a case-by-case basis.

Voice over Internet Protocol ("VoIP"). On May 12, 2005, the CRTC issued Regulatory framework for voice communication services using Internet Protocol, Decision 2005-28. The CRTC determined that local VoIP services are functionally equivalent to local exchange service and that the current regulatory framework governing local competition will apply to local VoIP service providers. The CRTC determined that ILECs may only provide VoIP services in their incumbent territories in accordance with approved tariffs.

In Decision 2006-53, the CRTC reaffirmed Decision 2005-28 and the regulatory regime established for VoIP services. However, on November 9, 2006, the Governor in Council varied Decisions 2005-28 and 2006-53. As a result, the CRTC will no longer regulate the provision of access independent VoIP services provided by the ILECs within their incumbent territories.

Regulation of wireless services

The use of radio spectrum is subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act, which is administered by Industry Canada. All of TELUS' wireless communications services depend on the use of radio frequencies.

The Minister of Industry has the authority to suspend or revoke radio spectrum

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licences if the licence holder has contravened the Radiocommunication Act, regulations or terms and conditions of its licence and after giving the holder of the licence a reasonable opportunity to make representations. Licence revocation is rare; licences are usually renewed upon expiration (see "Management's Discussion and Analysis - Risks and risk management - Section 10.3 Regulatory - "Radiocommunications licences regulated by Industry Canada" and "Foreign ownership restrictions" in TELUS' 2006 Annual Report - Financial Review).

Wireless Number Portability. Wireless number portability enables consumers to retain their telephone number when switching between wireless service providers and when switching between wireline and wireless service. In Decision 2005-72, the CRTC directed Bell Mobility, Rogers Wireless Inc. and the wireless division of TELUS to implement wireless number portability in British Columbia, Alberta, Ontario and Quebec where LEC-to-LEC local number portability is currently in place by March 14, 2007. In other areas and for other wireless carriers, wireless number portability (where LEC-to-LEC local number portability is currently in place) for porting-out must be implemented by March 14, 2007 and for porting-in must be implemented by September 12, 2007.

Radiocommunications spectrum licences

TELUS holds radiocommunication spectrum licences and authorizations for a variety of wireless services and applications, both mobile and fixed. TELUS holds significant 1.9 GHz PCS spectrum throughout Canada, is the leading holder of 800 MHz SMR/ESMR spectrum in all of the major Canadian markets, and holds 25 MHz of cellular 800 MHz spectrum in Alberta, B.C. and eastern Quebec. In addition, TELUS holds various radio spectrum licences for fixed services in the 2.3/3.5 GHz band throughout Canada, paging services, analogue two-way radio services, and legacy mobile-telephone and other miscellaneous wireless services.

Licence terms and renewals. Currently, spectrum licences in Canada for PCS and cellular spectrum will expire in 2011 and 2013 (see "Management's Discussion and Analysis - Risk and risk management - Section 10.3 Regulatory - Radiocommunications licences regulated by Industry Canada" and "Foreign Ownership Restrictions" in TELUS' 2006 Annual Report - Financial Review). The spectrum licences for the auctioned 24/38 GHz, 2.3/3.5 GHz and PCS spectrum have a ten-year term from the date of issuance. Most other radiocommunications spectrum licences are renewed annually (see "Management's Discussion and Analysis - Risks and risk management - Section 10.3 Regulatory - Radiocommunication licences regulated by Industry Canada" in TELUS' 2006 Annual Report - Financial Review).

Upcoming spectrum auction. On February 16, 2007, Industry Canada released a discussion paper for the upcoming auction for advanced wireless services (AWS) spectrum in various spectrum bands. Comments on the consultation paper are due in May 2007, with further reply in June 2007. It is expected that the final auction rules will be issued in the fall with an auction likely in early 2008. Timing of the auction is at the discretion of the Industry Minister.

While the auction(s) may provide opportunities for TELUS to increase capacity for third generation ("3G") and others services, there is a risk that the process may result in the establishment of increased entry on a national or regional basis.

Broadcasting services

The Broadcasting Act governs all types of broadcasting activities including commercial off-air radio and television broadcasting, the operation of other programming services such as specialty and pay television, as well as the distribution of television services through cable or satellite undertakings.

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The Broadcasting Act and its regulations give the CRTC the authority to issue licences for specific categories of broadcasting undertakings and to regulate the content provided and rates charged by each category of broadcasting undertaking. In August 1996, the federal government issued its policy under which "telecommunications common carriers" (as defined in the Telecommunications Act) would be allowed to apply for broadcasting distribution undertaking ("BDU") licences to provide cable television service. In 1997, the CRTC confirmed that new entrant BDUs, including telecommunications common carriers, would not be rate regulated and would not have an obligation to serve. However, the CRTC confirmed that new entrants would have to meet all the same content and carriage obligations as incumbent BDUs.

TELUS has been licenced by the CRTC to operate Class 1 Regional BDUs in each of B.C., Alberta and Quebec utilizing its IP facilities. TELUS also holds a national licence to operate a video-on-demand programming service. All of TELUS' services are fully digital and thus benefit from the more flexible regulatory regime regarding BDU packaging established by the CRTC in its Digital Migration Framework.

COMPETITION

TELUS expects continued strong competition in the wireline and wireless businesses within both its ILEC and non-ILEC territories. The following is a summary of the competitive environment in each of TELUS' principal markets and geographic areas:

Wireline segment

TELUS companies have always experienced competition for data services, while the long distance and local access voice services have faced competition since 1993 and 1998 respectively.

TELUS' wireline competitive environment is divided into two regions, ILEC and non-ILEC, based on its treatment under CRTC rules. TELUS is an ILEC in Alberta, B.C. and parts of Quebec, while it operates as a CLEC in the rest of Canada. Where it competes as a CLEC, TELUS has significantly more freedom from regulation than in the regions where it competes as the ILEC. As such its competitive position differs greatly between the geographies. Generally TELUS has higher market share in areas where it is the ILEC however that has been changing over time.

Within TELUS' ILEC territories a number of competitors offer voice and data service through a combination of their own facilities and unbundled network elements provided by TELUS. The primary competitors are: BCE Inc. including its subsidiary Bell Canada, Shaw Communications, Allstream (a subsidiary of Manitoba Telecom Services Inc), Rogers Telecom (formerly Sprint Canada), and Primus Telecommunications Canada. Certain of these competitors have built extensive local fibre optic networks in TELUS' ILEC service territories. All of these competitors are increasingly integrating or bundling voice and data services in order to provide both discounted and more extensive service offerings to customers.

TELUS is an ISP in Alberta, B.C., and in parts of Ontario and Quebec. In the residential sector and, to a lesser extent, the business sector, cable-TV companies are also providing high-speed Internet access and represent significant competition to the ILECs. Shaw Communications is TELUS' primary competitor in the provisioning of high-speed Internet services to consumers in Alberta and B.C. ILEC regions; in Quebec ILEC regions the primary competitor is Cogeco.

In recent years a number of new Internet based competitors have entered the

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market for local and long distance voice services in TELUS' ILEC and non-ILEC regions. These competitors utilize voice over Internet protocol ("VoIP") technology to offer customers phone service over existing Internet connections. In the past year, non-facilities based VoIP service providers (such as Vonage and Skype) have had some success, however the cable-TV companies including Shaw Communications, Rogers, Videotron and Cogeco, are expected to be the more capable competitors in this area having already captured approximately 1,200,000 VoIP service subscribers in 2006. At present VoIP competitors are largely free from regulatory burden, offering them significant flexibility in competing against ILECs such as TELUS. Competition from VoIP competitors intensified in 2006 and is expected to continue to do so in coming years.

TELUS also faces competition from companies without wireline networks. Wireless service providers offer rate plans and services that are intended to compete directly with ILEC local services. Resellers of primary local exchange services and smaller competitors in niches such as dial-around plans and calling card services have been in operation in Alberta and B.C. for several years and also present competition to TELUS' ILEC operations.

In its non-ILEC territories, TELUS' major competitors for wireline voice and data services are the incumbent carriers. In most cases these competitors are subsidiaries or affiliates of BCE Inc. The other primary competitors are Allstream and Rogers Telecom with increasing competition beginning to emerge from cable-TV companies and municipal hydro company owned telecommunications providers.

For higher bandwidth and other data services to businesses nationally, systems integrators such as IBM Canada and EDS also represent a competitive threat as they compete with TELUS not only in IT services but also in the provision of data and voice network management and network integration services.

Wireless segment

TELUS offers wireless voice and data services to consumers and businesses nationally on both the ESMR (branded Mike) and the PCS/cellular networks and competes in both the prepaid and postpaid markets.

The primary competitors with TELUS are Bell Mobility and Rogers Wireless, both of which have national networks, a broad offering of wireless voice and data services for consumers and businesses, and a large existing customer base. In April 2005, Virgin Mobile began offering services across Canada. Virgin Mobile is a Mobile Virtual Network Operator ("MVNO") which is owned in part by Bell Mobility and utilizes the Bell Mobility network for the provisioning of services. In addition, both Bell Mobility and Rogers Communications are supporting other MVNO partnerships with cable-TV companies such as Videotron and Eastlink, and other resellers, such as President's Choice, Petro-Canada and 7-Eleven. In the price-sensitive market, Bell and Rogers are promoting their respective discount brand offerings to compete against the MVNOs and TELUS. In 2006, TELUS signed an agreement with Amp'd Mobile, a specialized provider of wireless multimedia services to target the young adult market with services beginning in 2007. Competition within the wireless market is anticipated to remain intense. There is a risk that the auction processes for AWS or a future auction of 2.5 GHz spectrum could lead to additional wireless providers or increased entry on a regional basis.

TELUS also competes with numerous national, regional and local-paging companies for paging customers in Alberta, B.C., and eastern Quebec. TELUS offers a number of wireless Internet offerings using the networks noted above as well as wireless LAN services such as WiFi (802.11) in so-called "hotspots" and other areas utilizing unlicensed spectrum. In offering wireless Internet and LAN access service, TELUS competes, to a limited extent, with wireline business

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Internet access providers. It also competes with major equipment manufacturers for private radio engineered systems.

Other emerging competitive services

Over the longer term there are a number of factors that are expected to increase competition in the communications industry. Of note is the competitive escalation resulting from the continuing convergence of cable-TV, satellite, computer, wireline and wireless technologies. In November 2005, TELUS commercially launched TELUS TV within select neighbourhoods in the Edmonton and Calgary markets. In 2006, the expansion continued with a targeted commercial launch in Vancouver, and there are plans underway to launch it in other major centres within its ILEC territories. In this segment, TELUS competes with established cable-TV video providers Shaw Communications and Cogeco, and with direct-to-home broadcast satellite companies, Bell ExpressVu and Star Choice.

Competition is also intense in other areas as TELUS continues its growth into emerging markets such as Web hosting and application services and human resource process outsourcing.

DIVIDENDS DECLARED

The dividends per Common Share and Non-Voting Share declared with respect to each quarter by TELUS, during the three-year period ended December 31, 2006, are shown below.

| Quarter ended (1) | 2006 | 2005 | 2004 |
|-------------------|---------|---------|--------|
| March 31 | \$0.275 | \$0.20 | \$0.15 |
| June 30 | \$0.275 | \$0.20 | \$0.15 |
| September 30 | \$0.275 | \$0.20 | \$0.15 |
| December 31 | \$0.375 | \$0.275 | \$0.20 |

TELUS' Board of Directors reviews its dividend rate quarterly. On November 3, 2006, TELUS announced that it was increasing its dividend to \$0.375 per share on the issued and outstanding Common and Non-Voting Shares. This 36% increase was consistent with the Company's forward-looking dividend payout ratio guideline of 45 to 55% of sustainable net earnings first set in October 2004. TELUS' quarterly dividend rate will depend on an ongoing assessment of free cash flow generation and financial indicators including leverage, dividend yield and payout ratio.

CAPITAL STRUCTURE OF TELUS

The authorized capital of TELUS consists of 4,000,000,000 shares, divided into: 1) 1,000,000,000 Common Shares without par value; 2) 1,000,000,000 Non-Voting Shares without par value; 3) 1,000,000,000 First Preferred shares without par value and; 4) 1,000,000,000 Second Preferred shares without par value. The Common Shares and Non-Voting Shares are listed for trading on the Toronto Stock Exchange and the Non-Voting Shares are listed for trading on the New York Stock Exchange. See "Market for Securities".

TELUS Common Shares and TELUS Non-Voting Shares

Subject to the prior rights of the holders of First Preferred shares and Second

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Preferred shares, the Common Shares and the Non-Voting Shares are entitled to participate equally with each other with respect to the payment of dividends and the distribution of assets of TELUS on the liquidation, dissolution or winding up of TELUS.

Neither the Common Shares nor the Non-Voting Shares can be subdivided, consolidated, reclassified or otherwise changed unless the other class is changed in the same manner.

The holders of the Common Shares are entitled to receive notice of, attend, be heard and vote at any general meeting of the members of TELUS on the basis of one vote per Common Share held. The holders of Non-Voting Shares are entitled to receive notice of, attend and be heard at all general meetings of the members of TELUS and are entitled to receive all notices of meetings, information circulars and other written information from TELUS that the holders of Common Shares are entitled to receive from TELUS, but are not entitled to vote at such general meetings unless otherwise required by law.

In 2005, with the requisite shareholder approval, the Articles of TELUS were amended to remove cumulative voting for directors and replace it with a provision permitting holders of common shares to vote by a separate resolution for each director rather than a slate.

In order to ensure that the holders of the Non-Voting Shares can participate in any offer which is made to the holders of the Common Shares (but is not made to the holders of Non-Voting Shares on the same terms), which offer, by reason of applicable securities legislation or the requirements of a stock exchange on which the Common Shares are listed, must be made to all or substantially all the holders of Common Shares who are in any province of Canada to which the requirement applies (an "Exclusionary Offer"), each holder of Non-Voting Shares will, for the purposes of the Exclusionary Offer only, be permitted to convert all or part of the Non-Voting Shares held into an equivalent number of Common Shares during the applicable conversion period. In certain circumstances (namely, the delivery of certificates, at specified times, by holders of 50 per cent or more of the issued and outstanding Common Shares to the effect that they will not, among other things, tender to such Exclusionary Offer or make an Exclusionary Offer), these conversion rights will not come into effect.

If all of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act are changed so that there is no restriction on any non-Canadians holding Common Shares, holders of Non-Voting Shares will have the right to convert all or part of their Non-Voting Shares into Common Shares on a one for one basis, and TELUS will have the right to require holders of Non-Voting Shares who do not make such an election to convert such shares into an equivalent number of Common Shares.

TELUS will provide notice to each holder of Common Shares before a general meeting of members at which holders of Non-Voting Shares will be entitled to vote as a class. In such event, holders of Common Shares will have the right to convert all or part of their Common Shares into Non-Voting Shares on a one for one basis provided and to the extent that TELUS and its subsidiaries remain in compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act.

The Common Shares are subject to constraints on transfer to ensure TELUS' ongoing compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act. As well, holders of Common Shares will have the right, if approved by the Board of Directors of TELUS, to convert Common Shares into Non-Voting Shares in order that TELUS be in compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act.

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In all other respects, each Common Share and each Non-Voting Share have the same rights and attributes.

First Preferred shares

The First Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, and having attached thereto the designation, rights, privileges, restrictions and conditions which the board of directors of TELUS determines by resolution and subject to filing an amendment to the Notice of Articles and Articles of TELUS. No series of First Preferred shares may have attached thereto the right to vote at any general meeting of TELUS or the right to be convertible into or exchangeable for Common Shares. Except as required by law, the TELUS holders of the First Preferred shares as a class are not entitled to receive notice of, attend or vote at any meeting of the members of TELUS. The First Preferred shares rank prior to the Second Preferred shares, Common Shares and Non-Voting Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of TELUS.

Second Preferred shares

The Second Preferred shares may be issued from time to time in one or more series, each series comprising the number of shares, and having attached thereto the designation, rights, privileges, restrictions and conditions, which the board of directors of TELUS determines by resolution and subject to filing an amendment to the Notice of Articles and Articles of TELUS. No series of Second Preferred shares may have attached thereto the right to vote at any general meeting of TELUS or the right to be convertible into or exchangeable for Common Shares. Except as required by law, the holders of the Second Preferred shares as a class are not entitled to receive notice of, attend or vote at any meeting of the members of TELUS. The Second Preferred shares rank, subject to the prior rights of the holders of the First Preferred shares, prior to the Common Shares and Non-Voting Shares with respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding up of TELUS.

TELUS Rights Plan

TELUS adopted a shareholder rights plan (the "Rights Plan") in March 2000 and issued one right (a "Series A Right") in respect of each Common Share outstanding as at such date and issued one right (a "Series B Right") in respect of each Non-Voting Share outstanding as of such date. The Rights Plan has a term of 10 years subject to shareholder confirmation every three years. The Rights Plan was amended and confirmed as amended by the shareholders first in 2003 and then in 2005 and as currently stated will again require confirmation in 2008. Each Series B Right, other than those held by an Acquiring Person (as defined in the Rights Plan) and certain of its related parties, entitles the holder in certain circumstances following the acquisition by an Acquiring Person of 20 per cent or more of the voting shares of TELUS (otherwise than through the "Permitted Bid" requirements of the Rights Plan) to purchase from TELUS \$320 worth of Non-Voting Shares for \$160 (i.e., at a 50 per cent discount).

RATINGS

Ratings information contained in Management's Discussion and Analysis -- Section 7.7 Credit Ratings in TELUS' 2006 Annual Report - Financial Review is hereby incorporated by reference. Management's Discussion and Analysis is available at www.sedar.com. Credit ratings are not recommendations to purchase, hold or sell securities and do not address the market price or suitability of a specific security for a particular investor. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market

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value of that security. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be revised or withdrawn entirely by a rating agency in the future.

A description of the rating categories applied to TELUS as at December 31, 2006 from each agency is below. The outlook or trend for TELUS from three agencies was stable, while Moody's investment grade rating was under review for possible upgrade.

Subsequent updates

On February 16, 2007, DBRS assigned a preliminary short term credit rating of R-1 (low) with a stable trend to TELUS' planned \$800 million Commercial Paper program.

On February 26, 2007 Moody's Investor Service ("Moody's") upgraded the rating for TELUS' senior unsecured to Baa1 from Baa2 with a stable outlook.

On March 5, 2007, DBRS Limited ("DBRS") upgraded the rating of TELUS Notes to A (low) from BBB (high) and confirmed its A (low) ratings for TCI debt and R-1 (low) rating for TELUS' commercial paper, all with a stable trend.

On March 13, 2007, TELUS closed an offering of 4.50% Notes, Series CC, due March 15, 2012 (the "4.50% Notes") for aggregate proceeds of approximately \$300 million, and 4.95% Notes, Series CD due March 15, 2017 (together with the 4.50% Notes, the "Notes") for aggregate gross proceeds of approximately C\$700 million. Net proceeds of the offering will be used for general corporate purposes including the redemption of TELUS' 7.50 % U.S. \$ Series 1 Notes due June 2007. The Notes have been rated BBB+, stable outlook, by Standard & Poor's, Baa1, stable outlook, by Moody's, BBB+, stable outlook by Fitch Ratings ("Fitch") and A(low), stable trend by DBRS.

| Institution | Rating | Outlook |
|-------------|---|--|
| Fitch | <p>"BBB" ratings indicate that there is currently expectation of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.</p> <p>The modifiers "+" or "-" may be appended to ratings "AA" to "CCC" to denote relative status within major rating categories.</p> | <p>An Outlook indicates the direction is likely to move over a one to two period. Outlooks may be positive, negative. A positive or negative Outlook does not imply a rating change is inevitable. Similarly, ratings for outlooks are 'stable' could be upgraded or downgraded before an outlook move positive or negative if circumstances warrant such an action.</p> |
| DBRS | <p>Long-term debt rated "A" is of satisfactory credit quality. Protection of interest and principal is still substantial, but the degree of strength is less than that of AA rated entities.</p> <p>While "A" is a respectable rating, entities in this category are considered to be more</p> | <p>Each DBRS rating category is appended one of three rating trends - "Positive", "Stable", or "Negative". The rating helps to give the investor an understanding of DBRS's opinion regarding the outlook of the rating in question. However, the investor must not assume that a negative trend necessarily indicates</p> |

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susceptible to adverse economic conditions and have greater cyclical tendencies than higher-rated securities.

rating change is imminent.

Long-term debt rated "BBB" is of adequate credit quality. Protection of interest and principal is considered acceptable, but the entity is fairly susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the entity and its rated securities.

The ratings from "AA" to "C" are denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the "middle" of the category.

DBRS' short-term debt rating scale is meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. The ratings range from R-1 (high) to D. Short-term debt rated R-1 (low) is of satisfactory credit quality. The overall strength and outlook for key liquidity, debt, and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors that exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry.

S&P

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Rating outlooks assess the potential direction of a rating, typically six-month to two-year period. An outlook does not necessarily precede a rating or CreditWatch placement. Outlooks can be positive, negative, stable, or develop, and they accompany all long-term ratings except those on CreditWatch.

Moody's

Issuers rated "Baa" are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from 'Aa' through 'Caa'. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

"Under Review for Upgrade" A Rating Under Review designation indicates that an issuer has one or more ratings under review for a possible change, and thus overrides any rating outlook designation.

Moody's also provides a rating outlook, which is an opinion regarding the likelihood of a rating over the medium term. Rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Develop (DEV -- contingent upon an event).

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See also "Material Contracts" on page 40 of this annual information form for more information.

DIRECTORS AND OFFICERS

Directors

The names, municipalities of residence, principal occupations of the directors of TELUS and the date the person became a director of TELUS are as set out below. Currently, there are 12 directors on the TELUS Board. Each was elected at TELUS' annual general meeting on May 3, 2006 for a one year term.

| Directors of TELUS Name and municipality of residence ----- | Director since (1) ----- | Principal occupation ----- |
|--|--------------------------------|--|
| R.H. (Dick) Auchinleck(3) (4) Calgary, Alberta | 2003 | Corporate Director |
| A. Charles Baillie(2) Toronto, Ontario | 2003 | Corporate Director |
| Micheline Bouchard(2) Montreal, Quebec | 2004 | Corporate Director |
| R. John Butler (4) (5-Chair) Edmonton, Alberta | 1995 | Counsel, Bryan & Company (law firm) |
| Brian A. Canfield (5) Point Roberts, Washington | 1989 | Chair, TELUS Corporation |
| Pierre Y. Ducros(2) Montreal, Quebec | 2005 | President of P. Ducros & Associates Inc. (investment and administration firm) |
| Darren Entwistle Vancouver, B.C. | 2000 | President and Chief Executive Officer, TELUS Corporation |
| Ruston E.T. Goepel(2) Vancouver, B.C. | 2004 | Senior Vice President, Raymond James Financial Ltd. (investment firm) |
| John S. Lacey (3-Chair) (4) Toronto, Ontario | 2000 | Chairman, Advisory Board, Tricap Restructuring Fund (investment fund) |
| Brian F. MacNeill (2 - Chair) Calgary, Alberta | 2001 | Chairman, Petro Canada (oil and gas company) |
| Ronald P. Triffo (4 - Chair) (5) Edmonton, Alberta | 1995 | Chairman, Stantec Inc. (engineering company) |
| Donald Woodley (3) (5) Orangeville, Ontario | 1998 | President, The Fifth Line Enterprise (strategic advisory services company) |

(1) TELUS or its predecessors

(2) Member of Audit Committee

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- (3) Member of Human Resources and Compensation Committee
- (4) Member of Corporate Governance Committee
- (5) Member of Pension Committee

All of the directors of TELUS have held the principal occupations set forth above or executive positions with the same companies or firms referred to, or with affiliates or predecessors thereof, for the past five years except as follows: Charles Baillie was Chairman and Chief Executive Officer of the Toronto-Dominion Bank from 1998 until 2003; Micheline Bouchard was President and CEO, ART Advanced Research Technologies Inc. from 2002 to July 2006 and Corporate Vice-President and General Manager, Enterprise Services Organization of Motorola Inc. in Chicago from 2001 to 2002; and Don Woodley was interim CEO and President of GENNUM Corporation from November 2005 to September 2006.

Officers

The name, municipality of residence and present and principal occupations of each of the officers of TELUS, as of March 1, 2006, are as follows:

| Officers of TELUS | |
|--|---|
| Name and municipality of residence | Position held with TELUS |
| | |
| Brian A. Canfield Point Roberts, Washington | Chair, TELUS Corporation |
| Darren Entwistle Vancouver, B.C. | President and Chief Executive Officer, TELUS Corporation |
| Robert S. Gardner Vancouver, B.C. | Senior Vice President and Treasurer |
| Joseph R. Grech Vancouver, B.C. | Executive Vice President, TELUS Network Operations |
| Audrey T. Ho Vancouver, B.C. | Vice President, Legal Services, General Counsel and Corporate Secretary |
| Robert G. McFarlane Vancouver, B.C. | Executive Vice President and Chief Financial Officer |
| Joe M. Natale Toronto, Ontario | Executive Vice President and President, Business Solutions |
| Karen Radford Westmount, Quebec | Executive Vice President and President, Partner Solutions and TELUS Quebec |
| Kevin A. Salvadori Vancouver, B.C. | Executive Vice President, Business Transformation and Chief Information Officer |
| Judy A. Shuttleworth Surrey, B.C. | Executive Vice President, Human Resources |
| Eros Spadotto Toronto, Ontario | Executive Vice President, Technology Strategy |
| John Watson Toronto, Ontario | Executive Vice President and President, Consumer Solutions |

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Janet S. Yale
Ottawa, Ontario

Executive Vice President,
Corporate Affairs

All of the officers above have been engaged for the past five years with TELUS, its subsidiaries, affiliates or predecessors thereof, except as described as follows: Janet Yale was President and Chief Executive Officer of the Canadian Cable Television Association from 1999 until she joined TELUS in 2003.

TELUS shares held by directors and officers

As at March 9, 2006, the directors and executive officers of TELUS, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 86,623 Common Shares, which represented approximately 0.05 per cent of the² outstanding Common Shares and 476,505 Non-Voting Shares, which represented approximately 0.3 per cent of the outstanding Non-Voting Shares. Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Other than as disclosed, for the ten years ended December 31, 2006, TELUS is not aware that any current director or officer of TELUS had been a director or officer of another issuer which, while that person was acting in that capacity, became bankrupt or made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangements or compromises with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. In December 1998, John Lacey was asked by a group of shareholders to lead the Loewen restructuring, as Chairman of the Board, a position he held at the time of Loewen's filing under Chapter 11 of the U.S. Bankruptcy Code and the Companies' Creditors Arrangement Act (Canada) ("CCAA"). In March 2006, Mr. Lacey was appointed to the board of directors of Stelco Inc. ("Stelco") as a nominee of Tricap Management Limited ("Tricap"). Stelco filed for bankruptcy protection under the CCAA in January 2004. Mr. Lacey's appointment as a director was part of a court supervised restructuring, from which Stelco emerged on March 31, 2006 and pursuant to which Tricap had the right to appoint four of Stelco's nine directors. Charles Baillie is a director of Dana Corporation, which filed for bankruptcy in March 2006 under Chapter 11 of the U.S. Bankruptcy Code. The company has indicated that it expects to emerge from bankruptcy in late 2007.

Other than as disclosed, for the ten years ended December 31, 2006, TELUS is not aware that any current director or officer of TELUS had been a director or officer of another issuer which, while that person was acting in that capacity, was the subject of a cease trade or similar order or was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order that denied the company relevant access to any exemption under securities legislation for a period of more than 30 consecutive days. On June 14, 2006, and at the request of Cognos Incorporated ("Cognos"), the Ontario Securities Commission ("OSC") issued a cease trade order against all directors of Cognos, including Pierre Ducros, in connection with a delay in filing its annual report with Canadian regulators. The delay was related to a review by the United States Securities and Exchange Commission ("SEC") of the way Cognos allocated revenue between post-contract customer support and licence fees. The OSC lifted the cease trade order on August 3, 2006 after the SEC concluded that it did not object to Cognos' revenue recognition policy.

MARKET FOR SECURITIES

TELUS Common Shares and Non-Voting Shares are listed on the Toronto

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Stock Exchange ("TSX") under "T" and "T.A" respectively and the TELUS Non-Voting Shares are listed on the New York Stock Exchange under "TU". Monthly share prices and volumes for 2006 are listed below:

TSX - Common and Non-Voting

| Month | Common | | | Non-Voting | | |
|-----------|----------|---------|------------|------------|---------|------------|
| | High(\$) | Low(\$) | Volume | High(\$) | Low(\$) | Volume |
| January | 49.29 | 44.23 | 16,876,142 | 47.98 | 43.00 | 10,318,998 |
| February | 45.75 | 42.62 | 23,080,182 | 45.20 | 42.05 | 26,826,870 |
| March | 47.98 | 44.36 | 20,433,280 | 47.30 | 44.00 | 12,428,985 |
| April | 47.45 | 44.85 | 11,383,622 | 46.70 | 44.20 | 8,934,425 |
| May | 48.88 | 43.72 | 17,346,083 | 48.25 | 43.06 | 12,482,466 |
| June | 47.33 | 43.52 | 16,820,767 | 46.09 | 42.57 | 9,023,909 |
| July | 49.12 | 44.39 | 12,982,608 | 47.84 | 43.10 | 9,307,729 |
| August | 54.97 | 48.46 | 23,195,348 | 53.35 | 47.15 | 11,932,765 |
| September | 64.74 | 52.54 | 40,899,827 | 64.25 | 50.54 | 36,100,026 |
| October | 65.60 | 60.37 | 29,504,351 | 65.35 | 59.94 | 20,128,831 |
| November | 58.70 | 53.00 | 34,876,606 | 58.01 | 51.81 | 26,538,141 |
| December | 57.49 | 52.15 | 21,208,325 | 56.30 | 51.15 | 13,588,610 |

NYSE - Non-Voting

| Month | High (\$) | Low (\$) | Volume |
|-----------|-----------|----------|-----------|
| January | 41.69 | 37.04 | 1,214,900 |
| February | 39.21 | 36.39 | 1,447,100 |
| March | 41.22 | 38.50 | 1,577,400 |
| April | 41.48 | 37.96 | 1,153,300 |
| May | 43.58 | 37.69 | 1,423,600 |
| June | 41.90 | 38.28 | 2,267,500 |
| July | 42.08 | 37.87 | 783,700 |
| August | 48.02 | 41.83 | 1,143,300 |
| September | 57.54 | 45.08 | 2,082,300 |

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| | | | |
|----------|-------|-------|-----------|
| October | 58.00 | 52.94 | 1,281,900 |
| November | 52.51 | 47.11 | 3,124,600 |
| December | 48.98 | 44.26 | 1,620,200 |

INTERESTS OF EXPERTS

Deloitte & Touche LLP has audited the Consolidated financial statements of the Company for the years ended December 31, 2006 and 2005, and that are included in the Company's Annual Report filed under National Instrument 51-102 Continuous Disclosure (portions of which are incorporated by reference into this AIF).

AUDIT COMMITTEE

The Audit Committee of the Company supports the Board in fulfilling its oversight responsibilities regarding the integrity of the Company's accounting and financial reporting, internal controls and disclosure controls, legal and regulatory compliance, ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risk, credit worthiness, treasury plans and financial policy and whistleblower and complaint procedures. A copy of the Audit Committee's Terms of Reference is attached as Appendix A to this annual information form.

The current members of the Audit Committee are Brian F. MacNeill (Chair), A. Charles Baillie, Micheline Bouchard, Ruston E. T. Goepel and Pierre Y. Ducros. Each member of the Audit Committee is independent and financially literate within the meaning of Multilateral Instrument 52-110 "Audit Committees" and the Board has determined that Brian MacNeill is an audit committee financial expert and has accounting or related financial management expertise. The following lists the relevant education and experience of the members of TELUS' Audit Committee that is relevant to his or her role on the committee.

Brian MacNeill chairs the Audit Committee. He holds a Bachelor of Commerce from Montana State University and has over 35 years of experience in accounting having earned his Certified Public Accounting designation (California) and his Chartered Accountant designation (Canada). In 1995, Mr. MacNeill was made a Fellow of the Chartered Accountants of Alberta. Mr. MacNeill served as Chief Executive Officer of Enbridge Inc. from 1990 until his retirement in 2001. Prior to that, he served as Chief Operating Officer of Enbridge and held numerous financial positions with various Canadian companies.

A. Charles Baillie holds an Honours B.A. from Trinity College, University of Toronto and an M.B.A. from Harvard Business School. Mr. Baillie served as Chairman and Chief Executive Officer of the Toronto-Dominion Bank from 1998 until his retirement in 2003. He is a Fellow of The Institute of Canadian Bankers and currently serves as the Chair of the audit committee of George Weston Limited and as a member of the audit committee of Canadian National Railway.

Micheline Bouchard holds a Bachelor of Applied Science (Engineering Physics) and a Master of Applied Science (Electrical Engineering) from Ecole Polytechnique. She served as President and CEO of ART Advanced

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Research Technologies, a biomedical company, from 2002 until July 2006 and prior to that, she held senior executive positions at both Motorola Inc. and Motorola Canada Limited. Ms. Bouchard has served on seven audit committees, including Sears Canada, Corby Distilleries and Ford Canada, and served as chair for two of them.

Pierre Y. Ducros obtained a Bachelor of Arts Degree from the Universite de Paris at College Stanislas in Montreal and a Bachelor of Engineering (Communications) degree from McGill University. Mr. Ducros was President and CEO of DMR Consulting Group, Inc. (Canada), an information technology services company, which he co-founded in 1973. Mr. Ducros has also held various management positions at IBM Canada Limited and serves on the board of a number of other public companies.

Ruston E.T. Goepel holds a Bachelor of Commerce from the University of British Columbia and has over 35 years of experience in the investment banking industry. He is currently Senior Vice President with Raymond James Financial Ltd. Mr. Goepel is a director of several public companies, and currently serves as a member of the audit committee of Amerigo Resources Ltd.

Audit, Audit related and non-audit services

All requests for non-prohibited audit, audit related and non-audit services provided by TELUS' external auditor and its affiliates to TELUS are required to be pre-approved by the Audit Committee of TELUS' Board of Directors. To enable this, TELUS has implemented a process by which all requests for services involving the External Auditor are routed for review by the VP Risk Management and Chief Internal Auditor to validate that the requested service is a non-prohibited service and to verify that there is a compelling business reason for the request. If the request passes this review, it is then forwarded to the CFO for further review. Pending the CFO's affirmation, the request is then presented to the Audit Committee for its review, evaluation and pre-approval or denial at its next scheduled quarterly meeting. If the timing of the request is urgent, it is provided to the Audit Committee Chair for his review, evaluation and pre-approval or denial on behalf of the Audit Committee (with the full committee's review at the next scheduled quarterly meeting). Throughout the year, the Audit Committee monitors the actual versus approved expenditure for each of the approved requests.

The following table is a summary of billing by Deloitte & Touche, LLP, as external auditors of TELUS, during the period from January 1, 2006 to December 31, 2006:

| Type of work | Deloitte & Touche | % |
|--------------------|-------------------|-------|
| ----- | | |
| Audit fees | \$3,757,244 | 94.11 |
| Audit-related fees | \$162,000 | 4.06 |
| Tax fees | \$72,763 | 1.83 |
| All other fees | -- | -- |
| ----- | | |
| Total | \$3,992,007 | 100.0 |
| ===== | | |

The following table is a summary of billing by Deloitte & Touche, LLP,

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as external auditors of TELUS, during the period from January 1, 2005 to December 31, 2005:

| Type of work | Deloitte & Touche | % |
|--------------------|-------------------|-------|
| Audit fees | \$2,237,606 | 90.7 |
| Audit-related fees | \$195,584 | 7.9 |
| Tax fees | \$33,180 | 1.4 |
| All other fees | -- | -- |
| Total | \$2,466,370 | 100.0 |

MATERIAL CONTRACTS

On July 26, 2002, TCI entered into a Purchase and Servicing Agreement, which was amended September 30, 2002, March 1, 2006, and November 30, 2006, with an arm's-length securitization receivables trust which enables TCI to sell an interest in certain of its receivables up to a maximum of \$650 million. This revolving period securitization has an initial term ending July 18, 2007; the November 30, 2006 amendment resulted in the term being extended to July 18, 2008.. TCI is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service ("DBRS"), or the purchaser may require the sale program to be wound down. The necessary credit rating was exceeded by three levels at A (low) as of February 14, 2007. The proceeds of securitized receivables were \$500 million at December 31, 2006, unchanged from one year earlier. Section 7.6 - Accounts receivable sale of Management's discussion and analysis in TELUS' 2006 Annual Report - Financial Review and Note 13 to the audited Consolidated financial statements of TELUS for the year ended December 31, 2006 are hereby incorporated by reference.

On March 2, 2007, TELUS announced that it had entered into a replacement five year \$2 billion unsecured credit facility (the "2007 Credit Facility") with a syndicate of 18 financial institutions. The 2007 Credit Facility replaces TELUS' \$1.6 billion previously existing credit facilities, which consisted of an \$800 million facility, which would have expired in May 2008 and an \$800 million facility, which would have expired in May 2010. The 2007 Credit Facility may be used for general corporate purposes including the backstop of commercial paper. The material terms of the 2007 Credit Facility are substantively the same as under TELUS' previous credit facilities other than reduced pricing and an extension of the term of May 2012.

TRANSFER AGENTS AND REGISTRARS

The Company's transfer agent and registrar is Computershare Trust Company of Canada. Computershare maintains the Company's registers at 600, 530 - 8th Avenue SW, Calgary, Alberta T2P 3S8.

ADDITIONAL INFORMATION

Additional information relating to TELUS may be found on SEDAR at www.sedar.com and EDGAR at www.sec.gov. Additional information regarding directors' and officers' remuneration, indebtedness and options to purchase securities, is contained in the TELUS information circular dated March 9, 2006 for the annual general meeting to be held on May 2,

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2007. Additional financial information, including supplementary quarterly financial data and the audited Consolidated financial statements of TELUS for the year ended December 31, 2006, are set out in the 2006 Annual Report - Financial Review. All of the above information can also be found at telus.com.

Appendix A: Terms of Reference for the Audit Committee

The Board has established an Audit Committee (the "Committee") to assist the Board in fulfilling its oversight responsibilities regarding the integrity of the Company's accounting and financial reporting, the Company's internal controls and disclosure controls, the Company's legal and regulatory compliance, the Company's ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risks, the Company's credit worthiness, treasury plans and financial policy and the Company's whistleblower and complaint procedures.

1. MEMBERSHIP

- 1.1 The Committee will have a minimum of three members, including the chair of the Committee. The Board, following the recommendation of the Corporate Governance Committee, will appoint and remove the members of the Committee by a majority vote. The members will sit on the Committee at the pleasure of the Board.
- 1.2 The Board, following the recommendation of the Corporate Governance Committee, will appoint the chair of the Committee from the Committee's members by a majority vote. The chair of the Committee will hold such position at the pleasure of the Board.
- 1.3 All members of the Committee will be Independent Directors.
- 1.4 All members of the Committee will be financially literate, as defined in accordance with applicable securities laws and standards of the stock exchanges on which the Company's securities are listed.
- 1.5 At least one member of the Committee will be an audit committee financial expert, as defined in accordance with applicable securities laws, and at least one member of the Committee will have accounting or related financial management expertise, as defined in accordance with applicable securities laws.

2. MEETINGS

- 2.1 The Committee will meet at least once each quarter and otherwise as necessary. Any member of the Committee may call meetings of the Committee.
- 2.2 All directors of the Company, including management directors, may attend meetings of the Committee provided, however, that no director is entitled to vote at such meetings and is not counted as part of the quorum for the Committee if he or she is not a member of the Committee.
- 2.3 Notwithstanding section 2.2 above, the Committee will, as a regular feature of each regularly scheduled meeting, hold an in-camera session with the external auditors and separately with the internal auditors, without management or management directors present. The Committee may, however, hold other in-camera sessions with such members of management present as the Committee deems appropriate.

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- 2.4 The Corporate Secretary or his or her nominee will act as Secretary to the Committee.
- 2.5 The Committee will report to the Board on its meetings and each member of the Board will have access to the minutes of the Committee's meetings, regardless of whether the director is a member of the Committee.
- 2.6 The external auditors of the Company will receive notice of every meeting of the Committee and may request a meeting of the Committee be called by notifying the chair of the Committee of such request.

3. QUORUM

- 3.1 The quorum necessary for the transaction of business at Committee meetings will be a majority of the members of the Committee. A quorum once established is maintained even if members of the Committee choose to leave the meeting prior to conclusion.

4. DUTIES

The Board hereby delegates to the Committee the following duties to be performed by the Committee on behalf of and for the Board:

4.1 Financial Reporting

Prior to public disclosure, the Committee will review and recommend to the Board, and where applicable, to the boards of the Company's subsidiaries which are reporting issuers, for approval:

- a) the annual audited consolidated financial statements and interim unaudited consolidated financial statements of the Company and those of its subsidiaries that are reporting issuers, as defined in accordance with applicable securities laws;
- b) the interim and annual management's discussion and analysis of financial condition and results of operations (MD&A) of the Company and those of its subsidiaries that are reporting issuers, as defined in accordance with applicable securities laws;
- d) earnings press releases and earnings guidance, if any;
- e) Management's Statement on Financial Reporting; and
- f) all other material financial public disclosure documents of the Company and those of its subsidiaries that are reporting issuers, including prospectuses, press releases with financial results and the Annual Information Form.

4.2 External Auditors

The external auditors will report directly to the Committee and the Committee will:

- a) appoint the external auditors, subject to the approval of the shareholders, and determine the compensation of the external auditors;
- b) oversee the work of the external auditors and review and approve the annual audit plan of the external auditors, including the scope of the audit to be performed and the degree of co-ordination between the plans of the external and internal auditors. The Committee will discuss with

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the internal auditors, the external auditors and management, the adequacy and effectiveness of the disclosure controls and internal controls of the Company and elicit recommendations for the improvement of such controls or particular areas where new or more detailed controls or procedures are desirable. Particular emphasis will be given to the adequacy of internal controls to prevent or detect any payments, transactions or procedures that might be deemed illegal or otherwise improper;

- c) meet regularly with the external auditors without management present and ask the external auditors to report any significant disagreements with management regarding financial reporting, the resolution of such disagreements and any restrictions imposed by management on the scope and extent of the audit examinations conducted by the external auditors;
- d) pre-approve all audit, audit-related and non-audit services to be provided to the Company or any of its subsidiaries, by the external auditors (and its affiliates), in accordance with applicable securities laws;
- e) annually review the qualifications, expertise and resources and the overall performance of the external audit team and, if necessary, recommend to the Board the termination of the external auditors or the rotation of the audit partner in charge;
- f) at least annually, obtain and review a report by the external auditors describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with such issues; and all relationships between the external auditors and the Company;
- g) annually assess and confirm the independence of the external auditors and require the external auditors to deliver an annual report to the Committee regarding its independence, such report to include disclosure regarding all engagements (and fees related thereto) by the Company and relationships which may impact the objectivity and independence of the external auditors;
- h) require the external auditors to deliver an annual acknowledgement in writing to the Committee that the shareholders, as represented by the Board and the Committee, are its primary client;
- i) review post-audit or management letters, containing recommendations of the external auditors and management's response;
- j) review reports of the external auditors; and
- k) pre-approve the hiring of employees and former employees of current and former auditors in accordance with applicable securities laws and TELUS policies.

Notwithstanding section 4.2(d) above, the Committee may delegate the pre-approval of audit, audit-related and non-audit services to any one member of the Committee, provided, however, a report is made to the Committee on any pre-approval of such services at the Committee's first scheduled meeting following the pre-approval.

4.3 Internal Auditors

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The internal auditors will report functionally to the Committee and administratively to the Chief Financial Officer and the Committee will:

- a) review and approve management's appointment, termination or replacement of the Chief Internal Auditor;
- b) oversee the work of the internal auditors including reviewing and approving the annual internal audit plan and updates thereto;
- c) review the report of the internal auditors on the status of significant internal audit findings, recommendations and management's responses and review any other reports of the internal auditors; and
- d) review the scope of responsibilities and effectiveness of the internal audit team, its reporting relationships, activities, organizational structure and resources, its independence from management, its credentials and its working relationship with the external auditors.

The internal auditors will report quarterly to the Committee on the results of internal audit activities and will also have direct access to the chair of the Committee when the internal auditors determine it is necessary.

4.4 Whistleblower, Ethics and Internal Controls Complaint Procedures

The Committee will ensure that the Company has in place adequate procedures for:

- a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls or auditing matters; and
- b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

The CEO or CFO will report to the Committee, and the Committee will review such reports, on any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls. Where the CEO, CFO and/or the Chief Internal Auditor are named in a complaint, the Director of Ethics and Internal Controls will speak directly with the Chair of the Committee.

The Chief Internal Auditor will report to the Committee, and the Committee will consider such reports, on the results of the investigation of whistleblower, ethics and internal controls complaints.

4.5 Accounting and Financial Management

The Committee will review:

- a) with management and the external auditors, the Company's major accounting policies, including the impact of alternative accounting policies and key management estimates and judgments that could materially affect the financial results and whether they should be disclosed in the MDA
- b) emerging accounting issues and their potential impact on the Company's financial reporting;
- c) significant judgments, assumptions and estimates made by management in preparing financial statements;
- d) the evaluation by either the internal or external auditors of

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management's internal control systems, and management's responses to any identified weaknesses;

- e) the evaluation by management of the adequacy and effectiveness in the design and operation of the Company's disclosure controls and internal controls for financial reporting;
- f) audits designed to report on management's representations on the effectiveness and efficiency of selected projects, processes, programs or departments;
- g) management's approach for safeguarding corporate assets and information systems, the adequacy of staffing of key financial functions and their plans for improvements; and
- h) internal interim and post implementation reviews of major capital projects.

4.6 Credit Worthiness, Treasury Plans and Financial Policy

The Committee will review with management:

- a) the Company's financial policies and compliance with such policies;
- b) the credit worthiness of the Company;
- c) the liquidity of the Company; and
- d) important treasury matters including financing plans.

4.7 Legal/Regulatory Matters and Ethics

The Committee will review:

- a) with management, the external auditors and legal counsel, any litigation, claim or other contingency, including any tax assessment, that could have a material effect upon the financial position or operating results of the Company;
- b) annually, management's relationships and compliance with regulators, and the accuracy and timeliness of filings with regulatory authorities; and
- c) annually, the ethics policy, management's approach to business ethics and corporate conduct and the program used by management to monitor compliance with the policy.

4.8 Risk Management

The Committee will:

- a) consider reports on the annual enterprise business risk assessment and updates thereto;
- b) consider reports on the business continuity disaster recovery plan(s) for the Company;
- c) consider reports on the insurance coverage of the Company;
- d) consider reports on financial risk management including derivative exposure and policies;

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- e) monitor, on behalf of the Board, the Company's compliance with environmental legislation and the adequacy of the Company's environmental budget expenditures;
- f) monitor, on behalf of the Board, the Company's health and safety policies and receive and review regular reports concerning the Company's health and safety programs, policies and results from the Chief Internal Auditor and the Chief Compliance Officer;
- g) review and recommend to the Board for approval environmental policies and procedure guidelines and any amendments or changes thereto;
- h) report to the Board, and require management to report to the Committee, on environmental matters each quarter; and
- i) review other risk management matters as from time to time the Committee may consider suitable or the Board may specifically direct.

4.9 Other

The Committee will review:

- a) the expenses of the Chair of the Board and CEO and will assess the Company's policies and procedures with respect to the Executive Leadership Team members' expense accounts and perquisites, including their use of corporate assets;
- b) the proposed disclosure concerning the Committee to be included in the Company's Annual Information Form to verify, among other things, that it is in compliance with applicable securities law requirements;
- c) significant related party transactions and actual and potential conflicts of interest relating thereto to verify their propriety and that disclosure is appropriate;
- d) the disclosure policy of the Company; and
- e) at least once annually, and evaluate the adequacy of these Terms of Reference and the Committee's performance, and report its evaluation and any recommendations for change to the Corporate Governance Committee.

The Committee will also have such other duties and responsibilities as are delegated to it and review such other matters as, from time to time, are referred to it by the Board.

5. AUTHORITY

The Committee, in fulfilling its mandate, will have the authority to:

- a) engage and set compensation for independent counsel and other advisors;
- b) communicate directly with the Chief Financial Officer, internal and external auditors, Chief Compliance Officer and Chief General Counsel;
- c) delegate tasks to Committee members or subcommittees of the Committee; and
- d) access appropriate funding as determined by the Committee to carry out its duties.

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Exhibit 4: Audited Consolidated Financial Statements as at and for the year ended December 31, 2006 and Management's Discussion and Analysis

TELUS CORPORATION CONSOLIDATED FINANCIAL STATEMENTS
AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2006

TELUS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

management's report

Management is responsible to the Board of Directors for the preparation of the Consolidated financial statements of the Company and its subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and necessarily include some amounts based on estimates and judgments.

The Company maintains a system of internal controls that provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines that require TELUS team members (including Board members and Company employees) to maintain the highest ethical standards, and has established mechanisms for the reporting to the Audit Committee of perceived accounting and ethics policy complaints. In addition, the Chief Compliance Officer, appointed in 2003, works to ensure the Company has appropriate policies, controls and measurements in place to comply with all legal and regulatory requirements. Annually, the Company performs an extensive risk assessment process, which includes interviews with senior management, a web-enabled risk and control assessment survey distributed to a large sample of employees, and input from the Company's strategic planning activities. Results of this process influence the development of the internal audit program. Key enterprise-wide risks are assigned to executive owners for the development and implementation of appropriate risk mitigation plans. During 2002, the Company implemented a Sarbanes-Oxley certification enablement process, which, among other things, cascades informative certifications from the key stakeholders within the financial reporting process, which are reviewed by the Chief Executive Officer and the Chief Financial Officer as part of their due diligence process. In 2004, the process was enhanced to comply with new Canadian securities regulations, which went into effect in the first quarter of 2004. In 2006, the final stages of Section 404 of the United States Sarbanes-Oxley Act regarding internal controls over financial reporting were successfully implemented. One of the 2006 developments included the integration of SOX 404 sign-offs with the SOX 302 cascading certifications of key stakeholders in the financial reporting process.

The Company has a formal policy on Corporate Disclosure and Confidentiality

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of Information, which sets out policies and practices including the mandate of the Disclosure Committee; the policy was approved by the Board of Directors, and put into effect, in 2003.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of the Management's discussion and analysis and the Consolidated financial statements, as well as other information contained in this report. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the Consolidated financial statements contained in this report were being prepared.

The Board of Directors has reviewed and approved these Consolidated financial statements. To assist the Board in meeting its oversight responsibilities, it has appointed an Audit Committee, which is comprised entirely of independent directors. All the members of the committee are financially literate and the Chair of the committee has financial expertise and meets the applicable securities laws as a financial expert. The committee oversees the Company's accounting and financial reporting, internal controls and disclosure controls, legal and regulatory compliance, ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risks, its credit worthiness, treasury plans and financial policy, and its whistleblower and accounting and ethics complaint procedures. The committee meets no less than quarterly and, as a standard feature of regularly scheduled meetings, holds an in-camera session with the external auditors and separately with the internal auditors without other management, including management directors, present. It oversees the work of the external auditors and approves the annual audit plan. It also receives reports on the external auditor's internal quality control procedures and independence. Furthermore, the Audit Committee reviews: the Company's major accounting policies including alternatives and potential key management estimates and judgments; the Company's financial policies and compliance with such policies; the evaluation by either the internal or external auditors of management's internal control systems; and the evaluation by management of the adequacy and effectiveness in the design and operation of the Company's disclosure controls and internal controls for financial reporting. The Audit Committee also considers reports on the Company's business continuity and disaster recovery plan; reports on financial risk management including derivative exposure and policies; tax planning, environmental, health and safety risk management and management's approach for safeguarding corporate assets; and regularly reviews material capital expenditure initiatives. The committee pre-approves all audit, audit-related and non-audit services provided to the Company by the external auditors (and its affiliates). The committee's terms of reference are available, on request, to shareholders and at telus.com/governance.

/s/Robert G. McFarlane

/s/Darren Entwistle

Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 14, 2007

Darren Entwistle
President
and Chief Executive Officer
February 14, 2007

report of management on internal control over financial reporting

Management of TELUS is responsible for establishing and maintaining adequate

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internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

TELUS' Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2006 in accordance with the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer ("CEO") and the Executive Vice President and Chief Financial Officer ("CFO") and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this assessment, management has determined that the Company's internal control over financial reporting is effective as at December 31, 2006. In connection with this assessment, no material weaknesses in the Company's internal control over financial reporting were identified by management.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as at December 31, 2006, has been audited by Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, who also audited the Company's Consolidated Financial Statements for the year ended December 31, 2006. As stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on management's assessment of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2006.

/s/Robert G. McFarlane

/s/Darren Entwistle

Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 14, 2007

Darren Entwistle
President
and Chief Executive Officer
February 14, 2007

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited management's assessment, included in the accompanying report of management on internal control over financial reporting, that TELUS Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all

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material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and our report dated February 14, 2007, expressed an unqualified opinion on those financial statements.

/s/Deloitte & Touche LLP

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 14, 2007

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the accompanying consolidated balance sheets of TELUS Corporation and subsidiaries (the "Company") as at December 31, 2006 and 2005,

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and the related consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the financial statements for the year ended December 31, 2006, we conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the financial statements for the year ended December 31, 2005, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of TELUS Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2007, expressed, an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/Deloitte & Touche LLP

Deloitte & Touche LLP
 Independent Registered Chartered Accountants
 Vancouver, B.C.
 February 14, 2007

consolidated statements of income

Years ended December 31 (millions except per share amounts)

| | |
|--|------|
| OPERATING REVENUES | \$ 8 |
| OPERATING EXPENSES | |
| Operations | 5 |
| Restructuring and workforce reduction costs (Note 7) | |
| Depreciation | 1 |
| Amortization of intangible assets | |
| OPERATING INCOME | 2 |
| Other expense, net | |
| Financing costs (Note 8) | |

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| | |
|--|------|
| INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST | 1 |
| Income taxes (Note 9) | |
| Non-controlling interests | |
| ----- | |
| NET INCOME AND COMMON SHARE AND NON-VOTING SHARE INCOME | \$ 1 |
| ===== | |
| INCOME PER COMMON SHARE AND NON-VOTING SHARE (Note 10) | |
| -- Basic | \$ |
| -- Diluted | \$ |
| DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE | \$ |
| TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING | |
| -- Basic | |
| -- Diluted | |

The accompanying notes are an integral part of these consolidated financial statements

consolidated statements of retained earnings

Years ended December 31 (millions) 2

| | |
|--|------|
| BALANCE AT BEGINNING OF PERIOD | \$ |
| Net income | 1 |
| ----- | |
| Common Share and Non-Voting Share dividends paid, or payable, in cash | 1 |
| Purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 18(f)) | |
| Adjustment for purchase of share option awards not in excess of their fair value | |
| Adjustment of tax treatment of items charged directly to retained earnings | |
| Warrant proceeds used in determining intrinsic value of warrants in excess of amounts ultimately received (Note 18(c)) | |
| ----- | |
| BALANCE AT END OF PERIOD (Note 18) | \$ 1 |
| ===== | |

The accompanying notes are an integral part of these consolidated financial statements

consolidated balance sheets

As at December 31 (millions) 2

| | |
|---------------------------------------|----|
| ASSETS | |
| Current Assets | |
| Cash and temporary investments, net | \$ |
| Short-term investments | |
| Accounts receivable (Notes 13, 20(b)) | |
| Income and other taxes receivable | |

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| | |
|---|------|
| Inventories | |
| Prepaid expenses and other (Note 20(b)) | |
| Deferred hedging asset (Note 17(b)) | |
| Current portion of future income taxes | |
| ----- | |
| | 1 |
| ----- | |
| Capital Assets, Net (Note 14) | |
| Property, plant, equipment and other | 7 |
| Intangible assets subject to amortization | |
| Intangible assets with indefinite lives | 2 |
| ----- | |
| | 10 |
| ----- | |
| Other Assets | |
| Deferred charges (Note 20(b)) | |
| Investments | |
| Goodwill (Note 15) | 3 |
| ----- | |
| | 4 |
| ----- | |
| | \$16 |
| ===== | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Current Liabilities | |
| Cash and temporary investments, net | \$ 1 |
| Accounts payable and accrued liabilities (Note 20(b)) | 1 |
| Income and other taxes payable | |
| Restructuring and workforce reduction accounts payable and accrued liabilities (Note 7) | |
| Advance billings and customer deposits (Note 20(b)) | |
| Current maturities of long-term debt (Note 17) | 1 |
| Current portion of deferred hedging liability (Note 17(b)) | |
| Current portion of future income taxes | |
| ----- | |
| | 3 |
| ----- | |
| Long-Term Debt (Note 17) | 3 |
| ----- | |
| Other Long-Term Liabilities (Note 20(b)) | 1 |
| ----- | |
| Future Income Taxes | 1 |
| ----- | |
| Non-Controlling Interests | |
| ----- | |
| Shareholders' Equity (Note 18) | 6 |
| ----- | |
| | \$16 |
| ===== | |

Commitments and Contingent Liabilities (Note 19)

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Directors:

| | |
|----------------------|---------------------|
| Director: | Director: |
| /s/Brian F. MacNeill | /s/Brian A. Canfiel |
| _____ | _____ |
| Brian F. MacNeill | Brian A. Canfield |

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consolidated statements of cash flows

Years ended December 31 (millions)

OPERATING ACTIVITIES

| | |
|--|------|
| Net income | \$ 1 |
| Adjustments to reconcile net income to cash provided by operating activities: | |
| Depreciation and amortization | 1 |
| Future income taxes | |
| Share-based compensation (Note 11(a)) | |
| Net employee defined benefit plans expense | |
| Employer contributions to employee defined benefit plans | |
| Restructuring and workforce reduction costs, net of cash payments (Note 7) | |
| Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net | |
| Net change in non-cash working capital (Note 20(c)) | |

Cash provided by operating activities 2

INVESTING ACTIVITIES

| | |
|---|-----|
| Capital expenditures (Notes 6, 14) | (1) |
| Acquisitions | |
| Proceeds from the sale of property and other assets | |
| Change in non-current materials and supplies, purchase of investments and other | |

Cash used by investing activities (1)

FINANCING ACTIVITIES

| | |
|---|-----|
| Common Shares and Non-Voting Shares issued | |
| Dividends to shareholders | |
| Purchase of Common Shares and Non-Voting Shares for cancellation (Note 18(f)) | |
| Long-term debt issued (Note 17) | 1 |
| Redemptions and repayment of long-term debt (Note 17) | (1) |
| Partial payment of deferred hedging liability (Note 17(b)) | |
| Dividends paid by a subsidiary to non-controlling interests | |
| Other | |

Cash used by financing activities (1)

CASH POSITION

| | |
|--|----|
| Decrease in cash and temporary investments, net | |
| Cash and temporary investments, net, beginning of period | |
| Cash and temporary investments, net, end of period | \$ |

===== SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

| | |
|---|----|
| Interest (paid) (Note 20(c)) | \$ |
| Interest received | \$ |
| Income taxes (inclusive of Investment Tax Credits (Note 9)) received, net | \$ |

The accompanying notes are an integral part of these consolidated financial

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statements

notes to consolidated financial statements

DECEMBER 31, 2006

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications service provider in Western Canada and also provides data, Internet protocol, voice and wireless services to Central and Eastern Canada.

| Notes to consolidated financial statements | Description |
|--|--|
| General application | |
| 1. Summary of significant accounting policies | Summary review of accounting principles and their application by the Company |
| 2. Accounting policy developments | Summary review of forthcoming generally accepted accounting principles developments that will, or may, affect the Company's financial statements |
| 3. Capital structure financial policies | Summary review of the Company's objectives and policies in managing its capital structure |
| 4. Regulation of rates charged to customers | Summary review of rate regulation impact on revenues |
| 5. Financial instruments | Summary schedule and review of financial instruments and values thereof |
| Consolidated statements of income focused | |
| 6. Segmented information | Summary disclosure of segmented information and the Company's chief operating decision maker |
| 7. Restructuring and workforce reduction costs | Summary continuity schedules and review of restructuring and workforce reduction costs |
| 8. Financing costs | Summary schedule of items comprising financing costs |
| 9. Income taxes | Summary reconciliations of statutory rates, provision for income taxes and analyses of tax expense and liability |
| 10. Per share amounts | Summary schedules and review of numerator and denominator in calculating per share amounts and related disclosures |
| 11. Share-based compensation | Summary schedules and review of compensation expense, awards, restricted stock units and employee stock purchase plans |
| 12. Employee future benefits | Summary and review of employee future benefits |
| Consolidated balance sheets focused | |
| 13. Accounts receivable | Summary schedule and review of arm's-length transactions and related disclosures |
| 14. Capital assets | Summary schedule of items comprising capital assets |
| 15. Goodwill | Summary schedule of goodwill and review of impairment tests and acquisitions from which goodwill arises |
| 16. Short-term obligations | Summary review of bilateral bank facilities |
| 17. Long-term debt | Summary schedule of long-term debt and related disclosures |
| 18. Shareholders' equity | Summary schedules and review of shareholder equity, including share option price sensitivities and issuer bid summaries |
| 19. Commitments and contingent liabilities | Summary review of contingent liabilities |

 Other

| | |
|---|--|
| 20. Additional financial information | Summary schedules of items comprising of statement line items |
| 21. Differences between Canadian and United States generally accepted accounting principles | Summary schedules and review of differences between Canadian and United States generally accepted accounting principles of the Company |

1 summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are expressed in Canadian dollars.

The terms "TELUS" or "Company" are used to mean TELUS Corporation and, where the context of the narrative permits, or requires, its subsidiaries.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of the Company's subsidiaries, of which the principal one is TELUS Communications Inc. TELUS Communications Inc. includes substantially all of the Company's Wireline segment's operations and all of the Wireless segment's operations, currently through the TELUS Communications Company partnership and the TELE-MOBILE COMPANY partnership.

The financing arrangements of the Company and all of its subsidiaries do not impose restrictions on inter-corporate dividends.

On a continuing basis, TELUS Corporation reviews its corporate organization and effects changes as appropriate so as to enhance its value. This process can, and does, affect which of the Company's subsidiaries are considered principal subsidiaries at any particular point in time.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include:

- * the key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization;
- * the allowance for doubtful accounts;
- * the allowance for inventory obsolescence;
- * the estimated useful lives of assets;
- * the recoverability of tangible assets;
- * the recoverability of intangible assets with indefinite lives;
- * the recoverability of long-term investments;
- * the recoverability of goodwill;
- * the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits;
- * the accruals for Canadian Radio-television and Telecommunications Commission ("CRTC") deferral account liabilities; and
- * certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets.

(c) Revenue recognition

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The Company earns the majority of its revenue (voice local, voice long distance, data (including data and information technology managed services) and wireless network) from access to, and usage of, the Company's telecommunications infrastructure. The majority of the balance of the Company's revenue (other and wireless equipment) arises from providing products and services facilitating access to, and usage of, the Company's telecommunications infrastructure.

The Company offers complete and integrated solutions to meet its customers' needs. These solutions may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time. As appropriate, these multiple element arrangements are separated into their component accounting units, consideration is measured and allocated amongst the accounting units based upon their relative fair values and then the Company's relevant revenue recognition policies are applied to the accounting units.

The Company's revenues are recorded net of any value-added, sales and/or use taxes billed to the customer concurrent with a revenue-producing transaction.

Voice Local, Voice Long Distance, Data and Wireless Network: The Company recognizes revenues on the accrual basis and includes an estimate of revenues earned but unbilled. Wireline and wireless service revenues are recognized based upon usage of the Company's network and facilities and upon contract fees.

Advance billings are recorded when billing occurs prior to rendering the associated service; such advance billings are recognized as revenue in the period in which the services are provided. Similarly, and as appropriate, upfront customer activation and connection fees, along with the corresponding direct costs not in excess of the revenues, are deferred and recognized over the average expected term of the customer relationship.

When the Company receives no identifiable, separable benefit for consideration given to a customer (e.g. discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense as the Company considers this to result in a more appropriate presentation of transactions in the financial statements.

The Company follows the liability method of accounting for its quality of service rate rebate amounts that arise from the jurisdiction of the CRTC.

The CRTC has established a portable subsidy mechanism to subsidize Local Exchange Carriers, such as the Company, that provide residential service to high cost serving areas. The CRTC has determined the per line/per band portable subsidy rate for all Local Exchange Carriers. The Company recognizes the portable subsidy on an accrual basis by applying the subsidy rate to the number of residential network access lines it has in high cost serving areas. Differences, if any, between interim and final subsidy rates set by the CRTC, are accounted for as a change in estimate in the period in which the CRTC finalizes the subsidy rate.

Other and Wireless Equipment: The Company recognizes product revenues, including wireless handsets sold to re-sellers and customer premises equipment, when the products are delivered and accepted by the end-user customers. Revenues from operating leases of equipment are recognized on a systematic and rational basis (normally a straight-line basis) over the term of the lease. When the Company receives no identifiable, separable benefit for consideration given to a customer (e.g. discounts and rebates), the consideration is recorded as a reduction of revenue rather than as an expense as the Company considers this to result in a more appropriate presentation of transactions in the financial statements.

Non-High Cost Serving Area Deferral Account: On May 30, 2002, and on July 31, 2002, the CRTC issued Decision 2002-34 and Decision 2002-43, respectively, pronouncements that will affect the Company's wireline revenues for five-year periods beginning June 1, 2002, and August 1, 2002, respectively. In an effort to foster competition for residential basic service in non-high cost serving areas, the concept of a deferral account mechanism was introduced by the CRTC, as an alternative to mandating price reductions.

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The deferral account arises from the CRTC requiring the Company to defer the income statement recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. The revenue deferral is based on the rate of inflation (as measured by a chain-weighted Gross Domestic Product Price Index), less a productivity offset of 3.5%, and an "exogenous factor" that is associated with allowed recoveries in previous price cap regimes that have now expired. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs in qualifying non-high cost serving areas, rate reductions (including those provided to competitors as required in Decision 2002-34 and Decision 2002-43) and/or rebates to customers. To the extent that a balance remains in the deferral account, interest expense of the Company is required to be accrued at the Company's short-term cost of borrowing.

Price cap factors for price cap years commencing June 1, 2

Rate of inflation (as measured by the chain-weighted
Gross Domestic Product Price Index)
Exogenous factor

The Company has adopted the liability method of accounting for the deferral account. This results in the Company recording a liability to the extent that activities it has undertaken, realized rate reductions for Competitor Services and other future qualifying events do not extinguish the balance of the deferral account, as further discussed in Note 19(a) and quantified in Note 20(b). This also results in the Company continuing to record incremental liability amounts, subject to reductions for the mitigating activities, for the remaining duration of the Decisions' four-year periods. Other than for the interest accrued on the balance of the deferral account, which would be included in financing costs, substantially all income statement effects of the deferral account are recorded through operating revenues. The CRTC can direct that the Company undertake activities drawing down the deferral account that would not affect the income statement; the financial statement impacts of those activities would be contingent on what the CRTC directed.

(d) Cost of acquisition and advertising costs

Cost of acquiring customers, which include the total cost of hardware subsidies, commissions, advertising and promotion related to the initial customer acquisition, are expensed as incurred and are included in the Consolidated Statements of Income as a component of "Operations" expense. Costs of advertising production, airtime and space are expensed as incurred.

(e) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production, or in the case of serviceable property, plant and equipment, are included in the appropriate property group and are depreciated over its estimated useful life.

(f) Depreciation and amortization

Assets are depreciated on a straight-line basis over their estimated useful life as determined by a continuing program of studies. Depreciation includes amortization of assets under capital leases and amortization of leasehold

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improvements. Leasehold improvements are normally amortized over the lesser of their expected average service life or the term of the lease. Intangible assets with finite lives ("intangible assets subject to amortization") are amortized on a straight-line basis over their estimated lives; estimated lives are reviewed at least annually and are adjusted as appropriate. The continuing program of asset life studies considers such items as timing of technological obsolescence, competitive pressures and future infrastructure utilization plans; such considerations could also indicate that carrying values of assets may not be recoverable. If the carrying values of assets were not considered recoverable, an impairment provision (measured at the amount by which the carrying values of the assets exceeds their fair values) would be recorded.

Estimated useful lives for the majority of the Company's capital assets subject to depreciation and amortization are as follows:

| | |
|---|---|
| ----- | |
| Property, plant, equipment and other | |
| Telecommunications assets | |
| Outside plant | 1 |
| Inside plant | |
| Wireless site equipment | 6 |
| Balance of depreciable property, plant, equipment and other | |
| Intangible assets subject to amortization | |
| Subscriber base | |
| Wireline | |
| Wireless | |
| Software | |
| Access to rights-of-way and other | |
| ----- | |

- (1) The composite depreciation rate for the year ended December 31, 2006, was 6.3% (2005 -- 6.4%). The rate is calculated by dividing depreciation expense by an average gross book value of depreciable assets for the reporting period. A result of this methodology is that the composite depreciation rate will be lower in a period that has a higher proportion of fully depreciated assets remaining.