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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

o 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, 2011 **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 (including area code) 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.

5.00% Notes due 2013
4.50% Notes due 2012
4.95% Notes due 2017
5.05% Notes due 2019
5.05% Notes due 2020
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

x Annual information form **x** Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2011:

174,915,546 Common Voting Shares and 149,933,165 Non-Voting Shares

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes **x** No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes o No **x**

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CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Based on the evaluation by TELUS Corporation ("TELUS" or the "Registrant") as of December 31, 2011 of the effectiveness of the design and operation of the Registrant's disclosure controls and procedures under the supervision of the Audit Committee, including the Registrant's Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that the Registrant's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") are effective to ensure that information required to be disclosed by the Registrant in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the United States Securities and Exchange Commission's (the "SEC") rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

The report of management on our internal control over financial reporting is located under the heading "Report of Management on Internal Control Over Financial Reporting" in our audited consolidated financial statements, which are filed as Exhibit 99.4 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 our internal control over financial reporting is located under the heading "Report of Independent Registered Chartered Accountants" in our audited consolidated financial statements, which are filed as Exhibit 99.4 to this annual report on Form 40-F and is incorporated by reference herein.

Changes in Internal Controls Over Financial Reporting

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 THE AUDIT COMMITTEE

TELUS has a separately designated standing Audit Committee. The current members of the Audit Committee are William A. MacKinnon (Chair), John Butler, Stockwell Day, John Lacey and Ron Triffo. All members of the Audit 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 has determined that William A. MacKinnon, 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 30 of TELUS' 2011 Annual Information Form, filed as Exhibit 99.3 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 about.telus.com. The Policy is also available to any person, upon request,

without charge by contacting TELUS Investor Relations by telephone at 1-800-667-4871 or by mail at 555 Robson Street, Vancouver, B.C. V6B 3K9.

The Board amended the Policy in February 2011 to clarify that all reporting of ethics breaches and annual review of the Policy will now be shared between the Human Resources and Compensation Committee and the Audit Committee and to add a provision regarding dealing with governments to ensure compliance with legal, regulatory and policy requirements in such areas as lobbying, gifts and benefits, conflict of interest, bribery and corruption, hiring ex-government employees and procurement processes. The Board also made other minor amendments to the Policy 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 (the "External Auditor"), during the period from January 1, 2011 to December 31, 2011 (all amounts are in Canadian dollars):

Type of work		Deloitte & Touche LLP	%
Audit fees[1]	$	3,470,547	95.1
Audit-related fees[2]	$	161,000	4.4
Tax fees[3]	$	18,001	0.5
All other fees		—	—
Total	**$**	**3,649,548**	**100.0**

(1) Audit fees include fees for services rendered by the external auditors in relation to the audit and review of our financial statements and in connection with our statutory and regulatory filings.
(2) Audit-related fees include fees for services rendered by the external auditors in relation to performing the audit of, or reviewing financial statements, that were not part of audit fees. These include internal control reviews and consulting on financial accounting and reporting standards.
(3) Tax fees relate to tax compliance, tax advice and tax planning.

The following table is a summary of billing by our External Auditor, during the period from January 1, 2010 to December 31, 2010 (all amounts are in Canadian dollars):

Type of work		Deloitte & Touche LLP	%
Audit fees[1]	$	3,375,731	95.7
Audit-related fees[2]	$	150,404	4.3
Tax fees		—	—
All other fees		—	—
Total	**$**	**3,526,135**	**100.0**

(1) Audit fees include fees for services rendered by the external auditors in relation to the audit and review of our financial statements and in connection with our statutory and regulatory filings.
(2) Audit-related fees include fees for services rendered by the external auditors in relation to performing the audit of, or reviewing financial statements, that were not part of audit fees. These include internal control reviews and consulting on financial accounting and reporting standards.

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.

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 the Board. 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 Registrant has no off-balance sheet arrangements. For information on TELUS' real estate joint venture, which is accounted for using the

equity method, and associated commitments, refer to Note 17 of our audited consolidated financial statements, which is filed as Exhibit 99.4.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The information provided under the heading “Contractual obligations” set forth on page 74 of the Management’s Discussion and Analysis filed as Exhibit 99.4 to this annual report on Form 40-F, is incorporated by reference herein.

INTERACTIVE DATA FILE

The Registrant is not currently required to submit to the SEC, nor post to its corporate website, an Interactive Data File.

MINE SAFETY DISCLOSURE

Not applicable.

SUMMARY OF SIGNIFICANT DIFFERENCES FROM NYSE CORPORATE GOVERNANCE RULES

A summary of significant ways in which corporate governance practices followed by TELUS differ from the corporate governance practices required to be followed by U.S. domestic companies under the New York Stock Exchange’s Listing Standards (disclosure required by section 303A.11 of the NYSE Listed Company Manual) is available on the Registrant’s corporate governance website at http://about.telus.com/community/english/investor_relations/corporate_governance/corporate_governance_practices

UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

A. Undertaking

The 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.

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B. Consent to Service of Process

A Form F-X signed by the Registrant and its service of process was previously filed with the SEC.

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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: *“Monique Mercier”*
Monique Mercier
Senior Vice President, Chief Legal Officer
and Corporate Secretary

Date: March 16, 2012

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EXHIBIT INDEX

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

Exhibit Number	Document
99.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
99.2	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act

99.3	Annual Information Form for the year ended December 31, 2011, dated March 14, 2012
99.4	Audited Consolidated Financial Statements as at and for the year ended December 31, 2011 and Management's Discussion and Analysis
99.5	Consent of Independent Registered Chartered Accountants
99.6	Amended 2011 Ethics Policy

Exhibit 99.1

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

   (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, 2012.

"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

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, 2012.

"Robert G. McFarlane"
Robert G. McFarlane
Executive Vice President and Chief Financial Officer

Exhibit 99.2

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, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities 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, 2012

"Darren Entwistle"
Darren Entwistle
President and Chief Executive Officer

Date: March 16, 2012

"Robert G. McFarlane"
Robert G. McFarlane
Executive Vice President and Chief Financial Officer

Exhibit 99.3

Annual Information Form for the year ended December 31, 2011, dated March 14, 2012

[previously filed on SEDAR]

TELUS Corporation
Annual Information Form
for the year ended December 31, 2011

March 14, 2012

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Each section of the Management's Discussion & Analysis ("MD&A") for the fiscal year ended December 31, 2011 that is referred to in this Annual Information Form ("AIF") is incorporated herein by reference. The MD&A is filed on SEDAR at sedar.com. For greater certainty, notwithstanding references herein to the information circular, financial statements, the corporate social responsibility report and the telus.com website, these documents and website are not incorporated into this AIF.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document and the Management's Discussion & Analysis for the year ended December 31, 2011 ("MD&A") contain forward-looking statements about expected future events and financial and operating performance of TELUS Corporation. By their nature, forward-looking statements are subject to inherent risks and uncertainties, and require the Company to make assumptions. There is significant risk that assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause future performance, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, and reserves the right to change, at any time at its sole discretion, its current practice of updating annual targets and guidance. Annual targets for 2012 and related assumptions are described in *Sections 1.4 and 1.5* of the MD&A. Factors that could cause actual performance to differ materially include, but are not limited to:

- Competition including: continued intense competitive rivalry across all services among incumbent telecommunications companies, new entrant wireless operators, cable-TV providers, other communications companies and emerging over-the-top (OTT) services; active price and brand competition; TELUS' ability to offer an enhanced customer service experience; industry growth rates including wireless penetration gain; network access line losses; subscriber additions and subscriber retention experience for wireless, TELUS TV® and Optik High Speed™ Internet services; costs of subscriber acquisition and retention; pressures on wireless average revenue per subscriber unit per month (ARPU) such as through flat rate pricing trends for voice and data, inclusive long distance plans for voice, and increasing availability of Wi-Fi networks for data; levels of smartphone sales and associated subsidy levels; and ability to obtain and offer data content

across multiple devices on wireless and TV platforms.

- Technological substitution including: reduced utilization and increased commoditization of traditional wireline voice local and long distance services; increasing numbers of households that have only wireless telephone services; continuation and acceleration of wireless voice ARPU declines such as through substitution to messaging and OTT applications such as Skype; and OTT IP services that may cannibalize TV and entertainment services.

- Technology including: subscriber demand for data that could challenge wireless network capacity, service levels and spectrum capacity; reliance on systems and information technology; broadband and wireless technology options and roll-out plans, including reliance on wireless reciprocal network access agreements; choice of suppliers and suppliers' ability to maintain and service their product lines; wireless handset supplier concentration and market power; expected technology and evolution paths; expected benefits and performance of high-speed packet access plus (HSPA+) dual-cell technology and transition to long-term evolution (LTE) wireless technology; dependence of rural LTE roll-out strategy on ability to acquire spectrum in the 700 MHz band; successful deployment and operation of new wireless networks and successful introduction of new products (such as new LTE and tablet devices), new services and supporting systems; network reliability and change management; and successful upgrades of TELUS TV technology.

- Economic growth and fluctuations including: the strength and persistence of the economic recovery in Canada that may be influenced by international economic developments in the U.S., Europe, Asia and elsewhere; future interest rates; and pension investment returns and funding.

- Capital expenditure levels in 2012 and beyond due to the Company's wireless deployment strategy for future technologies including LTE, wireline broadband initiatives, Internet data centre (IDC) initiatives, and future Industry Canada wireless spectrum auctions, including auction of spectrum in the 700 MHz and 2.5/2.6 GHz bands.

- Financing and debt requirements including ability to carry out refinancing activities.

- Ability to sustain growth objectives to 2013 (including, over this timeframe, dividend growth of circa 10% per annum and CEO goals of generating low double-digit percentage annualized growth in earnings per share and greater growth in free cash flow). The growth objectives may be affected by factors such as regulatory and government developments and decisions, competitive environment, reasonable economic performance in Canada, and capital expenditure and spectrum auction requirements. The growth objectives are not necessarily indicative of earnings, dividends and free cash flow beyond 2013.

- Regulatory approvals and developments including: the design and impact of future spectrum auctions (including the spectrum auction rules and cost of acquiring spectrum in the 700 MHz and 2.5/2.6 GHz bands); whether application and enforcement of new regulatory safeguards regarding vertical integration by competitors into broadcast content ownership prove to be effective; increased foreign control of wireless entrants from federal policy decisions on foreign ownership restrictions; interpretation and application of tower sharing and roaming rules; and possible adoption of consumer protection legislation by provinces whose non-harmonized rules create risk of significant compliance costs.

- Human resource developments including employee retention and engagement matters and the outcome of collective bargaining for a Quebec region agreement that expired at the end of 2011 (covering approximately 510 employees).

- Ability to successfully implement cost reduction initiatives and realize expected savings net of restructuring costs, such as from business integrations, business process outsourcing, internal offshoring and reorganizations, without losing customer service focus or negatively impacting client care.

- Process risks including: reliance on legacy systems and ability to implement and support new products and services; and implementation of large enterprise deals that may be adversely impacted by available resources and degree of co-operation from other service providers.

- Tax matters including possible increases in certain provincial and/or federal corporate income tax rates.

- Business continuity events including human-caused threats such as electronic attacks, and natural disaster threats.

- Acquisitions or divestitures including realizing expected strategic benefits.

- Health, safety and environmental developments ; Litigation and legal matters; and other risk factors discussed herein and listed from time to time in TELUS' reports and public disclosure documents including its annual report and other filings with securities commissions in Canada (on SEDAR at **sedar.com**) and in its filings in the United States (on EDGAR at **sec.gov**). For further information, see *Section 10: Risks and risk management* in the MD&A.

CORPORATE STRUCTURE

Name, address and incorporation

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 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), 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 Street, Vancouver, B.C.

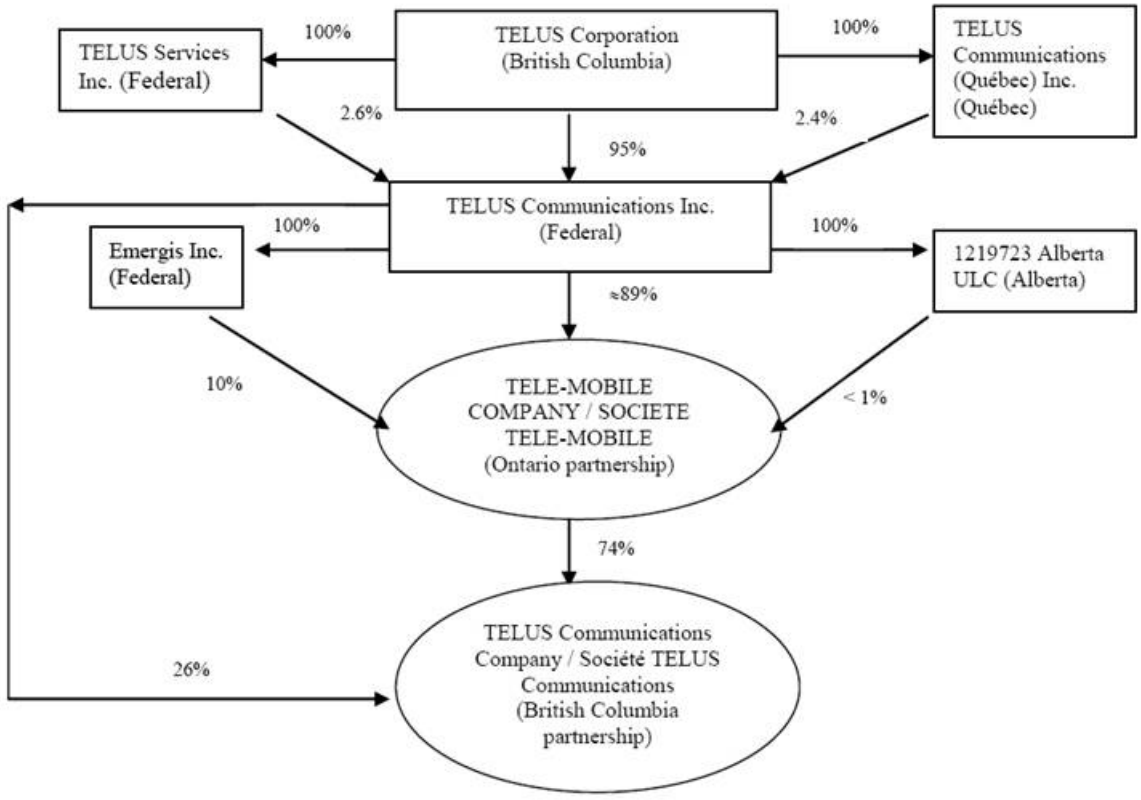
Intercorporate relationships and TELUS subsidiaries

The only material subsidiary of TELUS is TELUS Communications Inc. ("TCI"), being the only subsidiary which owned assets that constitute more than 10 per cent of the consolidated assets of TELUS and that 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, 2011. In addition, all of the assets, sales and operating revenues of TELUS' other subsidiaries (other than TCI), together do not exceed 20% of our total consolidated assets and 20% of our total consolidated sales and operating revenues as at December 31, 2011.

TELUS' wireline and wireless businesses are primarily operated through TELUS Communications Company ("TCC"). TCC is a partnership organized under the laws of B.C. whose partners are TCI and TELE-MOBILE Company ("TELE-MOBILE").

As part of a year-end internal reorganization in 2008, Emergis Inc. ("Emergis"), a TELUS subsidiary acquired in January 2008, became a partner of TELE-MOBILE. In addition, TELUS Services Inc. and TELUS Communications (Québec) Inc. converted their shareholding in TCI from preferred shares to ordinary shares.

The following organization chart sets forth the relationships between these subsidiaries and partnerships, as well as their respective jurisdictions of incorporation or establishment and TELUS ownership as at December 31, 2011:



In this Annual Information Form, unless otherwise stated, references to "TELUS", "the Company", "we" or "us" are to TELUS Corporation and all of its subsidiaries and wholly or majority-owned partnerships as a whole, except where it is clear that these terms mean only TELUS Corporation.

DESCRIPTION OF THE BUSINESS AND GENERAL DEVELOPMENTS

Who we are

TELUS is one of Canada's largest telecommunications companies, providing a wide range of telecommunications services and products including wireless, data, Internet protocol, voice and television. In 2011, we generated $10.4 billion in revenue and had approximately 12.7 million

subscriber connections. This included 7.3 million wireless subscribers, 3.6 million wireline network access lines, 1.3 million Internet subscribers and more than 500,000 TELUS TV subscribers.

We earn the majority of our revenue from access to, and the use of, our telecommunications infrastructure, or from providing products and services that facilitate access to and usage of this infrastructure.

Organization

Our operating segments and reportable segments are wireless and wireline. Our wireless and wireline operations are integrated to leverage the convergence of technologies, to provide integrated solutions differentiating us from our competitors and to improve operating efficiency and effectiveness. Our financial reporting of wireless and wireline segments reflects the segmented information that is regularly reported to our Chief Executive Officer (our chief operating decision maker). Segmentation is based on similarities in technology, the technical expertise required to deliver the services and products, customer characteristics, distribution channels used and regulatory treatment. We offer our wireless and wireline services primarily through TCC.

Our strategy

Our strategic intent is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move. Our strategy for growth is to focus on our core telecommunications business in Canada supported by international contact centre and outsourcing capabilities.

We developed six strategic imperatives in 2000 that management believes remain relevant for future growth, despite changing regulatory and competitive environments. The six strategic imperatives are:

- Building national capabilities across data, IP, voice and wireless
- Focusing relentlessly on the growth markets of data, IP and wireless
- Providing integrated solutions that differentiate TELUS from its competitors
- Partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy and focus TELUS' resources on core business
- Investing in internal capabilities to build a high-performance culture and customer excellence
- Going to market as one team under a common brand, executing a single strategy

A consistent focus on the strategic imperatives guides our actions and contributes to the achievement of our financial goals. See our discussion in MD&A *Section 2.2 Strategic imperatives.* Each year, we adopt a set of corporate priorities to advance our long-term strategic initiatives and address near-term opportunities and challenges. Our corporate priorities are discussed in MD&A *Section 3: Key performance drivers.*

Business overview

Our principal markets, our services and products and an overview of our competition are described in MD&A *Section 4.1 Principal markets addressed and competition*. Further details related to competition can be found in MD&A *Section 10.1.Competition.*

Our assets and resources, including employees, distribution methods, tangible properties (such as our telecommunications networks and network facilities), intangible properties (such as brand and wireless spectrum licences) and an overview of foreign operations are discussed in MD&A *Section 4.2 Operational resources.* Further details on our employees are provided below under *Employee relations* and further details on our wireless spectrum licences are provided below under *Regulation - Radiocommunication spectrum licences*.

For revenue and other financial information on the two most recently completed financial years with respect to our wireless and wireline business, see MD&A *Section 5.4 Wireless segment* and *Section 5.5 Wireline segment.*

An overview of the Canadian economic environment and the telecommunications industry can be found in the MD&A *Section 1.2 Canadian economy and telecommunications industry* and *Section 9: General outlook.* As well, the cyclical or seasonal trends that have impacted the wireline and wireless business are described in the MD&A *Section 5.2 Summary of quarterly results and fourth quarter recap - Trends.*

We are committed to corporate social responsibility and achieving sustainable growth. Our triple bottom line approach to business balances economic growth with environmental and social goals. We aim to integrate environmental considerations into our business and offer innovative communications solutions while protecting the environment. Our environmental policy seeks to meet applicable legal and other requirements and, where possible, to go beyond to achieve corporate targets. We also try to demonstrate sustainable development by integrating environmental, economic and social considerations into each step of our operations. Our environmental policy and the associated Environmental Management System are reviewed regularly to facilitate continuing suitability and effectiveness. Our environmental objectives, targets and performance are monitored and reported yearly through our corporate social responsibility report which is available at **telus.com/csr**.

We are also committed to our community and aim to give where we live by: improving social outcomes for communities and creating a personal affinity for TELUS through our cause marketing campaigns; the efforts of our 11 TELUS Community Boards in Canada and three new international Community Boards; TELUS Community Ambassadors; and programs such as TELUS' Charitable Giving Program, the TELUS Day of Giving and Dollars for Doers. Details about our community investment program can be found in our 2011 Annual Report available at

Three year history

During the three-year period ending on December 31, 2011, we continued to advance our national growth strategy, guided by our six strategic imperatives and our corporate priorities for those years.

Building national capabilities across data, IP, voice and wireless

A key focus of the Company since 2009 has been our investment in broadband networks and services to enhance our competitive position and support future growth opportunities.

In November 2009, we successfully launched our new national advanced wireless network based on the high-speed packet access (HSPA+) technology, facilitated by a network access agreement with Bell Canada.

In 2010, we began deployment of wireless HSPA+ dual cell technology. In early 2011, we launched services in our urban 1900 MHz footprint using this technology, which doubled manufacturer-rated maximum download speeds to up to 42 Mbps. The expected average download speed is 7 to 14 Mbps with a compatible device. Our HSPA+ network and the implementation of dual-cell technology provide an optimal transition to long-term evolution (LTE) technology.

We began urban construction of our next generation wireless 4G LTE network in the latter half of 2011 and launched services in February 2012. LTE technology supports manufacturer-rated peak data download speeds of up to 75 Mbps (typical speeds of 12 to 25 Mbps expected). Our LTE network operates on advanced wireless services (AWS) spectrum, acquired by the Company for $882 million in Industry Canada's 2008 auction.

The urban launch of 4G over AWS spectrum is the first stage in our upgrade to LTE, but any potential roll-out into rural Canada will be dependent on the expected Industry Canada spectrum auction of frequencies in the 700 MHz band in late 2012 or early 2013. We are committed to enhancing the coverage and capacity of our wireless network by building out 4G LTE technology extensively across rural Canada using 700 MHz wireless spectrum. To support our plans to expand 4G LTE wireless service to rural markets, it will be important for the federal government to provide an opportunity for us to bid on and acquire 700 MHz spectrum in the planned auction. See the related risk discussion in MD&A *Section 10.3 Regulatory matters*.

In 2011, we substantially completed our wireline VDSL2 technology overlay following on a substantial completion of our ADSL2+ network in 2010. Our broadband high-definition (HD) coverage, including ADSL2+ coverage, was in nearly 2.3 million households in Alberta, B.C. and Eastern Quebec, up by close to 200,000 homes in 2011. Our deployment of VDSL2 fibre to the node (FTTN) technology since 2009 brings network download speeds of up to 25 Mbps, which permits up to four simultaneous TV streams in the home. In addition, we continue to deploy fibre to the home (FTTH) in new residential areas, fibre to the building in new multi-dwelling units and FTTH to selected areas in B.C.

We are enhancing our national network of data centres and related facilities, drawing upon green hydroelectric power, natural cooling and other technology to make them among the most environmentally sustainable operations of their type in North America. This includes investments in new intelligent Internet data centres in Rimouski, Quebec, with an expected completion date in 2012, and in Kamloops, B.C., with construction

beginning in 2012. These data centres support cloud computing and unified communications solutions for our clients.

Focusing relentlessly on the growth markets of data, IP and wireless

In May 2011, we entered into a five-year contract extension with the Government of Ontario to provide, manage and supply a portfolio of telecommunications services, including information technology security.

In addition, in the third quarter of 2011, following a three-year request for proposal and negotiation process, we signed a 10-year agreement with the Government of B.C. to provide telecommunications and strategic services to the government and its public sector partners. We were the government's previous service provider for many of these services. We expect to invest approximately $350 million over a 10-year period to extend advanced communications technology into rural B.C.

Providing integrated solutions that differentiate TELUS from its competitors

Our ongoing investment in the expansion of our fibre-optic network has provided the capacity to introduce new home entertainment services in B.C. and Alberta since 2005. In June 2010, we launched the Optik™ brand in B.C. and Alberta, a new suite of advanced IP-based TV and high-speed Internet services. We launched the same innovative services in Eastern Quebec in April 2011. Optik services bring together our most advanced home services — Optik TV™ based on the Microsoft Mediaroom platform and Optik High Speed with Internet access speeds of up to 25 Mbps or more that can be accessed anywhere in the home with Wi-Fi. In 2011, we continued to enhance Optik TV services, including expansion of the South Asian channel line-up and the addition of a Facebook application enabling customers to view and use Facebook while watching TV. Optik TV now offers customers access to more than 500 digital channels of entertainment services, including more than 100 HD channels.

In May 2011, we announced the TELUS Future Friendly® Office suite of products and services for small and medium businesses (SMB). The suite was built in collaboration with Cisco and features Cisco Unified Communications technology that is built for companies with fewer than 100

employees. The Future Friendly Office includes TELUS-supported Cisco office systems linked to TELUS wireless and wireline network services, and is available across Canada. In October 2011, we introduced the TELUS Business Freedom™ bundle of wireless and wireline telecommunication services for SMBs in B.C. and Alberta. Two flexible packages are offered that include anytime device upgrades and changes to services, as well as 24/7 technical support and one bill. Business Anywhere™ is a solution for businesses with mobile employees who need to communicate outside the office. Business Select™ is a solution for businesses that primarily work in a single location or have minimal mobility requirements. In November 2011, TELUS launched a new self-serve website where SMBs can shop for wireless services.

Since November 2009, TELUS continues to roll out new Clear & Simple® initiatives to enhance the customer experience by providing less complexity, more flexibility and freedom. In June 2011, TELUS reduced international wireless roaming rates for its customers with the introduction of Clear and Simple international travel pricing. Voice roaming rates were reduced by up to 50% and data roaming rates were reduced by up

to 60%. Separate bundles and passes are no longer required to access the lower rates, making it easy for TELUS customers to use wireless services overseas. This was made possible by working with carriers around the world to negotiate reduced roaming rates.

Partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy and focus TELUS' resources on core business

During 2011, we acquired certain independent TELUS-branded wireless dealership businesses for $81 million cash. These investments were made with a view to enhancing consistency and control over customer service, as well as enhancing distribution of wireless and wireline products across Western Canada.

In 2011, TELUS Health Solutions began three pilot projects with electronic medical records (EMR) providers KinLogix Medical, QHR Technologies and Wolf Medical Systems, whose solutions are connected with the TELUS Health Space® platform. The pilot projects are targeted to reach Canadians in Quebec, Ontario, Alberta and British Columbia. In addition, we signed a contract to provide Alberta Health Services with Microsoft HealthVault technology for the development of a personal health record solution for the province's citizens. TELUS Health Space, powered by Microsoft HealthVault, is a secure and confidential online consumer platform that enables patients to access and manage their own health information, and is expected to improve the flow of personal health information among healthcare providers, regardless of where the patient is located. This is consistent with our vision of helping transform healthcare in Canada through communications technology to reduce costs and errors, better connect patients and help prevent illness.

In 2011, we acquired control of Transactel (Barbados) Inc. through a series of transactions that increased our equity interest to 95% from 29.99% at the beginning of the year. Transactel (Barbados) Inc. is a business process outsourcing and call centre company with facilities in two Central American countries (Guatemala and El Salvador). We invested $71 million in 2011 with a view to enhancing our business process outsourcing capacity, particularly regarding Spanish-language capabilities and acquiring multi-site redundancy in support of other TELUS facilities.

In March 2011, we announced that we are partnering in a residential, retail and commercial real estate redevelopment project in downtown Vancouver, TELUS Garden, which will transform a city block that includes our current national executive offices. It will feature a 46-storey residential condominium tower and a 22-storey office tower, as well as renovations to TELUS' current downtown offices to provide leasable office and retail space. The commercial and residential buildings will be built to leadership in energy and environmental design (LEED) platinum and gold standards, respectively, and incorporate green initiatives.

The TELUS Garden project is on schedule to begin demolition in the first quarter of 2012 and construction expected to be completed in 2015. We plan to invest in the project predominantly through contribution of our existing real estate holdings on this city block, coupled with project debt. The project includes a city-owned parkade that we recently purchased. We plan to lease space in the new jointly owned office tower for our corporate headquarters. We do not plan to maintain an ownership position in the residential tower aside from some retail space after the construction and sale of condominium units.

In September 2009, we acquired Black's Photo Corporation, a national imaging and digital retail company for $28 million. This investment was made with a view to enhancing our distribution of wireless products and services across Canada and particularly in the province of Ontario.

Investing in internal capabilities to build a high-performance culture and customer excellence

A key priority in 2011 and 2010 was to focus on delivering an improved customer experience. In May 2010, we created TELUS Customer Solutions by uniting two customer-facing business units, business solutions and consumer solutions under the leadership of Joe Natale, who was appointed Executive Vice-President and Chief Commercial Officer. This reorganization was carried out to increase our ability to approach customers as one team, with fully co-ordinated sales, marketing and customer care priorities while contributing to operational efficiencies and cost synergies.

In 2010, we implemented an array of initiatives that helped improve efficiency and reduce costs: simplifying or automating processes; simplifying organizational structures through consolidation of functions and reducing organizational layers, which includes workforce reductions; consolidating administrative real estate and reducing use of real estate space, which includes vacating certain locations; decommissioning uneconomic products and services; and leveraging both business process outsourcing and off-shoring to TELUS' own international call centres.

In June 2010, we introduced the Customers First initiative, an internal program that brought all senior managers to the front line to listen to customers, learn from team members and identify customer service improvement initiatives. In 2011, approximately 1,600 senior leaders and management staff interacted for a day with front-line team members. Initiatives identified, such as improved interactive voice systems and more

flexible installation times, are leading to quality of service improvements for our customers.

In 2011, we continued to implement initiatives that are improving the customer experience, increase efficiency and reduce costs: improving practices and processes that drive call centre volumes; adopting clear and simple rate plans and billing to reduce customer churn and inquiries; leveraging roaming agreements to more than 200 countries for better rates and customer experience; increasing smartphone adoption and usage through in-store learning centres; and increasing transparency on smartphone subsidies that allow customers to upgrade mid-contract.

Going to market as one team under a common brand, executing a single strategy

In June 2011, the membership of the Telecommunications Workers Union ("TWU") ratified a new collective agreement that covers approximately 11,250 active TELUS team members, across Canada in the Company's wireline and wireless business segments. The new agreement was reached without a labour disruption and will expire at the end of 2015. In addition, the Company began collective bargaining for a small Quebec region agreement that expired at the end of 2011. See below under *Employee Relations* and MD&A *Section 10.4* for further details.

For additional details on 2011 developments and other events or conditions that influenced our general development, see the MD&A *Section 2.2 Strategic imperatives,* as well as progress on our corporate priorities in MD&A *Section 3: Key performance drivers.* For a discussion of changes in our business expected in 2012, see MD&A *Section 1.5 Financial and operating targets for 2012* and *Section 9: General Outlook.*

For a review of the events and conditions that influenced our general development during 2009 and 2010 and how our business developed over those two years, see the MD&A *Section 1.2 Canadian economy and telecommunications industry, Section 2.2 Strategic imperatives,* as well as progress on our corporate priorities for the relevant year in MD&A *Section 3: Key performance drivers,* contained in the 2009 and 2010 annual MD&As.

2012 Year-to-date developments

On February 21, 2012, TELUS announced that holders of its Common Shares and Non-Voting Shares will have the opportunity to decide whether to eliminate the Company's Non-Voting Share class at an annual and special meeting to be held on May 9, 2012. Under the terms of the proposal, each Non-Voting Share would be converted into a Common Share on a one-for-one basis, effected by way of a court-approved plan of arrangement and will be subject to approval of two-thirds of the votes cast by the holders of Common Shares and two-thirds of the votes cast by the holders of Non-Voting Shares, each voting separately as a class (the "Plan of Arrangement"). In addition to shareholder and court approvals for the transaction, the listing of the new Common Shares to be issued pursuant to the Arrangement is subject to approvals from the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"). NYSE approval will also be needed to list all outstanding Common Shares on the NYSE. Provided those approvals are obtained, TELUS' Common Shares would then trade on both the TSX and the NYSE. There can be no assurance that the proposal will receive voting approval. If this Plan of Arrangement is not completed, the market price of the Non-Voting Shares and/or Common Shares may decline. Further details will be provided in TELUS' information circular for the annual and special meeting to be held on May 9, 2012.

EMPLOYEE RELATIONS

As at December 31, 2011, we employed approximately 41,100 employees, including approximately 13,200 employees in TELUS International that are located outside of Canada. Approximately12,800 of our employees are unionized.

We are signatories to six collective agreements. The largest agreement is with the TWU, covering approximately 11,250 clerical, operator services and technical employees in the wireless and wireline segments across Canada. We negotiated a new agreement with the TWU that came into effect in June 2011 and expires at the end of 2015. Highlights of the new agreement include improved hours of work and scheduling provisions for frontline customer experience team members, improved ability to re-engage retired team members and provisions to enable continued participation in TELUS' At Home Agent and Work Styles programs.

In the province of Quebec, our employees in the wireline segment are covered by two collective agreements. The agreement with the Syndicat Québécois des employés de TELUS, covering approximately 960 trades, clerical and operator services employees, was renegotiated and subsequently ratified on August 5, 2010. This agreement will expire on December 31, 2014. The second wireline agreement, with the Syndicat des agents de maîtrise de TELUS ("SAMT"), covers approximately 510 employees and expired on December 31, 2011. Negotiations to renew this collective bargaining agreement began in October 2011 and continue to progress. The terms and conditions of the expired contract continue to apply until a new agreement is reached. SAMT also represents a small number of employees in the wireless segment under a separate collective agreement.

Our subsidiary, TELUS Sourcing Solutions Inc., is a signatory to collective agreements with the BC Government and Services Employees' Union ("BCGEU") and the Canadian Union of Public Employees ("CUPE"). The BCGEU agreement covers approximately 60 employees and expires on April 30, 2013, while the CUPE agreement covers approximately 20 employees and expires on December 31, 2012.

RISK FACTORS

The risk factors in TELUS' MD&A *Section 10 Risks and risk management* are hereby incorporated by reference.

FOREIGN OWNERSHIP RESTRICTIONS

Certain subsidiaries of TELUS or partnerships in which TELUS has a controlling interest, are Canadian carriers, holders of radio authorizations or licences, and holders of broadcasting licences, and are required by the *Telecommunications Act* (Canada) (the Telecommunications Act), the *Radiocommunication Act* (Canada) (the Radiocommunication Act) and a Direction to the Canadian Radio-television and Telecommunications Commission ("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. We have filed with the CRTC the requisite documentation affirming TCC's status as a Canadian carrier. We further intend that TCC will remain controlled by TELUS Corporation and that it will remain "Canadian" for the purposes of these ownership requirements.

The Canadian Telecommunications Common Carrier Ownership and Control Regulations (the "Ownership and Control Regulations"), made under the Telecommunications Act further provide 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 Corporation must be owned by Canadians and we must not otherwise be controlled in fact by non-Canadians. To the best of our 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. For the purposes of these regulations, "Canadian" means among other things: i) a Canadian citizen who is ordinarily resident in Canada; ii) a permanent resident of Canada who is ordinarily resident in Canada and has been so for more than one year after the date he or she was eligible to apply for Canadian citizenship; iii) a corporation with not less than 66-2/3 per cent of the issued and outstanding voting shares of which are beneficially owned and controlled by Canadians and which is not otherwise controlled in fact by non-Canadians; or iv) a pension fund society the majority of whose members of its board of directors are individual Canadians, and that is established under applicable federal legislation or any provincial legislation relating to the establishment of pension fund societies.

The Ownership and Control Regulations provide Canadian carriers and carrier holding companies, such as TELUS Corporation, with the time and ability to rectify ineligibility resulting from insufficient Canadian ownership of voting shares. Under the Ownership and Control 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 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.

The Federal Government announced on March 14, 2012 that it will amend the Telecommunications Act to remove foreign ownership restrictions for telecommunications companies that hold less than a 10-percent share of the total Canadian telecommunications market. This change was made to enable telecommunications companies with a small market share to access the capital needed to grow and compete. We do not oppose the removal of foreign ownership restrictions in telecommunications and are hopeful that the changes to foreign ownership restrictions announced on March 14, 2012 are a first step towards liberalization of restrictions across the industry.

The discussion on foreign ownership restrictions contained in MD&A *Section 10.3 Regulatory* is hereby incorporated by reference.

REGULATION

General

The provision of telecommunications services and broadcasting services in Canada is regulated by 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 also 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 (i.e. not subject to rate regulation) certain services or classes of services 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 in respect of a service, it can continue to regulate these services in other respects, such as for the purposes of ensuring network access and interconnection.

See MD&A *Section 10.3 Regulatory* for further details related to regulation generally and specifically in relation to regulatory developments that could have a material impact on TELUS' operating procedures, costs and revenues.

Regulation of wireless services

The use of radio spectrum is subject to regulation and licensing by Industry Canada pursuant to the Radiocommunication Act. All of our wireless telecommunications services depend on the use of radio frequencies. While economic regulation of wireless services falls under CRTC jurisdiction, wireless services have, generally, been subject to regulatory forbearance.

The Minister of Industry has the authority to suspend or revoke radio spectrum 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 MD&A *Section 10.3 Regulatory* for further details related to regulation generally and specifically in relation to radiocommunication licences regulated by Industry Canada.

Radiocommunications spectrum licences

We hold radiocommunication spectrum licences and authorizations for a variety of wireless services and applications, both mobile and fixed. We hold significant 1.9 GHz personal communications services (PCS) spectrum throughout Canada, are the leading holder of 800 MHz SMR/ESMR spectrum in all of the major Canadian markets, and hold 25 MHz of cellular 800 MHz spectrum in Alberta, B.C. and eastern Québec. We also were successful in obtaining AWS spectrum licences for an average of approximately 16 MHz covering a national footprint in the Industry Canada spectrum auction in 2008. In addition, we hold various radio spectrum licences for fixed services in the 24/38 GHz, 2.3/3.5 GHz band throughout Canada, paging services, and other miscellaneous wireless services.

On March 14, 2011, Industry Canada released its decision concerning the *Renewal Process for Cellular and PCS Spectrum Licences* . This decision confirmed that where all conditions of licence for the current PCS/cellular licences have been met, licensees will be eligible to be issued a new licence for a 20-year term. This decision also determined that annual fees for these licences, including those spectrum licences from the 2001 PCS spectrum auction expiring in 2011, will be frozen at current rates.

On March 14, 2012, the Federal Government released its decision concerning the auction of available 700MHz and 2500MHz spectrum in the first half of 2013 and the first half of 2014 respectively. In its decision, the Government capped the amount of prime 700MHz spectrum any individual bidder can acquire at 10MHz and capped the amount of 2500MHz spectrum any individual bidder can acquire at 40MHz. We look forward to participating fully in both the 700MHz and 2500MHz auctions and we are fully committed to meeting the conditions of licence associated with the deployment of service in urban and rural areas.

See MD&A *Section 10.3 Regulatory* for further details related to regulation generally and specifically in relation to future availability and cost of wireless spectrum and radiocommunication licences regulated by Industry Canada.

Broadcasting services

We hold Class 1 Regional broadcasting distribution licences to serve areas in each of B.C., Alberta and Québec utilizing our IP facilities. We also hold a national licence to operate a video-on-demand programming service.

See MD&A *Section 10.3 Regulatory* for further details related to regulation generally and specifically in relation to TELUS' broadcasting distribution undertakings and the CRTC's review of vertical integration in the broadcasting industry to address the potential for anti-competitive behaviour by broadcasting companies which own interests in both broadcasting distribution services and programming services.

COMPETITION

We expect continued strong competition in the wireline and wireless businesses in all principal markets and geographic areas. See MD&A *Section 4.1 Principal markets addressed and competition* for a summary of the competitive environment in each of our principal markets and geographic areas. Also refer to MD&A *Section 10.1 Competition* for further details on the risks associated with such competitive environment and *Section 9: General outlook* for an assessment of our competitive position as it relates to the telecommunications industry generally and specifically as it relates to the wireless and wireline industries.

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, 2011, are shown below:

Quarter ended [1]	**2011**	**2010**	**2009**
March 31	$ 0.525	$ 0.475	$ 0.475
June 30	$ 0.550	$ 0.500	$ 0.475
September 30	$ 0.550	$ 0.500	$ 0.475
December 31	$ 0.580	$ 0.525	$ 0.475
Total	**$ 2.205**	**$ 2.000**	**$ 1.900**

(1) Paid on or about the first business day of the next month.

Our shareholders received a total of $2.205 per share in declared dividends in 2011, which was an increase of 10.3% from 2010. TELUS' Board of Directors reviews our dividend rate quarterly. Our quarterly dividend rate will depend on an ongoing assessment of free cash flow generation and financial indicators including leverage, dividend yield and payout ratio. The Company's dividend payout ratio target guideline of 45 to 55 per cent was increased in May 2010 by the Board of Directors to 55 to 65 per cent of sustainable net earnings, on a prospective basis.

TELUS announced a dividend growth model in May 2011, under which, subject to the Board of Directors' assessment and determination, the Company expects to continue with two dividend increases per year to 2013 that would on an annual basis, provide an increase of

circa 10 per cent. The dividend increase policy is not necessarily indicative of dividends beyond 2013. See MD&A *Section 4.3* for the Company's capital structure financial policies, results and plans.

On February 21, 2012, the Board of Directors declared a quarterly dividend of 61 cents per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company, payable on July 3, 2012, to shareholders of record at the close of business on June 8, 2012. The 61 cent per share dividend declared for the second quarter of 2012 reflects an increase of six cents or 10.9% from the dividend one year earlier. This is consistent with TELUS' dividend growth model discussed above. In the event that the Plan of Arrangement (see *2012 Year-to-date developments above*) receives all requisite approvals and is effective prior to the dividend record date of June 8, 2012, holders of record on such date who previously held Non-Voting Shares would hold Common Shares and would therefore receive the same dividend as all other holders of Common Shares.

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, issuable in series and; 4) 1,000,000,000 Second Preferred shares without par value, issuable in series. 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. No First Preferred or Second Preferred shares have been issued. See *Market for Securities* below.

In the event that the Plan of Arrangement (see *2012 Year-to-date developments above*) receives all requisite approvals, the authorized capital of TELUS and the Articles of the Company will be amended to eliminate the Non-Voting Share class pursuant to the Plan of Arrangement by converting all of the issued and unissued Non-Voting Shares to Common Shares and to increase the number of Common Shares that the Company is authorized to issue by that number of Non-Voting Shares that the Company was previously authorized to issue. In addition to shareholder and court approvals for the transaction, the listing of the new Common Shares to be issued pursuant to the Arrangement is subject to approvals from the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE"). NYSE approval will also be needed to list all outstanding Common Shares on the NYSE. Provided those approvals are obtained, TELUS' Common Shares would then trade on both the TSX and the NYSE. Further details will be provided in TELUS' information circular for the annual and special meeting to be held on May 9, 2012.

TELUS Common Shares and TELUS Non-Voting Shares

Subject to the prior rights of the holders of First Preferred shares and Second 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 shareholders 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 shareholders 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. Holders of Common Shares are entitled 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 shareholders 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 our ongoing compliance with the foreign ownership provisions of the Telecommunications Act, the Radiocommunication Act and the Broadcasting Act. As well, holders of Common Shares may be required, 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. 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 shareholders 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 shareholders 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 shareholder rights plan

We first adopted a shareholder rights plan in March 2000, which expired on March 20, 2010. The TELUS Board of Directors adopted a substantially similar shareholder rights plan (the “Rights Plan”) on March 12, 2010 (the “Effective Date”), which was ratified by shareholders of both share classes at the May 2010 annual and special meeting. Under the Rights Plan, TELUS issued one right (a “Series A Right”) in respect of each Common Share outstanding as at the Effective Date and issued one right (a “Series B Right”) in respect of each Non-Voting Share outstanding as of the Effective Date. The Rights Plan has a term of just over nine years, subject to shareholder confirmation every three years. Each Series A Right or 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 Common Shares of TELUS (otherwise than through the “Permitted Bid” requirements of the Rights Plan) to purchase from TELUS $320 worth of Common or Non-Voting Shares for $160 (i.e. at a 50 per cent discount) respectively.

In the event that the Plan of Arrangement (see *2012 Year-to-date developments above*) receives all requisite approvals, the Rights Plan will be amended and restated pursuant to the Plan of Arrangement to reflect the conversion of Non-Voting Shares to Common

Shares. Further details will be provided in TELUS’ information circular for the annual and special meeting to be held on May 9, 2012.

RATINGS

The following information relating to our credit ratings is provided as it relates to our financing costs, liquidity and operations. Additional information relating to credit ratings is contained in MD&A *Section 7.4- Liquidity and capital resources* to *Section 7.6 — Accounts receivable sale,* which are hereby incorporated by reference.

Credit ratings are important to our borrowing costs and ability to obtain short-term and long-term financing and the cost of such financing. A reduction in the current rating on our debt by rating agencies, particularly a downgrade below investment grade ratings or a negative change in its ratings outlook could adversely affect our cost of financing and our access to sources of liquidity and capital. We believe our adherence to our stated financial policies and the resulting investment grade credit ratings, coupled with our efforts to maintain constructive relationship with

banks, investors and credit rating agencies, continue to provide TELUS with reasonable access to capital markets.

In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions including transactions involving over-the-counter derivatives. TCI is also a party to an agreement expiring in August 2014 with an arm's-length securitization trust associated with a major Schedule I bank, under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of $500 million. TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd. or the securitization trust may require the sale program to be wound down.

The rating agencies regularly evaluate TELUS and/or TCI, and their ratings of our long-term and short-term debt are based on a number of factors, including our financial strength as well as factors not entirely within our control, including conditions affecting the telecommunications industry generally, and the wider state of the economy.

The Company's credit ratings are outlined in the chart below. 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 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.

Credit rating summary	DBRS Ltd.	Standard & Poor's Rating Services	Moody's Investor Services	FitchRatings
TELUS Corporation				
Notes	A (low)	BBB+	Baa1	BBB+
Commercial paper	R-1 (low)	—	—	—
TELUS Communications Inc.				
Debentures	A (low)	BBB+	—	BBB+

The following descriptions of the rating categories prepared by the respective rating agencies (obtained from their public websites) are provided solely to satisfy

requirements of Canadian law and do not constitute an endorsement by TELUS of the categories or of the application of the respective rating agencies.

Institution	Rating
DBRS	The DBRS® long-term rating scale provides an opinion on the risk of default. That is, the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. Ratings are based on quantitative and qualitative considerations relevant to the issuer, and the relative ranking of claims. All rating categories, other than AAA and D, also contain subcategories "(high)" and "(low)". The absence of either a "(high)" or "(low)"designation indicates the rating is in the middle of the category. An "A" rating denotes good credit quality. The capacity for the payment of financial obligations is substantial, but of lesser credit quality than AA. May be vulnerable to future events, but qualifying negative factors are considered manageable.Long-term debt rated "BBB" is of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable. May be vulnerable to future events. The ratings from "AA" to "CCC" 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. The DBRS® short-term debt rating scale provides an opinion on the risk that an issuer will not meet its short-term financial obligations in a timely manner. Ratings are based on quantitative and qualitative considerations relevant to the issuer and the relative ranking of claims. The R-1 and R-2 rating categories are further denoted by the subcategories "(high)", "(middle)", and "(low)". The R-1 (low) rating category denotes good credit quality. The capacity for the payment of short-term financial obligations as they fall due is substantial. Overall strength is not as favourable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.
S&P	A Standard & Poor's issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). 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.
Moody's	Moody's long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default. Obligations 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

Institution	Rating
	mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.
Fitch	'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' Long-Term rating

MARKET FOR SECURITIES

TELUS' Common Shares and Non-Voting Shares are listed on the Toronto 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 2011 are listed below:

TSX — Common and Non-Voting Shares

	Common Shares			Non-Voting Shares		
Month	**High($)**	**Low($)**	**Volume**	**High($)**	**Low($)**	**Volume**
January	49.78	44.98	9,468,449	47.69	42.90	6,428,183
February	49.98	47.10	10,842,778	47.98	45.20	5,314,216
March	49.94	46.17	14,348,203	47.45	44.45	6,996,785
April	50.29	48.08	8,854,363	48.24	46.00	4,257,455
May	53.55	49.35	10,521,034	51.39	47.47	5,177,888
June	53.59	51.14	13,160,210	51.39	48.88	6,154,862
July	55.04	51.05	9,840,783	52.67	48.75	4,072,779
August	54.00	49.47	14,733,376	51.39	46.86	8,934,646
September	54.35	50.17	14,351,207	51.63	48.00	8,414,158
October	55.66	50.00	12,676,770	52.94	47.45	8,879,972
November	55.45	52.60	9,510,562	52.37	49.71	6,364,344
December	57.74	54.67	17,529,275	54.77	51.89	9,083,969

NYSE — Non-Voting Shares

Month	**High ($U.S.)**	**Low ($U.S.)**	**Volume**
January	47.63	43.09	1,931,162
February	48.64	45.81	1,751,038
March	48.95	45.00	2,274,108
April	50.59	47.80	2,646,498
May	53.04	49.41	2,737,265
June	52.95	49.53	2,758,405
July	55.15	51.41	2,636,072
August	53.72	46.99	5,996,444
September	53.01	46.20	4,050,728
October	52.70	44.63	3,887,992
November	51.36	47.75	2,007,239
December	53.75	50.81	2,397,117

DIRECTORS AND OFFICERS

Directors

The names, municipalities of residence and principal occupations of the directors of TELUS, the date each such person became a director of TELUS and committee membership are as set out below. Currently, there are 13 directors on the TELUS Board. Each was elected at TELUS' annual meeting on May 5, 2011, except for Stockwell Day who was appointed by the Board of Directors on July 1, 2011. Each director's term of office will expire immediately after the upcoming annual and special meeting on May 9, 2012. They have, however, all been nominated for re-election at the upcoming meeting except for Ron Triffo who has decided to retire and will not be seeking re-election at the May 9, 2012 annual and special meeting.

Directors of TELUS (Name and municipality of residence)	**Director since (1)**	**Principal occupation**
R.H. (Dick) Auchinleck (4 – Chair) (3) Victoria, British Columbia	2003	Corporate Director

A. Charles Baillie (3 – Chair) (5) Toronto, Ontario	2003	Chair, Alberta Investment Management Corporation (pension investment corporation)
Micheline Bouchard (3)(5) Montréal, Québec	2004	Corporate Director
R. John Butler, Q.C. (2) Edmonton, Alberta	1995	Counsel, Bryan & Company (law firm)
Brian A. Canfield Point Roberts, Washington	1989	Chair, TELUS Corporation
Stockwell Day (2) West Kelowna, British Columbia	2011	Advisor and Consultant
Pierre Y. Ducros(3)(4) Montréal, Québec	2005	President of P. Ducros & Associés Inc. (investment and administration firm)
Darren Entwistle Vancouver, B.C.	2000	President and Chief Executive Officer, TELUS Corporation
Ruston E.T.(Rusty) Goepel (4)(5) Vancouver, B.C.	2004	Senior Vice President, Raymond James Financial Ltd. (investment firm)
John S. Lacey (2)	2000	Chairman, Advisory Board, Brookfield

Directors of TELUS (Name and municipality of residence)	Director since (1)	Principal occupation
Thornhill, Ontario		Special Situations Partners Ltd. (formerly Tricap) (investment fund)
William (Bill) MacKinnon(2 – Chair) Toronto, Ontario	2009	Corporate Director
Ronald P. Triffo (2) Edmonton, Alberta	1995	Chairman, Alberta Innovates – Technology Futures
Donald (Don) Woodley (4) (5 – Chair) Mono Township, Ontario	1998	Corporate Director

(1) TELUS or its predecessors
(2) Member of Audit Committee.
(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: Stockwell Day was a member of the Federal Parliament and was appointed Minister of International Trade and Minister for the Asia-Pacific Gateway, Senior Minister Responsible for British Columbia and Chair of the Cabinet Committee on Afghanistan from 2008 to 2010 and from 2010 to May 2011, Stockwell Day was appointed President of the Treasury Board; Bill MacKinnon was Chief Executive Officer of KPMG Canada from April 1999 to December 2008; and Ron Triffo was Chairman of Stantec Inc. from 1998 to 2011.

Executive officers

The name, municipality of residence and present and principal occupations of each of the executive officers of TELUS, as of March 14, 2012, are as follows:

Executive Officers of TELUS (Name and municipality of residence)	Position held with TELUS
Darren Entwistle Vancouver, B.C.	President and Chief Executive Officer

Robert G. McFarlane Vancouver, B.C.	Executive Vice President and Chief Financial Officer
Josh Blair Vancouver, B.C.	Executive Vice President, Human Resources
François Côté Montréal, Québec	Executive Vice President and President, TELUS Québec and TELUS Health Solutions
Joe M. Natale Mississauga, Ontario	Executive Vice President and Chief Commercial Officer
Eros Spadotto Oakville, Ontario	Executive Vice President, Technology Strategy and Operations
Monique Mercier Vancouver, B.C.	Senior Vice President, Chief Legal Officer and Corporate Secretary
Bill Sayles Vancouver, B.C.	Senior Vice-President and Chief Information Officer, Business Transformation

All of the executive officers of TELUS have held their present positions or other executive positions with the Company during the past five years or more, except as follows: François Côté was President and Chief Executive Officer of Emergis Inc. from November 2004 to January 2008 when Emergis was acquired by the Company; Monique Mercier was Executive Vice-President, Legal and Human Resources of Emergis Inc. from November 2004 to January 2008; and Bill Sayles was Vice-President and General Manager, IT Core System of Intel Corporation from 2006 to June 2008.

TELUS shares held by directors and executive officers

As at March 7, 2012, the directors and executive officers of TELUS, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 343,880 Common Shares, which represented approximately 0.20 per cent of the outstanding Common Shares and 501,873 Non-Voting Shares, which represented approximately 0.33 per cent of the outstanding Non-Voting Shares.

Cease trade orders, bankruptcies, penalties or sanctions

Other than as disclosed below, for the 10 years ended March 14, 2012, we are not aware that any current director or executive officer of TELUS had been a director or executive officer of any issuer which, while that person was acting in that capacity, or within a year of that person ceasing to act 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, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

- John Lacey was appointed to the board of directors of Stelco Inc. (“Stelco”) as a nominee of Tricap Management Limited (“Tricap”) in March 2006. Stelco had 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 was formerly a director of Dana Corporation, which filed for bankruptcy in March 2006 under Chapter 11 of the U.S. Bankruptcy Code. He ceased to be director when the company emerged from bankruptcy on February 1, 2008.
- Robert G. McFarlane was a director of Ascalade Communications Inc. (“Ascalade”) until his resignation in February 2008. In March 2008, Ascalade filed for bankruptcy protection under the CCAA. In January 2010, the majority of the Ascalade’s assets were realized and distributed to its shareholders in accordance with its plan of arrangement.

Other than as disclosed below, for the 10 years ended March 14, 2012, we are not aware that any current director or executive officer of TELUS had been a director, chief executive officer or chief financial officer of any issuer which was the subject of a cease trade or similar order while that person was acting in that capacity, or was subject to such an order issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and resulted from an event that occurred while that person was acting in that capacity, or any order which denied such company 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. Mr. Ducros ceased to be a director of Cognos in February 2008 after its acquisition by IBM.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The description of legal proceedings described in MD&A *Section 10.9 Litigation and legal matters* is hereby incorporated by reference. In addition, there have not been any (a) penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority during the most recently completed financial year, (b) penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, or (c) settlement agreements entered into by us before a court relating to securities legislation or with a securities regulatory authority during the most recently completed financial year.

INTERESTS OF EXPERT

Deloitte & Touche LLP, Chartered Accountants, are the auditors of the Company and are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

AUDIT COMMITTEE

The Audit Committee of the Company supports the Board in fulfilling its oversight responsibilities regarding the integrity of our 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 our external and internal auditors, the management of the our 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 Bill MacKinnon (Chair), John Butler, Stockwell Day, John Lacey and Ronald P. Triffo. 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 Bill MacKinnon is an audit committee financial expert and has accounting or related financial management expertise. As noted above, Ron Triffo has decided to retire and will not be standing for re-election at the May 2012 annual and special meeting. 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.

Bill MacKinnon chairs the Audit Committee. He is the former Chief Executive Officer of KPMG Canada, serving from April 1999 to December 31, 2008. He first joined KPMG Canada in 1971, serving the company in numerous roles of increasing leadership for 37

years, including his membership on the Board of Directors of each of KPMG Canada, KPMG International and KPMG Americas. Mr. MacKinnon obtained a Bachelor of Commerce with Honours from the University of Manitoba in 1967. He became a chartered accountant in 1971 and obtained his FCA designation from the Institute of Chartered Accountants of Ontario in 1994.

John Butler is a lawyer and counsel to Bryan & Company, a law firm with offices in Calgary and Edmonton, Alberta. He is also currently the Chair of the Board of Governors of the Canadian Football League. Mr. Butler is also a director of Liquor Stores N.A. John holds a Bachelor of Arts and a Bachelor of Laws from the University of Alberta.

Stockwell Day is a strategic advisor and consultant. He served at the provincial and federal levels of government for over 25 years. From 1986 to 2000, Mr. Day served with the Alberta government in a variety of roles including Minister of Labour, Minister of Social Services and Provincial Treasurer, and Minister of Finance. From 2000 to May 2011, Mr. Day served as a Member of Parliament with the federal government, holding various positions including Leader of the Official Opposition, Minister of Public Safety, Minister of International Trade, Minister for the Asia-Pacific Gateway and Senior Minister Responsible for British Columbia and President of the Treasury Board. Mr. Day did not seek re-election in the May 2011 general election. Mr. Day is a well-known conference and event speaker. Mr. Day attended the University of Victoria and has an Honourary Doctorate from the University of St. Petersburg, Russia.

John Lacey is Chairman of the Advisory Board of Brookfield Special Situations Partners Ltd. (formerly Tricap). Mr. Lacey was previously the Chairman of the board of directors of Alderwoods Group, Inc., an organization operating funeral homes and cemeteries within North America, until November 2006. Mr. Lacey has completed the Program for Management Development at Harvard Business School.

Ronald P. Triffo is the Chairman of Alberta Innovates — Technology Futures and was, until his retirement in May 2011, Chairman and a director of Stantec Inc., an international engineering and architecture professional services company where he served in various executive management positions for more than 30 years. Mr. Triffo holds a Bachelor of Science (Civil Engineering) from the University of Manitoba, a Master of Science (Engineering) from the University of Illinois and an Honorary Doctorate of Laws from the University of Alberta.

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, we have 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 or her 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, 2011 to December 31, 2011:

Type of work	Deloitte & Touche LLP	%
Audit fees[1]	$ 3,470,547	95.1
Audit-related fees[2]	$ 161,000	4.4
Tax fees[3]	$ 18,001	0.5
All other fees	—	—
Total	**$ 3,649,548**	**100.0**

(1) Audit fees include fees for services rendered by the external auditors in relation to the audit and review of our financial statements and in connection with our statutory and regulatory filings.
(2) Audit-related fees include fees for services rendered by the external auditors in relation to performing the audit of, or reviewing financial statements, that were not part of audit fees. These include internal control reviews and consulting on financial accounting and reporting standards.
(3) Tax fees relate to tax compliance, tax advice and tax planning.

The following table is a summary of billing by Deloitte & Touche LLP, as external auditors of TELUS, during the period from January 1, 2010 to December 31, 2010:

Type of work	Deloitte & Touche LLP	%
Audit fees[1]	$ 3,375,731	95.7
Audit-related fees[2]	$ 150,404	4.3
Tax fees	—	—
All other fees	—	—
Total	**$ 3,526,135**	**100.0**

(1) Audit fees include fees for services rendered by the external auditors in relation to the audit and review of our financial statements and in connection with our statutory and regulatory filings.
(2) Audit-related fees include fees for services rendered by the external auditors in relation to performing the audit of, or reviewing financial statements, that were not part of audit fees. These include internal control reviews and consulting on financial accounting and reporting standards.

MATERIAL CONTRACTS

As at December 31, 2011, TCI continues to be a party to a three year agreement (expiry August 1, 2014) with an arm's-length securitization trust associated with a major Schedule I bank, under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of $500 million. TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd. or the securitization trust may require the sale program to be wound down. The necessary credit rating was exceeded as of March 14, 2012.

On November 3, 2011 TELUS entered into a replacement five year $2 billion unsecured credit facility (the "2011 Credit Facility") with a syndicate of 15 financial institutions. The 2011 Credit Facility replaces TELUS' previous $2 billion facility which would have matured in May 2012. The 2011 Credit Facility may be used for general corporate purposes including the backstop of commercial paper. The material terms of the 2011 Credit Facility are substantively the same as TELUS' previous credit facility other than pricing and an extension of the term to November 2016.

TRANSFER AGENT AND REGISTRAR

Our 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 sedar.com and EDGAR at sec.gov. Additional information regarding directors' and officers' remuneration, and securities authorized for issuance under equity compensation plans, will be contained in TELUS' information circular for the annual and special meeting to be held on May 9, 2012. Additional financial information is provided in the Company's consolidated financial statements and MD&A for the year ended December 31, 2011. 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 identification and 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, upon 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, upon 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.

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

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 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;

c) earnings press releases and earnings guidance, if any; and

d) 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 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

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) review and consider the annual performance objectives, performance evaluation and compensation treatment of the Chief Internal Auditor;

c) oversee the work of the internal auditors including reviewing and approving the annual internal audit plan and updates thereto;

d) 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

e) 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 MD&A;

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 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 with regulators, and the accuracy and timeliness of filings with regulatory authorities;

c) annually and recommend to the Board for approval, together with the Human Resources and Compensation Committee, the ethics policy and material changes thereto;

d) quarterly reports on ethics breaches pertaining to internal controls over financial reporting, including fraud involving management or other employees who have a role in the Company's internal controls over financial reporting;

e) quarterly reports from the Chief General Counsel on compliance with laws and regulations; and

f) quarterly reports from the Chief Compliance Officer on legal and regulatory compliance activities.

4.8 Risk Management

The Committee will:

a) consider reports on the annual enterprise business risk assessment and updates thereto;

b) except to the extent that responsibility is reserved to the Board or delegated to another Board committee, review management's implementation of risk policies and procedures, and assess the appropriateness and comprehensiveness of those policies and procedures;

c) consider reports on financial risk management including derivative exposure and policies; and

d) review other risk management matters from time to time as 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;

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;

e) and evaluate, at least once annually, 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.

TELUS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

report of management on internal control over financial reporting

Management of TELUS Corporation (TELUS) is responsible for establishing and maintaining adequate internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

TELUS' Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, 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 and the Executive Vice-President and Chief Financial Officer 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 of December 31, 2011. In connection with this assessment, no material weaknesses in the Company's internal control over financial reporting were identified by management as of December 31, 2011.

Deloitte & Touche LLP, the Company's Independent Registered Chartered Accountants, audited the Company's Consolidated financial statements for the year ended December 31, 2011, and as stated in the Report of Independent Registered Chartered Accountants, they have expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011.

"Robert G. McFarlane"

Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer
February 23, 2012

"Darren Entwistle"

Darren Entwistle
President
and Chief Executive Officer
February 23, 2012

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the accompanying consolidated financial statements of TELUS Corporation and subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of income and other comprehensive income, changes in owners' equity and cash flows for the years ended December 31, 2011, and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States).

Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TELUS Corporation and subsidiaries as at December 31, 2011, December 31, 2010, and January 1, 2010, and their financial performance and their cash flows for each of the years ended December 31, 2011, and December 31, 2010, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as at December 31, 2011, 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 23, 2012, expressed an unqualified opinion on the Company's internal control over financial reporting.

"Deloitte & Touche LLP"

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 23, 2012

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the internal control over financial reporting of TELUS Corporation and subsidiaries (the Company) as of December 31, 2011, based on the 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, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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 material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, 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 at and for the year ended December 31, 2011, of the Company and our report dated February 23, 2012, expressed an unqualified opinion on those financial statements.

"Deloitte & Touche LLP"

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Vancouver, Canada
February 23, 2012

consolidated statements of income and other comprehensive income

Years ended December 31 (millions except per share amounts)	Note	2011	2010 (adjusted – Note 25(c))
OPERATING REVENUES			
Service		**$ 9,606**	$ 9,131
Equipment		**719**	611
		10,325	9,742
Other operating income	*6*	**72**	50
		10,397	9,792
OPERATING EXPENSES			
Goods and services purchased		**4,726**	4,236
Employee benefits expense	*7*	**1,893**	1,906
Depreciation		**1,331**	1,339
Amortization of intangible assets		**479**	402
		8,429	7,883
OPERATING INCOME		**1,968**	1,909
Financing costs	*8*	**377**	522
INCOME BEFORE INCOME TAXES		**1,591**	1,387
Income taxes	*9*	**376**	335
NET INCOME		**1,215**	1,052
OTHER COMPREHENSIVE INCOME	*10*		
Items that may subsequently be reclassified to income			
Change in unrealized fair value of derivatives designated as cash flow hedges		**6**	54
Foreign currency translation adjustment arising from translating financial statements of foreign operations		**4**	—
		10	54
Item never subsequently reclassified to income			
Employee defined benefit plans actuarial gains (losses)		**(851)**	(214)
		(841)	(160)
COMPREHENSIVE INCOME		**$ 374**	$ 892
NET INCOME (LOSS) ATTRIBUTABLE TO:			
Common Shares and Non-Voting Shares		**$ 1,219**	$ 1,048
Non-controlling interests		**(4)**	4
		$ 1,215	$ 1,052
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Common Shares and Non-Voting Shares		**$ 378**	$ 888
Non-controlling interests		**(4)**	4
		$ 374	$ 892
NET INCOME PER COMMON SHARE AND NON-VOTING SHARE	*11*		
Basic		**$ 3.76**	$ 3.27
Diluted		**$ 3.74**	$ 3.27
DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE	*12*	**$ 2.205**	$ 2.000
TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING			
Basic		**324**	320
Diluted		**326**	321

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

consolidated statements of financial position

As at (millions)	Note	December 31, 2011	December 31, 2010 (adjusted – Note 25(d))	January 1, 2010 (Note 25(d))
ASSETS				
Current assets				
Cash and temporary investments, net		**$ 46**	$ 17	$ 41
Accounts receivable	*24(a)*	**1,428**	1,318	1,195
Income and other taxes receivable		**66**	62	16
Inventories	*24(a)*	**353**	283	270
Prepaid expenses		**144**	113	105
Derivative assets	*4(h)*	**14**	4	1
		2,051	1,797	1,628
Non-current assets				
Property, plant and equipment, net	*15*	**7,964**	7,831	7,832
Intangible assets, net	*16*	**6,153**	6,152	6,166
Goodwill, net	*16*	**3,661**	3,572	3,572
Other long-term assets	*24(a)*	**81**	235	286
Investments		**21**	37	41
		17,880	17,827	17,897
		$ 19,931	$ 19,624	$ 19,525
LIABILITIES AND OWNERS' EQUITY				
Current liabilities				
Short-term borrowings	*18*	**$ 404**	$ 400	$ 500
Accounts payable and accrued liabilities	*24(a)*	**1,419**	1,477	1,336
Income and other taxes payable		**25**	6	174
Dividends payable	*12*	**188**	169	150
Advance billings and customer deposits	*24(a)*	**655**	658	530
Provisions	*19*	**88**	122	299
Current maturities of long-term debt	*20*	**1,066**	847	549
Current portion of derivative liabilities	*4(h)*	**—**	419	62
		3,845	4,098	3,600
Non-current liabilities				
Provisions	*19*	**122**	204	91
Long-term debt	*20*	**5,508**	5,209	5,623
Other long-term liabilities	*24(a)*	**1,343**	649	1,334
Deferred income taxes		**1,600**	1,683	1,522
		8,573	7,745	8,570
Liabilities		**12,418**	11,843	12,170
Owners' equity				
Common Share and Non-Voting Share equity	*21*	**7,513**	7,759	7,334
Non-controlling interests		**—**	22	21
		7,513	7,781	7,355
		$ 19,931	$ 19,624	$ 19,525
Commitments and Contingent Liabilities	*22*			

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

Approved by the Directors:

"William A. MacKinnon" "Brian A. Canfield"

William A. MacKinnon
Director

Brian A. Canfield
Director

consolidated statements of changes in owners' equity

	Common Share and Non-Voting Share equity			
	Equity contributed			
	Share capital		Accumulated	
	Common Shares	Non-Voting Shares	other	Non-

(millions except number of shares)	Note	Number of shares	Share capital	Number of shares	Share capital	Total	Contributed surplus	Retained earnings	comprehensive income	Total	controlling interests	Total
								(adjusted – Note 25)				
Balance as at January 1, 2010		174,819,020	$2,216	142,875,516	$3,070	$5,286	$ 167	$ 1,934	$ (53)	$7,334	$ 21	$7,355
Net income		—	—	—	—	—	—	1,048	—	1,048	4	1,052
Other comprehensive income		—	—	—	—	—	—	(214)	54	(160)	—	(160)
Dividends	*12(a)*	—	—	—	—	—	—	(642)	—	(642)	(3)	(645)
Dividend Reinvestment and Share Purchase Plan	*12(b)*											
Dividends reinvested in shares		—	—	4,091,865	150	150	—	—	—	150	—	150
Optional cash payments		—	—	31,565	1	1	—	—	—	1	—	1
Share option award expense	*13*	—	—	—	—	—	11	—	—	11	—	11
Shares issued pursuant to cash exercise of share options	*21(b)*	96,526	3	372,579	15	18	(1)	—	—	17	—	17
Shares issued pursuant to use of share option award net-equity settlement feature	*21(b)*	—	—	77,061	1	1	(1)	—	—	—	—	—
Balance as at Dec. 31, 2010		174,915,546	$2,219	147,448,586	$3,237	$5,456	$ 176	$ 2,126	$ 1	$7,759	$ 22	$7,781
Balance as at January 1, 2011		**174,915,546**	**$2,219**	**147,448,586**	**$3,237**	**$5,456**	**$ 176**	**$ 2,126**	**$ 1**	**$7,759**	**$ 22**	**$7,781**
Net income		**—**	**—**	**—**	**—**	**—**	**—**	**1,219**	**—**	**1,219**	**(4)**	**1,215**
Other comprehensive income		**—**	**—**	**—**	**—**	**—**	**—**	**(851)**	**10**	**(841)**	**—**	**(841)**
Dividends	*12(a)*	**—**	**—**	**—**	**—**	**—**	**—**	**(715)**	**—**	**(715)**	**(4)**	**(719)**
Dividend Reinvestment and Share Purchase Plan	*12(b)*											
Dividends reinvested in shares		**—**	**—**	**1,243,679**	**54**	**54**	**—**	**—**	**—**	**54**	**—**	**54**
Optional cash payments		**—**	**—**	**5,990**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Share option award expense	*13*	**—**	**—**	**—**	**—**	**—**	**9**	**—**	**—**	**9**	**—**	**9**
Reclassification of subsidiary as held for sale	*16(a)*	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(12)**	**(12)**
Acquisition of subsidiary	*16(e)*	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**—**	**1**	**(2)**	**(1)**
Shares issued pursuant to cash exercise of share options	*21(b)*	**—**	**—**	**812,834**	**44**	**44**	**(17)**	**—**	**—**	**27**	**—**	**27**
Shares issued pursuant to use of share option award net-equity settlement feature	*21(b)*	**—**	**—**	**422,076**	**2**	**2**	**(2)**	**—**	**—**	**—**	**—**	**—**
Balance as at Dec. 31, 2011		**174,915,546**	**$2,219**	**149,933,165**	**$3,337**	**$5,556**	**$ 166**	**$ 1,780**	**$ 11**	**$7,513**	**$ —**	**$7,513**

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

consolidated statements of cash flows

Years ended December 31 (millions)	Note	2011	2010 (adjusted – Note 25)
OPERATING ACTIVITIES			
Net income		**$ 1,215**	$ 1,052
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization		**1,810**	1,741
Deferred income taxes		**205**	217
Share-based compensation	*13*	**(12)**	(30)
Net employee defined benefit plans expense	*14(b)-(c)*	**(32)**	(9)
Employer contributions to employee defined benefit plans		**(298)**	(140)
Gain on 51% Transactel (Barbados) Inc. interest re-measured at acquisition-date fair value and subsequent adjustment to contingent consideration	*6, 16(e)*	**(17)**	—
Other		**(66)**	(42)
Net change in non-cash operating working capital	*24(b)*	**(255)**	(119)
Cash provided by operating activities		**2,550**	2,670
INVESTING ACTIVITIES			
Capital expenditures	*5, 15, 16*	**(1,847)**	(1,721)
Acquisitions and other	*16(e)*	**(110)**	—
Proceeds from the sale of property and other assets		**4**	10
Other		**—**	4
Net change in non-cash investing working capital		**(15)**	(24)
Cash used by investing activities		**(1,968)**	(1,731)
FINANCING ACTIVITIES			
Non-Voting Shares issued		**24**	15

Dividends paid to holders of Common Shares and Non-Voting Shares	*12(a)*	**(642)**	(473)
Issuance and repayment of short-term borrowing	*18*	**4**	(100)
Long-term debt issued	*20, 24(b)*	**4,068**	3,725
Redemptions and repayment of long-term debt	*20, 24(b)*	**(3,946)**	(4,119)
Acquisition of additional equity interest in subsidiary from non-controlling interest	*16(e)*	**(51)**	—
Dividends paid by a subsidiary to non-controlling interest		**(4)**	(3)
Other		**(6)**	(8)
Cash used by financing activities		**(553)**	(963)
CASH POSITION			
Increase (decrease) in cash and temporary investments, net		**29**	(24)
Cash and temporary investments, net, beginning of period		**17**	41
Cash and temporary investments, net, end of period		**$ 46**	$ 17
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS			
Interest (paid)	*24(b)*	**$ (378)**	$ (479)
Interest received		**$ 1**	$ 3
Income taxes (inclusive of Investment Tax Credits) (paid), net	*9*	**$ (150)**	$ (311)

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

notes to consolidated financial statements

DECEMBER 31, 2011

TELUS Corporation was incorporated under the *Company Act* (British Columbia) 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* among BCT, BC TELECOM Inc. and the former Alberta-based TELUS Corporation (TC), BCT acquired all of the shares of BC TELECOM Inc. and TC in exchange for Common Shares and Non-Voting Shares of BCT, and BC TELECOM Inc. was dissolved. On May 3, 2000, BCT changed its name to TELUS Corporation and in February 2005, TELUS Corporation transitioned under the *Business Corporations Act* (British Columbia), successor to the *Company Act* (British Columbia). TELUS Corporation maintains its registered office at 3777 Kingsway, Burnaby, British Columbia, V5H 3Z7.

TELUS Corporation is one of Canada's largest telecommunications companies, providing a wide range of telecommunications services and products, including wireless, data, Internet protocol, voice and television.

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

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1 summary of significant accounting principles

The accompanying consolidated financial statements are expressed in Canadian dollars. The generally accepted accounting principles (GAAP) used by TELUS are International Financial Reporting Standards as issued by the International Accounting Standards Board and these consolidated financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS-IASB) and Canadian generally accepted accounting principles.

The consolidated financial statements of TELUS for the years ended December 31, 2011 and 2010, were authorized by TELUS's Board of Directors for issue on February 23, 2012.

(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. Currently, through the TELUS Communications Company partnership and the TELE-MOBILE COMPANY partnership, TELUS Communications Inc. includes substantially all of the Company's Wireline segment's operations and substantially all of the Wireless segment's operations. With the exception of non-controlling interests in an immaterial subsidiary held for sale, all of the Company's subsidiaries are wholly owned.

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

On a continuing basis, TELUS 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 and judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, assumptions and judgements that affect: the reported amounts of assets and liabilities at the date of the financial statements; the disclosure of contingent assets and liabilities at the date of the financial

notes to consolidated financial statements

statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Estimates

Examples of significant estimates and assumptions include:

- 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 goodwill;
- the recoverability of long-term investments;
- the amount and composition of income tax assets and income tax liabilities, including the amount of unrecognized tax benefits; and
- certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets.

Judgements

Examples of significant judgements, apart from those involving estimation, include:

- The Company's choice to depreciate and amortize its property, plant, equipment and intangible assets subject to amortization on a straight-line basis as it believes that this method reflects the consumption of resources related to the economic lifespan of those assets better than an accelerated method and is more representative of the economic substance of the underlying use of those assets.
- The Company's view that its spectrum licences granted by Industry Canada will likely be renewed by Industry Canada; that the Company intends to renew them; and that the Company believes it has the financial and operational ability to renew them and, thus, they are deemed to have an indefinite life, as discussed further in Note 16(c).

(c) Financial instruments — recognition and measurement*

In respect of the recognition and measurement of financial instruments, the Company has adopted the following policies:

	Accounting classification				
Financial instrument	**Fair value through net income[1][2]**	**Loans and receivables**	**Available-for-sale[3]**	**Amortized cost**	**Part of a cash flow hedging relationship[3]**
Measured at amortized cost					
Accounts receivable		X			
Short-term obligations				X	
Accounts payable				X	
Provisions				X	
Long-term debt				X	
Measured at fair value					
Cash and temporary investments	X				
Short-term investments	X				
Long-term investments (not subject to significant influence)[4]			X		
Foreign exchange derivatives	X				X
Share-based compensation derivatives	X				X
Cross currency interest rate swap derivatives					X

(1) Classification includes financial instruments held for trading. Certain qualifying financial instruments that are not required to be classified as held for trading may be classified as held for trading if the Company so chooses.

(2) *Unrealized* changes in the fair values of financial instruments are included in net income.

(3) *Unrealized* changes in the fair values of financial instruments classified as available-for-sale, or the effective portion of *unrealized* changes in the fair values of financial instruments held for hedging, are included in other comprehensive income.

(4) Long-term investments that are not subject to significant influence of the Company are classified as available-for-sale. In respect of investments in securities for which the fair values can be reliably measured, the Company determines the classification on an instrument-by-instrument basis at time of initial recognition.

* Denotes accounting policy affected in the years ended December 31, 2011 and 2010, by the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in Note 2 and Note 25.

- Accounts receivable that may be sold to an arm's-length securitization trust are accounted for as loans and receivables. The Company has selected this classification as the benefits that would have been expected to arise from selecting the available-for-sale method were not expected to exceed the costs of selecting and implementing that method.
- Short-term marketable securities investments are accounted for as held for trading and thus are measured at fair value through net income. Long-term investments not subject to significant influence of the Company are accounted for as available-for-sale. The Company has selected these classifications as they better reflect management's investment intentions.
- Derivatives that are part of an established and documented cash flow hedging relationship are accounted for as held for hedging. The Company believes that classification as held for hedging results in a better matching of the change in the fair value of the derivative financial

instrument with the risk exposure being hedged.

Derivatives that are not part of a documented cash flow hedging relationship are accounted for as held for trading and thus are measured at fair value through net income.

- Regular-way purchases or sales (those which require actual delivery of financial assets or financial liabilities) are recognized on the settlement date. The Company has selected this method as the benefits that would have been expected to arise from using the trade date method were not expected to exceed the costs of selecting and implementing that method.
- Transaction costs, other than in respect of held for trading items, are added to the initial fair value of the acquired financial asset or financial liability. The Company has selected this method as it believes that this results in a better matching of the transaction costs with the periods benefiting from the transaction costs.
- In respect of hedges of anticipated transactions, which in the Company's specific instance currently relate to inventory purchase commitments, hedge gains/losses will be included in the cost of the inventory and will be expensed when the inventory is sold. The Company has selected this method as it believes that a better matching with the risk exposure being hedged is achieved.

(d) Hedge accounting

General

The Company applies hedge accounting to the financial instruments used to:

- establish designated currency hedging relationships for its U.S. dollar denominated long-term debt, which matured in fiscal 2011, as set out in Note 4 and further discussed in Note 20(b);
- establish designated currency hedging relationships for certain U.S. dollar denominated future purchase commitments, as set out in Note 4; and
- fix the compensation cost arising from specific grants of restricted stock units, as set out in Note 4 and further discussed in Note 13(c).

Hedge accounting

The purpose of hedge accounting, in respect of the Company's designated hedging relationships, is to ensure that counterbalancing gains and losses are recognized in the same periods. The Company chose to apply hedge accounting, as it believes this is more representative of the economic substance of the underlying transactions.

In order to apply hedge accounting, a high correlation (which indicates effectiveness) is required in the offsetting changes in the values of the financial instruments (the hedging items) used to establish the designated hedging relationships and all, or a part, of the asset, liability or transaction having an identified risk exposure that the Company has taken steps to modify (the hedged items). The Company assesses the anticipated effectiveness of designated hedging relationships at inception and actual effectiveness for each reporting period thereafter. A designated hedging relationship is considered effective by the Company if the following critical terms match between the hedging item and the hedged item: the notional amount of the hedging item and the principal of the hedged item; maturity dates; payment dates; and interest rate index (if, and as, applicable). As set out in Note 4(i), any ineffectiveness, such as would result from a difference between the notional amount of the hedging item and the principal of the hedged item, or from a previously effective designated hedging relationship becoming ineffective, is reflected in the Consolidated Statements of Income and Other Comprehensive Income as Financing costs if in respect of long-term debt, as Goods and services purchased if in respect of U.S. dollar denominated future purchase commitments or as Employee benefits expense if in respect of share-based compensation.

Hedging assets and liabilities

In the application of hedge accounting, an amount (the hedge value) is recorded on the Consolidated Statements of Financial Position in respect of the fair value of the hedging items. The net difference, if any, between the amounts

recognized in the determination of net income and the amount necessary to reflect the fair value of the designated cash flow hedging items on the Consolidated Statements of Financial Position is effectively recognized as a component of other comprehensive income, as set out in Note 10.

In the application of hedge accounting to U.S. dollar denominated long-term debt that matured in fiscal 2011, the amount recognized in the determination of net income was the amount that counterbalanced the difference between the Canadian dollar equivalent of the value of the hedged items at the rate of exchange at the statement of financial position date and the Canadian dollar equivalent of the value of the hedged items at the rate of exchange in the hedging items.

In the application of hedge accounting to the compensation cost arising from share-based compensation, the amount recognized in the determination of net income is the amount that counterbalances the difference between the quoted market price of the Company's Non-Voting Shares at the statement of financial position date and the price of the Company's Non-Voting Shares in the hedging items.

(e) Revenue recognition

General

The Company earns the majority of its revenue (wireless network, data (including television, Internet, data and information technology managed services), voice local and voice long distance) 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 services and products 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 (derived using Company-specific objective evidence) and then the Company's relevant revenue recognition policies are applied to the accounting units. A limitation cap restricts the consideration allocated to services or products currently transferred in multiple element arrangements to an amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions. The Company's view is that the limitation cap results in a faithful depiction of the transfer of services and products as it reflects the telecommunications industry's generally accepted understanding of the transfer of services and products as well as reflecting the related cash flows.

Multiple contracts with a single customer are normally accounted for as separate arrangements. In instances where multiple contracts are entered into with a customer in a short period of time, they are reviewed as a group to ensure that, as with multiple element arrangements, relative fair values are appropriate.

Lease accounting is applied to an accounting unit if it conveys the right to use a specific asset to a customer but does not convey the risks and/or benefits of ownership.

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.

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.

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 access to, and usage of, the Company's telecommunications infrastructure 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 are deferred and recognized over the average expected term of the customer relationship.

The Company follows the liability method of accounting for its quality of service rate rebate amounts that arise from the jurisdiction of the Canadian Radio-television and Telecommunications Commission (CRTC).

The CRTC has established a portable subsidy mechanism to subsidize local exchange carriers, such as the Company, that provide residential basic telephone service to high cost serving areas. The CRTC has determined the per network access 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, as further discussed in Note 6. 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.

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 affected regulated services in the Company's Wireline segment. 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.

The deferral account arises from the CRTC requiring the Company to defer the statement of income recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. The Company has adopted the liability method of accounting for the deferral account. This resulted in the Company recording incremental liability amounts, subject to reductions for the mitigating activities, during the Decisions' initial four-year periods. The deferral account balance also reflects an interest expense component based on the Company's applicable short-term cost of borrowing, such expense being included in the Consolidated Statements of Income and Other Comprehensive Income as Financing costs.

The Company discharges the deferral account liability by undertaking qualifying actions including providing broadband services to rural and remote communities, enhancing the accessibility to telecommunications services for individuals with disabilities and providing customer rebates for the balance. The Company recognizes the drawdown and amortization (over a period no longer than three years) of a proportionate share of the deferral account as qualifying actions are completed; such amortization is included in Other operating income.

(f) Government assistance*

The Company recognizes government assistance on an accrual basis as the subsidized services are provided or as the subsidized costs are incurred. As set out in Note 6, government assistance is included in the Consolidated Statements of Income and Other Comprehensive Income as Other operating income.

(g) Cost of acquisition and advertising costs

Costs of acquiring customers, that are expensed as incurred, include the total cost of hardware sold to customers, commissions, advertising and promotion related to the initial customer acquisition. Costs of acquiring customers, that are capitalized as incurred, include Company-owned hardware situated at customers' premises and associated installation costs. Costs of acquisition that are expensed are included in the Consolidated Statements of Income and Other Comprehensive Income as a component of Goods and services purchased except for commissions paid to Company employees, which are included as Employee benefits expense. Costs of advertising production, advertising airtime and advertising space are expensed as incurred.

(h) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for capitalization. Capitalized 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.

(i) Leases

Leases are classified as finance or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessee, asset values recorded under finance leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under finance leases are reduced by lease payments net of imputed interest.

For the year ended December 31, 2011, real estate and vehicle operating lease expenses, which are net of the amortization of the deferred gain on the sale-leaseback of buildings, were $250 million (2010 — $266 million (adjusted — Note 25(c))); of these amounts, less than $1 million (2010 — less than $1 million) was in respect of real estate leased from the Company's pension plans, as discussed further in Note 14(b). The unamortized balances of the deferred gains on the sale-leaseback of buildings are set out in Note 24(a).

* Denotes accounting policy affected in the years ended December 31, 2011 and 2010, by the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in Note 2 and Note 25.

(j) Depreciation, amortization and impairment*

Depreciation and amortization

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

Estimated useful lives for the majority of the Company's property, plant and equipment subject to depreciation are as follows:

	Estimated useful lives[1]
Network assets	
Outside plant	17 to 40 years
Inside plant	4 to 16 years
Wireless site equipment	6.5 to 8 years
Balance of depreciable property, plant and equipment	3 to 40 years

(1) The composite depreciation rate for the year ended December 31, 2011, was 5.0% (2010 — 5.1%). The rate is calculated by dividing depreciation expense by an average gross book value of depreciable assets for the reporting period. One 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 in use (*Note 15*).

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

	Estimated useful lives
Wireline subscriber base	40 years
Customer contracts, related customer relationships and leasehold interests	6 to 10 years
Software	3 to 5 years

Access to rights-of-way and other	8 to 30 years

Impairment — general

Impairment testing compares the carrying values of the assets or cash-generating units being tested with their recoverable amounts (recoverable amounts being the greater of the assets' or cash-generating units' values in use or their fair values less costs to sell). Impairment losses are immediately recognized to the extent that the asset or cash-generating unit carrying values exceed their recoverable amounts. Should the recoverable amounts for previously impaired assets or cash-generating units subsequently increase, the impairment losses previously recognized (other than in respect of goodwill) may be reversed to the extent that the reversal is not a result of "unwinding of the discount" and that the resulting carrying value does not exceed the carrying value that would have been the result if no impairment losses had been previously recognized.

Impairment — property, plant and equipment; intangible assets subject to amortization

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 loss would be recorded.

Impairment — intangible assets with indefinite lives; goodwill

The carrying values of intangible assets with indefinite lives and goodwill are periodically tested for impairment. The frequency of the impairment tests 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.

The Company assesses its intangible assets with indefinite lives by comparing the recoverable amounts of the cash-generating units to the carrying amounts of its cash-generating units (including the intangible assets with indefinite lives allocated to the cash-generating unit, but excluding any goodwill allocated to the cash-generating unit). To the extent that the carrying values of the cash-generating units (including the intangible assets with indefinite lives allocated to the cash-generating unit, but excluding any goodwill allocated to the cash-generating unit) exceed their recoverable amounts, the excess would reduce the carrying value of intangible assets with indefinite lives.

* Denotes accounting policy affected in the years ended December 31, 2011 and 2010, by the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in Note 2 and Note 25.

Subsequent to assessing its intangible assets with indefinite lives, the Company then assesses its goodwill by comparing the recoverable amounts of the cash-generating units to the carrying amounts of its cash-generating units (including the intangible assets with indefinite lives and the goodwill allocated to the cash-generating unit). To the extent that the carrying values of the cash-generating units (including the intangible assets with indefinite lives and the goodwill allocated to the cash-generating unit) exceed their recoverable amounts, the excess would first reduce the carrying value of goodwill and any remainder would reduce the carrying value of the assets of the cash-generating unit on a pro-rated basis.

The Company has determined that its current cash-generating units are its reportable segments, Wireless and Wireline, as the reportable segments are the smallest identifiable groups of assets that generate net cash inflows that are largely independent of each other.

(k) Translation of foreign currencies

Trade transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the statement of financial position date with any resulting gain or loss being included in the Consolidated Statements of Income and Other Comprehensive Income as a component of Financing costs, as set out in Note 8. Hedge accounting is applied in specific instances as further discussed in Note 1(d).

The Company has minor foreign subsidiaries that do not have the Canadian dollar as their functional currency. Accordingly, foreign exchange gains and losses arising from the translation of the minor foreign subsidiaries' accounts into Canadian dollars are reported as a component of other comprehensive income, as set out in Note 10.

(l) Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities, as well as for the benefit of losses and Investment Tax Credits available to be carried forward to future years for tax purposes that are more likely than not to be realized. The amounts recognized in respect of deferred income tax assets and liabilities are based upon the expected timing of the reversal of temporary differences or usage of tax losses and application of the substantively enacted tax rates at the time of reversal or usage.

The Company accounts for changes in substantively enacted tax rates affecting deferred income tax assets and liabilities in full in the period in which the changes were substantively enacted; the Company has selected this method as its emphasis on the statement of financial position is more consistent with the liability method of accounting for income taxes. The Company accounts for changes in the estimates of prior year(s) tax

balances as estimate revisions in the period in which the changes in estimate arose; the Company has selected this method as its emphasis on the statement of financial position is more consistent with the liability method of accounting for income taxes.

The operations of the Company are complex and the related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question that result in uncertain tax positions. The Company only recognizes the income tax benefit of an uncertain tax position when it is more likely than not that the ultimate determination of the tax treatment of the position will result in that benefit being realized. The Company accrues for interest charges on current tax liabilities that have not been funded, which would include interest and penalties arising from uncertain tax positions. The Company includes such charges in the Consolidated Statements of Income and Other Comprehensive Income as a component of Financing costs.

The Company's research and development activities may be eligible to earn Investment Tax Credits; the determination of eligibility is a complex matter. The Company only recognizes Investment Tax Credits when there is reasonable assurance that the ultimate determination of the eligibility of the Company's research and development activities will result in the Investment Tax Credits being received. When there is reasonable assurance that the Investment Tax Credits will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate, as set out in Note 9.

(m) Share-based compensation

For share option awards granted after 2001, a fair value is determined for share option awards at the date of grant and that fair value is recognized in the financial statements. Proceeds arising from the exercise of share option awards are credited to share capital, as are the recognized grant-date fair values of the exercised share option awards.

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* Denotes accounting policy affected in the years ended December 31, 2011 and 2010, by the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in Note 2 and Note 25.

Share option awards which have a net-equity settlement feature, as set out in Note 13(b), and which do *not* also have a net-cash settlement feature, are accounted for as equity instruments. The Company has selected the equity instrument fair value method of accounting for the net-equity settlement feature as it is consistent with the accounting treatment afforded to the associated share option awards.

Share option awards which have a net-cash settlement feature, as set out in Note 13(b), are accounted for as liability instruments. If share option awards which have the net-cash settlement feature and which were granted subsequent to 2001 were to be settled using other than the net-cash settlement feature, they would be accounted for as equity instruments.

In respect of restricted stock units, as set out in Note 13(c), the Company accrues a liability equal to the product of the vesting restricted stock units multiplied by the fair market value of the corresponding shares at the end of the reporting period (unless hedge accounting is applied, as set out in Note 1(d)). The expense for restricted stock units that do not ultimately vest is reversed against the expense that had been previously recorded in their respect.

When share-based compensation vests in its entirety at one future point in time (cliff vesting), the expense is recognized by the Company on a straight-line basis over the vesting period. When share-based compensation vests in tranches (graded vesting), the expense is recognized by the Company using the accelerated expense attribution method. An estimate of forfeitures during the vesting period is made at the date of grant; such estimate is adjusted for actual experience.

(n) Employee future benefit plans*

Defined benefit plans

The Company accrues for its obligations under employee defined benefit plans, and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Actuarial gains (losses) arising subsequent to, or on, January 1, 2010, the date of the Company's transition to IFRS-IASB, are recognized in other comprehensive income in the period in which they arise as the Company believes that this better reflects the long-term nature of employee future benefits. See Note 2(b) for significant amendments to the employee benefits accounting standard which are not yet effective and have not yet been applied.

As discussed further in Note 25, unamortized actuarial gains (losses), past service costs and transitional assets (obligations) at January 1, 2010, were recognized directly in retained earnings at the transition date to, and as permitted by, IFRS-IASB.

On an annual basis, at a minimum, the defined benefit plan key assumptions are assessed and revised as appropriate. When the defined benefit plan key assumptions fluctuate significantly relative to their immediately preceding year-end values, actuarial gains (losses) arising from such significant fluctuations are recognized on an interim basis.

Defined contribution plans

The Company uses defined contribution accounting for the Telecommunication Workers Pension Plan and the British Columbia Public Service Pension Plan that cover certain of the Company's employees, both of which provide defined benefits to their members. In the absence of any

regulations governing the calculation of the share of the underlying financial position and plan performance attributable to each employer-participant, and in the absence of contractual agreements between the plans and the employer-participants related to the financing of any shortfall (or distribution of any surplus), these plans are treated by the Company as defined contribution plans in accordance with International Accounting Standard 19, *Employee Benefits*.

(o) Cash and temporary investments, net

Cash and temporary investments, which may include investments in money market instruments that are purchased three months or less from maturity, are presented net of outstanding items including cheques written but not cleared by the bank as at the statement of financial position date. Cash and temporary investments, net, are classified as a liability on the statement of financial position when the amount of the cheques written but not cleared by the bank exceeds the amount of cash and temporary investments. When cash and temporary investments, net, are classified as a liability, they may also include overdraft amounts drawn on the Company's bilateral bank facilities, which revolve daily and are discussed further in Note 17.

* Denotes accounting policy affected in the years ended December 31, 2011 and 2010, by the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in Note 2 and Note 25.

(p) Sales of trade receivables*

Sales of trade receivables in securitization transactions are recognized as collateralized short-term borrowings and thus do not result in the Company's derecognition of the trade receivables sold.

(q) Inventories

The Company's inventory consists primarily of wireless handsets, parts and accessories and telecommunications equipment held for resale. Inventories are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis. Previous write-downs to net realizable value are reversed if there is a subsequent increase in the value of the related inventories.

(r) Property, plant and equipment; intangible assets*

General

Property, plant and equipment and intangible assets are recorded at historical cost and, with respect to self-constructed property, plant and equipment, include materials, direct labour and applicable overhead costs. With respect to internally developed, internal-use software, recorded historical costs include materials, direct labour and direct labour-related costs. Where property, plant and equipment construction projects are of a sufficient size and duration, an amount is capitalized for the cost of funds used to finance construction. The rate for calculating the capitalized financing costs is based on the Company's weighted-average cost of borrowing experienced during the reporting period.

When property, plant and/or equipment are sold by the Company, the net book value is netted against the sale proceeds and the difference, as set out in Note 6, is included in the Consolidated Statements of Income and Other Comprehensive Income as Other operating income.

Asset retirement obligations

Provisions for liabilities, as set out in Note 19, are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property, plant and equipment (primarily certain items of outside plant and wireless site equipment) when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount, for any changes in the market-based discount rate and for any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion, as set out in Note 8, is included in the Consolidated Statements of Income and Other Comprehensive Income as a component of Financing costs.

(s) Investments

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

The Company accounts for its other investments as available-for-sale at their fair values unless the investment securities do not have quoted market prices in an active market, in which case the Company uses the cost basis of accounting whereby the investments are initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable. The cost of investments sold or amounts reclassified out of other comprehensive income into earnings are determined on a specific identification basis.

Unless there is an other than temporary decline in the value of an available-for-sale investment, the carrying values of available-for-sale investments are adjusted to estimated fair values with such adjustment being included in the Consolidated Statements of Income and Other

Comprehensive Income as a component of other comprehensive income. When there is an other than temporary decline in the value of an investment, the carrying values of investments accounted for using the equity, available-for-sale and cost methods are reduced to estimated fair values with any such reduction being included in the Consolidated Statements of Income and Other Comprehensive Income as Other operating income.

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* Denotes accounting policy affected in the years ended December 31, 2011 and 2010, by the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in Note 2 and Note 25.

notes to consolidated financial statements

2 accounting policy developments

Convergence with International Financial Reporting Standards as issued by the International Accounting Standards Board

In 2006, Canada's Accounting Standards Board ratified a strategic plan that resulted in Canadian generally accepted accounting principles, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board. The Company is required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning no later than on or after January 1, 2011, the date which the Company selected for adoption. Specific disclosures about transitional elections, adjustment of comparative amounts and other related transitional disclosures are set out in Note 25 of these consolidated financial statements.

(a) Initial application of standards, interpretations and amendments to standards and interpretations in the reporting period

In May 2010, the IASB issued *Improvements to IFRSs* — a collection of amendments to existing IFRSs and International Accounting Standards (IASs) — as a part of the annual improvements process. The Company has applied the amendments since January 1, 2010. The amendments did not have a material impact on the presentation of the Company's results of operations, financial position or cash flows.

In October 2010, the IASB issued IFRS 7, *Financial Instruments: Disclosures* (amended 2010), which, in the Company's instance, pertained to the disclosure of transferred financial assets (trade receivables) that are not derecognized. The Company's current accounting policies and presentation and disclosure practices are such that they already comply with the amendments.

In June 2011, the IASB issued IAS 1, *Presentation of Financial Statements* (amended 2011), which pertained to presentation of items of other comprehensive income. The Company's current accounting policies and presentation and disclosure practices are such that they already comply with the amendments.

(b) Standards, interpretations and amendments to standards not yet effective and not yet applied

Unless otherwise indicated, the following standards are required to be applied for periods beginning on or after January 1, 2013. Unless otherwise indicated, based upon current facts and circumstances, the Company does not expect to be materially affected by the application of the following standards and is currently determining which date(s) it plans for initial compliance.

- IFRS 7, *Financial Instruments: Disclosures* (amended 2011).
- IFRS 9, *Financial Instruments*, is required to be applied for periods beginning on or after January 1, 2015.
- Other than for the disclosure requirements therein, the following standards and amended standards must be initially applied concurrently:
  - IFRS 10, *Consolidated Financial Statements*
  - IFRS 11, *Joint Arrangements*
  - IFRS 12, *Disclosure of Interests in Other Entities*
  - IAS 27, *Separate Financial Statements* (amended 2011)
  - IAS 28, *Investments in Associates* (amended 2011).
- IFRS 13, *Fair Value Measurement*.
- IAS 12, *Income Taxes* (amended 2011), is required to be applied for periods beginning on or after January 1, 2012.
- IAS 32, *Financial Instruments* (amended 2011), is required to be applied for periods beginning on or after January 1, 2014.
- IAS 19, *Employee Benefits* (amended 2011): Relative to the Company's current accounting policies and presentation and disclosure practices, the key difference in the amended standard is that the expected long-term rate of return on plan assets will no longer be used for defined benefit plan measurement purposes (and thus will no longer be a significant estimate). In the determination of net income in the Company's instance, the effect is that the defined benefit plan expense concepts of "interest cost" and "return on plan assets" will be replaced with the concept of "net interest". Net interest for each plan is the product of the plan's surplus (deficit) multiplied by the discount rate. Unchanged is that the amended standard does not prescribe where in the results of operations the net interest amount is to be presented, but the Company expects that it will present such amount as a component of financing costs upon application of the amended standard.

  As the Company's current view, consistent with long-term historical experience, is that the expected long-term rate of return on plan assets would exceed the discount rate (a result of targeting a significant percentage of the defined

benefit plan assets to be invested in equity securities), the relative effect of the amended standard is expected to be a decrease in net income and associated per share amounts. The variance, if any, between the actual rate of return on defined benefit plan assets and the discount rate, as well as related effects from the limit on defined benefit assets, if any, would be included in other comprehensive income as a re-measurement. The amended standard is not expected to affect the Company's statement of financial position or the statement of cash flows.

The amended standard affects the Company's Consolidated Statements of Income and Other Comprehensive Income as follows:

	2011			2010		
Years ended December 31 (millions except per share amounts)	As currently reported	Amended IAS 19 effects	Pro forma	As currently reported	Amended IAS 19 effects	Pro forma
OPERATING EXPENSES						
Employee benefits expense	**$ 1,893**	**$ 113**	**$ 2,006**	$ 1,906	$ 82	$ 1,988
FINANCING COSTS	**$ 377**	**6**	**$ 383**	$ 522	5	$ 527
INCOME TAXES	**$ 376**	**(30)**	**$ 346**	$ 335	(22)	$ 313
NET INCOME		**(89)**			(65)	
OTHER COMPREHENSIVE INCOME						
Item never subsequently reclassified to income						
Defined benefit plans re-measurements	**$ (851)**	**89**	**$ (762)**	$ (214)	65	$ (149)
COMPREHENSIVE INCOME		**$ —**			$ —	
NET INCOME PER COMMON SHARE AND NON-VOTING SHARE						
Basic	**$ 3.76**	**$ (0.28)**	**$ 3.48**	$ 3.27	$ (0.20)	$ 3.07
Diluted	**$ 3.74**	**$ (0.28)**	**$ 3.46**	$ 3.27	$ (0.20)	$ 3.07

The Company currently plans to initially apply the amended standard for periods beginning on or after January 1, 2013.

3 capital structure financial policies

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure that optimizes the cost and availability of capital at acceptable risk; and (ii) to manage capital in a manner that considers the interests of equity and debt holders.

In the management and definition of capital, the Company includes Common Share and Non-Voting Share equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized accounts receivable.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to holders of Common Shares and Non-Voting Shares, purchase shares for cancellation pursuant to permitted normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of trade receivables sold to an arm's-length securitization trust.

The Company monitors capital utilizing a number of measures, including: net debt to earnings before interest, taxes, depreciation and amortization — excluding restructuring costs (EBITDA — excluding restructuring costs); and dividend payout ratios.

Net debt to EBITDA — excluding restructuring costs is calculated as net debt at the end of the period divided by twelve-month trailing EBITDA — excluding restructuring costs. This measure, historically, is substantially the same as the leverage ratio covenant in the Company's credit facilities. Net debt and EBITDA — excluding restructuring costs are measures that do not have any standardized meanings prescribed by IFRS-IASB and are therefore unlikely to be comparable to similar measures presented by other issuers; the calculations of these measures are as set out in the following schedule. Net debt is one component of a ratio used to determine compliance with debt covenants.

The reported dividend payout ratio is calculated as the quarterly dividend declared per Common Share and Non-Voting Share, as recorded in the financial statements, multiplied by four and divided by the sum of basic earnings per share for the most recent four quarters for interim reporting periods (divided by annual basic earnings per share for fiscal years); the reported dividend payout ratio of adjusted net earnings differs in that it excludes: income tax-related adjustments; the loss on redemption of long-term debt; and the ongoing impacts of share options with the net-cash settlement feature.

During 2011, the Company's strategy, which was unchanged from 2010, included maintaining the financial policy set out in the following schedule. The Company believes that its financial policies and guidelines, which are reviewed annually, are currently at the optimal level and, by maintaining credit ratings in the range of BBB+ to A-, or the equivalent, provide reasonable access to capital.

As at, or twelve-month periods ended, December 31 ($ in millions)	Policy	2011	2010

				(adjusted – Note 25(c))
Components of debt and coverage ratios				
Net debt[1]		**$**	**6,959**	$ 6,869
EBITDA — excluding restructuring costs[2]		**$**	**3,813**	$ 3,730
Net interest cost[3]		**$**	**377**	$ 522
Debt ratio				
Net debt to EBITDA — excluding restructuring costs	1.5 – 2.0		**1.8**	1.8
Coverage ratios				
Earnings coverage[4]			**5.1**	3.6
EBITDA — excluding restructuring costs interest coverage[5]			**10.1**	7.1
Other measures				
Dividend payout ratio of adjusted net earnings[6]			**64%**	64%
Dividend payout ratio			**62%**	64%

(1) Net debt is calculated as follows:

	2011	2010
Long-term debt *(Note 20)*	**$ 6,574**	$ 6,056
Debt issuance costs netted against long-term debt	**27**	28
Derivative liabilities, net	**—**	404
Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. dollar denominated debt (excluding tax effects)	**—**	(2)
Cash and temporary investments, net	**(46)**	(17)
Short-term borrowings	**404**	400
Net debt	**$ 6,959**	$ 6,869

(2) EBITDA — excluding restructuring costs is calculated as follows:

	2011	2010 (adjusted – Note 25(c))
EBITDA *(Note 5)*	**$ 3,778**	$ 3,650
Restructuring costs *(Note 19(b))*	**35**	80
EBITDA — excluding restructuring costs	**$ 3,813**	$ 3,730

(3) Net interest cost is defined as financing costs before gains on redemption and repayment of debt, calculated on a twelve-month trailing basis (losses recorded on the redemption of long-term debt, if any, are included in net interest cost).

(4) Earnings coverage is defined as net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt (including losses recorded on the redemption of long-term debt, if any).

(5) EBITDA — excluding restructuring costs interest coverage is defined as EBITDA — excluding restructuring costs divided by net interest cost. This measure is substantially the same as the coverage ratio covenant in the Company's credit facilities.

(6) Adjusted net earnings attributable to Common Shares and Non-Voting Shares is calculated as follows:

	2011	2010 (adjusted – Note 25(c))
Net income attributable to Common Shares and Non-Voting Shares	**$ 1,219**	$ 1,048
Income tax-related adjustments	**(21)**	(30)
Loss on redemption of long-term debt, net of income taxes	**—**	37
Gain on 51% Transactel (Barbados) Inc. interest re-measured at acquisition-date fair value and subsequent adjustment to contingent consideration, net of income taxes	**(12)**	—
Impacts of share options with the net-cash settlement feature, net of income taxes	**(14)**	(7)
Adjusted net earnings attributable to Common Shares and Non-Voting Shares	**$ 1,172**	$ 1,048

The net debt to EBITDA — excluding restructuring costs ratio was 1.8 times at December 31, 2011, unchanged from one year earlier; a small increase in net debt was offset by higher EBITDA — excluding restructuring costs. The earnings coverage ratio at December 31, 2011, was 5.1 times, up from 3.6 times a year earlier; lower gross interest expenses increased the ratio by 1.3, while higher income before gross interest expense and income taxes increased the ratio by 0.2. The EBITDA — excluding restructuring costs interest coverage ratio at December 31, 2011, was 10.1 times, up from 7.1 times a year earlier; lower net interest expenses increased the ratio by 2.7, while higher EBITDA — excluding restructuring costs increased the ratio by 0.3.

(a) Risks — overview

The Company's financial instruments and the nature of risks which they may be subject to are as set out in the following table.

	Risks				
				Market risks	
Financial instrument	Credit	Liquidity	Currency	Interest rate	Other price
Measured at amortized cost					
Accounts receivable	X		X		
Short-term obligations		X	X	X	
Accounts payable		X	X		
Provisions (including restructuring accounts payable)		X	X		X
Long-term debt		X	X	X	
Measured at fair value					
Cash and temporary investments	X		X	X	
Short-term investments				X	X
Long-term investments (not subject to significant influence)[1]			X		X
Foreign exchange derivatives[2]	X	X	X		
Share-based compensation derivatives[2]	X	X			X
Cross currency interest rate swap derivatives[2][3]	X	X	X	X	

(1) Long-term investments that are not subject to significant influence of the Company are measured at fair value if the fair values can be reliably measured.

(2) Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only) and sets criteria for the creditworthiness of the transaction counterparties.

(3) The cross currency interest rate swap derivatives matured in fiscal 2011, as discussed further in *Note 20(b)*.

(b) Credit risk

Excluding credit risk, if any, arising from currency swaps settled on a gross basis (see (c) and Note 20(b)), the best representation of the Company's maximum exposure (excluding tax effects) to credit risk, which is a worst-case scenario and does not reflect results expected by the Company, is as set out in the following table:

As at (millions)	December 31, 2011	December 31, 2010 (adjusted – Note 25(d))	January 1, 2010 (Note 25(d))
Cash and temporary investments, net	**$ 46**	$ 17	$ 41
Accounts receivable	**1,428**	1,318	1,195
Derivative assets	**17**	9	1
	$ 1,491	$ 1,344	$ 1,237

Cash and temporary investments

Credit risk associated with cash and temporary investments is managed by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Accounts receivable

Credit risk associated with accounts receivable is inherently managed by the Company's large and diverse customer base, which covers substantially all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

The following table presents an analysis of the age of customer accounts receivable not allowed for as at the dates of the Consolidated Statements of Financial Position. As at December 31, 2011, the weighted average life of customer accounts receivable was 29 days (December 31, 2010 — 28 days; January 1, 2010 — 31 days) and the weighted average life of past-due customer accounts receivable was 61 days (December 31, 2010 — 59 days; January 1, 2010 — 67 days). No interest is charged on customer accounts that are current. Thereafter, interest is charged at a market rate on outstanding balances.

As at (millions)	December 31, 2011	December 31, 2010 (adjusted – Note 25(d))	January 1, 2010 (Note 25(d))
Customer accounts receivable net of allowance for doubtful accounts			
Less than 30 days past billing date	**$ 796**	$ 785	$ 692

30-60 days past billing date	**224**	216	171
61-90 days past billing date	**65**	53	49
Greater than 90 days past billing date	**57**	47	86
	$ 1,142	$ 1,101	$ 998
Customer accounts receivable *(Note 24(a))*	**$ 1,178**	$ 1,142	$ 1,057
Allowance for doubtful accounts	**(36)**	(41)	(59)
	$ 1,142	$ 1,101	$ 998

The Company maintains allowances (which are significant estimates) for potential credit losses related to doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to the allowance account against the customer account receivable. The doubtful accounts expense is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and on a statistically derived allowance basis for the remainder. No customer accounts receivable are written off directly to the doubtful accounts expense.

The following table presents a summary of the activity related to the Company's allowance for doubtful accounts.

Years ended December 31 (millions)	**2011**	**2010**
Balance, beginning of period	**$ 41**	$ 59
Additions (doubtful accounts expense)	**43**	49
Net use	**(48)**	(67)
Balance, end of period	**$ 36**	$ 41

Derivative assets (and derivative liabilities)

Counterparties to the Company's share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have all been accorded investment grade ratings by a primary rating agency (the counterparties to the Company's cross currency interest rate swap agreements that matured in fiscal 2011 were also major financial institutions that had all been accorded investment grade ratings by a primary rating agency). The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedging items due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company's derivative liabilities do not have credit risk-related contingent features.

(c) Liquidity risk

As a component of the Company's capital structure financial policies, discussed further in Note 3, the Company manages liquidity risk by:

- maintaining a daily cash pooling process that enables the Company to manage its liquidity surplus and liquidity requirements according to the actual needs of the Company and its subsidiaries;
- maintaining bilateral bank facilities (Note 18) and syndicated credit facilities (Note 20(d));
- the sales of trade receivables to an arm's-length securitization trust;
- maintaining a commercial paper program;
- continuously monitoring forecast and actual cash flows; and
- managing maturity profiles of financial assets and financial liabilities.

As disclosed in Note 20(g), the Company has significant debt maturities in future years. As at December 31, 2011, the Company has access to a shelf prospectus, in effect until November 2013, pursuant to which it can offer $2.5 billion (December 31, 2010 — access to a shelf prospectus, in effect until October 2011, pursuant to which it can offer $2.0 billion; January 1, 2010 — access to a shelf prospectus, in effect until October 2011, pursuant to which it can offer $3.0 billion) of debt or equity securities. The Company believes that its investment grade credit ratings contribute to reasonable access to capital markets.

The Company closely matches the derivative financial liability contractual maturities with those of the risk exposures they are being used to manage.

The Company's undiscounted financial liability expected maturities do not differ significantly from the contractual maturities. The Company's undiscounted financial liability contractual maturities, including interest thereon (where applicable), are as set out in the following tables:

	Non-derivative[1]			**Derivative**		
	Non-interest bearing financial liabilities	**Short-term borrowings[2]**	**Long-term debt (Note 20)**	**Currency swaps amounts to be exchanged**		
As at December 31, 2011 (millions)				**(Receive)**	**Pay**	**Total**
2012						
First quarter	**$ 804**	**$ 6**	**$ 1,111**	**$ (77)**	**$ 75**	**$ 1,919**
Balance of year	**513**	**5**	**276**	**(91)**	**89**	**792**
2013	**18**	**7**	**605**	**—**	**—**	**630**
2014	**—**	**405**	**980**	**—**	**—**	**1,385**

2015	—	—	873	—	—	873
2016	—	—	807	—	—	807
Thereafter	—	—	4,070	—	—	4,070
Total	$ 1,335	$ 423	$ 8,722	$ (168)	$ 164	$ 10,476

(1) Subsequent to December 31, 2011, the Company entered into a loan commitment (that is subject to final documentation) in respect of a real estate joint venture, as discussed further in *Note 17(b)*; that commitment has not been included in this table.

(2) Interest payment cash outflows in respect of short-term borrowings, commercial paper and amounts drawn under the Company's credit facilities (if any) have been calculated based upon the rates in effect as at December 31, 2011.

	Non-derivative						Derivative			
			Long-term debt				Other financial liabilities			
As at December 31, 2010 (millions)	Non-interest bearing financial liabilities	Short-term borrowings[1]	All except finance leases[1][2]	Finance leases	Currency swaps amounts to be exchanged[2] (Receive)	Currency swaps amounts to be exchanged[2] Pay	Other	Currency swaps amounts to be exchanged (Receive)	Currency swaps amounts to be exchanged Pay	Total (adjusted – Note 25(d))
2011										
First quarter	$ 1,173	$ 1	$ 161	$ 3	$ —	$ —	$ 13	$ (116)	$ 118	$ 1,353
Balance of year	229	5	1,012	5	(766)	1,183	—	(190)	191	1,669
2012	1	403	597	—	—	—	—	—	—	1,001
2013	—	—	583	—	—	—	—	—	—	583
2014	—	—	958	—	—	—	—	—	—	958
2015	—	—	851	—	—	—	—	—	—	851
Thereafter	1	—	4,266	—	—	—	—	—	—	4,267
Total	$ 1,404	$ 409	$ 8,428	$ 8	$ (766)	$ 1,183	$ 13	$ (306)	$ 309	$ 10,682
			Total			$ 8,853				

(1) Interest payment cash outflows in respect of short-term borrowings, commercial paper and amounts drawn under the Company's credit facilities (if any) have been calculated based upon the rates in effect as at December 31, 2010.

(2) The amounts included in undiscounted non-derivative long-term debt in respect of the U.S. dollar denominated long-term debt, and the corresponding amounts included in the long-term debt currency swaps receive column, have been determined based upon the rates in effect as at December 31, 2010. The U.S. dollar denominated long-term debt contractual maturity amounts, in effect, are reflected in the long-term debt currency swaps pay column as gross cash flows are exchanged pursuant to the cross currency interest rate swap agreements.

	Non-derivative						Derivative			
			Long-term debt				Other financial liabilities			
As at January 1 2010 (millions)	Non-interest bearing financial liabilities	Short-term borrowings[1]	All except finance leases[1][2]	Finance leases	Currency swaps amounts to be exchanged[2] (Receive)	Currency swaps amounts to be exchanged[2] Pay	Other	Currency swaps amounts to be exchanged (Receive)	Currency swaps amounts to be exchanged Pay	Total (Note 25(d))
2010										
First quarter	$ 1,023	$ 1	$ 502	$ 1	$ —	$ —	$ 51	$ (75)	$ 77	$ 1,580
Balance of year	309	3	418	1	(113)	175	9	(95)	95	802
2011	—	4	1,726	1	(1,473)	2,152	—	—	—	2,410
2012	—	502	546	—	—	—	—	—	—	1,048
2013	—	—	532	—	—	—	—	—	—	532
2014	—	—	907	—	—	—	—	—	—	907
Thereafter	1	—	3,813	—	—	—	—	—	—	3,814
Total	$ 1,333	$ 510	$ 8,444	$ 3	$ (1,586)	$ 2,327	$ 60	$ (170)	$ 172	$ 11,093
			Total			$ 9,188				

(1) Interest payment cash outflows in respect of short-term borrowings, commercial paper and amounts drawn under the Company's credit facilities (if any) have been calculated based upon the rates in effect as at January 1, 2010.

(2) The amounts included in undiscounted non-derivative long-term debt in respect of the U.S. dollar denominated long-term debt, and the corresponding amounts included in the long-term debt currency swaps receive column, have been determined based upon the rates in effect as at January 1, 2010. The U.S. dollar denominated long-term debt contractual maturity amounts, in effect, are reflected in the long-term debt currency swaps pay column as gross cash flows are exchanged pursuant to the cross currency interest rate swap agreements.

(d) Currency risk

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars due to certain routine revenues and operating costs being denominated in U.S. dollars, as well as sourcing some inventory purchases and capital asset acquisitions internationally. The U.S. dollar is the only foreign currency to which the Company has a significant exposure.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. dollar denominated transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts and currency options only on a limited basis.

As discussed further in Note 20(b), the Company was also exposed to currency risks in that the fair value or future cash flows of its U.S. dollar denominated long-term debt would fluctuate because of changes in foreign exchange rates. Currency hedging relationships were established for the related semi-annual interest payments and principal payment at maturity.

Net income and other comprehensive income for the years ended December 31, 2011 and 2010, could have varied if Canadian dollar: U.S. dollar exchange rates varied from the actual transaction date rates. The following Canadian dollar: U.S. dollar exchange rate sensitivity analysis is based upon a hypothetical change having occurred throughout the reporting period (other than no change is reflected as at the statement of financial position date — see (g)) and having been applied to all relevant Consolidated Statement of Income and Other Comprehensive Income transactions. The income tax expenses, which are reflected net in the sensitivity analysis, reflect the applicable weighted average statutory income tax rates for the reporting periods.

	Net income and comprehensive income		Capital expenditures	
Years ended December 31 ($ increase (decrease) in millions)	**2011**	**2010**	**2011**	**2010**
10% change in Cdn.$: U.S.$ exchange rate[1]				
Canadian dollar appreciates	**$ 27**	$ 20	**$ (23)**	$ (17)
Canadian dollar depreciates	**$ (27)**	$ (20)	**$ 23**	$ 17

(1) These sensitivities are hypothetical and should be used with caution. Changes in net income and comprehensive income generally cannot be extrapolated because the relationship of the change in assumption to the change in net income and comprehensive income may not be linear. In this table, the effect of a variation in the Canadian dollar: U.S. dollar exchange rate on the amount of net income and comprehensive income is calculated without changing any other analysis inputs; in reality, changes in the Canadian dollar: U.S. dollar exchange rate may result in changes in another factor (for example, increased strength of the Canadian dollar may result in more favourable market interest rates), which might magnify or counteract the sensitivities.

The sensitivity analysis assumes that changes in exchange rates would be realized by the Company; in reality, the competitive marketplace in which the Company operates would impact this assumption. The sensitivity analysis is prepared based on the simple average of the Canadian dollar: U.S. dollar exchange rate for the period.

In respect of U.S. dollar denominated inventory purchases, the current period's purchases have been included in the sensitivity analysis by assuming that all items are sold in the period purchased. Similarly, this sensitivity analysis is based on the assumption that all U.S. dollar denominated accounts receivable and accounts payable arising in the period are collected and paid, respectively, in the period.

In respect of U.S. dollar denominated capital expenditures, the current period's expenditures have been included in the sensitivity analysis by assuming one-half period's straight-line depreciation and amortization in the year of acquisition and an estimated useful life of ten years; no consideration has been made for U.S. dollar denominated capital expenditures made in prior periods.

(e) Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of temporary investments, short-term investments, short-term obligations, long-term debt and/or cross currency interest rate swap derivatives.

When the Company has temporary investments, they have short maturities and fixed rates, thus their fair value will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows do not change due to changes in market interest rates.

If the balance of short-term investments includes debt instruments and/or dividend-paying equity instruments, the Company could be exposed to interest rate risks.

As short-term obligations arising from bilateral bank facilities, which typically have variable interest rates, are rarely outstanding for periods that exceed one calendar week, interest rate risk associated with this item is not material.

Short-term borrowings arising from the sales of trade receivables to an arm's-length securitization trust are fixed-rate debt. Due to the short maturities of these borrowings, interest rate risk associated with this item is not material.

In respect of the Company's currently outstanding long-term debt, other than for commercial paper and amounts drawn on its credit facilities (Note 20(b)), it is all fixed-rate debt. The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption and/or foreign exchange rate fluctuations, the related future cash flows do not change. Due to the short maturities of commercial paper, its fair values are not materially affected by changes in market interest rates but its cash flows representing interest payments may be if the commercial paper is rolled over.

Amounts drawn on the Company's short-term and long-term credit facilities will be affected by changes in market interest rates in a manner similar to commercial paper.

Similar to fixed-rate debt, the fair value of the Company's cross currency interest rate swap derivatives fluctuated with changes in market interest rates as the interest rate swapped to was fixed; absent early redemption, the related future cash flows would not have changed due to changes in market interest rates.

(f) Other price risk

Provisions

The Company is exposed to other price risk arising from a written put option provided for a non-controlling interest, as discussed further in Note 16(e).

Short-term investments

If the balance of the short-term investments line item on the statement of financial position includes equity instruments, the Company would be exposed to equity price risks.

Long-term investments

The Company is exposed to equity price risks arising from investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes.

Share-based compensation derivatives

The Company is exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share and Non-Voting Share prices increase both the expense and the potential cash outflow). Cash-settled equity swap agreements have been entered into that establish a cap on the Company's cost associated with its net-cash settled share options (Note 13(b)) and fix the Company's cost associated with its restricted stock units (Note 13(c)).

(g) Market risk

Net income and other comprehensive income for the years ended December 31, 2011 and 2010, could have varied if the Canadian dollar: U.S. dollar exchange rates, market interest rates and the Company's Common Share and Non-Voting Share prices varied by reasonably possible amounts from their actual statement of financial position date values.

The sensitivity analysis of the Company's exposure to currency risk at the reporting date has been determined based upon a hypothetical change taking place at the statement of financial position date (as contrasted with applying the hypothetical change to all relevant transactions during the reported periods — see (d)). The U.S. dollar denominated balances and derivative financial instrument notional amounts as at the statement of financial position dates have been used in the calculations.

The sensitivity analysis of the Company's exposure to interest rate risk at the reporting date has been determined based upon a hypothetical change taking place at the beginning of the relevant fiscal year and being held constant through to the statement of financial position date. The relevant statement of financial position date principal and notional amounts have been used in the calculations.

The sensitivity analysis of the Company's exposure to other price risk arising from share-based compensation at the reporting date has been determined based upon a hypothetical change taking place at the relevant statement of financial position date. The relevant statement of financial position date notional number of shares, including those in the cash-settled equity swap agreements, has been used in the calculations.

The income tax expenses, which are reflected net in the sensitivity analysis, reflect the applicable weighted average statutory income tax rates for the reporting periods.

Years ended December 31	Net income		Other comprehensive income		Comprehensive income	
($ increase (decrease) in millions)	2011	2010	2011	2010	2011	2010
Reasonably possible changes in market risks[1]						
10% change in Cdn.$: U.S.$ exchange rate						
Canadian dollar appreciates	**$ (6)**	$ (7)	**$ (7)**	$ (10)	**$ (13)**	$ (17)
Canadian dollar depreciates	**$ 6**	$ 7	**$ 7**	$ 10	**$ 13**	$ 17
25 basis point change in market interest rate						
Rate increases	**$ (2)**	$ (1)	**$ —**	$ —	**$ (2)**	$ (1)
Rate decreases	**$ 2**	$ 1	**$ —**	$ —	**$ 2**	$ 1
25%[2] change in Common Share and Non-Voting Share prices[3]						

Price increases	**$**	**(2)**	$	(2)	**$**	**5**	$	4	**$**	**3**	$	2
Price decreases	**$**	**2**	$	1	**$**	**(5)**	$	(4)	**$**	**(3)**	$	(3)

(1) These sensitivities are hypothetical and should be used with caution. Changes in net income and/or other comprehensive income generally cannot be extrapolated because the relationship of the change in assumption to the change in net income and/or other comprehensive income may not be linear. In this table, the effect of a variation in a particular assumption on the amount of net income and/or other comprehensive income is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in more favourable foreign exchange rates (increased strength of the Canadian dollar)), which might magnify or counteract the sensitivities.

The sensitivity analysis assumes that changes in exchange rates and market interest rates would be realized by the Company; in reality, the competitive marketplace in which the Company operates would impact this assumption.

No consideration has been made for a difference in the notional number of shares associated with share-based compensation awards made during the reporting period that may have arisen due to a difference in the Non-Voting Share price.

(2) To facilitate ongoing comparison of sensitivities, a constant variance of approximate magnitude has been used. Reflecting a 4.25-year data period and calculated on a monthly basis, which is consistent with the current assumptions and methodology set out in *Note 13(b)*, the volatility of the Company's Non-Voting Share price as at December 31, 2011, was 24.1% (2010 — 4.50-year data period, 26.7%); reflecting the twelve-month data period ended December 31, 2011, the volatility was 13.5% (2010 — 14.2%).

(3) The hypothetical effects of changes in the prices of the Company's Common Shares and Non-Voting Shares are restricted to those which would arise from the Company's share-based compensation items that are accounted for as liability instruments and the associated cash-settled equity swap agreements.

The Company is exposed to other price risks in respect of its financial instruments, as discussed further in (f).

(h) Fair values

General

The carrying values of cash and temporary investments, accounts receivable, short-term obligations, short-term borrowings, accounts payable and certain provisions (including restructuring accounts payable) approximate their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method do not exceed their fair values.

The carrying value of short-term investments, if any, equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices in active markets.

The fair values of the Company's long-term debt are based on quoted market prices in active markets.

The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated based on quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to the Company for financial instruments of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities (such fair values being largely based on Canadian dollar: U.S. dollar forward exchange rates and interest rate yield curves as at the statement of financial position dates).

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based upon the Company's Common Share and Non-Voting Share prices as at the statement of financial position dates).

Derivative

The Company's financial instruments that are measured at fair value on a recurring basis in periods subsequent to initial recognition and the level within the fair value hierarchy used to measure them are as set out in the following table.

				Fair value measurements at reporting date using								
	Carrying value			Quoted prices in active markets for identical items (Level 1)			Significant other observable inputs (Level 2)			Significant unobservable inputs (Level 3)		
As at (millions)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Assets												
Foreign exchange derivatives	**$ 4**	$ —	$ 1	**$ —**	$ —	$ —	**$ 4**	$ —	$ 1	**$ —**	$ —	$ —
Share-based compensation derivatives	**13**	9	—	**—**	—	—	**13**	9	—	**—**	—	—
	$ 17	$ 9	$ 1	**$ —**	$ —	$ —	**$ 17**	$ 9	$ 1	**$ —**	$ —	$ —
Liabilities												

Foreign exchange derivatives	**$ —**	$ 2	**$ 2**	**$ —**	$ —	$ —	**$ —**	$ 2	**$ 2**	**$ —**	$ —	$ —			
Share-based compensation derivatives	**—**	13	60	**—**	—	—	**—**	13	60	**—**	—	—			
Cross currency interest rate swap derivatives	**—**	404	721	**—**	—	—	**—**	404	721	**—**	—	—			
	$ —	$ 419	**$ 783**	**$ —**	$ —	$ —	**$ —**	$ 419	**$ 783**	**$ —**	$ —	$ —			

The Company's derivative financial instruments that are measured at fair value on a recurring basis subsequent to initial recognition are as set out in the following table.

		December 31, 2011			December 31, 2010			January 1, 2010		
As at (millions)	**Maximum maturity date**	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**
Current Assets										
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. dollar revenues to which hedge accounting is not applied	2012	**$ 26**	**$ —**	**$ —**	$ 48	$ —	$ —	$ 23	$ 1	$ 1
Derivatives[1] designated as held for hedging[2] upon initial recognition and used to manage currency risks arising from U.S. dollar denominated purchases	2012	**$ 89**	**3**	**3**	$ —	—	—	$ —	—	—
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. dollar denominated purchases to which hedge accounting is not applied	2012	**$ 50**	**1**	**1**	$ —	—	—	$ —	—	—
Derivatives[1] used to manage changes in share-based compensation costs and classified as held for hedging[2] *(Note 13(c))*	2012	**$ 20**	**10**	**10**	$ 14	4	4	$ —	—	—
			$ 14	**$ 14**		$ 4	$ 4		$ 1	$ 1
Other Long-Term Assets										
Derivatives[1] used to manage changes in share-based compensation costs and classified as held for hedging[2] *(Note 13(c))*	2013	**$ 22**	**$ 3**	**$ 2**	$ 15	$ 5	$ 4	$ 12	$ —	$ —
Deduct: Net amounts due to counterparties in respect of derivatives used to manage changes in share-based compensation costs and classified as held for hedging			**(1)**			(1)			—	
			$ 2	**$ 2**		$ 4	$ 4		$ —	$ —

		December 31, 2011			December 31, 2010			January 1, 2010		
As at (millions)	**Maximum maturity date**	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**	**Notional amount**	**Carrying amount**	**Fair value**
Current Liabilities										
Derivatives designated as held for trading upon initial recognition and used to manage currency risks arising from U.S. dollar denominated purchases to which hedge accounting is not applied	2011	**$ —**	**$ —**	**$ —**	$ 140	$ 1	$ 1	$ 102	$ 2	$ 2
Derivatives[1] designated as held for hedging[2] upon initial recognition and used to manage currency risks arising from U.S. dollar denominated purchases	2011	**$ —**	**—**	**—**	$ 121	1	1	$ 79	—	—

Derivatives used to manage changes in share-based compensation costs and classified as held for												
- Trading *(Note 13(b))*	2012	**$**	**4**	—	—	$	60	13	13	$	130	51	51
- Hedging[1][2] *(Note 13(c))*	2010	**$**	—	—	—	$	—	—	—	$	26	9	9
Current amount of derivatives[1] classified as held for hedging[2] and used to manage currency risks associated with U.S. dollar denominated debt *(Note 20(b))*	2011	**$**	—	—	—	$	1,133	404	407	$	—	—	—
				—				419				62	
Add: Interest payable in respect of derivatives used to manage currency risks associated with U.S. dollar denominated debt and classified as held for hedging				—				3				—	
				$ —	**$** —	$		$ 422	$ 422			$ 62	$ 62
Other Long-Term Liabilities													
Derivatives[1] used to manage changes in share-based compensation costs and classified as held for hedging[2] *(Note 13(c))*	2012	**$**	—	**$** —	**$** —	$	4	$ —	$ —	$	—	$ —	$ —
Derivatives[1] classified as held for hedging[2] and used to manage currency risks associated with U.S. dollar denominated debt *(Note 20(b))*	2011	**$**	—	—	—	$	—	—	—	$	2,064	721	726
				—				—				721	
Add: Interest payable in respect of derivatives used to manage currency risks associated with U.S. dollar denominated debt and classified as held for hedging				—				—				5	
				$ —	**$** —			$ —	$ —			$ 726	$ 726

(1) Designated as cash flow hedging items.
(2) Hedge accounting is applied to derivatives that are designated as held for hedging.

Non-derivative

The Company's long-term debt, which is measured at amortized cost, and the fair value thereof, are as set out in the following table.

	December 31, 2011		December 31, 2010		January 1, 2010	
As at (millions)	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term debt	**$ 6,574**	**$ 7,359**	$ 6,056	$ 6,590	$ 6,172	$ 6,656

(i) Recognition of derivative gains and losses

The following table sets out the gains and losses, excluding tax effects, on derivative instruments classified as cash flow hedging items and their location within the Consolidated Statements of Income and Other Comprehensive Income; there was no ineffective portion of derivative instruments classified as cash flow hedging items for the periods presented.

	Amount of gain (loss) recognized in other comprehensive income (effective portion) (Note10)		Gain (loss) reclassified from other comprehensive income into income (effective portion) (Note 10)			
				Amount		
Years ended December 31 (millions)	**2011**	**2010**	**Location**	**2011**	**2010**
Derivatives used to manage currency risks						
– Associated with U.S. dollar denominated debt	**$ (6)**	$ 9	Financing costs	**$ (8)**	$ (59)
– Arising from U.S. dollar denominated purchases	**8**	(1)	Goods and services purchased	**3**	—

Derivatives used to manage changes in share-based compensation costs *(Note 13(c))*	**13**	7	Employee benefits expense	**12**	—
	$ 15	$ 15		**$ 7**	$ (59)

The following table sets out gains and losses arising from derivative instruments that are classified as held for trading items and that are not designated as being in a hedging relationship, and their location within the Consolidated Statements of Income and Other Comprehensive Income.

Years ended December 31 (millions)	Location	Gain (loss) recognized in income on derivatives 2011	2010
Derivatives used to manage currency risks	Financing costs	**$ 7**	$ —
Derivatives used to manage changes in share-based compensation costs (*Note 13(b)*)	Employee benefits expense	**6**	24
		$ 13	$ 24

5 segmented information

The Company's operating segments and reportable segments are Wireless and Wireline. The Wireless segment includes digital personal communications services, equipment sales and wireless Internet services. The Wireline segment includes voice local, voice long distance, data (which includes: television; Internet, enhanced data and hosting services; and managed and legacy data services) and other telecommunications services excluding wireless. Segmentation is based on similarities in technology, the technical expertise required to deliver the services and products, customer characteristics, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties.

The Company does not have material revenues attributed, or capital assets and goodwill located, outside of Canada.

The following segmented information is regularly reported to the Company's Chief Executive Officer (the Company's chief operating decision-maker).

Years ended December 31 (millions)	Wireless 2011	Wireless 2010	Wireline 2011	Wireline 2010	Eliminations 2011	Eliminations 2010	Consolidated 2011	Consolidated 2010 (adjusted – Note 25(c))
Operating revenues								
External revenue	**$ 5,462**	$ 5,012	**$ 4,935**	$ 4,780	**$ —**	$ —	**$ 10,397**	$ 9,792
Intersegment revenue	**38**	33	**164**	155	**(202)**	(188)	**—**	—
	$ 5,500	$ 5,045	**$ 5,099**	$ 4,935	**$ (202)**	$ (188)	**$ 10,397**	$ 9,792
EBITDA[1]	**$ 2,186**	$ 2,020	**$ 1,592**	$ 1,630	**$ —**	$ —	**$ 3,778**	$ 3,650
CAPEX[2]	**$ 508**	$ 463	**$ 1,339**	$ 1,258	**$ —**	$ —	**$ 1,847**	$ 1,721
EBITDA less CAPEX	**$ 1,678**	$ 1,557	**$ 253**	$ 372	**$ —**	$ —	**$ 1,931**	$ 1,929
					Operating revenues (above)		**$ 10,397**	$ 9,792
					Goods and services purchased		**4,726**	4,236
					Employee benefits expense		**1,893**	1,906
					EBITDA (above)		**3,778**	3,650
					Depreciation		**1,331**	1,339
					Amortization		**479**	402
					Operating income		**$ 1,968**	$ 1,909

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) does not have any standardized meaning prescribed by IFRS-IASB and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less goods and services purchased and employee benefits expense. TELUS has issued guidance on, and reports, EBITDA because it is a key measure that management uses to evaluate performance of its business and is also utilized in measuring compliance with certain debt covenants.

(2) Total capital expenditures (CAPEX).

6 other operating income

Years ended December 31 (millions)	2011	2010
Government assistance, including deferral account amortization (*Note 1(e)*)	**$ 54**	$ 48
Investment income (loss)	**(2)**	(2)
Gain on disposal of assets	**3**	4
Gain on 51% Transactel (Barbados) Inc. interest re-measured at acquisition-date fair value and subsequent adjustment to contingent consideration *(Notes 16(e), 19(a))*	**17**	—
	$ 72	$ 50

The Company receives government assistance, as defined by IFRS-IASB, from a number of sources and includes such receipts in Other operating income.

CRTC portable subsidy

Local exchange carriers' costs of providing the level of residential basic telephone services that the CRTC requires to be provided in high cost serving areas are more than the CRTC allows the local exchange carriers to charge for the level of service. To ameliorate the situation, the CRTC directs the collection of contribution payments, in a central fund, from all registered Canadian telecommunications service providers (including voice, data and wireless service providers) that are then disbursed to incumbent local exchange carriers as portable subsidy payments to subsidize the costs of providing residential basic telephone services in non-forborne high cost serving areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per network access line/per band subsidy rate. For the year ended December 31, 2011, the Company's portable subsidy receipts were $32 million (2010 — $37 million).

The CRTC currently determines, at a national level, the total annual contribution requirement necessary to pay the portable subsidies and then collects contribution payments from the Canadian telecommunications service providers, calculated as a percentage of their CRTC-defined telecommunications service revenue. The final contribution expense rate for 2011 was 0.66% and the interim rate for 2012 has been similarly set at 0.66%. For the year ended December 31, 2011, the Company's contributions to the central fund, which are accounted for as goods and services purchased, were $40 million (2010 — $46 million).

Government of Québec

Salaries for qualifying employment positions in the province of Quebec, mainly in the information technology sector, are eligible for tax credits. In respect of such tax credits, for the year ended December 31, 2011, the Company recorded $14 million (2010 — $11 million).

7 employee benefits expense

Years ended December 31 (millions)	2011	2010 (adjusted – Note 25(c))
Employee benefits expense — gross		
Wages and salaries	**$ 2,049**	$ 1,964
Share-based compensation *(Note 13)*	**51**	57
Pensions — defined benefit *(Note 14(b))*	**(34)**	(13)
Pensions — defined contribution *(Note 14(g))*	**66**	61
Other defined benefits *(Note 14(c))*	**2**	4
Restructuring costs *(Note 19(b))*	**13**	64
Other	**124**	132
	2,271	2,269
Capitalized internal labour costs		
Property, plant and equipment	**(284)**	(271)
Intangible assets subject to amortization	**(94)**	(92)
	(378)	(363)
	$ 1,893	$ 1,906

8 financing costs

Years ended December 31 (millions)	2011	2010 (adjusted – Note 25(c))
Interest expense		
Interest on long-term debt	**$ 374**	$ 442
Interest on short-term borrowings and other	**11**	29
Interest accretion on asset retirement obligation *(Note 19(a))*	**4**	4
Loss on redemption of debt[1]	**—**	52
	389	527
Foreign exchange	**(9)**	(1)
	380	526
Interest income	**(3)**	(4)
	$ 377	$ 522

[1] This amount includes a loss of $16 which arose from the associated settlement of financial instruments that were used to manage the foreign exchange rate risk associated with U.S. dollar denominated debt that was redeemed during the third quarter of 2010.

9 income taxes

(a) Expense composition and rate reconciliation

Years ended December 31 (millions)	2011	2010 (adjusted – Note 25(c))
Current tax expense (recovery)		
For current reporting period	**$ 186**	$ 182
Consequential adjustments from reassessment of prior year tax issues	**(15)**	(64)
	171	118
Deferred tax expense (recovery)		
Arising from the origination and reversal of temporary differences	**247**	232
Revaluation of deferred income tax liability to reflect future statutory income tax rates	**(37)**	(44)
Consequential adjustments from reassessment of prior year tax issues	**(5)**	29
	205	217
	$ 376	$ 335

notes to consolidated financial statements

The Company's income tax expense differs from that calculated by applying statutory rates for the following reasons:

Years ended December 31 ($ in millions)	2011		2010 (adjusted – Note 25(c))	
Basic blended tax at weighted average statutory income tax rates	**$ 433**	**27.2%**	$ 402	29.0%
Revaluation of deferred income tax liability to reflect future statutory income tax rates	**(37)**		(44)	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	**(20)**		(35)	
Share option award compensation	**(1)**		10	
Other	**1**		2	
Income tax expense per Consolidated Statements of Income and Other Comprehensive Income	**$ 376**	**23.6%**	$ 335	24.1%

The Company's basic blended weighted average statutory income tax rate is the aggregate of the following:

Years ended December 31	2011	2010
Basic federal rate	**16.2%**	17.7%
Weighted average provincial rate	**10.4%**	10.9%
Other tax jurisdictions	**0.6%**	0.4%
	27.2%	29.0%

(b) Temporary differences

The Company must make significant estimates in respect of the composition of its deferred income tax liability. The operations of the Company are complex and the related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question.

Temporary differences comprising the net deferred income tax liability and the amounts of deferred income tax expense recognized in the statements of income and other comprehensive income for each temporary difference are estimated as follows:

(millions)	December 31, 2010 (adjusted – Note 25(d))	Recognized in: Net income	Recognized in: Other comprehensive income	Business acquisitions and other	December 31, 2011
Property, plant and equipment and intangible assets subject to amortization	**$ 326**	**$ 68**	**$ —**	**$ —**	**$ 394**
Intangible assets with indefinite lives	**1,092**	**19**	**—**	**2**	**1,113**
Partnership income unallocated for income tax purposes	**398**	**23**	**—**	**—**	**421**
Net pension and share-based compensation amounts	**(23)**	**65**	**(288)**	**—**	**(246)**
Reserves not currently deductible	**(92)**	**6**	**—**	**—**	**(86)**
Losses available to be carried forward[1]	**(36)**	**1**	**—**	**—**	**(35)**
Other	**18**	**23**	**2**	**(4)**	**39**
Net deferred income tax liability	**$ 1,683**	**$ 205**	**$ (286)**	**$ (2)**	**$ 1,600**

[1] The Company expects to be able to utilize its non-capital losses prior to expiry.

	Recognized in

(millions)	January 1, 2010 (Note 25(d))	Net income	Other comprehensive income	Business acquisitions and other	December 31, 2010 (adjusted – Note 25(d))
Property, plant and equipment and intangible assets subject to amortization	$ 251	$ 75	$ —	$ —	$ 326
Intangible assets with indefinite lives	1,047	45	—	—	1,092
Partnership income unallocated for income tax purposes	437	(39)	—	—	398
Net pension and share-based compensation amounts	(52)	99	(70)	—	(23)
Reserves not currently deductible	(141)	49	—	—	(92)
Losses available to be carried forward[1]	(41)	5	—	—	(36)
Other	21	(17)	17	(3)	18
Net deferred income tax liability	$ 1,522	$ 217	$ (53)	$ (3)	$ 1,683

(1) The Company expects to be able to utilize its non-capital losses prior to expiry.

IFRS-IASB requires the separate disclosure of temporary differences arising from the carrying value of the investment in subsidiaries and partnerships exceeding their tax base and for which no deferred income tax liabilities have been recognized. In the Company's specific instance this is relevant to its investment in Canadian subsidiaries and Canadian partnerships. The Company is not required to recognize such deferred income tax liabilities as it is in a position

to control the timing and manner of the reversal of the temporary differences, which would not be expected to be exigible to income tax, and it is probable that such differences will not reverse in the foreseeable future. Although the Company is in a position to control the timing and reversal of temporary differences in respect of its non-Canadian subsidiaries, and it is not probable that such differences will reverse in the foreseeable future, it does recognize all potential taxes for repatriation of substantially all unremitted earnings in non-Canadian subsidiaries.

(c) Other

The Company has net capital losses and such losses may only be applied against realized taxable capital gains. The Company expects to include a net capital loss carry-forward of $5 million (December 31, 2010 — $5 million; January 1, 2010 — $605 million) in its Canadian income tax returns. During the year ended December 31, 2011, the Company recognized the benefit of $NIL (2010 — $1 million) in net capital losses.

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits. During the year ended December 31, 2011, the Company recorded Investment Tax Credits of $8 million (2010 — $20 million). Of the Investment Tax Credits recorded by the Company during the year ended December 31, 2011, $6 million (2010 — $15 million) was recorded as a reduction of capital and the balance was recorded as a reduction of Goods and services purchased.

10 other comprehensive income

	2011					2010 (adjusted – Note 25)				
	Other comprehensive income (loss)			Accumulated income (loss)		Other comprehensive income (loss)			Accumulated income (loss)	
Years ended December 31 (millions)	Amount arising	Income taxes	Net	Beginning of period	End of period	Amount arising	Income taxes	Net	Beginning of period	End of period
Items that may subsequently be reclassified to income										
Change in unrealized fair value of derivatives designated as cash flow hedges *(Note 4(i))*										
Gains (losses) arising in current period	**$ 15**	**$ 5**	**$ 10**			$ 15	$ 11	$ 4		
(Gains) losses arising in prior periods and transferred to net income in the current period	**(7)**	**(3)**	**(4)**			59	9	50		
	8	**2**	**6**	**$ 1**	**$ 7**	74	20	54	$ (53)	$ 1
Cumulative foreign currency translation adjustment	**4**	**—**	**4**	**—**	**4**	—	—	—	—	—
	12	**2**	**10**	**1**	**11**	74	20	54	(53)	1
Item never subsequently reclassified to income										
Cumulative employee defined benefit plan actuarial gains (losses)[1]	**(1,139)**	**(288)**	**(851)**	**(214)**	**(1,065)**	(287)	(73)	(214)	—	(214)
	$ (1,127)	**$ (286)**	**$ (841)**	**$ (213)**	**$ (1,054)**	$ (213)	$ (53)	$ (160)	$ (53)	$ (213)

(1) Cumulative employee defined benefit plan actuarial gains (losses) are only those amounts arising on or after January 1, 2010 (see *Note 25*); excluding the tax effects thereon, the cumulative net gain (loss) charged to other comprehensive income at December 31, 2011, was $(1,426) (2010 — $(287)).

As at December 31, 2011, the Company's estimate of the net amount of existing gains (losses) arising from the unrealized fair value of derivatives

designated as cash flow hedges which are reported in accumulated other comprehensive income and are expected to be reclassified to net income in the next twelve months, excluding tax effects, is $3 million.

notes to consolidated financial statements

11 per share amounts

Basic net income per Common Share and Non-Voting Share is calculated by dividing net income attributable to Common Shares and Non-Voting Shares by the total weighted average Common Shares and Non-Voting Shares outstanding during the period. Diluted net income per Common Share and Non-Voting Share is calculated to give effect to share option awards and restricted stock units.

The following table presents the reconciliations of the denominators of the basic and diluted per share computations. Net income attributable to Common Shares and Non-Voting Shares equalled diluted income attributable to Common Shares and Non-Voting Shares for all periods presented.

Years ended December 31 (millions)	2011	2010
Basic total weighted average Common Shares and Non-Voting Shares outstanding	**324**	320
Effect of dilutive securities		
Share option awards	**2**	1
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	**326**	321

For the year ended December 31, 2011, certain outstanding share option awards, in the amount of 1 million (2010 — 5 million), were not included in the computation of diluted income per Common Share and Non-Voting Share because the share option awards' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods.

12 dividends per share

(a) Dividends declared

	2011				2010			
	Declared		Paid to		Declared		Paid to	
Years ended December 31 (millions except per share amounts)	Effective	Per share	shareholders	Total	Effective	Per share	shareholders	Total
Common Share and Non-Voting Share dividends	Mar. 11, 2011	**$ 0.525**	Apr. 1, 2011	**$ 170**	Mar. 11, 2010	$ 0.475	Apr. 1, 2010	$ 152
	Jun. 10, 2011	**0.550**	Jul. 4, 2011	**178**	Jun. 10, 2010	0.500	Jul. 2, 2010	161
	Sep. 9, 2011	**0.550**	Oct. 3, 2011	**179**	Sep. 10, 2010	0.500	Oct. 1, 2010	160
	Dec. 9, 2011	**0.580**	Jan. 3, 2012	**188**	Dec. 10, 2010	0.525	Jan. 4, 2011	169
		$ 2.205		**$ 715**		$ 2.000		$ 642

	2011			2010		
	Dividends declared in			Dividends declared in		
Years ended December 31 (millions)	Prior fiscal year	Current fiscal year	Total	Prior fiscal year	Current fiscal year	Total
Common Share and Non-Voting Share dividends						
Payable, beginning of period	**$ 169**	**$ —**	**$ 169**	$ 150	$ —	$ 150
Declared	**N/A**	**715**	**715**	N/A	642	642
Paid in cash	**(115)**	**(527)**	**(642)**	(129)	(344)	(473)
Reinvested in Non-Voting Shares issued from Treasury	**(54)**	**—**	**(54)**	(21)	(129)	(150)
Payable, end of period	**$ —**	**$ 188**	**$ 188**	$ —	$ 169	$ 169

On February 8, 2012, the Board of Directors declared a quarterly dividend of $0.58 per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company payable on April 2, 2012, to holders of record at the close of business on March 9, 2012. The final amount of the dividend payment depends upon the number of Common Shares and Non-Voting Shares issued and outstanding at the close of business on March 9, 2012.

On February 21, 2012, the Board of Directors declared a quarterly dividend of $0.61 per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company, payable on July 3, 2012, to holders of record at the close of business on June 8, 2012. In the event that the proposed share conversion of Non-Voting Shares to Common Shares on a one for one basis receives all requisite approvals (see Note 21(a)) and is effective prior to the dividend record date of June 8, 2012, holders of record on such date who previously held Non-Voting Shares would hold Common Shares and would therefore receive the same dividend as all other holders of Common Shares.

(b) Dividend Reinvestment and Share Purchase Plan

General

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible holders of Common Shares and Non-Voting Shares may acquire Non-Voting Shares through the reinvestment of dividends and by making additional optional cash payments to the trustee. Under this Plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market.

notes to consolidated financial statements

Reinvestment of dividends

The Company, at its discretion, may offer the Non-Voting Shares at up to a 5% discount from the market price. In respect of dividends reinvested during the three-month period ended March 31, 2011, the Company issued Non-Voting Shares from Treasury at a discount of 3%. The Company opted to have the trustee acquire the Non-Voting Shares in the stock market commencing March 1, 2011, with no discount. In respect of Common Share and Non-Voting Share dividends declared during the year ended December 31, 2011, $34 million (2010 — $183 million) was to be reinvested in Non-Voting Shares.

Optional cash payments

Shares purchased through optional cash payments are subject to a minimum investment of $100 per transaction and a maximum investment of $20,000 per calendar year.

13 share-based compensation

(a) Details of share-based compensation expense

Reflected in the Consolidated Statements of Income and Other Comprehensive Income as employee benefits expense and in the Consolidated Statements of Cash Flows are the following share-based compensation amounts:

	2011			2010		
Years ended December 31 (millions)	**Employee benefits expense**	**Associated operating cash outflows**	**Statement of cash flows adjustment**	**Employee benefits expense**	**Associated operating cash outflows**	**Statement of cash flows adjustment**
Share option awards[1]	**$ (10)**	**$ (7)**	**$ (17)**	$ 1	$ (24)	$ (23)
Restricted stock units[2]	**31**	**(26)**	**5**	29	(36)	(7)
Employee share purchase plan	**30**	**(30)**	**—**	27	(27)	—
	$ 51	**$ (63)**	**$ (12)**	$ 57	$ (87)	$ (30)

(1) The expense (recovery) arising from share options with the net-cash settlement feature, net of cash-settled equity swap agreement effects (see *Note 4(i)*), was $(19) (2010 — $(10)).

(2) The expense arising from restricted stock units was net of cash-settled equity swap agreement effects (see *Note 4(i)*).

For the year ended December 31, 2011, the associated operating cash outflows in respect of share option awards include cash outflows arising from the cash-settled equity swap agreements of $7 million (2010 — $18 million). Similarly, for the year ended December 31, 2011, the associated operating cash outflows in respect of restricted stock units include cash inflows arising from the cash-settled equity swap agreements of $7 million (2010 — cash outflows of $4 million). For the year ended December 31, 2011, the income tax benefit arising from share-based compensation was $15 million (2010 — $6 million); as disclosed in Note 9, not all share-based compensation amounts are deductible for income tax purposes.

(b) Share option awards

General

The Company applies the fair value based method of accounting for share-based compensation awards granted to employees. The Company uses share option awards as a form of retention and incentive compensation. Share option awards typically have a three-year vesting period (the requisite service period), but may vest over periods of up to five years. The vesting method of share option awards, which is determined on or before the date of grant, may be either cliff or graded; all share option awards granted subsequent to 2004 have been cliff-vesting awards.

Share option awards accounted for as equity instruments

The weighted average fair value of share option awards granted, and the weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model (a closed-form option pricing model), are as follows:

Years ended December 31	**2011**	**2010**
Share option award fair value (per share option)	**$ 6.75**	$ 4.30
Risk free interest rate	**2.3%**	2.5%
Expected lives[1] (years)	**4.25**	4.5
Expected volatility	**25.7%**	26.3%
Dividend yield	**4.5%**	5.8%

(1) The maximum contractual term of the share option awards granted in 2011 and 2010 was seven years.

notes to consolidated financial statements

The risk free interest rate used in determining the fair value of the share option awards is based on a Government of Canada yield curve that is current at the time of grant. The expected lives of the share option awards are based on historical share option award exercise data of the Company. Similarly, expected volatility considers the historical volatility of the Company's Non-Voting Shares. The dividend yield is the annualized dividend current at the date of grant divided by the share option award exercise price. Dividends are not paid on unexercised share option awards and are not subject to vesting.

Had the weighted average assumptions for grants of share option awards that are reflected in the expense disclosures above been varied by 10% and 20%, the compensation cost arising from share option awards for the year ended December 31, 2011, would have varied as follows:

	Hypothetical change in assumptions[1]	
($ in millions)	**10%**	**20%**
Risk free interest rate	$ —	$ —
Expected lives (years)	$ —	$ —
Expected volatility	$ 1	$ 2
Dividend yield	$ 1	$ 1

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in a decreased amount, and unfavourable hypothetical changes in the assumptions result in an increased amount, of the compensation cost arising from share option awards. As the figures indicate, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear; in particular, variations in expected lives are constrained by vesting periods and legal lives. Also, in this table, the effect of a variation in a particular assumption on the amount of the compensation cost arising from share option awards is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in risk free interest rates may result in increased dividend yields), which might magnify or counteract the sensitivities.

Some share option awards have a net-equity settlement feature. The optionee does not have the choice of exercising the net-equity settlement feature; it is at the Company's option whether the exercise of a share option award is settled as a share option or settled using the net-equity settlement feature.

Share option awards accounted for as liability instruments

Substantially all of the Company's outstanding share option awards that were granted prior to January 1, 2005, have a net-cash settlement feature; the optionee has the choice of exercising the net-cash settlement feature. The affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments. For the outstanding share option awards that were amended and were granted subsequent to 2001, the minimum expense recognized for them will be their grant-date fair values.

The Company has entered into a cash-settled equity swap agreement that establishes a cap on the Company's cost associated with substantially all of the affected outstanding share option awards. The following table sets out the number of affected outstanding share option awards (all of which are for Non-Voting Shares granted subsequent to 2001) and the composition of their capped exercise-date fair values.

As at December 31, 2011 ($ in millions except per affected outstanding share option award)	
Weighted average exercise price	$ 15.91
Weighted average grant-date fair value	4.85
Incremental expense arising from net-cash settlement feature	34.39
Exercise-date fair value capped by cash-settled equity swap agreement	$ 55.15
Affected share option awards outstanding	66,300
Aggregate intrinsic value[1]	$ 3

(1) The aggregate intrinsic value is calculated upon the December 31, 2011, per share price of $54.64 for Non-Voting Shares. The difference between the aggregate intrinsic value amount in this table and the amount disclosed in *Note 24(a)* is the effect, if any, of recognizing no less than the expense arising from the grant-date fair values for the affected share option awards outstanding.

(c) Restricted stock units

The Company uses restricted stock units as a form of incentive compensation. Each restricted stock unit is nominally equal in value to one Non-Voting Share together with the dividends that would have arisen thereon had it been an issued and outstanding Non-Voting Share; the notional dividends are recorded as additional issuances of restricted stock units during the life of the restricted stock unit. Due to the notional dividend mechanism, the grant-date fair value of restricted stock units equals the fair market value of the corresponding shares at the grant date. The restricted stock units become payable when vesting is completed. The restricted stock units typically vest over a period of 33 months (the requisite service period). The vesting method of restricted stock units, which is determined on or before the date of grant, may be either cliff or graded. The associated liability is normally cash-settled.

The following table presents a summary of the activity related to the Company's restricted stock units.

	2011			2010		
	Number of restricted stock units		Weighted average grant-date fair value	Number of restricted stock units		Weighted average grant-date fair value
Years ended December 31	Non-vested	Vested		Non-vested	Vested	
Outstanding, beginning of period						
Non-vested	**1,359,066**	**—**	**$ 32.46**	1,385,091	—	$ 37.76
Vested	**—**	**24,689**	**31.86**	—	24,226	37.03
Issued						
Initial award	**801,137**	**—**	**46.75**	754,057	—	33.82
In lieu of dividends	**83,717**	**59**	**49.98**	90,384	44	40.18
Vested	**(627,281)**	**627,281**	**31.57**	(771,417)	771,417	43.11
Settled in cash	**—**	**(636,078)**	**31.62**	—	(770,998)	43.28
Forfeited and cancelled	**(144,803)**	**—**	**35.91**	(99,049)	—	36.89
Outstanding, end of period						
Non-vested	**1,471,836**	**—**	**40.60**	1,359,066	—	32.46
Vested	**—**	**15,951**	**$ 38.39**	—	24,689	$ 31.86

With respect to certain issuances of restricted stock units, the Company has entered into cash-settled equity forward agreements that fix the cost to the Company; that information, as well as a schedule of the Company's non-vested restricted stock units outstanding as at December 31, 2011, is set out in the following table.

Vesting in years ending December 31	Number of fixed-cost restricted stock units	Cost fixed to the Company per restricted stock unit	Number of variable-cost restricted stock units	Total number of non-vested restricted stock units
2012	538,000	$ 38.13	203,125	741,125
2013	447,000	$ 50.98	283,711	730,711
	985,000		486,836	1,471,836

(d) Employee share purchase plan

The Company has an employee share purchase plan under which eligible employees up to a certain job classification can purchase Common Shares through regular payroll deductions by contributing between 1% and 10% of their pay; for more highly compensated job classifications, employees may contribute between 1% and up to 55% of their pay. For every dollar contributed by an employee, up to a maximum of 6% of eligible employee pay, the Company is required to contribute a percentage between 20% and 40% as designated by the Company. For the years ended December 31, 2011 and 2010, the Company contributed 40% for employees up to a certain job classification; for more highly compensated job classifications, the Company contributed 35%. The Company records its contributions as a component of Employee benefits expense and the Company's contribution vests on the earlier of a plan participant's last day in the Company's employ or the last business day of the calendar year of the Company's contribution, unless the plan participant's employment is terminated with cause, in which case the plan participant will forfeit their in-year Company contribution.

Years ended December 31 (millions)	2011	2010
Employee contributions	**$ 78**	$ 73
Company contributions	**30**	27
	$ 108	$ 100

Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. For the years ended December 31, 2011 and 2010, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices.

14 employee future benefits

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees. As at December 31, 2011, all registered defined benefit pension plans are closed to substantially all new participants and substantially all benefits have vested. Other employee benefit plans include a TELUS Québec Inc. retiree healthcare plan. The benefit plan(s) in which an employee is a participant reflects the general development of the Company.

TELUS Corporation Pension Plan

Management and professional employees in Alberta who joined the Company prior to January 1, 2001, and certain unionized employees who joined the Company prior to June 9, 2011, are covered by this contributory defined benefit pension plan, which comprises slightly more than one-

half of the Company's total accrued benefit obligation. The plan contains a supplemental benefit account which may provide indexation up to 70% of the annual change of a specified cost-of-living index. Pensionable remuneration is determined by the average of the best five years in the last ten years preceding retirement.

Pension Plan for Management and Professional Employees of TELUS Corporation

This defined benefit pension plan which, subject to certain limited exceptions, ceased accepting new participants on January 1, 2006, and which comprises approximately one-quarter of the Company's total accrued benefit obligation, provides a non-contributory base level of pension benefits. Additionally, on a contributory basis, employees annually can choose increased and/or enhanced levels of pension benefits over the base level of pension benefits. At an enhanced level of pension benefits, the defined benefit pension plan has indexation of 100% of a specified cost-of-living index, to an annual maximum of 2%. Pensionable remuneration is determined by the annualized average of the best sixty consecutive months.

TELUS Québec Defined Benefit Pension Plan

This contributory defined benefit pension plan, which ceased accepting new participants on April 14, 2009, covers any employee not governed by a collective agreement in Quebec who joined the Company prior to April 1, 2006, any non-supervisory employee governed by a collective agreement prior to September 6, 2006, and certain other unionized employees. The plan comprises approximately one-tenth of the Company's total accrued benefit obligation. The plan has no indexation and pensionable remuneration is determined by the average of the best four years.

TELUS Edmonton Pension Plan

This contributory defined benefit pension plan ceased accepting new participants on January 1, 1998. Indexation is 60% of the annual change of a specified cost-of-living index and pensionable remuneration is determined by the annualized average of the best sixty consecutive months.

Other defined benefit pension plans

In addition to the foregoing plans, the Company has non-registered, non-contributory supplementary defined benefit pension plans which have the effect of maintaining the earned pension benefit once the allowable maximums in the registered plans are attained. As is common with non-registered plans of this nature, these plans are primarily funded only as benefits are paid.

The Company has three contributory, non-indexed defined benefit pension plans arising from a pre-merger acquisition which comprise less than 1% of the Company's total accrued benefit obligation; these plans ceased accepting new participants in September 1989.

Other defined benefit plans

Other defined benefit plans, which are all non-contributory, are comprised of a disability income plan, a healthcare plan for retired employees and a life insurance plan. The healthcare plan for retired employees and the life insurance plan ceased accepting new participants effective January 1, 1997. In connection with the collective agreement signed in 2005, an external supplier commenced providing a new long-term disability plan effective January 1, 2006. The existing disability income plan will continue to provide payments to previously approved claimants and qualified eligible employees.

Telecommunication Workers Pension Plan

Certain employees in British Columbia are covered by a negotiated-cost, target-benefit union pension plan. Company contributions are determined in accordance with provisions of negotiated labour contracts, the current one of which is in

effect until December 31, 2015, and are generally based on employee gross earnings. The Company is not required to guarantee the benefits or assure the solvency of the plan and is not liable to the plan for other participating employers' obligations. For the years ended December 31, 2011 and 2010, the Company's contributions comprised substantially all of the employer contributions to the union pension plan; similarly, substantially all of the plan participants were active and retired employee participants of the Company.

British Columbia Public Service Pension Plan

Certain employees in British Columbia are covered by a public service pension plan. Contributions are determined in accordance with provisions of labour contracts negotiated by the Province of British Columbia and are generally based on employee gross earnings.

Defined contribution pension plans

The Company offers two defined contribution pension plans, which are contributory, and are the Company-sponsored pension plans available to non-unionized and certain unionized employees. Generally, employees annually can choose to contribute to the plans at a rate of between 3% and 6% of their pensionable earnings. The Company will match 100% of the contributions of the employees up to 5% of their pensionable earnings and will match 80% of employee contributions greater than that. Generally, membership in a defined contribution pension plan is voluntary until an employee's third-year service anniversary. In the event that annual contributions exceed allowable maximums, excess amounts are in certain cases contributed to a non-registered supplementary defined contribution pension plan.

(a) Defined benefit plans — funded status overview

Information concerning the Company's defined benefit plans, in aggregate, is as follows:

(millions)	Pension benefit plans 2011	Pension benefit plans 2010	Other benefit plans 2011	Other benefit plans 2010
Accrued benefit obligation:				
Balance at beginning of year	**$ 6,958**	$ 6,376	**$ 75**	$ 71
Current service cost	**110**	103	**1**	—
Interest cost	**360**	368	**2**	5
Actuarial loss (gain) arising from:				
Demographic assumptions	**(26)**	(32)	**(2)**	1
Financial assumptions	**700**	484	**4**	3
Benefits paid	**(354)**	(341)	**(5)**	(5)
Balance at end of year	**7,748**	6,958	**75**	75
Plan assets:				
Fair value at beginning of year	**6,765**	6,316	**29**	30
Return on plan assets				
Expected long-term rate of return on plan assets	**474**	454	**1**	1
Actual return on plan assets greater (less) than expected long-term rate of return on plan assets	**(461)**	169	**—**	—
Contributions				
Employer contributions (e)	**297**	137	**1**	3
Employees' contributions	**30**	30	**—**	—
Benefits paid	**(354)**	(341)	**(5)**	(5)
Fair value at end of year	**6,751**	6,765	**26**	29
Effect of asset ceiling limit				
Beginning of year	**5**	5	**—**	—
Effect of experience related underwriting agreement	**—**	—	**2**	—
End of year	**5**	5	**2**	—
Fair value of plan assets at end of year, net of asset ceiling limit	**6,746**	6,760	**24**	29
Funded status — plan surplus (deficit)	**$ (1,002)**	$ (198)	**$ (51)**	$ (46)

The plan surplus (deficit) is reflected in the Consolidated Statements of Financial Position as follows:

As at (millions)	December 31, 2011	December 31, 2010 (adjusted – Note 25(d))	January 1, 2010 (Note 25(d))
Funded status — plan surplus (deficit)			
Pension benefit plans	**$ (1,002)**	$ (198)	$ (65)
Other benefit plans	**(51)**	(46)	(41)
	$ (1,053)	$ (244)	$ (106)
Presented in the Consolidated Statements of Financial Position as:			
Other long-term assets (*Note 24(a)*)	**$ —**	$ 179	$ 251
Other long-term liabilities (*Note 24(a)*)	**(1,053)**	(423)	(357)
	$ (1,053)	$ (244)	$ (106)

The measurement date used to determine the plan assets and accrued benefit obligation was December 31.

(b) Defined benefit pension plans — details

Expense

The Company's defined benefit pension plan expense was as follows:

Years ended December 31 (millions) Recognized in	2011 Employee benefits expense	2011 Other comprehensive income	2011 Total	2010 (adjusted – Note 25(c)) Employee benefits expense	2010 (adjusted – Note 25(c)) Other comprehensive income	2010 (adjusted – Note 25(c)) Total
Current service cost	**$ 80**	**$ —**	**$ 80**	$ 73	$ —	$ 73
Return on plan assets net of interest						
Interest cost on accrued benefit obligation	**360**	**—**	**360**	368	—	368
Return on plan assets[(1)]	**(474)**	**461**	**(13)**	(454)	(169)	(623)
	(114)	**461**	**347**	(86)	(169)	(255)

Actuarial loss (gain) arising from:						
Demographic assumptions	**—**	**(26)**	**(26)**	—	(32)	(32)
Financial assumptions	**—**	**700**	**700**	—	484	484
	—	**674**	**674**	—	452	452
	$ (34)	**$ 1,135**	**$ 1,101**	$ (13)	$ 283	$ 270

(1) The return on plan assets included in employee benefits expense reflects management's expected long-term rate of return, as discussed further in *(f)*.

Experience adjustments

The Company's defined benefit pension plan experience adjustments were as follows:

As at, or for the years ended, December 31 (millions)	2011	2010	2009	2008	2007
Funded status					
Fair value of plan assets	**$ 6,746**	$ 6,760	$ 6,311	$ 5,649	$ 6,908
Accrued benefit obligation	**7,748**	6,958	6,376	5,243	6,347
Plan surplus (deficit)	**$ (1,002)**	$ (198)	$ (65)	$ 406	$ 561
Actuarial loss (gain) arising from:(1)					
Fair value of plan assets	**$ 461**	$ (169)	$ (364)	$ 1,596	$ 236
Accrued benefit obligation					
Demographic assumptions	**(26)**	(32)	61	96	38
Financial assumptions *(f)*	**700**	484	930	(1,376)	(446)
	674	452	991	(1,280)	(408)
Net	**$ 1,135**	$ 283	$ 627	$ 316	$ (172)

(1) The actuarial losses (gains) experienced subsequent to December 31, 2009, have been recognized in other comprehensive income, as set out in *Note 1(n)* and *Note 10*; those experienced prior to January 1, 2010, have been recognized in retained earnings, as discussed further in *Note 25*.

Disaggregation of defined benefit pension plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date. The Company's disaggregation of defined benefit pension plans surpluses and deficits at year-end was as follows:

	December 31, 2011			December 31, 2010			January 1, 2010		
As at (millions)	**Accrued benefit obligation**	**Plan assets**	**Funded status – plan surplus (deficit)**	**Accrued benefit obligation**	**Plan assets**	**Funded status – plan surplus (deficit)**	**Accrued benefit obligation**	**Plan assets**	**Funded status – plan surplus (deficit)**
Pension plans that have plan assets in excess of accrued benefit obligations	**$ 22**	**$ 22**	**$ —**	$ 4,328	$ 4,510	$ 182	$ 3,544	$ 3,794	$ 250
Pension plans that have accrued benefit obligations in excess of plan assets									
Funded	**7,474**	**6,724**	**(750)**	2,401	2,250	(151)	2,627	2,517	(110)
Unfunded	**252**	**—**	**(252)**	229	—	(229)	205	—	(205)
	7,726	**6,724**	**(1,002)**	2,630	2,250	(380)	2,832	2,517	(315)
	$ 7,748	**$ 6,746**	**$ (1,002)**	$ 6,958	$ 6,760	$ (198)	$ 6,376	$ 6,311	$ (65)

As at December 31, 2011 and 2010, and January 1, 2010, undrawn Letters of Credit secured certain of the unfunded defined benefit pension plans.

Accumulated pension benefit obligations

Accumulated benefit obligations differ from accrued benefit obligations in that accumulated benefit obligations do not include assumptions about future compensation levels. The Company's disaggregation of defined pension benefit plans accumulated benefit obligations and plan assets at year-end was as follows:

	December 31, 2011	December 31, 2010	January 1, 2010

As at (millions)	Accumulated benefit obligation	Plan assets	Difference	Accumulated benefit obligation	Plan assets	Difference	Accumulated benefit obligation	Plan assets	Difference
Pension plans that have plan assets in excess of accumulated benefit obligations	**$ 516**	**$ 540**	**$ 24**	$ 5,857	$ 6,204	$ 347	$ 5,353	$ 5,789	$ 436
Pension plans that have accumulated benefit obligations in excess of plan assets									
Funded	**6,683**	**6,206**	**(477)**	599	556	(43)	545	522	(23)
Unfunded	**232**	**—**	**(232)**	210	—	(210)	189	—	(189)
	6,915	**6,206**	**(709)**	809	556	(253)	734	522	(212)
	$ 7,431	**$ 6,746**	**$ (685)**	$ 6,666	$ 6,760	$ 94	$ 6,087	$ 6,311	$ 224

Future benefit payments

Estimated future benefit payments from the Company's defined benefit pension plans, calculated as at December 31, 2011, are as follows:

Years ending December 31 (millions)	
2012	**$ 374**
2013	**389**
2014	**405**
2015	**419**
2016	**432**
2017-2021	**2,295**

notes to consolidated financial statements

Fair value measurements

Information about the fair value measurements of the Company's defined benefit pension plans' assets, in aggregate, is as follows:

				Fair value measurements at reporting date using					
	Total			Quoted prices in active markets for identical items			Other		
As at (millions)	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Asset class									
Equity securities									
Canadian	**$ 1,998**	$ 2,174	$ 1,921	**$ 1,632**	$ 1,790	$ 1,743	**$ 366**	$ 384	$ 178
Foreign	**1,771**	1,589	1,415	**1,285**	1,122	969	**486**	467	446
Debt securities									
Debt securities issued by national, provincial or local governments	**1,346**	1,357	1,207	**946**	1,071	1,014	**400**	286	193
Corporate debt securities	**692**	558	620	**—**	—	—	**692**	558	620
Asset-backed securities	**38**	54	45	**—**	—	—	**38**	54	45
Commercial mortgages	**253**	218	312	**—**	—	—	**253**	218	312
Cash and cash equivalents	**213**	386	389	**1**	17	25	**212**	369	364
Real estate	**440**	429	393	**55**	51	45	**385**	378	348
Other	**—**	—	14	**—**	—	—	**—**	—	14
	6,751	6,765	6,316	**$ 3,919**	$ 4,051	$ 3,796	**$ 2,832**	$ 2,714	$ 2,520
Effect of asset ceiling limit	**(5)**	(5)	(5)						
	$ 6,746	$ 6,760	$ 6,311						

As at December 31, 2011, pension and other benefit trusts administered by the Company held shares of TELUS Corporation that had a fair value of $2 million (December 31, 2010 — $5 million; January 1, 2010 — $5 million). As at December 31, 2010, pension and other benefit trusts administered by the Company leased real estate to the Company with a fair value of $31 million (January 1, 2010 — $31 million) (the fair value of the leased real estate was not determinable by a quoted price in an active market for an identical item); as at December 31, 2011, pension and other benefit trusts administered by the Company did not lease real estate to the Company.

(c) Other defined benefit plans — details

Expense

The Company's other defined benefit plan expense was as follows:

Years ended December 31 (millions) Recognized in	2011 Employee benefits expense	2011 Other comprehensive income	2011 Total	2010 (adjusted – Note 25(c)) Employee benefits expense	2010 (adjusted – Note 25(c)) Other comprehensive income	2010 (adjusted – Note 25(c)) Total
Current service cost	**$ 1**	**$ —**	**$ 1**	$ —	$ —	$ —
Return on plan assets net of interest						
Interest cost on accrued benefit obligation	**2**	**—**	**2**	5	—	5
Return on plan assets[1]	**(1)**	**—**	**(1)**	(1)	—	(1)
	1	**—**	**1**	4	—	4
Actuarial loss (gain) arising from:						
Demographic assumptions	**—**	**(2)**	**(2)**	—	1	1
Financial assumptions	**—**	**4**	**4**	—	3	3
	—	**2**	**2**	—	4	4
Change in the effect of limiting net defined benefit assets to the asset ceiling	**—**	**2**	**2**	—	—	—
	$ 2	**$ 4**	**$ 6**	$ 4	$ 4	$ 8

(1) The return on plan assets included in employee benefits expense reflects management's expected long-term rate of return, as discussed further in *(f)*.

notes to consolidated financial statements

Disaggregation of other defined benefit plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date. The Company's disaggregation of other defined benefit plans surpluses and deficits at year-end was as follows:

As at (millions)	December 31, 2011 Accrued benefit obligation	December 31, 2011 Plan assets	December 31, 2011 Funded status – plan surplus (deficit)	December 31, 2010 Accrued benefit obligation	December 31, 2010 Plan assets	December 31, 2010 Funded status – plan surplus (deficit)	January 1, 2010 Accrued benefit obligation	January 1, 2010 Plan assets	January 1, 2010 Funded status – plan surplus (deficit)
Other benefit plan that has plan assets in excess of accrued benefit obligations	**$ 24**	**$ 24**	**$ —**	$ 27	$ 29	$ 2	$ 27	$ 30	$ 3
Unfunded other benefit plans that have accrued benefit obligations in excess of plan assets	**51**	**—**	**(51)**	48	—	(48)	44	—	(44)
	$ 75	**$ 24**	**$ (51)**	$ 75	$ 29	$ (46)	$ 71	$ 30	$ (41)

Future benefit payments

Estimated future benefit payments from the Company's other defined benefit plans, calculated as at December 31, 2011, are as follows:

Years ending December 31 (millions)	
2012	**$ 5**
2013	**5**
2014	**5**
2015	**5**
2016	**5**
2017-2021	**21**

Fair value measurements

As at December 31, 2011 and 2010, the Company had only one other defined benefit plan and it had only one asset, an experience related underwriting agreement, which does not have a fair value determinable by a quoted price in an active market for an identical item.

(d) Plan investment strategies and policies

The Company's primary goal for the defined benefit pension plans is to ensure the security of the retirement income and other benefits of the plan members and their beneficiaries. A secondary goal of the Company is to maximize the long-term rate of return of the defined benefit plans' assets

within a level of risk acceptable to the Company.

Risk management

The Company considers absolute risk (the risk of contribution increases, inadequate plan surplus and unfunded obligations) to be more important than relative return risk. Accordingly, the defined benefit plans' designs, the nature and maturity of defined benefit obligations and characteristics of the plans' memberships significantly influence investment strategies and policies. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations.

Allowable and prohibited investment types

Allowable and prohibited investment types, along with associated guidelines and limits, are set out in each fund's required Statement of Investment Policies and Procedures (SIP&P), which is reviewed and approved annually by the designated governing body. The SIP&P guidelines and limits are further governed by the *Pension Benefits Standards Regulations, 1985*'s permitted investments and lending limits. As well as conventional investments, each fund's SIP&P may provide for the use of derivative products to facilitate investment operations and to manage risk provided that no short position is taken, no use of leverage is made and there is no violation of guidelines and limits established in the SIP&P. Internally managed funds are prohibited from increasing grandfathered investments in securities of the Company; grandfathered investments were made prior to the merger of BC TELECOM Inc. and TELUS Corporation, the Company's predecessors. Externally managed funds are permitted to invest in securities of the Company, provided that the investments are consistent with the funds' mandate and are in compliance with the relevant SIP&P.

Diversification

The Company's strategy for equity security investments is to be broadly diversified across individual securities, industry sectors and geographical regions. A meaningful portion (20-30% of total plans' assets) of the investment in equity

securities is allocated to foreign equity securities with the intent of further increasing the diversification of the plans' assets. Debt securities may include a meaningful allocation to mortgages with the objective of enhancing cash flow and providing greater scope for the management of the bond component of the plans' assets. Debt securities also may include real return bonds to provide inflation protection, consistent with the indexed nature of some defined benefit obligations. Real estate investments are used to provide diversification of plans' assets, potential long-term inflation hedging and comparatively stable investment income.

Relationship between plan assets and benefit obligations

With the objective of lowering the long-term costs of its defined benefit pension plans, the Company purposely mismatches plan assets and benefit obligations. This mismatching is implemented by including equity investments in the long-term asset mix as well as fixed income securities and mortgages with durations that differ from the benefit obligations.

As at December 31, 2011, the present value-weighted average timing of obligation estimated cash flows (duration) of the defined benefit pension plans was 13.6 years (December 31, 2010 — 13.0 years; January 1, 2010 — 13.1 years) and of the other defined benefit plans was 7.0 years (December 31, 2010 — 7.1 years; January 1, 2010 — 6.8 years).

Compensation for liquidity issues that may have otherwise arisen from mismatching of plan assets and benefit obligations comes from broadly diversified investment holdings (including cash and short-term investments) and cash flows from dividends, interest and rents from diversified investment holdings.

Asset allocations

Information concerning the Company's defined benefit plans' target asset allocations and actual asset allocations is as follows:

	Pension benefit plans			Other benefit plans		
	Target allocation	Percentage of plan assets at end of year		Target allocation	Percentage of plan assets at end of year	
	2012	2011	2010	2012	2011	2010
Equity securities	45-60%	**56%**	56%	—	**—**	—
Debt securities	35-45%	**37%**	38%	—	**—**	—
Real estate	4-8%	**7%**	6%	—	**—**	—
Other	0-2%	**—**	—	100%	**100%**	100%
		100%	100%		**100%**	100%

(e) Employer contributions

The determination of the minimum funding amounts for substantially all of the Company's registered defined benefit pension plans is governed by the *Pension Benefits Standards Act, 1985*, which requires that, in addition to current service costs being funded, both going-concern and solvency valuations be performed on a specified periodic basis.

- Any excess of plan assets over plan liabilities determined in the going-concern valuation reduces the Company's minimum funding requirement of current service costs, but may not reduce the requirement to an amount less than the employees' contributions. The going-

concern valuation generally determines the excess (if any) of a plan's assets over its liabilities, determined on a projected benefit basis.
- As of the date of these consolidated financial statements, the solvency valuation generally requires that a plan's liabilities, determined on the basis that the plan is terminated on the valuation date, in excess of its assets (if any) be funded, at a minimum, in equal annual amounts over a period not exceeding five years.

The best estimates of fiscal 2012 employer contributions to the Company's defined benefit plans are approximately $172 million (including a discretionary contribution of $100 million made in January 2012) for defined benefit pension plans and $NIL for other defined benefit plans. These estimates (other than for the discretionary contribution of $100 million made in January 2012) are based upon the mid-year 2011 annual funding reports that were prepared by actuaries using December 31, 2010, actuarial valuations. The funding reports are based on the pension plans' fiscal years, which are calendar years. The next annual funding valuations are expected to be prepared mid-year 2012.

(f) Assumptions

Management is required to make significant estimates about certain actuarial and economic assumptions to be used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets. These significant estimates are of a long-term nature, which is consistent with the nature of employee future benefits.

Demographic assumptions

The Company uses the 1994 Uninsured Pensioner Mortality Table (UP94 Table) and with generational projection for future mortality improvements using Mortality Table Projection Scale AA.

Financial assumptions

The discount rate, which is used to determine the accrued benefit obligation, is based on the yield on long-term, high-quality fixed term investments, and is set annually. The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.

The significant weighted average actuarial assumptions arising from these estimates and adopted in measuring the Company's accrued benefit obligations are as follows:

	Pension benefit plans		Other benefit plans	
	2011	2010	2011	2010
Discount rate used to determine:				
Net benefit costs for the year ended December 31	**5.25%**	5.85%[2]	**4.97%**	5.67%[2]
Accrued benefit obligation as at December 31	**4.50%**	5.25%	**4.50%**	4.97%
Expected long-term rate of return[1] on plan assets used to determine:				
Net benefit costs for the year ended December 31	**7.00%**	7.25%[2]	**2.50%**	2.50%[2]
Accrued benefit obligation as at December 31	**6.75%**	7.00%	**2.50%**	2.50%
Rate of future increases in compensation used to determine:				
Net benefit costs for the year ended December 31	**3.00%**	3.00%[2]	**—**	—
Accrued benefit obligation as at December 31	**3.00%**	3.00%	**—**	—

(1) The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations (see *(d)*). Forecasted returns arise from the Company's ongoing review of trends, economic conditions, data provided by actuaries and updating of underlying historical information.

(2) The rates used to determine the net benefit costs for the year ended December 31, 2010, are equal to the rates used to determine the accrued benefit obligation as at January 1, 2010.

2011 sensitivity[1] of key assumptions (year ended, or as at, December 31, 2011) (millions)	Pension benefit plans		Other benefit plans	
	Change in obligation	Change in expense	Change in obligation	Change in expense
Impact of hypothetical 25 basis point decrease[2] in:				
Discount rate	$ 262	$ —	$ 1	$ —
Expected long-term rate of return on plan assets		$ 17		$ —
Rate of future increases in compensation	$ 27	$ 4	$ —	$ —

(1) The sensitivities in this table are not comparable to those disclosed by the Company in previous periods due to the convergence of Canadian GAAP for publicly accountable enterprises with IFRS-IASB, as discussed further in *Note 2* and *Note 25*.

(2) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in decreased amounts, and unfavourable hypothetical changes in the assumptions result in increased amounts, of the obligations and expenses. Changes in amounts based on a 25 basis point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. Also, in this table, the effect of a variation in a particular assumption on the change in

obligation or change in expense is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in discount rates may result in increased expectations about the long-term rate of return on plan assets), which might magnify or counteract the sensitivities.

(g) Defined contribution plans

The Company's total defined contribution pension plan costs recognized were as follows:

Years ended December 31 (millions)	2011	2010
Union pension plan and public service pension plan contributions	**$ 27**	$ 27
Other defined contribution pension plans	**39**	34
	$ 66	$ 61

The Company expects that its 2012 union pension plan and public service pension plan contributions will be approximately $27 million.

15 property, plant and equipment

(millions)	Network assets (adjusted – Note 25(d))	Buildings and leasehold improvements	Assets under finance lease	Other	Land	Assets under construction	Total
At cost							
As at January 1, 2010	$ 22,141	$ 2,244	$ 13	$ 1,644	$ 49	$ 431	$ 26,522
Additions[1]	443	15	10	35	—	840	1,343
Dispositions, retirements and other	(568)	(13)	(2)	(182)	—	—	(765)
Reclassifications	675	105	—	53	—	(833)	—
As at December 31, 2010	22,691	2,351	21	1,550	49	438	27,100
Additions[1]	**502**	**19**	**1**	**41**	**7**	**887**	**1,457**
Additions arising from business acquisitions *(Note 16(e))*	**—**	**11**	**—**	**7**	**—**	**—**	**18**
Dispositions, retirements and other	**(206)**	**(7)**	**1**	**(51)**	**(1)**	**—**	**(264)**
Reclassifications	**779**	**99**	—	**75**	**—**	**(953)**	**—**
As at December 31, 2011	**$ 23,766**	**$ 2,473**	**$ 23**	**$ 1,622**	**$ 55**	**$ 372**	**$ 28,311**
Accumulated depreciation							
As at January 1, 2010	$ 16,040	$ 1,333	$ 9	$ 1,308	$ —	$ —	$ 18,690
Depreciation	1,088	118	2	131	—	—	1,339
Dispositions, retirements and other	(573)	(8)	(1)	(178)	—	—	(760)
As at December 31, 2010	16,555	1,443	10	1,261	—	—	19,269
Depreciation	**1,091**	**121**	**2**	**117**	**—**	**—**	**1,331**
Dispositions, retirements and other	**(218)**	**(4)**	**8**	**(39)**	**—**	**—**	**(253)**
As at December 31, 2011	**$ 17,428**	**$ 1,560**	**$ 20**	**$ 1,339**	**$ —**	**$ —**	**$ 20,347**
Net book value							
As at January 1, 2010	$ 6,101	$ 911	$ 4	$ 336	$ 49	$ 431	$ 7,832
As at December 31, 2010	$ 6,136	$ 908	$ 11	$ 289	$ 49	$ 438	$ 7,831
As at December 31, 2011	**$ 6,338**	**$ 913**	**$ 3**	**$ 283**	**$ 55**	**$ 372**	**$ 7,964**

[1] For the year ended December 31, 2011, additions include $15 (2010 — $12) in respect of asset retirement obligations.

The gross carrying amount of fully depreciated property, plant and equipment that was still in use as at December 31, 2011, was $3.0 billion (December 31, 2010 — $3.0 billion; January 1, 2010 — $2.6 billion).

As at December 31, 2011, the Company's contractual commitments for the acquisition of property, plant and equipment were $188 million over a period through to 2013 (December 31, 2010 — $170 million over a period through to 2013).

(a) Intangible assets and goodwill, net

(millions)	Intangible assets subject to amortization						Intangible assets with indefinite lives					
	Subscriber base	Customer contracts, related customer relationships and leasehold interests	Software	Access to rights-of-way and other	Assets under construction	Total	Spectrum licences (adjusted – Note 25(d))	Acquired brand	Total	Total intangible assets	Goodwill[1]	Total intangible assets and goodwill
At cost												
As at January 1, 2010	$ 245	$ 137	$ 2,408	$ 104	$ 158	$ 3,052	$ 4,867	$ 7	$ 4,874	$ 7,926	$ 3,936	$ 11,862
Additions	—	—	38	8	344	390	—	—	—	390	—	390
Dispositions, retirements and other	—	—	(213)	—	—	(213)	—	—	—	(213)	—	(213)
Reclassifications	—	—	262	—	(262)	—	—	—	—	—	—	—
As at December 31, 2010	245	137	2,495	112	240	3,229	4,867	7	4,874	8,103	3,936	12,039
Additions	**—**	**—**	**39**	**4**	**347**	**390**	**—**	**—**	**—**	**390**	**—**	**390**
Additions arising from business acquisitions *(e)*	**—**	**60**	**1**	**—**	**—**	**61**	**—**	**—**	**—**	**61**	**110**	**171**
Dispositions, retirements and other	**—**	**—**	**(256)**	**(23)**	**—**	**(279)**	**—**	**—**	**—**	**(279)**	**(21)**	**(300)**
Reclassifications	**—**	**—**	**422**	**—**	**(422)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
As at December 31, 2011	**$ 245**	**$ 197**	**$ 2,701**	**$ 93**	**$ 165**	**$ 3,401**	**$ 4,867**	**$ 7**	**$ 4,874**	**$ 8,275**	**$ 4,025**	**$ 12,300**
Accumulated amortization												
As at January 1, 2010	$ 52	$ 27	$ 1,605	$ 76	$ —	$ 1,760	$ —	$ —	$ —	$ 1,760	$ 364	$ 2,124
Amortization	6	14	378	4	—	402	—	—	—	402	—	402
Dispositions, retirements and other	—	—	(211)	—	—	(211)	—	—	—	(211)	—	(211)
As at December 31, 2010	58	41	1,772	80	—	1,951	—	—	—	1,951	364	2,315
Amortization[2]	**6**	**19**	**431**	**4**	**—**	**460**	**—**	**—**	**—**	**460**	**19**	**479**
Dispositions, retirements and other	**—**	**—**	**(267)**	**(22)**	**—**	**(289)**	**—**	**—**	**—**	**(289)**	**(19)**	**(308)**
As at December 31, 2011	**$ 64**	**$ 60**	**$ 1,936**	**$ 62**	**$ —**	**$ 2,122**	**$ —**	**$ —**	**$ —**	**$ 2,122**	**$ 364**	**$ 2,486**
Net book value												
As at January 1, 2010	$ 193	$ 110	$ 803	$ 28	$ 158	$ 1,292	$ 4,867	$ 7	$ 4,874	$ 6,166	$ 3,572	$ 9,738
As at December 31, 2010	$ 187	$ 96	$ 723	$ 32	$ 240	$ 1,278	$ 4,867	$ 7	$ 4,874	$ 6,152	$ 3,572	$ 9,724
As at December 31, 2011	**$ 181**	**$ 137**	**$ 765**	**$ 31**	**$ 165**	**$ 1,279**	**$ 4,867**	**$ 7**	**$ 4,874**	**$ 6,153**	**$ 3,661**	**$ 9,814**

[1] Accumulated amortization of goodwill is amortization recorded prior to 2002.
[2] Includes a goodwill impairment relating to an immaterial Wireline segment subsidiary classified as held for sale at, and disposed of subsequent to, December 31, 2011.

The gross carrying amount of fully amortized intangible assets subject to amortization that were still in use as at December 31, 2011, was $662 million (December 31, 2010 — $772 million; January 1, 2010 — $752 million).

As at December 31, 2011, the Company's contractual commitments for the acquisition of intangible assets were $142 million over a period through to 2018 (December 31, 2010 — $134 million over a period through to 2018).

(b) Intangible assets subject to amortization

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated for such assets held as at December 31, 2011, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)		
2012	**$**	**406**
2013		**248**
2014		**104**
2015		**44**
2016		**32**

(c) Intangible assets with indefinite lives — spectrum licences

The Company's intangible assets with indefinite lives include spectrum licences granted by Industry Canada. Industry Canada's spectrum licence policy terms indicate that the spectrum licences will likely be renewed. The Company's spectrum licences are expected to be renewed every 20 years (December 31, 2010 — every 5 years or every 10 years; January 1, 2010 — every 5 years or every 10 years) following a review by Industry Canada of the Company's compliance with licence terms. In addition to current usage, the Company's licensed spectrum can be used for planned and new technologies. As a result of the combination of these significant factors, the Company's spectrum licences are currently considered to have indefinite lives.

(d) Impairment testing of intangible assets with indefinite lives and goodwill

As referred to in Note 1(j), the carrying values of intangible assets with indefinite lives and goodwill are periodically tested for impairment and this test represents a significant estimate for the Company.

The carrying amounts of intangible assets with indefinite lives and goodwill allocated to each cash-generating unit are as set out in the following table.

	Intangible assets with indefinite lives			Goodwill			Total		
As at (millions)	Dec. 31, 2011	Dec. 31, 2010 (adjusted – Note 25(d))	Jan. 1, 2010 (Note 25(d))	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010	Dec. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Wireless	**$ 4,874**	$ 4,874	$ 4,874	**$ 2,644**	$ 2,606	$ 2,606	**$ 7,518**	$ 7,480	$ 7,480
Wireline	**—**	—	—	**1,017**	966	966	**1,017**	966	966
	$ 4,874	$ 4,874	$ 4,874	**$ 3,661**	$ 3,572	$ 3,572	**$ 8,535**	$ 8,446	$ 8,446

The recoverable amounts of the cash-generating units' assets have been determined based on a value in use calculation. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the cash-generating units' assets given the necessity of making key economic assumptions about the future. The value in use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows and growth projections, including economic risk assumptions and estimates of achieving key operating metrics and drivers; the future weighted average cost of capital; and earnings multiples. The Company considers a range of reasonably possible amounts to use for key assumptions and decides upon amounts that represent management's best estimates. In the normal course, changes are made to key assumptions to reflect current (at time of test) economic conditions, updating of historical information used to develop the key assumptions and changes in the Company's debt ratings.

The cash flow projection key assumptions are based upon the Company's approved financial forecasts which span a period of three years and are discounted, for December 2011 annual test purposes, at a consolidated pre-tax notional rate of 9.39% (December 2010 — 9.49%; January 1, 2010 — 8.89%). For impairment testing valuation purposes, the cash flows subsequent to the three-year projection period are extrapolated, for December 2011 annual test purposes, using perpetual growth rates of 1.75% (December 2010 — 1.75%; January 1, 2010 — 1.75%) for the wireless cash-generating unit and zero (December 2010 — zero; January 1, 2010 — zero) for the wireline cash-generating unit; these growth rates do not exceed the observed long-term average growth rates for the markets in which the Company operates.

The Company validates its value in use results through the use of the market-comparable approach and analytical review of industry and Company-specific facts. The market-comparable approach uses current (at the time of test) market consensus estimates and equity trading prices for U.S. and Canadian firms in the same industry. In addition, the Company ensures that the combination of the valuations of the cash-generating units is reasonable based on current market values of the Company.

The Company believes that any *reasonably possible* change in the key assumptions on which its cash-generating units recoverable amounts are based would not cause the cash-generating units' carrying amounts (including the

intangible assets with indefinite lives and the goodwill allocated to the cash-generating unit) to exceed their recoverable amounts. If the future were to *adversely* differ from management's best estimate of key assumptions and associated cash flows were to be materially adversely affected, the Company could potentially experience future material impairment charges in respect of its intangible assets with indefinite lives and goodwill.

Sensitivity testing was conducted as a part of the December 2011 annual test. A component of the sensitivity testing was a break-even analysis. Stress testing included moderate declines in annual cash flows with all other assumptions being held constant; this too resulted in the Company continuing to be able to recover the carrying value of its intangible assets with indefinite lives and goodwill for the foreseeable future.

(e) Business acquisitions

Transactel (Barbados) Inc.

During the three-month period ended March 31, 2011, the Company acquired control of Transactel (Barbados) Inc., a business process outsourcing and call centre company with facilities in two Central American countries. The investment was made with a view to enhancing the Company's business process outsourcing capacity, particularly regarding Spanish-language capabilities, and acquiring multi-site redundancy in support of other facilities. The primary factor that contributed to the recognition of goodwill was the earnings capacity of the acquiree in excess of the net tangible assets and net intangible assets acquired (such excess arising from: the assembled workforce; the established operation with certain capabilities in the industry; and the geographic location of the acquiree). The amount assigned to goodwill is not expected to be deductible for tax purposes.

The Company's investment in Transactel (Barbados) Inc. is summarized as follows:

	Interest in Transactel (Barbados) Inc. attributable to:					
	Common Shares and Non-Voting Shares		Non-controlling interest[2]		Total	
($ in millions)		Economic interest		Economic interest		Economic interest
December 2008 tranche						
Cash	$ 19					
Contingent consideration	10					
	29	29.99%				
January 2011 tranche	20	21.01%				
Equity accounting adjustments through February 1, 2011	(2)					
	47	51.00%				
Gain on 51% interest re-measured at acquisition-date fair value	16					
Relative acquisition-date (February 1, 2011) fair values	63	51.00%	$ 60	49.00%	$ 123	100.00%
May 2011 equity transaction[1]	56	44.00%	(56)	(44.00)%	—	—
	$ 119	95.00%	$ 4	5.00%	$ 123	100.00%

(1) The difference between the amount paid by the Company for the incremental 44% economic interest and the associated proportionate share of the non-controlling interest in the net assets of Transactel (Barbados) Inc. was recorded as a credit to retained earnings in the Consolidated Statements of Changes in Owners' Equity.

(2) The non-controlling interest at December 31, 2011, is included in the Consolidated Statements of Financial Position as a non-current provision due to the provision of a written put option for the 5% economic interest not owned by the Company.

The acquisition was effected as follows:

- On December 22, 2008, the Company acquired an initial 29.99% economic interest in Transactel (Barbados) Inc. for $19 million cash. Additional contingent consideration could become payable depending upon Transactel (Barbados) Inc. earnings for the year ended December 31, 2011.

  Concurrent with acquiring the initial interest in Transactel (Barbados) Inc., the Company provided two written put options to the vendor. The first written put option became exercisable on December 31, 2009, expiring June 30, 2011, and allowed the vendor to put up to a further 21.01% economic interest to the Company (the Company's effective economic interest in Transactel (Barbados) Inc. would become 51% assuming the written put option was exercised in full). The second written put option became exercisable on December 31, 2010, it had no expiry, and it allowed the vendor to put whatever interest was not put under the first written put option plus up to an incremental 44% economic interest to the Company. The written put options set out the share pricing methodology, which was dependent upon Transactel (Barbados) Inc. future earnings.

The vendor provided the Company with two purchased call options which substantially mirrored the written put options except that they were only exercisable upon Transactel (Barbados) Inc. achieving certain business growth targets.

The Company initially accounted for its investment in Transactel (Barbados) Inc. using the equity method.

- On January 7, 2011, the Company exercised its first purchased call option to acquire an additional 21.01% economic interest in Transactel (Barbados) Inc. from the vendor for $20 million cash.

  Upon such exercise, the Company continued to account for its resulting direct 51% economic interest in Transactel (Barbados) Inc. using the equity method. Transactel (Barbados) Inc.'s board of directors "super-majority" provisions affected the Company's assessment of control as the continuing power to determine the strategic operating, investing and financing policies of Transactel (Barbados) Inc. resided with the board of directors "super-majority". Although the Company had the right to elect a simple majority of the board of directors at the direct 51% economic interest level, the vendor's remaining direct 49% economic interest effectively had a veto right over the strategic operating, investing and financing policies of Transactel (Barbados) Inc. and thus the Company did not have the control necessary to apply consolidation accounting.
- Subsequently in the first quarter of 2011, Transactel (Barbados) Inc. achieved the business growth target necessary for the Company to exercise its second purchased call option. The Company exercised its second purchased call option and asserted its control effective February 1, 2011 (the acquisition date). The effects of the second purchased call option exercise included that the Company:
  - accounted for its 51% economic interest in Transactel (Barbados) Inc. on a consolidated basis (as the vendor no longer had an effective veto over the strategic operating, investing and financing policies of Transactel (Barbados) Inc.) and thus included Transactel (Barbados) Inc.'s results in the Company's Wireline segment effective February 1, 2011;
  - was required to re-measure its pre-acquisition 51% economic interest at acquisition-date fair value, resulting in the recognition of a gain of $16 million (see Note 6) (such gain being net of a contingent consideration liability estimate of $10 million; concurrent with preparing the Company's 2011 financial statements, the contingent consideration liability was confirmed at $9 million, as discussed further in Note 19(a), and the gain was thus revised to $17 million);
  - was required to initially measure the non-controlling interest's 49% economic interest at acquisition-date fair value, resulting in an increase of $60 million in the non-controlling interest; and
  - recorded, in the second quarter of 2011, a post-acquisition equity transaction with the vendor for the incremental 44% economic interest for $51 million cash.

Concurrent with acquiring the incremental 44% economic interest, the Company provided a written put option to the vendor. This third written put option becomes exercisable on December 22, 2015, and allows the vendor to put the remaining 5% economic interest to the Company (the Company's effective interest in Transactel (Barbados) Inc. would become 100%). The written put option sets out that the pricing methodology is to use an independent party using common practice valuation techniques. Also concurrently, the vendor has provided the Company with a purchased call option which substantially mirrors the third written put option.

TELUS-branded wireless dealership businesses

During the year ended December 31, 2011, the Company acquired 100% ownership of certain TELUS-branded wireless dealership businesses for $81 million cash ($81 million net of cash acquired). There was no contingent consideration in the transactions. The investments were made with a view to enhancing the Company's distribution of wireless products and customer services across Western Canada.

The primary factor that contributed to the recognition of goodwill was the earnings capacity of the acquired businesses in excess of the net tangible assets and net intangible assets acquired (such excess arising from the acquired workforce and the benefits of acquiring established businesses in multiple locations). Approximately $16 million assigned to goodwill during the year ended December 31, 2011, may be deductible for tax purposes.

Acquisition-date fair values

The acquisition-date fair values assigned to assets acquired and liabilities assumed are as set out in the following table:

As at (millions)	Transactel (Barbados) Inc. February 1, 2011	TELUS-branded wireless dealership businesses Various 2011
Assets		
Current assets		
Accounts receivable[1]	$ 25	$ 2
Other	5	1
	30	3
Non-current assets		
Property, plant and equipment	12	6
Intangible assets		
Intangible assets subject to amortization[2]		
Customer contracts, related customer relationships and leasehold interests	21	39
Software	1	—
	22	39
Deferred income taxes	—	2
Total non-current assets	34	47
Total identifiable assets acquired	64	50
Liabilities		

Current liabilities	13	5
Non-current liabilities		
Other long-term liabilities	—	1
Deferred income taxes	—	1
Total non-current liabilities	—	2
Total liabilities assumed	13	7
Net identifiable assets acquired	51	43
Goodwill	72	38
Net assets acquired	$ 123	$ 81
Acquisition effected by way of:		
Cash consideration	$ —	$ 81
Re-measured pre-acquisition 51% interest at acquisition-date fair value[3]	63	Not applicable
	63	81
Non-controlling interest measured at fair value[4]	60	Not applicable
	$ 123	$ 81

(1) The fair value of the accounts receivable is equal to the gross contractual amounts receivable and reflects the best estimates at the acquisition dates of the contractual cash flows expected to be collected.

(2) The customer contracts and the related customer relationships and the software acquired in conjunction with Transactel (Barbados) Inc. are being amortized over periods of six years and three years, respectively. The customer contracts, related customer relationships and leasehold interests acquired in conjunction with the TELUS-branded wireless dealership businesses are being amortized over a period of six years.

(3) Re-measurement of the Company's previously held 51% economic interest resulted in the recognition of an acquisition-date gain of $16 which is included in the Consolidated Statements of Income and Other Comprehensive Income as a component of Other operating income (see *Note 6*). The previously held 51% economic interest was comprised of an initial 29.99% acquired December 22, 2008, and a 21.01% economic interest obtained January 7, 2011.

The acquisition-date fair value of the Company's 51% interest included the recognition of $10 for contingent consideration, which was contractually based upon a multiple of an estimate of Transactel (Barbados) Inc. fiscal 2011 earnings in excess of a threshold amount.

Concurrent with preparing the Company's 2011 financial statements, the contingent consideration liability was confirmed at $9, as discussed further in *Note 19(a)*, and the gain was thus revised to $17.

(4) The remaining non-controlling interest, representing a 49% economic interest, had a fair value of $60 as of February 1, 2011 (acquisition-date fair value). The non-controlling interest fair value (the recorded amount of which is based upon net assets acquired) was determined by discounted cash flows. The fair value estimate is based upon: a going-concern basis; market participant synergies; a perpetuity terminal value based on sustaining cash flows; and costs (taxes) associated with future repatriation of funds.

Pro forma disclosures

The following pro forma supplemental information represents certain results of operations as if the business acquisitions noted above had been completed at the beginning of the fiscal years presented.

Years ended December 31	**2011**		**2010**	
(millions except per share amounts)	**As reported[1]**	**Pro forma[2]**	**As reported (adjusted – Note 25(c))**	**Pro forma[2]**
Operating revenues	**$ 10,397**	**$ 10,419**	$ 9,792	$ 9,891
Net income	**$ 1,215**	**$ 1,208**	$ 1,052	$ 1,045
Net income per Common Share and Non-Voting Share				
– Basic	**$ 3.76**	**$ 3.73**	$ 3.27	$ 3.26
– Diluted	**$ 3.74**	**$ 3.71**	$ 3.27	$ 3.25

(1) Operating revenues and net income for the year ended December 31, 2011, include $39 and $NIL, respectively, in respect of the acquisition of Transactel (Barbados) Inc. Operating revenues and net income (loss) for the year ended December 31, 2011, include $11 and $(2), respectively, in respect of the acquisition of the TELUS-branded wireless dealership businesses.

(2) Pro forma amounts for the years ended December 31, 2011 and 2010, reflect Transactel (Barbados) Inc. and the TELUS-branded wireless dealership businesses. The pro forma amounts for the year ended December 31, 2010, do not reflect a re-measurement gain on the 29.99% interest in Transactel (Barbados) Inc. that the Company held during that period. Transactel (Barbados) Inc. was acquired on February 1, 2011, and the TELUS-branded wireless dealership businesses were acquired on various dates in 2011; their results have been included in the Company's Consolidated Statements of Income and Other Comprehensive Income effective the dates of acquisition.

The pro forma supplemental information is based on estimates and assumptions which are believed to be reasonable. The pro forma supplemental information is not necessarily indicative of the Company's consolidated financial results in future periods or the results that actually would have been realized had the business acquisitions been completed at the beginning of the periods presented. The pro forma supplemental information includes incremental intangible asset amortization, financing and other charges as a result of the acquisitions, net of the related tax effects.

(a) General

In the first quarter of 2011, the Company announced that it has partnered in a residential condominium, retail and commercial real estate redevelopment project, TELUS Garden, in Vancouver, British Columbia, which will result in the Company having a new national headquarter premises, scheduled for completion in 2015. The new-build office tower is to be built to the 2009 Leadership in Energy and Environmental Design (LEED) Platinum standard and the residential condominium tower (also new-build) is to be built to the LEED Gold standard.

The Company expects to account for its 50% interest in the real estate joint venture using the equity method.

(b) Commitments

Operating lease

Subsequent to December 31, 2011, the Company entered into an operating lease for its new national headquarter premises with the real estate joint venture at market rates. Operating lease payments for the initial term of 15 years total $163 million, including occupancy costs of $63 million.

Construction credit facilities

Subsequent to December 31, 2011, the real estate joint venture received financing commitments from two Canadian financial institutions in connection with the TELUS Garden project. TELUS Corporation plans to participate as a 50% lender in the construction credit facilities which, once fully documented, will provide a combined total of $413 million of liquidity to the real estate joint venture. The facilities contain customary representations, warranties and covenants and are secured by demand debentures constituting first fixed and floating charge mortgages over the two underlying real estate projects; the facilities bear interest at bankers' acceptance rate or prime rate, plus applicable margins.

As at February 23, 2012, no amounts had been advanced under the facilities.

18 short-term borrowings

On July 26, 2002, TELUS subsidiary TELUS Communications Inc. (see Note 23(a)) entered into an agreement with an arm's-length securitization trust associated with a major Schedule I bank under which TELUS Communications Inc. is able to sell an interest in certain of its trade receivables up to a maximum of $500 million (December 31, 2010 — $500 million; January 1, 2010 — $500 million). This revolving-period securitization agreement's current term ends August 1, 2014. TELUS Communications Inc. is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service or the securitization trust may require the sale program to be wound down prior to the end of the term.

When the Company sells its trade receivables, it retains reserve accounts, which are retained interests in the securitized trade receivables, and servicing rights. As at December 31, 2011, the Company had transferred, but continued to recognize, trade receivables of $456 million (December 31, 2010 — $465 million; January 1, 2010 — $598 million). Short-term borrowings of $400 million (December 31, 2010 — $400 million; January 1, 2010 — $500 million) are comprised of amounts loaned to the Company from the arm's-length securitization trust pursuant to the sale of trade receivables.

The balance of short-term borrowings (if any) comprised amounts drawn on the Company's bilateral bank facilities.

19 provisions

(a) General

(millions)	Regulatory	Asset retirement obligation (adjusted – Note 25(d))	Employee related (b)	Other (b)	Total
As at January 1, 2010	$ 149	$ 70	$ 150	$ 21	$ 390
Addition	22	12	70	20	124
Reversal	—	—	(8)	(3)	(11)
Interest effect	—	4	—	—	4
Use	(67)	(1)	(107)	(6)	(181)
As at December 31, 2010	104	85	105	32	326
Addition	**—**	**15**	**20**	**101**	**136**
Reversal	**—**	**—**	**(15)**	**(12)**	**(27)**
Interest effect	**—**	**4**	**—**	**—**	**4**
Use	**(104)**	**—**	**(73)**	**(52)**	**(229)**
As at December 31, 2011	**$ —**	**$ 104**	**$ 37**	**$ 69**	**$ 210**
Current	$ 147	$ 3	$ 137	$ 12	$ 299
Non-current	2	67	13	9	91
As at January 1, 2010	$ 149	$ 70	$ 150	$ 21	$ 390
Current	$ —	$ 3	$ 95	$ 24	$ 122

Non-current	104	82	10	8	204
As at December 31, 2010	$ 104	$ 85	$ 105	$ 32	$ 326
Current	**$ —**	**$ 3**	**$ 36**	**$ 49**	**$ 88**
Non-current	**—**	**101**	**1**	**20**	**122**
As at December 31, 2011	**$ —**	**$ 104**	**$ 37**	**$ 69**	**$ 210**

Regulatory

In 2002, the CRTC issued Decision 2002-34 and Decision 2002-43, which resulted in the creation of non-high cost serving area deferral accounts. The deferral account arises from the CRTC requiring the Company to defer the statement of income and other comprehensive income recognition of a portion of the monies received in respect of residential basic services provided to non-high cost serving areas. In order to extinguish the deferral account liability, the Company will be: expanding broadband services in its incumbent local exchange carrier territories to rural and remote communities; enhancing accessibility to telecommunications services for individuals with disabilities; and rebating the balance of the deferral account to local residential customers in non-high cost serving areas. The CRTC rendered its final decision on the use of the deferral account in August 2010. The decision required $54 million in customer rebates to be effected by February 2011, and the remaining $111 million is to be applied to providing broadband services and initiatives for the disabled, both of which are to be completed by 2014. The amounts used, rebated, to be applied in the next twelve months or for which the timing or amount are no longer uncertain are reflected in the table above as a use.

Asset retirement obligation

As discussed further in Note 1(r), the Company recognizes liabilities associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The Company expects that the cash outflows in respect of the balance accrued as at the financial statement date will occur proximate to the dates these long-term assets are retired.

Employee related

The employee related provisions are largely in respect of restructuring activities (as discussed further in (b) following). The timing of the cash outflows in respect of the balance accrued as at the financial statement date is substantially short-term in nature.

Other

The provision for other includes disputes and non-employee related restructuring activities (as discussed further in (b) following), as well as a written put option related to a business acquisition. As discussed further in Note 22(d), the Company is involved in a number of legal disputes and is aware of certain possible legal disputes. In respect of legal disputes, the Company has established provisions, when warranted, after taking into account legal assessment, information presently available, and the expected availability of insurance or other recourse. The timing of cash outflows associated with legal claims cannot be reasonably determined. As discussed further in Note 16(e), the Company incurred a liability for contingent consideration in connection with acquiring an initial 29.99% economic interest in Transactel (Barbados) Inc. in December 2008; as at December 31, 2011, the timing and amount of the contingent consideration are no longer uncertain and thus the amount to be paid is reflected in the table above as a use and the difference of $1 million is reflected as a reversal. Also as discussed further in Note 16(e), the Company provided a written put option in respect of the remaining 5% non-controlling interest in Transactel (Barbados) Inc.; cash outflows are not expected to occur prior to initial exercisability of the written put option on December 22, 2015. The Company expects that the cash outflows in respect of the balance accrued as at the financial statement date will occur over an indeterminate, multi-year period.

(b) Restructuring

Employee related provisions and other provisions, in (a) preceding, include amounts in respect of restructuring activities. In 2011, restructuring activities included ongoing efficiency initiatives such as:

- simplifying or automating processes to achieve operating efficiencies, which includes workforce reductions;
- simplifying organizational structures through consolidation of functions and reducing organizational layers;
- consolidating administrative real estate to create a smaller environmental footprint through mobile working, encouraging less inter-city travel, reduced daily commutes, and lower use of real estate space, which includes vacating premises;
- decommissioning uneconomic services and products; and
- leveraging business process outsourcing and off-shoring to the Company's own international call centres.

	2011	2010

Years ended December 31 (millions)	Employee related[1]	Other[1]	Total[1]	(adjusted – Note 25(c)) Employee related[1]	Other[1]	Total[1]
Restructuring costs						
Addition						
Workforce						
Voluntary	**$ 7**	**$ —**	**$ 7**	$ 39	$ —	$ 39
Involuntary	**11**	**—**	**11**	28	—	28
Other	**—**	**22**	**22**	—	16	16
Reversal						
Workforce						
Voluntary	**(5)**	**—**	**(5)**	—	—	—
Involuntary	**—**	**—**	**—**	(3)	—	(3)
	13	**22**	**35**	64	16	80
Use						
Workforce						
Voluntary	**45**	**—**	**45**	42	—	42
Involuntary and other	**27**	**—**	**27**	61	—	61
Other	**—**	**11**	**11**	—	2	2
	72	**11**	**83**	103	2	105
Expenses greater (less) than disbursements	**(59)**	**11**	**(48)**	(39)	14	(25)
Other	**—**	**—**	**—**	—	1	1
	(59)	**11**	**(48)**	(39)	15	(24)
Restructuring accounts payable and accrued liabilities						
Balance, beginning of period	**95**	**16**	**111**	134	1	135
Balance, end of period	**$ 36**	**$ 27**	**$ 63**	$ 95	$ 16	$ 111

[1] The transactions and balances in this column are included in, and thus are a subset of, the transactions and balances in the columns with the same caption in (a) preceding.

These initiatives were intended to improve the Company's long-term operating productivity and competitiveness. The Company expects that substantially all of the cash outflows in respect of the balance accrued as at the financial statement date will occur within twelve months thereof.

The Company's estimate of restructuring costs for 2012 is approximately $25 million.

notes to consolidated financial statements

20 long-term debt

(a) Details of long-term debt

As at ($ in millions) Series	Rate of interest	Maturity	December 31, 2011	December 31, 2010	January 1, 2010
TELUS Corporation Notes					
U.S. [2]	8.00%[1]	June 2011	**$ —**	$ 736	$ 1,411
CB	5.00%[1]	June 2013	**300**	299	299
CC	4.50%[1]	March 2012	**300**	300	299
CD	4.95%[1]	March 2017	**692**	691	690
CE	5.95%[1]	April 2015	**498**	498	498
CF	4.95%[1]	May 2014	**698**	698	697
CG	5.05%[1]	December 2019	**991**	990	989
CH	5.05%[1]	July 2020	**993**	992	—
CI	3.65%[1]	May 2016	**595**	—	—
			5,067	5,204	4,883
TELUS Corporation Commercial Paper	1.16%	Through April 2012	**766**	104	467
TELUS Communications Inc. Debentures					
1	12.00%[1]	May 2010	**—**	—	50
2	11.90%[1]	November 2015	**124**	124	124
3	10.65%[1]	June 2021	**174**	174	173
5	9.65%[1]	April 2022	**245**	245	245
B	8.80%[1]	September 2025	**198**	198	198
			741	741	790
TELUS Communications Inc. First Mortgage Bonds U	11.50%[1]	July 2010	**—**	—	30
Finance leases			**—**	7	2
Long-Term Debt			**$ 6,574**	$ 6,056	$ 6,172
Current			**$ 1,066**	$ 847	$ 549

Non-current	**5,508**	5,209	5,623
Long-Term Debt	**$ 6,574**	$ 6,056	$ 6,172

(1) Interest is payable semi-annually.
(2) Principal face value of notes is U.S.$NIL (December 31, 2010 — U.S.$741; January 1, 2010 — U.S.$1,348).

(b) TELUS Corporation notes

General

The notes are senior, unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all existing and future unsecured, unsubordinated obligations of the Company, are senior in right of payment to all existing and future subordinated indebtedness of the Company, and are effectively subordinated to all existing and future obligations of, or guaranteed by, the Company's subsidiaries.

The indentures governing the notes contain certain covenants which, among other things, place limitations on the ability of TELUS and certain of its subsidiaries to: grant security in respect of indebtedness, enter into sale and lease-back transactions and incur new indebtedness.

				Principal face amount		Redemption present value spread (basis points)(1)
Series	Issued	Maturity	Issue price	Originally issued	Outstanding at financial statement date	
5.00% Notes, Series CB	May 2006	June 2013	$ 998.80	$ 300 million	$ 300 million	16
4.50% Notes, Series CC	March 2007	March 2012	$ 999.91	$ 300 million	$ 300 million	15
4.95% Notes, Series CD	March 2007	March 2017	$ 999.53	$ 700 million	$ 700 million	24
5.95% Notes, Series CE(2)	April 2008	April 2015	$ 998.97	$ 500 million	$ 500 million	66
4.95% Notes, Series CF(2)	May 2009	May 2014	$ 999.96	$ 700 million	$ 700 million	71
5.05% Notes, Series CG(2)	December 2009	December 2019	$ 994.19	$ 1.0 billion	$ 1.0 billion	45.5
5.05% Notes, Series CH(2)	July 2010	July 2020	$ 997.44	$ 1.0 billion	$ 1.0 billion	47
3.65% Notes, Series CI(2)	May 2011	May 2016	$ 996.29	$ 600 million	$ 600 million	29.5

(1) The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 and not more than 60 days' prior notice. The redemption price is equal to the greater of (i) the present value of the notes discounted at the Government of Canada yield plus the redemption present value spread, or (ii) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.
(2) This series of notes requires the Company to make an offer to repurchase the series of notes at a price equal to 101% of their principal plus accrued and unpaid interest to the date of repurchase upon the occurrence of a change in control triggering event, as defined in the supplemental trust indenture.

On July 27, 2010, the Company exercised its right to early and partially redeem, on September 2, 2010, U.S.$607 million of its publicly held 2011 (U.S. Dollar) Notes. The loss on redemption, which included the loss arising on early settlement of the associated cross currency interest rate swap agreements, was $52 million.

On December 1, 2009, the Company exercised its right to early and partially redeem, on December 31, 2009, U.S.$577 million of its publicly held 2011 (U.S. Dollar) Notes. The loss on redemption, which included the loss arising on early settlement of the associated cross currency interest rate swap agreements, was $99 million.

2011 Cross Currency Interest Rate Swap Agreements

With respect to the 2011 (U.S. Dollar) Notes, U.S.$NIL (December 31, 2010 — U.S.$0.7 billion; January 1, 2010 — U.S.$1.3 billion) in aggregate, the Company entered into cross currency interest rate swap agreements which effectively converted the principal repayments and interest obligations to Canadian dollar obligations with an effective fixed interest rate of 8.493% and an effective fixed economic exchange rate of $1.5327.

The counterparties of the swap agreements were highly rated financial institutions and the Company did not anticipate any non-performance. TELUS did not require collateral or other security from the counterparties due to its assessment of their creditworthiness.

The Company translates items such as the U.S. Dollar Notes into equivalent Canadian dollars at the rate of exchange in effect at the statement of financial position date. The swap agreements at December 31, 2011, comprised a net derivative liability of $NIL (December 31, 2010 — $404 million; January 1, 2010 — $721 million), as set out in Note 4(h). The asset value of the swap agreements increased (decreased) when the statement of financial position date exchange rate increased (decreased) the Canadian dollar equivalent of the U.S. Dollar Notes.

(c) TELUS Corporation commercial paper

On May 15, 2007, TELUS Corporation entered into an unsecured commercial paper program, which is backstopped by a portion of its $2.0 billion syndicated credit facility, enabling it to issue commercial paper up to a maximum aggregate of $800 million (or U.S. dollar equivalent), to be used for general corporate purposes, including capital expenditures and investments; in August 2008, the program was expanded to $1.2 billion. Commercial paper debt is due within one year and is classified as a current portion of long-term debt as the amounts are fully supported, and the Company expects that they will continue to be supported, by the revolving credit facility, which has no repayment requirements within the next year.

(d) TELUS Corporation credit facility

On November 3, 2011, TELUS Corporation entered into a $2.0 billion bank credit facility with a syndicate of financial institutions. The credit facility consists of a $2.0 billion (or U.S. dollar equivalent) revolving credit facility expiring on November 3, 2016, to be used for general corporate purposes including the backstop of commercial paper. This new facility replaced the Company's pre-existing committed credit facility prior to its expiry in May 2012.

TELUS Corporation's credit facility expiring on November 3, 2016, is unsecured and bears interest at prime rate, U.S. Dollar Base Rate, a bankers' acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the credit facility), plus applicable margins. The credit facility contains customary representations, warranties and covenants, including two financial quarter-end financial ratio tests. The financial ratio tests are that the Company may not permit its net debt to operating cash flow ratio to exceed 4.0:1 and may not permit its operating cash flow to interest expense ratio to be less than 2.0:1, each as defined under the credit facility.

On June 19, 2009, TELUS Corporation entered into an amended $300 million revolving credit facility with a syndicate of financial institutions, expiring December 31, 2010; during the quarter ended September 30, 2010, the Company exercised its right to cancel the facility in its entirety. The credit facility was unsecured and bore interest at prime rate or bankers' acceptance rate (all such terms as used or defined in the credit facility), plus applicable margins.

Continued access to TELUS Corporation's credit facility is not contingent on the maintenance by TELUS Corporation of a specific credit rating.

As at (millions)	Dec. 31, 2011	Dec. 31, 2010	January 1, 2010		
Revolving credit facility expiring	Nov. 3, 2016	May 1, 2012	May 1, 2012	Dec. 31, 2010	Total
Net available	**$ 1,234**	$ 1,779	$ 1,410	$ 300	$ 1,710
Outstanding, undrawn letters of credit	**—**	117	123	—	123
Backstop of commercial paper	**766**	104	467	—	467
Gross available	**$ 2,000**	$ 2,000	$ 2,000	$ 300	$ 2,300

In addition to the ability to provide letters of credit pursuant to its $2.0 billion bank credit facility, the Company has $115 million of letter of credit facilities expiring mid-2013, all of which were utilized at December 31, 2011.

(e) TELUS Communications Inc. debentures

The outstanding Series 1 through 5 debentures were issued by a predecessor corporation of TELUS Communications Inc., BC TEL, under a Trust Indenture dated May 31, 1990, and are non-redeemable.

The outstanding Series B Debentures were issued by a predecessor corporation of TELUS Communications Inc., AGT Limited, under a Trust Indenture dated August 24, 1994, and a supplemental trust indenture dated September 22, 1995. They are redeemable at the option of the Company, in whole at any time or in part from time to time, on not less than 30 days' notice at the higher of par and the price calculated to provide the Government of Canada Yield plus 15 basis points.

Pursuant to an amalgamation on January 1, 2001, the Debentures became obligations of TELUS Communications Inc. The debentures are not secured by any mortgage, pledge or other charge and are governed by certain covenants, including a negative pledge and a limitation on issues of additional debt, subject to a debt to capitalization ratio and interest coverage test. Effective June 12, 2009, TELUS Corporation guaranteed the payment of the debentures' principal and interest.

(f) TELUS Communications Inc. first mortgage bonds

The first mortgage bonds were issued by TELUS Communications (Québec) Inc. and were secured by an immovable hypothec and by a movable hypothec charging specifically certain immovable and movable property of the subsidiary TELUS Communications Inc., such as land, buildings, equipment, apparatus, telephone lines, rights-of-way and similar rights limited to certain assets located in the province of Quebec. The first mortgage bonds were non-redeemable. Pursuant to a corporate reorganization effected July 1, 2004, the outstanding first mortgage bonds became obligations of TELUS Communications Inc. Effective June 12, 2009, TELUS Corporation guaranteed the payment of the first mortgage bonds' principal and interest.

(g) Long-term debt maturities

Anticipated requirements to meet long-term debt repayments, calculated upon such long-term debts owing as at December 31, 2011, for each of the next five fiscal years are as follows:

Years ending December 31 (millions)	
2012	**$ 1,066**
2013	**300**
2014	**700**
2015	**625**
2016	**600**
Thereafter	**3,324**

Future cash outflows in respect of long-term debt principal repayments	**6,615**
Future cash outflows in respect of associated interest and like carrying costs[1]	**2,107**
Undiscounted contractual maturities (*Note 4(c)*)	**$ 8,722**

(1) Future cash outflows in respect of associated interest and like carrying costs for commercial paper and amounts drawn under the Company's credit facilities (if any) have been calculated based upon the rates in effect as at December 31, 2011.

21 Common Share and Non-Voting Share equity

(a) Authorized share capital

As at December 31, 2011, December 31, 2010, and January 1, 2010, the Company's authorized share capital consisted of one billion no par value shares of each of the following classes: First Preferred Shares; Second Preferred Shares; Common Shares; and Non-Voting Shares. Only holders of Common Shares may vote at general meetings of the Company with each holder of Common Shares being entitled to one vote per Common Share held at all such meetings. Non-Voting Shares have conversion rights in certain instances, such as if there are changes in Canadian telecommunications, radiocommunication and broadcasting regulations so that there is no restriction on non-Canadians owning or controlling Common Shares of the Company. In that instance, shareholders have the right to convert their Non-Voting Shares into Common Shares on a one-for-one basis, and the Company has the right to require conversion on the same basis.

With respect to priority in payment of dividends and in the distribution of assets in the event of liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, preferences are as follows: First Preferred Shares; Second Preferred Shares; and finally Common Shares and Non-Voting Shares participating equally, without preference or distinction.

Subsequent to December 31, 2011, the Company announced that holders of its Common Shares and Non-Voting Shares will have the opportunity to decide whether to eliminate the Company's Non-Voting Share class at the Company's annual and special meeting to be held May 9, 2012. Under the terms of the proposal, each Non-Voting Share would be converted into a Common Share on a one-for-one basis, effected by way of a court-approved plan of arrangement and will be subject to the approval of two-thirds of the votes cast by the holders of Common Shares and two-thirds of the votes cast by the holders of Non-Voting Shares, each voting separately as a class.

(b) Share option plans

The Company has a number of share option plans under which officers and other employees may receive options to purchase Non-Voting Shares at a price equal to the fair market value at the time of grant; prior to 2001, options were also similarly awarded in respect of Common Shares. Prior to 2002, directors were also awarded options to purchase Non-Voting Shares and Common Shares at a price equal to the fair market value at the time of grant. Share option awards currently granted under the plans may be exercised over specific periods not to exceed seven years from the time of grant; prior to 2003, share option awards were granted with exercise periods not to exceed ten years.

The following table presents a summary of the activity related to the Company's share option plans.

	2011		2010	
Years ended December 31	**Number of share options**	**Weighted average share option price**	**Number of share options**	**Weighted average share option price**
Outstanding, beginning of period	**11,741,666**	**$ 37.83**	11,057,916	$ 38.08
Granted	**1,522,639**	**46.67**	2,787,876	33.00
Exercised[1]	**(2,963,147)**	**37.56**	(1,329,351)	29.23
Forfeited	**(617,796)**	**37.41**	(614,941)	39.55
Expired	**(109,661)**	**32.57**	(159,834)	35.80
Outstanding, end of period	**9,573,701**	**$ 39.41**	11,741,666	$ 37.83

(1) The total intrinsic value of share option awards exercised for the year ended December 31, 2011, was $35 million (2010 — $17 million) (reflecting a weighted average price at the dates of exercise of $49.48 per share (2010 — $41.88 per share)).

The following table reconciles the number of share options exercised and the associated number of Common Shares and Non-Voting Shares issued.

	2011	2010		
Years ended December 31	**Non-Voting Shares**	**Common Shares**	**Non-Voting Shares**	**Total**
Shares issued pursuant to exercise of share options	**745,340**	96,526	440,073	536,599
Impact of optionee choosing to settle share option award exercises using net-cash settlement feature	**—**	25,225	451,652	476,877

Shares issued pursuant to use of share option award net-equity settlement feature	**422,076**	N/A[1]	77,061	77,061
Impact of Company choosing to settle share option award exercises using net-equity settlement feature	**1,795,731**	N/A[1]	238,814	238,814
Share options exercised	**2,963,147**	121,751	1,207,600	1,329,351

(1) Share option awards for Common Shares do not have a net-equity settlement feature.

The following is a life and exercise price stratification of the Company's share options outstanding as at December 31, 2011.

					Options exercisable	
Options outstanding						
Range of option prices				**Total**	**Number of shares**	**Weighted average price**
Low	$ 10.75	$ 29.70	$ 44.66	$ 10.75		
High	$ 16.15	$ 44.20	$ 64.64	$ 64.64		
Year of expiry and number of shares						
2012	66,300	381,546	—	447,846	447,846	$ 36.03
2013	—	565,825	117,969	683,794	683,794	$ 44.18
2014	—	2,550	918,142	920,692	915,822	$ 56.50
2015	—	1,375,005	42,160	1,417,165	1,417,165	$ 43.76
2016	—	2,108,589	—	2,108,589	—	$ —
2017	—	2,489,824	12,380	2,502,204	—	$ —
2018	—	—	1,493,411	1,493,411	—	$ —
	66,300	6,923,339	2,584,062	9,573,701	3,464,627	
Weighted average remaining contractual life (years)	0.9	3.9	4.5	4.0		
Weighted average price	$ 15.91	$ 35.57	$ 50.31	$ 39.41		
Aggregate intrinsic value[1] (millions)	$ 3	$ 132	$ 13	$ 148		
Options exercisable						
Number of shares	66,300	2,324,926	1,073,401	3,464,627		
Weighted average remaining contractual life (years)	0.9	2.2	2.2	2.2		
Weighted average price	$ 15.91	$ 42.85	$ 55.36	$ 46.21		
Aggregate intrinsic value[1] (millions)	$ 3	$ 27	$ 1	$ 31		

(1) The aggregate intrinsic value is calculated upon the December 31, 2011, per share price of $54.64 for Non-Voting Shares.

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As at December 31, 2011, approximately 28 million Non-Voting Shares were reserved for issuance, from Treasury, under the share option plans.

22 commitments and contingent liabilities

(a) Leases

The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases. As set out in Note 19(b), the Company has consolidated administrative real estate and, in some instances, this has resulted in sub-letting land and buildings. The future minimum lease payments under finance leases and operating leases are as follows:

	Operating lease payments					Operating lease receipts from sub-let land and buildings
	Land and buildings[1]			Vehicles and other equipment		
Years ending December 31 (millions)	**Rent**	**Occupancy costs**	**Gross**		**Total**	
2012	**$ 179**	**$ 92**	**$ 271**	**$ 16**	**$ 287**	**$ 11**
2013	**165**	**88**	**253**	**8**	**261**	**14**
2014	**151**	**80**	**231**	**4**	**235**	**21**
2015	**136**	**76**	**212**	**3**	**215**	**20**
2016	**123**	**73**	**196**	**1**	**197**	**18**
Thereafter	**665**	**466**	**1,131**	**—**	**1,131**	**82**
Total future minimum lease payments as at **December 31, 2011**	**$ 1,419**	**$ 875**	**$ 2,294**	**$ 32**	**$ 2,326**	**$ 166**

(1) Subsequent to December 31, 2011, the Company entered into a lease for its new national headquarter premises from a real estate joint venture as set out in *Note 17(b)*; the associated operating lease payments, totalling $163 (including occupancy costs of $63), have not been

included in this table.

Years ending December 31 (millions)	Finance lease payments	Operating lease payments					Operating lease receipts from sub-let land and buildings
		Land and buildings			Vehicles and other equipment	Total	
		Rent	Occupancy costs	Gross			
2011	$ 8	$ 169	$ 96	$ 265	$ 20	$ 285	$ 7
2012	—	153	88	241	12	253	12
2013	—	142	87	229	6	235	12
2014	—	129	83	212	2	214	12
2015	—	118	81	199	1	200	12
Thereafter	—	661	484	1,145	1	1,146	15
Total future minimum lease payments as at December 31, 2010	8	$ 1,372	$ 919	$ 2,291	$ 42	$ 2,333	$ 70
Less imputed interest	1						
Finance lease liability	$ 7						

Of the amount in respect of land and buildings, as at December 31, 2011, approximately 56% (December 31, 2010 — 57%; January 1, 2010 — 55%) of this amount was in respect of the Company's five largest leases, all of which were for office premises over various terms, with expiry dates that range from 2016 to 2026.

(b) Concentration of labour

In 2010, TELUS commenced collective bargaining with the Telecommunications Workers Union to renew the collective agreement which expired November 19, 2010; the expired contract covered approximately 31% of the Company's workforce as at December 31, 2010.

On April 11, 2011, the Telecommunications Workers Union and the Company reached a tentative agreement for a collective agreement subject to ratification by members of the Telecommunications Workers Union. On June 7, 2011, the Telecommunications Workers Union announced that its members voted to accept the April 11, 2011, tentative agreement. The terms and conditions of the new collective agreement are effective from June 9, 2011, to December 31, 2015; the contract covered approximately 27% of the Company's workforce as at December 31, 2011.

(c) Indemnification obligations

In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The terms of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of such indemnification obligations cannot be reasonably estimated. Other

than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share is 15% through, and ending, May 2016. As well, should the CRTC take any action which would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred.

As at December 31, 2011, the Company has no liability recorded in respect of indemnification obligations.

(d) Claims and lawsuits

General

A number of claims and lawsuits (including class actions) seeking damages and other relief are pending against the Company. As well, the Company has received or is aware of certain possible claims (including intellectual property infringement claims) against the Company and, in some cases, numerous other wireless carriers and telecommunications service providers. In some instances, the matters are at a preliminary stage and the potential for liability and magnitude of potential loss currently cannot be readily determined. It is impossible at this time for the Company to predict with any certainty the outcome of any such claims, possible claims and lawsuits. However, subject to the foregoing limitations, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, excepting the following items.

Certified class actions

Certified class actions against the Company include a class action brought in August 2004, in 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 were commenced in other provinces. In September 2007, a national class was certified by the Saskatchewan Court of Queen's Bench. The Company's appeal of the certification order was dismissed on November 15, 2011. An application for leave to appeal this decision to the Supreme Court of Canada was filed on January 13, 2012. Since the enactment of opt-out class action legislation in Saskatchewan, Plaintiffs' counsel applied to certify a new national class in Saskatchewan making substantially the same allegations. That application was stayed by the court in December 2009 upon an application by the defendants to dismiss it for abuse of process, conditional on possible future changes in circumstance. In March 2010, the plaintiffs applied for leave to appeal the stay decision and that application was adjourned pending the outcome of the 2004 class action. In late 2011, a further class action relating to system access fees was filed in British Columbia; this action is not yet certified. The Company believes that it has good defences to these actions.

Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result; management's assessments and assumptions include that a reliable estimate of the exposure cannot be made at this preliminary stage of the lawsuit.

Uncertified class actions

Uncertified class actions against the Company include a 2008 class action brought in Saskatchewan (with similar proceedings having also been filed by plaintiffs' counsel in Alberta) alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 9-1-1 charges to the public and have been deceitfully passing them off as government charges, as well as a 2008 class action brought in Ontario alleging that the Company has misrepresented its practice of "rounding up" wireless airtime to the nearest minute and charging for the full minute. The plaintiffs in these actions seek direct and punitive damages and other relief. The Company is assessing the merits of these claims but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

Intellectual property infringement claims

Claims and possible claims received by the Company include notice of one claim that certain wireless products used on the Company's network infringe two third-party patents. The Company is assessing the merits of this claim but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

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23 related party transactions

(a) Investments in significant controlled entities

As at	Country of incorporation	December 31, 2011	December 31, 2010	January 1, 2010
		Per cent of equity held by immediate parent		
Parent entity				
TELUS Corporation	Canada			
Controlled entities				
TELUS Communications Inc.	Canada	**100%**	100%	100%
TELE-MOBILE COMPANY	Canada	**100%**	100%	100%
TELUS Communications Company	Canada	**100%**	100%	100%

(b) Transactions with key management personnel

The Company's key management personnel have authority and responsibility for overseeing, planning, directing and controlling the activities of the Company and consist of the Company's Board of Directors and the Company's Executive Leadership Team.

Total compensation expense for key management personnel, and the composition thereof, is as follows:

Years ended December 31 (millions)	2011	2010
Short-term benefits	**$ 9**	$ 11
Post-employment pension[1] and other benefits	**3**	3
Share-based compensation[2]	**16**	15
	$ 28	$ 29

(1) The Company's Executive Leadership Team members are members of the Company's *Pension Plan for Management and Professional Employees of TELUS Corporation* and non-registered, non-contributory supplementary defined benefit pension plans (*Note 14*).

(2) For the year ended December 31, 2011, share-based compensation is net of $2 (2010 — $5) of effects of derivatives used to manage share-based compensation costs (*Note 13(b)-(c)*).

As disclosed in Note 13, the Company made awards of share-based compensation in fiscal 2011 and 2010. As most of these awards are cliff-vesting or graded-vesting and have multi-year requisite service periods, the expense will be recognized ratably over a period of years and thus only a portion of the fiscal 2011 and fiscal 2010 awards are included in the amounts in the table above.

Years ended December 31 (millions)	2011	2010

Total fair value at date of grant of:		
Share options awarded	**$ —**	$ 3
Restricted stock units awarded	**15**	7
	$ 15	$ 10

The liability amounts accrued for share-based compensation awards to key management personnel are as follows:

As at (millions)	December 31, 2011	December 31, 2010	January 1, 2010
Restricted stock units	**$ 12**	$ 7	$ 5
Net-cash settlement feature for share options	**—**	3	2
Deferred share units[1]	**22**	18	12
	$ 34	$ 28	$ 19

(1) The Company's *Directors Share Option and Compensation Plan* provides that, in addition to their annual equity grant of deferred share units, a director may elect to receive his or her annual retainer and meeting fees in deferred share units, Non-Voting Shares or cash. Deferred share units entitle the directors to a specified number of, or a cash payment based on the value of, TELUS' Common Shares and Non-Voting Shares. Deferred share units are paid out and expire when a director ceases to be a director for any reason; during the year ended December 31, 2011, $3 (2010 — $NIL) was paid out. Subsequent to December 31, 2011, the *Directors Share Option and Compensation Plan* was amended such that a time-limited, deferred payout could be effected.

During the year ended December 31, 2011, key management personnel exercised 736,908 share options (2010 — 234,359 share options) which had an intrinsic value of $8 million (2010 — $3 million) at the time of exercise, reflecting a weighted average price at the date of exercise of $50.48 (2010 — $42.85).

The Company's key management personnel receive telecommunications services from the Company, which are immaterial and domestic in nature.

Employment agreements with members of the Executive Leadership Team typically provide for severance payments if the executive's employment is terminated without cause: 18 months (24 months for the Chief Executive Officer and the Chief Financial Officer) of base salary, benefits and accrual of pension service in lieu of notice and 50% of base salary in

lieu of annual cash bonus (other than for the Chief Executive Officer, who would receive twice the average of the preceding three years' annual cash bonus). In the event of a change in control (as defined), the Executive Leadership Team members are not entitled to treatment any different than other Company employees with respect to unvested share-based compensation, other than for the Chief Executive Officer, whose unvested share-based compensation would immediately vest.

(c) Transactions with defined benefit pension plans

During the years ended December 31, 2011 and 2010, the Company provided management and administrative services to its defined benefit pension plans; the charges for these services were on a cost recovery basis and amounted to $5 million (2010 — $6 million).

As discussed further in Note 1(i) and Note 14(b), during the years ended December 31, 2011 and 2010, the Company leased real estate from one of its defined benefit pension plans.

During the years ended December 31, 2011 and 2010, the Company made employer contributions to its defined benefit pension plans as set out in the Consolidated Statements of Cash Flows.

24 additional financial information

(a) Statement of financial position

As at (millions)	December 31, 2011	December 31, 2010	January 1, 2010
Accounts receivable *(adjusted — Note 25(d))*			
Customer accounts receivable	**$ 1,178**	$ 1,142	$ 1,057
Accrued receivables — customer	**111**	102	103
Allowance for doubtful accounts	**(36)**	(41)	(59)
	1,253	1,203	1,101
Accrued receivables — other	**172**	113	93
Other	**3**	2	1
	$ 1,428	$ 1,318	$ 1,195
Inventories[1]			
Wireless handsets, parts and accessories	**$ 307**	$ 236	$ 226
Other	**46**	47	44

	$ 353	$ 283	$ 270
Other long-term assets *(adjusted — Note 25(d))*			
Pension and other post-retirement assets	**$ —**	$ 179	$ 251
Other	**81**	56	35
	$ 81	$ 235	$ 286
Accounts payable and accrued liabilities *(adjusted — Note 25(d))*			
Accrued liabilities	**$ 579**	$ 555	$ 520
Payroll and other employee related liabilities	**287**	284	252
Restricted stock units liability	**29**	20	20
Accrual for net-cash settlement feature for share option awards (*Note 13(b)*)	**3**	18	14
	898	877	806
Trade accounts payable	**406**	448	382
Interest payable	**68**	73	60
Other	**47**	79	88
	$ 1,419	$ 1,477	$ 1,336
Advance billings and customer deposits *(adjusted — Note 25(d))*			
Advance billings	**$ 575**	$ 536	$ 470
Regulatory deferral accounts	**24**	62	—
Deferred customer activation and connection fees	**32**	35	40
Customer deposits	**24**	25	20
	$ 655	$ 658	$ 530
Other long-term liabilities *(adjusted — Note 25(d))*			
Derivative liabilities (*Note 4(h)*)	**$ —**	$ —	$ 721
Pension and other post-retirement liabilities	**1,053**	423	357
Other	**116**	123	131
Restricted stock units and deferred share units liabilities	**35**	29	38
	1,204	575	1,247
Regulatory deferral accounts	**77**	—	—
Deferred customer activation and connection fees	**59**	67	80
Deferred gain on sale-leaseback of buildings	**3**	7	7
	$ 1,343	$ 649	$ 1,334

(1) Cost of goods sold for the year ended December 31, 2011 was $1,522 (2010 — $1,189).

(b) Supplementary cash flow information

Years ended December 31 (millions)	2011	2010
Net change in non-cash working capital		
Accounts receivable	**$ (79)**	$ (123)
Inventories	**(69)**	(13)
Prepaid expenses	**(36)**	(8)
Accounts payable and accrued liabilities	**(47)**	160
Income and other taxes receivable and payable, net	**13**	(214)
Advance billings and customer deposits	**(3)**	128
Provisions	**(34)**	(49)
	$ (255)	$ (119)
Long-term debt issued		
TELUS Corporation Commercial Paper	**$ 3,468**	$ 2,725
Other	**600**	1,000
	$ 4,068	$ 3,725
Redemptions and repayment of long-term debt		
TELUS Corporation Commercial Paper	**$ (2,806)**	$ (3,088)
Other	**(1,140)**	(1,031)
	$ (3,946)	$ (4,119)
Interest (paid)		
Amount (paid) in respect of interest expense	**$ (378)**	$ (427)
Amount (paid) in respect of loss on redemption of long-term debt	**—**	(52)
	$ (378)	$ (479)

25 explanation of transition to IFRS-IASB

(a) General

The Company's date of transition to IFRS-IASB is January 1, 2010, and its date of adoption is January 1, 2011. The Company's December 31, 2010, annual consolidated financial statements were the latest presented using previous non-IFRS-IASB compliant GAAP.

(b) Exemption elections

International Financial Reporting Standard 1, *First-time Adoption of International Financial Reporting Standards*, sets out the procedures that the Company must follow when it adopts IFRS-IASB for the first time as the basis for preparing its consolidated financial statements. The Company is required to establish its IFRS-IASB accounting policies as at December 31, 2011, and, in general, apply these retrospectively to determine the IFRS-IASB opening statement of financial position at its date of transition, January 1, 2010. This standard provides a number of optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption taken by the Company.

Exemption	Exemption taken?	Comments
Business combinations	Yes	As would impact the Company, and as adopted by the Company, pre-2011 Canadian GAAP in respect of business combinations, consolidation and non-controlling interests was aligned with IFRS-IASB effective January 1, 2009; business combinations prior to that date would be measured differently.
Share-based payment transactions	Yes	The Company has chosen to apply the relevant IFRS-IASB standard (International Financial Reporting Standard 2, *Share-based Payment*) only to share option awards made subsequent to 2001 and to modification of outstanding share option awards subsequent to 2001 (which results in no difference from past application of pre-2011 Canadian GAAP).
Fair value or revaluation as deemed cost	No	The Company has chosen to measure its property, plant and equipment and intangible assets at historical cost (see *Note 1(r)*).
Leases	No	As would impact the Company, and as adopted by the Company, pre-2011 Canadian GAAP in respect of leases is aligned with IFRS-IASB.

Exemption	Exemption taken?	Comments
Employee benefits	Yes	The Company has chosen to recognize cumulative unamortized actuarial gains and losses, past service costs and transitional obligations and assets at the transition date as an adjustment to retained earnings on the same date.
Cumulative translation differences	Yes	The Company has chosen to apply the relevant IFRS-IASB standard (International Accounting Standard 21, *The Effects of Changes in Foreign Exchange Rates*) prospectively effective the date of transition to IFRS-IASB due to immateriality and will deem cumulative foreign currency translation differences to be zero as of the same date.
Assets and liabilities of subsidiaries, associates and joint ventures	No	As a consolidated entity, the Company first-time adopted IFRS-IASB concurrently.
Compound financial instruments	No	As would impact the Company, and as adopted by the Company, pre-2011 Canadian GAAP in respect of compound financial instruments is aligned with IFRS-IASB.
Designation of previously recognized financial instruments	No	The Company did not re-designate any of its previously recognized financial instruments.
Fair value measurement of financial assets or financial liabilities at initial recognition	No	As would impact the Company, and as adopted by the Company, pre-2011 Canadian GAAP in respect of the fair value measurement of financial assets and financial liabilities is aligned with IFRS-IASB.

Decommissioning liabilities included in the cost of property, plant and equipment	Yes	The Company has chosen to apply the relevant IFRS-IASB standard (IFRIC Interpretation 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*) prospectively effective the date of transition to IFRS-IASB due to immateriality.
Borrowing costs	Yes	The Company has chosen to apply the relevant IFRS-IASB standard (International Accounting Standard 23, *Borrowing Costs*) prospectively effective the date of transition to IFRS-IASB due to immateriality.

(c) Reconciliations — consolidated statement of income and other comprehensive income

Generally accepted accounting principles require that the Company's comprehensive income previously reported at the end of the most recently completed annual period be reconciled to those amounts that would have been reported applying IFRS-IASB; the corresponding reconciliation is required for comparative periods as well. The following table provides the comprehensive reconciliations for the requisite period.

Year ended December 31, 2010 (millions except per share amounts)	As previously reported	Effect of transition to IFRS-IASB	As adjusted
OPERATING REVENUES	$ 9,779	$ (9,779)	$ —
Service	—	9,131	9,131
Equipment	—	611	611
	9,779	(37)	9,742
Other operating income	—	50	50
	9,779	13	9,792
OPERATING EXPENSES			
Operations	6,062	(6,062)	—
Restructuring costs	74	(74)	—
Goods and services purchased	—	4,236	4,236
Employee benefits expense	—	1,906	1,906
Depreciation	1,333	6	1,339
Amortization of intangible assets	402	—	402
	7,871	12	7,883
OPERATING INCOME	1,908	1	1,909
Other expense, net	32	(32)	—
Financing costs	510	12	522
INCOME BEFORE INCOME TAXES	1,366	21	1,387
Income taxes	328	7	335
NET INCOME	1,038	14	1,052
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to income			
Change in unrealized fair value of derivatives designated as cash flow hedges	54	—	54
Foreign currency translation arising from translating financial statements of foreign operations	—	—	—
	54	—	54
Item never subsequently reclassified to income			
Employee defined benefit plans actuarial gains (losses)	—	(214)	(214)
	54	(214)	(160)
TOTAL COMPREHENSIVE INCOME	$ 1,092	$ (200)	$ 892
NET INCOME ATTRIBUTABLE TO:			
Common Shares and Non-Voting Shares	$ 1,034	$ 14	$ 1,048
Non-controlling interests	4	—	4
	$ 1,038	$ 14	$ 1,052
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Common Shares and Non-Voting Shares	$ 1,088	$ (200)	$ 888
Non-controlling interests	4	—	4
	$ 1,092	$ (200)	$ 892
NET INCOME PER COMMON SHARE AND NON-VOTING SHARE			
Basic	$ 3.23	$ 0.04	$ 3.27
Diluted	$ 3.22	$ 0.05	$ 3.27

The effects of the transition to IFRS-IASB on the line items in the preceding table can be classified into two categories: those that have recognition, measurement, presentation and/or disclosure effects for the Company, or those that have only presentation and/or disclosure effects for the Company.

Topic	Line items affected	Amount (increase (decrease), in millions except per share amounts)	Recognition, measurement, presentation and/or disclosure	Presentation and/or disclosure	Comments
Revenues	Operating revenues	$ (9,779)		X	Previously, Canadian GAAP did not provide the same specificity of revenue categorization. IFRS-IASB requires the disclosure of specific categories of revenue.
	Operating revenues — service	$ 9,168			
	Operating revenues — equipment	$ 611			
	Other operating income	$ 2			
	Other expense, net	$ 2			
Government assistance	Operating revenues — services	$ (37)		X	Previously, Canadian GAAP did not define government assistance to include receipts such as the high cost serving area portable subsidy. As well, previously, Canadian GAAP allowed for government assistance to be netted against the associated expense as a cost recovery. IFRS-IASB requires these government assistance amounts to be categorized as Other operating income.
	Other operating income	$ 48			
	Operating expenses — employee benefits expense	$ 11			
Analysis of expenses and other expense, net, recognized in the statements of income and other comprehensive income	Operating expenses — operations	$ (6,062)		X	Previously, Canadian GAAP did not provide the same level of specificity of expense analysis. IFRS-IASB requires that expenses be presented using either a nature approach or a function approach; the Company has selected the nature approach.
	Operating expenses — restructuring costs	$ (74)			
	Operating expenses — goods and services purchased	$ 4,228			
	Operating expenses — employee benefits expense	$ 1,934			
	Other expense, net	$ (26)			
Leasing (sales and leaseback transactions)	Operating expenses — goods and services purchased	$ 12	X		Previously, Canadian GAAP required that gains arising on sales and leaseback transactions be deferred and amortized over the term of the resulting lease. IFRS-IASB requires that, where the original sale was at fair value, the gain be recognized in income immediately.
	Income taxes	$ (3)			
	Net income	$ (9)			
	Net income per Common Share and Non-Voting Share				
	Basic	$ (0.03)			
	Diluted	$ (0.03)			
Employee benefits — defined benefit pension plans	Operating expenses — employee benefits expense	$ (39)	X		Previously, Canadian GAAP required that the excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets was to be amortized over the expected average remaining service periods of active employees of the plan, as were past service costs and transitional assets and liabilities. IFRS-IASB allows the Company to choose, and the Company has chosen, to recognize such balances at the transition date by way of an opening adjustment to retained earnings. As well, IFRS-IASB allows the Company to choose to charge actuarial gains
	Income taxes	$ 11			
	Net income	$ 28			
	Net income per Common Share and Non-Voting Share				
	Basic	$ 0.09			
	Diluted	$ 0.09			
	Other comprehensive income — employee defined benefit plans actuarial gains (losses)	$ (214)			

						and losses arising subsequent to the transition date to other comprehensive income.

Topic	Line items affected	Amount (increase (decrease), in millions except per share amounts)	Recognition, measurement, presentation and/or disclosure	Presentation and/or disclosure	Comments
Decommissioning liabilities included in the cost of property, plant and equipment	Operating expenses — goods and services purchased	$ (4)	X		Previously, Canadian GAAP did not adjust the pre-existing discounted asset retirement obligation balance for changes in discount rates and the associated discount accretion was included with operations expenses. IFRS-IASB requires that the pre-existing discounted asset retirement obligation balance be re-measured every reporting period using the then current discount rates and the associated discount accretion is to be included as a component of financing costs.
	Operating expenses — depreciation	$ 1			
	Financing costs	$ 4			
	Net income	$ (1)			
	Net income per Common Share and Non-Voting Share				
	Basic	$ —			
	Diluted	$ —			
Impairment of assets	Operating expenses — depreciation	$ 5	X		Previously, Canadian GAAP did not allow for increases in recoverable amounts of impaired assets subsequent to the time of impairment to be recognized. IFRS-IASB requires that increases in recoverable amounts of impaired assets subsequent to the time of impairment be recognized as an impairment reversal, but only to the extent that the resulting carrying amount would not exceed the carrying amount that would have been the result had an impairment amount not initially been recognized. The impairment reversal recorded at the transition date thus results in increased depreciation expense.
	Income taxes	$ (1)			
	Net income	$ (4)			
	Net income per Common Share and Non-Voting Share				
	Basic	$ (0.01)			
	Diluted	$ (0.01)			
Sale of trade receivables	Other expense, net	$ (8)	X		Previously, Canadian GAAP de-recognized trade receivables sold to the arm's-length securitization trust with which the Company transacts. IFRS-IASB does not de-recognize the trade receivables sold to the arm's-length securitization trust with which the Company transacts and considers the sale proceeds to be short-term borrowings of the Company. Accordingly, IFRS-IASB requires that the expenses associated with the sale be presented as a component of financing costs.
	Financing costs	$ 8			

(d) Reconciliations — consolidated statements of financial position

Generally accepted accounting principles require that the Company's shareholders' equity previously reported at the date of transition to IFRS-IASB and at the end of the most recently completed annual period be reconciled to those amounts that would have been reported applying IFRS-IASB; the corresponding reconciliation is required for comparative periods as well. The following table provides the equity reconciliations for the requisite periods.

	January 1, 2010			December 31, 2010		
As at (millions)	As previously reported	Effect of transition to IFRS-IASB	As adjusted	As previously reported	Effect of transition to IFRS-IASB	As adjusted
ASSETS						
Current assets						
Cash and temporary investments, net	$ 41	$ —	$ 41	$ 17	$ —	$ 17
Accounts receivable	694	501	1,195	917	401	1,318
Income and other taxes receivable	16	—	16	56	6	62
Inventories	270	—	270	283	—	283
Prepaid expenses and other	105	—	105	113	—	113
Derivative assets	1	—	1	4	—	4
	1,127	501	1,628	1,390	407	1,797
Non-current assets						
Property, plant and equipment, net	7,729	103	7,832	7,722	109	7,831
Intangible assets, net	5,148	1,018	6,166	5,134	1,018	6,152
Goodwill, net	3,572	—	3,572	3,572	—	3,572
Other long-term assets	1,602	(1,316)	286	1,744	(1,509)	235
Investments	41	—	41	37	—	37
	18,092	(195)	17,897	18,209	(382)	17,827
	$ 19,219	$ 306	$ 19,525	$ 19,599	$ 25	$ 19,624
LIABILITIES AND OWNERS' EQUITY						
Current liabilities						
Short-term borrowings	$ —	$ 500	$ 500	$ —	$ 400	$ 400
Accounts payable and accrued liabilities	1,385	(49)	1,336	1,495	(18)	1,477
Income and other taxes payable	182	(8)	174	6	—	6
Restructuring accounts payable and accrued liabilities	135	(135)	—	111	(111)	—
Dividends payable	150	—	150	169	—	169
Advance billings and customer deposits	674	(144)	530	658	—	658
Provisions	—	299	299	—	122	122
Current maturities of long-term debt	82	467	549	743	104	847
Current portion of derivative liabilities	62	—	62	419	—	419
Current portion of deferred income taxes	294	(294)	—	348	(348)	—
	2,964	636	3,600	3,949	149	4,098
Non-current liabilities						
Provisions	—	91	91	—	204	204
Long-term debt	6,090	(467)	5,623	5,313	(104)	5,209
Other long-term liabilities	1,271	63	1,334	638	11	649
Deferred income taxes	1,319	203	1,522	1,498	185	1,683
	8,680	(110)	8,570	7,449	296	7,745
Liabilities	11,644	526	12,170	11,398	445	11,843
OWNERS' EQUITY						
Common Share and Non-Voting Share equity						
Common Shares	2,216	—	2,216	2,219	—	2,219
Non-Voting Shares	3,070	—	3,070	3,237	—	3,237
Contributed surplus	181	(14)	167	190	(14)	176
Retained earnings	2,159	(225)	1,934	2,551	(425)	2,126
Accumulated other comprehensive income (loss)	(72)	19	(53)	(18)	19	1
	7,554	(220)	7,334	8,179	(420)	7,759
Non-controlling interests	21	—	21	22	—	22
	7,575	(220)	7,355	8,201	(420)	7,781
	$ 19,219	$ 306	$ 19,525	$ 19,599	$ 25	$ 19,624

The effects of the transition to IFRS-IASB on the line items in the preceding table can be classified into two categories: those that have recognition, measurement, presentation and/or disclosure effects for the Company, or those that have only presentation and/or disclosure effects for the Company.

Topic	Line items affected	Amount of effect (increase (decrease), in millions) January 1, 2010	Amount of effect (increase (decrease), in millions) December 31, 2010	Recognition, measurement, presentation and/or disclosure	Presentation and/or disclosure	Comments
Sale of accounts receivable	Accounts receivable	$ 501	$ 401	X		Previously, Canadian GAAP de-recognized trade receivables sold to the arm's-length securitization trust with which the Company transacts. IFRS-IASB does not de-recognize the trade receivables sold to the arm's-length securitization trust with which the Company transacts and considers the sale proceeds to be short-term borrowings of the Company.
	Short-term borrowings	$ 500	$ 400			
	Accounts payable and accrued liabilities	$ (1)	$ —			
	Income and other taxes payable	$ 1	$ —			
	Retained earnings	$ 1	$ 1			
Income taxes — current	Income and other taxes receivable	$ —	$ 6		X	Previously, Canadian GAAP permitted offsetting current income tax assets and current income tax liabilities if they related to the same taxable entity and taxation authority. IFRS-IASB permits offsetting current income tax assets and current income tax liabilities only if there is a legal right of offset.
	Income and other taxes payable	$ —	$ 6			
Impairment of assets	Property, plant and equipment	$ 91	$ 86	X		Previously, Canadian GAAP did not allow for increases in recoverable amounts of impaired assets subsequent to the time of impairment to be recognized. IFRS-IASB requires that increases in recoverable amounts of impaired assets subsequent to the time of impairment be recognized as an impairment reversal, but only to the extent that the resulting carrying amount would not exceed the carrying amount that would have been the result had an impairment amount not initially been recognized. Previously, Canadian GAAP required, given the Company's facts and circumstances, that the Company's spectrum licences be assessed for impairment separately. IFRS-IASB requires, given the Company's facts and circumstances, that the Company's spectrum licences be assessed for impairment as a part of the Wireless cash-generating unit. The result is that the $910 million impairment recorded by the Company in 2002 would not have been required under IFRS-IASB. Previously, when Canadian GAAP introduced impairment of
	Intangible assets, net	$ 1,018	$ 1,018			
	Deferred income taxes	$ 281	$ 280			
	Retained earnings	$ 828	$ 824			

						assets for intangible assets with indefinite lives, it concurrently ceased requiring their amortization and it did so on a prospective basis and thus the $108 million of associated amortization recorded to that point in time by the Company was not reversed. IFRS-IASB transitional rules require the amortization cessation to be accounted for retrospectively with the result being the reversal of the amortization previously recorded under Canadian GAAP.

Topic	Line items affected	Amount of effect (increase (decrease), in millions) January 1, 2010	Amount of effect (increase (decrease), in millions) December 31, 2010	Recognition, measurement, presentation and/or disclosure	Presentation and/or disclosure	Comments
Decommissioning liabilities included in the cost of property, plant and equipment	Property, plant and equipment	$ 12	$ 23	X		Previously, Canadian GAAP did not adjust the pre-existing discounted asset retirement obligation balance for changes in discount rates and the associated discount accretion was included with operations expenses. IFRS-IASB requires that the pre-existing discounted asset retirement obligation balance be re-measured every reporting period using the then current discount rates and the associated discount accretion is to be included as a component of financing costs.
	Non-current liabilities — provisions	$ 21	$ 33			
	Deferred income taxes	$ (2)	$ (2)			
	Retained earnings	$ (7)	$ (8)			
Employee benefits — defined benefit plans	Other long-term assets	$ (1,314)	$ (1,504)	X		Previously, Canadian GAAP required that the accrued benefit assets (liabilities) of defined benefit plans, rather than their funded states, be presented in the statement of financial position. IFRS-IASB requires that the funded states of defined benefit plans be presented in the statement of financial position.
	Other long-term liabilities	$ 142	$ 200			
	Deferred income taxes	$ (379)	$ (442)			
	Retained earnings	$ (1,077)	$ (1,262)			
Leasing (sales and leaseback transactions)	Accounts payable and accrued liabilities	$ (6)	$ (7)	X		Previously, Canadian GAAP required that gains arising on sales and leaseback transactions be deferred and amortized over the term of the resulting lease. IFRS-IASB requires that, where the original sale was at fair value, the gain be recognized in income immediately.
	Other long-term liabilities	$ (31)	$ (18)			
	Deferred income taxes	$ 7	$ 4			
	Retained earnings	$ 30	$ 21			
Income taxes — deferred	Other long-term assets	$ (2)	$ (5)		X	Previously, Canadian GAAP classified taxable and deductible temporary differences arising from current assets and current liabilities as

	Income and other taxes payable	$ (9)	$ (6)			current deferred income tax liabilities and assets, respectively. IFRS-IASB requires that taxable and deductible temporary differences arising from current assets and current liabilities be classified as non-current deferred income tax liabilities and assets, respectively.
	Current portion of deferred income taxes	$ (294)	$ (348)			
	Deferred income taxes	$ 296	$ 345			
	Contributed surplus	$ (14)	$ (14)			
	Retained earnings	$ 19	$ 18			

notes to consolidated financial statements

Topic	Line items affected	Amount of effect (increase (decrease), in millions) January 1, 2010	Amount of effect (increase (decrease), in millions) December 31, 2010	Recognition, measurement, presentation and/or disclosure	Presentation and/or disclosure	Comments
Provisions	Accounts payable and accrued liabilities	$ (42)	$ (11)	X		Previously, Canadian GAAP did not identify provisions as a specific subset of liabilities. IFRS-IASB requires that provisions be presented on the statement of financial position as a distinct line item and that the movements in each “class” of provisions be disclosed. Relative to previous Canadian GAAP, the application of IFRS-IASB may result in provisions being recognized sooner and for differing amounts. For the periods presented, the Company is not materially affected by the provision recognition and measurement differences between previous Canadian GAAP and IFRS-IASB.
	Restructuring accounts payable and accrued liabilities	$ (135)	$ (111)			
	Advance billings and customer deposits	$ (144)	$ —			
	Current liabilities — provisions	$ 299	$ 122			
	Other long-term liabilities	$ (48)	$ (171)			
	Non-current liabilities — provisions	$ 70	$ 171			
Classification of long-term credit facility borrowings	Current maturities of long-term debt	$ 467	$ 104		X	Previously, Canadian GAAP provided that when a debtor used short-term obligations drawn on a long-term credit facility and which were subsequently “rolled over” (*e.g.* commercial paper), such obligations were permitted to be classified as a non-current debt if the underlying long-term credit facility was classified as non-current. IFRS-IASB requires that such short-term obligations drawn on a long-term credit facility be classified as a current debt.
	Long-term debt	$ (467)	$ (104)			
Cumulative translation differences	Retained earnings	$ (19)	$ (19)	X		At the date of transition to IFRS-IASB, as allowed by International Financial Reporting Standard 1, *First-time Adoption of International Financial Reporting Standards*, the Company has elected to use the exemption which
	Accumulated other comprehensive income	$ 19	$ 19			

	deems cumulative translation differences for all foreign operations to be zero at the date of transition.

(e) Reconciliations — consolidated statement of cash flows

The Company's consolidated statement of cash flows were not materially affected by the transition to IFRS-IASB.

Caution regarding forward-looking statements

This document contains forward-looking statements about expected future events and financial and operating performance of TELUS Corporation (TELUS or the Company, and where the context of the narrative permits, or requires, its subsidiaries). By their nature, forward-looking statements are subject to inherent risks and uncertainties, and require the Company to make assumptions. There is significant risk that assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause future performance, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements, and reserves the right to change, at any time at its sole discretion, its current practice of updating annual targets and guidance. Annual targets for 2012 and related assumptions are described in *Sections 1.4 and 1.5*. Factors that could cause actual performance to differ materially include, but are not limited to:

- Competition including: continued intense competitive rivalry across all services among incumbent telecommunications companies, new entrant wireless operators, cable-TV providers, other communications companies and emerging over-the-top (OTT) services; active price and brand competition; TELUS' ability to offer an enhanced customer service experience; industry growth rates including wireless penetration gain; network access line losses; subscriber additions and subscriber retention experience for wireless, TELUS TV® and Optik High Speed™ Internet services; costs of subscriber acquisition and retention; pressures on wireless average revenue per subscriber unit per month (ARPU) such as through flat rate pricing trends for voice and data, inclusive long distance plans for voice, and increasing availability of Wi-Fi networks for data; levels of smartphone sales and associated subsidy levels; and ability to obtain and offer data content across multiple devices on wireless and TV platforms.

- Technological substitution including: reduced utilization and increased commoditization of traditional wireline voice local and long distance services; increasing numbers of households that have only wireless telephone services; continuation and acceleration of wireless voice ARPU declines such as through substitution to messaging and OTT applications such as Skype; and OTT IP services that may cannibalize TV and entertainment services.

- Technology including: subscriber demand for data that could challenge wireless network capacity, service levels and spectrum capacity; reliance on systems and information technology; broadband and wireless technology options and roll-out plans, including reliance on wireless reciprocal network access agreements; choice of suppliers and suppliers' ability to maintain and service their product lines; wireless handset supplier concentration and market power; expected technology and evolution paths; expected benefits and performance of high-speed packet access plus (HSPA+) dual-cell technology and transition to long-term evolution (LTE) wireless technology; dependence of rural LTE roll-out strategy on ability to acquire spectrum in the 700 MHz band; successful deployment and operation of new wireless networks and successful introduction of new products (such as new LTE and tablet devices), new services and supporting systems; network reliability and change management; and successful upgrades of TELUS TV technology.

- Economic growth and fluctuations including: the strength and persistence of the economic recovery in Canada that may be influenced by international economic developments in the U.S., Europe, Asia and elsewhere; future interest rates; and pension investment returns and funding.

- Capital expenditure levels in 2012 and beyond due to the Company's wireless deployment strategy for future technologies including LTE, wireline broadband initiatives, Internet data centre (IDC) initiatives, and future Industry Canada wireless spectrum auctions, including auction of spectrum in the 700 MHz and 2.5/2.6 GHz bands.

- Financing and debt requirements including ability to carry out refinancing activities.

- Ability to sustain growth objectives to 2013 (including, over this timeframe, dividend growth of circa 10% per annum and CEO goals of generating low double-digit percentage annualized growth in earnings per share and greater growth in free cash flow). The growth objectives may be affected by factors such as regulatory and government developments and decisions, competitive environment, reasonable economic performance in Canada, and capital expenditure and spectrum auction requirements. The growth objectives are not necessarily indicative of

earnings, dividends and free cash flow beyond 2013.

- Regulatory approvals and developments including: the design and impact of future spectrum auctions (including the spectrum auction rules and cost of acquiring spectrum in the 700 MHz and 2.5/2.6 GHz bands); whether application and enforcement of new regulatory safeguards regarding vertical integration by competitors into broadcast content ownership prove to be effective; increased foreign control of wireless entrants pending federal policy decisions on foreign ownership restrictions; interpretation and application of tower sharing and roaming rules; and possible adoption of consumer protection legislation by provinces whose non-harmonized rules create risk of significant compliance costs.

- Human resource developments including employee retention and engagement matters and the outcome of collective bargaining for a Quebec region agreement that expired at the end of 2011 (covering approximately 510 employees).

- Ability to successfully implement cost reduction initiatives and realize expected savings net of restructuring costs, such as from business integrations, business process outsourcing, internal offshoring and reorganizations, without losing customer service focus or negatively impacting client care.

- Process risks including: reliance on legacy systems and ability to implement and support new products and services; and implementation of large enterprise deals that may be adversely impacted by available resources and degree of co-operation from other service providers.

- Tax matters including possible increases in certain provincial and/or federal corporate income tax rates.

- Business continuity events including human-caused threats such as electronic attacks, and natural disaster threats.

- Acquisitions or divestitures including realizing expected strategic benefits.

- Health, safety and environmental developments; Litigation and legal matters; and other risk factors discussed herein and listed from time to time in TELUS' reports and public disclosure documents including its annual report, annual information form, and other filings with securities commissions in Canada (on SEDAR at **sedar.com**) and in its filings in the United States, including Form 40-F (on EDGAR at **sec.gov**). For further information, see *Section 10: Risks and risk management* in Management's discussion and analysis (MD&A).

Management's discussion and analysis

February 23, 2012

The following sections are a discussion of the consolidated financial position and financial performance of TELUS Corporation for the year ended December 31, 2011, and should be read together with TELUS' Audited consolidated financial statements dated December 31, 2011. This discussion contains forward-looking information qualified by reference to, and should be read together with, the *Caution regarding forward-looking statements*.

The generally accepted accounting principles (GAAP) used by TELUS are International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in compliance with Canadian GAAP. The terms IFRS-IASB and IFRS used subsequently in this document refer to these standards. All amounts are in Canadian dollars unless otherwise specified.

Management's discussion and analysis contents

Section	Page	Description
1. Introduction	3	A summary of TELUS' consolidated results for 2011, performance against 2011 targets, and presentation of targets for 2012
2. Core business and strategy	12	A discussion of TELUS' core business and strategy, including examples of TELUS' activities in support of its six strategic imperatives
3. Key performance drivers	15	A report on 2011 corporate priorities and an outline of 2012 priorities
4. Capabilities	17	Factors that affect the capability to execute strategies, manage key performance drivers and deliver results
5. Discussion of operations	22	A discussion of operating performance for 2011
6. Changes in financial position	34	A discussion of changes in the Consolidated statements of financial position for the year ended December 31, 2011
7. Liquidity and capital resources	35	A discussion of operating cash flows, investments and financing activities, as well as liquidity, credit facilities and other disclosures
8. Critical accounting estimates and accounting policy developments	44	Accounting estimates that are critical to determining financial results, and changes to accounting policies
9. General outlook	49	Expectations for the telecommunications industry in 2012
10. Risks and risk management	53	Risks and uncertainties facing TELUS and how the Company manages these risks
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1. Introduction

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

1.1 Preparation of the MD&A

The Company's disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, so that appropriate decisions can be made regarding public disclosure. Management determines whether or not information is material based on whether it believes a reasonable investor's decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated. The MD&A and the Audited consolidated financial statements were reviewed by TELUS' Audit Committee and approved by TELUS' Board of Directors.

Management has issued guidance on and reports on certain non-GAAP measures to evaluate performance of the Company and its segments. Non-GAAP measures are also used to determine compliance with debt covenants and to manage the capital structure. Because non-GAAP measures do not generally have a standardized meaning, securities regulations require such measures to be clearly defined, qualified and reconciled with their nearest GAAP measure (see *Section 11*). The term EBITDA (earnings before interest, taxes, depreciation and amortization) used in this document means standardized EBITDA as defined by the Canadian Performance Reporting Board of the Canadian Institute of Chartered Accountants (CICA). Adjusted EBITDA used in this document deducts from standardized EBITDA items of an unusual nature that do not reflect ongoing telecommunications operations. See *Section 11.1* for the definition, calculation and reconciliation of EBITDA.

1.2 Canadian economy and telecommunications industry

Economic environment

The Bank of Canada maintained its target for the overnight borrowing rate at 1% in its January 2012 bank rate announcement. The Bank's January 2012 Monetary Policy Report estimated economic growth of 2.4% for Canada in 2011. It also projected growth of 2.0% in 2012 and 2.8% in 2013, with the economy returning to full capacity by the third quarter of 2013.

Statistics Canada's Labour Force Survey reported the December 2011 national unemployment rate had increased to 7.5% from 7.1% in September 2011, but was down slightly from 7.6% in December 2010 (see *Section 10.11 Economic growth and fluctuations*). In January 2012, the national unemployment rate edged up to 7.6%.

Telecommunications industry

The Company estimates that growth in Canadian telecommunications industry revenue (including TV revenue and excluding media revenue; see *Competition overview* in *Section 4.1*) was approximately 3% in 2011, driven by continued growth in the wireless sector.

Canadian wireless industry revenue and EBITDA growth for 2011 are estimated at approximately 4.5% and 2%, respectively. Increased competitive intensity from established national competitors and new entrants, as well as new smartphones and tablets, attracted an more than 1.6 million new industry subscribers in 2011, or an approximate 4.3 percentage point increase in penetration to just over 77% of the population. The wireless penetration rate in Canada is expected to increase further in 2012 by between 4.0 and 4.5 percentage points.

The Canadian wireline sector is expected to continue to face pressure on legacy voice services from strong competitive intensity and technological substitution to growing data and wireless services. Growth opportunities remain in wireline data, including Internet, and IP-based TV and entertainment services.

1.3 Consolidated highlights

Years ended December 31 ($ millions, unless noted otherwise)	2011	2010	Change
Consolidated statements of income			
Operating revenues	**10,397**	9,792	6.2%
Operating income	**1,968**	1,909	3.1%
Income before income taxes	**1,591**	1,387	14.7%
Net income	**1,215**	1,052	15.5%
Basic earnings per share [1] (EPS) ($)	**3.76**	3.27	15.0%
Diluted EPS [1] ($)	**3.74**	3.27	14.4%
Cash dividends declared per share [1] ($)	**2.205**	2.00	10.3%
Average shares [1] outstanding - basic (millions)	**324**	320	1.3%
Consolidated statements of cash flows			
Cash provided by operating activities	**2,550**	2,670	(4.5)%
Cash used by investing activities	**1,968**	1,731	13.7%
· Capital expenditures	**1,847**	1,721	7.3%
Cash used by financing activities	**553**	963	(42.6)%
Other highlights			
Subscriber connections [2] (thousands)	**12,728**	12,253	3.9%
EBITDA [3]	**3,778**	3,650	3.5%
Adjusted EBITDA [3][4]	**3,761**	3,650	3.0%
Adjusted EBITDA margin (%) [5]	**36.2**	37.3	(1.1)pts.
Free cash flow [3]	**997**	939	6.2%

Net debt to EBITDA — excluding restructuring costs (times) [3]	**1.8**	1.8	—

Notations used in MD&A: n/a — Not applicable; n/m — Not meaningful; pts. — Percentage points.

(1) Includes Common Shares and Non-Voting Shares.

(2) The sum of wireless subscribers, network access lines (NALs), Internet access subscribers and TELUS TV subscribers (Optik TV™ subscribers and TELUS Satellite TV® subscribers), measured at the end of the respective periods based on information in billing and other systems.

(3) Non-GAAP measures. See *Section 11.1 EBITDA*, *Section 11.2 Free cash flow* and *Section 11.4 Definitions of liquidity and capital resource measures*

(4) Adjusted EBITDA for 2011 excludes a $17 million gain on purchase of control of Transactel (Barbados) Inc.

(5) Adjusted EBITDA margin is adjusted EBITDA divided by (Operating revenues excluding the 2011 gain on Transactel).

Operating highlights

- Consolidated Operating revenues increased by $605 million in 2011 when compared to 2010, surpassing $10 billion

for the first time in 2011.

Service and equipment revenues increased by $583 million in 2011 when compared to 2010. Approximately 67% of the increase was due to the growth in wireless network revenue, which increased by 8.5% driven by growth in the number of subscribers, growth in data ARPU related to accelerated smartphone adoption, and increased roaming revenues. The remaining increase was due to: (i) growth in wireline data revenues resulting from TV and high-speed Internet subscriber growth and rate increases, increased equipment sales and revenues from implementation of recent large enterprise customer deals, as well as revenues from operations of Transactel (Barbados) Inc. consolidated since February 1, 2011 (see *Partnering, acquiring and divesting* in *Section 2.2*); and (ii) increased wireless equipment revenues driven by higher gross subscriber additions, increased retention volumes, device upgrade revenues, a larger proportion of higher-priced smartphones, as well as current year tablet sales. Partly offsetting growth in wireline data revenue is the continued decline in wireline legacy voice revenues as a result of competition and substitution to data and wireless services. Partly offsetting growth in wireless data revenue is the year-over-year decline in wireless voice revenue due to lower usage as customers move towards using more texting and data services and reducing voice calls, as well as competitive pricing.

Other operating income, presented as a separate component of revenues, increased by $22 million in 2011. The increase includes a $17 million non-cash gain on Transactel (Barbados) Inc. in 2011; the gain reflects a re-measurement at fair value when TELUS exercised its purchased call option and asserted control. Transactel operates call centres in Central America (see *Partnering and acquiring* in *Section 2.2*). The increase also includes higher recoveries of employee costs under eligible government-sponsored employment programs, and a drawdown of the price cap deferral account for provisioning of broadband Internet service to a number of qualifying rural and remote communities, partly offset by lower portable subsidy revenues.

Consolidated Operating revenues excluding the non-cash Transactel gain increased by $588 million or 6.0% in 2011 when compared to 2010.

- Subscriber connections increased by 475,000 during 2011 (378,000 in 2010), as a result of 7.4% growth in wireless postpaid subscribers, 62% growth in TELUS TV subscribers, and a 4.6% increase in total Internet subscriptions, partly offset by a 6.9% decrease in wireless prepaid subscribers and a 3.9% decrease in total network access lines (NALs). Residential NAL losses in 2011 improved by 46,000 as a result of the positive effect of bundled service offers including Optik TV and Optik High Speed Internet services following their market launch in June 2010. Business NAL losses improved by 35,000 in 2011 as additions of wholesale lines partly offset the effects of increased competition in the small and medium business market and the ongoing conversion of voice lines to more efficient IP services. Wireline total subscriber connections increased by 107,000 in 2011 — the first such wireline increase since 2004.

  The blended monthly wireless subscriber churn rate was 1.68% in 2011, up from 1.57% in 2010 due to the loss of a federal government wireless service contract to a low-priced bid from an incumbent competitor (a loss of approximately 77,000 subscribers, which added 11 basis points of churn in 2011).

  Wireless blended ARPU was $59.10 in 2011, up 2.5% from the same period in 2010. The increase reflects the 38% growth in data ARPU resulting from increased use of data services and a higher penetration of smartphones, as well as increased roaming, partly offset by lower voice pricing and declining minutes of use. Quarterly blended ARPU has increased year over year for five consecutive quarters: 1.0% (Q4 2011), 3.0% (Q3 2011), 2.5% (Q2 2011), 2.7% (Q1 2011) and 1.9% (Q4 2010). Prior to the fourth quarter of 2010, blended ARPU had been declining since mid-2007.

- Operating income increased by $59 million in 2011 when compared to 2010. The increase in 2011 was mainly due to a $128 million increase in EBITDA that was partly offset by higher amortization expenses. Wireless EBITDA increased by $166 million, driven by 8.5% growth in network revenue that was partly offset by higher costs of subscriber acquisition and retention. Wireline EBITDA decreased by $38 million as growth in data services, lower restructuring costs and the $17 million Transactel gain were more than offset by higher content and support costs for the growing Optik TV service and ongoing declines in higher margin legacy voice services.

  TELUS' adjusted EBITDA for 2011, which excludes the $17 million Transactel gain, increased by $111 million when compared to 2010. The adjusted EBITDA margin decreased by 1.1 percentage points due to margin pressures in both segments.

- Income before income taxes increased by $204 million in 2011 due to lower Financing costs and increased Operating income. Financing costs

decreased by $145 million year over year primarily due to lower effective interest rates resulting from $1.6 billion of refinancing in the second quarter of 2011 and third quarter of 2010.

Income taxes increased by $41 million in 2011 mainly due to higher pre-tax income, partly offset by a lower blended statutory income tax rate.

- Net income increased by $163 million or over 15% in 2011 when compared to 2010. Excluding items shown in the following table, Net income increased by approximately $112 million or 10% in 2011.

Analysis of Net income

Years ended December 31 ($ millions)	2011	2010	Change
Net income	**1,215**	1,052	163
Deduct after-tax Transactel gain	**(12)**	—	(12)
Add back third quarter 2010 after-tax loss on redemption of debt	**—**	37	(37)
Add back third quarter 2010 after-tax regulatory financing charge	**—**	11	(11)
Deduct net favourable income tax-related adjustments, including any related interest income (see *Section 5.2)*	**(21)**	(30)	9
Net income before above items (approximate)	**1,182**	1,070	112

- Basic earnings per share (EPS) increased by 49 cents or 15% in 2011. Excluding items shown in the following table, basic EPS increased by approximately 33 cents or 10% in 2011.

Analysis of basic EPS

Years ended December 31 ($)	2011	2010	Change
Basic EPS	**3.76**	3.27	0.49
Deduct after-tax Transactel gain	**(0.04)**	—	(0.04)
Add back third quarter 2010 after-tax loss on redemption of debt per share	**—**	0.12	(0.12)
Add back third quarter 2010 after-tax regulatory financing charge per share	**—**	0.03	(0.03)
Deduct net favourable income tax-related adjustments per share (see *Section 5.2)*	**(0.06)**	(0.09)	0.03
EPS before above items (approximate)	**3.66**	3.33	0.33

- Cash dividends declared per Common Share and Non-Voting Share in 2011 totalled $2.205, an increase of 20.5 cents or 10.3% when compared to 2010. On February 8, 2012, the Board of Directors declared a quarterly dividend of 58 cents per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company, payable on April 2, 2012, to shareholders of record at the close of business on March 9, 2012. The 58 cent per share dividend declared for the first quarter of 2012 reflects an increase of 5.5 cents or 10.5% from the dividend one year earlier.

  In addition, on February 21, 2012, the Board of Directors declared a quarterly dividend of 61 cents per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company, payable on July 3, 2012, to shareholders of record at the close of business on June 8, 2012. The 61 cent per share dividend declared for the second quarter of 2012 reflects an increase of six cents or 10.9% from the dividend one year earlier. This is consistent with TELUS' dividend growth model (see *2012 financing and capital structure management plans* in *Section 4.3*). In the event that the proposed share conversion of Non-Voting Shares to Common Shares on a one-for-one basis (see *Capital structure financial policies* in *Section 4.3*) receives all requisite approvals and is effective prior to the dividend record date of June 8, 2012, holders of record on such date who previously held Non-Voting Shares would hold Common Shares and would therefore receive the same dividend as all other holders of Common Shares.

Liquidity and capital resource highlights

- TELUS had unutilized credit facilities of $1.28 billion at December 31, 2011, as well as $100 million availability under the Company's trade receivables securitization program, consistent with its objective of generally maintaining more than $1 billion of unutilized liquidity. On November 3, 2011, TELUS entered into a $2 billion bank credit facility expiring in 2016 with a syndicate of financial institutions. This new facility replaced the Company's pre-existing committed credit facility that would have expired in May 2012.

- Net debt to EBITDA — excluding restructuring costs was 1.8 times at December 31, 2011, unchanged from December 31, 2010, as an increase in net debt since the beginning of the year was offset by improved EBITDA before restructuring costs. The ratio remains within the Company's long-term target policy range of 1.5 to 2.0 times.

- Cash provided by operating activities decreased by $120 million in 2011 when compared to 2010, mainly due to the discretionary $200 million contribution to defined benefit pension plans in January 2011, as well as price cap deferral account rebate payments in 2011 in accordance with CRTC *Telecom Decision 2010-639*, partly offset by lower income tax payments, higher adjusted EBITDA and lower interest paid.

- Cash used by investing activities increased by $237 million in 2011 mainly due to a $126 million increase in capital expenditures (see *Building national capabilities* in *Section 2.2)* and acquisitions. Investments of $81 million were made in 2011 to purchase certain independent TELUS-branded wireless dealerships, and $20 million was invested to increase TELUS' equity interest in Transactel (Barbados) Inc. (see *Partnering,*

acquiring and divesting in *Section 2.2*).

- Cash used by financing activities decreased by $410 million in 2011 when compared to 2010, primarily due to debt reduction activities in 2010, partially offset by increased dividend payments in 2011. Dividend payments increased due to a higher dividend rate and the change in practice to purchasing shares for reinvested dividends on the market rather than issuing shares from treasury.

  In the second quarter of 2011, the Company successfully closed a $600 million public offering of 3.65% five-year Notes. Proceeds from the issue, as well as cash provided by commercial paper issues, were used to fund the repayment of matured 8% U.S. dollar Notes and accrued interest, and settle associated cross currency interest rate swap agreements. The U.S. dollar Notes had an effective interest rate of 8.5%. In addition, financing activities for 2011 included the $51 million acquisition of an additional equity interest in Transactel made in the second quarter, which, being a cash flow that is a change in investment in a controlled entity that does not also result in a change in control, is presented as a financing activity in the Consolidated statement of cash flows when the entity concept of consolidation theory required by IFRS is applied.

- Free cash flow increased by $58 million in 2011 when compared to 2010, mainly due to higher EBITDA and lower

interest and income tax payments, partly offset by higher capital expenditures and increased contributions to defined benefit plans, including a discretionary $200 million contribution in January 2011.

1.4 Performance scorecard (key performance measures)

TELUS achieved or exceeded three of its four original consolidated targets and all four of its original 2011 segment targets, announced on December 14, 2010. The consolidated target for capital expenditure levels was not met due to an acceleration of the Company's timeline to commence building its urban LTE wireless network, success-based expenditures resulting from very strong Optik TV subscriber loadings, and accelerated software purchases at year-end. Targets for consolidated, wireless and wireline revenues were exceeded due to strong growth in data revenues, driven by successful efforts to win and retain wireless postpaid subscribers and expand the wireline TV and Internet subscriber bases, as well as price increases for TV and Internet. Achievement of the original consolidated EBITDA and earnings targets resulted from higher than targeted revenues offset by increased costs to acquire and retain wireless subscribers and increased programming and support costs for TELUS TV.

The Company updated annual guidance on August 5, 2011, increasing expected 2011 revenues and capital expenditures and reaffirming target ranges for EBITDA and basic EPS (see footnote 1 of the following *Scorecard* table). The August guidance was reaffirmed in the third quarter MD&A released on November 4, 2011, and in the 2012 financial targets news release and accompanying investor conference call on December 16, 2011. In December, management clarified that consolidated and segmented revenues were trending toward the top end of the respective guidance ranges, while consolidated EPS as well as consolidated and segmented EBITDAs were trending toward the middle of their respective guidance ranges. Management also indicated in December that capital expenditures were trending on the high side of approximately $1.8 billion for 2011. Except for capital expenditures, the August guidance revisions and December expectations were achieved.

The Company continues to follow its financial objectives, policies and guidelines, which include generally maintaining a minimum of $1 billion of unutilized liquidity, a Net debt to EBITDA — excluding restructuring costs ratio in the range of 1.5 to 2.0 times, and a dividend payout ratio guideline of 55 to 65% of sustainable earnings on a prospective basis. In addition, under the dividend growth model, and subject to the Board of Directors' assessment and determination, the Company expects to continue with two dividend increases per year to 2013, which would on an annual basis provide an increase of circa 10%. The dividend growth model is not necessarily indicative of dividends beyond 2013. See *Section 4.3* for the Company's capital structure financial policies, results and plans.

The following *Scorecard* compares TELUS' performance to original 2011 targets. It also presents targets for 2012, announced in the Company's annual targets conference call and webcast held on December 16, 2011. See *Section 1.5 Financial and operating targets for 2012* and *Section 1.6 TELUS segment targets* for additional information on expectations and assumptions for 2012. The 2012 targets, expectations and assumptions are fully qualified by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

	2011 performance			
Scorecard	**Actual results and growth**	**Original targets and expected growth**	**Result**	**2012 targets and expected growth**
Consolidated				
Revenues [1]	**$10.397 billion** **6.2%**	$9.925 to $10.225 billion 1 to 4%	üü	**$10.7 to $11.0 billion** **3 to 6%**
EBITDA [2]	**$3.778 billion** **3.5%**	$3.675 to $3.875 billion 1 to 6%	ü	**$3.8 to $4.0 billion** **1 to 6%**
EPS – basic	**$3.76** **15.0%**	$3.50 to $3.90 7 to 19%	ü	**$3.75 to $4.15** **0 to 10%**
Capital expenditures [1][3]	**$1.847 billion** **7.3%**	Approx. $1.7 billion	X	**Approx. $1.85 billion**

Wireless segment				
Revenue (external) [1]	**$5.462 billion 9.0%**	$5.2 to $5.35 billion 4 to 7%	üü	**$5.75 to $5.9 billion 5 to 8%**
EBITDA	**$2.186 billion 8.2%**	$2.15 to $2.25 billion 6 to 11%	ü	**$2.3 to $2.4 billion 5 to 10%**
Wireline segment				
Revenue (external) [1]	**$4.935 billion 3.2%**	$4.725 to $4.875 billion (1) to 2%	üü	**$4.95 to $5.1 billion 0 to 3%**
EBITDA	**$1.592 billion (2.3)%**	$1.525 to $1.625 billion (6)% to 0%	ü	**$1.5 to $1.6 billion (6) to 1%**

Exceeded target (üü); Met target (ü); Missed target (X).

(1) On August 5, 2011, full-year guidance for 2011 was revised to: consolidated revenues of $10.225 to $10.425 billion (4 to 6% increase over 2010); wireless revenues of $5.4 to $5.5 billion (8 to 10% increase over 2010); wireline revenues of $4.825 to $4.925 billion (1 to 3% increase over 2010); and consolidated capital expenditures of approximately $1.8 billion (approximately 5% higher than 2010). Original targets were reaffirmed for consolidated EBITDA and EPS, and wireless and wireline EBITDAs.

(2) EBITDA is a non-GAAP measure. See definition in *Section 11.1*.

(3) Excluding any potential capital expenditures for wireless spectrum in 2012.

The following key assumptions were made at the time the 2011 targets were announced in December 2010. Preliminary pension assumptions were revised in the 2010 MD&A dated February 24, 2011, as noted.

Assumptions for 2011 original targets and results or expectations

Ongoing intense wireline and wireless competition in both business and consumer markets

Confirmed by: (i) Activities of the dominant Internet and TV service provider in Western Canada, Shaw Communications, such as the introduction of new generation PVRs, increases in certain Internet service speeds, more customization choices for TV, Internet and home phone services, and continued promotional discounts to new subscribers; (ii) wireless entrants pursuing subscriber growth by using forms of unlimited and flat-rate voice, text and data plans, as well as adopting a device subsidy approach and beginning to offer smartphones; and (iii) the loss of a federal government wireless contract to a low-priced bid by an incumbent competitor, which contributed 11 basis points to higher churn in 2011.

Despite ongoing intense competition, TELUS has experienced more moderate residential NAL losses due to the positive effect of bundling offers including Optik TV and Optik High Speed Internet services. TELUS has also experienced more moderate losses in business NALs in 2011 when compared to 2010, due in part to the implementation of wholesale lines in the first half of 2011.

Nine facilities-based wireless carriers operated in Canada in 2011: three established national companies (TELUS, Bell Mobility and Rogers Wireless); two provincial incumbents (SaskTel Mobility and MTS Mobility); and four new entrants (Wind, Videotron, Public Mobile and Mobilicity). The four new entrants expanded their market coverage in 2011, and captured more than one-third share of total market net additions in 2011 or about 4% of the cumulative subscriber market.

New entrant EastLink is expected to begin providing services in Atlantic Canada in 2012. In contrast, Shaw announced in September that it had stopped construction of a conventional wireless network and service in Western Canada due to high costs and other factors. Instead, Shaw announced that it is building metropolitan area Wi-Fi networks using unlicensed public spectrum to extend delivery of its services beyond the home.

Continued downward re-pricing of legacy services

Confirmed. Ongoing price competition and net losses in network access lines, net of local rate increases were reflected in an 8.1% decline in wireline voice local revenues and a 10% decline in wireline long distance revenue.

Assumptions for 2011 original targets and results or expectations

Wireless industry penetration of the Canadian population to increase between 4.5 and 5.0 percentage points, with wireless industry subscriber growth to accelerate due to a combination of increased competition, accelerated adoption of smartphones and use of data applications, and the emergence of new types of wireless devices such as tablets

The popularity of smartphones is confirmed, as evidenced by a smartphone adoption rate of 74% of TELUS' fourth quarter gross postpaid additions, up from 46% in the fourth quarter of 2010. TELUS estimates the wireless industry penetration gain in 2011 is slightly lower than expected, at approximately 4.3 percentage points.

TELUS wireless domestic voice ARPU erosion offset by increases in data and international roaming ARPU growth

Confirmed. A 9.4% decline in voice ARPU was more than offset by a 38% increase in data ARPU, resulting in a 2.5% increase in blended ARPU. International roaming ARPU grew due to the expanding base of HSPA devices and new international roaming agreements. CDMA devices, which are a decreasing proportion of the subscriber base, have limited international roaming capability as few countries outside Canada and the United States implemented this technology.

Wireless acquisition and retention expenses to increase due to increased loading of smartphones, including upgrades, and to support a larger subscriber base

Confirmed. Wireless COA per gross subscriber addition was $386 in 2011, up 10% from 2010, while total COA costs were $694 million in 2011, up 16% from 2010. Retention spending as a percentage of network revenue was 12.4% in 2011, up from 11.6% in 2010, while total retention costs were $626 million, up 17% from 2010. These increases were substantially caused by higher device subsidies arising from higher sales of smartphones and greater competitive intensity.

Continued wireline broadband expansion and upgrades supporting Optik TV and Optik High Speed Internet subscriber revenue growth that offsets the continued erosion in NAL-related revenues

Confirmed. See *Building national capabilities* in *Section 2.2* for expansion and upgrade activities in 2011. Total subscriptions to TELUS TV and high-speed Internet increased by 271,000 in 2011, exceeding the 164,000 combined decrease in total NALs and dial-up Internet subscriptions for the same period. As a result, TELUS had its first increase in total wireline customer connections in seven years.

Total wireline data revenues increased by $310 million in 2011, including growth in revenue from Optik TV and Optik High Speed Internet services, which more than offset the $173 million net decline in legacy wireline voice local, long distance and other revenues.

A preliminary pension accounting discount rate was estimated at 5.35% and subsequently set at 5.25% (60 basis points lower than 2010) and the preliminary expected long-term return estimated at 7.25% was subsequently set at 7% (25 basis points lower than 2010). The defined benefit pension plans net recovery was set at $34 million

Confirmed. The defined benefit pension plan recovery was $34 million in 2011. Defined benefit pension plan expenses (recoveries) are set at the beginning of the year.

Defined benefit pension plan contributions, including a $200 million discretionary contribution, were estimated to be $298 million in 2011, up from $137 million in 2010

Confirmed. Contributions to defined benefit plans were $298 million in 2011, including the $200 million discretionary contribution made in January 2011.

Efficiency initiatives expected to result in approximately $50 million in restructuring costs in 2011 ($80 million in 2010 (IFRS)). Incremental EBITDA savings for 2011, initially estimated at approximately $75 million, were subsequently revised to approximately $50 million (incremental savings of $134 million in 2010)

In 2011, restructuring costs were $35 million, comprised of people-related initiatives and other initiatives, including the consolidation of real estate. Incremental EBITDA savings were approximately $69 million.

A reduction in financing costs of approximately $135 million due to lower debt levels and interest rates

Confirmed. Financing costs decreased by $145 million in 2011 due to a lower effective interest rate, lack of an early redemption charge as recorded in 2010 and, to a lesser extent, lower average debt.

Statutory income tax rate of approximately 26.5 to 27.5% (29% in 2010)

Confirmed. In 2011, the blended statutory income tax rate was 27.2%, while the effective tax rate was 23.6%.

Cash income taxes of approximately $130 to $180 million ($311 million in 2010)

Confirmed. The Company revised its full-year expectation to the top half of the original target range on May 5, 2011, and subsequently, to $150 to $190 million on August 5, 2011. Cash income taxes paid net of refunds received were $150 million, comprised of instalments for 2011 and final payments for the 2010 tax year made early in 2011.

1.5 Financial and operating targets for 2012

The following discussion and assumptions apply to TELUS' 2012 targets presented in the *Scorecard* in *Section 1.4*. The 2012 targets and assumptions were originally announced on December 16, 2011, in the Company's annual financial targets news release and accompanying investor conference call and webcast.

For 2012, consolidated revenue and EBITDA are expected to benefit from TELUS' continued strong execution in wireless and data. Basic earnings per share is targeted to be 0 to 10% higher due to operating earnings growth and lower financing costs.

TELUS wireless revenue is forecast to increase principally due to subscriber growth, and possible ARPU growth. Subscriber loading is expected to benefit from a Canadian wireless industry penetration gain similar to 2011 of approximately four to 4.5 percentage points. TELUS expects to continue to benefit from the Company's HSPA+ and LTE network investments, resulting in continued growth in data and roaming revenues that will help offset continued declines in voice ARPU. Wireless EBITDA is expected to increase due to revenue growth, accompanied by continued large investments in smartphone customer acquisition and retention costs.

Wireline revenue is expected to reflect continued data revenue growth from Optik TV and high-speed Internet services, as well as from business

services, offset by continued decreases in local and long distance service legacy revenues. Wireline EBITDA is expected to decrease, or post a slight increase, as growth in lower margin data services including Optik TV is not expected to fully offset declines in higher margin legacy services.

Consolidated capital expenditures are expected to be at about the same level as in 2011, or approximately $1.85 billion, driven by wireless capacity upgrades and ongoing deployment of a new LTE wireless network in urban markets. While wireline capital investments are expected to decline, TELUS intends to continue its broadband infrastructure expansion and upgrades to support strong ongoing growth in Optik TV and high-speed Internet services. This includes completing the overlay of VDSL2 technology in Western Canada and VDSL2 bonding in Eastern Quebec, as well as investing in new state-of-the-art Internet data centres to support market demand and internal requirements for cloud computing services. Due to revenue growth, consolidated capital intensity is expected to be approximately 17% of revenue in 2012, down from 18% in 2011.

TELUS made a $100 million discretionary special contribution to its defined benefit pension plans in January 2012. After including this contribution, TELUS' aggregate funded position for its defined benefit pension plans is expected to be approximately 90% on a solvency basis. The accelerated discretionary contribution will benefit the 2012 pension recovery for accounting purposes and, since pension contributions are tax deductible, reduce cash taxes by approximately $25 million. The Company's 2012 pension recovery was initially estimated to be $6 million and has been revised to an estimated $12 million, or $22 million lower than in 2011.

Assumptions for 2012 targets

Ongoing intense wireless and wireline competition in both business and consumer markets

Continued downward re-pricing of legacy services

Wireless industry penetration of the Canadian population to increase between 4.0 and 4.5 percentage points, with wireless industry subscriber growth to remain robust due to a combination of increased competition and accelerated adoption of smartphones, tablets and data applications

TELUS wireless domestic voice ARPU erosion offset by increased data and international roaming ARPU growth

Wireless acquisition and retention expenses to increase due to increased loading of more expensive smartphones, including upgrades, and to support a larger subscriber base

Ongoing investments for deployment of LTE wireless technology in urban markets

Wireline data revenue growth greater than legacy service revenue declines due to continued wireline broadband expansion and upgrades supporting Optik TV and Optik High Speed Internet subscriber sales. Legacy service revenue declines reflect continued erosion in network access lines and long distance revenue

A preliminary pension accounting discount rate was confirmed at 4.5% (75 basis points lower than 2011) and the preliminary expected long-term return was estimated at 6.5% and subsequently set at 6.75% (25 basis points lower than 2011)

A discretionary pension contribution of $100 million was made in January 2012 (a similar discretionary contribution of $200 million was made in January 2011)

Approximately $25 million in restructuring costs to support operating and capital efficiency initiatives, supplemented by value-for-money initiatives to improve efficiency and effectiveness that do not involve restructuring charges

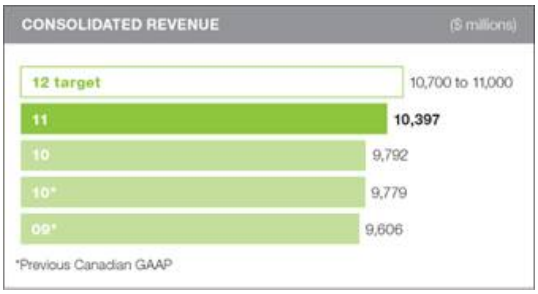
Financing costs of approximately $350 million ($377 million in 2011)

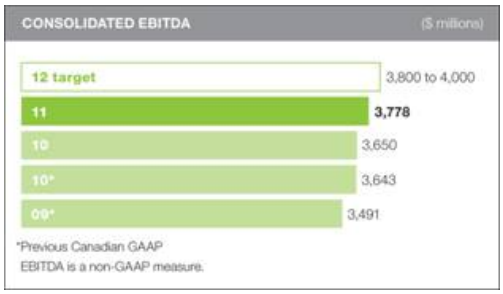
Statutory income tax rate of approximately 25 to 26% (27.2% in 2011)

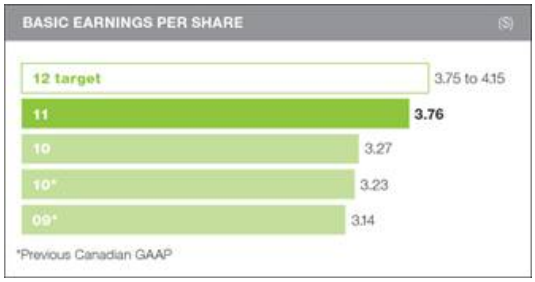
Cash income taxes of approximately $150 to $200 million ($150 million in 2011).

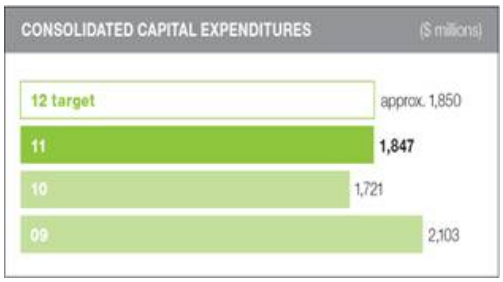
Consolidated 2012 targets

See *Caution regarding forward-looking statements* at the beginning of the MD&A.







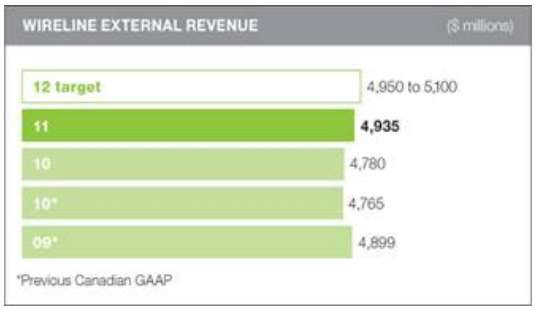


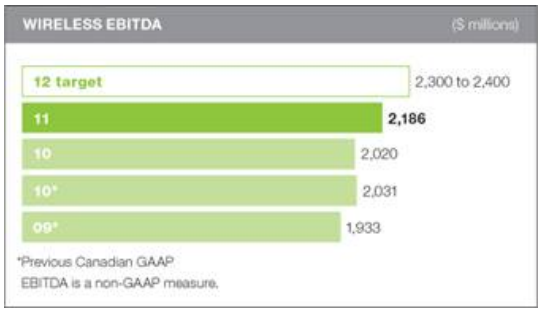
1.6 TELUS segment targets

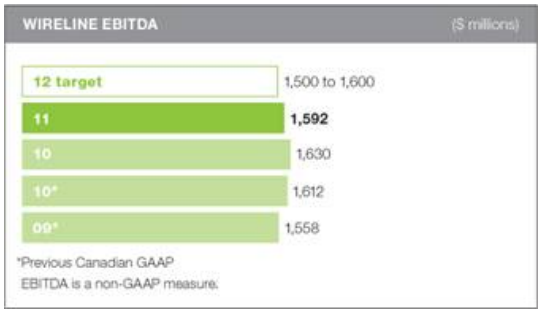
The Company's operating segments and reporting segments are wireless and wireline. Segmented information in Note 5 of the Audited consolidated financial statements is regularly reported to the Company's Chief Executive Officer (the chief operating decision-maker). See *Section 4.1 Principal markets addressed and competition* for additional information on each segment.

See *Caution regarding forward-looking statements* at the beginning of the MD&A.









2. Core business and strategy

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

2.1 Core business

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications services and products, including wireless, data, IP, voice and television. TELUS earns the majority of its revenue from access to, and the usage of, the Company's telecommunications infrastructure, or from providing services and products that facilitate access to and usage of this infrastructure.

2.2 Strategic imperatives

TELUS' strategic intent is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move. TELUS' strategy for growth is to focus on its core telecommunications business in Canada, supported by international contact centre and outsourcing capabilities.

In 2000, the Company developed six strategic imperatives that management believes remain relevant for future growth, despite changing regulatory and competitive environments. A consistent focus on the imperatives guides the Company's actions and contributes to the achievement of its financial goals. To both advance these long-term strategic initiatives and address near-term opportunities and challenges, management sets new corporate priorities each year, as further described in *Section 3*.

Building national capabilities across data, IP, voice and wireless

Wireless

TELUS continues to invest in the capacity, speed and coverage of its 4G wireless HSPA+ network, including a dual-cell technology upgrade now available to the majority of Canadians coast to coast facilitated by network access agreements with two other carriers. The dual-cell HSPA+ upgrade doubled the manufacturer-rated peak data download speeds to up to 42 megabits per second (Mbps). The expected average download speed is 7 to 14 Mbps with a compatible device, while actual speed may vary by device being used, topography and environmental conditions, network congestion, signal strength and other factors. Dual-cell-capable devices available to TELUS' customers include Samsung Galaxy and HTC smartphones, and Sierra Wireless and Huawei mobile Internet keys. TELUS' investments in HSPA+ technologies have been made to provide an optimal transition to LTE technology.

The Company began urban construction of its next generation wireless 4G LTE network in the latter half of 2011 and launched services in February 2012. LTE technology supports manufacturer-rated peak data download speeds of up to 75 Mbps (typical speeds of 12 to 25 Mbps expected). TELUS' LTE network operates on advanced wireless services (AWS) spectrum, acquired by the Company for $882 million in Industry Canada's 2008 auction.

While the urban launch of 4G over AWS spectrum is the first stage in the upgrade to LTE, any potential roll-out into rural Canada will be dependent on the expected Industry Canada spectrum auction of frequencies in the 700 MHz band in late 2012 or early 2013. TELUS is committed to enhancing the coverage and capacity of its wireless network by building out 4G LTE technology extensively across rural Canada using 700 MHz wireless spectrum. This spectrum, in contrast to AWS spectrum, has superior propagation capabilities that make it effective and efficient in covering Canada's expansive rural geography. In addition, these same capabilities improve the quality of in-building coverage in urban areas. To support TELUS' plans to expand 4G LTE wireless service to rural markets, it will be important for the federal government to provide an opportunity for TELUS to bid on and acquire 700 MHz spectrum in the planned auction. See the related risk discussion in *Section 10.3 Regulatory matters*.

TELUS' primary cable-TV competitor in Western Canada, Shaw Communications Inc., announced in September that it had stopped construction of a conventional wireless network in Western Canada due to high costs and other factors. Instead, Shaw announced that it will build metropolitan Wi-Fi networks using unlicensed public spectrum to extend delivery of its services beyond the home.

Wireline

The Company continues to invest in its wireline broadband network, expanding capacity and speed, as well as coverage, including rolling out Optik TV and Optik High Speed Internet services to more communities. TELUS is deploying a VDSL2 technology overlay on its ADSL2+ network to provide download speeds of up to 30 Mbps. The VDSL2 upgrade was largely completed in 2011. In early 2012, the Company's broadband high-definition (HD) coverage, including ADSL2+ coverage, was nearly 2.3 million households in Alberta, B.C. and Eastern Quebec, up by close to 200,000 homes in one year. The Company also continues to deploy fibre to the home in new residential areas, and fibre to the

building in new multi-dwelling units.

TELUS is enhancing its national network of data centres and related facilities, drawing upon green hydroelectric power, natural cooling and other technology to make them among the most environmentally sustainable operations of their type in North America. This includes an investment of approximately $65 million in a new intelligent Internet data centre (IDC) in Rimouski, Quebec, which will be built to leadership in energy and environmental design (LEED) gold standards. The new facility is expected to be completed in 2012 and will support the Company's cloud computing and unified communications solutions for its clients, as well as meeting internal requirements. The Rimouski location is expected to provide greater geographic diversity and improved business continuity capabilities, and offers the advantages of a skilled workforce, Quebec's hydroelectric power grid and a moderate climate that lowers energy requirements. In August, TELUS purchased land in Kamloops, B.C. on which the Company plans to build another IDC. After site preparation and finalization of plans, construction is expected to begin in 2012 with costs similar to the Rimouski IDC. The Kamloops location provides geological stability, as well as access to reliable power, TELUS' networks and an available skilled workforce.

Focusing relentlessly on the growth markets of data, IP and wireless

The Company's strategy of focusing on growth areas is reflected in approximately $8.0 billion or 77% of 2011 operating revenues coming from wireless service and equipment revenues and wireline data service and equipment revenues. This reflects an increase of $756 million or 10% when compared to the same period in 2010. Revenue from growth markets more than offset declining wireline voice and other service and equipment revenues.

In May 2011, TELUS entered into a five-year contract extension with the Government of Ontario to provide, manage and supply a portfolio of telecommunications services, including information technology security.

In the third quarter of 2011, following a three-year request for proposal and negotiation process, TELUS signed a 10-year agreement with the Government of B.C. to provide telecommunications and strategic services to the government and its public sector partners. TELUS was the government's previous service provider for many of these services. The Company expects to invest approximately $350 million over a 10-year period to extend advanced communications technology into rural B.C.

The new agreement with the Government of B.C. provides the following rural benefits: maintaining Internet gateways and points of presence in 119 central offices throughout the province; continuing to offer affordable wholesale Internet access for regional and local service providers; increasing Internet speeds tenfold in many areas throughout the province; working towards increasing Internet connectivity from approximately 93% to approximately 97% of the population through various programs and commitments in conjunction with the deferral account program managed by TELUS; connecting up to 450 schools with high-speed fibre optic cables over 10 years; and over a five-year period, extending wireless coverage along approximately 1,700 kilometres of primary and secondary highway segments, many of which are in mountainous terrain.

Providing integrated solutions that differentiate TELUS from its competitors

In May 2011, the Company announced the TELUS Future Friendly® Office suite of products and services for small and medium businesses (SMB). The suite was built in collaboration with Cisco and features Cisco Unified Communications technology that is built for companies with fewer than 100 employees. The Future Friendly Office includes TELUS-supported Cisco office systems linked to TELUS wireless and wireline network services, and is available across Canada. In October 2011, the Company introduced the TELUS Business Freedom™ bundle of wireless and wireline telecommunication services for SMBs in B.C. and Alberta. Two flexible packages are offered that include anytime device upgrades and changes to services, as well as 24/7 technical support and one bill. Business Anywhere™ is a solution for businesses with mobile employees who need to communicate outside the office. Business Select™ is a solution for businesses that primarily work in a single location or have minimal mobility requirements. In November, TELUS launched a new self-serve website where SMBs can shop for wireless services.

TELUS continues to roll out new Clear & Simple® initiatives to enhance the customer experience by providing more flexibility and freedom. In June 2011, TELUS reduced international wireless roaming rates for its customers with the introduction of Clear & Simple international travel pricing. Voice roaming rates were reduced by up to 50% and data roaming rates were reduced by up to 60%. Separate bundles and passes are no longer required to access the lower rates, making it easy for TELUS customers to use wireless services overseas. This was made possible by working with carriers around the world to negotiate reduced roaming rates.

TELUS introduced Clear & Simple device ownership principles in June. For customers who obtained a subsidized handset under a term contract after November 21, 2010, the remaining device balance appears on their monthly bills. These customers may upgrade at any time to a new handset at the acquisition price, by paying the outstanding balance on the old device. If customers want to end their agreement early and leave TELUS, they need only pay the outstanding

device balance plus an early cancellation fee of $50, where permitted.

TELUS has enhanced Optik TV services, including expansion of the South Asian channel line-up and the addition of a Facebook application enabling customers to view and use Facebook while watching TV. Optik TV now offers customers access to more than 500 digital channels of entertainment services, including more than 100 HD channels.

Partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy and focus TELUS' resources on the core business

Acquisition of TELUS-branded wireless dealership businesses

During 2011, the Company acquired 100% ownership of certain independent TELUS-branded wireless dealership businesses for $81 million cash. These investments were made with a view to enhancing consistency and control over customer service, as well as enhancing distribution of wireless and wireline products across Western Canada.

Transactel

Through a series of transactions in 2011, TELUS acquired control of, and increased its equity interest to 95% in, Transactel (Barbados) Inc., a business process outsourcing and call centre company with facilities in two Central American countries. An investment of $71 million in 2011 was made with a view to enhancing the Company's business process outsourcing capacity, particularly regarding Spanish-language capabilities, and acquiring multi-site redundancy in support of other TELUS facilities. The acquisition was effected as follows.

On January 7, 2011, TELUS exercised its first purchased call option to increase its 29.99% equity interest in Transactel (Barbados) Inc. to a 51% economic interest for $20 million cash. Upon such exercise, the Company continued to account for its resulting direct 51% economic interest in Transactel using the equity method. Subsequently, Transactel achieved the business growth target necessary for TELUS to exercise its second purchased call option. The Company exercised its second purchased call option and asserted its control effective February 1, 2011 (the acquisition date), after which TELUS' interest in Transactel was accounted for on a consolidated basis. The Company was required to remeasure its previously held 51% economic interest at the acquisition-date fair value, resulting in the recognition of a gain of $17 million recorded in Other operating income. In the second quarter of 2011, the Company recorded a post-acquisition equity transaction with the vendor for an incremental 44% economic interest for $51 million cash. See Note 16(e) of the Audited consolidated financial statements for additional information.

Electronic medical records (EMR) solutions

TELUS Health Solutions is running three pilot projects with EMR providers KinLogix Medical, QHR Technologies and Wolf Medical Systems. These EMR providers' solutions are connected with the TELUS Health Space® platform, which enables patients and service providers to securely access and share health information. The pilot projects are targeted to reach Canadians in Quebec, Ontario, Alberta and British Columbia. TELUS Health Space, powered by Microsoft HealthVault, is a secure and confidential online consumer platform that enables patients to access and manage their own health information, and is expected to improve the flow of personal health information among healthcare providers, regardless of where the patient is located. This is consistent with TELUS' vision of helping transform healthcare in Canada through communications technology to reduce costs and errors, better connect patients and help prevent illness.

TELUS Garden

In March 2011, TELUS announced that it is partnering in a residential, retail and commercial real estate redevelopment project in downtown Vancouver, TELUS Garden, which will transform a city block that includes the Company's current national headquarters. It will feature a 46-storey residential condominium tower and a 22-storey office tower, as well as renovations to TELUS' current eight-storey headquarters to provide leasable

office and retail space. The commercial and residential buildings will be built to LEED platinum and gold standards, respectively, and incorporate green initiatives.

The project is on schedule to begin construction in the first quarter of 2012 and is expected to be completed in 2015. TELUS plans to invest in the project predominantly through contribution of its existing real estate holdings on this city block, coupled with project debt. The project includes a city-owned parkade being purchased by the Company. TELUS plans to lease space in the new jointly owned office tower for its corporate headquarters. The Company does not plan to maintain an ownership position in the residential tower aside from some retail space after the construction and sale of condominium units.

Investing in internal capabilities to build a high-performance culture and customer excellence

In 2011, the TELUS team achieved excellent overall employee engagement results of 70%, up by 13 points from 2010, as measured in the annual Pulsecheck survey. This places TELUS in the best employer zone for a company of its large size and diverse makeup.

The Company has been increasingly focused on delivering improved customer experiences by putting customers first.

For example, approximately 1,600 senior leaders and management staff interacted for a day with front-line team members to identify and address issues that are having a negative impact on the customer experience. At the end of 2011, 69% of its customers said they were likely to recommend TELUS, up seven points from one year earlier.

Going to the market as one team under a common brand, executing a single strategy

In June 2011, the membership of the Telecommunications Workers Union (TWU) ratified a new collective agreement that covers approximately 11,250 active TELUS team members across Canada in the Company's wireline and wireless business segments. The new agreement was reached without labour disruption and will expire at the end of 2015. In addition, the Company began collective bargaining for a Quebec region agreement that expired at the end of 2011. See *Section 10.4*.

3. Key performance drivers

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

Management confirms or sets new corporate priorities each year to both advance TELUS' long-term strategic priorities (see *Section 2.2*) and address near-term opportunities and challenges. Corporate priorities are key performance drivers that help achieve key performance measures quantified by the Company's public financial targets disclosed in *Sections 1.4 to 1.6.* Progress against the 2011 priorities is described below.

Corporate priorities

2010	2011 (see the following table)	2012
Capitalize on the full potential of TELUS' leading wireless and wireline broadband networks	Deliver on TELUS' future friendly brand promise to clients	Deliver on TELUS' future friendly brand promise by putting customers first
Enhance TELUS' position in the small and medium business market	Optimize TELUS' leading wireless and wireline broadband networks	Increase TELUS' competitive advantage through technology leadership
Ensure TELUS delivers its future friendly brand promise to clients	Drive market leadership position in small and medium business and healthcare markets	Drive TELUS' leadership position in its chosen business and public sector markets
Continue to improve TELUS' operational efficiency to effectively compete in the market and fund future growth	Continue to improve TELUS' operational efficiency to effectively compete and fund future growth	Accelerate TELUS' leadership position in healthcare information technology
Increase TELUS team engagement and live the culture of personal responsibility and customer service.	Raise TELUS team engagement to the next level and continue to drive the philosophy of "our business, our customers, our community, our team, my responsibility."	Strive to further improve operational efficiency and effectiveness at TELUS
		Build TELUS' culture for sustained competitive advantage.

Corporate priorities for 2011 — Progress

Deliver on TELUS' future friendly brand promise to clients

- Initiatives implemented in 2011 to simplify wireless products and pricing, and improve transparency and flexibility, include: improved billing that lists outstanding device subsidies, increased flexibility to upgrade handsets, and significantly reduced international voice and data roaming costs without being required to subscribe to a roaming plan, as well as wireless device unlocking. See *Section 2.2 — Providing integrated solutions*
- Introduced Facebook capability on TV to Optik TV customers
- Late in 2011, began sharing the Company's Customers First journey with Canadians through an advertising campaign, and set a goal to be the most recommended company in the markets the Company serves. At the end of the year, customers' likelihood to recommend TELUS had increased by seven points to 69%.

Optimize TELUS' leading wireless and wireline broadband networks

Wireless data revenue grew by 47% in 2011, facilitated by 5.1% subscriber growth and 38% data ARPU growth.

- Balanced costs of wireless subscriber acquisition and retention with wireless margins to achieve monthly churn of 1.68% (as compared to 1.57% in 2010). The increase was due to the loss of a federal government wireless contract to a low-priced bid by an incumbent competitor. Wireless EBITDA as a percentage of network revenues decreased slightly to 43.7% in 2011 (43.8% in 2010)
- Launched HSPA+ dual-cell technology in the first quarter and introduced dual-cell-capable data devices and smartphones
- Acquired certain TELUS-branded wireless dealership businesses to enhance distribution of wireless and wireline products and services, as described in *Section 2.2 — Partnering, acquiring and divesting*

Corporate priorities for 2011 — Progress

- Continued strategic migration of CDMA and iDEN customers to HSPA data-capable devices
- Began upgrading the urban wireless network to 4G LTE technology to provide higher bandwidth capability for the ever-growing appetite of clients for data-rich applications, and prepared for the launch of urban LTE services in February 2012.

Wireline data revenue growth was 14% in 2011, helped by 62% TELUS TV subscriber growth and 6.4% Optik High Speed Internet subscriber growth, as well as price increases. In addition:

- Substantially completed migration of residential IP TV subscribers from older middleware platforms to the Optik TV experience delivered through Microsoft Mediaroom by July 2011
- Enhanced Optik TV service by expanding the South Asian channel line-up and increasing HD TV channels to more than 100
- Extended the reach of broadband HD coverage (ADSL2+ and VDSL2) to nearly 2.3 million households in Alberta, B.C. and Eastern Quebec by early 2012.

Drive market leadership position in SMB and healthcare markets

- Opened nine new TELUS Business Stores and more than 40 new SMB zones within corporate stores during 2011
- Launched new SMB services in 2011 (see *Providing integrated solutions* in *Section 2.2*)
- In November, launched a new online webstore that provides SMBs with enhanced self-service and account management. The site enables SMBs to learn about TELUS products and services, submit orders for multiple devices directly online and port in wireless phone numbers
- TELUS Health Solutions began running three pilot projects with electronic medical record providers to help transform healthcare in Canada through communications technology to reduce costs and errors, better connect patients and help prevent illness (see *Partnering and acquiring* in *Section 2.2).*

Continue to improve TELUS' operational efficiency to effectively compete and fund future growth

- TELUS is reducing its 587,000 square feet of leased space in TELUS House Edmonton, returning some space in 2013 and renewing the lease on 318,000 square feet from 2016 to 2026.

Raise TELUS team engagement to the next level and continue to drive the philosophy of "our business, our customers, our community, our team, my responsibility"

- The team member engagement score increased by 13 points to 70% in the Company's annual Pulsecheck survey. This level is within the best employer zone of 65% and above for a company of TELUS' size and diverse makeup
- A new collective agreement with the TWU was negotiated and ratified in June without any labour disruption (see *Section 10.4*)
- The Company's risk management culture and best practices were further embedded throughout TELUS' operations (see *Section 10 — Board risk governance and oversight*)
- The Company received recognition for its corporate reporting, which enhances the TELUS brand. The 2010 TELUS annual report was recognized by the CICA with an Overall Award of Excellence and other recognition. TELUS' 2010 reports also received an eighth-place, A ranking in e.com's Annual Report Scan, a global ranking of annual reports
- Advanced TELUS' leadership position in corporate social responsibility through an increased Dow Jones Sustainability Index (DJSI) score, as well as being named to the North American DJSI index
- Advanced TELUS' commitment to give where we live by: improving social outcomes for communities and creating a personal affinity for TELUS through our cause marketing campaigns; the efforts of 11 TELUS Community Boards in Canada and three new international Community Boards; TELUS Community Ambassadors®; and programs such as the TELUS Day of Giving™ and Dollars for Doers
- Continued implementing the TELUS Work Styles Program to transition, over several years, the Company's domestic workforce to as high as 40% mobile workers (in the office three days each week, sharing workstations). Of the remaining team members, 30% could work at home and 30% could work at TELUS buildings. The program plans to lower the use of real estate and reduce the Company's environmental footprint.

4. Capabilities

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

4.1 Principal markets addressed and competition

Wireless: National services for consumers and businesses

TELUS capability	Competition overview
Licensed national wireless spectrum. Total coverage of 99% of the Canadian population at December 31, 2011, including network access agreements. Digital LTE 4G network launched in 14 urban areas on February 10, 2012, including reciprocal network access agreements with Bell Canada · Manufacturer-rated peak data download speeds of up to 75 Mbps (typical speeds of 12 to 25 Mbps expected) · Roaming on HSPA+ network outside LTE urban coverage. Digital 4G HSPA+ network launched in November 2009 · HSPA+ wireless network coverage of 33.8 million or more than 97% of the Canadian population, facilitated by reciprocal network access agreements with Bell Canada and SaskTel · Dual-cell capability market-launched in March 2011 with manufacturer-rated peak data download speeds of up to 42 Mbps (expected average download speed of 7 to 14 Mbps with a compatible device, while actual speed may vary by device being used, topography and environmental conditions, network congestion, signal strength, and other factors) · International roaming to more than 200 countries · Improved capability for international roaming revenue, previously limited to roaming from CDMA and Mike service users, primarily from the U.S. · Enabled an optimal transition to LTE technology and services. Mature networks: · Digital PCS (CDMA) network, including a 3G high-speed evolution data optimized (EVDO) Revision A overlay · iDEN network Mike service, a Push to Talk service focused on the commercial marketplace. Interconnection with TELUS' wireline networks. Services and products offered: · Data — Web browsing, social networking, messaging, TELUS mobile TV®, video on demand, Rdio, downloadable music, and the latest wireless mobile applications · Digital voice — Postpaid, Pay & Talk® prepaid and Mike services, including TELUS Push To Talk® · Devices — Leading smartphones, mobile Internet keys, mobile Wi-Fi devices and tablets.	Facilities-based national competitors Rogers Wireless and Bell Mobility, and provincial telecommunications companies SaskTel and MTS Mobility. Resellers of competitors' wireless networks. New entrants: · Four new entrants offered services throughout 2011 and 2010 · One additional new entrant is expected to begin offering services in 2012, while two others have not disclosed plans · Other new entrants that acquired advanced wireless services (AWS) spectrum in 2008 may enter the market in 2012 or later · Shaw Communications chose to build metropolitan Wi-Fi networks rather than build and launch conventional wireless services using its AWS spectrum (see discussion of assumptions in *Section 1.4*) · Potential for alliances and integrations among regional new entrants.

Wireline: Residential services in British Columbia, Alberta and Eastern Quebec; and national business services

TELUS capability	Competition overview

An IP-based national network overlaying an extensive switched network in incumbent territories in B.C., Alberta and Eastern Quebec.

Global interconnection arrangements.

Access to almost every urban and rural home and business in incumbent territories in B.C., Alberta and Eastern Quebec.

TELUS wireline residential access line services are provided to an estimated 50% of households in B.C. and Alberta.

Broadband ADSL2+ or VDSL2 coverage reached nearly 2.3 million households in B.C., Alberta and Eastern Quebec in early 2012.

Access to businesses in non-ILEC areas through TELUS' networks, competitive local exchange carrier status and leased facilities where required.

Broadcasting distribution licences to offer digital television services in incumbent territories and licences to offer commercial video-on-demand services.

Services and products offered:

- Voice — Reliable phone service with long distance and advanced calling features
- Internet — Secure Optik High Speed Internet access service with email and a comprehensive suite of security solutions
- TELUS TV — HD entertainment service with PVR, Video on Demand and Pay Per View services through Optik TV and TELUS Satellite TV
- Optik TV also offers PVR Anywhere, Remote Recording, use of Xbox 360 as a set-top box, Facebook and Optik™ on the go
- IP networks and applications — IP networks that offer converged voice, video, data or Internet access on a secure, high-performing network
- Conferencing and collaboration — Full range of equipment and application solutions to support meetings using phone, video and the web
- Contact centre and outsourcing solutions in English, Spanish and French languages — Managed solutions providing secure, stable, low-cost and scalable infrastructure, through locations in North America, Central America and Asia
- Hosting and managed information technology (IT) — Ongoing assured availability of telecommunications, networks, servers, databases, files and applications with critical applications stored in TELUS' intelligent Internet data centres
- Healthcare — TELUS Health Solutions provides claims management solutions, hospital and hospital-to-home technology, electronic health records, and access to essential drug and medical information
- Mortgage processing services.

Substitution of wireless services, including TELUS' own wireless offerings, for local and long distance services. Households with wireless telephone services only (among all providers, including TELUS) are estimated to be nearly 21% in B.C. and Alberta.

Cable-TV providers that have access to urban and suburban homes provide Internet, entertainment and VoIP-based telephony services, including:

- Shaw Communications Inc. in B.C. and Alberta
- Cogeco Cable in Eastern Quebec.

Rogers Communications, Bell Canada and Shaw Communications, providing combinations of local, long distance, Internet and entertainment services in various regions. Rogers and Bell also provide wireless services, and Shaw is building and introducing free metropolitan area Wi-Fi networks.

Various others (e.g. Vonage) that offer resale or VoIP-based local, long distance and Internet services.

Over-the-top competitors such as Netflix, providing entertainment services.

Satellite-based entertainment and Internet services (Bell Canada, Shaw Communications and Xplornet).

Business voice and data communications:

- Bell Canada, MTS Allstream and cable-TV companies compete with their own infrastructures
- Substitution to wireless services including those offered by TELUS.

Competitors for call centre services include Convergys, Sykes and Verizon LiveSource.

Competitors for customized managed outsourcing solutions include system integrators CGI, EDS and IBM.

4.2 Operational resources

Operational resources	Operational risks and risk management

People

At the end of 2011, the Company employed approximately 41,100 TELUS team members (40,100 full-time equivalent or FTE employees) across a wide range of operational functions domestically and certain functions internationally.

Contact centre operations at Canadian and international locations support business process outsourcing services for external wholesale customers. The Company also uses offshore services for certain internal operations to improve efficiency and to allow onshore operations to focus on value-added services.

Employee compensation programs support a high-performance culture and contain market-driven and performance-based components.

The Company expects that it has adequate employee resources to cover ongoing retirement, and ready access to labour in Canada and, for call centres and specific support functions, various locations internationally. TELUS uses a small number of external contractors or consultants.

The Company has training, mentoring and development programs in place, such as *Connections - the TELUS women's network*, a national initiative that supports the advancement of business expertise, mentoring and networking opportunities for women across the country.

Employee compensation, retention and labour relations risks (see *Section 10.4 Human resources)*:

- Approximately 12,800 team members are covered by a collective agreement. The collective agreement with the Syndicat des agents de maîtrise de TELUS (SAMT), representing approximately 510 members, expired on December 31, 2011. The collective agreement with the Telecommunications Workers Union (TWU), covering approximately 11,250 employees, is in effect through 2015
- Retention and hiring issues are expected to remain due to an increase in the number of competitors
- TELUS aims to attract and retain key employees through both monetary and non-monetary approaches, striving to protect and improve engagement levels
- The Company altered weightings of its performance-based measures to place greater emphasis on corporate-wide and individual performance, beginning in 2010.

Foreign operations (see *Section 10.5 Process risks):*

- TELUS International employs approximately 13,200 team members. This is an increase of 4,800 in 2011 due largely to the purchase of control of Transactel.

General safety risks — See *Section 10.8 Health, safety and environment*.

Brand and distribution

The Company has a well established and recognizable national brand (TELUS, the future is friendly®) that is supported by extensive advertising across all media.

Optik TV and Optik High Speed Internet brands launched in mid-2010.

Koodo Mobile® basic wireless brand and postpaid service introduced in March 2008.

Niche-market brand CAYA™ (come as you are) and stores introduced in late 2010 for lesbian, gay, bisexual and transgender customers, among others.

Sales and support distribution:

- Wireless services supported through a broad network of TELUS-owned and branded stores (including Black's Photo stores), an extensive distribution network of exclusive dealers and large third-party electronics retailers (e.g. Future Shop / Best Buy, Wal-Mart and London Drugs), as well as online self-serve applications
- Business services across wireless and wireline supported through TELUS sales representatives, SMB zones within certain corporate stores, 10 TELUS Business Stores and independent dealers
- Wireline residential services supported through mass-marketing campaigns, client care telephone agents and online self-serve applications.

Competition risks — See *Section 10.1.*

Competition overview — See *Section 4.1.*

Industry and economy — See *Section 9: General outlook* and *Section 10.11 Economic growth and fluctuations.*

Regulatory risks (see *Section 10.3)* include:

- Competitors in the broadcasting distribution industry own broadcasting content, while TELUS does not. However in 2011, the CRTC enacted a vertical integration framework that set safeguards to ensure competition and prohibit TV offerings on an exclusive basis on all platforms
- Foreign ownership restrictions generally apply to wireless telecommunications companies, as well as to facilities-based wireline telecommunications companies and to broadcasting distribution undertakings
- The design of future wireless spectrum auctions, such as for the 700 MHz and 2.5/2.6 GHz ranges, may be unfavourable to TELUS, making the cost of acquiring or availability of future spectrum uncertain for TELUS.

Technology, systems and properties	
TELUS is a highly complex technology-dependent company with a multitude of interconnected wireless and wireline telecommunications networks, IT systems and processes. Real properties (owned or leased) include administrative office space, work centres and space for telecommunications equipment. A small number of buildings are constructed on leasehold land and the majority of radio towers are situated on lands or buildings held under leases or licences for varying terms. Network facilities are constructed under or along streets and highways, pursuant to rights-of-way granted by the owners of land such as municipalities and the Crown, or on freehold land owned by TELUS. Intangible assets include wireless spectrum licensed from Industry Canada, which is essential to providing wireless services. TELUS International provides contact centre and business process and IT outsourcing by utilizing sophisticated on-site facilities including call centre solutions, and by utilizing international data networks and reliable data centres with rigorous privacy and security standards. Global rerouting and diversity are provided through facilities in North America, Central America and Asia.	Technology risks (see *Section 10.2*): · Wireless spectrum congestion is being experienced in urban markets, requiring ongoing investments in technology and participation in future spectrum auctions · IP-based technology that is replacing legacy technology may not be feasible or economical in many areas for some time and the Company will need to support both systems. Convergence of wireless and wireline voice, Internet and video to a common IP-based application is very complex and could be accompanied by implementation errors and system instability. Process risks — See *Section 10.5.* Taxation risks — See *Section 10.7.* Health, safety and environment risks (see *Section 10.8*): · Increasing adoption of wireless services and expanding wireless competition have resulted in more public scrutiny of, and opposition to, new radio towers. Public concerns include aesthetics and perceived health risks · Increasing stakeholder interest in environmental issues. Risks associated with legal and regulatory compliance, defects in software and failures in data and transaction processing, and intellectual property and proprietary rights — See *Section 10.9 Litigation and legal matters*. Human-caused and natural threats to TELUS infrastructure and operations — See *Section 10.10*.

4.3 Liquidity and capital resources

Capital structure financial policies

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure that optimizes the cost and availability of capital at acceptable risk; and (ii) to manage capital in a manner that considers the interests of equity and debt holders.

In the management and definition of capital, the Company includes Common Share and Non-Voting Share equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized trade receivables.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to holders of Common Shares and Non-Voting Shares, purchase shares for cancellation pursuant to permitted normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of trade receivables sold to an arm's-length securitization trust.

The Company monitors capital utilizing a number of measures, including the net debt to EBITDA — excluding restructuring costs ratio and the dividend payout ratio. See *Section 7.4 Liquidity and capital resource measures* .

Subsequent to December 31, 2011, the Company announced that holders of its Common Shares and Non-Voting Shares will have the opportunity to decide whether to eliminate the Company's Non-Voting Share class at the Company's annual and special meeting to be held May 9, 2012. Under the terms of the proposal, each Non-Voting Share would be converted into a Common Share on a one-for-one basis, effected by way of a court-approved plan of arrangement and will be subject to the approval of two-thirds of the votes cast by the holders of Common Shares and two-thirds of the votes cast by the holders of Non-Voting Shares, each voting separately as a class; there can be no assurance that the proposal will receive voting approval. If this plan of arrangement is not completed, the market price of Non-Voting Shares and Common Shares may decline.

Financing and capital structure management plans

Report on 2011 financing and capital structure management plans

Pay dividends to the holders of TELUS Common Shares and Non-Voting Shares

The fourth quarter dividend of 58 cents per share was paid on January 3, 2012. On February 8, 2012, a first quarter dividend of 58 cents per share was declared, payable on April 2, 2012, to shareholders of record at the close of business on March 9, 2012. The first quarter dividend reflects an increase of 10.5% from the dividend one year earlier. On February 21, 2012, the Board of Directors declared a quarterly dividend of 61 cents per share on the issued and outstanding Common Shares and Non-Voting Shares of the Company, payable on July 3, 2012, to shareholders of record at the close of business on June 8, 2012. The 61 cent per share dividend declared for the second quarter of 2012 reflects an increase of six cents or 10.9% from the dividend one year earlier. This is consistent with TELUS' dividend growth model as discussed in *2012 financing and capital structure management plans* following this table. In the event that the proposed share conversion of Non-Voting Shares to Common Shares on a one-for-one basis (see *Capital structure financial policies above*) receives all requisite approvals and is effective prior to the dividend record date of June 8, 2012, holders of record on such date who previously held Non-Voting Shares would hold Common Shares and would therefore receive the same dividend as all other holders of Common Shares.

Use proceeds from securitized trade receivables (presented as Short-term borrowings), bank facilities, commercial paper and dividend reinvestment, as needed, to supplement free cash flow and meet other cash requirements

In the first quarter of 2011, issued commercial paper increased by $150 million to help fund the $200 million discretionary contribution to defined benefit pension plans, as well as acquisitions in the period. During the second quarter of 2011, commercial paper increased by $728 million and supplemented the May 2011, $600 million five-year Note issue, which together enabled repayment of matured U.S. dollar Notes and settlement of associated cross currency interest rate swap agreements, as well as funding an additional investment in Transactel (Barbados) Inc. In the third quarter of 2011, TELUS reduced its commercial paper by $221 million to a balance of $761 million at September 30. In the fourth quarter of 2011, commercial paper increased by $5 million.

Maintain compliance with financial objectives, policies and guidelines

Maintain a minimum $1 billion in unutilized liquidity — The Company had unutilized credit facilities of $1.28 billion at December 31, 2011, as well as $100 million additional availability under the trade receivables securitization program.

Net debt to EBITDA excluding restructuring costs ratio of 1.5 to 2.0 times — Actual result of 1.8 times at December 31, 2011. See *Section 7.4*.

Dividend payout ratio guideline of 55 to 65% of sustainable net earnings on a prospective basis — See *Section 7.4*.

Maintain position of fully hedging foreign exchange exposure for indebtedness

The Company's only debt issue denominated in a foreign currency matured and was repaid on June 1, 2011, and the corresponding derivative liability was settled.

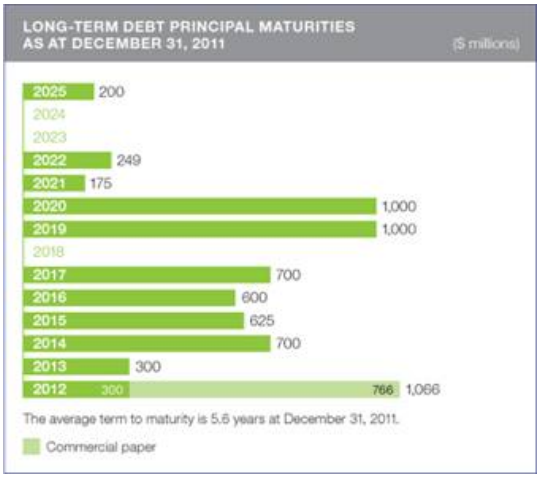
Preserve access to the capital markets at a reasonable cost by maintaining investment grade credit ratings in the range of BBB+ to A-, or the equivalent

At February 23, 2012, investment grade credit ratings from the four rating agencies that cover TELUS were in the desired range.

2012 financing and capital structure management plans

At December 31, 2011, TELUS had access to undrawn credit facilities of more than $1.28 billion and availability of $100 million under its trade receivables securitization program. The Company also had access to a shelf prospectus pursuant to which it can issue up to $2.5 billion of debt and equity. TELUS believes that its investment grade credit ratings contribute to reasonable access to capital markets to facilitate future debt issuance.

The Company's long-term debt principal maturities are illustrated in the chart below. At the end of 2011, 83% of TELUS' total debt was on a fixed-rate basis and the weighted average term to maturity was approximately 5.6 years.



TELUS expects to generate free cash flow in 2012, which would be available to, among other things, pay dividends to holders of Common Shares and Non-Voting Shares. TELUS plans to continue with two dividend increases per year to 2013, normally declared in May and November, and expects the annual increase to be in the range of circa 10% over this timeframe. The dividend growth model is not necessarily indicative of dividend increases beyond 2013. Notwithstanding this, dividend decisions will continue to be subject to the Board's assessment and determination of the Company's financial situation and outlook on a quarterly basis. TELUS is maintaining its long-term dividend payout ratio guideline of 55 to

65% of prospective sustainable net earnings.

While anticipated cash flow is expected to be more than sufficient to meet current requirements and remain in compliance with TELUS' financial policies, these intentions could constrain TELUS' ability to invest in its operations for future growth. As described in *Section 1.5*, payment of cash income taxes, funding of defined benefit pension plans and, potentially, capital expenditures for wireless spectrum, will reduce the after-tax cash flow otherwise available to return capital to the Company's shareholders. If actual



results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, or its intention to pay dividends according to the target payout guideline. For the related risk discussion, see *Section 10.6 Financing and debt requirements.*

4.4 Disclosure controls and procedures and internal control over financial reporting

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (CEO) and the Executive Vice-President and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of the MD&A and the Audited consolidated financial statements dated December 31, 2011. 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 MD&A and the Audited consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS-IASB and the requirements of the Securities and Exchange Commission in the United States, as applicable. TELUS' CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting at December 31, 2011, in accordance with *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, TELUS' CEO and CFO have concluded that the Company's internal control over financial reporting is effective at December 31, 2011, and expect to certify TELUS' annual filings with the U.S. Securities and Exchange Commission on Form 40-F, as required by the United States *Sarbanes-Oxley Act*, and with Canadian securities regulatory authorities.

Deloitte & Touche LLP, the Company's auditor, has audited internal controls over financial reporting of TELUS Corporation at December 31, 2011.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

5. Discussion of operations

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

5.1 Selected annual information

The selected information presented below has been derived from, and should be read in conjunction with, the Audited consolidated financial statements of TELUS dated December 31, 2011. See Note 25, *Explanation of transition to IFRS-IASB*, of the Audited consolidated financial statements for information on the Company's changeover to IFRS on January 1, 2011, and the transition effects in 2010. The transition effects were also described in detail in Section 8.2 of TELUS' 2010 Annual MD&A. The selected information presented below under previous Canadian GAAP has been derived from, and should be read in conjunction with, the Audited consolidated financial statements of TELUS dated December 31, 2010.



Selected annual information

	IFRS-IASB		Previous Canadian GAAP	
Years ended December 31 ($ in millions, except per share amounts)	**2011**	**2010**	**2010**	**2009**
Operating revenues	**10,397**	9,792	9,779	9,606
Net income	**1,215**	1,052	1,038	1,002
Net income attributable to Common Shares and Non-Voting Shares	**1,219**	1,048	1,034	998

Income per Common Share and Non-Voting Share

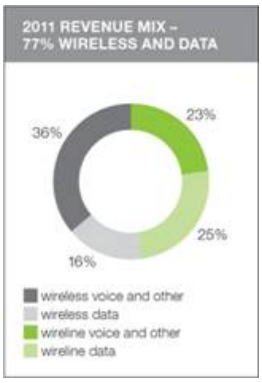
– basic	**3.76**	3.27	3.23	3.14
– diluted	**3.74**	3.27	3.22	3.14
Cash dividends declared per Common Share and Non-Voting Share	**2.205**	2.00	2.00	1.90

	IFRS-IASB		Previous Canadian GAAP	
At December 31 ($ millions)	**2011**	**2010**	**2010**	**2009**
Total assets	**19,931**	19,624	19,599	19,219
Current maturities of long-term debt	**1,066**	847	743	82
Current portion of derivative liabilities	**—**	419	419	62
Current portion of deferred income taxes	**n/a**	n/a	348	294
Non-current financial liabilities				
Provisions	**122**	204	n/a	n/a
Long-term debt	**5,508**	5,209	5,313	6,090
Other non-current financial liabilities [1]	**1,281**	575	546	1,153
	6,911	5,988	5,859	7,243
Deferred income taxes	**1,600**	1,683	1,498	1,319
Owners' equity				
Common Share and Non-Voting Share equity	**7,513**	7,759	8,179	7,554
Non-controlling interests	**—**	22	22	21

[1] Other long-term liabilities as reported on the Consolidated statements of financial position, excluding items that do not involve a future outlay of economic resources: deferred customer activation and connection fees, and deferred gain on sale-leaseback of buildings. Amounts calculated for 2010 and 2009 under previous Canadian GAAP have been adjusted from those reported in the 2010 MD&A.

Differences among the three calendar years in the preceding table include:

- **Operating revenues** — Combined wireless revenue and wireline data revenue represents approximately 77% of consolidated revenues in 2011, as compared to 74% in 2010 and 71% in 2009. Legacy wireline voice revenues continue to be eroded by competition and technological substitution.



- **Net income** — Includes income tax-related adjustments resulting from legislated income tax changes, settlements and tax reassessments for prior years, including any related interest. These adjustments positively impacted Net income by $21 million (six cents per share) in 2011, by $30 million (nine cents per share) in 2010 and by $165 million (52 cents per share) in 2009.
- **Long-term debt** — The increase in current maturities of long-term debt in 2011 includes $300 million of Notes coming due in March 2012 and an increase in commercial paper, net of repayment of matured U.S. dollar Notes in June 2011. The increase in the non-current portion of long-term debt in 2011 reflects the $600 million Note issue in May 2011 to help fund repayment of U.S. dollar Notes, net of the $300 million Notes that became current.
- **Current portion of derivative liabilities** — The decrease in 2011 reflects settlement of cross currency interest rate swap agreements associated with repayment of U.S. dollar Notes in June 2011 (see *Section 7.3 Cash used by financing activities*).
- **Other non-current financial liabilities** — The increase in 2011 is primarily due to an increase in pension and other post-retirement liabilities, as a result of a lower defined benefit pension plan discount rate and lower pension plan investment returns, partly offset by funding. At December 31, 2009, other non-current financial liabilities included a $721 million derivative liability associated with U.S. dollar denominated debt. The remaining $404 million derivative liability associated with the U.S. dollar debt was current at December 31, 2010, and settled in mid-2011.

5.2 Summary of quarterly results and fourth quarter recap

($ in millions, except per share amounts)	**2011 Q4**	**2011 Q3**	**2011 Q2**	**2011 Q1**	**2010 Q4**	**2010 Q3**	**2010 Q2**	**2010 Q1**
Operating revenues	**2,690**	2,622	2,554	2,531	2,554	2,461	2,400	2,377
Operating expenses								

Goods and services purchased	**1,316**	1,178	1,134	1,098	1,235	1,036	997	968
Employee benefits expense	**500**	476	470	447	478	484	478	466
Depreciation and amortization	**481**	443	442	444	445	433	409	454
	2,297	2,097	2,046	1,989	2,158	1,953	1,884	1,888
Operating income	**393**	525	508	542	396	508	516	489
Financing costs	**87**	92	94	104	105	185	117	115
Income before income taxes	**306**	433	414	438	291	323	399	374
Income taxes	**69**	107	90	110	65	72	97	101
Net income	**237**	326	324	328	226	251	302	273
Net income attributable to Common Shares and Non-Voting Shares	**246**	325	321	327	225	250	301	272
Net Income per Common Share and Non-Voting Share								
– Basic	**0.76**	1.00	0.99	1.01	0.70	0.78	0.94	0.85
– Diluted	**0.75**	1.00	0.98	1.00	0.70	0.78	0.94	0.85
Cash dividends declared per Common Share and Non-Voting Share	**0.58**	0.55	0.55	0.525	0.525	0.50	0.50	0.475
Additional information								
EBITDA [(1)]	**874**	968	950	986	841	941	925	943
Restructuring costs included in EBITDA and Operating income	**16**	3	12	4	38	17	19	6

(1) A non-GAAP measure (see *Section 11.1 EBITDA*). Equivalent to Operating income before depreciation and amortization expenses.

Trends

The consolidated revenue trend principally reflects: (i) year-over-year growth in wireless network revenues generated from a growing subscriber base and increasing ARPU; (ii) increased wireless equipment revenues; and (iii) growth in wireline data revenues, which now more than offsets declining legacy wireline voice and other service and equipment revenues. Beginning in 2011, newly consolidated Transactel operations and acquired wireless dealership businesses added revenues of $13 million, $13 million, $13 million and $11 million, respectively, in the fourth, third, second and first quarters, while impacts to Net income were insignificant.

Wireless network revenue reflects growing data revenue (47% growth in 2011), partly offset by declining voice revenue (a 4.1% decrease in 2011). Data growth reflects increased use of data plans and growth in data consumption driven by increasing smartphone adoption, as well as increased roaming revenues. The growing demand for wireless data may challenge network and spectrum capacity in the future. Year-over-year growth rates for data ARPU were 35%, 44%, 39% and 35%, respectively, in the fourth, third, second and first quarters of 2011, and 27%, 21%, 19% and 17%, respectively, for the fourth, third, second and first quarters of 2010. Recent moderation in the data ARPU growth trend is a result of competitive pressures on data driving bigger included-data buckets in rate plans, and an increasing number of unlimited messaging rate plans, as well as a jump in smartphone adoption and corresponding increase in usage in the latter part of 2010. Decreasing voice revenues reflect accelerating declines in voice ARPU, which decreased year over year in 2011 by 12%, 10%, 9.3% and 5.8%, respectively, for the fourth, third, second and first quarters of 2011. This reversed an improving trend in 2010, where year-over-year declines in voice ARPU were 5.2%, 6.7%, 7.2% and 9.5%, respectively, for the fourth, third, second and first quarters of 2010. Blended ARPU has increased year over year for five consecutive quarters, at 1.0%, 3.0%, 2.5%, 3.7% and 1.9%, respectively, for the fourth, third, second and first quarters of 2011 and the fourth quarter of 2010, following several years of declines.

Wireless equipment revenues have generally increased year over year due to higher subscriber acquisition volumes, higher retention volumes and device upgrade revenues, as well as an increasing proportion of more expensive smartphones in the sales mix.

There is significant third and fourth quarter seasonality with respect to higher wireless subscriber additions, related acquisition costs and equipment sales, and higher retention costs due to contract renewals. Wireless EBITDA typically decreases in the fourth quarter as a result of heightened competitive intensity. Subscriber additions have typically been lowest in the first quarter. In addition, wireless ARPU has generally risen sequentially in the second and third quarters, and declined sequentially in the fourth and first quarters.

The positive wireline revenue trend reflects data revenue growth resulting from continuing expansion of the TELUS TV

subscriber base (up 62% in 2011) and price increases, as well as growth in enhanced data, Internet and managed workplace revenues, moderated by ongoing declines in legacy basic data services. Growth in Internet revenues includes expansion of the Optik High Speed Internet subscriber base as a result of bundled offers with Optik TV, as well as rate increases. A general trend of declining wireline voice revenues and network access lines (NALs) is due to substitution to wireless and IP-based services, as well as competition from VoIP service providers (including cable-TV competitors), resellers and facilities-based competitors. Residential NAL losses have moderated over the most recent six quarters — positively impacted by Optik TV and Optik High Speed Internet services and improved bundled service offers. While business NALs reflected year-over-year growth in the first two quarters of 2011 due to implementation of wholesale services, the general trend, as reflected in the third and fourth quarters of 2011, is declining business NALs due to increased competition in the SMB market, as well as conversion of voice lines to more efficient IP-based services. The primary cable-TV competitor in Western Canada increased its promotional activity and incentives to win back and protect its subscriber base in 2011, which could affect Optik growth, NAL erosion rates, and costs of acquisition and retention in future. A sequential increase in residential NAL losses in the fourth quarter of 2011 was due to this increased promotional activity.

The trend in the Goods and services purchased expense reflects increasing content and support costs for the growing TELUS Optik TV subscriber base, increased costs of acquisition and retention for wireless subscribers, as well as fourth quarter wireless expense seasonality described above..

Employee benefits expense starting in the second quarter of 2011 reflects increases in full-time equivalent (FTE) staff resulting from the acquisition of Transactel and wireless dealership businesses, as well as targeted hiring to support TV, business and wireless growth, partly offset by lower employee-related restructuring costs and lower defined benefit plan expenses. Employee benefits expenses in 2010 reflected decreasing domestic FTE staff as a result of efficiency initiatives and attrition, partly offset by compensation increases and increasing international FTE staff to provide services for business customers and for internal purposes.

The sequential increase in depreciation and amortization expense in the fourth quarter of 2011 resulted from a $19 million write-down of assets in a foreign operation that were held for sale at December 31, 2011, as well as an increase in capital assets to facilitate subscriber growth. The sequential decrease in depreciation and amortization expenses in the second quarter of 2010 included a reduced depreciation run rate for TV set-top boxes resulting from an increase in their estimated useful lives, and the effect of reduced capital expenditures in the first half of 2010. Amortization expense in the second quarter of 2010 includes a reduction of approximately $5 million resulting from the recognition of investment tax credits following determination of eligibility by taxation authorities for assets capitalized in prior years that were fully amortized.

Financing costs for each period shown are net of varying amounts of interest income, including interest from the settlement of prior years' income tax-related matters. Quarterly financing costs in 2011 were lower than in the same periods in 2010 mainly due to lower effective interest rates as a result of refinancing activities in 2010 and 2011, as well as the absence of an early redemption charge in 2011. Financing costs in the third quarter of 2010 included a $15 million charge in respect of final determinations for the regulatory deferral account, as well as a $52 million loss on early redemption of approximately 45% of the then outstanding principal amount of 8% U.S. dollar Notes and unwinding of related cross currency interest rate swap agreements. The partial redemption was financed with a new lower-cost 10-year, $1 billion 5.05% Note issue.

The trends in Net income and basic earnings per share (EPS) reflect the items noted above, as well as adjustments arising from legislated income tax changes, settlements and tax reassessments for prior years, including any related interest on reassessments.

Income tax-related adjustments

($ in millions, except EPS amounts)	2011 Q4	2011 Q3	2011 Q2	2011 Q1	2010 Q4	2010 Q3	2010 Q2	2010 Q1
Approximate Net income impact	**10**	—	11	—	10	9	10	1
Approximate EPS impact	**0.03**	—	0.03	—	0.03	0.03	0.03	—
Approximate basic EPS excluding income tax-related impacts	**0.73**	1.00	0.96	1.01	0.67	0.75	0.91	0.85

Fourth quarter

Management's review of operations contained in TELUS' fourth quarter news release on February 10, 2012, discussed fourth quarter results in detail. The following are highlights.

- Consolidated Operating revenues increased by $136 million in the fourth quarter of 2011 when compared to the same period in 2010. Service and equipment revenues increased by $120 million, while Other operating income increased by $16 million.
- Operating income decreased by $3 million in the fourth quarter of 2011 when compared to the same period in 2010,

as an increased amortization expense was not fully offset by growth in adjusted EBITDA. Amortization expense in the fourth quarter of 2011 included a $19 million write-down of a foreign operation's assets held for sale.

- Net income increased by $11 million year over year in the fourth quarter of 2011, while basic EPS increased by six cents year over year in the fourth quarter of 2011. The increase in net income and basic EPS primarily reflects higher pre-tax income resulting from lower financing costs, as well as a lower blended statutory income tax rate.
- Cash provided by operating activities increased by $104 million in the fourth quarter of 2011 when compared to the same period in 2010, mainly due to higher adjusted EBITDA and comparative working capital changes.
- Cash used by investing activities increased by $47 million in the fourth quarter of 2011 when compared to the same period in 2010, mainly due to acquisition of additional wireless dealership businesses in 2011 and comparative changes in non-cash investing working capital, partly offset by a $52 million reduction in capital expenditures.
- Cash used by financing activities increased by $34 million in the fourth quarter of 2011 when compared to the same period in 2010, primarily due to higher dividend payments partly offset by lower amounts of debt reduction in 2011 when compared to the prior year.

5.3 Consolidated operations

Discussion of TELUS' consolidated financial performance follows. Segmented discussion is provided in *Section 5.4 Wireless segment, Section 5.5 Wireline segment* and *Section 7.2 Cash used by investing activities — capital expenditures .*

Operating revenues

Years ended December 31 ($ millions)	2011	2010	Change
Service	**9,606**	9,131	5.2%
Equipment	**719**	611	17.7%
	10,325	9,742	6.0%
Other operating income	**72**	50	44.0%
	10,397	9,792	6.2%

Consolidated Operating revenues increased by $605 million in 2011 when compared to 2010.

- Service revenues increased year over year by $475 million in 2011. Wireless service revenues increased by $395 million or 8.5%, principally due to growth in wireless data network revenues reflecting subscriber growth and accelerated smartphone adoption, which exceeded the decline in voice network revenue. Wireline service revenues increased by $80 million or 1.8%, as growth in data services, including Optik TV and Optik High Speed Internet, exceeded the decline in legacy voice local and long distance services.

- Equipment revenues increased year over year by $108 million in 2011. Wireless equipment sales increased by $51 million as a result of higher subscriber acquisition and retention volumes, an increase in the sales mix of more expensive smartphones including device upgrades, and to a lesser extent, increased sales of tablets. Wireline equipment sales increased by $57 million mainly due to increased data equipment sales to enterprises.

- Other operating income is comprised of high cost serving area portable subsidies, recognition of amounts from the price cap deferral account and recovery of employee costs under eligible government-sponsored programs, as well as investment gains, income or losses, and gains or losses on disposal of real estate assets. Other operating income increased by $22 million in 2011 reflecting the $17 million non-cash gain on Transactel, higher recoveries of employee costs under eligible government-sponsored employment programs, and a drawdown of the price cap deferral account to recognize the provisioning of broadband Internet service to a number of qualifying rural communities, partly offset by lower portable subsidy revenue.

Operating expenses

Years ended December 31 ($ millions)	2011	2010	Change
Goods and services purchased	**4,726**	4,236	11.6%
Employee benefits expense	**1,893**	1,906	(0.7)%
Depreciation	**1,331**	1,339	(0.6)%
Amortization of intangible assets	**479**	402	19.2%
	8,429	7,883	6.9%

Consolidated operating expenses increased by $546 million in 2011 when compared to 2010.

- Goods and services purchased increased year over year by $490 million in 2011, reflecting higher wireless costs of acquisition and retention and increased content and support costs for expanding and managing wireline Optik TV services.

- Employee benefits expense decreased year over year by $13 million in 2011. The decrease mainly reflects lower employee-related restructuring costs, a higher defined benefit pension plan recovery, lower share-based compensation expenses mainly due to employees choosing to settle their options other than through a net-cash settlement feature, and higher capitalization of labour, partly offset by increased wage and salary expenses. Wage and salary expenses increased by $85 million due to the following: inclusion of Transactel operations since February 2011 and TELUS-branded wireless dealership businesses acquired in 2011, hiring to support the growing wireless and TV subscriber bases, bargaining unit wage increases effective since July 2011, and management salary and compensation increases effective April 2011.

- Depreciation expense decreased year over year by $8 million in 2011. Lower depreciation expenses were largely due to an increase in fully depreciated assets and lower depreciation for TV set-top boxes caused by lengthening their expected service lives in the second quarter of 2010, largely offset by growth in wireless HSPA+ and other capital assets and acquired Transactel assets.

- Amortization of intangible assets increased year over year by $77 million in 2011. The increase was principally due to ongoing capital investments in network and administrative software assets, a $19 million write-down of a foreign operation's assets held for sale at the end of 2011, amortization resulting from the acquisition of Transactel and certain wireless dealership businesses in 2011, and prior year recognition of $5 million of investment tax credits in the second quarter of 2010.

Operating income

Years ended December 31 ($ millions)	2011	2010	Change
	1,968	1,909	3.1%

Operating income increased by $59 million in 2011 when compared to 2010, largely due to increased EBITDA. Wireless EBITDA increased by $166 million (see *Section 5.4*), but was partly offset by a $38 million reduction in wireline EBITDA (see *Section 5.5*), and a $69 million increase in total depreciation and amortization expenses.





Financing costs

Years ended December 31 ($ millions)	2011	2010	Change
Interest expense, excluding loss on redemption of debt	**389**	475	(18.1)%
Loss on redemption of debt	**—**	52	n/m
Interest income and foreign exchange	**(12)**	(5)	140.0%
	377	522	(27.8)%

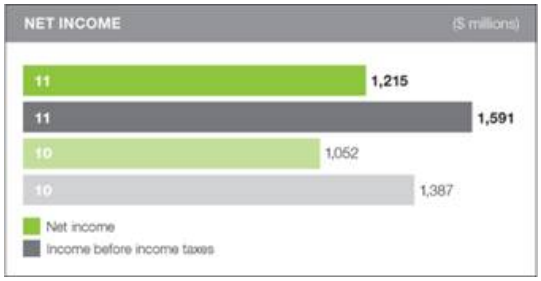
Financing costs decreased by $145 million in 2011 when compared to 2010, due in part to the September 2010 loss recorded for early partial redemption of U.S. dollar Notes and settlement of related cross currency interest rate swap agreements. Interest expense excluding the loss on debt redemption decreased by $86 million, mainly due to a lower effective interest rate on long-term debt resulting from financing activities in the second quarter of 2011 and third quarter of 2010, as well as a $15 million charge in the third quarter of 2010 that arose from the CRTC's determinations on the regulatory deferral account.

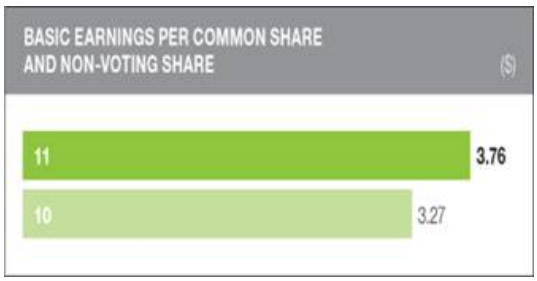
The lower effective interest rate in 2011 resulted from: (i) the September 2010 early partial redemption of 8% U.S. dollar Notes and unwinding of associated cross currency interest rate swap agreements, funded by a July 2010, 5.05% debt issue; and (ii) maturity of the remaining U.S. dollar Notes on June 1, 2011, and settlement of the remaining cross currency interest rate swap agreements, funded by a May 2011, 3.65% debt issue and low-rate commercial paper issues.

Income taxes

Years ended December 31 ($ millions, except tax rates)	2011	2010	Change
Basic blended tax at weighted average statutory income tax rates	**433**	402	7.7%
Revaluation of deferred income tax liability to reflect future statutory income tax rates	**(37)**	(44)	n/m
Tax rate differential on, and consequential adjustments from, reassessments of prior years' tax issues	**(20)**	(35)	n/m
Share option award compensation	**(1)**	10	n/m
Other	**1**	2	n/m
	376	335	12.2%
Blended federal and provincial statutory tax rates (%)	**27.2**	29.0	(1.8)pts.
Effective tax rates (%)	**23.6**	24.1	(0.5)pts.

Basic blended statutory income taxes increased by $31 million in 2011 when compared to 2010 due to the 14% increase in pre-tax income, partly offset by a lower blended statutory income tax rate. The effective tax rates were lower than the statutory tax rates due to revaluations of deferred income tax liabilities; the tax rate differential on, and consequential adjustments from, reassessments of prior years' tax issues; and other taxable income differences.





Net income

Years ended December 31 ($ millions)	2011	2010	Change
	1,215	1,052	15.5%

Net income increased by $163 million in 2011 when compared to 2010. See summary analysis in *Section 1.3*.

Other comprehensive income (OCI)

Years ended December 31 ($ millions)	2011	2010	Change
Items that may be subsequently reclassified to income	**10**	54	(81.5)%
Item never subsequently reclassified to income	**(851)**	(214)	n/m
	(841)	(160)	n/m

OCI items that may be subsequently reclassified to income are comprised of changes in unrealized fair value of derivatives designated as cash flow hedges, and foreign currency translation adjustments arising from translating financial statements of foreign operations.

The OCI item never subsequently reclassified to income is in respect of after-tax actuarial gains and losses on defined benefit plans, which are likely to fluctuate from period to period.

5.4 Wireless segment

Wireless segment revenues increased by $455 million in 2011 when compared to 2010.

Operating revenues — wireless segment

Years ended December 31 ($ in millions, except ratios)	2011	2010	Change
Voice	**3,326**	3,470	(4.1)%
Data	**1,678**	1,141	47.1%
Network revenue	**5,004**	4,611	8.5%
Equipment and other	**458**	401	14.2%
External operating revenues	**5,462**	5,012	9.0%
Intersegment revenue	**38**	33	15.2%
Total operating revenues	**5,500**	5,045	9.0%
Data revenue to network revenue (%)	**34**	25	9pts.

- Network revenue increased year over year by $393 million in 2011.

  Voice revenue decreased by $144 million in 2011 reflecting the ongoing trend of declining voice ARPU. Voice ARPU was $39.20 in 2011, a decrease of $4.05 (9.4%). Voice ARPU declines reflect an increasing shift towards higher data usage as customers move to more data-centric rate plans and substitute text messaging, instant messaging and voice applications for voice calls. The voice ARPU decline also reflects increased use of included-minute rate plans as subscribers shift usage patterns and optimize pricing, an increasing volume of mobile Internet connection devices and tablet subscriptions where there is no voice revenue, lower Mike™ service ARPU, lower long distance usage and greater penetration of the lower ARPU Koodo® brand, partly offset by increased roaming volumes.

  Data revenue increased by $537 million, reflecting subscriber growth and strength in smartphone service revenues and text messaging driven by greater smartphone penetration, increased adoption of data plans, growth in the usage of mobile Internet connection devices and tablets, increased rates for pay-per-use text messaging, as well as higher data roaming volumes partly offset by lower roaming rates. Data ARPU was $19.90 in 2011, an increase of $5.51 or 38% from 2010.

  Blended ARPU was $59.10 in 2011, an increase of $1.46 or 2.5% from 2010, mainly due to growth in data usage and increased roaming, partly offset by declining voice usage and pricing. See *Section 5.2* for ARPU trends.

  Increased gross subscriber additions reflect an enhanced handset line-up, promotional activity and continued efforts to attract high-value postpaid customers including to Koodo services, partly offset by increased competitive intensity within both the postpaid and prepaid market segments. Total gross subscriber additions increased by 5.1% in 2011, while postpaid gross additions increased by 11% in 2011. Prepaid gross additions decreased by 6.9% in 2011, as the Company chose not to match certain offers from competitors.

  Gross subscriber additions increased by 88,000 in 2011 when compared to 2010, while net subscriber additions decreased by 78,000 in 2011 when compared to 2010. Postpaid net additions increased by 10,000 despite higher churn rates resulting from the loss of a wireless contract with the federal government to a low-priced bid by an incumbent competitor (a loss of 77,000 subscribers, adding 11 basis points to churn in 2011). Aside from federal government subscriber losses, postpaid net additions were strong and reflect the success of efforts to retain high-value subscribers. Lower overall net additions reflect increased competitive intensity from new entrants, particularly in the lower-value and prepaid segments, and new or re-launched incumbent competitor brands. Increased competitive intensity was evident in price competition and a greater number of unlimited-usage rate plans offers entailing higher handset subsidies from both new entrants and established national competitors. The blended monthly wireless subscriber churn rate was 1.68%, as compared to 1.57% in 2010. Churn rates for the fourth, third and second quarters of 2011 were stable at 1.67% following a rate of 1.70% in the first quarter of 2011.

  The Company has experienced acceleration in smartphone adoption rates. Smartphones represented 66% of postpaid gross additions in 2011, as compared to 37% in 2010. Cumulatively, smartphone subscribers represented 53% of the postpaid subscriber base at December 31, 2011, as compared to 33% one year earlier. Smartphone subscribers generate significantly higher ARPU and lower churn than those with messaging and voice-only devices, but have higher costs of acquisition and retention resulting from the large device subsidies for multiple-year contract sales or renewals. A higher smartphone mix is expected to continue to positively impact future data revenue growth, ARPU and churn rates, which increase expected lifetime revenue. The higher smartphone mix is also expected to increase future costs of retention and network usage, and require ongoing network capacity investments.

- Equipment and other revenues increased year over year by $57 million in 2011, largely due to higher acquisition and retention volumes, a

greater smartphone loading mix for retained and new subscribers, increased revenues from postpaid clients upgrading to new devices before the end of their contracts, and increased accessories revenues.

The increase was partly offset by competitive pressure to lower handset prices, which drove higher handset subsidies. In addition, a $3 million recovery of employee costs under eligible government-sponsored employment programs was recognized in the fourth quarter of 2011.

- Intersegment revenue represents services provided by the wireless segment to the wireline segment and is eliminated upon consolidation along with the associated expense in the wireline segment.

Wireless operating indicators

At December 31	2011	2010	Change
Subscribers (000s)			
Postpaid	**6,130**	5,705	7.4%
Prepaid	**1,210**	1,266	(4.4)%
Total	**7,340**	6,971	5.3%
Proportion of subscriber base that is postpaid (%)	**83.5**	81.8	1.7pts.
Total digital POP [1] coverage (millions) [2]	**34.4**	33.8	1.8%
HSPA+ POP coverage (millions) [2]	**33.8**	33.1	2.1%

Years ended December 31	2011	2010	Change
Subscriber gross additions (000s)			
Postpaid	**1,286**	1,160	10.9%
Prepaid	**512**	550	(6.9)%
Total	**1,798**	1,710	5.1%
Subscriber net additions (000s)			
Postpaid	**425**	415	2.4%
Prepaid	**(56)**	32	n/m
Total	**369**	447	(17.4)%
ARPU [3] ($)	**59.10**	57.64	2.5%
Churn, per month [3] (%)	**1.68**	1.57	0.11pts.
Average monthly minutes of use per subscriber (MOU)	**332**	361	(8.0)%
COA [4] per gross subscriber addition [3] ($)	**386**	350	10.3%
Retention spend to network revenue [3] (%)	**12.4**	11.6	0.8pts.
EBITDA to network revenue (%)	**43.7**	43.8	(0.1)pts.

(1) POP is an abbreviation for population. A POP refers to one person living in a population area that is wholly or substantially included in the coverage area. Canada's population was estimated at 34.6 million in October 2011 (Statistics Canada website).
(2) Including roaming/resale and network access agreements, principally with Bell Canada.
(3) See *Section 11.3 Definitions of key wireless operating indicators*. These are industry measures useful in assessing operating performance of a wireless company, but are not measures defined under IFRS-IASB.
(4) Cost of acquisition.

Operating expenses — wireless segment

Years ended December 31 ($ millions)	2011	2010	Change
Equipment sales expenses	**1,237**	1,015	21.9%
Network operating expenses	**662**	640	3.4%
Marketing expenses	**464**	440	5.5%
General and administration (G&A) expenses			
Employee benefits expense	**540**	508	6.3%
Other G&A expenses	**411**	422	(2.6)%
Total operating expenses	**3,314**	3,025	9.6%

Wireless segment expenses increased by $289 million in 2011 when compared to 2010.

- Equipment sales expenses increased year over year by $222 million or 22% in 2011. The increase reflects higher acquisition and retention volumes, as well as higher per-unit costs due to increased smartphone loading for both new subscribers and migration of existing clients, including a higher proportion of upgrades to iPhone, BlackBerry and Android devices facilitated by the Clear and Simple Device Upgrade program and, to a lesser extent, higher accessories costs.

- Network operating expenses increased year over year by $22 million or 3.4% in 2011, reflecting a lower rate of increase compared to 8.5% network revenue growth. The increase in network operating expenses reflects growth in roaming volumes, partly offset by reduced roaming rates. Revenue-share and licensing costs were largely flat as increases in revenue-share volumes to third parties and licensing volumes to service providers, resulting from strong growth in data usage accompanied by an increasing penetration of smartphones, were offset by lower negotiated revenue-share and licensing rates.

- Marketing expenses increased year over year by $24 million or 5.5% in 2011. The increase was due to higher commissions related to higher volumes, including greater smartphone activations, as well as higher advertising and promotions expenses for the back-to-school season during the third quarter of 2011.

- COA per gross subscriber addition increased year over year by $36 or 10% in 2011. The increase was primarily due to higher per-unit subsidy costs driven by the growing proportion of smartphones in the sales mix, competitive pressures on handset pricing driving deeper subsidies and, to a lesser extent, higher commissions to support an increasing number of higher-value smartphone devices.

- Retention costs as a percentage of network revenue increased by 0.8 percentage points to 12.4% in 2011 when compared to 2010. The increase was due to higher retention volumes and higher per-unit subsidy costs as a significantly larger number of clients migrated to smartphones or upgraded their devices before the end of their contracts, partly offset by network revenue growth of 8.5% and commission savings arising from the acquisition of certain TELUS-branded wireless dealership businesses.

- Total G&A expenses increased year over year by $21 million or 2.3% in 2011, reflecting improved efficiency in supporting subscriber base growth of 5.1%, despite inclusion of costs from the acquisition of certain TELUS-branded wireless dealership businesses throughout 2011.

  Employee benefits expense increased year over year by $32 million, reflecting compensation increases and a higher number of domestic FTE employees due to the acquisition of certain dealership businesses, as well as hiring to support the growing subscriber base.

  Other G&A expenses decreased year over year by $11 million in 2011, reflecting a lower doubtful accounts expense and one-time supplier credits of $11 million recorded in the second quarter of 2011, partly offset by higher external labour costs in 2011 to support the growing subscriber base and one-time operating savings in the first quarter of 2010.

EBITDA — wireless segment

Years ended December 31 ($ millions, except margins)	2011	2010	Change
EBITDA	**2,186**	2,020	8.2%
EBITDA margin (%)	**39.7**	40.0	(0.3)pts.

The wireless segment EBITDA increased by $166 million in 2011 when compared to 2010. This reflects improvement in data revenue and postpaid subscriber growth, improved operating efficiency and one-time operating savings in the second quarter of 2011, partly offset by increased acquisition and retention costs. The EBITDA margin was slightly lower than in 2010, as the rate of increase in costs of acquisition and retention, affected by acceleration of smartphone adoption rates over the past year, was not fully offset by data network revenue growth and improved operating efficiency.

5.5 Wireline segment

Total wireline segment revenues increased by $164 million in 2011 when compared to 2010.

Operating revenues — wireline segment

Years ended December 31 ($ millions)	2011	2010	Change
Data service and equipment	**2,578**	2,268	13.7%
Voice local service	**1,514**	1,647	(8.1)%
Voice long distance service	**477**	530	(10.0)%
Other services and equipment	**296**	283	4.6%
Service and equipment revenues	**4,865**	4,728	2.9%
Other operating income	**70**	52	34.6%
External operating revenues	**4,935**	4,780	3.2%
Intersegment revenue	**164**	155	5.8%
Total operating revenues	**5,099**	4,935	3.3%

Service and equipment revenues increased year over year by $137 million in 2011.

- Wireline data service and equipment revenues increased by $310 million in 2011. The increase resulted principally from: (i) strong subscriber growth in TELUS TV services as a result of the enhanced Optik TV service experience and bundled offers first launched in June 2010, a $3 per month increase beginning April 2011 for basic TV service subscribers not on rate protection plans, as well as varying rate increases for theme package selections in April and October; (ii) increased Internet and enhanced data services revenue due to growth from implementation of recent large enterprise deals, as well as the pull-through effect of bundled offers including Optik High Speed services that enable TELUS to win and retain subscribers, and a $2 per month increase beginning April 2011 for Internet

subscribers not on rate protection plans; and (iii) increased data equipment sales, including sales to business customers. Managed workplace

revenues increased due to the consolidation of revenues from Transactel beginning February 1, 2011, partly offset by a one-time high-margin software application sale in the first quarter of 2010. These increases were partly offset by ongoing declines in legacy basic data services.

Wireline operating indicators

At December 31 (000s)	2011	2010	Change
Internet subscribers			
High-speed	**1,242**	1,167	6.4%
Dial-up	**44**	62	(29.0)%
Total	**1,286**	1,229	4.6%
TELUS TV subscribers	**509**	314	62.1%

Years ended December 31 (000s)	2011	2010	Change
Internet subscriber net additions (losses)			
High-speed	**75**	39	92.3%
Dial-up	**(18)**	(25)	28.0%
Total	**57**	14	n/m
TELUS TV subscriber net additions	**196**	144	36.1%

Net additions of high-speed Internet subscribers and TELUS TV subscribers improved in 2011 when compared to 2010, due to the positive effects of the launch of the new Optik service brands in June 2010. The enhanced bundling capabilities and retention offers, combined with ongoing service enhancements, have contributed to increased customer demand and reduced customer churn across all major product lines. TELUS largely completed the conversion of IP TV residential subscribers on older technology platforms to Microsoft Mediaroom technology in the first half of 2011.

- Voice local service revenue decreased by $133 million in 2011. The decrease reflects reductions in basic access and enhanced voice service revenues caused by competition for residential subscribers, the consequent decline in local residential access lines and matching of competitive offers, bundle offers in deregulated urban markets, and technological substitution to wireless and Internet-based services. The decrease also reflects the decline in business voice lines resulting from technological substitution to data services and competitor activity including price competition. These factors were partly offset by varying increases in monthly local rates.

Wireline operating indicators

At December 31 (000s)	2011	2010	Change
Network access lines (NALs)			
Residential	**1,915**	2,046	(6.4)%
Business	**1,678**	1,693	(0.9)%
Total	**3,593**	3,739	(3.9)%

Years ended December 31 (000s)	2011	2010	Change
Net (losses) additions in NALs			
Residential	**(131)**	(177)	26.0%
Business	**(15)**	(50)	70.0%
Total	**(146)**	(227)	35.7%

Residential NALs continue to be affected by wireless and Internet-based technological substitution for local services, as well as promotional activity by primary cable-TV competitors in the Company's incumbent areas of B.C., Alberta and Eastern Quebec. Residential NAL losses improved by 46,000 in 2011 when compared to 2010, largely due to the sustained positive pull-through effect of bundled offers including Optik TV and Optik High Speed Internet services, which gained traction since being launched in June 2010.

Business NAL losses in 2011 reflect the continuing trend of increased competition in the SMB market and conversion of voice lines to more efficient IP-based services, partly offset by the implementation of voice and data services for a wholesale customer in the first half of 2011. Growth in certain data services such as private IP networks is not measured by business NAL counts, and conversion of legacy voice services to IP-based services results in a decrease in business NALs.

- Voice long distance service revenue decreased by $53 million in 2011. The decrease reflects ongoing industry-wide price and bundling competition, losses of local subscribers, and technological substitution to wireless and Internet-based services.

- Other service and equipment revenues increased by $13 million in 2011, due to increased voice equipment sales

and rent on jointly used distribution facilities.

Other operating income increased year over year by $18 million in 2011. The increase reflects higher recoveries of employee costs under eligible government-sponsored employment programs, a drawdown of the price cap deferral account to recognize the provisioning of broadband Internet service to a number of qualifying rural communities, and the $17 million non-cash gain on Transactel recorded in 2011 (see *Section 2.2 Partnering and acquiring*), partly offset by lower portable subsidy revenue.

Intersegment revenue represents services provided by the wireline segment to the wireless segment and is eliminated upon consolidation together

with the associated expense in the wireless segment.

Operating expenses — wireline segment

Years ended December 31 ($ millions)	2011	2010	Change
Goods and services purchased	**2,154**	1,907	13.0%
Employee benefits expense	**1,353**	1,398	(3.2)%
	3,507	3,305	6.1%

Wireline operating expenses increased year over year by $202 million in 2011.

- Goods and services expenses increased by $247 million in 2011. The increase reflects higher content and support costs related to TELUS TV growth (62% year-over-year increase in the subscriber base), higher cost of goods sold to support increased equipment sales, higher external labour costs to support a larger customer base, restructuring costs in 2011 associated with real estate consolidation, one-time supplier credits in the third quarter of 2010, and higher network transit and termination costs due to increased volumes and higher blended rates, as well as higher advertising and promotions costs primarily supporting Optik TV and Optik High Speed Internet marketing campaigns.

- Employee benefits expense decreased by $45 million in 2011. The decrease includes lower employee-related restructuring costs, higher defined benefit pension plan recoveries, lower share-based compensation expenses and a one-time benefit liability recovery in the second quarter of 2011. These decreases were partly offset by the inclusion of Transactel operations since February 1, 2011, compensation increases, and a higher number of domestic FTE employees to support the growing subscriber base.

EBITDA — wireline segment

Years ended December 31 ($ millions, except margins)	2011	2010	Change
EBITDA	**1,592**	1,630	(2.3)%
Deduct Transactel gain	**(17)**	—	n/m
Adjusted EBITDA	**1,575**	1,630	(3.4)%
Adjusted EBITDA margin (%)	**31.0**	33.0	(2.0)pts.

The wireline segment EBITDA decreased by $38 million in 2011 when compared to 2010. Adjusted EBITDA, which excludes the non-cash Transactel gain, decreased by $55 million in 2011. Decreases in adjusted EBITDA and adjusted EBITDA margins primarily reflect ongoing declines in higher-margin legacy voice services that were not fully offset by growth in lower-margin data services.

6. Changes in financial position

Financial position at: ($ millions)	December 31, 2011	December 31, 2010	Changes		Explanation of changes
Current assets					
Cash and temporary investments, net	**46**	17	29	171%	See *Section 7: Liquidity and capital resources*
Accounts receivable	**1,428**	1,318	110	8%	Includes an increase in wireless receivables due to growth in postpaid ARPU and subscribers, an increase in accrued vendor rebates earned and amounts from the consolidation of Transactel beginning February 2011
Income and other taxes receivable	**66**	62	4	6%	Primarily reflects instalments for 2011, net of current income tax expense including adjustments for reassessments for prior years
Inventories	**353**	283	70	25%	Primarily an increase in average cost and volume of wireless handsets due to a greater proportion of smartphones
Prepaid expenses	**144**	113	31	27%	Mainly an increase in prepaid maintenance contracts and deposits related to building an Internet data centre
Derivative assets	**14**	4	10	n/m	Primarily fair value adjustments to hedges for restricted share units and wireless handsets
Current liabilities					
Short-term borrowings	**404**	400	4	1%	Comprised of $400 million received by TELUS from the arm's-length securitization trust in respect of securitized trade receivables (see *Section 7.6)*, as well as a draw on bank facilities at December 31, 2011
Accounts payable and accrued liabilities	**1,419**	1,477	(58)	(4)%	Primarily a decrease in trade payables resulting from lower fourth quarter capital expenditures in 2011 when compared to the fourth quarter of 2010
Income and other taxes payable	**25**	6	19	n/m	Primarily reflects a difference in instalments and income tax expense in 2011

Dividends payable	**188**	169	19	11%	The dividend payable at December 31, 2011 (paid January 3, 2012) reflects an increase in the dividend rate and a small increase in shares outstanding, as compared to the dividend payable at December 31, 2010 (paid January 4, 2011)
Advance billings and customer deposits	**655**	658	(3)	—%	Reflects payment of $53 million of rebates in respect of the price cap deferral account (see *Section 7.1*) and recognition in revenues of deferral account amounts for approved broadband build and disability access initiatives, net of an increase in advance billings from wireless subscriber growth, and a reclassification of $23 million from non-current Provisions
Provisions	**88**	122	(34)	(28)%	Includes a $48 million net reduction in restructuring provisions as payments for past initiatives exceeded new obligations
Current maturities of long-term debt	**1,066**	847	219	26%	Includes the $300 million Series CC 4.5% Notes becoming current (maturing March 2012) and a $662 million increase in commercial paper, net of repayment of matured U.S. dollar Notes on June 1 (December 31, 2010 balance of $736 million)
Derivative liabilities	**—**	419	(419)	(100)%	Includes settlement of derivative liabilities associated with the June 2011 maturity of U.S. dollar Notes (December 31 balance of $404 million), fair value adjustments for share options and unwinding option hedges
Working capital [(1)]	**(1,794)**	(2,301)	507	22%	Repayment of matured U.S. dollar Notes and settlement of related derivative liabilities were funded in part by a $600 million long-term Note issue

(1) Current assets subtracting Current liabilities.

Changes in financial position, continued.

Financial position at: ($ millions)	December 31, 2011	2010	Changes		Explanation of changes
Non-current assets					
Property, plant and equipment, net	**7,964**	7,831	133	2%	See *Capital expenditures* in *Section 7.2 Cash used by investing activities* and *Depreciation* in *Section 5.3*
Intangible assets, net	**6,153**	6,152	1	—%	See *Capital expenditures* in *Section 7.2 Cash used by investing activities* and *Amortization* in *Section 5.3.* Acquisitions in 2011 added $61 million. Included in the balances for both periods are wireless spectrum licences of $4,867 million
Goodwill, net	**3,661**	3,572	89	2%	Includes increases from the acquisition of Transactel (Barbados) Inc. ($72 million) and wireless dealership businesses ($38 million), partly offset by a $19 million goodwill write-down for a foreign operation's assets held for sale
Other long-term assets	**81**	235	(154)	(66)%	The decrease was principally due to the employee defined benefit plans actuarial loss (in Other comprehensive income), partly offset by funding including the January 2011, $200 million discretionary contribution
Investments	**21**	37	(16)	(43)%	The decrease reflects a reduction due to acquisition of control and subsequent consolidation of Transactel (Barbados) Inc., slightly offset by changes in minor investments
Non-current liabilities					
Provisions	**122**	204	(82)	(40)%	Includes reclassification of $23 million to Advance billings and $77 million to other long-term liabilities, net of an increase in asset retirement obligations and a written put option on the remaining 5% ownership interest in Transactel

Long-term debt	**5,508**	5,209	299	6%	Includes the May 2011 issue of $600 million Series CI 3.65% five-year Notes, net of the reclassification of $300 million, 4.5% Series CC TELUS Corporation Bond to Current liabilities
Other long-term liabilities	**1,343**	649	694	107%	Primarily an increase in pension and post-retirement liabilities (see changes in Other long-term assets, above). Also includes a $77 million reclassification from long-term provisions
Deferred income taxes	**1,600**	1,683	(83)	(5)%	Includes deferred income taxes relating to unrealized gains and losses on derivatives and pension plan liabilities
Owners' equity					
Common Share and Non-Voting Share equity	**7,513**	7,759	(246)	(3)%	Principally dividends declared of $715 million and an Other comprehensive loss of $841 million due to actuarial losses in defined benefit plans, partly offset by Net income of $1,219 million and an increase in share capital
Non-controlling interests	**—**	22	(22)	(100)%	Reflects transactions in respect of Transactel (see *Partnering, acquiring* in *Section 2.2*) and reclassification of certain assets of a foreign operation to assets held for sale

7. Liquidity and capital resources

The discussion in this section is qualified by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

The Company's capital structure financial policies, financing plan and results are described in *Section 4.3*. In the normal course, the Company has generated annual cash flow from operations exceeding the amounts of annual capital investment needed to support business growth and reinvest in technology. In both 2011 and 2010, cash provided by operating activities exceeded cash used by investing activities. As well, in 2010, long-term debt was reduced and the average term to maturity of debt was extended through refinancing activities.

Summary information — Consolidated statements of cash flows

	Years ended December 31		
($ millions)	**2011**	**2010**	**Change**
Cash provided by operating activities	**2,550**	2,670	(4.5)%
Less:			
Cash used by investing activities	**1,968**	1,731	13.7%
Cash used by financing activities	**553**	963	(42.6)%
Increase (decrease) in cash and temporary investments, net	**29**	(24)	—
Cash and temporary investments, net, beginning of period	**17**	41	—
Cash and temporary investments, net, end of period	**46**	17	170.6%

7.1 Cash provided by operating activities

Cash provided by operating activities decreased by $120 million in 2011 when compared to 2010, primarily due to the following:

- An increase in employer contributions to defined benefit plans, net of defined benefit plans expense, of $181 million, mainly due to a discretionary contribution of $200 million made in January 2011
- Rebates provided to residential wireline subscribers in non-high cost serving areas were $53 million, determined in accordance with CRTC *Telecom Decision 2010-639*, in respect of the price cap deferral account. Payment of the rebates did not affect Net income because these amounts recorded in the price cap deferral account did not previously receive income statement recognition
- Higher restructuring payments net of restructuring expense of $24 million
- Comparative changes in non-cash working capital including an increase in inventories in 2011 and decrease in accounts payable in 2011 (see *Section 6*) compared to an increase in accounts payable in 2010.

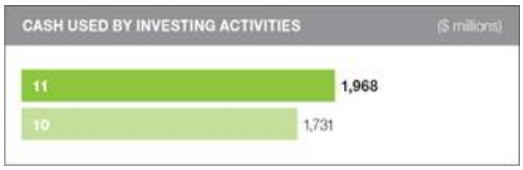
Partly offset by:

- A $161 million decrease in income taxes paid, net of recoveries received, mainly due to a larger final payment in the first quarter of 2010 in respect of the preceding year's income taxes

- A $111 million increase in adjusted EBITDA

- A $101 million decrease in interest paid due to the prior year $52 million loss on debt redemption, as well as a lower effective interest rate arising from refinancing activities in the third quarter of 2010 and second quarter of 2011.





7.2 Cash used by investing activities

Cash used by investing activities increased by $237 million in 2011 when compared to 2010. The increase was primarily due to higher capital expenditures, $81 million during the year to acquire certain independent TELUS-branded wireless dealership businesses, and $20 million in the first quarter of 2011 to increase TELUS' equity interest in Transactel (also see *Acquisition of additional equity interest in subsidiary from non-controlling interest* in *Section 7.3*).

Capital expenditures

	Years ended December 31		
($ millions, except capital intensity)	**2011**	**2010**	**Change**
Wireless segment	**508**	463	9.7%
Wireline segment	**1,339**	1,258	6.4%
Total capital expenditures	**1,847**	1,721	7.3%
Adjusted EBITDA less capital expenditures [(1)]	**1,914**	1,929	(0.8)%
Capital intensity [(2)] (%)	**18**	18	—

(1) See *Section 11.1 EBITDA* for the calculation and description.
(2) Capital intensity is calculated as capital expenditures divided by operating revenues. This measure provides a basis for comparing the level of capital expenditures to other companies of varying size within the same industry.

While total capital expenditures increased by $126 million in 2011 when compared to 2010, the capital intensity level was unchanged. Adjusted EBITDA less capital expenditures decreased by $15 million in 2011 as higher capital expenditures

were nearly offset by higher adjusted EBITDA.

- Wireless segment capital expenditures increased by $45 million in 2011 when compared to 2010, reflecting expansion of network capacity and coverage, including the start of construction of an urban 4G LTE network and ongoing rolling out of dual-cell HSPA+ technology, partly offset by higher prior year investments in efficiency initiatives. The Company launched services on its urban 4G LTE network in February 2012 (see *Building national capabilities* in *Section 2.2*).

  Wireless capital intensity was 9% in 2011 and 2010, while wireless cash flow (EBITDA less capital expenditures) was $1,678 million in 2011, up $121 million or 7.8% from 2010.

- Wireline segment capital expenditures increased by $81 million in 2011 when compared to 2010. The increase in expenditures was mainly due to investments in Optik TV growth and service capabilities, new Internet data centres and gigabit passive optical network (GPON) technology, partly offset by lower expenditures for implementing large enterprise deals and lower expenditures for broadband network expansion due to the substantial completion of the VDSL2 technology overlay in 2011.

  Wireline capital intensity was 26% in 2011, up from 25% in 2010, while wireline cash flow (adjusted EBITDA less capital expenditures) was $236 million in 2011, down $136 million or 37% from 2010.

7.3 Cash used by financing activities

Cash used by financing activities decreased by $410 million in 2011 when compared to 2010.

- Cash proceeds received from Common Shares and Non-Voting Shares issued for the exercise of options was $24 million in 2011 as compared to $15 million in 2010.

- Cash dividends paid to holders of Common Shares and Non-Voting Shares were $642 million in 2011, or an increase of $169 million from 2010. For dividends declared after March 1, 2011, the Company switched to purchasing shares on the open market with no discount, rather than issuing shares from treasury at a 3% discount, which results in increased cash outflows. The increase also results from a higher dividend rate of circa 10% and a slightly higher number of shares outstanding in 2011.

- Commercial paper, short-term borrowings and bank facilities

  The Company often shifts among short-term financing sources to take advantage of interest cost differentials. The Company's commercial paper program provides low-cost funds and is fully backed up by the five-year committed credit facility.

  Commercial paper outstanding at December 31, 2011, was $766 million as compared to $104 million at the end of 2010. Commercial paper decreased by $216 million during the second half of 2011 after increasing by $878 million in the first half of 2011 to help fund: (i) the June 1 repayment of matured U.S. dollar Notes and settle related cross currency interest rate swap agreements; (ii) a discretionary contribution of $200 million to defined benefit pension plans in January; (iii) acquisition of certain independent TELUS-branded wireless dealerships in the first quarter; and (iv) increases in TELUS' economic interest in Transactel (Barbados) Inc. For comparison, commercial paper in 2010 decreased by $420 million in the second half of the year after increasing by $57 million in the first half of the year.

  Short-term borrowings are comprised primarily of amounts advanced to the Company from an arm's-length securitization trust pursuant to transfer of receivables securitization transactions (see *Section 7.6 Sale of trade receivables*). Proceeds from securitized trade receivables were $400 million at December 31, 2011, unchanged since the first quarter of 2010 when proceeds were reduced by $100 million. Draws on bank facilities were $4 million at December 31, 2011, and $nil at December 31, 2010.

  No amounts were drawn against the Company's five-year credit facilities in 2011 or 2010. See *Section 7.5*.

- Long-term debt issue in May 2011; maturity of U.S. dollar Notes in June 2011

  On May 25, 2011, the Company successfully closed a $600 million public offering of 3.65% Series CI five-year Notes. Net proceeds of the offering, combined with commercial paper issues, were applied to repayment of the June 1 maturity of U.S.$741 million, 8% Notes and accrued interest, as well as to the settlement of associated cross currency interest rate swap agreements. The Series CI Notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, and contain certain change of control provisions.

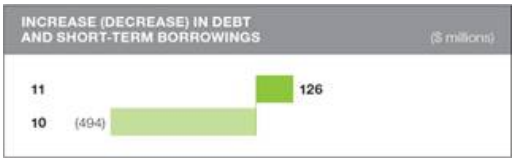
- Long-term debt issue in July 2010; early partial redemption of U.S. dollar Notes in September 2010

  In the third quarter of 2010, TELUS successfully closed a $1 billion public offering of 5.05%, Series CH, 10-year Notes. The Company used the net proceeds to fund the early partial redemption of U.S.$607 million publicly held 8%

U.S. dollar Notes, as well as payments to terminate cross currency interest rate swap agreements associated with the redeemed Notes. The early redemption resulted in a third quarter 2010, pre-tax charge of $52 million, or approximately $37 million after tax (12 cents per share).

- Acquisition of additional equity interest in subsidiary from non-controlling interest

  The effects of TELUS exercising its second purchased call option in respect of Transactel (Barbados) Inc. included that the Company recorded a second quarter 2011, post-acquisition equity transaction with the vendor for the incremental 44% economic interest for $51 million cash. Cash flows that are changes in investments in controlled entities, and which do not also result in a change in control, are presented as financing activities in the Consolidated statement of cash flows when the entity concept of consolidation theory required by IFRS is applied.





7.4 Liquidity and capital resource measures

Net debt as at December 31, 2011, increased by $90 million from one year earlier mainly due to an increase in commercial paper to help fund the discretionary $200 million contribution to defined benefit pension plans in January 2011 and certain acquisitions in the first half of 2011, partly offset by repayment of matured U.S. dollar Notes and settlement of the associated derivative liability in the second quarter. Total capitalization at December 31, 2011, decreased by $188 million from one year earlier, mainly due to a decrease in equity (see *Section 6*).

The proportion of debt on a fixed-rate basis was 83% at December 31, 2011, down from 93% at the beginning of the year due to the commercial paper issued to help fund a discretionary contribution to defined benefit pension plans and acquisitions, as well as repayment of matured Notes on June 1 and settlement of related cross currency interest rate swap agreements, partly offset by a fixed-rate $600 million five-year Note issue in May. The average term to maturity of debt was 5.6 years at December 31, 2011, down from 5.7 years at the beginning of the year due mainly to the passage of time.

Liquidity and capital resource measures

As at, or years ended, December 31	2011	2010	Change
Components of debt and coverage ratios [1] ($ millions)			
Net debt	**6,959**	6,869	90
Total capitalization — book value [2]	**14,461**	14,649	(188)
EBITDA — excluding restructuring costs	**3,813**	3,730	83
Net interest cost	**377**	522	(145)

Debt ratios			
Fixed-rate debt as a proportion of total indebtedness (%)	**83**	93	(10)pts.
Average term to maturity of debt (years)	**5.6**	5.7	(0.1)
Net debt to total capitalization (%) [1][2]	**48.1**	46.9	1.2pts.
Net debt to EBITDA — excluding restructuring costs [1]	**1.8**	1.8	—
Coverage ratios (times) [1]			
Earnings coverage	**5.1**	3.6	1.5
EBITDA — excluding restructuring costs interest coverage	**10.1**	7.1	3.0
Other 12-month trailing measures			
Free cash flow ($ millions) [3]	**997**	939	58
Dividend payout ratio of adjusted net earnings (%) [1]	**64**	64	—
Dividend payout ratio (%) [1]	**62**	64	(2)pts.

[1] See *Section 11.4 Definitions of liquidity and capital resource measures.*

[2] Figures for 2010 have been restated. See *Total capitalization* in *Section 11.4.*

[3] See *Section 11.2 Free cash flow* for the definition.

The earnings coverage ratio for 2011 was 5.1 times, up from 3.6 times in 2010. Lower gross interest expenses increased the ratio by 1.3, while higher income before gross interest and income taxes increased the ratio by 0.2. The EBITDA — excluding restructuring costs interest coverage ratio for 2011 was 10.1 times, up from 7.1 times in 2010. Lower net interest costs increased the ratio by 2.7, while higher EBITDA before restructuring costs increased the ratio by 0.3.

Free cash flow was $997 million in 2011, up $58 million from 2010, mainly due to higher EBITDA and lower paid interest

and income taxes, partly offset by higher capital expenditures and increased contributions to defined benefit plans, including a discretionary $200 million contribution in January 2011.

The Company's strategy is to maintain the financial policies and guidelines set out below. The Company believes that these measures are currently at the optimal level and by maintaining credit ratings in the range of BBB+ to A-, or the equivalent, are expected to continue to provide reasonable access to capital markets.

TELUS long-term financial policies and guidelines

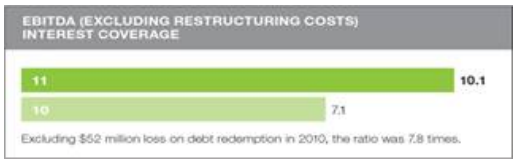
- Net debt to EBITDA — excluding restructuring costs of 1.5 to 2.0 times

  The ratio was 1.8 times at December 31, 2011, unchanged from one year earlier. A small increase in Net debt was offset by higher EBITDA before restructuring costs.

- Dividend payout ratio target guideline of 55 to 65% of sustainable net earnings

  The target guideline is on a prospective basis, rather than on a trailing basis. The payout ratio is seen as appropriate to the Company's current expectations for earnings, cash flow and capital expenditure investments.





7.5 Credit facilities

In 2011, TELUS Corporation entered into a new bank credit facility with a syndicate of 15 financial institutions. The new credit facility consists of a $2 billion (or U.S. dollar equivalent) revolving credit facility expiring November 3, 2016, to be used for general corporate purposes including the backstop of commercial paper. This new facility replaced the Company's pre-existing $2 billion committed credit facility prior to its expiry in May 2012. The new facility has no substantial changes in terms and conditions other than pricing.

At December 31, 2011, TELUS had available liquidity of $1.28 billion from unutilized credit facilities, as well as availability of $100 million under its trade receivables securitization program (see *Section 7.6*), consistent with the Company's objective of generally maintaining at least $1 billion of available liquidity.

TELUS credit facilities at December 31, 2011

($ in millions)	Expiry	Size	Drawn	Outstanding undrawn letters of credit	Backstop for commercial paper program	Available liquidity
Five-year revolving facility [1]	November 3, 2016	2,000	—	—	(766)	1,234

Other bank facilities	—	165	(4)	(115)	—	46
Total	—	2,165	(4)	(115)	(766)	1,280

(1) Canadian dollars or U.S. dollar equivalent.

TELUS' revolving credit facility contains customary covenants, including a requirement that TELUS not permit its consolidated Leverage Ratio (debt to trailing 12-month EBITDA) to exceed 4 to 1 (approximately 1.8 to 1 at December 31, 2011) and not permit its consolidated Coverage Ratio (EBITDA to interest expense on a trailing 12-month basis) to be less than 2 to 1 (approximately 10.1 to 1 at December 31, 2011) at the end of any financial quarter. There are certain minor differences in the calculation of the Leverage Ratio and Coverage Ratio under the credit agreements as compared with the calculation of *Net debt to EBITDA — excluding restructuring costs* and *EBITDA — excluding restructuring costs interest coverage*. Historically, the calculations have not been materially different. The covenants are not impacted by revaluation of property, plant and equipment, intangible assets or goodwill for accounting purposes. Continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.

Subsequent to December 31, 2011, the Company received financing commitments from two Canadian financial institutions in connection with the TELUS Garden project. TELUS Corporation plans to participate as a 50% lender in the construction credit facilities which, once fully documented, will provide a combined total of $413 million of liquidity to the real estate joint venture. The facilities contain customary representations, warranties and covenants and are secured by demand debentures constituting first fixed and floating charge mortgages over the two underlying real estate projects. The facilities bear interest at bankers' acceptance rate or prime rate, plus applicable margins. As at February 23, 2012, no amounts had been advanced under the facilities.

7.6 Sale of trade receivables

Effective August 1, 2011, TELUS Communications Inc. (TCI), a wholly owned subsidiary of TELUS, amended an agreement with an arm's-length securitization trust associated with a major Schedule I Canadian bank, under which TCI is able to sell an interest in certain of its trade receivables, for an amount up to a maximum of $500 million. The amendment resulted in the term of the revolving period securitization agreement being extended to August 1, 2014. The agreement prior to this amendment was set to expire in May 2012.

TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd. or the securitization trust may require the sale program to be wound down. The necessary credit rating was exceeded as of February 23, 2012.

7.7 Credit ratings

There were no changes to the Company's investment grade credit ratings during 2011, or as of February 23, 2012. TELUS believes its adherence to its stated financial policies and the resulting investment grade credit ratings, coupled with its efforts to maintain a constructive relationship with banks, investors and credit rating agencies, continue to provide reasonable access to capital markets. (See *Section 10.6 Financing and debt requirements*.)

7.8 Financial instruments, commitments and contingent liabilities

Financial instruments

The Company's financial instruments and the nature of risks that they may be subject to are described in Note 4 of the Audited consolidated financial statements and are set out in the following table. The Company's policies in respect of the recognition and measurement of financial instruments are described in Note 2(c) of the Audited consolidated financial statements.

		Risks				
				Market risks		
Financial instrument	Recognition and measurement accounting classification	Credit	Liquidity	Currency	Interest rate	Other price
Measured at cost or amortized cost						
Accounts receivable	Loans and receivables	X		X		
Short-term obligations	Amortized cost		X	X	X	
Accounts payable	Amortized cost		X	X		
Provisions	Amortized cost		X	X		X
Long-term debt	Amortized cost		X	X	X	
Measured at fair value						
Cash and temporary investments	Fair value through net income	X		X	X	
Short-term investments	Fair value through net income				X	X
Long-term investments (not subject to significant influence) (1)	Available-for-sale			X		X
Foreign exchange derivatives (2)	Fair value through net income; part of a cash flow hedging relationship	X	X	X		

Share-based compensation derivatives [2]	Fair value through net income; part of a cash flow hedging relationship	X	X			X
Cross currency interest rate swap derivatives [2][3]	Part of a cash flow hedging relationship	X	X	X	X	

(1) Long-term investments which are not subject to significant influence of the Company are measured at fair value if the fair values can be reliably measured.
(2) Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only) and sets criteria for the creditworthiness of the transaction counterparties.
(3) The cross currency interest rate swap derivatives matured in fiscal 2011.

Credit risk

Accounts receivable — Credit risk associated with accounts receivable is inherently managed by the Company's large and diverse customer base, which covers substantially all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

At December 31, 2011, the weighted average life of past-due customer accounts receivable was 61 days (2010 — 59 days).

The Company maintains allowances (which are significant estimates) for potential credit losses related to doubtful accounts. Current economic conditions, historical information, why the accounts are past due and line of business from which the customer accounts receivable arose are all considered when determining whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to the allowance account against the customer account receivable. The doubtful accounts expense is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and on a statistically derived allowance basis for the remainder. No customer accounts receivable are written off directly to the doubtful accounts expense

Cash and temporary investments — Credit risk associated with cash and temporary investments is managed by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Derivative assets and derivative liabilities — Counterparties to the Company's share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedging items due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the non-performance of its counterparties, the Company considers the risk of this remote. The Company's derivative liabilities do not have credit risk-related contingent features.

Liquidity risk

As a component of capital structure financial policies, discussed in *Section 4.3 Liquidity and capital resources* , the Company manages liquidity risk by: maintaining a daily cash pooling process that enables the Company to manage its liquidity surplus and liquidity requirements according to the actual needs of the Company and its subsidiaries; maintaining bilateral bank facilities and syndicated credit facilities; the sales of trade receivables to an arm's-length securitization trust; maintaining a commercial paper program; continuously monitoring forecast and actual cash flows; and managing maturity profiles of financial assets and financial liabilities.

The Company has significant debt maturities in future years (see chart of long-term debt principal maturities in *Section 4.3 Liquidity and capital resources*). At December 31, 2011, the Company has access to a shelf prospectus, in effect until November 2013, pursuant to which it can offer $2.5 billion of debt or equity securities. The Company has credit facilities available, including a $2 billion facility expiring in November 2016 (see *Section 7.5 Credit facilities*). The Company believes that its investment grade credit ratings contribute to access to capital markets.

Currency risk

The Company's functional currency is the Canadian dollar, but it regularly transacts in U.S. dollars due to certain routine revenues and operating costs being denominated in U.S. dollars, as well as sourcing some inventory purchases and capital asset acquisitions internationally. The U.S. dollar is the only foreign currency to which the Company has a significant exposure.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on short-term U.S. dollar denominated transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts and currency options only on a limited basis.

Interest rate risk

Changes in market interest rates will cause fluctuations in the fair value or future cash flows of temporary investments, short-term investments, short-term obligations, long-term debt and/or cross currency interest rate swap derivatives.

When the Company has temporary investments, they have short maturities and fixed rates, thus their fair value will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows do not change due to changes in market interest rates.

If the balance of short-term investments includes debt instruments and/or dividend-paying equity instruments, the Company could be exposed to interest rate risks.

As short-term obligations arising from bilateral bank facilities, which typically have variable interest rates, are rarely outstanding for periods that exceed one calendar week, interest rate risk associated with this item is not material.

Short-term borrowings arising from the sales of trade receivables to an arm's-length securitization trust are fixed-rate

debt. Due to the short maturities of these borrowings, interest rate risk associated with this item is not material.

In respect of the Company's currently outstanding long-term debt, other than for commercial paper and amounts drawn on its credit facilities, it is all fixed-rate debt. The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption and/or foreign exchange rate fluctuations, the related future cash flows do not change. Due to the short maturities of commercial paper, its fair values are not materially affected by changes in market interest rates but its cash flows representing interest payments may be if the commercial paper is rolled over.

Amounts drawn on the Company's short-term and long-term credit facilities will be affected by changes in market interest rates in a manner similar to commercial paper.

Similar to fixed-rate debt, the fair value of the Company's cross currency interest rate swap derivatives fluctuated with changes in market interest rates as the interest rate swapped to was fixed; absent early redemption, the related future cash flows would not have changed due to changes in market interest rates.

Other price risk

Provisions — The Company is exposed to other price risk arising from a written put option provided for a non-controlling interest, as discussed further in Note 16(e) of the Audited Consolidated financial statements.

Short-term investments — If the balance of short-term investments line item on the statement of financial position includes equity instruments, the Company would be exposed to equity price risks.

Long-term investments — The Company is exposed to equity price risks arising from investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes.

Share-based compensation derivatives — The Company is exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share and Non-Voting Share prices increase both the expense and the potential cash outflow). Cash-settled equity swap agreements have been entered into that establish a cap on the Company's cost associated with its net-cash settled share options and fix the Company's cost associated with its restricted stock units.

Market risk

Net income and other comprehensive income for the years ended December 31, 2011 and 2010, could have varied if the Canadian dollar: U.S. dollar exchange rates, market interest rates and the Company's Common Share and Non-Voting Share prices varied by reasonably possible amounts from their actual statement of financial position date values.

The sensitivity analysis of the Company's exposure to currency risk, interest rate risk, and other price risk arising from share-based compensation is shown in Note 4(g) of the Audited consolidated financial statements.

Fair values — general

The carrying values of cash and temporary investments, accounts receivable, short-term obligations, short-term borrowings, accounts payable and certain provisions (including restructuring accounts payable) approximate their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method do not exceed their fair values.

The carrying value of short-term investments, if any, equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices in active markets.

The fair values of the Company's long-term debt are based on quoted market prices in active markets.

The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated based on quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to the Company for financial instruments of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities (such fair values being largely based upon Canadian dollar: U.S. dollar forward exchange rates and interest rate yield curves as at the statement of financial position dates).

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based upon the Company's Common Share and Non-Voting Share prices as at the statement of financial position dates).

Recognition of derivative gains and losses

Gains and losses on derivative instruments and their location within the Consolidated statements of income and other

comprehensive income are detailed in Note 4(i) of Audited consolidated financial statements.

Commitments and contingent liabilities

Contractual obligations

The Company's known contractual obligations at December 31, 2011, are quantified in the following table.

Contractual obligations at December 31, 2011

($ millions)	Short-term borrowings	Long-term debt (1)	Operating lease obligations (2)	Purchase obligations (3)(4)	Other obligations (5)	Total (6)
2012	11	1,387	287	940	1,476	4,101
2013	7	605	261	228	57	1,158
2014	405	980	235	129	23	1,772
2015	—	873	215	100	21	1,209
2016	—	807	197	96	32	1,132
Thereafter	—	4,070	1,131	471	328	6,000
Total	423	8,722	2,326	1,964	1,937	15,372

(1) Long-term debt maturities include interest obligations. Interest payment cash outflows in respect of commercial paper have been calculated based on rates in effect at December 31, 2011. Finance leases are $nil.

(2) Excludes operating lease receipts from sub-let buildings totalling $166 million. Total operating lease payments include $2,294 million in respect of land and buildings, of which approximately 56% was in respect of the Company's five largest leases for office premises over various terms, with expiry dates that range between 2016 and 2026. Excludes operating leases in respect of the TELUS Garden project. See Note 22(a) of the Audited consolidated financial statements for further details.

(3) Where applicable, purchase obligations reflect foreign exchange rates at December 31, 2011. Purchase obligations include future operating and capital expenditures that have been contracted for at the current year-end and include the most likely estimates of prices and volumes, where necessary. As purchase obligations reflect market conditions at the time the obligation was incurred for the items being purchased, they may not be representative of future years. Obligations from personnel supply contracts and other such labour agreements have been excluded.

(4) At December 31, 2011, the Company's contractual commitments for the acquisition of property, plant and equipment were $188 million over a period through to 2013 and the Company's contractual commitments for the acquisition of intangible assets were $142 million over a period through to 2018.

(5) Excludes items that do not result in a future outlay of economic resources: deferred customer activation and connection fees, and deferred gain on sale-leaseback of buildings.

(6) Subsequent to December 31, 2011, the Company entered into a loan commitment (that is subject to final documentation) in respect of a real estate joint venture, as discussed in Note 17(b) of the Audited consolidated financial statements. That commitment is not included in this table.

Indemnification obligations

In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The terms of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of such indemnification obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share is 15% through, and ending, May 2016. As well, should the CRTC take any action that would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred.

At December 31, 2011, the Company has no liability recorded in respect of indemnification obligations.

Claims and lawsuits

A number of claims and lawsuits (including class actions) seeking damages and other relief are pending against the Company. As well, the Company has received or is aware of certain potential claims (including intellectual property infringement claims) against the Company and, in some cases, numerous other wireless carriers and telecommunications service providers. In some instances, the matters are at a preliminary stage and the potential for liability and magnitude of potential loss currently cannot be readily determined. It is impossible at this time for the Company to predict with any certainty the outcome of any such claims, potential claims and lawsuits. However, subject to the foregoing limitations, management is of the opinion, based upon legal assessment and information presently

available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, excepting the items disclosed in Note 22(d) of the Audited consolidated financial statements and *Section 10.9 Litigation and legal matters*.

7.9 Outstanding share information

The total number of outstanding and issuable shares at January 31, 2012, as shown in the following table, assumes full conversion of outstanding options and shares reserved for future option grants.

Outstanding shares (millions)	Common Shares	Non-Voting Shares	Total shares
Common equity			
Outstanding shares at December 31, 2011	175	150	325[1]
Outstanding shares at January 31, 2012	175	150	325
Options outstanding and issuable [2] at January 31, 2012	—	28	28
Outstanding and issuable shares at January 31, 2012	175	178	353

(1) For the purposes of calculating diluted earnings per share, the number of shares was 326 million in 2011.
(2) Assuming full conversion and ignoring exercise prices.

Subsequent to December 31, 2011, the Company announced that holders of its Common Shares and Non-Voting Shares will have the opportunity to decide whether to eliminate the Company's Non-Voting Share class at the Company's annual and special meeting to be held May 9, 2012. Under the terms of the proposal, each Non-Voting Share would be converted into a Common Share on a one-for-one basis, effected by way of a court-approved plan of arrangement and will be subject to the approval of two-thirds of the votes cast by the holders of Common Shares and two-thirds of the votes cast by the holders of Non-Voting Shares, each voting separately as a class; there can be no assurance that the proposal will receive voting approval. If this plan of arrangement is not completed, the market price of Non-Voting Shares and Common Shares may decline.

7.10 Transactions between related parties

Investments in significant controlled entities

At December 31, 2011, TELUS Corporation ultimately controls 100% of the equity of TELUS Communications Inc., which in turn ultimately controls 100% of the equity of TELUS Communications Company and TELE-MOBILE COMPANY, unchanged from December 31, 2010, and January 1, 2010.

Transactions with key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, and consist of the Company's Board of Directors and the Company's Executive Leadership Team. Total compensation expense amounts for key management personnel for the years ended December 31, 2011 and 2010, were $28 million and $29 million, respectively. See Note 23 of the Audited consolidated financial statements for additional detail.

Transactions with defined benefit pension plans

The Company provided management and administrative services to its defined benefit pension plans. The charges for these services were on a cost recovery basis and were immaterial to the Company. The Company also made employer contributions to defined benefit plans as discussed in *Section 7.1*.

8. Critical accounting estimates and accounting policy developments

8.1 Critical accounting estimates

TELUS' significant accounting policies are described in Note 1 of the Audited consolidated financial statements dated December 31, 2011. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, assumptions and judgements 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 judgements, apart from those involving estimation, include: (i) the Company's choice to depreciate and amortize its property, plant, equipment and intangible assets subject to amortization on a straight-line basis as it believes that this method reflects the consumption of resources related to the economic lifespan of those assets better than an accelerated method and is more representative of the economic substance of the underlying use of those assets; and (ii) the Company's view that its spectrum licences granted by Industry Canada will

likely be renewed by Industry Canada; that the Company intends to renew them; and that the Company believes it has the financial and operational ability to renew them and, thus, they are deemed to have an indefinite life.

The Company's critical accounting estimates and assumptions are described below and are generally discussed with the Audit Committee each quarter.

General

- The Company has considered in determining its critical accounting estimates, trends, commitments, events or uncertainties that it reasonably expects to materially affect the methodology or assumptions, subject to the items identified in the *Caution regarding forward-looking statements* section of this MD&A.

- In the normal course, changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions, updating of historical information used to develop the assumptions and changes in the Company's credit ratings, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimate, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or from selection of a different estimate from within a valid range of estimates.

- All critical accounting estimates are uncertain at the time of making the estimate and affect the following Consolidated statements of income and other comprehensive income line items: Income taxes (except for estimates about goodwill) and Net income. Similarly, all critical accounting estimates affect the following Consolidated statements of financial position line items: Current assets (Income and other taxes receivable); Current liabilities (Income and other taxes payable); Deferred income tax liabilities; and Common Share and Non-Voting Share equity (retained earnings). The discussion of each critical accounting estimate does not differ between the Company's two segments, wireless and wireline, unless explicitly noted.

- The Company's critical accounting estimates affect line items on the Consolidated statements of income and other comprehensive income, and line items on the Consolidated statements of financial position, as follows:

	Consolidated statements of income and other comprehensive income					
		Operating expenses				Other comprehensive income (Item never subsequently reclassified to income)
Consolidated statements of financial position	**Operating revenues**	**Goods and services purchased**	**Employee benefits expense**	**Depreciation**	**Amortization of intangible assets**	
Accounts receivable		X				
Inventories		X				
Property, plant and equipment, net				X		
Intangible assets, net, and Goodwill, net [1]					X	
Investments	X					
Employee defined benefit pension plans			X	X[2]	X[2]	X

[1] Accounting estimate, as applicable to intangible assets with indefinite lives and goodwill, primarily affects the Company's wireless cash-generating unit.
[2] Accounting estimate impact due to internal labour capitalization rates.

Accounts receivable

General

- The Company considers the business area that gave rise to the accounts receivable, performs statistical analysis of portfolio delinquency trends and performs specific account identification when determining its allowance for doubtful accounts.

- Assumptions underlying the allowance for doubtful accounts include portfolio delinquency trends and specific account assessments made when performing specific account identification.

- These accounting estimates are in respect of the Accounts receivable line item on the Company's Consolidated statements of financial position comprising approximately 7% of Total assets at December 31, 2011 (7% at December 31, 2010, and 6% at January 1, 2010). If the future were to adversely differ from management's best estimates of the fair value of the residual cash flows and the allowance for doubtful accounts, the Company could experience a doubtful account expense in the future. Such a doubtful account expense does not result in a cash outflow.

The allowance for doubtful accounts

- The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues and from variances in accounts

receivable collection performance.

Inventories

The allowance for inventory obsolescence

- The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings.
- Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. The estimate of the Company's allowance for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.
- This accounting estimate is in respect of the Inventories line item on the Company's Consolidated statements of financial position, which comprises approximately 2% of Total assets at December 31, 2011 (1% at December 31, 2010 and January 1, 2010). If the allowance for inventory obsolescence were inadequate, the Company could experience a charge to Goods and services purchased expense in the future. Such an inventory obsolescence charge does not result in a cash outflow.

Property, plant and equipment, net; Intangible assets, net; and Goodwill, net

General

- The Property, plant and equipment, net, line item on the Company's Consolidated statements of financial position represents approximately 40% of Total assets at December 31, 2011 (40% at December 31, 2010 and January 1, 2010).
- The Intangible assets, net, line item represents approximately 31% of Total assets at December 31, 2011 (31% at December 31, 2010 and 32% at January 1, 2010). Included in Intangible assets, wireless spectrum licences represent approximately 24% of Total assets at December 31, 2011 (25% at December 31, 2010 and January 1, 2010).
- The Goodwill, net, line item represents approximately 18% of Total assets at December 31, 2011 (18% at December 31, 2010 and January 1, 2010).
- If TELUS' estimated useful lives of assets were incorrect, it could experience increased or decreased charges for amortization of intangible assets or depreciation in the future. If the future were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Company could potentially experience future material impairment charges in respect of its property, plant and equipment assets, its intangible assets or its goodwill. If intangible assets with indefinite lives were determined to have finite lives at some point in the future, the Company could experience increased charges for amortization of intangible assets. Such charges do not result in a cash outflow and of themselves would not affect the Company's immediate liquidity.

The estimated useful lives of assets

- The estimated useful lives of assets are determined by a continuing program of asset life studies. The recoverability of assets with finite lives is significantly impacted by the estimated useful lives of assets.
- Assumptions underlying the estimated useful lives of assets include the life cycle of technology, competitive pressures and future infrastructure utilization plans.

The recoverability of intangible assets with indefinite lives ; *the recoverability of goodwill*

- The carrying value of intangible assets with indefinite lives, and goodwill, is periodically tested for impairment and this test represents a significant estimate for the Company.
- The recoverable amounts of the cash-generating units' assets have been determined based on a value in use calculation. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the cash-generating units' assets given the necessity of making key economic assumptions about the future. The value in use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows and growth projections, including economic risk assumptions and estimates of achieving key operating metrics and drivers; the future weighted average cost of capital; and earnings multiples.
- See Note 16(d) of the Audited consolidated financial statements for further discussion of methodology and sensitivity testing.

Investments

The recoverability of long-term investments

- The Company assesses the recoverability of its long-term investments on a regular, recurring basis. The recoverability of investments is assessed on a specific identification basis taking into consideration expectations

about future performance of the investments and comparison of historical results to past expectations.

- The most significant assumptions underlying the recoverability of long-term investments are the achievement of future cash flow and operating expectations. The estimate of the Company's recoverability of long-term investments could change from period to period due to the recurring nature of the recoverability assessment and due to the nature of long-term investments (the Company does not control the investees).

- If the allowance for recoverability of long-term investments were inadequate, the Company could experience an increased charge to Other operating income in the future. Such a provision for recoverability of long-term investments does not result in a cash outflow.

Income tax assets and liabilities

The amount and composition of income tax assets and income tax liabilities

- Assumptions underlying the composition of income tax assets and liabilities are based upon an assessment of the technical merits of tax positions. Income tax benefits on uncertain tax positions are only recognized when it is more likely than not that the ultimate determination of the tax treatment of the position will result in the benefit being realizable. Income tax assets and liabilities are measured at the amount that is expected to be realized or incurred upon ultimate settlement with taxing authorities. Such assessments are based upon the applicable income tax legislation, regulations and interpretations, all of which in turn are subject to interpretation.

- Current income tax assets and liabilities are estimated based upon the amount of tax that is calculated as being owed to taxing authorities, net of periodic instalment payments. Deferred income tax liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities as well as the tax effect of undeducted tax losses. The timing of the reversal of temporary differences is estimated and the tax rate substantively enacted for the periods of reversal is applied to the temporary differences. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are therefore subject to accounting estimates that are inherent in those balances. The tax basis of assets and liabilities, as well as the amount of undeducted tax losses, are based upon the assessment and measurement of tax positions as noted above. Assumptions as to the timing of reversal of temporary differences include expectations about the future results of operations and cash flows. The composition of income tax liabilities is reasonably likely to change from period to period because of changes in the estimation of these significant uncertainties.

- This accounting estimate is in respect of material asset and liability line items on the Company's Consolidated statements of financial position comprising less than 1% of Total assets (less than 1% at December 31, 2010 and January 1, 2010) and approximately 8% of Total liabilities and owners' equity at December 31, 2011 (9% at December 31, 2010 and January 1, 2010). If the future were to adversely differ from management's best estimate of the likelihood of tax positions being sustained, the amount of tax expected to be incurred, the future results of operations, the timing of reversal of deductible temporary differences and taxable temporary differences, and the tax rates applicable to future years, the Company could experience material deferred income tax adjustments. Such deferred income tax adjustments could result in an acceleration of cash outflows at an earlier time than might otherwise be expected.

Employee defined benefit pension plans

Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets

- The Company reviews industry practices, trends, economic conditions and data provided by actuaries when developing assumptions used in the determination of defined benefit pension costs and accrued pension benefit obligations. Pension plan assets are generally valued using market prices, however, some assets are valued using market estimates when market prices are not readily available. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets. Actuarial support is obtained for interpolations of experience gains and losses that affect the employee defined benefit plan actuarial gains and losses and accrued benefit obligations. The discount rate, which is used to determine the accrued benefit obligation, is based upon the yield on long-term, high-quality fixed-term investments, and is set annually at the end of each calendar year, based upon yields on long-term corporate bond indices in consultation with actuaries. The expected long-term rate of return is based upon forecast returns of the major asset categories and weighted by plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.

- Assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets include: discount rates, long-term rates of return for plan assets, market estimates and rates of future compensation increases. Material changes in overall financial performance and financial statement line items would arise from reasonably likely changes, because of revised assumptions to reflect updated historical information and

updated economic conditions, in the material assumptions underlying this estimate. See Note 14 of the Audited consolidated financial statements for further analysis.

- This accounting estimate is in respect of components of the Operating expenses line item and Other comprehensive income line item on the Company's Consolidated statements of income and other comprehensive income. If the future were to adversely differ from management's

best estimate of assumptions used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets, the Company could experience future increased (or decreased) defined benefit pension expense and charges to Other comprehensive income.

8.2 Accounting policy developments

In 2006, Canada's Accounting Standards Board ratified a strategic plan that resulted in Canadian generally accepted accounting principles, as used by publicly accountable enterprises, being fully converged with International Financial Reporting Standards as issued by the International Accounting Standards Board. TELUS adopted IFRS-IASB on January 1, 2011. See Note 25, *Explanation of transition to IFRS-IASB*, of the Audited consolidated financial statements dated December 31, 2011.

Management discussed its IFRS accounting policy choices and elections in Section 8.2 of TELUS' annual 2010 MD&A, including transition effects: (i) by accounting topic for the Consolidated statement of income and other comprehensive income for 2010; (ii) by accounting topic for summary line items of the Consolidated statements of financial position at January 1 and December 31, 2010; and (iii) on other measures.

Additional transition effects on the Consolidated statements of financial position

Further to disclosure in TELUS' 2010 MD&A, the Company's Consolidated statements of financial position reflect a reclassification of long-term credit facilities to current maturities of long-term debt. Previously, Canadian GAAP provided that when a debtor used short-term obligations drawn on a long-term credit facility that were subsequently rolled over (e.g. commercial paper), such obligations were permitted to be classified as a non-current debt if the underlying long-term credit facility was classified as non-current. IFRS-IASB requires that such short-term obligations drawn on a long-term credit facility be classified as a current debt. The reclassification does not change the Company's liquidity and capital resource measures.

Transition effects on the Consolidated statement of cash flows

IFRS transition effects on the Company's Consolidated statement of cash flows were limited to presentation changes. Because IFRS does not derecognize the trade receivables sold to an arm's-length securitization trust, and considers the sale proceeds to be short-term borrowings, changes in securitized trade receivables are presented as changes in short-term borrowings within Cash provided (used) by financing activities, rather than as a component of Net change in non-cash operating working capital within Cash provided by operating activities under previous Canadian GAAP.

Standards, interpretations and amendments not yet effective and not applied

Unless otherwise indicated, the following standards are required to be applied for periods beginning on or after January 1, 2013. Unless otherwise indicated, based upon current facts and circumstances, the Company does not expect to be materially affected by the application of the following standards and is currently determining which date(s) it plans for initial compliance:

- IFRS 7, *Financial Instruments: Disclosures* (amended 2011).
- IFRS 9, *Financial Instruments*, is required to be applied for periods beginning on or after January 1, 2015.
- Other than for the disclosure requirements therein, the following standards and amended standards must be initially applied concurrently:
  - IFRS 10, *Consolidated Financial Statements*
  - IFRS 11, *Joint Arrangements*
  - IFRS 12, *Disclosure of Interests in Other Entities*
  - IAS 27, *Separate Financial Statements* (amended 2011)
  - IAS 28, *Investments in Associates* (amended 2011).
- IFRS 13, *Fair Value Measurement.*
- IAS 12, *Income Taxes* (amended 2011), is required to be applied for periods beginning on or after January 1, 2012.
- IAS 32, *Financial Instruments* (amended 2011), is required to be applied for periods beginning on or after January 1, 2014.
- IAS 19, *Employee Benefits* (amended 2011). Relative to the Company's current accounting policies and presentation and disclosure practices, the key difference in the amended standard is that the expected long-term rate of return on plan assets will no longer be used for defined benefit plan measurement purposes (and thus will no longer be a significant estimate). In the determination of Net income in the Company's instance, the effect is that the

defined benefit plan expense concepts of "interest cost" and "return on plan assets" will be replaced with the concept of "net interest." Net interest for each plan is the product of the plan's surplus (deficit) multiplied by the discount rate. Unchanged is that the amended standard does not prescribe where in the results of operations the net interest amount is to be presented but the Company expects that it will present such amount as a component of Financing costs upon application of the amended standard.

As the Company's current view, consistent with long-term historical experience, is that the expected long-term rate of return on plan assets would exceed the discount rate (a result of targeting a significant percentage of the defined benefit plan assets to be invested in equity securities), the relative effect of the amended standard is expected to be a decrease in Net income and associated per share amounts. The variance, if any, between the actual rate of return on defined benefit plan assets and the discount rate, as well as related effects from the limit on defined benefit assets, if any, would be included in Other comprehensive income as a "re-measurement." The amended standard affects the Company's Consolidated statements of income and other comprehensive income, including reductions in 2011 and 2010 Net income of $89 million and $65 million, respectively. The amended standard is not expected to affect the Company's Consolidated statement of financial position or the Consolidated statement of cash flows. For further detail, see Note 2(b) of the Audited consolidated financial statements. The Company currently expects to initially apply the amended standard for periods beginning on or after January 1, 2013.

9. General outlook

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

9.1 Telecommunications industry

Canada's economic growth slowed to an estimated 2.4% in 2011 from 3.2% in 2010. The Bank of Canada reported in its January 2012 Monetary Policy Report that it expects Canada's economic growth to be 2.0% in 2012 and 2.8% in 2013. Western Canadian provincial economies are projected to grow at the fastest rates, due to strong global demand for commodities.

In 2011, revenues in the Canadian telecommunications industry (including TV and excluding media) grew by an estimated 3% to just over $51 billion, with wireless and data services continuing to be growth engines for the sector. Offsetting this growth was continued wireline industry weakness in legacy voice service revenues. Bell Canada (excluding media) and its affiliated companies represented about 34% of the total industry revenue.

As one of the largest telecommunications companies in Canada, TELUS generated $10.4 billion in revenues in 2011, or approximately 20% of the total industry revenue. TELUS' annual revenue increased by 6.2%, with wireless revenues and wireline data revenue representing 77% of total revenues (74% in 2010). The Company has targeted consolidated revenue growth of 3 to 6% in 2012.

9.2 Wireless

The Canadian wireless industry experienced continued growth in 2011 with estimated year-over-year revenue and EBITDA increases of approximately 4.5% and 2%, respectively (5% and 3%, respectively, in 2010).

The Canadian wireless market continues to grow at a healthy pace with an estimate of more than 1.6 million new subscribers in 2011 compared to 1.7 million in 2010. This reflects an increase in the penetration rate in 2011 of approximately 4.3 percentage points to just over 77% of the population, compared to an increase of approximately 4.4 percentage points in 2010. The wireless penetration rate in Canada is expected to increase further in 2012 by between 4.0 and 4.5 percentage points. At 77% penetration, the wireless market in Canada continues to support good growth, which is indicated by the generally comparable market in the U.S that has a penetration rate of approximately 101%.

Estimated wireless industry growth factors

	2010	2011	2012
Market penetration of population – Canada	73%	77%	81 to 82%
Market penetration of population – U.S.	97%	101%	105 to 106%
Data usage (percentage of ARPU) – Canada	25%	30%	35%
Data usage (percentage of ARPU) – U.S.	34%	39%	44%

Sources: TELUS estimates and company reports.

Wireless penetration rates in many countries in Western Europe have significantly surpassed 100%. These rates are not exactly comparable to Canada for several reasons, including:

- Canada's wireline local service rates are among the lowest of Organization for Economic Co-operation and Development countries, and are priced as flat-rate monthly charges that include all local calls to wireless phones, while Europe has a calling party pays regime for wireline local calls
- The tendency in Europe for individuals to have multiple wireless subscriptions on a single handset, in order to arbitrage roaming charges among different carriers, also inflates subscription numbers and understates average revenue per user
- Canada has a much lower population density, as shown in the following table, which affects the economic efficiency and speed of providing coverage by next generation technologies to 99% of the population.

Historically, these factors have reduced the demand for wireless substitution in Canada as compared to Europe. Yet despite these market and geographic differences, TELUS provides 4G HSPA+ wireless coverage to more than 97% of Canada's population and launched even faster LTE services in 14 urban centres in February 2012.

Wireless comparison

	Canada	U.S.	Europe
Total land area (square km)	**9 million**	9 million	10 million
Subscriptions per square km of network deployed [(1)]	**12**	37	131
Population estimates, 2011	**34.7 million**	313 million	731 million

[(1)] Nordicity report – June 2011.

A key driver of wireless revenue growth continues to be the increased adoption and usage of data services such as messaging, social networking,

web browsing, application usage, gaming and video-streaming. In 2011, wireless data in Canada represented an estimated 30% of industry ARPU. This compares to approximately 39% in the U.S., 31% in Europe and 52% in Asia-Pacific, suggesting a significant ongoing growth opportunity in Canada. The higher proportion of data usage in Asia is due in part to a very low rate of penetration of wireline Internet service to households in many Asian countries. The higher proportion of data usage in the U.S. is due in part to the introduction of the iPhone by Apple two years earlier than in Canada.

This data growth is being driven by the increasing availability, model range and popularity of iPhone, Android and BlackBerry smartphones, as well as increased adoption of tablets and mobile Internet keys. Increasing sales of more expensive smartphones are impacting industry margins. With a multi-year sales agreement, there is usually a large upfront device subsidy provided to the customer that initially results in a negative return, but also provides higher ARPU and lower churn rates, which result in higher average lifetime revenue and value. Tablet devices operating on mobile networks or Wi-Fi are expected to be a growth segment in 2012. Customers increasingly want mobile connectivity to the Internet, and are increasingly using enhanced portable computing services.

It is expected that major mobile platforms will increasingly sell streaming content services in 2012, such as music, TV and video, as consumers become more comfortable with cloud-based computing, a web-based way to cost-effectively process, manage and store data. It is expected that major mobile platforms will transition to supporting cloud-based services that will allow customers to access both corporate and personal data (e.g. photos, streaming video and music) from virtually anywhere, on multiple devices.

The demand for wireless data services is expected to continue to grow. Factors related to this increasing demand include: ongoing investment in faster network technologies such as HSPA+ dual-cell and LTE that provide a richer user experience and more useful applications; increasing need for personal connectivity and networking; increasing affordability and selection of smartphones and Internet-only devices, including mobile Internet keys and products such as tablets and e-book readers; intensifying wireless competition; and more affordable data plans. Increasing data traffic represents a growing challenge to wireless carriers' networks and their ability to manage and serve this traffic. Industry Canada is expected to announce rules for the auction of additional wireless spectrum, including 700 MHz spectrum, with an auction expected to be held in late 2012 or early 2013. It is critical that additional spectrum be made widely available to sustain the ongoing high level of data growth, and that TELUS be able to acquire spectrum in both urban and rural markets to support increasing demand.

To better manage anticipated increases in data traffic and to capitalize on Canada's wireless growth opportunity, established Canadian providers continue to roll out faster, next generation high-speed wireless networks with increasing capacity. TELUS successfully launched an extensive next generation network based on HSPA+ technology in 2009, and enhanced this network in March 2011 with a commercial launch of HSPA+ dual-cell technology, which offers manufacturer-rated data speeds of up to 42 Mbps (expected average download speeds of 7 to 14 Mbps with a compatible device, while actual speed may vary by device being used, topography and environmental conditions, network congestion, signal strength and other factors). In addition to the superior capabilities and higher capacity delivered by HSPA+, this wireless infrastructure supported TELUS' migration to LTE, which is rapidly emerging as the

global standard for wireless broadband.

Established companies, such as TELUS, continue to upgrade their networks and invest in new LTE technology to bring innovative services and the latest data-capable devices to their customers, while new entrants have focused on price discounting and basic services in major urban markets. TELUS launched services on its urban LTE network in February 2012 and expects to expand urban coverage to reach more than 70% of the Canadian population by the end of 2012. LTE technologies are expected to deliver manufacturer-rated peak data download speeds of up to 75 Mbps (typical speeds of 12 to 25 Mbps expected), while at the same time introducing significant improvements in network capacity and performance. Any potential roll out of LTE into rural Canada will be dependent on the expected Industry Canada spectrum auction of frequencies in the 700 MHz band in late 2012 or early 2013 (see *Building national capabilities* in *Section 2.2* and *Future availability and cost of wireless spectrum* in *Section 10.3*).

Competitive intensity among established carriers and new entrants in the wireless market in 2012 is expected to remain high. In 2011, it is estimated that new entrants WIND Mobile, Mobilicity, Public Mobile and Videotron collectively gained more than one-third of new subscribers in Canada, with churn rates that are high relative to established providers. A fifth wireless new entrant, EastLink, is expected to begin offering services in Atlantic Canada in 2012. Industry analysts expect some degree of future consolidation among new entrants before the next spectrum auction. In contrast, Shaw Communications stopped construction of a conventional wireless network in Western Canada using its AWS spectrum acquired in Industry Canada's 2008 auction. Instead, Shaw is building metropolitan Wi-Fi networks using unlicensed public spectrum to extend delivery of its services beyond the home.

To win market share, new entrants are using aggressive price discounting and unlimited usage plans, adding points of distribution, adopting a device subsidy approach and introducing smartphones. The economic sustainability of these discounted unlimited usage plans, particularly with respect to data, is doubtful. These new competitors must also manage various challenges including significant capital requirements for network build-out and upgrades, future spectrum costs, upfront costs for launching and distributing new brands and services, and raising investment capital. The discount focus and lack of popular smartphones have been factors behind low reported ARPUs for new entrants.

TELUS, Rogers and Bell have separately branded basic value services or discount offerings to better position themselves to compete in this expanding segment. In 2011, TELUS enhanced the value-oriented offering of its Koodo brand with an expanded range of smartphones and nationwide calling.

To better compete in the wireless market, TELUS has significantly intensified its focus on the customer experience. The Company continues to enhance the strong TELUS brand with the evolution of its Clear & Simple customer approach first launched in late 2009. This includes significantly reducing the number of rate plans; sending data usage notifications; offering in-store learning centres; streamlining the device line-up; facilitating early device upgrades; and offering simplified and lowered international roaming rates. The Company believes that its customer-friendly approach has contributed to achieving one of the lowest churn rates in the Canadian wireless industry.

Given TELUS' high and growing exposure to wireless (52.5% and 58%, respectively, of 2011 revenue and EBITDA), strong brands, leading-edge value-added products, high-value smartphone growth and new broadband network technologies, the Company believes it is well positioned to benefit from ongoing growth in the Canadian wireless market.

9.3 Wireline

The wireline telecommunications market is expected to remain very competitive in 2012 with low revenue growth and flat or declining EBITDA, as legacy services such as local and long distance telephony are expected to continue declining due to consumer migration to email and messaging services, as well as to wireless and voice over IP (VoIP) services. Canada's four major cable-TV companies had an installed base of approximately 3.9 million telephony subscribers at the end of 2011, or a national consumer market share of approximately 32%, up 1% from 2010. Other non-facilities-based competitors also offer local and long distance VoIP services and resell high-speed Internet solutions. This competition, along with technological substitution such as to wireless, continue to erode TELUS' residential NALs and associated local and long distance revenues. In 2011, TELUS' total NALs decreased by 3.9% or 146,000, comparing favourably to 2010 (when TELUS NALs decreased by 5.7% or 227,000), as well as to North American peers. Improvement in 2011 was partly due to enhanced retention and loyalty in response to multiple service offerings and bundling with Optik TV and Optik High Speed Internet.

Cable-TV companies continue to increase the speed of their Internet services and intensify customer acquisition offers. Canada's four major cable-TV companies have over 5.6 million Internet subscribers, up from approximately 5.4 million in 2010, while telecommunications companies have 4.4 million Internet subscribers, up from approximately 4.3 million in 2010. Although the high-speed Internet market is maturing with over 76% penetration in TELUS' incumbent region in Western Canada and almost 75% penetration across Canada, subscriber growth is expected to continue over the next several years.

The growing popularity of watching TV anywhere is expected to continue as customers demand the ability to view content on multiple screens, including computers, smartphones and tablets, as well as on TVs. In early 2012, TELUS launched Optik on the go, allowing TELUS customers to watch certain on-demand movies and shows anywhere, anytime on a laptop, tablet or smartphone. In addition, OTT content providers like Netflix for movies and Hulu for TV shows and movies, as well as Apple and Google, are competing for share of viewership. However, it is not clear if this competition replaces, or simply

complements, existing TV services. Wireline service providers are monitoring developments in the OTT space and evolving their content strategy and approach to the market to compete with these non-traditional offerings.

To help alleviate the competitive challenges in legacy wireline services, TELUS' Future Friendly Home® strategy has successfully increased revenues, while enhancing retention and loyalty through multiple service offerings. In mid-2010, the Company launched new TELUS brands Optik TV (IP TV based on the Microsoft Mediaroom platform) and Optik High Speed Internet in urban Alberta and British Columbia markets, and later in Eastern Quebec. Optik offers an enhanced TV experience with premium and differentiated services such as PVR Anywhere (enabling customers to record and play back shows on up to six TVs in the home), Remote Recording (enabling customers to use their smartphone, tablet or Internet-connected computer to schedule their PVR recordings when away from home) and other features such as Facebook TV.

TELUS Satellite TV service in Alberta and B.C. complements the Company's Optik TV service, enabling TELUS to serve households that are outside of the urban/suburban Optik TV network footprint, and leverages TELUS' strong distribution and mass marketing capabilities. This expands the addressable market for TELUS TV to more than 90% of households in the two provinces.

In 2011, TELUS added 196,000 new TV subscribers and increased its TV subscriber base by 62% to 509,000. TELUS' primary Western cable-TV competitor increased the speeds of its Internet services and launched a new residential media hub/gateway in 2011, with some similar features such as the whole home PVR. In addition, in late 2011 and early 2012 this competitor continued intense promotional activity and incentives, lowered bundled prices and mass advertised to win back customers and protect its shrinking cable-TV subscriber base.

TELUS' new IP-based services are supported by its wireline broadband network, which has been upgraded significantly from 2009 to 2011 to meet the evolving bandwidth needs of customers. In 2011, TELUS expanded its broadband network in communities in Alberta, B.C. and Eastern Quebec. By early 2012, coverage with ADSL2+ or VDSL2 technology reached nearly 2.3 million homes. ADSL2+ allows broadband download speeds of up to 15 Mbps, and the VDSL2 technology overlay allows download speeds of up to 30 Mbps (enabling delivery of three simultaneous HD signals into the home).

Combined with wireline local and long distance, wireless and high-speed Internet and entertainment services, TELUS is increasingly offering bundled products to achieve competitive differentiation with an integrated set of services that provides customers more freedom, flexibility and choice. Cable-TV companies are continuing to roll out higher-speed Internet services, Internet telephony and digital cable-TV services to support growth. In 2011, TELUS' TV and high-speed Internet net subscriber additions more than offset NAL losses for the first time in seven years, as its broadband investments and bundled offers including its premium Optik TV service, allowed the Company to overtake its main cable-TV competitor in attracting customers.

The Canadian broadcasting industry has become more vertically integrated, with most of TELUS' competitors owning broadcast content. In 2011, after public hearings, the CRTC set clear safeguards to ensure competition (see *Section 10.3 Regulatory matters — Broadcasting distribution undertakings*). TELUS' differentiated approach, consistent with the Company's content strategy, is to aggregate, integrate and make accessible the best content and applications to customers, through whichever device they choose. TELUS believes that it is not necessary to own content to make it accessible on an economically attractive basis.

In the business market, the convergence of IT and telecommunications, facilitated by the ubiquity of IP, continues to shape competitive investments. Telecommunications companies like TELUS are providing network-centric managed applications, while IT service providers are

bundling network connectivity with their software as service offerings. In addition, manufacturers continue to bring all-IP and converged (IP plus legacy) equipment to market, enabling ongoing migration to IP-based solutions. The development of IP-based platforms providing combined IP voice, data and video solutions creates cost efficiencies that compensate, in part, for reduced margins resulting from the migration from legacy to IP-based services. New opportunities exist for integrated solutions that have greater business impact than traditional telecommunications services. In 2012, TELUS expects to continue Customers First initiatives, extending the TELUS future friendly promise to large organizations across Canada and collaborating with customers to deliver the right solutions to businesses with complex technology needs.

TELUS has launched an expanded series of solutions targeting specific high-value segments as well as small and medium businesses (SMB). The SMB market is one of the fastest-growing markets in Canada. TELUS is investing in a range of affordable solutions for this segment, including everything from email to web applications. In the small business market, TELUS has countered increased cable-TV competition by offering an integrated small business bundle called TELUS Business One, which includes connectivity (voice, Internet and email services), security, hosting, audio and video conferencing, and other IP-based tools. In 2011, TELUS introduced Future Friendly Office service bundles integrating wireless and wireline with two flexible packages, including anytime device upgrades and changes to services, 24/7

technical support, and one bill (see *Section 2.2 — Providing integrated solutions*). The Company also opened nine TELUS Business Stores and more than 40 SMB zones within corporate stores.

TELUS continues to believe that its consistent strategic focus on providing a full suite of valuable and reliable telecommunications services; delivering differentiated, premium national business solutions in data and IP; exposure to growth services such as wireless, data and IP, including Optik TV and Optik High Speed Internet; and the ongoing investment in enhancement of its wireless and broadband networks, position the Company well for revenue and EBITDA growth.

10. Risks and risk management

The discussion in this section is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of the MD&A.

Risk and control assessment process

TELUS uses a three-level enterprise risk and control assessment process that solicits and incorporates the expertise and insight of team members from all areas of the Company. TELUS implemented this process in 2002 and tracks multi-year trends for various key risks and control environment perceptions across the organization.

Definition of business risk

TELUS defines business risk as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, reliability of financial reporting, compliance with laws and regulations and safeguarding of assets within an ethical organizational culture.

TELUS' enterprise risks are largely derived from the Company's business environment and are fundamentally linked to TELUS' strategies and business objectives. TELUS strives to proactively mitigate its risk exposures through rigorous performance planning, effective and efficient business operational management, and risk response strategies which can include mitigating, transferring, retaining and/or avoiding risks. For example, residual exposure for certain risks is mitigated through appropriate insurance coverage, including for domestic and international operations, where this is judged to be efficient and commercially viable. Risks are also mitigated through contractual terms and conditions, contingency planning and other risk response strategies as appropriate.

TELUS strives to avoid taking on undue risk exposures whenever possible and strives to ensure alignment of these exposures with business strategies, objectives, values and risk tolerances.

Enterprise risk and control assessment process

Level one: Annual risk and control assessment

Key inputs into this process include interviews with senior managers, data and updates from TELUS' ongoing strategic planning process, and the results of an annual web-enabled risk and control assessment survey. The survey is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) enterprise risk management and internal control frameworks. The survey is widely distributed to TELUS' management leadership team (all executive vice-president, vice-president and director level team members and a random sample of management). Survey responses were received from 1,774 individuals in 2011.

The members of TELUS' Board of Directors are also surveyed to solicit their perspective of the Company's key risks and approach to enterprise risk management, and to gauge the Company's risk appetite and tolerance by key risk category.

TELUS' assessment process incorporates input from recent internal and external audits, results of various risk management activities, and management's SOX 404 (*Sarbanes Oxley Act of 2002*) internal control over financial reporting compliance activities. Key enterprise risks are identified, defined and prioritized, and classified into one of nine risk categories. Perceived risk resiliency (or readiness) is assessed by key risk and risk tolerance/appetite is evaluated by risk category.

Results of the annual risk and control assessment are shared with senior management and the Board (including the Audit Committee). Executive-level risk owners and Board oversight committees are assigned. The annual risk assessment results guide the development of the Company's annual internal audit program, which has an emphasis on assurance coverage of higher-rated risks and is approved by the Audit Committee.

Risk assessments are also incorporated back into the Company's strategic planning, operational risk management and performance management processes, and are shared with the Board.

Level two: Quarterly risk assessment review

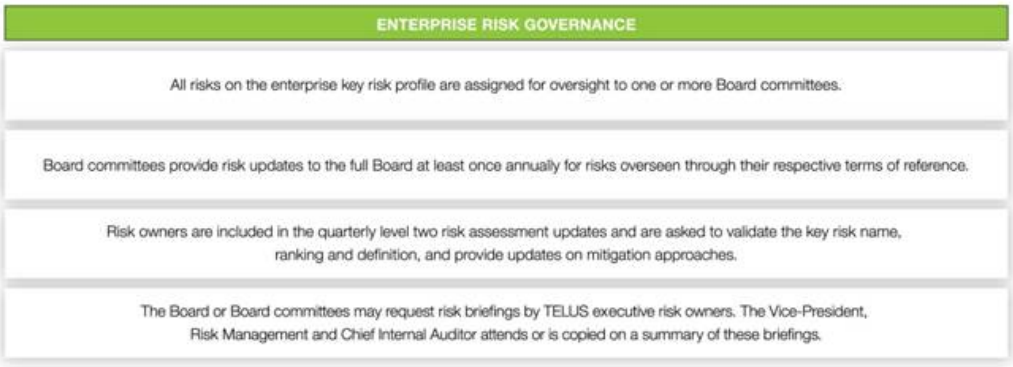
TELUS conducts quarterly risk assessment reviews with executive level risk owners and designated risk primes across all business units to capture and communicate the dynamically changing business risks, identify key risk mitigation activities and provide quarterly updates and assurance to the applicable Board committee.

Level three: Granular risk assessments

TELUS conducts granular risk assessments for specific audit engagements and various risk management, strategic and operational initiatives (e.g. strategic planning, project, environmental management, safety, business continuity planning, network and IT vulnerability, and fraud and ethics risk assessments). The results of the multiple risk assessments are evaluated, prioritized, updated and integrated into the key risk profile throughout the year.

Board risk governance and oversight

TELUS continued to strengthen its risk governance and oversight practices in 2011. The Board terms of reference and Board committee mandates were updated to emphasize and enhance Board risk oversight responsibilities.



The following subsections describe the principal risks and uncertainties that could affect TELUS' future business results going forward, and TELUS' associated risk mitigation activities. The significance of these risks is such that they alone or in combination may have material impacts on TELUS' business operations, reputation, results and valuation.

10.1 Competition
10.2 Technology
10.3 Regulatory matters
10.4 Human resources
10.5 Process risks
10.6 Financing and debt requirements
10.7 Tax matters
10.8 Health, safety and environment
10.9 Litigation and legal matters
10.10 Human-caused and natural threats
10.11 Economic growth and fluctuations

10.1 Competition

Customer experience

There is a risk that TELUS will not maintain or increase levels of client loyalty if the products, services and service experience offered by the Company do not meet or exceed customer expectations. If TELUS does not provide a better customer experience than its competitors, the TELUS brand image could suffer, and business clients and consumers may change service providers. The Company's profitability could be negatively impacted should the costs to acquire and retain customers increase.

Risk mitigation: Enhancing customer experience and earning the loyalty of clients is a prioritized Company-wide commitment. An organization-wide initiative that focuses on the customer commenced in 2010. See *Section 3 — Delivering on TELUS' future friendly brand promise to clients* for examples in 2011. One of the Company's key corporate priorities in 2012 is: *Deliver on TELUS' future friendly brand promise by putting customers first.*

Wireless competitive intensity is expected to increase

TELUS anticipates continued pressure on ARPU and costs of acquisition and retention as competitors continue to subsidize handsets (particularly the generally more expensive smartphones), lower prices for airtime and wireless data, and offer other incentives to attract new customers. In addition to TELUS, eight other facilities-based wireless carriers operated in Canada in 2011, including four new entrants who acquired advanced wireless services (AWS) spectrum in 2008. A fifth new entrant is expected to begin offering services in 2012. (See *Section 4.1 Principal markets addressed and competition.*)

Since the AWS spectrum auction in 2008, new entrants have focused on promotions and rich rate plans to stimulate loading. New entrant strategies have included price discounting relative to established carriers, unlimited rate plans or

zone-based pricing, and increased competition at points of distribution. In addition, established competitors have re-launched or introduced new brands with aggressive acquisition and retention offers.

Competition from adjunct wireless technologies is likely to increase

Increased competition is expected through the use of unlicensed spectrum to deliver higher-speed data services. Shaw Communications, which had earlier announced plans to launch wireless services in early 2012, stopped construction of a conventional wireless network in Western Canada in favour of building managed metropolitan area Wi-Fi networks. Adjunct wireless technologies like fixed WiMAX and Wi-Fi continue to develop, as several carriers in North America test commercial viability. In addition, satellite operators such as Xplornet are augmenting their existing high-speed Internet access (HSIA) capabilities with the launch of high-throughput satellites, targeting households in rural and remote locations and claiming future download speeds of up to 25 Mbps.

***Risk mitigation in wireless markets*:** The Company improved its competitive position with the launch of its HSPA+ wireless network in 2009, commercialization of HSPA+ dual-cell technology in early 2011, and the launch of 4G LTE services in February 2012 (see *Section 10.2 Technology).* In aggregate, these higher-speed networks cover more than 97% of Canada's population, including network access agreements with Bell Canada and SaskTel.

HSPA+ dual-cell and LTE technologies have enabled TELUS to expand its selection of mobile devices and capability to roam in more than 200 countries, establish and maintain a strong position in smartphone and data device selection, and increase international roaming revenue.

The Company continues to build on a variety of client experience initiatives to bring greater transparency and simplicity to customers. Initiatives in 2011 included: increased flexibility in upgrading handsets, large reductions in international voice and data roaming costs for customers without subscribing to a roaming plan, and wireless device unlocking for certain postpaid SIM-based (subscriber identification module-based) devices. Previous initiatives included: free notifications of roaming and short messaging service (SMS) data usage, the Clear and Simple Device Upgrade program, and a more transparent cancellation policy.

To compete more effectively in serving a variety of customer segments, TELUS offers a value service brand called Koodo Mobile, which was launched in March 2008. By maintaining separation between the TELUS and Koodo brands, through uniquely targeted value propositions, TELUS believes it has positioned itself well in the face of increased competitive intensity from new entrants and incumbent national competitors.

TELUS intends to continue the marketing and distribution of innovative and differentiated wireless services; invest in its extensive network; evolve technologies when deemed prudent; and acquire spectrum, as appropriate, to facilitate service development and profitable expansion of the Company's subscriber base and address accelerating demand for data usage. (See *Section 10.3 Regulatory matters — Future availability and cost of wireless spectrum*.)

Competitor pricing and technological substitution may adversely affect market shares, volumes and pricing, leading to reduced utilization and increased commoditization of legacy wireline voice local and long distance services

TELUS faces intense competition across all key business lines and market segments, including the consumer, small and medium business (SMB) and large enterprise markets.

Technological advances have blurred the traditional boundaries between broadcasting, Internet and telecommunications. (See *Section 10.2 Technology*.) Cable-TV companies continue to expand offerings of digital voice and enhanced phone services, resulting in intensified competition in the residential and certain SMB, local access, long distance and HSIA markets. Over-the-top (OTT) content providers like Netflix are expected to compete for share of viewership, potentially cannibalizing TV and entertainment services. However, TELUS views OTT services as a possible complement to its Optik TV service offering. Overall, industry pricing pressure and customer acquisition efforts have intensified across most product and service categories and market segments, and this is expected to continue.

Risk mitigation, general: CRTC decisions in recent years approving wireline deregulation have provided TELUS with improved flexibility to respond to intensifying competition (see *Section 10.3 Regulatory matters*). Active monitoring of competitive developments in product and geographic markets enables TELUS to respond more rapidly to competitor offers and leverage the Company's full suite of integrated solutions and national reach. As discussed below, to offset increasing competitive intensity and losses in legacy services provided in its incumbent areas, TELUS continues to invest in increasing the speed and reach of its broadband networks, introduce innovative products and services, and enhance services with integrated bundled offers. TELUS continues to expand into and generate growth in non-incumbent markets in Central Canada with business services and mobility offerings. TELUS also continues to actively pursue a competitive cost structure and invest in efficient operations.

Wireline voice and data competition

Competition is expected to remain intense from traditional telephony, data, IP and IT service providers, as well as from voice over Internet protocol (VoIP) focused entrants in both business and consumer markets.

The industry transition from legacy voice infrastructure to IP telephony and from legacy data platforms to Ethernet, IP virtual private networks, multi-protocol label switching IP platforms and IP-based service delivery models continues at a robust pace. Legacy data revenues and margins continue to decline and have been only partially offset by increased demand and/or migration of customers to IP-based platforms. IP-based solutions are also subject to downward pricing pressure, lower margins and technological evolution. Capital investments in wireline infrastructure are required to facilitate this ongoing transition process for all incumbent local exchange carrier (ILEC) entities including TELUS.

Business

In the business market, price-discounted bundling of local access, wireless and advanced data and IP services has evolved to include web-based and e-commerce services, as well as other IT services and support. Non-traditional competitors such as Microsoft have entered the telecommunications space through new products like Unified Communications, which provides the ability to redirect and deliver, in real time, email, voice and text messages from a variety of telecommunications and IT systems to the device nearest the intended recipient. With this broader bundling of traditional telecommunications services and IT services, TELUS increasingly faces competition from pure Internet and IT hardware, software and business process/consulting companies. Cable-TV companies target the SMB market with their VoIP services. The result is that traditional and non-traditional competitors are now focused on providing a broad range of telecommunications services to the business market, particularly in major urban areas.

Risk mitigation in the business wireline market: TELUS continues to increase its capabilities through a combination of strategic acquisitions and partnerships, a focus on priority vertical markets (public sector, healthcare, financial services, energy and telecommunications wholesale), expansion of strategic solution sets in the enterprise market, and a mass modular approach in the SMB market (including services such as TELUS Business One and TELUS Future Friendly Office). Since the launch of TELUS Health Solutions in 2008, TELUS has leveraged its systems and proprietary solutions, as well as its reach and brand, to extend the Company's footprint in healthcare, benefit from the investments being made by governments in eHealth, bring to market services targeted at consumers such as personal health records and tools to manage their health, pursue the transformation of the Canadian pharmacy benefit management sector and cross-sell more traditional telecommunications products and services to the healthcare sector. TELUS is also focused on implementing large enterprise deals that leverage the Company's capital investments and capabilities.

Consumer

In the consumer wireline market, cable-TV companies and other competitors encounter minimal regulation and continue to combine a mix of residential local VoIP, long distance, HSIA and, in some cases, wireless services into one bundled and/or discounted monthly rate, along with their existing broadcast or satellite-based TV services. In addition, cable-TV companies continue to increase the speed of their HSIA offerings. To a lesser extent, other non-facilities-based competitors offer local and long distance VoIP services over the Internet and resell HSIA solutions. Erosion of TELUS' residential NALs is expected to continue as a result of this competition, as well as ongoing technological and wireless substitution. Competitors are expected to capture a majority of the share in growth marketplace opportunities; therefore, access line associated revenues, including long distance, can be expected to continue to decline. Although the HSIA market is maturing, subscriber growth is expected to continue over the next several years. With a more mature HSIA market and the potential for higher-speed Internet service offerings from competitors, TELUS may be constrained in its ability to maintain market share in its incumbent territories by the amount and timing of capital expenditures associated with maintaining competitive network access speeds.

Risk mitigation in the consumer wireline market: TELUS continues to expand the coverage and increase the speed of its high-speed Internet service and increase the coverage and capability of its IP-based Optik TV service in its incumbent territories (see *Broadcasting* below and *Section 2.2 Strategic imperatives).* The provision of Optik TV service helps the Company attract pull-through Internet subscriptions and generally counter cable-TV competition in its incumbent markets, and to retain and grow revenues with a bundled offering of local and long distance telephony, HSIA and TV entertainment services. TELUS Satellite TV service in Alberta and B.C. complements IP TV service, enabling the Company to more effectively serve households that are not currently on the TELUS IP TV network footprint and leverage TELUS' strong distribution and marketing presence. TELUS Satellite TV service is made possible by an agreement with Bell Canada.

Broadcasting

As noted above, the Company offers TELUS TV in B.C., Alberta and Eastern Quebec, and continues targeted roll-outs of Optik TV to new areas. While TELUS TV provides numerous interactivity and customization advantages, there can be no

assurance that TELUS will be successful in achieving its plans of obtaining a sizable share of the TV services market or that implementation costs or projected TV revenues will be as planned.

Risk mitigation: Fully digital TELUS TV is offered as both an IP-based service (in urban markets of B.C., Alberta and Eastern Quebec) and a satellite-based service (in B.C. and Alberta). TELUS broadened the addressable market for its high-definition (HD) TV services through the deployment of ADSL2+ technology and upgrades to VDSL2 technology. In February 2010, TELUS launched an upgrade of its IP TV middleware to next generation Microsoft Mediaroom. These developments enabled the Company's June 2010 launch of the Optik brand, featuring a suite of advanced TV and high-speed Internet services, and facilitated a 62% expansion in TELUS' TV subscriber base in 2011.

Increasing vertical integration into broadcast content ownership by competitors

TELUS is not currently seeking to be a broadcast content owner, but several competitors have acquired broadcast content assets. Shaw

Communications acquired Canwest Global in 2010 and BCE acquired the programming services of CTVglobemedia in 2011. Rogers Communications and Quebecor also own content assets. Increased vertical integration could result in content being withheld from TELUS or being made available at inflated prices.

Risk mitigation: TELUS' strategy is to aggregate, integrate and make accessible content and applications for customers' enjoyment. The Company does not believe it is necessary to own content to make it accessible to customers on an economically attractive basis. It is not clear that any positive synergies of ownership for carriers outweigh negative synergies of limiting audiences through exclusive arrangements and negative impacts on other supplier relationships. TELUS believes that regulatory safeguards introduced by the CRTC in 2011 are needed (see *Section 10.3 Regulatory matters)*. However, these safeguards may not prove to be fully effective.

10.2 Technology

Technology is a key enabler for TELUS and its customers. However, technology evolution brings risks, uncertainties and opportunities. TELUS is vigorous in maintaining its short-term and long-term technology strategy to optimize the Company's selection and timely use of technology, while minimizing the associated costs, risks and uncertainties. The following identifies the main technology risks and uncertainties and how TELUS is proactively addressing them.

Subscriber demand for data may challenge wireless networks and is expected to be accompanied by decreasing prices

The demand for wireless data services has been growing at unprecedented rates and it is projected that this growth will continue to accelerate, driven by increases in the following: broadband penetration, the need for personal connectivity and networking, affordability of smartphones and high-usage data devices (such as smartphones, mobile Internet keys and tablets), machine-to-machine data applications, richer multimedia services and applications, and wireless price competition. Given the highly competitive wireless business environment in Canada, it is expected that wireless data revenues will grow more slowly than demand for bandwidth. Increasing data traffic levels and an accelerating pace in data device innovation present a growing challenge to adequately provision capacity and to maintain high service levels.

***Risk mitigation*:** TELUS built an extensive wireless network based on HSPA+ technologies (including HSPA+ dual-cell) and expects to implement further standards-based enhancements that are ready for commercial deployment. The HSPA+ network positions TELUS to meet capacity demands and challenges in the near future.

In addition to the superior capabilities and higher capacity delivered by HSPA+, TELUS' investments in IP networks, IP/fibre cell-site backhaul and a software-upgradeable radio infrastructure facilitated the launch of LTE-based services in February 2012 and will support the future evolution to LTE-advanced technologies. LTE is expected to further increase network capacity and speed, reduce delivery costs per megabyte of data, enable richer multimedia applications and services, and deliver a superior subscriber experience. LTE delivers peak manufacturer-rated download speeds of up to 75 Mbps (typical speeds of 12 to 25 Mbps expected).

Fast growth of wireless data volumes requires optimal and efficient utilization of TELUS' spectrum holdings. TELUS aims to achieve efficient utilization of its spectrum holdings and position itself to meet increasing levels of data traffic through the continued deployment of HSPA+ and LTE technologies, the eventual launch of LTE-advanced technology and ongoing development of a capacity management toolkit. TELUS' spectrum strategy is designed to further strengthen its ability to deliver the mobile Internet to Canadians in the future. In line with this strategy, TELUS intends to participate in upcoming spectrum auctions (see *Section 10.3 Regulatory matters — Future availability and cost of wireless spectrum*). If the Company is successful in its bids, the additional spectrum would provide additional capacity and mitigate risk of increasing data traffic, as well as allow for economic deployment of LTE services in rural coverage areas.

Mature CDMA and iDEN wireless technologies must coexist with new HSPA+ and LTE networks

The wireless industry continues to roll out various wireless technologies to deliver increased data speeds required for

many new wireless, IP and data services. TELUS' evolution to next generation wireless technologies involves services and devices that meet the requirements of the Company's current and future subscriber base.

TELUS continues to support CDMA2000 3G wireless services, including EVDO Revision A services. The Company believes CDMA technology will continue to be used for some time to support the current subscriber base and roaming agreements with other domestic and foreign carriers. The Company no longer actively markets new CDMA devices.

TELUS also continues to support its Mike Push to Talk (PTT) service using iDEN technology. Currently, Mike subscribers represent less than 5% of the Company's wireless subscribers. TELUS also has iDEN roaming agreements with foreign carriers.

The Company's near-term growth is expected to be supported mainly by HSPA+ technology, because of HSPA's broader geographic adoption, greater anticipated economies of scale, superior speeds and wider device selection. As part of a natural 4G network progression, the Company is committed to LTE technology to support medium-term and long-term growth of mobile broadband services. CDMA and iDEN coexistence with HSPA+ and LTE must be managed appropriately to ensure optimal use of spectrum and tower facilities, and to minimize costs.

Implementation of HSPA+ and LTE technologies and systems

TELUS successfully launched its HSPA+ network in November 2009, under a network access agreement with Bell Canada that sped up completion and reduced the Company's costs of deployment nationally. In addition, LTE is leading the Company's shift towards new technologies starting with the urban launch in February 2012. It is expected that LTE devices offered by TELUS would also work on the HSPA+ network in areas not covered by LTE. Any potential roll-out of LTE in rural areas is dependent on future Industry Canada wireless spectrum auction rules and

timing of such auctions (see *Section 10.3 Regulatory matters - Future availability and cost of wireless spectrum).* Spectrum in the 700 MHz range has superior propagation capabilities that make it effective and efficient in covering Canada's expansive rural geography. In addition, these same capabilities improve the quality of in-building coverage in urban areas. The Company expects its overall wireless and wireline capital intensity level, excluding any capital that may be required for wireless spectrum auctions, to be approximately 17% of consolidated revenues in 2012. However, there is the risk that TELUS' future wireless capital expenditures may be higher than those recorded historically in order to meet ongoing technology investments, including HSPA+ and LTE technologies.

***Risk mitigation*:** TELUS' practice is to continually optimize capital investments to provide positive payback periods and flexibility in considering future technology evolutions. Some capital investments, such as towers, leasehold improvements and power systems, are technology-indifferent. TELUS expects to leverage the economies of scale and handset variety of the HSPA+ device ecosystem. TELUS continues to strategically migrate certain CDMA and Mike (iDEN) subscribers to high-speed HSPA+ data devices, thereby providing the potential to increase utilization of data services and stabilize revenue. TELUS also expects to leverage the evolving LTE device ecosystem to further support this migration of CDMA and iDEN subscribers to high-speed data services.

The reciprocal network access agreement with Bell Canada facilitated the rapid deployment by TELUS of next generation wireless technology and provided the means for TELUS to better manage its capital expenditures. These network access agreements are expected to provide ongoing cost savings beyond the initial network build and flexibility to invest in service differentiation and were extended to LTE networks.

TELUS maintains a close co-operation with its network technology suppliers and operator partners to influence and benefit from developments in iDEN, CDMA, HSPA+ and LTE technologies. By contracting its suppliers to provide technology solutions that are amenable to future advancements, such as LTE-advanced, TELUS can mitigate the operational disruption during technology transitions. Fundamental to TELUS' strategy is the reuse and redeployment of application servers and network elements that are access-indifferent, such as messaging into the latest radio access technology. This enables TELUS to invest in radio-based technologies as they evolve, without the need to replace these application servers.

Maturation of the LTE ecosystem may not keep pace with growing demand for data

The timing for the standardization and deployment of 4G LTE technologies aligns with the need for additional network capacity required to address the surging demand for wireless data. However, just as with any other new wireless technology, there remains significant challenges that the industry needs to overcome in the first few years following standardization, and prior to being able to successfully support large LTE deployments. These include both technological and business challenges: harmonization of global spectrum, intellectual property rights, support for voice and SMS, interoperability, device availability, technology maturity, operational readiness and costs. The wireless industry appears committed to making LTE the worldwide technology standard, as evidenced by research and development, testing and interoperability efforts, as well as the number of carriers adopting the technology. Despite this, there remains a risk that the timing of a mature and robust LTE ecosystem may experience some delays; these delays, against a background of surging data traffic demand, represent a risk to operators like TELUS.

The surge of mobile broadband traffic resulting from the proliferation of smartphones and data devices, along with increased data volumes due to the need for continuous connectivity and new applications, are expected to continue to stress the capabilities of current 4G networks.

Risk mitigation: The Company believes that the evolution of networks to 4G LTE is a natural progression required to sustain and to drive data growth. TELUS' urban LTE launch in February 2012 is appropriate and at an opportune time to leverage economies of scale in the manufacturing of LTE equipment, given progression in the development of LTE-capable data devices and smartphones and the need to synchronize the higher bandwidth capabilities of LTE with the accelerating appetite of customers for data-rich services. TELUS' implementation of LTE technologies is primarily driven by a business case based on the revenue growth opportunities that this new 4G network provides. In support of this, TELUS' wireless network is ready to evolve through software upgrades to support enhancements in both HSPA+ and LTE that improve performance, capacity and speed. In parallel, and complementary to the evolution and growth of HSPA+ and LTE, TELUS continues to develop a comprehensive capacity management toolkit that will help address traffic growth challenges and complement new technologies.

Wireless handset supplier concentration and market power

The popularity of certain models of smartphones and tablets from Apple and RIM has resulted in an increasing reliance on these manufacturers, which may increase the market power that these suppliers have over TELUS.

***Risk mitigation*:** TELUS offers and promotes alternatives, including Android devices, to provide greater choice for consumers and to help lessen TELUS' dependence on a few key suppliers.

Support systems will be increasingly critical to operational efficiency

TELUS currently has a very large number of interconnected operational and business support systems, and the complexity is increasing. This is typical of established telecommunications providers that support a wide variety of legacy and emerging telephony, mobility, data and video services. The development and launch of a new service typically requires significant systems development and integration. The associated developmental and ongoing operational costs are a significant factor in maintaining competitive position and profit margins. TELUS is proactive in evolving to next generation support systems, which leverage industry integration and process standards. As next generation services are introduced, they must be designed to work with next generation systems frameworks and IT infrastructures, and at the same time, be compatible with legacy services and support systems. This introduces uncertainty with respect to the development and regression test costs and speed to deliver solutions with the desired effect.

Risk mitigation: In line with industry best practice, TELUS' approach is to separate business support systems (BSS) from operational support systems (OSS) and underlying network technology. The aim is to decouple the introduction of new network technologies from the services sold to

customers so that both can evolve independently. This should allow TELUS to optimize network costs while limiting the impact on customer services, and facilitate the introduction of new services by driving BSS/OSS functions with configurable data rather than programmatic changes. In addition, TELUS is an active participant in the TeleManagement Forum that is working to develop standard industry-defined modules in order to reduce cost through scale and increase adoption through scope. TELUS has established a next generation BSS/OSS framework to ensure that, as new services and technologies are developed, they are part of the next generation framework to ease the retirement of legacy systems in accordance with TeleManagement Forum's Next Generation Operations Systems and Software program.

Restructuring of equipment vendors may impact TELUS networks and services

TELUS has relationships with a number of equipment vendors, which are important in supporting network evolution plans and timelines and providing services to the Company's customers. TELUS faces the risk that some equipment vendors may experience business difficulties, may not remain viable or may restructure their operations, which could affect their ability to support all of their products in the future.

Risk mitigation: TELUS considers these possible outcomes when planning for its future growth, maintenance and support of existing equipment and services. The Company has a comprehensive contingency plan for multiple scenarios, including working with multiple suppliers and maintaining ongoing strong vendor relations. However, there can be no guarantee that the outcome of any particular vendor difficulty will not affect the services that TELUS provides to its customers, or that TELUS will not incur additional costs to continue providing services.

Evolving wired broadband access technology standards may outpace projected access infrastructure investment lifetimes

The technology standards for broadband access over copper loops to customer premises are evolving rapidly, enabling higher broadband access speeds. The evolution is fuelled by user appetite for faster connectivity, the threat of increasing competitor capabilities and offerings, and the desire of service providers like TELUS to offer new services, such as IP

TV, that require greater bandwidth. In general, the evolution to higher broadband access speeds is achieved by deploying fibre further out from the central office, thus shortening the copper loop portion of the access network, and using faster modem technologies on the shortened copper loop. However, new access technologies are evolving faster than the traditional investment cycle for access infrastructure. The introduction of these new technologies and the pace of adoption could result in increased requirements for capital funding not currently planned, as well as shorter estimated useful lives for certain existing infrastructure, which would increase depreciation and amortization expenses.

Risk mitigation: TELUS actively monitors the development and carrier acceptance of competing proposed FTTx standards (such as fibre to the home, or FTTH, and fibre to the neighbourhood, or FTTN). One or more of these fibre-based solutions may be a more practical technology to deploy in brownfield neighbourhoods or multiple dwelling units (MDUs) than the current xDSL deployments on copper loops. TELUS is exploring business models for the economical deployment of fibre-based technologies in areas currently connected by copper.

As part of its multi-year broadband build program, TELUS has been upgrading its network to IP-based digital subscriber line access multiplexers (DSLAMs) with ADSL2+ technology, which enables down link rates of up to 15 Mbps to the customer premises. In 2009, TELUS began upgrading this IP DSLAM deployment to VDSL2 technology in certain urban areas to extend the capabilities of the copper loops and double previous speeds. VDSL2 technology enables typical down link rates of up to 30 Mbps, is backward-compatible with ADSL and ADSL2+ and takes advantage of TELUS' investments in extended reach copper/fibre access infrastructure. The VDSL2 upgrade was substantially completed in 2011.

The evolution of these access architectures and corresponding standards, enabled with quality of service standards and network traffic engineering, all support the TELUS Future Friendly Home strategy to deliver IP-based Internet, voice and video services over a common broadband access infrastructure.

IP-based telephony as a replacement for legacy analogue telephony is evolving and cost savings are uncertain

TELUS continues to monitor the evolution of IP-based telephony technologies and service offerings and has developed a consumer solution for IP-based telephony over broadband access in accordance with TELUS' strategy and standards. Currently this solution is intended to replace legacy analogue telephone service in areas that are served by fibre-based facilities. However, this could expand to provide additional telephone services over the same line as existing analogue service. TELUS is also in the process of designing and testing its next-generation IP telephony solution for business users, which is intended to replace existing, end-of-life business VoIP platforms as well as address areas that are served via fibre access.

One of the realities of VoIP in the consumer space is that the actual state of technology developed to inter-work telephony, video and Internet access on the same broadband infrastructure is in its infancy and there are risks and uncertainties to be addressed, such as ensuring all services can be delivered simultaneously to the home (and to different devices within the home) with uncompromised quality. These issues are exacerbated when the exchange of information is between service providers with different broadband infrastructures.

A long-term technology strategy is to move all services to IP to simplify the network, reduce costs and enable advanced TELUS Future Friendly Home services. Pursuing this strategy to its full extent would involve transitioning TELUS' standard telephone service offering to IP-based telephony and phasing out legacy analogue-based telephone service. To this point, TELUS' legacy voice network infrastructure could be simplified if regular analogue telephone lines were discontinued in favour of digital-only broadband access lines supporting all services including telephony, Internet and video. However, digital-only broadband access may not be feasible or economical in many areas for some time, particularly in rural and remote areas. TELUS needs to support both legacy and broadband voice systems for some time and, therefore, is expected to continue to incur costs to maintain both systems. There is a risk that investments in broadband voice may not be accompanied by decreased costs of maintaining legacy voice systems. There is also the risk that broadband access infrastructure and corresponding IP-telephony platforms may not be in place in time to avoid some reinvestment in traditional switching platforms to support the legacy public switched telephone network access base in certain areas, resulting in some investment in line adaptation in non-broadband central offices.

If TELUS were to decide to migrate towards a fully IP-based voice solution, the level of effort required to migrate customers could be costly. TELUS is observing a large migration of users away from traditional residential voice services onto cellular or competitive offerings, creating the possibility, when combined with long migration times, of significant over-investment in an alternative solution for customers who may not be available to migrate. Migration to a DSL-based, primary voice offering will also require TELUS to develop a strategy around battery back-up, proactive customer premises equipment replacement and increased in-home support (truck rolls). Similarly, hosted business IP telephony has not experienced the uptake industry analysts had predicted and its long-term future is unclear.

Risk mitigation: TELUS continues to deploy residential IP-based voice technologies into fibre-based communities and

is working with vendors and industry to assess the technical applicability and evolving cost profiles of proactively migrating legacy customers onto IP-based platforms while striving to ensure adherence to CRTC commitments and customer expectations. TELUS' ongoing investments in FTTN and access technologies should enable a smoother future evolution of IP-based telephony. TELUS is also working with manufacturers to optimize the operations, cost structure and life expectancy of analogue systems and solutions so that some of this infrastructure evolves to a point where it can form a part of the overall evolution towards IP. Additionally, IP-based solutions that TELUS is currently deploying are capable of supporting a wide range of customers and services to help limit TELUS' exposure to any one market segment. For example, the new business VoIP platform is also capable of supporting consumer services and OTT capabilities, in addition to a pure business VoIP offering. Going forward, as the Company's wireless services evolve, TELUS will continue to assess the opportunity to further consolidate technology silos into a single voice service environment.

The convergence in a common IP-based application environment for telephony, Internet and video is complex

The convergence of wireless and wireline voice, Internet and video in a common IP-based application environment, carried over a common IP-based network, provides opportunities for cost savings and for the rapid development of more advanced services that are also more flexible and easier to use. However, the transformation from individual silo systems and architectures to a common environment is very complex and could be accompanied by implementation errors, design issues and system instability.

Risk mitigation: In 2011, TELUS substantially completed the transition of its previous IP TV middleware to next generation Microsoft Mediaroom and plans to continue expanding the new platform. TELUS mitigates implementation risk through modular architectures, lab investments, partnering with system integrators where appropriate, employee trials, and using hardware that is common to most other North American IP TV deployments. TELUS is striving to ensure that its IP TV deployment is part of an open framework that will fit into the overall transformation strategy once standards are ratified and the actual implementations have stabilized, particularly with the set-top box. TELUS is also active in a number of standards bodies such as the MEF and IP Sphere to help ensure its IP infrastructure strategy leverages standards-based functionality to further simplify the Company's networks.

The emergence of OTT services presents challenges to network capacity and conventional business models

OTT services are a new category of services being delivered over the Internet and compete directly with traditional pay-TV services. OTT video services in particular have rapidly become the largest source of traffic on the North American Internet backbone. OTT service providers do not invest in, or own, networks and their growing services present a challenge to Internet service providers and network owners to prevent network congestion.

Risk mitigation: TELUS has designed a robust IP network that has not experienced significant congestion problems through 2011. However, as additional OTT providers launch services and offer higher resolution video over the Internet, TELUS may be required to make larger investments in the network to support this capacity and develop new business models with the OTT providers.

10.3 Regulatory matters

Regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues

TELUS' telecommunications and broadcasting services are regulated under federal legislation by the Canadian Radio-television and Telecommunications Commission (CRTC), Industry Canada and Heritage Canada. The CRTC has taken steps to forbear from the regulation of prices for services offered in competitive markets, such as local residential and business services in selected exchanges, long distance and some data services, and does not regulate the pricing of wireless services. Local telecommunications services that have not been forborne are regulated by the CRTC using a price cap mechanism.

The outcome of the regulatory reviews, proceedings and appeals discussed below and other regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues.

Future availability and cost of wireless spectrum

Industry Canada plans to auction spectrum in both the 700 MHz and 2.5/2.6 GHz bands in the late 2012 to early 2013 timeframe. The federal government may also announce changes to foreign ownership restrictions in conjunction with the spectrum auction rules. There is uncertainty regarding the government's timing and position in regulating these spectrum bands. Auction rules may, for example, reserve spectrum for new entrants. There is a risk that Industry Canada could mandate further tower or network sharing. As the rules for these future auctions are unknown, the ability for TELUS to

bid on additional spectrum, the capital outlay required to bid successfully and how much spectrum may ultimately be secured in each region are all uncertain.

As described in *Building national capabilities* in *Section 2.2*, TELUS began urban construction of a wireless 4G LTE network in the second half of 2011 with service launched in February 2012 using the Company's AWS spectrum acquired in 2008. Any potential roll-out of 4G LTE wireless service to rural markets is dependent on an equitable opportunity for TELUS to bid on and acquire 700 MHz spectrum in the planned auction. Spectrum in the 700 MHz range has superior propagation capabilities that make it effective and efficient in covering Canada's expansive rural geography. In addition, these same capabilities improve the quality of in-building coverage in urban areas.

Currently, spectrum at 2.5/2.6 GHz has been used for fixed wireless and fixed wireless broadcast applications. However, this spectrum band has been given a primary mobile designation by Industry Canada and is expected to become a common global band for mobile services. In 2006, Industry Canada issued a policy that provides for a clawback of a portion of the band for auction when mobile service is implemented within the band, and stated that it intends to auction unassigned portions of the multipoint distribution service portion of the band. TELUS considers that access to this spectrum would allow it to offer more 4G LTE services in urban areas and meet the need to increase capacity to manage exponential growth in data traffic.

Competitors Bell and Rogers hold significant amounts of spectrum at 2.5/2.6 GHz through their Inukshuk partnership, and have deployed a broadband wireless access solution for fixed and portable broadband service in major cities including Toronto, Montreal, Calgary, Edmonton and Vancouver. It is expected that Bell and Rogers will increasingly use this spectrum for mobile rather than fixed applications. Although TELUS has experienced only limited competition from fixed wireless and similar services to date, there can be no assurance that future marketing of these services will not negatively impact TELUS' wireless or wireline services.

Broadcasting distribution undertakings

TELUS holds licences from the CRTC to operate terrestrial broadcasting distribution undertakings to serve various communities in B.C. and Alberta (renewed in 2009 for a second full seven-year term), and in Eastern Quebec (renewed in 2011 for a second full seven-year term). TELUS also holds a licence to operate a national video-on-demand (VOD) undertaking (received an administrative renewal until February 2012 and is in the process of being renewed). The Company's strategy is to aggregate, integrate and make accessible content and applications for customers' enjoyment. The Company does not believe it is necessary to own content. (See *Section 10.1 Competition — Increasing vertical integration by competitors into broadcast content ownership.)*

The broadcasting landscape has undergone significant consolidation with the acquisition by Shaw of the programming services of Canwest Global (a transaction approved by the CRTC in October 2010) and the acquisition by BCE of control of the programming services of CTVglobemedia (a transaction approved by the CRTC in March 2011). As well, Rogers Communications and Quebecor continue to own content assets.

Given the potential for anti-competitive behaviour in a more vertically integrated broadcasting market environment, the CRTC launched a policy hearing in June 2011 to consider what safeguards might be necessary to ensure healthy competition in the broadcasting sector. On September 21, 2011, the CRTC issued *Broadcasting Regulatory Policy CRTC 2011-601* (*Regulatory framework relating to vertical integration*) that set clear safeguards to ensure competition. The decision applies to companies that own both broadcasting content and broadcasting distribution assets and includes the following elements:

- Prohibits offering television programs on an exclusive basis on all platforms including mobile and broadband, and the prohibition applies to sports and news services
- Allows content exclusivity when the content is developed uniquely for online or mobile applications, in order to encourage programming innovation
- Adopts a code of conduct for commercial arrangements and interactions that applies to all platforms and sets out what constitutes commercially unreasonable terms, such as:
  - Requiring an unreasonable rate
  - Requiring minimum penetration or revenue levels that force distribution of a service on the basic tier or in a package that is inconsistent with the service's theme or price point
  - Refusing to make programming services available on a standalone basis
  - Requiring an excessive activation fee or minimum subscription guarantee
  - Using a most favoured nation to extract anti-competitive concessions from an independent broadcasting distribution undertaking
- Prohibits head starts and withholding signals during a dispute by requiring that the programming be made available

on terms to be determined through negotiations or dispute resolution later

- Adopts monetary remedies for regulatory non-compliance where a company has been found to have given itself undue preference
- Establishes new regulatory reporting requirements that apply to vertically integrated companies.

Absent the enforcement of such safeguards, there is a potential risk that vertically integrated competitors, owning both broadcast content and broadcasting distribution assets, could unfairly raise programming costs of non-vertically integrated companies such as TELUS, and/or attempt to withhold content on new media platforms (Internet and mobile platforms), or otherwise disadvantage TELUS in attracting and retaining wireless or Optik TV customers. These regulatory safeguards improve the bargaining position of non-vertically integrated companies, such as TELUS, for new content. However, there can be no assurance that the new regulatory safeguards will be fully effective. Various follow-up consultations have been launched to implement the policy set out in Regulatory framework relating to vertical integration. The CRTC has sought comments on the proposed wording for amendments to the relevant Regulations and exemption orders in *Broadcasting Notice of Consultation CRTC 2011-804*, *Broadcasting Notice of Consultation CRTC 2011-805* and *Broadcasting Notice of Consultation CRTC 2011-806*. A consultation process has also been initiated to consider a standard form non-disclosure agreement to address concerns relating to the sharing of information within a vertically integrated company (*Broadcasting Notice of Consultation CRTC 2011-791*).

On December 12, 2011, the CRTC issued *Broadcasting Decision CRTC 2011-765*. In the Decision, the CRTC found that Bell and Bell Mobility (collectively, Bell) conferred an undue preference on itself by entering into an agreement with the NHL and NFL giving Bell the exclusive right to distribute major sports broadcasts to its mobile phones in Canada. In its Decision, the CRTC directed Bell to file a report with the Commission outlining the steps it will take to ensure that TELUS (the complainant in the CRTC proceeding) has access to the programming at issue on reasonable terms, and to provide a copy of the report to TELUS. On January 10, 2012, Bell applied to the Federal Court of Appeal to review the CRTC's decision.

On March 22, 2010, the CRTC introduced a new framework to allow over-the-air television broadcasters to enter into negotiations with broadcasting distribution undertakings to establish a fair value for the distribution of their local over-the-air television signals. The CRTC was uncertain whether it had the authority to implement such a signal compensation regime and referred the matter to the Federal Court of Appeal seeking clarification of its jurisdiction under the Broadcasting Act. On February 28, 2011, the Federal Court of Appeal, by majority, found that the CRTC does in fact have the necessary authority to implement the intended regime. Leave to appeal the decision of the Federal Court of Appeal was granted by the Supreme Court of Canada on September 29, 2011. In the event that the value for signal regime proposed by the CRTC is actually implemented, it could lead to an increase in the cost of offering Optik TV that TELUS may not be entirely able to recover through price increases due to competition in the broadcasting distribution market from vertically integrated broadcasting conglomerates.

Billing practices for residential wholesale high-speed access services

In *Telecom Regulatory Policy CRTC 2011-703*, the CRTC determined the manner in which ILECs and incumbent cable-TV carriers can charge their wholesale customers for bandwidth usage for residential wholesale high-speed access services. The CRTC has indicated that ILECs and incumbent cable-TV carriers can use either a flat-rated unlimited usage access rate or a rate that combines an access rate and a usage charge based on reserved network capacity. These determinations followed the CRTC's review initiated by *Telecom Notice of Consultation 2011-77*. It is not expected that these determinations will be material to TELUS.

Provincial consumer protection legislation

Several provinces have either passed or proposed legislation to provide consumers of wireless services with more detailed information and greater flexibility upon the expiry of a contract. Some legislation also applies to wireline services. There is a potential for different jurisdictions to impose different conditions on service providers which could result in higher operating costs for TELUS.

Radiocommunication licences regulated by Industry Canada

All wireless communications depend on the use of radio transmissions and, therefore, require access to radio spectrum. Under the *Radiocommunication Act*, Industry Canada regulates, manages and controls the allocation of spectrum in Canada, and licenses frequency bands and/or radio channels within various frequency bands to service providers and private users. Voice and data wireless communications via cellular, specialized mobile radio (SMR), enhanced specialized mobile radio and personal communications services (PCS) systems, among others, require such licences. TELUS' PCS and cellular licences include various terms and conditions, such as:

- Meeting Canadian ownership requirements
- Meeting obligations regarding coverage

- Spending at least 2% of certain PCS and cellular revenues on research and development
- Annual reporting
- Mandated roaming and antenna site sharing to competitors.

While TELUS believes that it is substantially in compliance with its licence conditions, there can be no assurance that it will be found to comply with all licence conditions, or if found not to be compliant that a waiver will be granted, or that the costs to be incurred to achieve compliance will not be significant. Initial licence fees and annual renewal fees are payable for licences that have not been obtained via spectrum auction.

Foreign ownership restrictions

TELUS and its subsidiaries are subject to the foreign ownership restrictions imposed by the *Telecommunications Act*, the *Radiocommunication Act*

and the *Broadcasting Act* and associated regulations. Although TELUS believes that TELUS Corporation and its subsidiaries are in compliance with the relevant legislation, there can be no assurance that a future CRTC, Industry Canada or Heritage Canada determination, or events beyond TELUS' control, will not result in TELUS ceasing to comply with the relevant legislation. If such a development were to occur, the ability of TELUS' subsidiaries to operate as Canadian carriers under the *Telecommunications Act* or to maintain, renew or secure licences under the *Radiocommunication Act* and *Broadcasting Act* could be jeopardized and TELUS' business could be materially adversely affected.

In June 2008, the Competition Policy Review Panel provided its final report to the Minister of Industry. The Panel made a number of recommendations to liberalize foreign ownership rules for the telecommunications and broadcasting sectors. Subsequently, the federal government Throne Speech on March 3, 2010 and the federal budget on March 4, 2010 signalled an intention to consider opening the telecommunications services sector to further foreign investment. In June 2010, Industry Canada unveiled three options for consultation on lifting foreign ownership restrictions for telecommunications companies:

1. Increase the limit for direct foreign investment in broadcasting and telecommunications common carriers to 49%
2. Lift restrictions on telecommunications common carriers with a 10% market share or less, by revenue
3. Remove foreign ownership restrictions completely.

In the context of the Industry Canada consultation, TELUS advanced a fourth option: Should the government opt to lift foreign ownership restrictions, they should be symmetrically lifted for all telecommunications carriers and broadcasting distribution undertakings, and should be retained for broadcasters (i.e. content providers). Under the TELUS proposal, a vertically integrated company operating both carriage and content businesses could not be foreign owned. A vertically integrated company choosing to sell its carriage business to a foreign buyer must ensure that the content business remains under separate Canadian ownership and control.

On November 29, 2011, the Minister of Industry signalled a further delay relative to the release of the rules for future spectrum auctions. In the interim, there remains some uncertainty regarding the interpretation of the existing rules due to a Federal Cabinet decision. On December 10, 2009, the Governor in Council (on behalf of the federal Cabinet) issued *Order in Council P.C. 2009-2008*, which overturned an October 29, 2009, decision by the CRTC (*Telecom Decision 2009-678*) that found that wireless new entrant Globalive did not meet Canada's foreign ownership laws due to the substantial capital backing of Egypt-based Orascom Telecom. Notwithstanding the Governor in Council's claim that its decision was particular to facts of the Globalive case, it appeared that a new precedent had been set with respect to loosening foreign ownership restrictions in telecommunications, broadcasting and other sectors where the "control in fact" test has traditionally been applied. On January 8, 2010, wireless new entrant Public Mobile Inc. filed an application for judicial review with the Federal Court seeking to overturn the Governor in Council's December 10, 2009, decision declaring Globalive to be eligible to operate as a Canadian carrier. Public Mobile's application for a judicial review was opposed by the federal government and by Globalive. The Federal Court decision was released on February 4, 2011, striking down the *Order in Council* that overturned CRTC *Decision 2009-678*. The successful court challenge of the Federal Cabinet decision was overturned by the Federal Court of Appeal in June 2011 and Public Mobile sought leave to appeal to the Supreme Court of Canada.

There can be no assurance that the resolution of uncertainty over interpretation of existing laws and regulations concerning foreign ownership that TELUS will be subject to, or the manner in which they may be changed, will be beneficial to TELUS, or that the current uncertainty will not be beneficial to foreign-owned firms currently operating in Canada.

Risk mitigation for regulatory matters: TELUS generally advocates a regulatory environment in telecommunications that relies on market forces to the greatest extent possible, rather than regulatory intervention. In the case of the distribution of broadcasting content, TELUS supports a symmetrical regime under the *Broadcasting Act* that ensures all Canadian consumers continue to have equitable access to broadcast content irrespective of the distributor or platform they choose. TELUS believes that, as long as content is regulated to achieve cultural objectives, this is in the best

interest of all carriers and their customers.

In respect of foreign ownership restrictions, TELUS does not oppose the removal of foreign ownership restrictions in telecommunications, or on the distribution of content, provided that liberalization is implemented on a fair and symmetrical basis for all telecommunications carriers and broadcast distribution undertakings.

10.4 Human resources

The success of TELUS depends on the abilities, experience and engagement of its team members. Competition for highly skilled and entrepreneurial management and front-line employees is intense in the telecommunications industry. The loss of key employees — or deterioration in overall employee morale and engagement resulting from organizational changes, unresolved collective agreements or ongoing cost reduction — could have an adverse impact on TELUS' growth, business and profitability.

With competition expanding in the telecommunications industry, employee retention risk is expected to remain elevated in 2012. TELUS aims to attract and retain key employees through both monetary and non-monetary approaches, striving to both protect and improve engagement levels.

***Risk mitigation*:** The compensation program at TELUS is designed to support its high-performance culture and is both market-driven and performance-based. This includes:

- An employee performance bonus that is tied directly to corporate profitability as well as individual and corporate operational results
- Share options for eligible employees
- Restricted stock units (RSUs) and performance stock units (PSUs) for eligible employees
- TELUS Employee Share Purchase plan available to all domestic full-time and part-time employees.

Medium-term and long-term performance incentives (RSUs, PSUs and share options) for key personnel generally have three-year vesting periods. The increased value of TELUS shares in 2010 and 2011 has increased the effectiveness of these retention incentives. Where required, TELUS also continues to implement targeted retention solutions for employees with talents that are scarce in the marketplace.

As well, a benefits program is offered that allows the tailoring of personal health, wellness, lifestyle and retirement choices to suit individual and family needs.

By striving to ensure TELUS' compensation and benefits remain competitive, the Company seeks to attract and retain key employees. With respect to ongoing program cost management, the Company hopes to manage engagement levels through direct and upfront communication to all employees. A positive indicator in 2011 was a 1,300 basis point increase in the measure of TELUS' employee engagement. Management believes the following were influencing factors:

- Increased communications with front-line team members
- A focus on the customer and additional support for those team members performing in that capacity
- Success in the marketplace due to innovative high-quality products and services available to customers on TELUS' enhanced wireless and wireline networks.

TELUS will continue to focus on other non-monetary factors that have a clear alignment with engagement including:

- Performance management
- Career opportunities
- Training and development
- Recognition
- Work styles (e.g. facilitating working remotely from home and alternative work locations).

Collective bargaining

In June 2011, the membership of the Telecommunications Workers Union ratified a new collective agreement, which came into effect on June 9 and will expire at the end of 2015. The agreement includes wage increases of 1.5% on July 1, 2011, 2.0% on July 1, 2012, 2013 and 2014, and 2.5% on July 1, 2015. Also included is a cost of living adjustment provision of up to 1% on January 1, 2015, activated only if the Canada-wide consumer price index exceeds 3%. This agreement covers approximately 11,250 active members at December 31, 2011.

The collective agreement between TELUS and the Syndicat des agents de maîtrise de TELUS (SAMT), which covers approximately 510 professional and supervisory employees in the TELUS Quebec operating region, expired on December 31, 2011. Negotiations to renew this contract began in October 2011. In any set of labour negotiations, there can be no assurance that the negotiated compensation expenses or changes to operating efficiency will be as planned and may result in unanticipated increased costs and/or reduced productivity. In addition, there can be no assurance that

reduced productivity and work disruptions will not occur during the course of collective bargaining prior to settlement and ratification.

Risk mitigation: A governance model is in place to ensure the financial and operating impact of any proposed terms of settlement are assessed and determined to be aligned with TELUS' strategic direction. Any potential need to continue operations in response to work disruptions has been addressed through extensive contingency planning and emergency operations plans. Though the Company has built and validated emergency operations plans, there can be no assurance that all potential issues have been planned for or that the contingencies planned for will manifest in exactly the same fashion as tested. As a result, there is risk that increased costs or disruptions may still occur.

10.5 Process risks

Systems and processes

TELUS has numerous complex systems and process change initiatives underway. There can be no assurance that the full complement of the Company's various systems and process change initiatives, including those required to support changes in provincial sales tax regimes, will be successfully implemented or that sufficiently skilled resources will be available to complete all key initiatives planned for 2012 and beyond. There is risk that certain projects may be deferred or cancelled and the expected benefits of such projects may be deferred or unrealized.

Risk mitigation: In general, TELUS strives to ensure that system development priorities are selected in an optimal manner. TELUS' project management approach includes extensive risk identification and contingency planning, scope and change control, and resource and quality management. The quality assurance of the solutions includes extensive functional, performance and revenue assurance testing, as well as capturing and utilizing lessons learned. In addition, TELUS often moves its business continuity planning and emergency management operations centre to a heightened state of readiness in advance of major systems conversions.

Large enterprise deals

TELUS' operating efficiency and earnings may be negatively impacted by challenges with (or ineffective) implementation of large enterprise deals, which may be characterized by service credits that lower revenues, significant upfront expenses and capital expenditures, and a need to anticipate, understand and respond to complex and multi-faceted enterprise customer-specific requirements and stakeholders. There can be no assurance that service implementation will proceed as planned and expected efficiencies will be achieved, which may impact return on investment or desired margins. The Company may also be constrained by available staff, system resources and co-operation of existing service providers, which may

limit the number of large contracts that can be implemented concurrently in a given period and/or increase the cost to TELUS related to such implementations.

Risk mitigation: TELUS has gained experience in implementing numerous large enterprise deals over a number of years and expects to continue to focus on implementing recent large enterprise contract wins. In addition, the Company expects to continue being selective as to which new large contracts it will bid on and to continue its focus on the SMB market.

TELUS continues to realize the benefits of implementing internal reorganizations, including the consolidation of functions such as *Technology Strategy* and *Technology Operations,* as well as the consolidation of certain other functions. The expected benefits include streamlined operations, more effective deployment of technologies and supporting systems, cost efficiencies, improved customer service, and better capability to implement large enterprise deals. TELUS follows industry standard practices for rigorous project management, including executive (senior) level governance and project oversight; appropriate project resources, tools and supporting processes; and proactive project-specific risk assessments and risk mitigation planning. TELUS also conducts independent project reviews and internal audits to help monitor progress and identify areas that may require additional focus, and to identify systemic issues and learnings in project implementations which may be shared among projects.

Reorganizations

Arising from its operating efficiency program, the Company carries out a number of operational consolidation, rationalization and integration initiatives each year that are aimed at improving the Company's operating productivity and competitiveness. There can be no assurance that all planned efficiency initiatives will be completed, or that such initiatives will provide the expected benefits or will not have a negative impact on operating performance, employee engagement, financial results and customer service.

Risk mitigation: TELUS focuses on and manages organizational changes through a formalized business transformation function by leveraging the expertise, key learnings and best practices gained from mergers, business integrations and efficiency-related reorganizations in recent years.

Foreign operations

Maintaining TELUS' international operations presents unique risks, including country-specific risks (such as differences in political, legal and regulatory regimes and cultural values), lack of diversity in geographical locations, concentration of customers, different taxation regimes, infrastructure and security challenges, differences in exposure to and frequency of natural disasters, and the requirement for system processes that work across multiple time zones, cultures and countries. There can be no assurance that international initiatives and risk mitigation efforts will provide the benefits and efficiencies expected, or that there will not be significant difficulties in combining different management and cultures, which could have a negative impact on operating and financial results.

Risk mitigation: TELUS' strategy is to improve the diversity and geographic distribution of its operations, customers and conduct of business process outsourcing activities. TELUS has in recent years expanded beyond its Philippines operations to include locations in India, Central America, the Caribbean region and the U.S. state of Nevada. The continued expansion of international operations provides TELUS with more geographic diversity, spreads political risk among foreign jurisdictions, provides the Company an ability to serve customers in multiple languages and in multiple time zones, and through network redundancy and contingency planning, provides the ability to divert operations in emergency situations. The Company continues to work with its international operations to extend operational best practices, to integrate and align international and domestic Canadian operations, as appropriate, and to ensure that internal controls are implemented, tested, monitored and maintained. TELUS also maintains a currency hedging program to manage certain foreign currency exposures.

Integration of acquisitions

Post-merger and post-acquisition activities include the review and alignment of accounting policies, employee transfers and moves, information systems integration, optimization of service offerings and establishment of control over new operations. Such activities may not be conducted efficiently and effectively, negatively impacting service levels, competitive position and expected financial results.

Risk mitigation: TELUS has a team that performs a post-merger integration (PMI) function. The PMI team applies an integration model, based on learnings from numerous previous post-acquisition integrations, which enhances and accelerates the standardization of TELUS' business processes and strives to preserve the unique qualities of acquired operations. PMI begins with strategic, pre-closing analysis and planning, and continues after closing with the execution of a plan. Initial plans are re-evaluated and assessed regularly, based on timely feedback received from the integration teams.

Data protection

Some of the Company's efficiency initiatives rely on offshoring of internal functions to TELUS International's operations and leveraging partners domestically and abroad. To be effective, offshore and partner relationships require TELUS to provide access to the Company's data. Remote access to TELUS data could lead to data being lost, compromised or accessed by third parties potentially for inappropriate use, negatively impacting the Company's competitive position, financial results and brand.

Risk mitigation: A core component of TELUS' strategy is for data to reside in TELUS facilities in Canada, with the deployment of infrastructure to support partner connectivity to view these TELUS systems. TELUS International and partners are provided with remote views of the data without it being stored on local systems.

Another core component of the TELUS strategy is payment card industry (PCI) compliance, a rigorous set of standards leveraging the latest security technology, such as encryption, to ensure the protection of customer credit card information. These capabilities are being introduced and

implemented by TELUS and TELUS International in accordance with the ongoing PCI certification program.

10.6 Financing and debt requirements

TELUS' business plans and growth could be negatively affected if existing financing is not sufficient to cover funding requirements

Risk factors such as disruptions in the capital markets, sovereign credit concerns in Europe, increased bank capitalization regulations, reduced lending in general, or fewer Canadian chartered banks as a result of reduced activity or consolidation, could reduce capital available or increase the cost of such capital for investment grade corporate issuers such as TELUS. External capital market conditions could potentially affect the Company's ability to make strategic investments and fund ongoing capital investment requirements.

Risk mitigation: TELUS may finance future capital requirements with internally generated funds, borrowings under the unutilized portion of its bank credit facility, use of securitized trade receivables, use of commercial paper, and/or the

issuance of debt or equity securities. TELUS has a shelf prospectus available until November 2013, under which, as at December 31, 2011, it can offer up to $2.5 billion of debt and equity. TELUS believes its adherence to its stated financial policies and the resulting investment grade credit ratings, coupled with its efforts to maintain a constructive relationship with banks, investors and credit rating agencies, continue to contribute to provide reasonable access to capital markets.

In 2011, the Company renewed a $2 billion credit facility, which now expires on November 3, 2016. At December 31, 2011, $1.2 billion was available. This facility allows the Company to continue to meet one of its financial objectives, which is to generally maintain $1 billion in available liquidity. As described in *Section 7.6 Sale of trade receivables,* TELUS Communications Inc. (TCI) also has an agreement with an arm's-length securitization trust under which it is able to sell an interest in certain of its trade receivables up to a maximum of $500 million. At December 31, 2011, TCI had received aggregate cash proceeds of $400 million, with $100 million available. TCI is required to maintain at least a BBB (low) credit rating by DBRS Ltd., failing which, the Company may be required to wind down the program prior to the August 1, 2014, termination date of the agreement.

Ability to refinance maturing debt

At December 31, 2011, the only significant maturity of long-term debt in 2012 is the $300 million of 4.50% Notes due March 15, 2012. TELUS also operates a commercial paper program (maximum of $1.2 billion) that permits access to low-cost funding. At December 31, 2011, TELUS had $766 million of commercial paper issued, which must be refinanced on an ongoing basis to enable the cost savings relative to borrowing on the 2016 credit facility to be realized. Capital market conditions may prohibit the rolling of commercial paper at low rates.

***Risk mitigation*:** Through successful financing activities in 2011 (see *Section 7.3*), TELUS refinanced $1.1 billion of debt maturing on June 1, 2011, including associated cross currency interest rate swap agreements. TELUS issued $600 million of 3.65% Notes maturing May 25, 2016, and $500 million of commercial paper to repay the debt. This refinancing significantly reduced the cost of the debt compared to the effective rate of 8.5% on the Notes that matured. The Company's commercial paper program is fully backstopped by the 2016 credit facility. TELUS may issue additional long-term debt to refinance $300 million maturing in March 2012, although the Company has sufficient unutilized credit facilities to refinance the debt without accessing the long-term debt markets. At December 31, 2011, TELUS' long-term debt was $6.6 billion, with various amounts maturing from 2012 to 2025 (see *Section 4.3* for a debt principal maturity profile).

A reduction in TELUS credit ratings could impact the Company's cost of capital and access to capital

The Company's cost of capital could increase and access to capital might be affected by a reduction in the credit ratings of TELUS and/or TCI. There can be no assurance that TELUS can maintain or improve current credit ratings.

Risk mitigation: TELUS seeks to maintain debt credit ratings in the range of BBB+ to A-, or equivalent. The four credit rating agencies that rate TELUS currently have ratings that are in line with this target, with a stable outlook or trend, and have confirmed TELUS' ratings. TELUS has financial policies in place that were established to help maintain or improve existing credit ratings. (See *Section 7.4 Liquidity and capital resource measures.*)

Lower than expected free cash flow could constrain ability to invest in operations or reduce debt

TELUS expects to generate free cash flow in the range of $1.2 to $1.4 billion in 2012 after investing approximately $1.85 billion of capital expenditures. (See the free cash flow definition in *Section 11.2.*) Free cash flow would be reduced by amounts required for the upcoming 700 MHz spectrum auction currently expected in late 2012 or early 2013. Among other things, free cash flow would be available to pay dividends to the Company's shareholders. While anticipated cash flow is expected to be more than sufficient to meet current requirements and remain in compliance with TELUS' financial policies, these intentions could constrain TELUS' ability to invest in its operations for future growth. As described in *Section 1.5*, funding of defined benefit pension plans and any increases in corporate income tax rates in the future will reduce the after-tax cash flow otherwise available to return capital to the Company's shareholders. If actual results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, including its intention to pay dividends according to the target payout guideline.

Risk mitigation: The TELUS Board reviews the dividend each quarter, based on a number of factors including a target dividend payout ratio guideline of 55 to 65% of sustainable net earnings on a prospective basis. These reviews resulted in TELUS announcing three quarterly dividend increases in 2011 and early 2012, which are three of six targeted semi-annual dividend increases through 2013 announced by the Company in May 2011. The increases are to be normally declared in May and November, in the range of circa 10% annually and are not necessarily indicative of dividend increases beyond 2013. Based on announced dividend increases as of February 21, 2012, and 325 million shares outstanding,

dividend payments would total approximately $774 million in 2012.

Financial instruments

The Company's financial instruments, and the nature of credit risks, liquidity risks and market risks that they may be subject to, are described in *Financial instruments* in *Section 7.8*.

10.7 Tax matters

Income and commodity tax amounts, including tax expense, may be materially different than expected

The operations of TELUS are complex and related tax interpretations, regulations and legislation that pertain to TELUS' activities are subject to continual change. Moreover, the implementation of new legislation in itself has its own complexities, including those of execution where multiple systems are involved, and interpretations in applying new rules to specific transactions, products and services. The Company collects and pays significant amounts of commodity taxes, such as sales and use taxes, harmonized sales taxes, goods and services taxes (GST) and value-added taxes, to various taxation authorities. The recent actions of certain Canadian provinces have resulted in significant changes in this area. For example, in 2010, the provinces of British Columbia and Ontario both required a change from their provincial sales tax regimes to a sales tax harmonized with the federal GST. In implementing those required changes, 70 applications or systems were impacted at a total cost of more than $9 million. As a result of a referendum in 2011, British Columbia is now required to revert back to a form of provincial sales tax impacting most of the same systems at an estimated implementation cost of $5 to $6 million.

The Company also accrues and pays income taxes in the hundreds of millions of dollars and has significant deferred income tax liabilities and income tax expense. Income tax amounts are based on TELUS management's estimates, using accounting principles that recognize the benefit of income tax positions that are more likely than not of being sustained upon examination on an issue-by-issue basis. The benefit is measured at the amount expected to be realized upon ultimate settlement with taxing authorities. The assessment of the likelihood and amount of income tax benefits, as well as the timing of realization of such amounts, can materially affect the determination of net income or cash flows. As noted in *Section 1.5 Financial and operating targets for 2012* , TELUS currently expects to make cash income tax payments, net of recoveries, of approximately $150 to $200 million in 2012. The blended statutory income tax rate is expected to range between 25% and 26% in 2012. These expectations can change as a result of changes in interpretations, regulations, legislation or jurisprudence.

The timing concerning the monetization or realization of deferred income tax accounts is uncertain, as it is dependent on future earnings of TELUS and other events. The amounts of deferred income tax liabilities are also uncertain, as the amounts are based upon substantively enacted future income tax rates in effect at the time, which can be changed by governments. The amounts of cash tax payments and deferred income tax liabilities are also based upon the Company's anticipated mix of revenues among the jurisdictions in which it operates, which is also subject to change.

The audit and review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the actual amounts of commodity taxes payable or receivable, income taxes payable or receivable, future income tax liabilities and income tax expense. Therefore, there can be no assurance that taxes will be payable as anticipated and/or that the amount and timing of receipt or use of the tax-related assets will be as currently expected. Management's experience indicates the taxation authorities are more aggressively pursuing perceived tax issues and have increased the resources they put to these efforts. Economic uncertainty has only served to exacerbate such aggressive practices.

In order to provide comprehensive solutions to Canadian-based customers operating in foreign jurisdictions, the Company has entered into further arrangements for the supply of services in such foreign jurisdictions. These activities, as well as the offshoring of certain business processes, have resulted in greater presence in the United States, United Kingdom, Philippines, Guatemala, El Salvador, Barbados and India, increasing the Company's exposure to multiple forms of taxation.

Generally, each foreign jurisdiction has its own taxation peculiarities in the forms of taxation imposed (such as value-added tax, gross receipts tax or income tax) and its own legislation and tax treaties with Canada, as well as currency and language differences. Notwithstanding the usual differences, the telecommunications industry has unique issues that lead to uncertainty in the application or division of tax between domestic and foreign jurisdictions. Accordingly, TELUS' foreign expansion activities have increased the Company's exposure to tax risks, from both financial and reputation perspectives.

Risk mitigation: The Company follows a Comprehensive Tax Conduct and Risk Management Policy that has been adopted by the Company's Board of Directors. This policy outlines the principles underlying and guiding the roles of team members, their responsibilities, personal conduct, the method of conducting business in relation to tax law and the approaches to working relationships with external taxing authorities and external advisors. This policy recognizes the requirement to comply with tax laws in the context of the rights of TELUS as a taxpayer in the various jurisdictions in

which it operates. The required components for control and mitigation of tax risk are outlined as well as the delegation of authority to management on tax matters with Board and Audit Committee communication guidelines.

In keeping with this policy, the Company maintains an internal Taxation department composed of professionals who are trained and educated in taxation administration and who maintain an up-to-date knowledge base of new developments in the underlying Canadian law, its interpretations and jurisprudence. TELUS also has an experienced international team with knowledge of U.S. and other foreign tax laws, supplemented by U.S. and foreign external advisors, to provide tax advice and to assess foreign tax issues and risks. These teams review systems and process changes to ensure compliance with domestic and applicable international taxation laws and regulations. They are also responsible for the specialized accounting required for income taxes, and accordingly, they are charged with maintaining state-of-the-art knowledge of tax accounting developments and the implementation of such relevant measures, as required.

Material transactions of the Company are under continual review by the Company's Taxation department whereby transactions of an unusual or non-recurring nature, in particular, are assessed from multiple risk-based perspectives. Tax-related transaction risks are regularly communicated to and reassessed by tax counsel as a check to initial exposure assessments. As a matter of regular practice, large and international transactions are reviewed by external tax advisors, while other third-party advisors may also be engaged to express their view as to the potential for tax exigibility. In 2011, the Company launched phase two of its enterprise-wide program to review its existing international structure, systems and processes and to develop a future mode of operation that will mitigate its regulatory, legal and tax risks as it continues international expansion. The Company engages external counsel and advisors as appropriate to provide advice and to prepare or review returns to enable the Company to comply in material respects with tax laws in the jurisdictions outside of Canada in which it has operations of any significance. The advice and returns provided by such advisors and counsel are reviewed for reasonableness by TELUS' internal Taxation team.

10.8 Health, safety and environment

Team member health, wellness and safety

Lost work time resulting from the physical injury or psychological illness of TELUS team members can negatively impact organizational productivity and employee benefit costs.

Risk mitigation: To minimize absences in the workplace, TELUS supports a holistic and proactive approach to team member health by providing comprehensive wellness, disability, ergonomic and employee assistance programs. To promote safe work practices, the Company has long-standing training and orientation programs for team members, contractors and suppliers who access TELUS facilities. In addition to a robust active living strategy and proactive health screenings, the wellness strategy includes comprehensive support and training for managers. This includes workplace team support programs and access to short-term and long-term counselling for individual team members. However, there can be no assurance that these safety and health programs and practices will be effective in all situations.

Radiofrequency (RF) emission concerns

Cell phones emit low levels of non-ionizing RF electromagnetic fields. A small number of epidemiological studies have showed that exposure to RF fields might be linked to certain cancers, while other studies have not supported this association. Furthermore, animal cancer and laboratory studies have found no evidence that RF fields are carcinogenic to laboratory rodents and cause DNA damage.

In May 2011, the International Agency for Research on Cancer (IARC) noted that a positive association has been observed between long-term, heavy use of mobile phones and certain brain cancers for which a causal interpretation is considered to be credible, but that chance, bias or confounding could not be ruled out with reasonable confidence. The IARC classified RF electromagnetic fields from wireless phones as possibly carcinogenic to humans — a classification that includes 267 items such as chloroform, coffee and nickel. The IARC also called for additional research into long-term, heavy use of mobile phones.

In October 2011, Health Canada updated its Safety of Cell Phones and Cell Phone Towers advisory, noting that the link between RF emission exposure and cancer risk is far from conclusive and more research is needed. The IARC and Health Canada have advised cell phone users that they can take practical measures to reduce their RF emission exposure, such as limiting the length of cell phone calls, using hands-free devices, and replacing cell phone calls with text messages. In addition, Health Canada encourages parents to take these measures to reduce their children's RF emission exposure from cell phones since children are typically more sensitive to a variety of environmental agents.

There can be no assurance that future studies, government regulations or public concerns about the health effects of RF emissions will not have an adverse effect on the business and prospects of TELUS. For example, public concerns could reduce subscriber growth and usage, and increase costs as a result of modifying handsets, relocating wireless towers, and addressing incremental legal requirements and product liability lawsuits. TELUS continues to monitor developments

in this area.

Risk mitigation: Industry Canada is responsible for establishing safe limits for signal levels of radio devices. TELUS believes that the handsets it sells, as well as its cell towers and other associated devices, comply with all applicable Canadian and U.S. government safety standards.

Concerns related to contaminated property and associated risk to human health or wildlife

To conduct business operations, TELUS owns or leases a large number of properties. The presence of fuel systems for back-up power generation enables the provision of reliable service, but also poses an environmental risk for the Company. Spills or releases of fuel from these systems have occurred occasionally in recent years, but a significant portion of this risk is associated with the cost of clean-up of sites contaminated by historic TELUS practices or by previous owners. There were no significant changes to TELUS' environmental risks during 2011. Although TELUS takes proactive measures to identify and mitigate environmental exposures and employs an environmental management system (EMS) based on ISO14001:2004, there can be no assurance that specific environmental incidents will not impact TELUS operations in the future.

Risk mitigation: While TELUS' environmental risks are considered immaterial to the Company's financial results, they are important from a corporate social responsibility (CSR) perspective, which TELUS takes seriously. Poor environmental performance or ineffective risk mitigation could have negative legal, brand or community relations impacts. The Company's EMS is designed to proactively identify and prioritize these risks. The specific risk posed by fuel systems is being addressed through a program to install containment and monitoring equipment at sites with systems of qualifying size. Further detailed assessment of environmental risks and mitigation activities can be found in the TELUS CSR report at **telus.com/csr**.

Concerns related to climate change

The general view of the worldwide scientific community is that anthropogenic sources of greenhouse gases, such as carbon dioxide equivalency (CO_2e), are possibly accelerating the rate of global climate change. Such changes are a potential risk to TELUS' business operations. TELUS' North American CO_2e emissions have remained fairly consistent with little variance since it began measuring its CO_2e output. The Company estimates that its emissions in 2011 will be similar to 2010 at approximately 350,000 tonnes. Final emission totals for 2011 will be published in the 2011 CSR report.

***Risk mitigation*:** In 2010, TELUS announced its climate change strategy, which includes a mitigation component focusing on energy and CO_2e reduction, an adaptation component focusing on the mitigation of the effects of a changing climate on TELUS operations, and an innovation component, which helps customers and communities realize their climate change goals through TELUS' technological and service solutions. TELUS' strategic targets are a 25% reduction in CO_2e emissions over 2009 levels by 2020 and a 10% reduction in energy use over the same period. TELUS is working to achieve this through network efficiency upgrades, real estate transformation and LEED principles certification for construction of new buildings, in-house technology upgrades, server virtualization, increased use of video-conferencing and teleconferencing, fleet transformation and employee education. TELUS measures its yearly emissions against its targets and actively pursues efficiency strategies to help reach its goals.

Concerns related to electronic waste (e-waste)

TELUS has a responsibility to help ensure that equipment it uses or sells is dealt with appropriately at the end of its life cycle. Improperly managed e-waste may be sent to landfills or developing countries which, due to a lack of disposal regulations, can contribute to environmental and health impacts.

Risk mitigation: TELUS has implemented an e-waste management program designed to provide approved recycling channels for both its external and internal electronic products. TELUS monitors current and emerging government regulation and continues to improve its processes. One example is the Recycle My Cell initiative, where TELUS has partnered with the Canadian Wireless Telecommunications Association to introduce a national program that links all participating recycling programs, making it easier for consumers to know where and how to dispose of wireless devices. The phones collected through this program are sent to approved Canadian facilities where they are refurbished and re-used, or recycled by approved processors.

Disclosure of minerals and metals sourced from conflict zones

New legislation in the United States includes requirements to disclose the use of certain minerals and metals mined in the Democratic Republic of Congo and adjacent countries, including tantalum, tin, tungsten and gold, often referred to as conflict minerals. Such minerals may be used in the manufacturing of telecommunications equipment, including mobile devices. TELUS does not manufacture equipment, but purchases it from numerous suppliers and acknowledges its responsibilities in the supply chain. TELUS is also a signatory of the UN Global Compact and as such is committed to

preventing human rights abuses that could result from its operations.

Risk mitigation: TELUS is currently waiting for the U.S. Securities and Exchange Commission (SEC) to address scope and other implementation concerns raised during the public comment period and to finalize the implementation regulations for Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which proposes reporting requirements for conflict minerals originating in the Democratic Republic of the Congo and adjacent countries. TELUS has been part of industry discussions on this matter and supports the overall intent of Section 1502 of Dodd-Frank to address human rights violations in these countries. TELUS expects to comply with the SEC's regulations, once finalized, in a manner consistent with telecommunications industry peers.

10.9 Litigation and legal matters

Investigations, claims and lawsuits

Given the size of TELUS, investigations, claims and lawsuits seeking damages and other relief are regularly threatened or pending against the Company and its subsidiaries. TELUS cannot predict with any certainty the outcome of such actions and as such, there can be no assurance that financial or operating results will not be negatively impacted.

Risk mitigation: The Company believes that it has put in place reasonable policies, processes and awareness designed to enable compliance with legal and contractual obligations and reduce exposure to legal claims. Please also refer to the other risk mitigation steps discussed in this subsection.

Class actions

TELUS and certain subsidiaries are defendants in a number of certified and uncertified class actions. The Company has observed an increased willingness on the part of claimants to launch class actions whereby a representative plaintiff seeks to pursue a legal claim on behalf of a large group of persons, and the number of class actions filed against the Company has continuously increased in recent years. The adoption by governments of increasingly stringent consumer protection legislation (such as Quebec's *Bill 60* in 2010) may also increase the number of class actions. A successful class action lawsuit, by its nature, could result in a sizable damage award that negatively affects a defendant's financial or operating results.

Certified class actions

Certified class actions against the Company include a class action brought in 2004 in Saskatchewan against a number of past and present wireless service providers including TELUS. The claim alleges that each of the carrier defendants 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 were commenced in other provinces. A national class was certified in September 2007 by the Saskatchewan Court of Queen's Bench. TELUS' appeal of the certification order was dismissed on November 15, 2011. An application for leave to appeal this decision to the Supreme Court of Canada was filed on January 13, 2012. Certification is a procedural step. If the Company is unsuccessful on appeal of the certification decision, the plaintiff would still be required to prove the merits of the claim.

A new class action making substantially the same allegations was brought in 2009 in Saskatchewan. The Company believes this was done in an attempt to take advantage of the expanded scope in class action legislation since 2004. The new class action was stayed by the court in December 2009 upon an application by the defendants to dismiss it for abuse of process, conditional on possible future changes in circumstance. In March 2010, the plaintiffs applied for leave to appeal the stay decision and that application was adjourned pending the outcome of the 2004 class action.

In late 2011, a further class action relating to system access fees was filed in British Columbia; this action is not yet certified.

Risk mitigation: Certification of a class action does not determine the merits of the claim, and the plaintiffs are still required to prove the merits of their claims. The Company believes that it has good defences to these actions and is vigorously defending them. Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Uncertified class actions

Uncertified class actions against the Company include a 2008 class action brought in Saskatchewan alleging that, among other things, Canadian telecommunications carriers including the Company have failed to provide proper notice of 911 charges to the public and have been deceitfully passing them off as government charges, as well as a 2008 class action brought in Ontario alleging that the Company has misrepresented its practice of rounding up wireless airtime to the nearest minute and charging for the full minute. In 2011, the Company learned that a further class action relating to 911 charges was filed in Alberta in 2008, but has not yet been served on the Company. The plaintiffs in these actions

seek direct and punitive damages and other relief. The Company is assessing the merits of these claims, but the potential for liability and magnitude of potential loss cannot be readily determined at this time.

Risk mitigation: The Company is vigorously defending against certification of these actions. Certification is a procedural step that determines whether a particular lawsuit may be prosecuted by a representative plaintiff on behalf of a class of individuals. Certification of a class action does not determine the merits of the claim, so that if the Company were unsuccessful in defeating certification, the plaintiffs would still be required to prove the merits of their claims.

Civil liability in the secondary market

Like other Canadian public companies, TELUS is subject to civil liability for misrepresentations in written disclosure and oral statements, and liability for fraud and market manipulation. Legislation creating liability was first introduced in Ontario in 2005. Since then, other provinces and territories have adopted similar legislation.

The legislation creates a right of action for damages against TELUS, its directors and certain of its officers in the event that TELUS, or a person with actual, implied or apparent authority to act or speak on behalf of TELUS, releases a document or makes a public oral statement that contains a misrepresentation, or TELUS fails to make timely disclosure of a material change.

The legislation permits action to be taken by any person or company that acquires or disposes of TELUS securities in the secondary market during the period of time that the misrepresentation remains uncorrected in the public or, in the case of an omission, until such time as the material change has been disclosed. It is not necessary for the person or company to establish that they relied on the misrepresentation in making the acquisition or disposition.

Risk mitigation: When the legislation was first introduced, TELUS conducted a review of its disclosure practices and procedures and the extent to which they were documented. As part of that review, TELUS consulted external advisors. This review indicated that TELUS has well-documented and fulsome processes in place, including a corporate disclosure policy that restricts spokespersons to specifically designated senior management, provides a protocol for dealing with analysts and oral presentations, outlines the communication approach to issues, and has a disclosure committee to review and determine disclosure of material information. TELUS monitors legal developments and annually re-evaluates its disclosure practices and procedures, including in 2011, and believes that they continue to be appropriate and prudent and that its risk exposure is reasonable and has not changed significantly over the past 12 months. However, there can be no assurance that TELUS' processes will be followed by all

team members at all times.

Legal compliance

TELUS relies on its employees, officers, Board of Directors, key suppliers and partners to demonstrate reasonable legal and ethical standards. Situations might occur where individuals do not adhere to TELUS policies or contractual obligations. For instance, there could be cases where personal information of a TELUS customer or employee is inadvertently collected, used or disclosed in a manner that is not fully compliant with legislation or contractual obligations. In the case of TELUS Health Solutions, personal information includes sensitive health information of individuals who are TELUS customers or healthcare providers' end customers. In addition, there could be situations where compliance programs may not be fully adhered to or parties may have a different interpretation of the requirements of particular legislative provisions. These various situations may expose TELUS to litigation and the possibility of damages, sanctions and fines, and/or negatively affect TELUS' financial or operating results and reputation.

In 2011, the Company continued to expand its activities into the United States and other countries. When operating in foreign jurisdictions TELUS is required to comply with local laws and regulations, which may differ substantially from Canadian laws and add to the legal and tax exposures the Company faces.

Risk mitigation: Although management cannot predict outcomes with certainty, management believes that it has reasonable policies, controls and processes, and awareness in place for proper compliance and that these programs are having a positive effect on reducing risks. TELUS has instituted for its employees, officers and directors an ethics policy and mandatory ethics training as well as a toll-free Ethics Line for anonymous reporting by anyone who has issues or complaints. Since 2003, TELUS has had a designated Compliance Officer, whose role is to work across the enterprise to ensure that the business has the appropriate controls and measurements in place to facilitate legal compliance. For example, as a proactive measure on privacy compliance, TELUS places a control in the development stage of major projects by requiring a privacy impact assessment to be performed for such projects involving the use of customer or team member personal information.

The Company has established a rigorous review process to ensure that regulatory, legal and tax requirements are considered when pursuing opportunities outside Canada. The Company has also launched an enterprise-wide program to review its existing international structure, systems and processes and to develop a future mode of operation that mitigates regulatory, legal and tax risks as it expands outside of Canada. Finally, external counsel and advisors qualified in the relevant foreign jurisdictions are engaged by the Company to provide regulatory, legal and tax advice as

appropriate.

The Compliance Officer reports jointly to the Audit Committee and the Senior Vice-President and Chief Legal Officer. This dual reporting provides direct line-of-sight reporting to the Audit Committee to address identified risks.

Defects in software and failures in data and transaction processing

TELUS Health and Finance Solutions provide to their customers certain applications and managed services that involve the processing and/or storing of data, including sensitive personal health data, and the transfer of large funds. Software defects or failures in data or transaction processing could lead to substantial damage claims (including medical claims). For instance, a defect in a TELUS Health and Finance Solutions application could lead to personal injury, while a failure in transaction processing could result in the transfer of funds to the wrong recipient.

Risk mitigation: Management believes that it has put in place reasonable policies, controls, processes (such as quality assurance programs in software development procedures) and contractual arrangements (such as disclaimers, indemnities and limitations of liability), as well as insurance coverage, to reduce exposure to legal claims. However, there can be no assurance that the Company's processes will be followed by all team members at all times.

Intellectual property and proprietary rights

Technology evolution also brings additional legal risks and uncertainties. The intellectual property and proprietary rights of owners and developers of hardware, software, business processes and other technologies may be protected under statute, such as patent, copyright and industrial design legislation, or under common law, such as trade secrets. With the growth and development of technology-based industries, the value of these intellectual property and proprietary rights has increased. Significant damages may be awarded in intellectual property infringement claims advanced by rights holders. In addition, defendants may incur significant costs to defend such claims and that possibility may prompt defendants to settle claims more readily, in part to mitigate those costs. Both of these factors may incent intellectual property rights holders to more aggressively pursue infringement claims.

Given the vast array of technologies and systems used by TELUS and its affiliates to deliver their products and services, and with the rapid change and complexity of such technologies, disputes over intellectual property and proprietary rights can reasonably be expected to increase. As a user of technology, TELUS and its affiliates receive from time to time communications, ranging from solicitations to demands and legal actions, from third parties claiming ownership rights over intellectual property used by TELUS and its affiliates and asking them to pay a settlement or licensing fees for the continued use of such intellectual property. There can be no assurance that TELUS and its affiliates will not be faced with significant claims based on the alleged infringement of intellectual property rights, whether such claims are based on a legitimate dispute over the validity of the intellectual property rights or their infringement, or whether such claims are advanced for the primary purpose of extracting a settlement. TELUS and its affiliates may incur significant costs in defending infringement claims, and may suffer significant damages and lose the right to use technologies that are essential to their operations should any infringement claim prove successful. As developers of technology, TELUS Health and Finance Solutions depend on their ability to protect the proprietary aspects of their technology. The failure to do so adequately could materially affect their business. However, policing unauthorized use of TELUS' intellectual property may be difficult and costly.

Risk mitigation: TELUS and its affiliates incorporate many technologies into their products and services. However, except for TELUS Health and Finance Solutions, they are not primarily in the business of creating or inventing technology. In acquiring products and services from suppliers, it is the practice of TELUS and its affiliates to seek and obtain contractual protections consistent with industry practices, to help mitigate the risks of intellectual property infringements. It is the practice of TELUS Health and Finance Solutions to vigorously protect their intellectual property rights through litigation and other means.

10.10 Human-caused and natural threats

Concerns about natural disasters and intentional threats to TELUS' infrastructure and its Canadian and international business operations

TELUS is a key provider of critical telecommunications infrastructure in Canada and has certain supporting business functions located in more than 10 countries in North America, Asia, Central America and Europe. The Company's networks, information technology, physical assets, team members, supply chain and business results may be materially impacted by exogenous threats, including:

- Natural disasters, seismic and severe weather-related events such as ice, snow and wind storms, flooding, lightning strikes, wildfires, typhoons/hurricanes, tornadoes and tsunamis
- Intentional threats such as sabotage, terrorism, labour disputes, and political and civil unrest

- Dependence on the provision of service to the Company by other infrastructure providers (e.g. power)
- Public health threats such as pandemics.

The Company recognizes that global climate change may exacerbate certain of these threats, including the frequency and severity of weather-related events.

Risk mitigation: TELUS has an extensive ongoing enterprise-wide business continuity program with resources dedicated to develop, exercise and maintain business continuity/disaster recovery policies, plans and processes that address a range of emergency and disaster scenarios to protect the Company's critical business functions and key facilities. This approach focuses on ensuring employee protection and safety, supporting TELUS' continued ability to serve customers and provide a positive customer experience, and protecting corporate assets by instituting resiliency planning in the Company's day-to-day business operations. TELUS' risk management is driven by proactive planning and ongoing environmental and situational monitoring. TELUS takes an all-hazards approach to business continuity planning, augmented by monitoring and planning for resource-impacting events such as pandemics and work stoppages, and by ongoing risk mitigation in regards to seismic structural upgrades, earthquake-readiness exercises, fire protection, flood prevention and power provisioning.

Optimizing disaster recovery planning for the Company's IT assets is a current focus with the goal of reducing potential outages and outage durations, as well as improving alignment of IT support capability and business demand. Regarding internationally situated business support and outsourcing functions, TELUS has expanded these functions to additional countries in different geographic regions to mitigate the risk of locating these functions in one country, and continues to develop initiatives to mitigate risk and increase the resilience of these operations.

Although TELUS has business continuity planning processes in place, there can be no assurance that specific events or a combination of events will not materially impact TELUS operations and results.

Security — Electronic attack

Electronic attacks are intentional acts to gain unauthorized access to TELUS information or to prevent legitimate users from gaining access. Such attacks may use a range of techniques, from social engineering (non-technical intrusion relying heavily on human interaction and trickery to break normal security procedures) to the use of sophisticated software and hardware.

Risk mitigation: Using a layered security approach, TELUS has implemented a number of proactive, reactive and containment processes and systems to safeguard its IT infrastructure, information repositories and information distribution. Security policies and procedures are in place to govern the duties of those responsible for information confidentiality and integrity. Intrusion detection systems, access controls and incident response procedures are in place to provide continuous monitoring of TELUS' IT infrastructure.

Security — Vandalism and theft

TELUS has a number of publicly situated physical assets that are subject to vandalism and/or theft, including public payphones, copper cable, corporate stores, and network and telephone switch centres. For example, the Company's telecommunications network has been subjected to localized disruptions from theft of copper cable due to high copper prices.

Risk mitigation: The Company has implemented an array of physical and electronic barriers, controls and monitoring systems to protect its assets, considering such factors as asset importance, exposure risks and potential costs incurred should a particular asset be damaged or stolen. As an additional level of risk management, TELUS has a corporate security group that continually investigates and evaluates the risks and, in co-operation with law enforcement and other external agencies, adjusts its level of protection to meet changing risks. For example, TELUS worked with local governments to enact legislation intended to regulate the scrap metal recycling industry to help reduce copper theft.

While TELUS has IT and network security planning processes, and thorough physical asset security planning processes, there can be no

assurance that specific events will not materially impact TELUS operations and results.

10.11 Economic growth and fluctuations

Economic growth in Canada was estimated to be 2.4% in 2011, although significant global challenges emerged in the year. The Bank of Canada's January 2012 Monetary Policy Report projected growth of 2.0% for 2012 and 2.8% for 2013 as continuing weakness in the global economy and uncertainty in the financial environment are expected to pose challenges to the Canadian economy through 2012. Based on a consensus of major Canadian chartered banks, Canada's annual unemployment rate for 2012 is expected to be slightly lower than the 7.5% reported in December 2011.

With continued strength in the Canadian natural resource sector, economic growth in B.C. and Alberta is expected to

remain stronger than in Central Canada. However, concerns remain around weak domestic demand, global economic weakness, high unemployment rates, and the timing and impact of reduced government spending in Canada.

Slow or uneven economic growth may adversely impact TELUS

Economic uncertainty may cause consumers and business customers to delay new service purchases, reduce volumes of use, discontinue use of services or seek lower-priced alternatives. A significant economic downturn or recession could adversely impact TELUS' revenue, profitability, free cash flow and bad debt expense, and potentially require the Company to record impairments to the carrying value of its assets including, but not limited to, its intangible assets with indefinite lives (spectrum licences) and its goodwill. Impairments to the carrying value of assets would result in a charge to earnings and a reduction in owners' equity, but would not affect cash flow.

Risk mitigation: Although the Company cannot completely mitigate economic risks, TELUS introduced the *Customers First* initiatives as the number one corporate priority to enhance customer experiences. TELUS also continues to pursue cost reduction and efficiency initiatives. Even though Canadian economic growth in 2012 is expected to be lower than in 2011, TELUS expects its revenue growth to be 3 to 6% in 2012 (see *Section 1.5*). The Company also expects its 2012 capital expenditures to be at a level similar to 2011 (excluding any potential spectrum purchases). If necessary, the Company may also consider additional cost and efficiency initiatives in future years.

Pension funding

Economic and capital market fluctuations could also adversely impact the funding and expense associated with the defined benefit pension plans that TELUS sponsors. There can be no assurance that TELUS' pension expense and funding of its defined benefit pension plans will not increase in the future and thereby negatively impact earnings and/or cash flow. Defined benefit funding risks may occur if total pension liabilities exceed the total value of the respective trust funds. Unfunded differences may arise from lower than expected investment returns, reductions in the discount rate used to value pension liabilities, and actuarial loss experiences. After-tax actuarial gains and losses on defined benefit pension plans will cause fluctuations in Other comprehensive income, which will never be subsequently reclassified to income.

Risk mitigation: TELUS seeks to mitigate this risk through the application of policies and procedures designed to control investment risk and ongoing monitoring of its funding position. Pension expense and funding for 2012 have been largely determined by the rates of return on the plans' assets for 2011 and interest rates at year-end 2011. The estimated pension recovery is approximately $12 million for 2012 (a pension recovery of $34 million in 2011). The Company's best estimate of cash contributions to its defined benefit pension plans in 2012 is $172 million including a $100 million discretionary special contribution in January 2012 ($298 million in 2011 including a $200 million discretionary special contribution in January 2011).

11. Definitions and reconciliations

11.1 EBITDA (earnings before interest, taxes, depreciation and amortization)

EBITDA does not have any standardized meaning prescribed by IFRS-IASB and is therefore unlikely to be comparable to similar measures presented by other issuers. EBITDA should not be considered an alternative to Net income in measuring the Company's performance, nor should it be used as an exclusive measure of cash flow. TELUS has issued guidance on and reports EBITDA because it is a key measure that management uses to evaluate performance of segments and the Company. EBITDA — excluding restructuring costs is also utilized in measuring compliance with debt covenants (see description in *Section 11.4*). EBITDA is a measure commonly reported and widely used by investors and lending institutions as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric.

The CICA's Canadian Performance Reporting Board defined standardized EBITDA to foster comparability of the measure between entities. Standardized EBITDA is an indication of an entity's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, standardized EBITDA comprises revenue less operating costs before interest expense, capital asset amortization and impairment charges, and income taxes.

As in 2011, an adjusted EBITDA may also be calculated periodically to exclude items of an unusual nature that do not reflect normal or ongoing telecommunications operations, that should not be considered in a valuation metric or should not be included in assessment of ability to service or incur debt.

EBITDA reconciliation

Years ended December 31 ($ millions)	2011	2010
Net income	**1,215**	1,052
Financing costs	**377**	522
Income taxes	**376**	335
Depreciation	**1,331**	1,339
Amortization of intangible assets	**479**	402
Impairment losses (reversals) for capital assets	**—**	—
EBITDA (standardized EBITDA in CICA guideline)	**3,778**	3,650
Deduct Transactel gain	**(17)**	—
Adjusted EBITDA	**3,761**	3,650

Management also calculates EBITDA less capital expenditures as a simple proxy for cash flow at a consolidated level and in its two reportable segments. EBITDA less capital expenditures may be used for comparison to the reported results for other telecommunications companies over time and is subject to the potential comparability issues of EBITDA described above.

Calculation of EBITDA less capital expenditures

Years ended December 31 ($ millions)	2011	2010
EBITDA	**3,778**	3,650
Capital expenditures	**(1,847)**	(1,721)
EBITDA less capital expenditures	**1,931**	1,929
Deduct Transactel gain	**(17)**	—
Adjusted EBITDA less capital expenditures	**1,914**	1,929

11.2 Free cash flow

Free cash flow does not have any standardized meaning prescribed by IFRS-IASB and should not be considered an alternative to the Consolidated statements of cash flows. TELUS reports free cash flow because it is a key measure used by management to evaluate the Company's performance. Free cash flow excludes certain working capital changes and other sources and uses of cash, as found in the Consolidated statements of cash flows. Investors are cautioned that free cash flow as reported by TELUS may not be comparable to free cash flow reported by other companies, and differs from standardized free cash flow defined by the CICA's Canadian Performance Reporting Board. Management's definition of free cash flow provides an indication of how much cash generated by operations is available after capital expenditures, but before dividends, acquisitions, proceeds from divested assets and changes in certain working capital items (such as trade receivables and trade payables).

Free cash flow calculation

Years ended December 31 ($ millions)	2011	2010
EBITDA (see *Section 11.1*)	**3,778**	3,650
Deduct Transactel gain	**(17)**	—
Restructuring costs net of cash payments	**(48)**	(24)
Items from the Consolidated statements of cash flows		
Share-based compensation	**(12)**	(30)
Net employee defined benefit plans expense (recovery)	**(32)**	(9)
Employer contributions to employee defined benefit plans	**(298)**	(140)
Interest paid	**(378)**	(479)
Interest received	**1**	3
Income taxes refunded (paid), net	**(150)**	(311)
Capital expenditures	**(1,847)**	(1,721)
Free cash flow (management's definition)	**997**	939

The Canadian Performance Reporting Board defined standardized free cash flow to foster comparability of the measure between entities. Standardized free cash flow is an indication of an entity's capacity to generate discretionary cash from operations, comprising cash flows from operating activities less net capital expenditures and those dividends that are more representative of interest costs. It does not necessarily represent the cash flow in the period available for management to use at its discretion, which may be affected by other sources and non-discretionary uses of cash. The following reconciles management's definition of free cash flow with standardized free cash flow and Cash provided by operating activities.

Free cash flow reconciliation

Years ended December 31 ($ millions)	2011	2010
Cash provided by operating activities	**2,550**	2,670

Deduct stipulated dividends	**n/a**	n/a
Deduct capital expenditures	**(1,847)**	(1,721)
Proceeds from disposition of capital assets	**4**	1
Standardized free cash flow (CICA guideline)	**707**	950
Deduct proceeds from disposition of capital assets	**(4)**	(1)
Adjustments to reconcile to cash provided by operating activities	**294**	(10)
Free cash flow (management's definition)	**997**	939

11.3 Definitions of wireless operating indicators

These measures are industry metrics and are useful in assessing the operating performance of a wireless company.

Average revenue per subscriber unit per month (ARPU) is calculated as Network revenue divided by the average number of subscriber units on the network during the period and expressed as a rate per month. Data ARPU is a component of ARPU, calculated on the same basis for revenue derived from services such as text messaging, mobile computing, personal digital assistance devices, Internet browser activity and pay-per-use downloads.

Churn per month is calculated as the number of subscriber units disconnected during a given period divided by the average number of subscriber units on the network during the period, and expressed as a rate per month. A prepaid subscriber is disconnected when the subscriber has no usage for 90 days following expiry of the prepaid card.

Cost of acquisition (COA) consists of the total of handset subsidies, commissions, and advertising and promotion expenses related to the initial subscriber acquisition during a given period. As defined, COA excludes costs to retain existing subscribers (retention spend).

COA per gross subscriber addition is calculated as cost of acquisition divided by gross subscriber activations during the period.

Retention spend to Network revenue represents direct costs associated with marketing and promotional efforts aimed at the retention of the existing subscriber base divided by Network revenue.

11.4 Definitions of liquidity and capital resource measures

Earnings coverage is defined in the Canadian Securities Administrators' National Instrument 41-101 and related instruments, calculated on a 12-month trailing basis.

Calculation of Earnings coverage

Years ended December 31 ($ millions, except ratio)	2011	2010
Net income attributable to Common Shares and Non-Voting Shares	**1,219**	1,048
Income taxes	**376**	335
Gross interest expense (Note 8 of the Audited consolidated financial statements)	**389**	527
Numerator	**1,984**	1,910
Denominator — Gross interest expense	**389**	527
Ratio (times)	**5.1**	3.6

The following measures do not have any standardized meaning prescribed by IFRS-IASB and may not be comparable to similar measures presented by other issuers.

Dividend payout ratio and dividend payout ratio of adjusted net earnings: The basic measure is defined as the quarterly dividend declared per Common Share and Non-Voting Share for the most recently completed quarter, as reported in the Consolidated financial statements, multiplied by four and divided by the sum of basic earnings per share for the most recent four quarters for interim reporting periods (divided by annual basic earnings per share for fiscal years). The target guideline for the annual dividend payout ratio is on a prospective basis, rather than on a trailing basis, and is 55 to 65% of sustainable net earnings. More representative of a sustainable calculation is the historical ratio based on reported earnings per share adjusted to exclude income tax-related adjustments, losses on redemption of long-term debt, ongoing impacts of a net-cash settlement feature introduced in 2007, and items adjusted for in EBITDA.

Calculation of Dividend payout ratios

Years ended December 31 ($)	2011	2010
Dividend payout ratio		
Numerator — Annualized fourth quarter dividend declared per Common Share and Non-Voting Share	**2.32**	2.10
Denominator - Income per Common Share and Non-Voting Share	**3.76**	3.27
Ratio (%)	**62**	64
Dividend payout ratio of adjusted net earnings		
Numerator (from above)	**2.32**	2.10
Adjusted net earnings ($ millions)		
Net income attributable to Common Shares and Non-Voting Shares	**1,219**	1,048
Deduct favourable income tax-related adjustments	**(21)**	(30)

Add back loss on redemption of debt	—	37
Deduct after-tax Transactel gain	**(12)**	—
Net-cash settlement feature	**(14)**	(7)
	1,172	1,048
Denominator — Adjusted net earnings per Common Share and Non-Voting Share	**3.61**	3.27
Adjusted ratio (%)	**64**	64

EBITDA — excluding restructuring costs is defined as EBITDA (see *Section 11.1*), adding back restructuring costs of $35 million for the year ended December 31, 2011, and $80 million for the year ended December 31, 2010. This measure is used in the calculation of Net debt to EBITDA - excluding restructuring costs and EBITDA - excluding restructuring costs interest coverage, consistent with the calculation of the Leverage Ratio and the Coverage Ratio in credit facility covenants.

EBITDA — excluding restructuring costs interest coverage is defined as EBITDA excluding restructuring costs, divided by Net interest cost, calculated on a 12-month trailing basis. This measure is substantially the same as the Coverage Ratio covenant in TELUS' credit facilities.

Net debt — The nearest IFRS measure is Long-term debt, including Current maturities of long-term debt, as reconciled below. Net debt is a component of a ratio used to determine compliance with debt covenants (refer to the description of Net debt to EBITDA below). Management believes that Net debt is a useful measure because it represents the amount of long-term debt obligations that are not covered by available cash and temporary investments, and because it incorporates any exchange rate impact of cross currency swap agreements put into place to fix the value of U.S. dollar debt.

Calculation of Net debt

At December 31 ($ millions)	2011	2010
Long-term debt including current portion	**6,574**	6,056
Debt issuance costs netted against long-term debt	**27**	28
Derivative liability [1]	**—**	404
Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. dollar denominated debt (excluding tax effects)	**—**	(2)
Cash and temporary investments	**(46)**	(17)
Short-term borrowings	**404**	400
Net debt	**6,959**	6,869

[1] The derivative liability at December 31, 2010, was in respect of the U.S.$741 million debenture that matured on June 1, 2011, and related to cross currency interest rate swap agreements that effectively converted principal repayments and interest obligations to Canadian dollar obligations.

Net debt to EBITDA — excluding restructuring costs is defined as Net debt at the end of the period divided by the 12-month trailing EBITDA — excluding restructuring costs. TELUS' long-term guideline range for Net debt to EBITDA is from 1.5 to 2.0 times. This measure is substantially the same as the Leverage Ratio covenant in TELUS' credit facilities.

Net debt to total capitalization provides a measure of the proportion of debt used in the Company's capital structure.

Net interest cost is defined as Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis. No gains on redemption and repayment of debt were recorded in the respective periods. Losses recorded on the redemption of debt are included in net interest cost. Net interest costs for the years ended December 31, 2011 and 2010, are equal to reported Financing costs.

Total capitalization — book value is calculated as Net debt, defined above, plus Owners' equity excluding accumulated other comprehensive income or loss. The calculation for December 31, 2010, has been adjusted for a retrospective reclassification of post-changeover employee defined benefit plans actuarial gains (losses) from Accumulated other

comprehensive income to Retained earnings.

Calculation of total capitalization

At December 31 ($ millions)	2011	2010
Net debt	**6,959**	6,869
Owners' equity	**7,513**	7,781
Add back (deduct) Accumulated other comprehensive loss (income)	**(11)**	(1)
Total capitalization — book value	**14,461**	14,649

Exhibit 99.5

Consent of Independent Registered Chartered Accountants

We consent to the incorporation by reference in Registration Statement No. 333-161320 on Form F-10, Registration Statement No. 333-162944 on Form F-3 and Registration Statement Nos 333-125486, 333-121629, 333-115750, 333-110964 and 333-103562 on Form S-8 and to the use of our reports dated February 23, 2012 relating to the consolidated financial statements of TELUS Corporation and the effectiveness of TELUS Corporation's internal controls over financial reporting, appearing in this Annual Report on Form 40-F of TELUS Corporation for the year ended December 31, 2011.

/s/ Deloitte & Touche LLP

Independent Registered Chartered Accountants
Vancouver, Canada
March 16, 2012

Exhibit 99.6

Amended 2011 Ethics Policy



TELUS ETHICS POLICY

February 2011

TELUS Ethics Policy

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All TELUS team members:

Central to TELUS' purpose is to make the future friendly for our stakeholders. One of the critical elements in realizing this ambition is to ensure our individual and collective reputation is beyond reproach. *How* we work is just as important as *what* we do. Our goal is to demonstrate the highest level of ethics and integrity in our business dealings with all stakeholders (customers, shareholders, suppliers, colleagues and our communities). This is a corporate priority and a shared responsibility for all TELUS team members as each one of our actions and decisions affect our company and its reputation.

This Ethics Policy outlines the responsibilities and guidelines that describe the *ethical standard expected of all team members.* In addition, it provides a decision making process supporting the resolution of ethical issues and identifies members of the TELUS team who are available for help and advice. Case studies are provided to illustrate how ethical responsibilities and guidelines apply in everyday situations.

Please read this document carefully and make the ethical guidelines it outlines an integral part of how you conduct business at TELUS. You play an important role in representing our organization. Guided by these ethical standards, we build trusted relationships with our customers, shareholders, suppliers, fellow team members and the communities in which we live, work and serve.

Darren Entwistle
President and Chief Executive Officer

Robert McFarlane
Executive Vice-President and Chief Financial Officer

Josh Blair
Executive Vice-President, Human Resources

Introduction

This Policy applies to all of TELUS, including members of the Board of Directors, officers and employees of TELUS Corporation and its subsidiaries (referred to as Team TELUS or team members).

It is not intended that there be any waivers to this Policy. In the unlikely event that a waiver is considered and granted for an executive officer or member of the Board of Directors, it must receive prior approval by the Board of Directors or their delegate. The delegate must be a Board committee. In such circumstances, any waivers granted to members of the Board of Directors or executive officers must be disclosed subject to the TELUS Policy on Corporate Disclosure and Confidentiality of Information. In the unlikely event that a waiver is considered for team members other than an executive officer or a member of the Board of Directors, prior approval must be received from the Senior Vice President General Counsel & Corporate Secretary together with the Vice President Risk Management & Chief Internal Auditor and must be promptly reported to the Audit Committee of the Board of Directors.

Team members are reminded that TELUS reserves the right to revoke or amend any terms of the Policy as is required by the needs of the business. TELUS will notify team members of any amendments to the Ethics Policy prior to the changes becoming effective. Nevertheless, team members are encouraged to periodically review this Policy (at least annually) to remain familiar with its terms. To assist this review, team members are required to complete the ethics training module each year. The Ethics Policy constitutes a term of the employment contract of all TELUS employees.

This Policy is available on the Company's intranet and is publicly available at about.telus.com/governance/ethics.html.

Responsibilities

Team TELUS

All members of the TELUS team are expected to act honestly in all dealings, comply with the laws and regulations governing our businesses, and maintain an ethical work environment**.** *This standard requires that each member of our team understand and apply the guidelines in this policy to everyday actions and decisions.*

At TELUS, we not only do things right, but we should strive to *do the right things*. Each member of our team takes responsibility for their actions including:

- Observance of the guidelines outlined in this and other company policies wherever in the world we are working

- Compliance with applicable local laws and regulations

All business activities should be able to stand up to any possible public scrutiny and further investigation if required.

The guidelines in this policy are based upon generally accepted standards of ethical business conduct and applicable civil and criminal laws. The absence of a guideline covering a particular situation does not relieve any of us from the responsibility for acting ethically.

Team TELUS members, or any person acting under the direction thereof, are prohibited from directly or indirectly taking any action to improperly influence, coerce, manipulate or mislead the Company's external or internal auditors or their representatives.

Compliance/Exceptions

In situations where the right ethical behaviour is unclear, or where there may be the appearance of a contravention of these guidelines, we support each other in seeking advice and clarification. If you are unsure as to the ethical course of action, you should first discuss the situation with your leader (supporting manager) or the applicable department identified in this policy. Team members should retain all documentation and save a written record of input provided by their leader and any decision made in the event there is a future investigation with respect to a potential ethics violation.

If you become aware of a possible violation of the Ethics Policy, you are required to report this to the Director - Ethics and Controls Compliance. For more details please refer to the TELUS EthicsLine section. Possible violation of laws and regulations will be directed to the Compliance office for legal review and investigation. Members of the TELUS Board of Directors may also advise the Chair of the Board of potential violations. The Chair will refer the matter to the Director — Ethics and Controls Compliance for investigation, resolution and reporting.

Failure to act in accordance with the guidelines outlined in this policy may have consequences for the individual, may create potential harm to TELUS' reputation and brand, and may put TELUS at risk for civil or criminal penalty. Individual consequences may include disciplinary action, up to and including dismissal as well as civil and criminal

penalties. Therefore, please regard the requirement to understand and to act in accordance with the TELUS Ethics Policy as a most serious matter.

Leaders

In addition to the aforementioned responsibilities, TELUS managers (referred to as leaders) have the additional responsibility to:

- Be familiar with the TELUS Ethics Policy and resolution procedures
- Promote and maintain a climate in which honest, ethical and legal business conduct is the norm
- Encourage open discussion and resolution of all business concerns
- Maintain, without compromise, our ethical standards in achieving goals and objectives, no matter how important the goal or objective may be

Team members with roles regarding internal controls and financial reporting and disclosure controls

In addition to the aforementioned responsibilities, TELUS team members who have roles regarding internal controls and financial reporting and disclosure controls have, as outlined in the Policy on Corporate Disclosure and Confidentiality of Information, the responsibility to make full, fair, accurate, timely and understandable disclosure in reports and documents that TELUS files with, or submits to, securities commissions and in other public communications made by TELUS.

TELUS Board of Directors and Employees who represent TELUS as directors on other organization boards

In addition to the aforementioned responsibilities, but subject to the requirement that such individuals comply with their fiduciary obligations as a director of another organization, TELUS Board members have the responsibility to notify the Chair of the Board of TELUS or, in case of TELUS employees who represent TELUS on the boards of other organizations, the TELUS Integrity Work Group of any potential perceived conflict of interest or other Ethics Policy issues which arise during the course of their Board service. In providing such notice, team members should exercise due care to ensure that they act in compliance with their obligations to the other organization and, for example, do not disclose to TELUS any confidential information of such other organization.

Ethics Office

The Ethics Office is established to provide Team TELUS with a resource regarding ethical matters. This Office oversees the Ethics policy, conducts investigations, provides advice on ethical issues and develops and administers ethics training for TELUS' expected standards of business conduct. The Director — Ethics and Controls Compliance reports on activities of the Office, including breaches of the Ethics policy to the chief executive and financial officers (unless implicated) and to the Human Resources and Compensation Committee (and where appropriate the Audit Committee) of the Board of Directors on a quarterly basis.

Integrity Work Group

An Integrity Work Group supports the Ethics office in overseeing the Ethics policy and quarterly reporting to senior leadership and the Human Resources and Compensation Committee (and where appropriate the Audit Committee) of the TELUS Board of

Directors. Members of the Integrity Work Group include representatives from Risk Management, Human Resources, Legal Services, the Compliance office and the Chief Security office.

Ethical Decision Making

This policy reflects our commitment to high standards of ethical behaviour in our professional and business dealings. The TELUS Ethics Policy is intended to support open and frank discussion and the satisfactory resolution of ethical dilemmas.

Each of us is responsible for striving to ensure our behaviour is ethical and for taking steps to resolve ethical dilemmas. The guidelines in this policy are provided to assist with ethical decision-making. As business becomes increasingly complex, the policy cannot provide guidance about every possible situation.

If you have an ethical issue with which you would like help, follow the process below, stopping at the point at which your situation has been resolved.

1. Questions to Ask Yourself

Gather information and then determine if the situation you face is an ethical issue. The questions below may help to clarify your situation and ethical action.

- What is my immediate feeling about this?
- Does this comply with company policies and procedures?
- Is this legal?
- Is this an expected part of my job?
- How would others perceive this action?
- Would I or TELUS be embarrassed if this situation were discussed in the media?
- Would I be putting TELUS or myself at unnecessary risk?
- What impact would this have on my or the company's reputation?
- Is this taking revenue or customers away from TELUS?

2. Review Guidelines and Policies

Review the guidelines in this policy and the case studies. If you need further assistance, consider the following additional policies as they may apply to your situation.

Signing Authority Policy
Corporate Security Policies and Corporate Security Manual
Respectful Workplace Policy
Alcohol and Drug Corporate Policy
TELUS Health and Safety Policy
Environmental Policy
TELUS Privacy Code
Corporate Credit Card Policy
Corporate Disclosure and Confidentiality of Information
Insider Trading Policy
Records Retention Policy

Social Media Guidelines
Attendance Policy
Workstyles Policy
Code of Conduct for Business Sales Activities

3. Talk to Your Leader

Often your leader is in the best position to help you work through the dilemma. Your leader is responsible for supporting open discussion, working through the ethical questions you have, and guiding your access to further assistance as required. In situations where you are uncomfortable talking with your leader, or your leader is unable to help, you should refer to the next level of leadership or seek expert assistance as detailed in the next section.

4. Expert Assistance

If you have tried the above sources but still have questions, assistance is available through designated subject matter experts in Human Resources, Legal Services, Privacy, the Chief Security office, Regulatory Affairs and Corporate Accounting & Financial Reporting. Names and contact telephone numbers are listed on the company's internal website, under Ethics. TELUS International team members should contact their Vice President for Human Resources.

5. TELUS EthicsLine

You may also contact the TELUS EthicsLine to request guidance or make a good-faith report about misconduct or a perceived violation of this Policy, another company policy or procedure or a government law or regulation, questionable business practices, potential fraud or accounting or auditing matters that may not be in compliance with this Policy. Reports may be made anonymously.

EthicsLine is staffed by live operators from an independent company who reports the call or web contact to TELUS to enable TELUS to respond to your concerns. It operates 24 hours a day and seven days a week in many languages. Ethicsline operators forward the report to the Ethics office for review and handling following each call or web contact. The Ethics office in turn forwards complaints regarding potential violation of laws and regulations to the Chief Compliance office for review and handling.

Phone toll free: 1-888-265-4112 in North America. See website for other international dialing instructions

Web: link from www.telus.ethicspoint.com or company intranet

Handling of the Report

For Inquiries:

The Ethics Office will assist team members in ethical decision-making by providing guidance concerning this Policy. The Ethics Office may also refer team members to or involve subject matter experts within TELUS for assistance.

For Complaints:

a) Assessment of complaint

The Ethics Office will assess the nature of the complaint which will be conducted under the direction of Legal Services in appropriate cases. The following matters for

which other remedies exist will not be investigated by the Ethics Office and will be redirected as follows:

- **Labour relations issues** — Immediate leader or other members of leadership
- **Employment matters** such as promotions, remuneration, reprimands, suspensions, dismissals, harassment, discrimination — Human Resources
- **Customer service complaints** — Customer Care or Client Care

With the exception of issues relating to union collective agreements, the Ethics Office will track all complaints, including those that are redirected to other areas of expert assistance, until they are resolved.

b) Investigation

All complaints are taken seriously and promptly investigated by the Ethics office in conjunction with subject matter experts within TELUS if necessary. If substantiated, the complaint will be resolved through appropriate corrective action and/or discipline. If you choose to identify yourself, you will be notified when the Ethics Office has completed its review. Every effort will be made to maintain confidentiality for those who contact the Ethics Office or who are accused of a breach of this Policy (although disclosure may be necessary in some cases to effectively conduct an investigation or support legal proceedings). It is expected that all reports to the Ethics Office will be made in good faith. Deliberately making false claims will result in disciplinary action.

c) Protection for Reporting

Retaliation or retribution against a team member for contacting the Ethics Office or for assisting or participating in an investigation of a complaint violates our ethical principles and will not be tolerated. If you feel you have been retaliated against, you should contact Human Resources or the Director-Ethics & Controls Compliance immediately.

d) Opportunity to Respond

If it has been found that a team member has breached or may likely have breached the Policy, this team member will be informed of the complaint in due course and be provided the opportunity 1) to respond, and 2) where appropriate, to contribute to the correction of the breach.

e) Reporting of Breaches

Any breach of the Policy will be reported to senior leadership with recommendations for action. Ethical issues reported to the Ethics Office will be summarized quarterly and reported to the Human Resources and Compensation Committee (and where appropriate the Audit Committee) of the Board of Directors, together with results of investigations, recommendations and action.

f) File Documentation

Records of the report and investigation, including contents of meetings, interviews, results of investigations and other relevant material, will be maintained by the Ethics Office in a separate file, and managed in accordance with the TELUS Privacy Code and Record Retention Policy. Disclosure of information will be strictly limited on a need-to-know basis.

6. Last Resort Resolution

If an ethical issue remains unresolved, the Integrity Work Group is available as the body of last resort to discuss the issue and guide the resolution of any ethical issue brought forward.

Ethical Guidelines

Information of Team TELUS and other Parties

Privacy of Communications

As a telecommunications service provider we may have access to content of communications transmitted on our facilities. We protect the privacy of customer communications, ensuring no tampering, intrusion or disclosure except as authorized by law. This includes ensuring the content, nature and existence of telephone calls and data transmissions are not released to third parties.

A team member may intercept a private communication only when such interception is necessary for the purpose of providing the service, for the purpose of quality control checks, to protect the company's facilities from fraudulent abuse, or when authorized by law.

If a team member comes across a suspected illegal activity (e.g. child pornography) in the course of their work, they should report it to the Chief Security office who will determine the appropriate course of action such as reporting to the appropriate authority.

Confidentiality of Information

We respect the confidentiality of the information of others whether it belongs to customers, suppliers or competitors. We protect the security, confidentiality and integrity of customer and team member related information. The definition of "customer" includes our direct customers, customers who are also our competitors, third party customers (customers of our clients) and may include team members who are also our customers. All customer and team member personal information is confidential and may not be disclosed except as outlined in the TELUS Privacy Code and permitted by law or by applicable regulations.

Access to customer, supplier and team member personal information is strictly controlled on a "need to know" basis and is used for legitimate business purposes only.

The TELUS Privacy Code and related practices set out guidelines for managing customer and team member personal information. Various areas of the company may have additional supporting management practices in place. Refer to your leader for more information.

Case Studies

Problem

My friend calls me at work in the Call Centre to ask me to look up the address and phone number of a TV personality since this information is not listed in the public directory. Should I look this up and provide the information?

Action

Absolutely not. Unless you have a business reason to look up the information, you should not even access this customer's account and should certainly not provide the requested information to your friend.

Problem

My next-door neighbour is a good friend of the family of one of my former team members who now works for a different leader. My neighbour asks me how this team member is doing. I explain that he no longer works on my team and is away from the office on stress leave. Should I have discussed my former team member's status with a close family friend?

Action

No. It is not appropriate for you to discuss the status of your former team member even though you know your neighbour is a close family friend. Team members are reminded that, as a general rule, it is inappropriate to disclose personal information of our employees for non-work related purposes. Of particular concern is sensitive personal information such as health or financial information and information about disciplinary action. This is contrary to our Privacy Code.

Problem

Today I had a challenging experience with a customer and I could not make them happy. I have my own blog on our intranet and would like to

post my experience so that I can get suggestions from my team members on how to handle similar situations. Should I post this?

Action

Soliciting feedback from your team members is an excellent idea; however you should act cautiously. Even though you are posting this internally, you must protect the privacy of your customer. Review what you intend to post to ensure you are not identifying your customer and if in doubt discuss with your manager before posting.

Integrity

Personal and Corporate Integrity

Individually and collectively, our personal integrity supports the honest use of time, funds and property in ethical dealings with co-workers and others. Business needs must take priority in the allocation of our time at work. Use of company time and property is for business purposes only unless otherwise authorized by the appropriate leadership.

Compliance with Laws

We comply with all applicable laws and regulations of Canada and other countries where we conduct business. Team members should inform themselves and comply with the laws and regulations that relate to their work. It is the responsibility of leaders to ensure that members of their team are aware of their responsibilities in this regard and to seek advice from Legal Services, Human Resources, Regulatory Affairs or Taxation if they are unsure, especially for transactions that cross international borders or involve foreign laws and regulations.

Team members should be aware that many countries have laws that regulate the import and export of goods, services, software and technology for a variety of reasons, including national security and foreign policy.

Competing Fairly

We consciously apply high standards of courtesy, professionalism, fairness and honesty when dealing with customers, suppliers and competitors. We will report unethical practice by any other party to our leader or the TELUS EthicsLine. We do not support any form of dishonesty, including bribes, kickbacks and extortion, either directly or indirectly through an agent or third party.

We are fair in what we say about others' products and services and do not improperly seek corporate trade secrets or confidential information belonging to others. If we receive unsolicited information that appears to be another party's corporate trade secrets or confidential information without the owner's consent, we will immediately inform our leader and not copy, distribute or use it until we have obtained guidance from our leadership who will consult with Legal Services. Team members or contractors who worked for a competitor, supplier or customer will not be requested to provide confidential information about that party. This does not preclude gathering information with the owner's consent or from the public domain.

We are committed to lawful competition based upon the merits of our products and services and do not support any agreements or actions that restrict or impede fair competition in contravention of applicable law. Competition (anti-trust) law is complex, and global in reach, and its application depends on the facts of a particular case. Team members with sales, marketing and pricing responsibilities, as well as senior leadership, function in areas that tend to attract risks for violating competition laws; particularly matters that include:

- establishing terms and conditions as well as pricing and promotional strategies for TELUS products and services
- developing advertising materials for TELUS products and services
- negotiating, communicating or interacting with competitors
- handling or using data about competitors

- participating in trade associations that include competitors as participants, or
- selecting or negotiating with vendors

Team members performing these functions should engage with Legal Services to ensure they are appropriately educated and trained with respect to competition law, and that they receive appropriate advice and specific guidelines to address relevant competition law issues that are applicable to their situation. Team members are also required to report to Legal Services any contravention or suspected breach of competition law requirements. In addition, it is often essential to involve legal counsel early in the process of developing new commercial initiatives given the many uncertainties that can arise in the application of this area of law.

Dealing with Governments

TELUS values its relationships with governments at all levels: national, provincial and municipal. Team members dealing with governments and their employees must be aware of legal, regulatory and policy requirements in such areas as lobbying, gifts and benefits, conflict of interest, bribery and corruption, hiring ex-government employees and procurement processes. Team members should refer to the Code of Conduct for Business Sales Activities for further details.

TELUS actively and openly communicates with all levels of governments and legislators in Canada, expressing views that affect our business

and our industry. Team members or consultants acting on behalf of TELUS do not engage in lobbying activity unless registered as lobbyists and authorized to do so by Regulatory and Government Affairs. Team members having contact with elected officials at the provincial or federal level, their staff, civil servants or crown corporation's employees should consult with Regulatory and Government Affairs to ensure compliance with the appropriate lobbying regulations.

Team members should be aware of laws and regulations restricting or prohibiting government officials from accepting gifts or entertainment or placing them in an actual or perceived conflict of interest with regard to their employer. Increasingly, governments around the world are enacting anti-bribery and anti-corruption legislation that imposes civil and criminal penalties. Team members doing business with foreign public officials should obtain approval from the President of TELUS International with concurrence from Legal Services before making payments or gifts to government officials outside of Canada.

Team members should be aware of restrictions placed by governments on their former employees from accepting employment or work, advising or accepting appointment to a board of directors of entities with which they had significant official dealings for a specified period of time after leaving government employment.

Proprietary Rights and Assets of Others

We respect the proprietary rights and assets of others. These include both tangible properties and intangible assets such as those protected by intellectual property rights. Intellectual property rights include trademarks, copyrights, patents, industrial designs, confidential information, know-how and trade secrets. Examples of assets containing intellectual property rights that we may come across in our work include, but are not limited to, written materials, logos, creative suggestions, pictures, audio and video

products and computer software. We respect licenses and conditions of use that apply to the intellectual property of others. Copyright materials are not copied in whole or in part, or used in violation of any law or agreement with vendors, licensors or any other party. Software license conditions may be included in instruction manuals, in separate documents, or on the disk itself, and breaking the seal on a disk package may constitute acceptance of the stated agreement.

Human Rights

We are committed to treat all current and potential team members, customers, shareholders, suppliers and others who deal with us fairly and to maintaining a work environment that supports the contribution, worth and human rights of all team members. We believe the diversity of our team is a significant competitive advantage and we believe this thrives when we honour the traditions, beliefs, lifestyles, abilities and perspectives of all members of our team.

Every team member has the right to a workplace that is free of unacceptable behaviours such as discrimination and harassment and has the obligation to treat others in the same manner. Unacceptable behaviours include discrimination and harassment based on race, national or ethnic origin, colour, religion, age, sex, sexual orientation, marital status, family status, disability and conviction for which a pardon has been granted. Though the spirit of the law is the same, some of the grounds for discrimination and harassment may differ slightly for TELUS companies that are subject to Canadian provincial or another country's human rights legislation. Details are provided in the Respectful Workplace Policy to which team members are referred for more information.

Our commitment to inclusiveness includes the provision of reasonable workplace accommodation to permit qualified persons who face some barrier (e.g. persons with disabilities) to do their jobs. Examples of accommodation may include physical or technical changes to work stations and changes to work duties. Details are provided in the Workplace Accommodation policy to which Canadian team members are referred for more information.

Health and Safety

We are committed to having healthy and safe operations in all our locations to protect the life and health of our team members, to protect our assets, to ensure business continuity and to engender public trust. When working on customer premises and public thoroughfares, we safeguard the rights and safety of the customer, the public and ourselves as outlined in the Health and Safety Policy.

We monitor progress towards our objective of preventing injuries, illnesses and incidents and continually assess and improve, where appropriate, our health and safety technologies and programs. We provide training to team members to help them understand and incorporate safe behaviour in their daily business activities. We have operating standards, practices, systems and resources to implement this policy.

We are expected to report fit for work; such that our ability to work safely is not impaired for any reason. We must be free of the negative effects of alcohol, drugs, medications or any other substance which could cause impairment. Our actions in these instances

not only reflect on us as individuals, but on TELUS as a whole. Team members are referred to the Alcohol and Drug Corporate Policy for further details.

We are committed to providing a safe and violence-free workplace for all team members. Workplace violence is not only an employee health and safety issue but also a criminal law issue. Consequently, workplace violence will not be tolerated and every incident will be investigated. Team members are referred to the Violence Prevention in the Workplace: Investigation and Reporting policy for further details.

Involvement in a legal matter

If you are involved in a legal matter or a police case which has the potential to affect your ability to perform your job or harm the interests of TELUS, you must immediately inform your leader.

Environment

TELUS is committed to being an environmental leader by meeting or surpassing our regulatory requirements. We embrace this responsibility to all of our stakeholders by integrating environmental considerations into our business. We support sustainable development and offer innovative telecommunications solutions that include environmental benefits and we look to minimize waste generation and energy consumption in all of our activities. Striving for continuous improvement guides our approach.

Detailed information on our commitment to the environment can be found in our Environmental Policy.

Political Activities

As private citizens, we are free to make contributions to causes, candidates or political parties of our choice. Unless expressly approved by TELUS, we will not associate TELUS with our personal political activities, including donations. As a responsible corporate citizen, TELUS will occasionally make contributions to a political party, campaign or candidate in Canada, as a means of supporting the democratic process, but only where legally permitted and not to secure favours or preferential treatment. All political contributions, whether direct, sponsorship or in-kind, must be made through Regulatory and Government Affairs. No political contributions are permitted in countries other than Canada.

Case Studies

Problem

We recently hired someone who held an executive position with one of our competitors. This person was deeply involved in planning the competitor's expansion strategy, and has information that would be very valuable to us. Can we ask him to disclose confidential aspects of this information?

Action

Absolutely not. The new team member has an obligation to protect his former company's confidential or proprietary information, just as you would be obliged to protect the confidential or proprietary information of TELUS if you were to leave

the company. You must respect the team member's personal integrity as well as his obligation to his former employer.

Problem

My leader frequently makes racist comments about one of my co-workers. This personally offends me but, because my leader is involved, I don't feel I can speak up. What should I do?

Action

Racist comments are unacceptable. You have a right to express your disapproval of such comments — without fear of reprisal. If you are uncomfortable approaching your leader, you should speak to the Respectful Workplace Office in Human Resources or your leader's leader.

Problem

We use a contractor to dispose of hazardous materials such as lead. I know the contractor's crew chief and I get the feeling that they may not be disposing of the materials correctly, at least not according to the law. Should I care about this? After all, it is not my company and they are probably saving us money.

Action

Yes, you should care because what the contractor is doing may expose the company to liability. In addition, improper waste disposal is inconsistent with our commitment to reduce the environmental impact of our activities. Team members should never look the other way if they have any reason to think someone we work with is doing something wrong and are encouraged to talk with their supervisor, TELUS Environment department or call the EthicsLine.

Company Assets

Company assets are both physical (people, equipment, real estate, supplies, tools, non-public information, funds) and non-physical (communication networks, information systems, intellectual property, brand, goodwill, reputation). We take appropriate care to protect team members and assets against undue risks, exposures and liabilities.

Company Information

As members of team TELUS, we have access to information about our company that belongs to TELUS and is used by the company for its business. Unless specifically published for external use, and public dissemination has occurred, all company records, information, reports, data, plans, processes and methods are considered company information and are prohibited from disclosure without proper authorization. Access should be limited to those team members with a legitimate business reason to seek the information. Team members are referred to the Chief Security office policies for further details on the classification and safeguarding of TELUS' information assets.

Team members, including members who have left the employ of TELUS, must not use or disclose corporate trade secrets, competitive information or other confidential, proprietary information to benefit themselves or others. In situations where we would be willing to share information, Legal Services can draw up a confidentiality agreement or license agreement to protect TELUS.

No team member should knowingly invoke a software program or code that could damage TELUS' information assets. All team members are responsible for taking reasonable measures to ensure that software and data is clear of malicious code and safe for use in TELUS' electronic data processing environment. It is also important that you not share your computer access password.

Public Disclosure

TELUS is subject to strict securities rules regarding disclosure of financial and other material information to the public. Selective disclosure of confidential information by any team member can create liabilities for TELUS and for that team member. All discussions about TELUS in a public environment should comply with the TELUS policy on Corporate Disclosure and Confidentiality of Information, to which team members are referred for further details.

Examples of situations that may lead to inappropriate public disclosure include:

- Participating in an investment-related discussion forum, social networking site, chat room, blog or bulletin board on the Internet. The team member must not disclose any confidential or material information about TELUS.
- Contact with a member of the investment community or the media. All inquiries from these groups must be referred to those team members authorized to communicate on behalf of TELUS. For further information, contact Investor Relations or Corporate Communications.
- Presentations to business, educational, community groups or large internal TELUS audiences. Team members invited to make such presentations should receive approval from the Vice President Investor Relations prior to accepting the invitation. In addition, all such public speeches and presentations must be provided in advance to Investor Relations for review where requested by them.

Business Records

Accurate, reliable records are essential for effective company management to enable us to meet our business, legal and financial obligations. We strive to ensure all reports (whether for external or internal use), records and other data are factual, fair, complete, timely and understandable. Confidential information should be properly identified and

respected as such. To protect the accuracy of our records, only legal and approved software is to be used on TELUS equipment.

Every business needs an orderly process for retaining and disposing of records and documents in order to comply with legal and regulatory requirements. Team members are referred to the Records Retention Policy for guidance on minimum and maximum retention periods, storage of records, suspension of disposal by reason of a potential or on-going litigation or investigation and where to obtain further information.

Financial Transactions

It is expected all team members understand their role and responsibility for the company's financial transactions and records and follow approved procedures to protect, report, control and accurately reflect these transactions. Team members are referred to the Signing Authority Policy for further details.

It is a violation to falsify company records or documents (including, for example, contracts, orders, time sheets, adjustments and expense statements) and to misuse company-issued credit cards.

Team members whose duties involve authentication and approval are responsible for the close scrutiny and timely verification of all documents upon which monies are paid out or received in compliance with TELUS policies.

Property

We display pride of ownership on behalf of the TELUS team as we protect company facilities, equipment, tools, supplies, vehicles, funds, communication networks and information systems against loss, theft, damage, vandalism, neglect, unauthorized use and unauthorized disposal.

Team members are expected to take reasonable measures to safeguard access controls such as passwords, identification cards, keys, cards and hand-held user authentication devices. We are careful not to compromise access security to sites by leaving access doors open and unattended, we do not tamper with the network to bypass billing and we do not make unauthorized charges or credits to customer accounts. Team members are the first line of defense in protecting TELUS assets.

Team members must not make adjustments to their own accounts or services, or to those of family members, friends, co-workers or

acquaintances. Customer-facing business units may exercise their discretion to establish procedures for the adjustment of team member accounts. Team members in Customer Service Delivery may only do so if specifically authorized by trouble ticket or customer order.

Intellectual Property

Our intellectual property is a valuable TELUS asset. Intellectual property rights enable TELUS to be known and recognized in the market place and help distinguish our products and services from those of our competitors. Intellectual property rights also protect the valuable intangible assets generated or acquired by the TELUS team. At TELUS, we work together to protect our intellectual property just as we respect the proprietary rights of others as noted above.

Intellectual property rights include trademarks such as our TELUS name and logo, copyrights, patents, industrial designs, confidential information, know-how and trade secrets. Examples of materials containing intellectual property rights that we may come across in our work include, but are not limited to, branding, logos, creative suggestions and ideas, pictures, audio and video products, written materials and computer software. When our team creates intellectual property — individually or as part of a team — this property is owned by TELUS and we work to document the ownership of such intellectual property.

Team members should contact Legal Services for further information about intellectual property matters or the Brand office for information on use of our brand. TELUS Health and Financial Solutions team members are referred to their Intellectual Property Protection policy.

Personal Use of Communication Devices

In our future friendly world, communication devices (whether the company's or our own) are used for both business and personal purposes. Electronic communication may occur via a wide range of technologies including, but not limited to computers, telephones, personal digital assistants (PDA), webcams, fax machines and Internet connections. This can take the form of emails, texting, research, photographs, blogs, social networking, peer to peer file transfers and physical exchange of media (e.g., CD's, USB storage devices and devices such as iPods). As we communicate in any of these ways, we may identify ourselves as TELUS team members either by naming the company or by our email or IP addresses.

While we permit team members to use TELUS-provided communications devices for personal purposes, such use should be limited, should not interfere with our duties or negatively impact TELUS in any way. We expect any such personal use to take place before or after the normal working day, or during reasonable permitted breaks from business work subject to local leadership approval and the needs of the business.

Team members must comply with all TELUS policies when using TELUS-provided communications devices for personal use. We are responsible for all of our actions while using TELUS-provided communication devices. TELUS routinely monitors the use of its systems and equipment, including emails, all messaging and Internet access. Abuse may result in disciplinary action. Team members are referred to the Chief Security office policies for further details on the acceptable use of company equipment (including email and Internet use) and to the Social Media Guidelines for more information on blogs, wikis and social networking.

In our personal electronic communications using either TELUS-provided devices or personal devices where we are identified as a TELUS team member, we should:

- Remember that these communications provide a permanent record and we may be operating in a public space.
- Use common sense when offering our personal opinions to avoid subjecting either TELUS or ourselves to legal action. To help avoid confusion, add the following notice: "the views expressed on this website/weblog/email are mine alone and do not necessarily reflect the views of my employer".
- Not disclose information that is confidential to TELUS or to any third party that has disclosed information to us.

- Show respect towards other persons and organizations and avoid defamatory or discriminatory messages.
- Avoid offensive content of any kind, including pornography and materials promoting violence, discrimination or hatred.
- Not display the TELUS logo or brand images in personal communications without written permission from a senior leader or the Brand Office.
- Not disclose personal information about ourselves that we do not want the public to be aware of, nor disclose personal information about others.

Case Studies

Problem

How do I tell if a document (paper or electronic) is proprietary if it is not marked as such?

Action

You should begin by asking the person who issued the document. If you cannot find the source of the information, consider the nature of the information itself. For example, does the information deal with highly sensitive company strategy, financial information, sales and marketing initiatives, or important human resources issues? If you are still uncertain, speak to your leader.

Problem

I am part of a team working on a piece of the quarterly financial results. In the course of my work, I regularly see the draft package of all the results before they are approved for release. One evening, my neighbor asks me, “How is TELUS doing these days?” In this casual conversation, is it acceptable if I answer, “Well, I can tell you one thing; the results are really good this quarter.

Action

No, it is not. This information is not yet public and therefore it should be regarded as confidential proprietary company information. In addition, if this information is material (i.e. would reasonably be expected to have a significant effect on the value or price of TELUS shares), you may also have engaged in “tipping” in violation of securities law.

Problem

I would like to search for a new car on the Internet and compare notes with friends on a social networking site. Is this allowed from my workstation?

Action

Reasonable personal use of your TELUS-provided communication device to access the Internet is allowed provided it complies with our policies, is carried out on personal time, does not interfere with your work or negatively impact TELUS in any way. Remember that business needs must take priority in the allocation of our time at work and that TELUS monitors such traffic and logs of this activity may be used in an investigation of a breach of our policies.

Problem

While surfing the web, I came across a forum where people discuss TELUS products and services. I saw questions, praise and some criticism of TELUS. What should I do?

Action

Unless you are a specifically authorized TELUS spokesperson in this forum, we encourage you not to participate in discussions about TELUS on the Internet. You may open yourself and TELUS to unacceptable risk since you may inadvertently disclose confidential information about TELUS as you defend the company or be viewed as speaking on behalf of TELUS when you have not been authorized to do so. If you do participate in such discussions in a personal capacity, you may not discuss confidential information about TELUS.

Conflict of Interest

As team members, our first business loyalty must be to TELUS. We must avoid situations or relationships that may be harmful or detrimental to the best interests of the Company and result in a conflict of interest. A conflict arises whenever we allow, or appear to allow, personal interests or relationships to impair our judgment and ability to make decisions with integrity and honesty. By thinking of ourselves first, we may act in a way that is damaging, or potentially damaging, to TELUS. We may also harm our

personal reputation. In such circumstances, team members must take action to eliminate the conflict of interest or the perception of conflict of interest.

We must disclose actual or potential conflicts of interest to our leader and, in particular, if there are members of our household who work for known or possible competitors of TELUS or for a supplier or major customer. Each situation must be considered individually and the potential for conflict of interest determined based on the parties involved, level of access to business information, decision-making authority, job duties/responsibilities, position within the organization and potential impact on others. If we are in a conflict or are unsure, we complete a “Conflict of Interest Questionnaire” available on the company intranet. When complete, this form is filed with the Ethics office.

This section is intended as a guide in those areas in which conflicts of interest most often arise. It is not intended to be definitive or all-inclusive, as guidelines cannot cover every situation that could give rise to a conflict of interest.

Relationships

Conflict of interest may occur when a team or family member gains personal benefit from a business relationship with TELUS, or from an outside business with which TELUS has a relationship such as a customer, competitor, supplier, contractor, consultant, agent, vendor, channel partner or dealer. This personal benefit may take the form of an ownership interest in or a role as a director, officer or employee of an entity that is engaged in a business relationship with TELUS.

This guideline does not prohibit team members from holding publicly traded shares of an entity with which TELUS has a business relationship or a competitor provided that the team member does not have a significant investment in the entity and does not acquire the shares based on material undisclosed confidential information obtained as a result of employment with TELUS or by being a member of the Board of Directors of a TELUS company.

Team members may not participate in a decision to hire, transfer or promote a family member, or be in a position of direct or indirect influence over a family member as an employee or contractor. Team members may not supervise a family member nor have direct or indirect authority over employment or contract-related decisions that impact a family member such as pay, performance ratings, work assignments, discipline, training or termination. Team members recommending the hire of an employee or retainer of a contractor must disclose any past relationships, both professional and personal. Team members who have authority over decisions that impact former team members should be cognizant that real or perceived conflicts of interest may continue to arise when they make decisions that affect a family member who is also a former TELUS team member.

Family member is defined as a spouse (including common-law spouse and same-sex partner), child, stepchild, parent, sibling, niece, nephew, aunt, uncle, cousin, grandparent, grandchild, in-law (including mother-in-law, father-in-law, son-in-law, daughter-in-law, sister-in-law, brother-in-law) or any person (other than domestic employees) residing in the same household as the TELUS team member.

TELUS Board members must disclose any family or personal relationship with TELUS team members or with TELUS job applicants to the Chair of the Corporate Governance Committee in order that the Committee may determine whether the relationship impacts the Director's independent status.

Situations may arise where broader familial relationships and other close personal associations cause real or perceived conflicts of interest or the possibility of real or perceived improper influence. Team members should be sensitive to these concerns and demonstrate good business judgment in the best interest of TELUS and in keeping with the spirit and intent of this policy. Any uncertainty should be discussed with the appropriate HR business partner.

Team members must not be involved in any negotiations or transactions with customers, suppliers, contractors, consultants, agents, vendors, or outside parties where the team member has a personal, commercial or financial interest in the outcome of the negotiations.

Board members, executives and senior Finance leaders have a duty to disclose whether they have a relationship with the company's External Auditor.

Outside employment and activities

We are free to engage in outside business activities in our own time. However, we must ensure that these activities do not conflict, or have the potential to conflict, with TELUS' best interests or with our ability to perform our job for TELUS. As a general guideline, we may not work for or be engaged in business activities for enterprises that are competitors or suppliers of TELUS. A conflict may also arise if, for example, we use skills or tools paid for or developed by TELUS.

It is a conflict of interest to have an outside interest that demands so much time and energy that it interferes with the team member's ability to do TELUS work. This could include any charitable activities that require time and effort during normal working hours, except for situations where the individual is acting in a representative capacity at the request of TELUS with the explicit and written permission of his or her leader.

Future Business

Over time, TELUS may expand into new businesses or change its product lines or services. Team members are responsible for re-examining their individual situations on a regular basis to avoid becoming involved in a conflict of interest situation where no such conflict previously existed.

Information

Team members may not disclose or use for any personal reason, including personal gain, any confidential information (including competitive intelligence) obtained through employment with TELUS or by being a member of the Board of Directors of a TELUS company.

Insider Trading

As detailed in the TELUS Insider Trading Policy and summarized here, team members may not trade in shares or other securities of TELUS or any other company while in

possession of undisclosed material information relative to the company whose securities are being traded. Nor may team members inform or tip any other person, including their immediate family, of any undisclosed material information, other than in the "necessary course of business". The "necessary course of business" exception is a limited one and exists so as not to unduly interfere with a company's ordinary business activities. Please see the TELUS Insider Trading Policy for more information.

Material information in respect of a company is information that could reasonably be expected to have a significant effect on the market price or value of any securities of that company.

Gifts and Benefits

TELUS team members shall not offer or accept, directly or indirectly, gifts, gratuities, rewards, favours or benefits from any organization or person having business dealings with TELUS other than as described below. These guidelines apply at all times and do not change during traditional gift-giving seasons.

It is not a conflict of interest to offer or accept hospitality or entertainment or to offer a discount or gift certificate for TELUS services, provided it is reasonable, and is within the limits of responsible and generally accepted business practices. However, team members should not offer or accept gifts or benefits that are intended to influence, or appear to influence, a particular business decision. Gifts of cash or cash equivalent should not be exchanged.

Acceptable benefits in the normal course of business for TELUS employees typically are less than $250 Canadian or the close equivalent in other currencies and include

- Transportation to or from the customer's or supplier's place of business
- Hospitality suites
- Attendance at sporting or cultural events
- Business lunches or dinners
- Small seasonal holiday gifts or prizes to be used in office draws and raffles

Third party-paid seminars or conferences may be appropriate if there is a clear benefit to TELUS for attending and the attendance is approved in advance by the leader. To avoid a real or perceived conflict of interest, team members should consider TELUS funding incremental expenses (e.g. airfare and hotel).

Team members with supplier selection, negotiation, purchasing or contract management roles within TELUS are subject to more stringent professional purchasing requirements regarding gifts and benefits and maintaining appropriate relationships with suppliers **and should therefore not accept any gifts or benefits from suppliers or potential suppliers without the explicit and written permission of his or her leader.**

Case Studies

Problem

I work in a senior marketing position at TELUS and operate my own business after hours. Though I use my marketing skills, the business in no way competes with TELUS business. I started small, working out of my basement. But my business is gradually generating more and more revenue. I am considering hiring a part-time manager, as I am not ready to leave my full-time employment. Once my own business can pay me as much as my salary does, I will devote my full attention to it. I have the best of both worlds - a salary and a blossoming business for future security. Is this a conflict of interest?

Action

No. If, however, TELUS decides in the future to enter the same line of business that your company is in, you will be in a conflict of interest position, even though you were in that business first. You must then decide which of your two interests, your own company or your employer's, will receive your full attention. Since TELUS is not currently in the same line of business as your company, you are operating ethically, as long as it remains an after-hours pursuit.

Problem

I recently married the owner of a local franchise selling a competitor's cellular phone service. We have agreed not to talk about our business days. Recently, my leader advised me that I could be in a conflict of interest position. What should I do?

Action

You are in a situation that may leave the impression of a conflict of interest. Even though you and your new spouse have decided not to talk about your business lives, people outside the marriage—including your employer—may perceive you are in a conflict of interest position. You should discuss your situation with your leader and identify the extent to which your access to TELUS' information could benefit your spouse's company and develop alternatives to avoid any appearance of a conflict of interest.

Problem

I install telecommunications inside wiring for small and medium-sized business customers. With the growth of the Internet and other communications services, demand for my expertise is booming. Can I take advantage of this opportunity and start up an installation business on my own time?

Action

No. You cannot engage in any outside activity that might take business away from TELUS or any of its subsidiaries. Furthermore, as a team member, you are expected to contribute your energy and ideas to your job at TELUS.

Problem

My spouse has just become an executive sales manager for a company that services the computers for TELUS. Do I need to tell anyone about this?

Action

Yes. One of your spouse's competitors or a fellow TELUS team member could claim that your spouse gets TELUS' business because

you are a TELUS team member. You should notify your leader and make sure you are not involved in any decisions regarding your spouse's company.

Problem

Part of my job involves the selection of technology. One day, a technology supplier phoned me and offered me and my family free use of his luxury vacation condominium. He says he is not using it and it would be a shame to have it sit empty.

Action

The supplier has made a generous offer. Too generous. Your use of the condominium appears offered in exchange for future special treatment from you in your position with TELUS. You should decline the offer.

Problem

While at lunch, I overheard a conversation between two other TELUS team members regarding company plans to make a minority investment in a business that develops communications software. Can I buy shares in the software company or suggest to my spouse that she do so?

Action

No. Although you found out about TELUS' planned investment by accident, you are prohibited from buying shares by virtue of the fact that you are a member of the TELUS team. Your spouse is also prohibited, because she obtained information about the proposed investment from you, a TELUS team member. However, you and your spouse will be able to buy shares when TELUS' investment in the software company becomes publicly disclosed.

Problem

As a network engineer with TELUS, I have significant influence over the selection of the company's suppliers. I have known the owner of one of TELUS' suppliers since we were kids and have always maintained a close personal relationship. I have no personal, commercial or financial interest in the supplier. Is there still an appearance of conflict?

Action

Yes. Although you may not have a personal, commercial or financial interest in the outcome of the business relationship with this person, there may still be an appearance of bias or preferential treatment towards their company. You must eliminate the perception of conflict of interest by removing your involvement from the selection of the company's preferred suppliers or having a second person (a superior or a peer) co-approve the supplier selection decision.

Problem

I am a customer service manager with TELUS and my nephew is seeking employment as an engineer with TELUS. Am I able to recommend him for employment?

Action

To avoid a conflict of interest, you should have no involvement in the selection decision. However, you may provide a written personal reference to the appropriate HR recruitment manager.

Dealing with Suppliers, Contractors, Consultants and Agents

We value our relationship with suppliers, contractors, consultants and agents and those acting on behalf of TELUS because they contribute to our overall success. We strive to ensure our business dealings with them are ethical and that they understand our expectations of them for compliance with applicable TELUS policies.

Selecting Suppliers, Contractors, Consultants and Agents

- We strive to award business to suppliers, contractors, consultants and agents who are in compliance with applicable laws and regulations in their business relationships, including those with their employees, their communities and TELUS.
- We strive to select our suppliers, contractors, consultants and agents based upon objective and fair criteria including but not necessarily limited to business need, price, service, quality, reputation for ethical conduct and health, safety and environmental business considerations.

Adherence to applicable TELUS policies

- We expect the suppliers, contractors, consultants and agents with whom we do business to demonstrate similar values and standards as

the applicable TELUS policies.

- We strive to ensure that our suppliers, contractors, consultants and agents are made aware of applicable TELUS policies specific to the work for which they are being engaged.