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TELUS CORP
Form 6-K
November 07, 2006
Form 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of November 2006
(Commission File No. 000-24876)

TELUS Corporation

(Translation of registrant's name into English)

21st Floor, 3777 Kingsway
Burnaby, British Columbia V5H 3Z7
Canada

(Address of principal registered offices)

Indicate by check mark whether the registrant files or will file annual reports
under cover of Form 20-F or Form 40-F:

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of
1934.

Yes No

This Form 6-K consists of the following:

TELUS NEWS RELEASE

TELUS Reports Third Quarter Results
November 3, 2006

Strong revenue and earnings growth based on strength in
wireless and data

Guidance adjustments include increased 2006 EPS

Dividend increased 36%

VANCOUVER, Nov. 3 /CNW/ - TELUS Corporation (TSX: T and T.A / NYSE: TU)
today reported for the third quarter of 2006 a seven per cent increase in
revenues to \$2.2 billion from a year ago due to continued strong wireless and

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data growth. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased 13% due to strong wireless and wireline growth, aided by higher 2005 expenses due to the labour disruption. Earnings per share (EPS) for the third quarter were 94 cents, compared to 53 cents for the same period a year ago. EPS this quarter included favourable tax related adjustments of 9 cents per share. When normalizing for tax and the labour disruption impacts from 2005, EPS this quarter increased 42% due primarily to EBITDA growth lower depreciation and lower financing costs. The quarterly dividend was increased by 10 cents to 37.5 cents payable on January 1, 2007.

FINANCIAL HIGHLIGHTS

| C\$ in millions, except per share amounts (unaudited) | 3 months ended September 30 | | |
|--|--------------------------------|---------|----------|
| | 2006 | 2005 | % Change |
| Operating revenues | 2,210.7 | 2,062.8 | 7.2 |
| EBITDA(1) | 952.4 | 839.7 | 13.4 |
| Operating income | 569.1 | 430.5 | 32.2 |
| Income before income taxes and non-controlling interest | 448.5 | 278.6 | 61.0 |
| Net income(2) | 319.6 | 190.1 | 68.1 |
| Earnings per share (EPS), basic(2) | 0.94 | 0.53 | 77.4 |
| Capital expenditures | 423.9 | 263.3 | 61.2 |
| Cash provided by operating activities | 570.4 | 693.5 | (17.8) |
| Free cash flow(3) | 528.3 | 581.3 | (9.1) |

Darren Entwistle, president and CEO, said "Third quarter results showed continued wireless and data growth consistent with our national strategy, which drove strong consolidated revenue and earnings. Notably, for the first time, TELUS generated more than 50% of consolidated EBITDA from its fast growing wireless operations. We were also pleased to experience resiliency in our wireline segment as a result of strong data revenues, which offset increased competitive pressures affecting local and long distance revenues. Data revenues increased 9% supported by a 41,500 increase in our high-speed Internet base and continued growth in enhanced data and business services. TELUS remains committed to returning capital to our shareholders as evidenced by our announcement today to raise the quarterly dividend by 36%, as well as our track record and intentions for significant ongoing share repurchases."

Robert McFarlane, executive vice president and CFO, said "Strong EPS growth of 77% resulted from wireless and wireline EBITDA growth aided by the absence of labour disruption costs combined with lower depreciation and financing costs, positive tax related adjustments and the impact of ongoing share repurchases. We have updated 2006 guidance including tighter ranges, increased high speed net additions and set a higher EPS range of \$3.15 to \$3.25. We plan to announce 2007 annual guidance by mid-December."

"Given TELUS' strong financial results to date, positive prospects for future growth in operational cash flows and consistent with our dividend growth model approach, today we announced a significant 36% increase in our dividend. Furthermore, we also intend to renew in December our significant NCIB share repurchase program for 2007. In the event TELUS does not pursue an income trust conversion, then the combination of the higher dividend and share repurchases at our year to date run-rate, would result in a total return of capital to shareholders that approaches the level of cash distributions per unit previously announced in relation to the proposed income trust

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conversion."

This news release contains statements about expected future events and financial and operating results of TELUS that are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the 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 actual future results and events to differ materially from that expressed in the forward-looking statements. Accordingly this news release is subject to the disclaimer and qualified by the assumptions (including assumptions for 2006 guidance, normal course issuer bid renewal and share purchases), qualifications and risk factors (including uncertainties regarding tax benefits and the company's proposal to convert to an income trust) referred to in the Management's discussion and analysis -
November 1, 2006.

OPERATING HIGHLIGHTS

TELUS wireless

Profitable subscriber growth continues

- Revenues increased by \$146 million or 17% to \$1.0 billion in the third quarter of 2006, when compared with the same period in 2005
- ARPU (average revenue per subscriber unit per month) improved by \$2 to \$66. The data component increased by 79% to over \$5
- EBITDA increased by \$69 million over the third quarter of 2005 representing 17% growth. Notably, for the first time, more than 50% of TELUS' EBITDA came from wireless operations
- Cost of acquisition per gross addition of \$386 was down for the third straight quarter, but increased 4% year over year due to higher handset subsidies and promotional spending
- Net subscriber additions were 137,200, stable quarter over quarter with 4% growth in postpaid additions to 108,600 and slightly lower prepaid loading
- Blended monthly churn was slightly higher at 1.36% compared to 1.33% a year ago, while postpaid churn remained low at 1.01%
- Cash flow (EBITDA less capital expenditures) increased by \$43 million or 13% to \$370 million in the third quarter due to higher EBITDA offset by increased capital expenditures

TELUS wireline

Strong data growth supports stable revenues

- Revenues were flat at \$1.2 billion when compared to the third quarter of 2005 due to continued data revenue growth offsetting ongoing declines in local and long distance revenues
- Data revenues increased 9.2% driven by strong high speed Internet and enhanced data service growth
- Long-distance revenue declined 10% to \$199 million, reflecting industry trends of lower volumes, strong price competition and technological substitution
- EBITDA increased by \$44 million or 10%, due primarily to higher net expenses incurred in the third quarter last year from the labour disruption
- Non-incumbent revenue in Central Canada increased 5.5% with EBITDA up to \$9.7 million
- High-speed Internet net adds were 41,500, up significantly from a year ago bringing TELUS' total Internet subscriber base to 1.1 million

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- Network access lines declined by 40,000 in the quarter, down 2.8% from a year ago reflecting residential line losses from ongoing competitive activity and wireless substitution
- Cash flow (EBITDA less capital expenditures) was down 37% to \$158 million, due to increased capital expenditures reflecting increased spending on the broadband network and strong housing growth in Western Canada

CORPORATE DEVELOPMENTS

TELUS reassessing income trust conversion plans

TELUS is assessing the impact of the unexpected announcement, by Canada's Finance Minister that income trusts will be taxed in a manner similar to corporations, on the company's proposal to reorganize into an income trust. As a result of the October 31 announcement, there can be no assurance at this time that TELUS will proceed with the proposed income trust conversion it announced September 11.

TELUS is disappointed at the lack of consistency in the taxation legislation environment and that the government would make such a fundamental shift in policy without giving investors and Canadian companies the benefit of consultation or notice they were considering changing the rules. The lack of consistency makes it difficult for any company to make major long-term strategic decisions. As proposed, the new trust tax policy discriminates against TELUS investors and as such TELUS considers it unfair. If TELUS completes its trust conversion as previously planned, then TELUS would not receive an equitable tax treatment compared to existing publicly traded trusts for the four years ending 2010.

Should the conversion proceed it would be accomplished by way of a plan of arrangement under the Business Corporations Act (British Columbia) that would be subject to the approval of at least 66 2/3% of the votes cast by the security holders of TELUS at a special meeting. An information circular describing the reorganization and detailing the proposed plan of arrangement would be mailed to security holders before the meeting. The reorganization would also be contingent upon receipt of all necessary regulatory and court approvals. There can be no assurance at this time that all approvals and consents required or desirable to effect the conversion will be obtained within the proposed time frame, or at all, and, accordingly, there can be no assurance that the conversion will be completed.

TELUS continues share repurchases

During the third quarter, TELUS continued to purchase shares under its Normal Course Issuer Bid. Repurchases totaled 2.1 million shares (0.74 million common and 1.33 million non-voting), for a total outlay of \$120 million.

TELUS commenced its second share purchase program on December 20, 2005 with the intention, if considered advisable, to purchase and cancel, over a 12-month period, up to 12 million of its common shares and 12 million of its non-voting shares on the Toronto Stock Exchange, which represented approximately 7% of the outstanding shares. Since this program commenced, 14.0 million shares have been repurchased, for an outlay of \$658 million, representing 58% of the 24 million shares authorized.

Since December 2004, TELUS has repurchased a total of 35.7 million shares for an outlay of \$1.57 billion under two share repurchase programs. TELUS believes that such purchases are in the best interest of TELUS and constitute an attractive investment opportunity and desirable use of company funds that should enhance the value of the remaining shares. TELUS intends to renew the current NCIB program that expires in December 2006, for an additional 12 month period. In the absence of an income trust conversion, this would allow continued significant share purchases in 2007.

TELUS calls for regulatory change

In October, in a speech to the Canadian Chamber of Commerce in Ottawa,

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TELUS President and CEO Darren Entwistle called on the federal government to implement regulatory change in Canada. Current regulatory frameworks were created 15 years ago, when wireless penetration was only three per cent, and do not reflect the current industry realities. Mr. Entwistle pointed out that the new communications world is in the midst of a digital revolution where wireless and IP are collapsing distance, reducing cost and eradicating borders. He argued that the current telecommunications and broadcasting regulatory regime stifles innovation and investment and is ill equipped for the pace of the IP world. In today's environment, a free market approach and deregulation would benefit the very consumers regulations were once created to protect.

Mr. Entwistle's call for a regulatory change followed TELUS' September call to the CRTC to reform broadcasting regulation in order to harness opportunities created by emerging technologies.

TELUS continues connecting B.C. communities

TELUS is partnering with the Gwaii Trust Society to connect seven Queen Charlotte Islands communities to broadband Internet by the end of the year. In September, TELUS announced it had signed a contract with the Gwaii Trust Society to bring high-speed Internet service to island residents this year by way of the world's longest over-water radio Internet transmission. The islands communities are among 119 TELUS is investing \$110 million to connect by via the Connecting Communities agreement with the provincial government by the end of 2006, making the province the most connected jurisdiction in North America. TELUS and the province partner with local Internet service providers to offer TELUS' wholesale broadband service to individual homes and businesses.

TELUS connecting Quebec communities

TELUS is connecting 48 Quebec communities to broadband by the end of 2006. The company is partnering with Industry Canada and area municipalities to bring broadband capabilities to more than 80 per cent of households in the Lower St-Lawrence region. The project cost is \$6.8 million, of which TELUS is investing \$2.9 million.

TELUS, CUPE-FTQ reach labour accord for Quebec employees

TELUS and the Syndicat quebecois des employees de TELUS (SQET), Local 5044 of the Canadian Union of Public Employees (CUPE-FTQ) reached a four-year labour contract ratified by the 1,000-member union local in late August. These employees will now be eligible to receive variable pay based on company performance, lump-sum payments in 2006 and 2007, and a new defined contribution pension plan. A new job evaluation program has also been implemented.

CONSUMER SOLUTIONS

TELUS invests in broadband network

In September TELUS announced it is investing \$600 million to enhance broadband infrastructure in the top 38 communities across British Columbia, Alberta and eastern Quebec by the end of 2009. TELUS is installing advanced equipment in more than 7,000 sites and running fibre optic cable closer to customer homes to drive faster Internet access speeds in support of new offerings, including TELUS TV.

This broadband build complements a rural capital investment program to bring high speed Internet services to more than 450 additional remote communities in British Columbia, Alberta, and eastern Quebec by 2010.

TELUS begins offering digital TV to Vancouver Lower Mainland

In the quarter, TELUS began the commercial launch of TELUS TV in select Vancouver neighbourhoods. The neighbourhood-by-neighbourhood rollout follows similar successful launches of digital TV service in Calgary and Edmonton in 2005.

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Three promises - TELUS commits to wireless client satisfaction

TELUS introduced its Future Friendly Promises to reinforce its commitment to delivering the wireless industry's best experience to clients. Building upon TELUS' history of excellent client service, the Future Friendly Promises are made up of three pledges - a dependable network, fast client service and cool new phones. Together with potential customer account credits, these promises are raising the bar for client service in the wireless industry.

TELUS SPARKs with new wireless data services

TELUS continued to expand its SPARK(TM) portfolio of mobile entertainment, information and messaging services with the introduction of five new offerings.

TELUS Kid Find and TELUS Navigator are new location based services making finding family members and destinations simpler. Operating on TELUS' 1x wireless data network in British Columbia, Alberta and Ontario's Golden Horseshoe, the services combine the accuracy of traditional GPS technology with TELUS' network based location technology to provide reliable location fixes. With TELUS Kid Find, clients can use mapping technology on their mobile phones and computers to locate GPS-enabled phones. TELUS Navigator is a mobile phone-based tool that offers audible and visual turn-by-turn directions.

TELUS partnered with India's Reliance Communications to bring South Asia to the palm of our clients' hands with Apna Des. This one-stop shop for South Asian mobile content brings TELUS clients North America's largest catalogue of Bollywood content along with news, cricket updates, entertainment and cultural information direct from South Asia.

With My Email, clients with the LG 490 handset enjoy enhanced MSN Hotmail. They can read, reply, write and forward emails and even receive notification of new messages.

TELUS Mobile Search is a new mobile search tool making it easier than ever to find made-for-mobile information on-the-go. With less searching and better results, clients access downloadable information including music, ringtones, images and games, flight information, news, sports scores, lottery results, stock quotes, weather, and product rating and price points.

Cool new wireless phones

TELUS continued to expand its suite of cool products with the introduction of eight new wireless handsets and devices including the LG 490, TELUS' second phone equipped with the Fastap keypad. Fastap is the only mobile phone keypad in the world to integrate raised letter keys around the numeric keypad.

BUSINESS & PARTNER SOLUTIONS

TELUS signs significant business contracts in Ontario and Alberta

In September, TELUS announced it had won a major five-year, \$140 million contract to provide and manage the Government of Ontario's province-wide telecommunications network, including IT security. This contract is another significant step forward in the national growth strategy TELUS initiated in 2000.

In October, a second contract between TELUS and the Government of Ontario was announced when the Ministry of Transportation unveiled its Greater Toronto Area (GTA) Fare Card. In support of the program, TELUS secured a \$14 million, 10-year contract to provide a Wide Area Network and Wireless Local Area Network solution, which will be hosted and managed out of our Toronto Data Centre.

The announcements capped a quarter that saw several other business contracts including an \$8.3 million contract in Alberta with ATB Financial for call centre, voice and data IP services and a contract to provide emergency communications infrastructure to Edmonton's Capital Health service organization.

TELUS to open contact centre in Montreal

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TELUS and the Government of Quebec announced the opening of a new contact centre this year in the heart of Montreal. The \$3.5 million high-tech contact centre is expected to create at least 150 jobs by mid-2007, and will be responsible for supporting TELUS' small and medium-sized business clients.

Two new Ontario buildings will house TELUS team

To accommodate TELUS' growth in Central Canada, TELUS and Menkes Developments broke ground in September on a new TELUS tower in downtown Toronto at 25 York Street beside Union Station. The \$250 million building will set a new standard for environmental responsibility and energy efficiency. Scheduled for occupancy in early 2009, it will bring together more than 2,000 team members located across the greater Toronto area.

In Ottawa, TELUS broke ground in June at 215 Slater Street, bringing its "Future Friendly" brand to downtown. The state-of-the-art 'green' building will bring together 300 TELUS employees who are currently located in various locations across the city in a location that is good for the environment, celebrates innovation and inspires business growth in the Ottawa community.

OTHER DEVELOPMENTS

TELUS National Day of Service

On September 30, more than 5,000 TELUS team members, alumni, and their families rolled up their sleeves to make a significant difference in dozens of communities across Canada as part of the first annual TELUS National Day of Service. TELUS team members volunteered a truly scarce resource, their time and energy, to hundreds of volunteer activities in more than 30 cities and towns across Canada. This included stocking shelves at Toronto's Daily Bread Food Bank, preparing food at the Mission Bon Accueil, a non-profit community service organization in Montreal, building Habitat for Humanity homes in Edmonton, and cleaning and maintaining Victoria's Mustard Seed Street Church.

TELUS recognized for best annual report in world

The 2005 TELUS annual report was ranked best in the world by the Annual Report on Annual Reports, the only international ranking of corporate annual reports. Now in its tenth year of surveying reports from around the world, Belgium-based enterprise.com evaluated 25 aspects of corporate reporting including executive statements, strategic direction, outlook and targets, review of operations, social responsibility, risk factors and corporate governance.

TELUS scored exceptionally well for overall financial reporting, profile and business at a glance, strategy, outlook and prospects, financial highlights, the CEO's message, management's discussion and analysis (MD&A), and risk factors.

TELUS named to Dow Jones Sustainability Index for sixth straight year

In September 2006, for the sixth consecutive year, the Dow Jones Sustainability Index (DJSI), a worldwide corporate sustainability ranking, recognized TELUS as an economic, environmental and social leader. Once again, TELUS is the only North American telecommunications company included in the global index. This year, TELUS received a perfect score for its environmental reporting. Other areas for which the judges gave TELUS high marks included: environmental management, risk and crisis management, human capital development, talent attraction and retention, stakeholder engagement and social reporting.

TELUS security chief receives top recognition

TELUS' Chief Security Officer Gene McLean was named Security Director of the Year by Canadian Security Magazine. Mr McLean leads a team of 90 security specialists providing security for team members and facilities, IP networks operated by TELUS and its customers, data, and intellectual property. The team also ensures regulatory compliance and the protection of privacy of customer information.

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TELUS Community Board launched in Calgary

The launch of TELUS' seventh community board, in Calgary, completed the roll out of the boards across Canada. Comprised of community leaders and local TELUS executives, each board seeks out grassroots charitable projects in each community for \$500,000 in annual donations.

TELUS Skins Game aids Alberta Children's Hospital Foundation

The TELUS Skins Game visited Alberta for the first time in August. The annual Canadian summer golf classic featured five of the biggest names in the game including the legendary Jack Nicklaus and Greg Norman. More than \$200,000 raised at the Banff event benefited the Alberta Children's Hospital Foundation, the designated charity this year.

Dividend declaration

The Board of Directors declared a quarterly dividend of thirty-seven and a half cents (\$0.375) per share on outstanding Common and Non-Voting Shares payable on January 1, 2007 to shareholders of record on the close of business on December 11, 2006. This represents a 36.4% increase from the previous twenty-seven and a half cent quarterly dividend.

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Certain products and services named in this release are trade-marks. The symbols (TM) and (R) indicate those owned by TELUS Corporation or its subsidiaries. All other trade-marks are the property of their respective owners.

Forward-looking statements

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This report and Management's discussion and analysis contain statements about expected future events and financial and operating results of TELUS Corporation ("TELUS" or the "Company") that are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from financial and operating targets, expectations, estimates or intentions expressed in the forward-looking statements.

TELUS' intention to reorganize in its entirety as an income trust, announced on September 11, 2006, is subject to inherent risks and uncertainties, including changes arising from the October 31, 2006 announcement by the federal Minister of Finance of a proposed new Tax Fairness Plan affecting the future taxation level of income trusts and corporations. No assurance can be given that TELUS' income trust conversion will proceed, or be completed in the originally anticipated January 2007 time-frame, or that any of the anticipated benefits and implications of income trust conversion will be realized if the conversion were to proceed. Unless noted explicitly, forward-looking statements in Management's discussion and analysis are in the context of

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TELUS continuing as a corporation.

Assumptions for 2006 guidance purposes include: economic growth consistent with recent provincial and national estimates by the Conference Board of Canada, including gross domestic product growth of 2.7% in Canada; increased wireline competition in both business and consumer markets; a Canadian wireless industry market penetration gain of 4.5 to five percentage points; up to \$80 million of restructuring and workforce reduction expenses; an effective tax rate of approximately 23%; no prospective significant acquisitions or divestitures; no change in foreign ownership rules; and maintenance or improvement of investment-grade credit ratings.

Factors that could cause actual results to differ materially include but are not limited to: competition; technology (including reliance on systems and information technology); regulatory developments (including wireless number portability and possible future changes to the regulatory environment); human resources; business integrations and internal reorganizations; process risks (including billing system conversion); financing and debt requirements (including share repurchases and debt redemptions); tax matters (including changes to the taxation of income trusts and corporations); health, safety and environment developments; litigation and legal matters; business continuity events (including manmade and natural threats); economic growth and fluctuations (including pension performance, funding and expenses); and other risk factors discussed herein and listed from time to time in TELUS' reports, public disclosure documents including the Annual Information Form, and other filings with securities commissions in Canada (filed on SEDAR at www.sedar.com) and the United States (filed on EDGAR at www.sec.gov).

For further information, see Section 10: Risks and risk management of TELUS' annual 2005 Management's discussion and analysis, as well as updates reported in Section 10 of TELUS' 2006 first and second quarter Management's discussion and analyses, and this document.

Management's discussion and analysis

November 1, 2006

The following is a discussion of the consolidated financial condition and results of operations of TELUS Corporation for the three-month and nine-month periods ended September 30, 2006 and 2005, and should be read together with TELUS' interim consolidated financial statements. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the discussion regarding forward-looking statements above.

TELUS' interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which differ in certain respects from U.S. GAAP. See Note 18 to the interim consolidated financial statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS. The interim consolidated financial statements and Management's discussion and analysis were reviewed by TELUS' Audit Committee and approved by TELUS' Board of Directors. All amounts are in Canadian dollars unless otherwise specified.

TELUS has issued guidance on and reports on certain non-GAAP measures that are used by management to evaluate performance of business units, segments and the Company. In addition, non-GAAP measures are used in measuring compliance with debt covenants. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled with their nearest GAAP measure. For the readers' reference, the definition, calculation and reconciliation of

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consolidated non-GAAP measures is provided in Section 11: Reconciliation of non-GAAP measures and definition of key operating indicators.

Management's discussion and analysis contents

| Section | Description |
|--|--|
| 1. Overall performance | A summary of TELUS' consolidated results for the third quarter and first nine months of 2006 |
| 2. Core business, vision and strategy | Examples of TELUS' activities in support of its six strategic imperatives |
| 3. Key performance drivers | TELUS' 2006 priorities |
| 4. Capability to deliver results | An update on TELUS' capability to deliver results |
| 5. Results from operations | A detailed discussion of operating results for the third quarter and first nine months of 2006 |
| 6. Financial condition | A discussion of significant changes in the balance sheet at September 30, 2006, as compared to December 31, 2005 |
| 7. Liquidity and capital resources | A discussion of cash flow, liquidity, credit facilities, off-balance sheet arrangements and other disclosures |
| 8. Critical accounting estimates and accounting policy developments | A description of accounting estimates and changes to accounting policies |
| 9. Full year guidance for 2006 | A confirmation and revisions, if any, to TELUS' annual guidance |
| 10. Risks and risk management | An update of risks and uncertainties facing TELUS and how it manages these risks |
| 11. Reconciliation of non-GAAP measures and definition of key operating indicators | A description, calculation and reconciliation of certain measures used by management |

1. Overall performance

1.1 Materiality for disclosures

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.

1.2 Proposed reorganization as an income trust

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The federal Minister of Finance announced late on October 31, 2006, a new Tax Fairness Plan that is intended to change the relationships between the future levels of taxation of income trusts and corporations. One element of the proposed plan is a tax on distributions of business income earned by non-passive investments by publicly traded income trusts and limited partnerships (other than those which hold passive real estate investments). This is intended to make an income trust's income tax treatment more like that of public corporations. The announcement by the federal Minister of Finance indicated that for income trusts, which begin trading after October 31, 2006, the new tax measures will apply to the later of their 2007 taxation year and the taxation year in which the income trust begins to trade. The result of the application of these new proposals is expected to reduce the tax efficiency of publicly traded income trusts.

TELUS is assessing the impact of this unexpected development on the proposed reorganization of TELUS in its entirety as an income trust, announced on September 11, 2006. At that time, TELUS indicated that the conversion would be accomplished by way of a plan of arrangement under the Business Corporations Act (British Columbia) that is subject to approval of at least two thirds of the votes cast by the security holders of TELUS at a special meeting expected to be held in January 2007. It was also noted that, although the timing of the completion of the conversion process could not be predicted with certainty, management anticipated completion in late January 2007.

As a result of the announcement by the federal Minister of Finance, there can be no assurance at this time that TELUS will proceed with its proposed income trust conversion. See the related risk discussion in Section 10.5 Income trust reorganization risks.

1.3 Consolidated highlights

| (\$ millions, except shares, per share Amounts, subscribers and ratios) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|---------|--------|--------------------------------------|---------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| ----- | | | | | | |
| Consolidated statements of income | | | | | | |
| Operating revenues | 2,210.7 | 2,062.8 | 7.2 % | 6,426.4 | 6,056.0 | 6.1 % |
| Operating income | 569.1 | 430.5 | 32.2 % | 1,543.7 | 1,350.4 | 14.3 % |
| Income before taxes and non-controlling interests | 448.5 | 278.6 | 61.0 % | 1,154.7 | 889.9 | 29.8 % |
| Net income | 319.6 | 190.1 | 68.1 % | 886.3 | 621.8 | 42.5 % |
| Earnings per share, basic (\$) | 0.94 | 0.53 | 77.4 % | 2.57 | 1.74 | 47.7 % |
| Earnings per share, diluted (\$) | 0.92 | 0.53 | 73.6 % | 2.54 | 1.72 | 47.7 % |
| Cash dividends declared per share (\$) | 0.275 | 0.20 | 37.5 % | 0.825 | 0.60 | 37.5 % |
| ----- | | | | | | |
| Consolidated statements of cash flows | | | | | | |
| ----- | | | | | | |

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| | | | | | | |
|---------------------------------------|-------|-------|---------|---------|---------|--------|
| Cash provided by operating activities | 570.4 | 693.5 | (17.8)% | 2,056.5 | 2,109.6 | (2.5)% |
| Cash used by investing activities | 451.0 | 263.3 | 71.3 % | 1,253.2 | 979.5 | 27.9 % |
| Capital expenditures | 423.9 | 263.0 | 61.2 % | 1,203.2 | 944.9 | 27.3 % |
| Cash used by financing activities | 126.2 | 249.2 | (49.4)% | 837.3 | 704.5 | 18.9 % |

Subscribers and other measures

| | | | | | | |
|--|--------|-------|--------|---------|---------|-------|
| Subscriber connections(1) (thousands) at end of period | 10,531 | 9,981 | 5.5 % | | | |
| EBITDA(2) | 952.4 | 839.7 | 13.4 % | 2,712.2 | 2,560.9 | 5.9 % |
| Free cash flow(3) | 528.3 | 581.3 | (9.1)% | 1,367.0 | 1,355.7 | 0.8 % |

Debt and payout ratios

| | | | | | | |
|---|------|------|-----------|--|--|--|
| Net debt to total capitalization ratio (%) (at end of period) (4) | 45.3 | 45.4 | (0.1) pts | | | |
| Net debt to EBITDA ratio (12 months ended September 30) (5) | 1.6 | 1.8 | (0.2) | | | |
| Dividend payout ratio (%) (12 months ended September 30) (6) | 39 | 38 | 1 pt | | | |

Highlights, as discussed in Section 5: Results from operations, include the following (comparing results for the third quarter and first nine months of 2006 to the respective periods in 2005):

- Subscriber connections increased over the 12-month period ended September 30, 2006, as the number of wireless subscribers grew by 13.7% to 4.87 million, the number of Internet subscribers grew by 9.3% to 1.08 million and the number of network access lines decreased by 2.8% to 4.58 million.
- Operating revenues increased as growth in wireless revenues and wireline data revenues exceeded erosion in wireline voice local, long distance and other revenues.
- Operating income grew primarily due to increased EBITDA and lower amortization of intangible assets. EBITDA increased mainly because of growth in wireless subscribers and average revenue per subscriber unit ("ARPU") as well as the absence of labour disruption related expenses in 2006 wireline EBITDA. Wireless segment EBITDA in the third quarter of 2006 was a record quarterly amount for TELUS, and exceeded wireline EBITDA for the first time. In addition, TELUS' total EBITDA for the third quarter of 2006 was a record quarterly amount since the merger of BC TELECOM and Alberta-based TELUS Corporation in 1999.
- Net income and earnings per share increased due to improved operating

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performance, described above, as well as lower financing costs. The average numbers of shares outstanding in the third quarter and first nine months of 2006 were approximately 4% lower than the same periods in 2005 due to share repurchase programs, which contributed to increased 2006 earnings per share. In addition, Net income and earnings per share in the third quarter of 2006 included favourable tax reductions for reassessments of prior years and related interest income of approximately \$30 million or nine cents per share. For the first nine months of 2006, favourable impacts of tax-related adjustments, including changes in statutory tax rates, were approximately \$145 million or 42 cents per share, compared with favourable tax adjustments of approximately \$75 million or 21 cents per share in the first nine months of 2005.

- Based on the results for the first nine months, the Company revised its annual guidance for 2006, subject to the Forward-looking statements at the beginning of management's discussion and analysis. See Section 9: Full year guidance for 2006.

Highlights, as discussed in Section 7: Liquidity and capital resources include the following (comparing results for the third quarter and first nine months of 2006 to the respective periods in 2005):

- Cash provided by operating activities decreased primarily due to the reduction in proceeds from securitized accounts receivable.
- Cash used by investing activities increased primarily due to greater capital expenditures for investments in the broadband networks in B.C., Alberta and Quebec, network access growth to serve strong housing growth in B.C. and Alberta, TELUS TV(R), strategic investments in next-generation EVDO-capable higher speed wireless network technology and continued enhancement of digital wireless capacity and coverage.
- Cash used by financing activities decreased in the third quarter due mainly to lower repurchases of shares under normal course issuer bids. For the first nine months, cash used by financing activities increased mainly due to lower proceeds from issuance of shares resulting from a lower number of options being exercised and implementation of the net equity settlement feature on May 1, 2006.
- Free cash flow decreased in the quarter as improved EBITDA (before restructuring charges) was more than offset by increased capital expenditures and lower interest received. For the first nine months, free cash flow increased due mainly to increased EBITDA (before restructuring charges), lower taxes and lower interest paid more than offsetting increased capital expenditures and restructuring payments.
- Net debt to total capitalization at September 30, 2006 continued to be in the target range of 45 to 50%.
- Net debt to EBITDA continued to be in the target range of 1.5:1 to 2.0:1.
- The dividend payout ratio for the twelve-month period ended September 30, 2006 was lower than the target guideline of 45 to 55% for sustainable net earnings due mainly to actual earnings including the future income tax reduction from tax rate changes in the second quarter of 2006 and tax recoveries in the third quarter of 2006.
- A dividend of 37.5 cents per share was declared for the fourth quarter of 2006 for shareholders of record on December 11, 2006,

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payable on January 1, 2007. This 36.4% increase in the quarterly dividend is the third successive increase announced since 2004. This level is consistent with the dividend payout guideline of 45 to 55% of sustainable net earnings, based on the midpoint of TELUS' full year guidance for 2006.

2. Core business, vision and strategy

The following discussion is qualified in its entirety by the Forward-looking statements at the beginning of Management's discussion and analysis. It is also qualified by Section 10: Risks and risk management of TELUS' annual 2005 Management's discussion and analysis, as well as updates reported in Section 10 of TELUS' 2006 first and second quarter Management's discussion and analyses, and this document.

TELUS' core business, vision and strategy were detailed in its 2005 annual Management's discussion and analysis. Recent activities in support of the Company's six strategic imperatives include the following:

- Building national capabilities across data, IP (Internet protocol), voice and wireless;
- Focusing relentlessly on the growth markets of data, IP and wireless;
- and
- Building integrated solutions that differentiate TELUS from its competitors

In September 2006, TELUS was selected by the Ontario Ministry of Government Services to provide, manage and supply its portfolio of network services including information technology security for the entire network of the Government of Ontario. The five-year contract is expected to generate approximately \$140 million of revenue. TELUS' network solution for the Government of Ontario is based on an IP platform, which allows secure transmission and electronic sharing of information, and includes videoconferencing and web conferencing services.

TELUS also announced in September 2006 that it intends to invest \$600 million between 2007 and 2009 to enhance broadband infrastructure. This investment will enable emerging services and expand network coverage across British Columbia, Alberta and Eastern Quebec. The \$600 million complements the approximately \$190 million expected to be invested during 2006.

TELUS' broadband build is an important investment, paving the way for emerging services including high definition TELUS TV. The Company is installing advanced Internet equipment in more than 7,000 sites across its network and running fibre optic cable closer to customer homes. Bringing fibre closer to homes is expected to provide Internet access speeds of 15 to 30 megabits per second and beyond.

The broadband project complements a rural capital investment program to bring high speed Internet services to more than 450 additional remote communities in British Columbia, Alberta, and eastern Quebec by 2010. See the related risk discussion in Section 10.1 Regulatory, Price cap regulation - Disposition of funds in the deferral accounts.

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

In August 2006, TELUS and Amp'd Mobile, Inc. (Amp'd Mobile) announced an exclusive relationship for the sale and distribution of Amp'd branded services in Canada. As a result, Amp'd Mobile's highly interactive and customized mobile entertainment, information and messaging services are expected to be offered in Canada operating on TELUS' Wireless High Speed network in early 2007.

Under the terms of the Licensing and Services Agreement, Amp'd Mobile will be responsible for bringing unique entertainment content to TELUS' subscribers as well as providing optimized handsets capable of fast download

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speeds. TELUS will manage sales and distribution, billing, client care, network operations and pricing. TELUS will have the exclusive right to use Amp'd trademarks, premium data services, handsets and content delivery platforms in Canada. This represents an opportunity for TELUS to better reach the high value young adult market segment with Amp'd Mobile's highly differentiated, premium data and content centric services.

TELUS Ventures, the strategic venture investment division of TELUS, also announced that it made a U.S. \$7.5 million equity investment in Amp'd Mobile, Inc., which is headquartered in California.

Investing in internal capabilities to build a high performance culture and efficient operations

Two new collective agreements in the Province of Quebec have been negotiated and ratified in 2006. Most recently, TELUS Quebec and Syndicat quebecois des employes de TELUS (SQET) reached a tentative agreement in July, and the membership ratified the agreement at the end of August. The agreement covers more than 1,000 office, clerical and technical employees and will remain in effect until the end of 2009. Highlights of the agreement include: introduction of a variable pay component tied to the Company's performance with a target payout of 3% in 2007 increasing to 5% in 2009, lump-sum payments of 1.75% in 2006 and one per cent in 2007 for all salaried employees, general wage increases of 1% in 2008 and 2009, an increase in the standard work week by 2.5 paid hours to 37.5 hours for approximately 200 client care representatives, and introduction of a defined contribution pension plan for new employees (current employees remain covered by existing pension arrangements).

In the first quarter of 2006, TELUS Quebec and the Syndicat des agents de maitrise de TELUS concluded negotiations for a new collective agreement covering more than 500 professional and supervisory employees. The agreement was ratified by union membership and came into effect on April 1, 2006. The agreement is a one-year contract that included a 1.75% salary increase.

3. Key performance drivers

The Company set new priorities for 2006 to advance its strategy; achieve meaningful commercial differentiation in the markets; capitalize on the technology convergence of wireless and wireline; and drive continued operating efficiency and effectiveness. The following discussion is qualified in its entirety by the Forward-looking statements at the beginning of Management's discussion and analysis. It is also qualified by Section 10: Risks and risk management of TELUS' annual 2005 Management's discussion and analysis, as well as updates reported in Section 10 of TELUS' 2006 first and second quarter Management's discussion and analyses, and this document.

In addition to the many initiatives taken in 2006 to support priorities detailed in Section 2 Core Business, vision and strategy, some additional initiatives are itemized below.

2006 corporate priorities across wireline and wireless

Advance TELUS' leadership in the consumer market through:

- TELUS' future friendly suite of data applications for customers at home and on the move
- Best-in-class customer loyalty through cost-effective customer experience
- Expanding TELUS' channel partner relationships to strengthen its distribution.

Advance TELUS' position in the business market through:

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- Innovative solutions that enhance the competitiveness of TELUS' customers and deepen their loyalty to TELUS
- Increasing the Company's share in the business market by leveraging TELUS' mobile solutions such as high-speed data
- Improving delivery of managed solutions to small business customers.

Advance TELUS' position in the wholesale market through:

- Strengthening the Company's North American reach through innovative IP solutions
- Establishing creative and preferred partnerships to grow TELUS' national customer base
- Optimizing the use of partner networks to complement TELUS' network investments.

Drive improvements in productivity and service excellence by:

- Realizing efficiencies from the integration of wireline and wireless operations
- Driving improvements in enterprise-wide productivity and customer service excellence to increase competitiveness

TELUS reinforced its commitment to bringing the wireless industry's best experience to clients with the announcement of its Future Friendly Promises of a dependable network, fast client service and new phone offers.

- Capturing value from TELUS' investments in technology and innovation to streamline operations.

Strengthen the spirit of the TELUS team and brand, and develop the best talent in the global communications industry by:

- Continuing to leverage best practices across the Company

Through periodic surveys of employees, known as pulse check, TELUS obtains crucial feedback about the business. In the latest survey, notable improvements were measured in team member engagement, pride and outlook for the future.

- Cultivating a business ownership culture that embraces a philosophy of "our business, our customers, our team, my responsibility"

On September 30, more than 5,000 TELUS team members, alumni and family across Canada volunteered their time and energy to hundreds of volunteer activities as part of the TELUS National Day of Service.

- Capitalizing on TELUS' reputation as a progressive, high-performance Company to attract and retain the best team in Canada

TELUS held 28 information sessions and job fairs across Canada in the third quarter of 2006, contributing to hiring of needed talent for the future.

- Providing team members innovative opportunities for growth, development and employment options.

Earlier this year, TELUS was awarded with a Thomson Illuminati award for worldwide excellence in employee learning programs and practices; 2006 marked the third consecutive year in which TELUS has received a prestigious Illuminati award.

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4. Capability to deliver results

4.1 Operational capabilities across wireline and wireless

Development of a new billing system in the wireline segment

The development of a new wireline billing system progressed in the third quarter of 2006. The development includes re-engineering processes for order entry, pre-qualification, service fulfillment and assurance, customer care, collections/credit, customer contact, and information management. The expected customer service and cost benefits of this project include streamlined and standardized processes and the elimination over time of multiple legacy information systems. In the third quarter of 2006, the Company successfully implemented a pilot conversion for a sample set of customers. A commercial launch of the converged billing system platform for consumer customers in Alberta is currently planned for the first quarter of 2007, with additional phases of conversion planned over the next few years. See Section 10.4 Process risks.

Efficiency programs

TELUS' operating efficiency initiatives fall into three broad categories: outsourcing of non-core or peak-load work; consolidation of offices and call centers; and process improvement and automation.

With respect to outsourcing, TELUS has fully or partially contracted out a number of non-core functions including property management, custodial services, building maintenance, mail services, fleet maintenance, and pay phone coin counting. As a result of these outsourcing initiatives, approximately 250 employees have either accepted an offer of redeployment or a voluntary departure package.

With respect to office consolidation, to achieve greater efficiency and improve customer service, management has rationalized a number of offices into larger centers, including the consolidation of the retail office and call center in Victoria into Calgary and Edmonton, as well as consolidation of the conference operation into the BC lower mainland. Additionally, management has completed the consolidation of two field dispatch centers in greater Vancouver into Calgary. Through these initiatives, approximately 525 employees have either accepted an offer of redeployment or a voluntary departure package. The Company is also transforming to a more variable cost structure through the increased use of temporary employees, which management expects to allow better synchronization of resources with variable customer demand.

Finally, with respect to process improvement and automation, TELUS continues to focus on streamlining functional area processes, which includes building on the learnings from the deployment of management team during the 2005 labour disruption. Examples include automating directory listing functions and making process improvements in business support functions, such as human resources. Approximately \$95 million has been invested in restructuring and work force reduction charges over the last four quarters.

In areas like office and call center consolidations, TELUS is experiencing short conventional payback periods, whereas in the area of outsourcing activities, implementation takes longer and paybacks can extend over several years. It should be noted, however, that all of these initiatives are expected to provide positive economic returns. See Section 10.4 Process risks.

Integration of wireline and wireless operations

The integration of wireline and wireless continues subject to the risk discussion in Section 10.3 Business integration and internal reorganizations.

4.2 Liquidity and capital resources

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The following discussion is qualified in its entirety by the Forward-looking statements at the beginning of Management's discussion and analysis, as well as TELUS' annual 2005 Management's discussion and analysis Section 9.3 Financing plan for 2006 and Section 10.7 Financing and debt requirements.

At September 30, 2006, TELUS had access to undrawn credit facilities of more than \$1.4 billion. The Company believes it has sufficient capability to fund its requirements from these facilities and expected cash flow from operations. The following table describes the status of TELUS' financing plan.

2006 financing plan and results

TELUS' 2006 financing plan is to use free cash flow generated by its business operations to:

- Repurchase TELUS Common Shares and TELUS Non-Voting Shares under the Normal Course Issuer Bid ("NCIB")

In the first nine months of 2006, the Company repurchased approximately 5.4 million Common Shares and 7.3 million Non-Voting Shares for a total of \$600.7 million. Between December 20, 2004 and September 30, 2006, the Company repurchased approximately 16.3 million Common Shares and 19.4 million Non-Voting Shares for a total of \$1.57 billion under two NCIB programs. See Section 7.3 Cash used by financing activities.

- Pay dividends

The declared dividend for the third quarter of 2006, payable on October 1, was 27.5 cents per share, as compared to 20 cents per share one year earlier. A 37.5 cent per share dividend was declared for the fourth quarter of 2006, payable on January 1, 2007.

- Retain cash-on-hand for corporate purposes

The balance of securitized accounts receivable decreased by \$150 million during the first nine months of 2006, closing at \$350 million on September 30, 2006. Amounts outstanding under the three-year credit facility and other bank facilities were \$132 million at September 30, a decrease of \$10 million since December 31, 2005.

Other financing objectives included:

- Maintain a minimum \$1 billion in unutilized liquidity

TELUS had available liquidity from unutilized credit facilities of more than \$1.4 billion at September 30, 2006.

- Maintain position of fully hedging foreign exchange exposure for indebtedness

In contemplation of the planned refinancing of the 2007 (U.S. Dollar) Notes, in May 2006 the Company replaced approximately 63% of the notional value of the existing cross currency interest rate swap agreements with a like amount of new cross currency interest rate swap agreements which have a lower effective fixed interest rate and a lower effective fixed exchange rate. This replacement happened concurrent with the issuance of the 2013 (Canadian Dollar) Notes (see below); the two transactions had the composite effect of deferring, from June 2007 to June 2013, the payment of \$300 million.

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- Give consideration to refinancing all or a portion of U.S Dollar denominated Notes due June 1, 2007 in advance of its scheduled maturity

Concurrently with the above, in May 2006, the Company publicly issued \$300 million 5.00%, Series CB, Notes, which mature in 2013. In contemplation of the planned refinancing of the debt maturing June 1, 2007, the Company had entered into forward starting interest rate swap agreements during 2006 that, as at September 30, 2006, have the effect of fixing the underlying interest rate on up to \$500 million of replacement debt.

- Preserve access to the capital markets at a reasonable cost by maintaining investment grade credit ratings and targeting improved credit ratings in the range of BBB+ to A-, or the equivalent, in the future

Investment grade credit ratings from the four rating agencies that cover TELUS were maintained. The ratings assigned by three credit rating agencies are currently within TELUS' desired range, while Moody's Investors Service's "Baa2" rating for TELUS (equivalent to "BBB") is one position below TELUS' desired range. In September, following TELUS' announcement of its intention to convert to an income trust, three of four credit rating agencies that cover the Company confirmed their ratings and adjusted their outlooks to "stable" or "developing." Dominion Bond Rating Service placed their ratings "under review with developing implications." The federal government announced on October 31, 2006, a new Tax Fairness Plan that affects the future level of taxation of income trusts and corporations. TELUS is studying the implications of that announcement and it is uncertain as of November 1, 2006 what the response of credit rating agencies may be.

5. Results from operations

5.1 General

The Company has two reportable segments: wireline and wireless. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value. Segmented information is regularly reported to the Company's Chief Executive Officer (the chief operating decision maker). Segmented disclosure is reported in Note 4 of the interim consolidated financial statements.

5.2 Quarterly results summary

| (\$ in millions, except per share amounts) | 2006 Q3 | 2006 Q2 | 2006 Q1 | 2005 Q4 |
|---|---------|---------|---------|---------|
| ----- | | | | |
| Segmented revenue (external) | | | | |
| Wireline segment | 1,200.3 | 1,189.9 | 1,198.6 | 1,209.9 |
| Wireless segment | 1,010.4 | 945.3 | 881.9 | 876.8 |
| ----- | | | | |
| Operating revenues (consolidated) | 2,210.7 | 2,135.2 | 2,080.5 | 2,086.7 |
| Operations expense | 1,245.8 | 1,207.4 | 1,201.1 | 1,316.8 |

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| | | | | |
|---|-------|-------|-------|-------|
| Restructuring and workforce reduction costs | 12.5 | 30.7 | 16.7 | 35.5 |
| EBITDA(1) | 952.4 | 897.1 | 862.7 | 734.4 |
| Depreciation | 325.8 | 335.2 | 339.2 | 346.2 |
| Amortization of intangible assets | 57.5 | 46.9 | 63.9 | 67.0 |
| Operating income | 569.1 | 515.0 | 459.6 | 321.2 |
| Other expense (income) | 4.0 | 9.6 | 4.3 | 9.3 |
| Financing costs | 116.6 | 127.5 | 127.0 | 171.7 |
| Income before income taxes and non-controlling interests | 448.5 | 377.9 | 328.3 | 140.2 |
| Income taxes | 126.5 | 18.7 | 116.1 | 58.8 |
| Non-controlling interests | 2.4 | 2.6 | 2.1 | 2.9 |
| Net income | 319.6 | 356.6 | 210.1 | 78.5 |
| Net income per weighted average Common Share and Non-Voting Share outstanding | | | | |
| - basic | 0.94 | 1.03 | 0.60 | 0.22 |
| - diluted | 0.92 | 1.02 | 0.60 | 0.22 |
| Dividends declared per Common Share and Non-Voting Share outstanding | 0.275 | 0.275 | 0.275 | 0.275 |

| (\$ in millions, except per share amounts) | 2005 Q3 | 2005 Q2 | 2005 Q1 | 2004 Q4 |
|---|---------|---------|---------|---------|
| Segmented revenue (external) | | | | |
| Wireline segment | 1,198.6 | 1,216.5 | 1,222.2 | 1,209.3 |
| Wireless segment | 864.2 | 802.0 | 752.5 | 755.6 |
| Operating revenues (consolidated) | 2,062.8 | 2,018.5 | 1,974.7 | 1,964.9 |
| Operations expense | 1,221.5 | 1,146.1 | 1,109.1 | 1,178.5 |
| Restructuring and workforce reduction costs | 1.6 | 7.4 | 9.4 | 19.8 |
| EBITDA(1) | 839.7 | 865.0 | 856.2 | 766.6 |
| Depreciation | 335.6 | 330.9 | 329.9 | 338.3 |
| Amortization of intangible assets | 73.6 | 68.2 | 72.3 | 79.2 |
| Operating income | 430.5 | 465.9 | 454.0 | 349.1 |
| Other expense (income) | 7.1 | 0.5 | 1.5 | 8.7 |
| Financing costs | 144.8 | 168.2 | 138.4 | 152.8 |
| Income before income taxes and non-controlling interests | 278.6 | 297.2 | 314.1 | 187.6 |
| Income taxes | 86.9 | 106.0 | 70.3 | 50.4 |
| Non-controlling interests | 1.6 | 1.7 | 1.6 | 1.6 |
| Net income | 190.1 | 189.5 | 242.2 | 135.6 |
| Net income per weighted average Common Share and Non-Voting Share outstanding | | | | |
| - basic | 0.53 | 0.53 | 0.67 | 0.38 |

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| | | | | |
|---|------|------|------|------|
| - diluted | 0.53 | 0.52 | 0.66 | 0.37 |
| Dividends declared per Common Share and Non-Voting Share outstanding | 0.20 | 0.20 | 0.20 | 0.20 |

The trend in consolidated Operating revenues continues to reflect strong growth in wireless revenue, which arose from the combined effects of increased average revenue per subscriber unit per month ("ARPU") and a growing subscriber base. The trend also reflects growth in wireline segment data revenue, while wireline long distance and other revenues have decreased. Beginning in 2006, quarterly wireline local revenue decreased when compared to the same periods in 2005, due to increasing competition for local services. Wireline revenues until May 31, 2006 include the generally negative effect of regulatory price cap decisions.

The trend in Operating income was affected by temporary net expenses leading up to and resulting from an extended labour disruption in 2005; such temporary expenses included in Operations expense were estimated to be approximately \$16 million, \$65 million and \$52 million, respectively, for the second, third and fourth quarter of 2005. In addition, Restructuring and work force reduction charges varied significantly by quarter, depending on the progress of ongoing initiatives under way. Depreciation expense for the four-quarter period ended September 30, 2006 increased slightly, when compared with the four-quarter period ended September 30, 2005, due mainly to continued investment in shorter-life data and wireless equipment, net of a lower expense for fully depreciated assets. Amortization of intangible assets is decreasing as several software assets have been fully amortized. Amortization expense in the second quarter of 2006 was reduced by approximately \$12 million for investment tax credits due to settlement of outstanding tax matters relating to assets capitalized in prior years that are now fully amortized. Notable is the increased contribution of wireless EBITDA to total EBITDA, to 48% per cent for the four-quarter period ended September 30, 2006, from 42% for the four-quarter period ended September 30, 2005.

Within Financing costs, interest expenses trended lower except for two significant one-time charges: a second quarter 2005 accrual of \$17.5 million in respect of a court decision in a lawsuit related to a 1997 BC TEL bond redemption matter, and a fourth quarter 2005 charge of \$33.5 million to early redeem \$1.578 billion of Notes. The early redemption of Notes on December 1, 2005, contributed significantly to lower Financing costs in the first three quarters of 2006. Financing costs are net of varying amounts of interest income.

The trend in Net income and earnings per share reflect the items noted above as well as a second quarter 2006 future income tax reduction arising from enacted income tax rate reductions and the elimination of federal large corporations tax. The trend was also affected by tax adjustments relating to prior periods, including the current quarter tax recovery of approximately \$30 million, or nine cents per share, and a first quarter of 2005 income tax recovery and related interest income net of taxes of approximately \$54 million or 15 cents per share.

Historically, there is significant fourth quarter seasonality with higher wireless subscriber additions, related acquisition costs and equipment sales, resulting in lower wireless EBITDA. The seasonality affects, to a lesser extent, the wireline high-speed Internet subscriber additions and related costs.

5.3 Consolidated results from operations

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| (\$ in millions except EBITDA margin) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|---------|------------|--------------------------------------|---------|--------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Operating revenues | 2,210.7 | 2,062.8 | 7.2 % | 6,426.4 | 6,056.0 | 6.1 % |
| Operations expense | 1,245.8 | 1,221.5 | 2.0 % | 3,654.3 | 3,476.7 | 5.1 % |
| Restructuring and workforce reduction costs | 12.5 | 1.6 | n.m. | 59.9 | 18.4 | n.m. |
| EBITDA(1) | 952.4 | 839.7 | 13.4 % | 2,712.2 | 2,560.9 | 5.9 % |
| Depreciation | 325.8 | 335.6 | (2.9)% | 1,000.2 | 996.4 | 0.4 % |
| Amortization of intangible assets | 57.5 | 73.6 | (21.9)% | 168.3 | 214.1 | (21.4)% |
| Operating income | 569.1 | 430.5 | 32.2 % | 1,543.7 | 1,350.4 | 14.3 % |
| EBITDA margin (%) (2) | 43.1 | 40.7 | 2.4 pts | 42.2 | 42.3 | (0.1) pts |
| Active employees at end of period(3) | 30,620 | 20,743 | 47.6 % | | | |

The following discussion is for the consolidated results of TELUS. Further detail by segment is provided for Operating revenues, Operations expense, Restructuring and workforce reduction costs, EBITDA and Capital expenditures in Section 5.4 Wireline segment results, Section 5.5 Wireless segment results and Section 7.2 Cash used by investing activities - capital expenditures.

Operating revenues

Consolidated Operating revenues increased by \$147.9 million and \$370.4 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. Growth in wireless revenues and wireline data revenues more than offset erosion in wireline voice local, long distance and other revenues.

Operations expense

Consolidated operations expense increased by \$24.3 million and \$177.6 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. Operations expenses in the third quarter and first nine months of 2005 included net labour disruption expenses of approximately \$65 million and \$81 million, respectively, which were primarily in the wireline segment. Excluding labour disruption impacts, consolidated operations expenses increased primarily due to growth in the wireless segment and increased wireline restructuring, advertising and promotions and costs of sales. The net expense for defined benefit pension plans did not change significantly, as favourable returns on plan assets in 2005 offset the use of a lower discount rate for 2006.

The number of employees increased by approximately 5.5% (normalized to exclude absences due to the labour disruption in 2005). The increase reflects growth in the wireless segment, TELUS' international call centre operations and human resources outsourcing services provided to customers of TELUS.

Restructuring and workforce reduction costs

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Restructuring and workforce reduction costs increased by \$10.9 million and \$41.5 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. The Company's estimate of restructuring and workforce reduction costs in 2006, arising from its ongoing competitive efficiency program, which includes the office closures and contracting out, and integration of wireline and wireless operations, is not currently expected to exceed \$80 million.

General

In 2005, the Company undertook a number of smaller initiatives, such as operational consolidation, rationalization and integrations. These initiatives aimed to improve the Company's operating and capital productivity. As at September 30, 2006, no future expenses remain to be accrued or recorded under the smaller initiatives, but variances from estimates currently recorded may be recorded in subsequent periods. On November 24, 2005, the Company announced the integration of its wireline and wireless operations, an initiative that will continue into future years and that is a component of the Company's competitive efficiency program.

In the first quarter of 2006, arising from its competitive efficiency program, the Company undertook a number of smaller initiatives, such as operational consolidation, rationalization and integration. These initiatives are aimed to improve the Company's operating productivity and competitiveness.

Also arising from its competitive efficiency program, the Company undertook an initiative for a departmental reorganization and reconfiguration, resulting in integration and consolidation. In the first quarter of 2006, approximately 600 bargaining unit employees were offered the option of redeployment or participation in a voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan). In the second quarter of 2006, approximately 275 bargaining unit employees accepted either the option of redeployment or participation in a voluntary departure program. For the three-month and nine-month periods ended September 30, 2006, \$0.3 million and \$18.1 million, respectively, of restructuring and workforce reduction costs were recorded in respect of this initiative and were included with general programs initiated in 2006. As at September 30, 2006, no future expenses remain to be accrued or recorded under this initiative, but variances from estimates currently recorded may be recorded in subsequent periods.

Continuing with its competitive efficiency program for integration of Wireline and Wireless operations, for the three-month and nine-month periods ended September 30, 2006, \$1.2 million and \$8.0 million, respectively, of restructuring and workforce reduction costs were recorded in respect of this initiative and were included with general programs initiated in 2006.

Office closures and contracting out

In connection with the collective agreement signed in the fourth quarter of 2005, an accompanying letter of agreement set out the planned closure, on February 10, 2006, of a number of offices in British Columbia. This initiative is a component of the Company's competitive efficiency program and is aimed at improving the Company's operating and capital productivity. The approximately 250 bargaining unit employees affected by these office closures were offered the option of redeployment or participation in a voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan).

As at September 30, 2006, no future expenses remain to be accrued or recorded under the letter of agreement setting out the planned closure of a number of offices in British Columbia, but variances from estimates currently recorded may be recorded in subsequent periods. Other costs, such as other employee departures and those associated with real estate, will be incurred and recorded subsequent to September 30, 2006.

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Similarly, an additional accompanying letter of agreement set out that the Company intends to contract out specific non-core functions over the term of the collective agreement. This initiative is a component of the Company's competitive efficiency program and is aimed at allowing the Company to focus its resources on those core functions that differentiate the Company for its customers. The approximately 250 bargaining unit employees currently affected by contracting out initiatives were offered the option of redeployment or participation in the voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan.)

As at September 30, 2006, no future expenses remain to be accrued or recorded under the letter agreement setting out the contracting out of specific non-core functions, in respect of the approximately 250 bargaining unit employees currently affected, but variances from estimates currently recorded may be recorded in subsequent periods. Future costs will be incurred as the initiative continues.

EBITDA

EBITDA increased by \$112.7 million and \$151.3 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. Excluding labour disruption expense impacts in 2005, consolidated EBITDA increased in the third quarter and first nine months by approximately \$48 million and \$70 million, respectively. The increase was due primarily to growth in the wireless segment, partly offset by a decrease in wireline segment EBITDA from increased competition for local services, continued long distance revenue erosion as well increased operations expenses and restructuring charges in 2006.

Depreciation and amortization expenses

Depreciation expense decreased by \$9.8 million in the third quarter of 2006 and increased by \$3.8 million in the first nine months of 2006, when compared with the same periods in 2005. The decrease for the quarter resulted mainly from retirements and an increase in fully depreciated assets. The increase for the first nine months was due to a reduction in service lives for computer servers and furniture and write-offs of network assets, net of increased retirements.

Amortization of intangible assets decreased by \$16.1 million and \$45.8 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005, primarily as a result of several software assets becoming fully amortized. The decrease for the first nine months included approximately \$12 million of investment tax credits, recorded in the second quarter of 2006 following the resolution of prior years' tax matters, for assets capitalized in prior years that are now fully amortized.

Operating income

Operating income increased by \$138.6 million and \$193.3 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005, due primarily to growth in EBITDA and reduced amortization of intangible assets, as described above.

Other income statement items

| | Quarters ended | | | Nine-month periods | | |
|-------------------------------------|----------------|------|--------|--------------------|------|--------|
| | September 30 | | | ended Sept. 30 | | |
| Other expense, net (\$ millions) | 2006 | 2005 | Change | 2006 | 2005 | Change |
| | | | | | | |

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| | | | | | | |
|--|-----|-----|---------|------|-----|--------|
| | 4.0 | 7.1 | (43.7)% | 17.9 | 9.1 | 96.7 % |
|--|-----|-----|---------|------|-----|--------|

Other expense includes accounts receivable securitization expense, charitable donations, gains and losses on disposal of real estate, and income (loss) or impairments in equity or portfolio investments. The accounts receivable securitization expense was \$3.7 million and \$12.4 million, respectively, in third quarter and first nine months of 2006, as compared to \$1.1 million and \$3.1 million, respectively, in the same periods in 2005. The increase resulted primarily from a higher balance of proceeds from securitized accounts receivable in 2006 (see Section 7.6 Accounts receivable sale). Net gains on the sale of investments and real estate in 2006 exceeded net gains in 2005, while charitable donations increased in 2006.

| Financing costs (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|--------|---------|--------------------------------------|--------|---------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Interest on long-term debt, short-term obligations and other | 125.6 | 157.2 | (20.1)% | 378.1 | 494.7 | (23.6)% |
| Foreign exchange losses (gains) | (0.3) | (0.1) | n.m. | 4.5 | 3.0 | n.m. |
| Interest income | (8.7) | (12.3) | 29.3 % | (11.5) | (46.3) | 75.2 % |
| | 116.6 | 144.8 | (19.5)% | 371.1 | 451.4 | (17.8)% |

Interest expenses decreased by \$31.6 million and \$116.6 million, respectively, in the third quarter and first nine months of 2006, when compared with same periods in 2005. The decrease was due primarily to lower debt levels as a result of early redemption of \$1.578 billion of 7.50%, Series CA, Notes on December 1, 2005. The decrease for the first nine months was also due to two events in the second quarter of 2005: (i) the accrual of \$17.5 million in respect of a court decision in a lawsuit related to a 1997 BC TEL bond redemption matter; and (ii) the conversion/redemption of convertible debentures. Debt, measured as the sum of Long-term debt, current maturities and the net deferred hedging liability, was \$5,772 million at September 30, 2006, a 20% reduction from \$7,238 million on September 30, 2005.

Increased interest expense associated with the May 2006 public issue of \$300 million of Notes was offset by a reduction in interest expense resulting from replacement of certain previous cross currency interest rate swap agreements associated with 2007 (U.S. Dollar) Notes. The replacement swaps have a lower effective fixed interest rate as well as a more favourable effective fixed exchange rate. TELUS' hedging program using cross currency swaps continues for its 2007 and 2011 U.S. Dollar Notes.

Interest income decreased by \$3.6 million and \$34.8 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005, due primarily to: (i) lower cash and temporary investments as available cash balances were used for the December 2005 debt redemption; and (ii) recognition of greater tax refund interest in 2005.

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| Income taxes (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|--------|--------------|--------------------------------------|--------|--------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Blended federal and provincial statutory income tax based on net income before tax | 150.7 | 93.6 | 61.0 % | 388.0 | 304.8 | 27.3 % |
| Revaluation of future tax liability for change in statutory tax rates | - | (12.8) | n.m. | (107.0) | (12.8) | n.m. |
| Tax rate differential on, and consequential adjustments from, reassessments for prior years | (24.9) | (0.7) | n.m. | (23.9) | (12.0) | n.m. |
| Changes in estimates of available deductible differences in prior years | - | (1.5) | n.m. | - | (37.5) | n.m. |
| Other and large corporations tax | 0.7 | 8.3 | n.m. | 4.2 | 20.7 | n.m. |
| | 126.5 | 86.9 | 45.6 % | 261.3 | 263.2 | (0.7) % |
| Blended federal and provincial statutory tax rates (%) | 33.6 | 33.6 | - | 33.6 | 34.2 | (0.6) pts |
| Effective tax rates (%) | 28.2 | 31.2 | (3.0) pts | 22.6 | 29.6 | (7.0) pts |

The increase in the blended federal and provincial statutory income tax expense in the third quarter and first nine months of 2006, when compared with the same periods in 2005, was due mainly to respective increases of 61% and 30% in income before taxes. In addition, the blended federal and provincial tax rate decreased for the nine-month period due to a reduction to general corporate income tax rates on income taxed in B.C. effective July 1, 2005 and income taxed in Alberta effective April 1, 2006, partly offset by an increase to general corporate income tax rates in Quebec beginning January 1, 2006.

The revaluation of net future income tax liabilities in 2006 arose from the second quarter enactment of both lower federal tax rates for future years and lower Alberta tax rates. The federal large corporations tax was eliminated effective January 1, 2006. The tax rate differential on, and consequential adjustments from, reassessments for prior years reduced the 2006 income tax expense in the third quarter and first nine months. Based on management's current guidance, described in Section 9, the effective tax rate for the full year of 2006 is expected to be approximately 23% primarily as a result of provincial and federal tax rate changes and reassessments of prior years.

Excluding the effects of a possible income trust conversion and based on the assumption of the continuation of the rate of TELUS earnings, the existing legal entity structure, and no substantive changes to tax regulations, the Company expects to be able to fully utilize its non-capital losses before the

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end of 2007. The Company's assessment is that the risk of expiry of such non-capital losses is remote. Under the existing legal entity structure, the Company does not expect to pay Canadian cash income taxes until 2008 due to the availability of tax losses, reserves and other temporary items.

| Non-controlling interest (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|------|--------|--------------------------------------|------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| | 2.4 | 1.6 | 50.0 % | 7.1 | 4.9 | 44.9 % |

Non-controlling interest represents minority shareholders' interests in several small subsidiaries.

5.4 Wireline segment results

| Operating revenues - wireline segment (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|---------|----------|--------------------------------------|---------|---------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Voice local | 533.4 | 541.8 | (1.6) % | 1,592.3 | 1,637.4 | (2.8) % |
| Voice long distance | 199.1 | 221.5 | (10.1) % | 612.6 | 676.4 | (9.4) % |
| Data | 410.8 | 376.2 | 9.2 % | 1,207.5 | 1,133.6 | 6.5 % |
| Other | 57.0 | 59.1 | (3.6) % | 176.4 | 189.9 | (7.1) % |
| External operating revenue | 1,200.3 | 1,198.6 | 0.1 % | 3,588.8 | 3,637.3 | (1.3) % |
| Intersegment revenue | 23.5 | 23.6 | (0.4) % | 71.8 | 67.4 | 6.5 % |
| Total operating revenue | 1,223.8 | 1,222.2 | 0.1 % | 3,660.6 | 3,704.7 | (1.2) % |

| Network access lines (000s) | As at September 30 | | |
|-------------------------------------|--------------------|-------|---------|
| | 2006 | 2005 | Change |
| Residential network access lines | 2,809 | 2,952 | (4.8) % |
| Business network access lines | 1,770 | 1,757 | 0.7 % |
| Total network access lines(1) | 4,579 | 4,709 | (2.8) % |

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| | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|------|---------|--------------------------------------|------|---------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Change in residential network access lines | (39) | (32) | (21.9)% | (119) | (86) | (38.4)% |
| Change in business network access lines | (1) | - | n.m. | 7 | (13) | n.m. |
| Change in total network access lines(1) | (40) | (32) | (25.0)% | (112) | (99) | (13.1)% |

| | As at September 30 | | |
|---------------------------------|--------------------|-------|---------|
| | 2006 | 2005 | Change |
| High-speed Internet subscribers | 872.3 | 736.1 | 18.5 % |
| Dial-up Internet subscribers | 205.5 | 249.8 | (17.7)% |
| Total Internet subscribers(2) | 1,077.8 | 985.9 | 9.3 % |

| | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|--------|--------|--------------------------------------|--------|---------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| High-speed Internet net additions | 41.5 | 7.1 | n.m. | 109.3 | 46.4 | 135.6 % |
| Dial-up Internet net reductions | (11.4) | (10.7) | (6.5)% | (30.7) | (31.8) | 3.5 % |
| Total Internet subscriber net additions | 30.1 | (3.6) | n.m. | 78.6 | 14.6 | n.m. |

Wireline segment revenues increased by \$1.6 million in the third quarter and decreased by \$44.1 million in the first nine months of 2006, when compared with the same periods in 2005, due to the following:

- Voice local revenue decreased by \$8.4 million and \$45.1 million, respectively. The decreases were due primarily to lower revenues from basic access and optional enhanced services arising from increased competition for residential subscribers, partly offset by increased managed voice local services for business. In addition, the decrease for the first nine months includes the impact of one-time regulatory recoveries of approximately \$13 million recorded in the first quarter of 2005.

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Residential line losses include the effect of increased competition from resellers, VoIP (voice over Internet protocol) competitors including cable-TV companies, technological substitution to wireless services, and a lower number of second lines resulting from migration of dial-up Internet subscribers to high-speed Internet. In 2006, competitors' cable telephony is offered in more places within TELUS' incumbent regions including Fort McMurray, Rimouski, Vancouver and Victoria, while in 2005 cable telephony was available only in Calgary (February 2005) and Edmonton (April 2005). Total business lines increased during the first nine months of 2006 as growth in non-incumbent regions exceeded competitive losses and migration to more efficient ISDN (integrated services digital network) services in incumbent local exchange carrier ("ILEC") regions. Business lines losses in the first nine-months of 2005 included the loss of a large business customer.

- Voice long distance revenues decreased by \$22.4 million and \$63.8 million, respectively. The decreases were due primarily to lower consumer and retail business minute volumes and prices, consistent with industry wide trends of strong price competition and technological substitution (to Internet and wireless). In September 2006, the Company introduced a simpler set of domestic, North America and international long distance calling plans directly targeted to the usage patterns of customers. The plans are for various usage levels combining set per-minute rates with monthly subscription fees and are designed to help retain and win back customers.
- Wireline segment data revenues increased by \$34.6 million and \$73.9 million, respectively. This growth was primarily due to increased Internet, enhanced data and hosting service revenues from growth in business services and high-speed Internet subscribers. Monthly rates for high-speed Internet services were raised by one dollar per month in the second quarter of 2006 for those customers not on rate protection plans, which contributed to an overall increase in average revenue per subscriber. Managed data revenues from the provision of business process outsourcing services to customers also increased. Basic data services and data equipment sales were relatively unchanged, while broadcast and videoconferencing services increased modestly.

The improvement in high-speed Internet subscriber net additions during 2006 was due partly to new promotions, resulting in increased gross additions particularly for premium Internet services, which have a higher per month rate. In addition, deactivations of existing customers of high-speed Internet decreased. The comparative third quarter of 2005 was constrained by a labour disruption that limited installation activity.

- Other revenue decreased by \$2.1 million and \$13.5 million, respectively. The decrease in the third quarter was due primarily to reduced co-location DC power rates retroactive to November 2000 (Telecom Decision 2006-42-1), partly offset by increased voice equipment sales. The decrease for the first nine months was primarily due to lower voice equipment sales and reduced co-location DC power rates.
- Intersegment revenue represents services provided by the wireline segment to the wireless segment. These revenues are eliminated upon consolidation together with the associated expense in the wireless segment.

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Total external operating revenue included non-ILEC revenues of \$159.7 million and \$485.1 million, respectively, in the third quarter and first nine months of 2006. This represents increases of 5.5% and 4.0%, respectively, when compared with the same periods in 2005. Recent contracts contributed to increased enhanced data and managed workplace service revenues. Voice local revenues increased modestly, while voice and data equipment sales decreased. Growth in revenues was partly offset by re-pricing of renewal contracts and competitive pricing affecting new contracts.

| Operating expenses - wireline segment (\$ millions, except employees) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|--------|---------|--------------------------------------|---------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Salaries, benefits and other employee- related costs | 416.9 | 394.9 | 5.6 % | 1,247.0 | 1,231.5 | 1.3 % |
| Other operations expenses | 325.6 | 399.6 | (18.5)% | 964.5 | 1,011.4 | (4.6)% |
| Operations expense | 742.5 | 794.5 | (6.5)% | 2,211.5 | 2,242.9 | (1.4)% |
| Restructuring and workforce reduction costs | 11.7 | 1.6 | n.m. | 56.4 | 18.4 | n.m. |
| Total operating expenses | 754.2 | 796.1 | (5.3)% | 2,267.9 | 2,261.3 | 0.3 % |
| Active employees at end of period(1) (2) | 23,369 | 14,958 | 56.2 % | | | |

Total operating expenses decreased by \$41.9 million in the third quarter of 2006 and increased by \$6.6 million in the first nine months of 2006, when compared with the corresponding periods in 2005. Operations expenses excluding labour disruption impacts increased by approximately \$26 million and \$91 million due primarily to increased charges for restructuring initiatives, increased advertising and promotion activity, as well as the use of contractors for network support and maintenance activities in the first quarter of 2006, facilitating clearance of backlogs and freeing up TELUS staff to improve customer service, as reflected in improved quality-of-service metrics defined by the CRTC. When normalized to exclude absences due to the labour disruption in 2005 as well as increased employment at international call centres and for the provision of human resource outsourcing services to customers, the number of employees at September 30, 2006 decreased by approximately 450, when compared to one year earlier.

- Salaries, benefits and employee-related expenses increased by \$22.0 million and \$15.5 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. The increase was mainly a result of lower net expenses recorded in 2005 because of the labour disruption, which saw all bargaining unit employees in B.C. and less than half of bargaining unit employees in Alberta absent at September 30, 2005. Excluding labour

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disruption impacts, salaries, benefits and employee-related expenses decreased by approximately \$5 million and \$11 million, respectively.

- Other operations expenses decreased by \$74.0 million and \$46.9 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. Decreases in other expenses were mainly due to the absence of labour disruption related expenses in the 2006 periods. Excluding labour disruption related expenses in 2005, other operations expenses increased by approximately \$21 million and \$64 million, respectively. The increases included: (i) advertising and promotions increases primarily for high-speed Internet offers and business advertising; (ii) increased product cost of sales consistent with increased high-speed Internet additions and broadcast and videoconferencing equipment sales (iii) increased expenses for outsourcing of non-core functions; (iv) increased facilities, transit and termination expenses in the nine month period due to higher traffic volumes to the U.S.; and (v) increased network support and maintenance costs for the nine month period; net of (vi) reduced expenses for higher capitalization of labour associated with 2006 capital programs, as well as lower bad debt expenses.
- Restructuring and work force reduction costs applicable to the wireline segment increased by \$10.1 million and \$38.0 million, respectively.

Total expenses discussed above included non-ILEC expenses of \$150.0 million and \$463.7 million, respectively, in the third quarter and first nine months of 2006, increases of 0.9% and 2.5%, respectively, when compared with same periods in 2005. Expense increases for the nine-month period included increased contract and consulting expenses and higher salaries, benefits and employee-related costs, as well as higher facilities costs to support increased data services. These increases were partly offset by a lower cost of sales related to lower equipment sales revenue.

| EBITDA and EBITDA margin - wireline segment | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|-------|------------|--------------------------------------|---------|-------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| EBITDA (\$ millions) | 469.6 | 426.1 | 10.2 % | 1,392.7 | 1,443.4 | (3.5)% |
| EBITDA margin (%) | 38.4 | 34.9 | 3.5 pts | 38.0 | 39.0 | (1.0) pt |

Wireline segment EBITDA increased by \$43.5 million in the third quarter and decreased by \$50.7 million in the first nine months of 2006, when compared with the same periods in 2005. This included non-ILEC EBITDA, which improved by \$7.0 million and \$7.3 million, respectively, in the third quarter and first nine months of 2006, when compared to the same periods in 2005. Excluding labour disruption related expenses in 2005, total wireline EBITDA decreased by approximately \$25 million and \$135 million, respectively, in the third quarter and first nine months of 2006. The decrease was due mainly to lower revenues from increased competition for local services, continued long distance revenue erosion, as well as an increase in advertising and promotions costs, network support and maintenance costs, and restructuring charges.

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5.5 Wireless segment results

| Operating revenues - wireless segment (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|-------|--------|--------------------------------------|---------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Network revenue | 944.5 | 808.8 | 16.8 % | 2,653.2 | 2,247.7 | 18.0 % |
| Equipment revenue | 65.9 | 55.4 | 19.0 % | 184.4 | 171.0 | 7.8 % |
| External operating revenue | 1,010.4 | 864.2 | 16.9 % | 2,837.6 | 2,418.7 | 17.3 % |
| Intersegment revenue | 6.0 | 5.7 | 5.3 % | 17.1 | 17.2 | (0.6)% |
| Total operating revenue | 1,016.4 | 869.9 | 16.8 % | 2,854.7 | 2,435.9 | 17.2 % |

Key operating indicators - wireless segment

| (000s) | As at September 30 | | |
|--|--------------------|---------|--------|
| | 2006 | 2005 | Change |
| Subscribers - postpaid | 3,949.1 | 3,523.6 | 12.1 % |
| Subscribers - prepaid | 925.2 | 762.1 | 21.4 % |
| Subscribers - total(1) | 4,874.3 | 4,285.7 | 13.7 % |
| Digital POPs(2) covered including roaming/resale (millions) (3) | 31.0 | 30.2 | 2.6 % |

| | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|-------|--------|--------------------------------------|-------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Subscriber gross additions - postpaid | 215.8 | 213.2 | 1.2 % | 601.2 | 608.0 | (1.1)% |
| Subscriber gross additions - prepaid | 116.7 | 93.4 | 24.9 % | 312.7 | 250.4 | 24.9 % |
| Subscriber gross additions - total | 332.5 | 306.6 | 8.4 % | 913.9 | 858.4 | 6.5 % |
| Subscriber net additions - postpaid | 108.6 | 104.6 | 3.8 % | 282.3 | 283.3 | (0.4)% |
| Subscriber net | | | | | | |

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| | | | | | | |
|---|-------|-------|----------|---------|---------|------------|
| additions - prepaid | 28.6 | 33.4 | (14.4)% | 71.3 | 66.0 | 8.0 % |
| Subscriber net additions - total | 137.2 | 138.0 | (0.6)% | 353.6 | 349.3 | 1.2 % |
| Churn, per month (%) (4) (5) | 1.36 | 1.33 | 0.03 pts | 1.33 | 1.38 | (0.05) pts |
| COA(6) per gross subscriber addition (\$)(4) | 386 | 371 | 4.0 % | 402 | 356 | 12.9 % |
| ARPU (\$)(4) | 65.67 | 64.01 | 2.6 % | 63.10 | 61.15 | 3.2 % |
| Average minutes of use per subscriber per month (MOU) | 409 | 408 | 0.2 % | 403 | 395 | 2.0 % |
| EBITDA to network revenue (%) | 51.1 | 51.1 | - | 49.7 | 49.7 | - |
| Retention spend to network revenue(4) (%) | 6.7 | 5.4 | 1.3 pts | 6.4 | 5.6 | 0.8 pts |
| EBITDA (\$ millions) | 482.8 | 413.6 | 16.7 % | 1,319.5 | 1,117.5 | 18.1 % |
| EBITDA excluding COA (\$ millions)(4) | 611.4 | 527.3 | 15.9 % | 1,686.9 | 1,423.1 | 18.5 % |

Wireless segment revenues increased by \$146.5 million and \$418.8 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005, due to the following:

- Network revenue increased by \$135.7 million and \$405.5 million, respectively, as a result of the 13.7% expansion of the subscriber base combined with increased average revenue per subscriber unit per month ("ARPU"). ARPU increased by \$1.66 and \$1.95, respectively, in the third quarter and first nine months of 2006, when compared to the same periods in 2005, principally due to increased data usage as well as higher average minutes of use per subscriber per month ("MOU"). The increase in ARPU represented the 15th successive quarter of year over year growth.

Data revenues increased to 7.8% of Network revenue, or \$74.1 million, in the third quarter of 2006 as compared with 4.5% of Network revenues, or \$36.3 million, in the third quarter of 2005. Similarly, data revenues increased to 7.1% of Network revenue, or \$188.2 million, for the first nine months of 2006 as compared with 4.0% of Network revenue, or \$88.8 million, for the same period in 2005. Data ARPU increased by 79.3% to \$5.11 for the third quarter of 2006 and increased by 85.8% to \$4.44 for the first nine months of 2006 as compared with \$2.85 and \$2.39, respectively, for the same periods in 2005. This growth was principally related to text messaging, PDA (personal digital assistant) devices, mobile computing, Internet browser activities and pay-per-use downloads such as ringtones, music, games and videos.

At September 30, 2006, postpaid subscribers represented 81.0% of the total cumulative subscriber base, remaining relatively stable from one year earlier. The 108,600 postpaid subscriber net additions for the third quarter of 2006 represented 79.2% of all net additions as compared with 104,600 or 75.8% of all net additions for the same period in 2005. This represented a second consecutive quarter that

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postpaid subscriber net additions as a percentage of total subscriber net additions increased year over year. For the first nine months of 2006, postpaid subscriber net additions of 282,300 (79.8% of all net additions) were consistent when compared with 283,300 (81.1% of all net additions) for the same period in 2005.

The blended churn rates for the third quarter and first nine months of 2006 were 1.36% and 1.33%, respectively, as compared with 1.33% and 1.38% for the same periods in 2005. The postpaid monthly churn rates for the third quarter and first nine months of 2006 were approximately one per cent and improved over the same periods last year. The prepaid churn rates increased in the third quarter and first nine months of 2006 when compared with the same periods in 2005. Total deactivations were 195,300 for the third quarter and 560,300 for the first nine months of 2006, compared with 168,600 and 509,100, respectively, for the same periods in 2005, which primarily reflects the growing subscriber base.

- Equipment sales, rental and service revenue increased by \$10.5 million and \$13.4 million, respectively, due mainly to continued subscriber growth. Gross subscriber additions grew to 332,500 and 913,900 in the third quarter and first nine months of 2006, respectively, as compared with 306,600 and 858,400 for the same periods in 2005. Handset revenues associated with gross subscriber activations are included in COA per gross subscriber addition.
- Intersegment revenues represent services provided by the wireless segment to the wireline segment and are eliminated upon consolidation along with the associated expense in the wireline segment.

| Operating expenses - wireless segment (\$ millions, except employees) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|--|--------------------------------|-------|--------|--------------------------------------|---------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Equipment sales expenses | 148.2 | 114.7 | 29.2 % | 411.3 | 328.9 | 25.1 % |
| Network operating expenses | 114.9 | 101.7 | 13.0 % | 332.4 | 298.9 | 11.2 % |
| Marketing expenses | 102.0 | 91.8 | 11.1 % | 287.8 | 253.5 | 13.5 % |
| General and administration expenses | 167.7 | 148.1 | 13.2 % | 500.2 | 437.1 | 14.4 % |
| Operations expense | 532.8 | 456.3 | 16.8 % | 1,531.7 | 1,318.4 | 16.2 % |
| Restructuring and workforce reduction costs | 0.8 | - | n.m. | 3.5 | - | n.m. |
| Total operating expenses | 533.6 | 456.3 | 16.9 % | 1,535.2 | 1,318.4 | 16.4 % |
| Active employees at end of period(1) | 7,251 | 5,785 | 25.3 % | | | |

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Wireless segment total operating expenses increased by \$77.3 million in the third quarter and \$216.8 million for the first nine months of 2006, when compared with the same periods in 2005, to promote, retain and support the 13.7% growth in the subscriber base and significant increase in Network revenue.

- Equipment sales expenses increased by \$33.5 million and \$82.4 million, respectively, due principally to an increase in gross subscriber activations, higher handset costs related to product mix, and increased retention activity. Handset costs associated with gross subscriber activations are included in COA per gross subscriber addition. Handset cost related to retention efforts, ahead of the implementation of wireless local number portability (WLNP) in early 2007, are included in the overall retention spend amount.
 - Network operating expenses increased by \$13.2 million and \$33.5 million, respectively, due principally to higher roaming volumes within Canada. In addition, transmission and site-related expenses increased to support the greater number of cell sites, a larger subscriber base, certain third party data content providers, and improved network quality and coverage.
 - Marketing expenses increased by \$10.2 million and \$34.3 million, respectively, due primarily to increased advertising and promotions costs, higher dealer compensation costs related to the increase in gross subscriber additions, and increased re-contracting activity. COA per gross subscriber addition increased by \$15 in the third quarter and \$46 for the first nine months of 2006 as compared with for the same periods in 2005. The increase was principally related to higher subsidies on certain popular handsets driven by competitive activity and higher advertising and promotion spending related to new product launches. Moreover, the increase during the first nine months included increased advertising and promotion spending (including the launch in the first quarter of two advertising campaigns, SPARK(TM) and Broadband on the Fly(TM)). COA per gross subscriber addition decreased by \$8 to \$386 when compared to the second quarter of 2006 due to reduced handset subsidies for certain popular handsets. Notably, this was the second successive quarter in 2006 of improved COA per gross subscriber addition. Despite a slightly higher churn rate in the third quarter, the increased ARPU contributed to improved lifetime revenue per subscriber by \$46 to \$4,845. For the first nine months of 2006, lifetime revenue per subscriber increased by \$325 to \$4,743. COA as a percentage of lifetime revenue was 8.0% in the third quarter of 2006, similar to 8.1% recorded in the second quarter of 2006, and an increase from 7.7% in the third quarter of 2005.
 - General and administration expenses increased by \$19.6 million and \$63.1 million, respectively, due principally to the increase in employees to support the significant growth in the subscriber base and continued expansion of the client care team and company-owned retail stores and to a lesser extent, savings realized as a result of a labour disruption in the third quarter of 2005.
 - Restructuring and workforce reduction expenses were related to staff reductions associated with the integration of the wireline and wireless operations.
-

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| EBITDA and EBITDA margin - wireless segment | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|-------|--------|--------------------------------------|---------|------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| EBITDA (\$ millions) | 482.8 | 413.6 | 16.7 % | 1,319.5 | 1,117.5 | 18.1 % |
| EBITDA margin (%) | 47.5 | 47.5 | - | 46.2 | 45.9 | 0.3 pts |

Wireless segment EBITDA increased by \$69.2 million and \$202.0 million, respectively, in the third quarter and first nine months of 2006, when compared to the same periods in 2005. The improvement in EBITDA was a result of the strong revenue growth that was only partially offset by the higher COA per gross subscriber addition, increased retention investment ahead of the implementation of WLNP next year, and operations costs to support the growth. The EBITDA margin, when calculated as a percentage of Network revenue, was 51.1% in the third quarter and 49.7% for the first nine months of 2006 remaining steady over the same periods last year.

6. Financial condition

The following are the significant changes in the consolidated balance sheets between December 31, 2005 and September 30, 2006.

| (\$ millions) | Sept. 30, 2006 | Dec. 31, 2005 | Change | % Change | Explanation of the change in balance |
|--|-------------------|------------------|--------|-------------|---|
| Current Assets | | | | | |
| Cash and temporary investments, net | (25.4) | 8.6 | (34.0) | n.m. | The balance of cash and temporary investments at September 30, 2006 represents net cheques in circulation and overdrafts after deduction of cash balances. See Section 7. Liquidity and capital resources |
| Short-term investments | 98.8 | - | 98.8 | n.m. | Investments of surplus cash |
| Accounts receivable | 739.7 | 610.3 | 129.4 | 21.2 % | Increased by \$150 million for the net reduction in securitized accounts receivable (see Section 7.6 Accounts receivable sale) and growth in the wireless business, partly offset by |

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| | | | | | |
|---|---------|---------|---------|----------|---|
| | | | | | lower days outstanding for customer receivables, as well as receipts from large customers in the first quarter |
| Income and other taxes receivable | 49.0 | 103.7 | (54.7) | (52.7)% | Refunds of \$127 million including interest were received, while a portion of the remaining taxes owing were reclassified to current Income and other taxes payable, net of an increase in taxes and interest receivable for recent reassessments |
| Inventories | 144.0 | 138.8 | 5.2 | 3.7 % | -- |
| Prepaid expenses and other | 237.2 | 154.7 | 82.5 | 53.3 % | Primarily prepayment of federal payroll taxes, property taxes, annual wireless licence fees, other licences and insurance, net of applicable amortization, as well as the deferred loss on termination and replacement of cross currency interest rate swaps associated with the June 1, 2007 (U.S. Dollar) Notes. |
| Current portion of deferred hedging asset | 5.6 | - | 5.6 | n.m. | -- |
| Current portion of future income taxes | - | 226.4 | (226.4) | (100.0)% | Refer to current liability section below |
| ----- | | | | | |
| Current Liabilities | | | | | |
| Accounts payable and accrued liabilities | 1,405.0 | 1,393.7 | 11.3 | 0.8 % | Primarily an increase in interest payable for semi-annual payments, net of reduced payroll liabilities and trade accounts payable |
| Income and other taxes payable | 12.9 | - | 12.9 | n.m. | Provincial capital taxes and foreign income taxes payable |

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| | | | | | |
|--|-----------|----------|-----------|---------|--|
| | | | | | over the next 12 months |
| Restructuring and workforce reduction accounts payable and accrued liabilities | 59.3 | 57.1 | 2.2 | 3.9 % | New obligations exceeded payments under previous programs |
| Advance billings and customer deposits | 571.0 | 571.8 | (0.8) | (0.1) % | -- |
| Current maturities of long-term debt | 1,378.4 | 5.0 | 1,373.4 | n.m. | Includes \$70 million of 7.1% TCI medium-term Notes, maturing in February 2007 and \$1,303 million of 7.5% TELUS Corporation U.S. Dollar Notes due June 2007 |
| Current portion of deferred hedging liability | 186.4 | - | 186.4 | n.m. | Reclassified from long-term liabilities for 2007 U.S. Dollar Notes |
| Current portion of future income taxes | 119.3 | - | 119.3 | n.m. | The tax effect of differences between the accounting and tax basis of partnership working capital, net of losses available for deduction |
| Working capital(1) | (2,483.4) | (785.1) | (1,698.3) | n.m. | Includes an increase in the current portions of long-term debt and future income taxes payable |
| Capital Assets, Net | 10,975.4 | 10,941.5 | 33.9 | 0.3 % | See Sections 5.3 Consolidated results from operations - Depreciation and amortization and 7.2 Cash used by investing activities - capital expenditures |
| ----- | | | | | |
| Other Assets | | | | | |
| Deferred charges | 979.6 | 850.2 | 129.4 | 15.2 % | Primarily pension plan contributions in excess of charges to |

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| | | | | | |
|-----------------------------|---------|---------|-----------|---------|--|
| | | | | | income |
| Investments | 32.9 | 31.2 | 1.7 | 5.4 % | New investments net of divestitures |
| Goodwill | 3,192.3 | 3,156.9 | 35.4 | 1.1 % | The acquisition of FSC Internet Corp. and an increase in economic interest in Ambergris, an international call centre operations. TELUS' ownership interest in Ambergris is now 91.3%. |
| ----- | | | | | |
| Long-Term Debt | 3,407.6 | 4,639.9 | (1,232.3) | (26.6)% | Primarily a reclassification to current maturities of TCI medium-term Notes maturing in February 2007 and TELUS Corporation U.S. Dollar Notes due June 2007, as well as a decrease in the Canadian Dollar value of U.S. Dollar Notes, partly offset by the public issue in May 2006 of \$300 million 5.00%, Series CB Notes |
| ----- | | | | | |
| Other Long-Term Liabilities | 1,330.5 | 1,635.3 | (304.8) | (18.6)% | Primarily a reduction in the deferred hedging liability through: - replacement of previous cross currency interest rate swap agreements associated with 2007 (U.S. Dollar) Notes with a like amount of new cross currency interest rate swap agreements, which have a lower effective fixed interest rate and a lower effective fixed exchange rate. See Note 14(b) of the interim consolidated financial statements; |

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| | | | | | |
|---------------------------|---------|---------|--------|---------|---|
| | | | | | - reclassification of \$186 million to current liabilities; and |
| | | | | | - partly offset by an increase due to appreciation of the Canadian dollar |
| ----- | | | | | |
| Future Income Taxes | 948.5 | 1,023.9 | (75.4) | (7.4)% | Revaluation of liabilities at lower enacted future income tax rates net of an increase in temporary differences for long-term assets and liabilities |
| ----- | | | | | |
| Non-Controlling Interests | 22.3 | 25.6 | (3.3) | (12.9)% | -- |
| ----- | | | | | |
| Shareholders' Equity | | | | | |
| Common equity | 6,987.9 | 6,870.0 | 117.9 | 1.7 % | Increased during the first nine months or 2006 primarily from: - Net income of \$886.3 million; and - An increase of \$92.6 million in Common Share and Non-Voting Share capital for the exercise of options; |
| | | | | | Partly offset by: - Normal Course Issuer Bid expenditures of \$600.7 million; and - Dividends of \$284.5 million. |
| ----- | | | | | |
| ----- | | | | | |

7. Liquidity and capital resources

7.1 Cash provided by operating activities

| (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---------------|--------------------------------|------|--------|--------------------------------------|------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |

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| | | | | | | |
|--|-------|-------|---------|---------|---------|--------|
| | 570.4 | 693.5 | (17.8)% | 2,056.5 | 2,109.6 | (2.5)% |
|--|-------|-------|---------|---------|---------|--------|

Cash provided by operating activities decreased by \$123.1 million and \$53.1 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005. The decreases for the quarter and first nine months were primarily due to the following:

- Proceeds from securitized accounts receivable were reduced by \$185 million and \$150 million, respectively, in the third quarter and first nine months of 2006, compared with no changes to securitized accounts receivable in the comparable periods of 2005;
- Short-term investments increased by \$98.8 million in the third quarter and first nine months;
- Employer contributions to employee defined benefits plans increased by \$14.5 million in the first nine months, due to the voluntary net acceleration of funding in 2006. The best estimate of fiscal 2006 employer contributions to the Company's defined benefit pension plans was revised to approximately \$132 million (the best estimate at December 31, 2005, was \$114 million);
- Restructuring and workforce reduction payments increased by \$6.4 million and \$20.3 million, respectively;
- Interest received decreased by \$8.7 million and \$10.5 million, respectively, due mainly to lower available cash balances in 2006, net of increased interest collected in the first nine months of 2006 for settled tax matters; and
- Other changes in non-cash working capital for the first nine months.

The above decreases for the third quarter and first nine months were partly offset by the following:

- EBITDA increased by \$112.7 million and \$151.3 million, respectively, as described in Section 5: Results from operations;
- Income taxes received net of installment payments increased by \$72.0 million in the nine-month period, due mainly to increased collection of income taxes receivable for settled tax matters;
- Non-cash share based compensation included in EBITDA, increased by \$14.1 million in the first nine months;
- Interest paid decreased by \$21.5 million in the first nine months, due mainly to the early redemption of notes on December 1, 2005. Interest paid in 2006 included a \$31.2 million payment in respect of the termination of cross currency interest rate swaps, as well as a partial payment of previously accrued interest in respect of a court decision in a lawsuit over a BC TEL bond redemption matter dating back to 1997; and
- Other changes in non-cash working capital for the third quarter.

7.2 Cash used by investing activities

| | Quarters ended | | | Nine-month periods | | |
|---------------|----------------|--------------|--------|--------------------|----------------|--------|
| | | September 30 | Change | | ended Sept. 30 | Change |
| (\$ millions) | 2006 | 2005 | % | 2006 | 2005 | % |
| | 451.0 | 263.3 | 71.3 % | 1,253.2 | 979.5 | 27.9 % |

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Cash used by investing activities increased by \$187.7 million and \$273.7 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005, due primarily to greater capital expenditures. Funds used for small acquisitions also increased by \$25.0 million and \$15.1 million, respectively, primarily due to the increase in economic interest in Ambergris. Assets under construction increased to \$779.9 million at September 30, 2006, compared with \$516.4 million at December 31, 2005, due to capitalized costs related to development of a new wireline billing system as well as in-progress costs for TELUS TV and network enhancement.

Capital expenditures

| (\$ in millions, except capital expenditure intensity) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---|--------------------------------|-------|------------|--------------------------------------|-------|------------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| Wireline segment | 311.4 | 176.5 | 76.4 % | 881.8 | 684.0 | 28.9 % |
| Wireless segment | 112.5 | 86.5 | 30.1 % | 321.4 | 260.9 | 23.2 % |
| TELUS consolidated capital expenditures | 423.9 | 263.0 | 61.2 % | 1,203.2 | 944.9 | 27.3 % |
| Capital expenditure intensity(1) (%) | 19.2 | 12.7 | 6.5 pts | 18.7 | 15.6 | 3.1 pts |

- Wireline segment capital expenditures increased by \$134.9 million and \$197.8 million, respectively, in the third quarter and first nine months of 2006, when compared to the same periods in 2005. Expenditures in incumbent operations increased by approximately \$128 million to \$284 million in the third quarter, and increased by approximately \$194 million to \$800 million for the first nine months. The increased spending was directed primarily to investments in the broadband networks in B.C., Alberta and Quebec and network access growth to serve strong housing growth in B.C. and Alberta, as well as TELUS TV. The increase for the first nine months of 2006 included catch-up on activities deferred in 2005 due to the labour disruption. To support business growth in non-incumbent operations, capital expenditures increased by approximately \$7 million to \$27 million in the third quarter, and increased by approximately \$4 million to \$82 million for the first nine months of 2006, when compared with the same periods in 2005.

The wireline segment capital expenditure intensity ratios were 25.4% and 24.1%, respectively, in the third quarter and first nine months of 2006, compared with 14.4% and 18.5%, respectively, in the same periods of 2005. This increase was caused by reduced capital expenditures during the 2005 labour disruption as well as subsequent catch-up activity and higher planned expenditures levels in 2006. For

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these reasons, wireline cash flow (EBITDA less capital expenditures) for the third quarter decreased by approximately 37% to \$158.2 million, and decreased by approximately 33% to \$510.9 million in first nine months of 2006, when compared to same periods in 2005.

- Wireless segment capital expenditures increased by \$26.0 million in the third quarter and \$60.5 million for the first nine months of 2006. The increases were principally related to strategic investments in next-generation EVDO-capable higher speed wireless network technology and continued enhancement of digital wireless capacity and coverage. Capital expenditure intensity for the wireless segment was 11.1% in the third quarter and 11.3% in the first nine months of 2006, as compared with 9.9% and 10.7% in the same periods last year. Wireless cash flow (EBITDA less capital expenditures) set TELUS third quarter and nine-month records at \$370.3 million and \$998.1 million, respectively, or increases of 13.2% and 16.5%, respectively, over the same periods in 2005.

Capital expenditure intensity in the third quarter and first nine months of 2006 increased when compared with the same periods in 2005. This increase was caused by reduced capital expenditures during the 2005 labour disruption as well as subsequent catch-up activity and higher planned expenditures levels in 2006. As a result, TELUS' EBITDA less capital expenditures (see Section 11.1 EBITDA for the calculation) decreased by \$48.2 million and \$107.0 million, respectively, in the third quarter and first nine months of 2006, when compared with the same periods in 2005.

7.3 Cash used by financing activities

| (\$ millions) | Quarters ended September 30 | | | Nine-month periods ended Sept. 30 | | |
|---------------|--------------------------------|-------|---------|--------------------------------------|-------|--------|
| | 2006 | 2005 | Change | 2006 | 2005 | Change |
| | 126.2 | 249.2 | (49.4)% | 837.3 | 704.5 | 18.9 % |

Cash used by financing activities decreased by \$123.0 million in the third quarter and increased by \$132.8 million, in the first nine months of 2006, when compared with the same periods in 2005. Financing activities included:

- Proceeds from Common Shares and Non-Voting Shares issued were \$37.2 million and \$82.9 million, respectively, in the third quarter and first nine months of 2006 - decreases of \$19.1 million and \$117.4 million, respectively, when compared with the same periods in 2005. The decreases were due mainly to the exercise of a smaller number of options in 2006 and implementation of the net equity settlement feature on May 1, 2006.
- Cash dividends paid to shareholders were \$93.8 million and \$284.5 million, respectively in the third quarter and first nine months of 2006, an increase of \$22.1 million and \$68.9 million, respectively. The increase was due to the higher quarterly dividend paid per share (27.5 cents versus 20 cents), partly offset by lower average shares outstanding.
- The Company's current NCIB program came into effect on December 20,

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2005 and is set to expire on December 19, 2006. TELUS intends to renew its current NCIB program for an additional 12 month period. In the absence of an income trust conversion, this would enable significant purchases consistent with past NCIB programs.

The following table outlines the shares repurchased and costs under the second NCIB program for the third quarter and first nine months of 2006, and cumulatively.

Second normal course issuer bid program

| Shares | Purchased for cancellation | | | |
|-------------------|----------------------------|------------------|---|-------------------|
| | 2005 Q4 (from Dec. 20) | 2006 Q3 | Nine months ended Sept. 30, 2006 | Cumulative |
| Common Shares | 634,469 | 743,700 | 5,440,600 | 6,075,069 |
| Non-Voting Shares | 607,700 | 1,328,600 | 7,306,400 | 7,914,100 |
| Total | 1,242,169 | 2,072,300 | 12,747,000 | 13,989,169 |

| Shares | Maximum permitted for repurchase | Percentage of maximum repurchased |
|-------------------|---|---|
| Common Shares | 12,000,000 | 50.6% |
| Non-Voting Shares | 12,000,000 | 66.0% |
| Total | 24,000,000 | 58.3% |

| \$ millions | Cost of repurchase | | | |
|-------------------|---------------------------|--------------|---|--------------|
| | 2005 Q4 (from Dec. 20) | 2006 Q3 | Nine months ended Sept. 30, 2006 | Cumulative |
| Reduction of: | | | | |
| Share capital | 20.9 | 37.9 | 224.2 | 245.1 |
| Retained earnings | 36.6 | 81.8 | 376.5 | 413.1 |
| Total | 57.5 | 119.7 | 600.7 | 658.2 |

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A previous NCIB program was in place during the same periods in 2005. Under the previous program, the Company purchased approximately 2.5 million Common Shares and approximately 2.6 million Non-Voting Shares for total consideration of \$233.1 million during the third quarter of 2005, and the Company purchased approximately 7.6 million Common Shares and approximately 8.1 million Non-Voting Shares for total consideration of \$663.5 million during the first nine months of 2005. The total repurchases under two NCIB programs for the period of December 20, 2004 to September 30, 2006 were approximately 16.3 million Common Shares and 19.4 million Non-Voting Shares for total consideration of \$1.57 billion.

- Long-term debt issues in 2006 included the May 2006 public issue of \$300 million 5.00%, Series CB Notes at a price of \$998.80 per \$1,000.00 of principal, which mature in 2013. See Note 14(b) of the interim consolidated financial statements. The net proceeds of the offering were used to terminate cross currency swap agreements. The remaining debt issues in 2006 were mainly periodic draws on the TELUS Corporation credit facilities, which were offset by periodic repayments of the credit facilities. On a net basis, the amount drawn from credit facilities in the quarter ended September 30, 2006 increased by \$58.7 million, but decreased by \$9.8 million since December 31, 2005.
- A partial payment \$309.4 million of the deferred hedging liability was completed the second quarter of 2006. In contemplation of the planned refinancing of the 2007 (U.S. Dollar) Notes, in May 2006, the Company replaced approximately 63% of the notional value of the existing cross currency interest rate swap agreements with a like amount of new cross currency interest rate swap agreements which have a lower effective fixed interest rate and a lower effective fixed exchange rate. This replacement happened concurrent with the issuance of the 2013 (Canadian Dollar) Notes; the two transactions had the composite effect of deferring, from June 2007 to June 2013, the payment of \$300 million, representing a portion of the amount that would have been due either under the cross currency interest rate swap agreements or to the 2007 (U.S. Dollar) Note holders (to whom the amounts would ultimately have been paid would depend upon changes in interest and foreign exchange rates over the period to maturity of the underlying debt).

7.4 Liquidity and capital resource measures

| As at, or 12-month periods ended, Sept. 30 | 2006 | 2005 | Change |
|---|------|------|--------|
|---|------|------|--------|

Components of debt and coverage ratios(1)

(\$ millions)

| | | | |
|------------------------------------|-------------|-------------|-----------|
| Net debt | 5,797.2 | 5,915.8 | (118.6) |
| Total capitalization - book value | 12,807.4 | 13,037.2 | (229.8) |
| EBITDA excluding restructuring | 3,542.0 | 3,365.7 | 176.3 |
| Net interest cost | 542.8 | 604.2 | (61.4) |

Debt ratios

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| | | | |
|---|---------|---------|-----------|
| Fixed-rate debt as a proportion of total indebtedness (%) | 98.0 | 93.1 | 6.9 pts |
| Average term to maturity of debt (years) | 4.8 | 4.6 | 0.2 |
| Net debt to total capitalization (%) (1) | 45.3 | 45.4 | (0.1) pts |
| Net debt to EBITDA(1) (3) | 1.6 | 1.8 | (0.2) |
| Coverage ratios(1) | | | |
| ----- | | | |
| Interest coverage on long-term debt | 3.3 | 2.7 | 0.6 |
| EBITDA(3) interest coverage | 6.5 | 5.6 | 0.9 |
| Other measures | | | |
| ----- | | | |
| Free cash flow (\$ millions) - | | | |
| 12-month trailing(2) | 1,476.8 | 1,477.6 | (0.8) |
| Dividend payout ratio (%) (1) | 39 | 38 | 1 pt |
| ----- | | | |
| ----- | | | |

Net debt measured at September 30, 2006 decreased when compared to one-year earlier due to early redemption of \$1.578 billion of Notes on December 1, 2005, partly offset by the use of cash and temporary investments (cash is netted against debt for the purposes of this calculation). Total capitalization also decreased for these reasons as well as a decrease in common equity due primarily to share repurchases under NCIB share repurchase programs. The net debt to EBITDA ratio measured at September 30, 2006 improved as a result of debt reduction and improved EBITDA. The proportion of fixed-rate debt increased mainly due to the termination of fixed to floating interest rate swap agreements concurrent with the early redemption of notes in December 2005.

Interest coverage on long-term debt improved by 0.3 because of increased income before taxes and interest expense, and improved by 0.3 because of lower interest expenses. The EBITDA interest coverage ratio improved by 0.6 due to lower net interest cost and improved by 0.3 due to higher EBITDA (excluding restructuring). The free cash flow measure for the twelve-month period ended September 30, 2006 was relatively unchanged when compared with the measure one year earlier, primarily because increased EBITDA was offset by increased capital expenditures. The dividend payout ratio for the twelve-month period ended September 30, 2006 was lower than the target guideline of 45 to 55% for sustainable net earnings due mainly to actual earnings including the future income tax reduction from tax rate changes in the second quarter of 2006 and tax recoveries in the third quarter of 2006. The dividend payout ratio for the twelve-month period ending September 30, 2005 was also lower than the target guideline due primarily to actual earnings including tax recoveries, net of after-tax labour disruption expenses.

Long-term guidelines for certain of TELUS' liquidity measures as defined in Section 11.4 Definition of liquidity and capital resource measures are:

- Net debt to total capitalization of 45 to 50%
- Net debt to EBITDA of 1.5:1 to 2.0:1
- Dividend payout ratio of 45 to 55% of sustainable net earnings.

7.5 Credit facilities

TELUS had available liquidity from unutilized credit facilities of more than \$1.4 billion at September 30, 2006.

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| Credit Facilities At September 30, 2006 (\$ in millions) | Expiry | Size | Drawn | Outstanding undrawn letters of credit |
|--|-------------|---------|-------|--|
| Five-year revolving facility(1) | May 4, 2010 | 800.0 | - | - |
| Three-year revolving facility(1) | May 7, 2008 | 800.0 | 125.0 | 100.1 |
| Other bank facilities | - | 74.0 | 7.2 | 3.8 |
| Total | - | 1,674.0 | 132.2 | 103.9 |

TELUS' credit facilities contain customary covenants including a requirement that TELUS not permit its consolidated Leverage Ratio (Funded Debt to trailing 12-month EBITDA) to exceed 4.0:1 (approximately 1.6:1 at September 30, 2006) and not permit its consolidated Coverage Ratio (EBITDA to Interest Expense on a trailing 12-month basis) to be less than 2.0:1 (approximately 6.5:1 at September 30, 2006) 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 agreement as compared with the calculation of net debt to EBITDA and EBITDA interest coverage. Historically, the calculations have not been materially different. The covenants are not impacted by revaluation of capital assets, intangible assets and goodwill for accounting purposes. Continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.

7.6 Accounts receivable sale

On July 26, 2002, TCI, a wholly owned subsidiary of TELUS, entered into an agreement, which was amended September 30, 2002, and March 1, 2006, with an arm's-length securitization trust under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of \$650 million. As a result of selling the interest in certain of the trade receivables on a fully-serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables. This "revolving-period" securitization agreement has an initial term ending July 18, 2007. TCI is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service Limited ("DBRS") or the securitization trust may require the sale program to be wound down. The necessary credit rating was exceeded by three levels at A (low) as of November 1, 2006. The balance of proceeds from securitized receivables varied between \$350 million and \$535 million during the third quarter, and varied between \$325 million and \$535 million during the first nine months of 2006, closing at \$350 million on September 30, 2006. The balance for the first nine months of 2005 was constant at \$150 million, which is the minimum necessary to keep this program active.

7.7 Credit ratings

As of November 1, 2006 TELUS and TCI investment grade credit ratings were unchanged from those reported in TELUS' annual 2005 Management's discussion and analysis in Section 7.7. TELUS has an objective to preserve access to capital markets at a reasonable cost by maintaining and improving investment

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grade credit ratings in the range of "BBB+" to "A-" or the equivalent. In September, following TELUS' announcement of its intention to convert to an income trust, the four credit rating agencies that cover the Company adjusted their outlooks or trends.

- Dominion Bond Rating Service placed its "BBB(high)" rating for TELUS and "A(low)" for TCI "under review with developing implications."
- Moody's Investors Service affirmed its "Baa2" rating for TELUS and changed the outlook from "positive" to "developing."
- Standard and Poor's affirmed its "BBB+" ratings for TELUS and TCI long-term corporate credit and unsecured debt as well as its "A-" rating for TCI First mortgage bonds, all with a "stable" outlook.
- Fitch Ratings affirmed its "BBB+" ratings and "stable" outlook for TELUS and TCI.

At this time, TELUS is uncertain as to how these ratings may be affected by the October 31, 2006 announcement by the federal Minister of Finance.

7.8 Off-balance sheet arrangements, commitments and contingent liabilities

Financial instruments (Note 3 of the interim consolidated financial statements)

During the first quarter of 2006, the Company entered into a hedging relationship that fixes the Company's compensation cost arising from a specific grant of restricted stock units; hedge accounting has been applied to this relationship.

During the second quarter of 2006, the Company terminated a number of cross currency interest rate swap agreements and entered into new cross currency interest rate swap agreements in respect of the Company's U.S. Dollar Notes maturing in June 2007. The Company entered into these agreements to reduce or eliminate exposure to interest rate and foreign currency risk. Hedge accounting has been applied to the new cross currency interest rate swap agreements.

As at September 30, 2006, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rate on U.S. \$49 million of fiscal 2006 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the Wireless segment.

In contemplation of the planned refinancing of the debt maturing June 1, 2007, the Company has entered into forward starting interest rate swap agreements during 2006 that, as at September 30, 2006, have the effect of fixing the underlying interest rate on up to \$500 million of replacement debt. Hedge accounting has been applied to these forward starting interest rate swap agreements.

The fair values of the Company's long-term debt are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt 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. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated similarly. The carrying amount and fair value of long-term debt are as follows:

| | As at September 30, 2006 | | As at December 31, 2005 | |
|---------------|-----------------------------|---------------|----------------------------|---------------|
| (\$ millions) | Carrying amount | Fair value | Carrying amount | Fair value |

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| | | | | |
|---|---------|---------|---------|---------|
| Long-term debt | | | | |
| Principal | 4,786.0 | 5,424.1 | 4,644.9 | 5,371.6 |
| Derivatives used to manage interest rate and currency risks associated with U.S. dollar denominated debt, net | 982.8 | 1,292.7 | 1,154.3 | 1,470.5 |
| | 5,768.8 | 6,716.8 | 5,799.2 | 6,842.1 |

Commitments and contingent liabilities

The Company has a \$59.3 million liability recorded for outstanding commitments under its restructuring programs as at September 30, 2006. The Company's commitments and contingent liabilities, which are summarized in Note 16 of the interim consolidated financial statements, have not changed significantly in the nine-month period ended September 30, 2006, except for the following:

Deferral accounts

On February 16, 2006, the CRTC issued Telecom Decision 2006-9, "Disposition of funds in the deferral account". In its decision the CRTC determined that the majority of the accumulated liability within the respective incumbent local exchange carrier's deferral account was to be made available for initiatives to expand broadband services within their ILEC operating territories to rural and remote communities where service is currently not available. In addition, a minimum of five per cent of the accumulated deferral account balance must be used for initiatives that enhance accessibility to telecommunication services for individuals with disabilities. To the extent that the deferral account balance exceeds the approved initiatives, the remaining balance will be distributed in the form of a one-time rebate to local residential service customers in non-high cost serving areas. Finally, the CRTC indicated that subsequent to May 31, 2006, subject to potential CRTC changes in amounts estimated by the Company as noted above, no additional amounts are to be added to the deferral account and, instead, are to be dealt with via prospective rate reductions.

In September 2006, the Federal Court of Appeal granted the Consumers Association of Canada and the National Anti-Poverty Organization leave to appeal Telecom Decision 2006-9. Bell Canada was also granted leave to appeal Decision 2006-9 on the grounds that the CRTC exceeded its jurisdiction to the extent it approves rebates from the deferral account. These matters are expected to be heard in 2007. See the risk discussion in Section 10.1 Regulatory - Price cap regulation - Disposition of funds in the deferral accounts (Telecom Decision CRTC 2006-9).

Pay equity

On December 16, 1994, the Telecommunications Workers Union ("TWU") filed a complaint against BC TEL, a predecessor of TELUS Communications Inc. (TCI), with the Canadian Human Rights Commission ("CHRC"), alleging that wage differences between unionized male and female employees in British Columbia were contrary to the equal pay for work of equal value provisions in the Canadian Human Rights Act. As a term of the negotiated settlement between TCI and the TWU that resulted in the collective agreement effective November 20, 2005, the parties have agreed to settle this complaint without any admission

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of liability, on the basis that the Company will establish a pay equity fund of \$10 million to be paid out during the term of the new five-year collective agreement; the TWU withdrew and discontinued this complaint on December 21, 2005. During the first quarter of 2006, the CHRC advised the Company that it accepted this settlement and that it would close its file on the complaint.

Uncertified class action

A class action was brought August 9, 2004, under the Class Actions Act (Saskatchewan), against a number of past and present wireless service providers including the Company. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings have also been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The Company believes 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.

7.9 Outstanding share information

The following is a summary of the outstanding shares for each class of equity at September 30, 2006 and at October 20, 2006. In addition, for October 20, 2006 the total number of outstanding and issuable shares is presented assuming full conversion of options including those shares held in reserve, but not yet issued.

| Class of equity security (millions of shares) | Common Shares outstanding | Non-Voting Shares outstanding | Total Shares outstanding |
|---|---------------------------------|-------------------------------------|--------------------------------|
| ----- | | | |
| At September 30, 2006 | | | |
| Common equity - Common Shares outstanding | 178.7 | - | 178.7 |
| Common equity - Non-Voting Shares outstanding | - | 162.0 | 162.0 |
| | 178.7 | 162.0 | 340.7(1) |
| ----- | | | |
| At October 20, 2006 | | | |
| Common equity - Common Shares outstanding | 178.7 | - | 178.7 |
| Common equity - Non-Voting Shares outstanding | - | 162.1 | 162.1 |
| | 178.7 | 162.1 | 340.8 |
| ----- | | | |
| ----- | | | |
| Outstanding and issuable shares(2) at October 20, 2006 | | | |

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| | | | |
|---|-------|-------|-------|
| Common Shares and Non-Voting | | | |
| Shares outstanding | 178.7 | 162.1 | 340.8 |
| Options(3) | 0.9 | 19.2 | 20.1 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| | 179.6 | 181.3 | 360.9 |
| <hr style="border-top: 1px dashed black;"/> | | | |
| <hr style="border-top: 1px dashed black;"/> | | | |

8. Critical accounting estimates and accounting policy developments

8.1 Critical accounting estimates

TELUS' critical accounting estimates are described Section 8.1 of its 2005 annual Management's discussion and analysis. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8.2 Accounting policy developments

Accounting policies are consistent with those described in Note 1 of TELUS' annual 2005 consolidated financial statements. Commencing with the Company's 2006 fiscal year, the Company adopted the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") for measurement of non-monetary transactions (CICA Handbook Section 3830). The Company's operations were not materially affected by the amended recommendations.

Earnings per share; convergence with International Reporting Standards

Possibly commencing in the Company's 2006 fiscal year, proposed amendments to the recommendations of the CICA for the calculation and disclosure of earnings per share (CICA Handbook Section 3500) may have applied to the Company. In July 2006, the typescript with the current proposed amendments was withdrawn and an announcement was made indicating that an International Financial Reporting Standards-based exposure draft would be issued by the end of 2006.

In early 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period. During 2006, the Accounting Standards Board is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. As this convergence initiative is very much in its infancy as of the date of these interim consolidated financial statements, it would be premature to currently assess the impact of the initiative, if any, on the Company.

Other comprehensive income; Accounting changes; and Business combinations

Amendments and proposed amendments commencing in the Company's 2007 fiscal year or later are described in Note 2 of the interim consolidated financial statements.

Other recently issued accounting standards not yet implemented

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As described in Note 18(i) of the interim consolidated financial statements, under U.S. GAAP effective for its 2007 fiscal year, the Company is expected to be required to comply with accounting for uncertain income tax positions, as prescribed by Financial Accounting Standards Board Financial Interpretation No. 48. The Company continues to assess the provisions of the Interpretation.

9. Full year guidance for 2006

The following discussion is qualified in its entirety by the Forward-looking statements at the beginning of Management's discussion and analysis, as well as Section 10: Risks and risk management of TELUS' Management's discussion and analysis for 2005, as well as the first and second quarters of 2006 and this report.

The Company has a practice of confirming or adjusting annual guidance on a quarterly basis. There is no assurance that these assumptions or the revised 2006 financial and operating targets and projections will turn out to be accurate. Revised guidance for 2006 shown below reflects expectations based on performance for nine months, as well as a revised estimate for annual restructuring charges of up to \$80 million (previously up to \$100 million), affecting consolidated EBITDA and wireline EBITDA. Management currently expects that the Canadian wireless industry market penetration will increase between 4.5 and five percentage points in 2006, when compared with 2005. The effective income tax rate for the full year is expected to be approximately 23%. TELUS' full year earnings guidance for 2006 assumes certain positive tax adjustments in the fourth quarter, which are estimates only, that may not be realized because the estimates are dependent on future events. In addition, TELUS' full year earnings guidance includes estimated income trust conversion expenses of approximately \$7 million in 2006, if the income trust conversion were to proceed.

The Conference Board of Canada recently estimated Canadian real gross domestic product ("GDP") to be 2.7% for 2006 and 2.9% for 2007, down from previous Conference Board estimates of 3.1% for each. While TELUS' previous full year guidance for 2006 had assumed a 3.1% rate for national 2006 GDP, provincial growth projections show that Alberta and B.C. continue to exceed the national average.

| | Revised guidance for 2006 | Previous guidance from 2006 Q2 | Change |
|-------------------------------|------------------------------|--------------------------------------|---|
| ----- | | | |
| Consolidated | | | |
| Revenues | \$8.65 to \$8.7 billion | \$8.625 to \$8.725 billion | increased low end of range by \$25 million |
| EBITDA(1) | \$3.55 to \$3.6 billion | \$3.5 to \$3.6 billion | increased low end of range by \$50 million |
| Earnings per share - basic | \$3.15 to \$3.25 | \$2.90 to \$3.10 | increased by 15 to 25 cents |
| Capital expenditures | no change | Approx. \$1.6 billion | no change |
| Free cash flow(2) | \$1.6 to \$1.65 billion | \$1.55 to \$1.65 billion | increased low end of range by \$50 million |
| ----- | | | |

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Wireline segment

| | | | |
|---|------------------------------|-------------------------------|---|
| Revenue (external) | \$4.8 to \$4.825 billion | \$4.825 to \$4.850 billion | lowered low and high ends of range by \$25 million each |
| Non-ILEC revenue | no change | \$650 to \$675 million | no change |
| EBITDA | \$1.825 to \$1.85 billion | \$1.8 to \$1.85 billion | increased low end of range by \$25 million |
| Non-ILEC EBITDA | no change | \$25 to \$30 million | no change |
| Capital expenditures | Approx. \$1.175 billion | Approx. \$1.15 billion | increased by approx. \$25 million |
| High-speed Internet net additions | More than 135,000 | More than 125,000 | Raised minimum expectation by 10,000 |

Wireless segment

| | | | |
|---|------------------------------|-----------------------------|---|
| Revenue (external) | \$3.85 to \$3.875 billion | \$3.8 to \$3.875 billion | increased low end of range by \$50 million |
| EBITDA | \$1.725 to \$1.75 billion | \$1.7 to \$1.75 billion | increased low end of range by \$25 million |
| Capital expenditures | Approx. \$425 million | Approx. \$450 million | reduced by approx. \$25 million |
| Wireless subscriber net additions | no change | 560,000 to 590,000 | no change |

10. Risks and risk management

TELUS' approach to the management of risk has not changed significantly from that described in Section 10: Risks and risk management of the Company's 2005 annual Management's discussion and analysis. The following are significant updates to the risks described in Management's discussions and analyses for the year 2005 as well as the first and second quarters of 2006.

10.1 Regulatory

The outcome of any existing or future regulatory reviews, proceedings, court appeals, Federal Cabinet appeals or other regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues.

Reconsideration of Regulatory framework for voice communication services using Internet Protocol (Telecom Decision CRTC 2006-53) and

Proceeding to reassess certain aspects of the local forbearance framework (Telecom Public Notice CRTC 2006-12)

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On May 12, 2005, the CRTC released its decision regarding regulatory requirements for the provision of voice communication services using Internet protocol, also known as VoIP. Decision 2005-28 divided VoIP service providers into two groups: ILECs who are regulated in a manner similar to existing local service regulation; and others, including cable-TV companies, who are not subject to price regulation. Rules with respect to access to numbers, number portability, directory listings, equal access, the winback rules, rules on promotions, bundling and price floors were extended to VoIP services. In 2005, TELUS and other ILECs jointly petitioned the Federal Cabinet to overturn Decision 2005-28, and also sought leave to appeal regulation on winbacks with the Federal Court of Appeal.

On May 4, 2006, the Federal Cabinet issued an Order in Council that referred Decision 2005-28 back to the CRTC for further consideration and specified that the CRTC shall complete its reconsideration of the decision within 120 days (by September 2006). The Order in Council noted that the March 2006 report from the Telecommunications Policy Review Panel included the recommendation to rely on market forces to the maximum extent feasible. The Order in Council also noted VoIP technology had transformed the nature and extent of competition in telecommunications markets and recent Telecom Decisions CRTC 2005-62 and 2006-11 allowed for greater flexibility in the pricing of VoIP services provided by one incumbent telephone company.

On May 10, 2006, in accordance with the Order in Council, the CRTC initiated a public proceeding to reconsider the appropriate regulatory regime and any other pertinent matters applicable to the provision of VoIP services. On September 1, 2006 in Decision 2006-53, the CRTC reaffirmed the regulatory regime for local VoIP services established in Telecom Decision 2005-28, but chose to reconsider the market share forbearance criteria of 25% for local exchange services and the 20% market share loss threshold applicable to the transitional local winback rule. Notable is that one CRTC commissioner issued a dissenting opinion that the CRTC should forbear from regulating VoIP services except for emergency services, privacy protection, access to underlying structures and telephone number portability. Two CRTC commissioners agreed with Decision 2006-53 and opposed reconsideration of the forbearance threshold criteria. To address the local market share forbearance criteria and the market share loss threshold applicable to the transitional local winback rule, the CRTC issued Telecom Public Notice 2006-12. The comment period closed in October 2006 and a decision is expected in late 2006 or early 2007. In early October 2006, the Industry Minister sought input from provincial ministries on the regulation of VoIP services.

There can be no assurance that reconsideration of forbearance and winback restriction criteria by the CRTC or consultations on VoIP regulations by the federal government will result in more favourable regulation of VoIP services for TELUS in its incumbent regions of B.C., Alberta and Eastern Quebec.

Appeal to Federal Cabinet of Telecom Decision CRTC 2006-15:
Forbearance from the regulation of retail local exchange services

On May 12, 2006, TELUS and other ILECS jointly filed a petition to the Federal Cabinet, requesting that the CRTC be directed to reconsider its April 6, 2006, decision on the regulation of local telephony service, and to do so in light of the recommendations of the Telecommunications Policy Review Panel. TELUS believes that the threshold for deregulation is too high and wireless substitution for local telephony services should be considered in the forbearance decision. The CRTC is currently conducting proceedings to assess whether wireless substitution should be considered when determining conditions for forbearance from regulation of local telephony services (Telecom Public Notice 2006-9 - Proceeding to examine whether mobile wireless services should be considered to be in the same relevant market as wireline local exchange services with respect to forbearance and related issues).

There can be no assurance that the Federal Cabinet will direct the CRTC to reconsider Decision 2006-15, or if directed to reconsider the decision, that the CRTC will significantly change the terms and conditions set for

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forbearance from regulating local telephony services. There can be no assurance that the CRTC will consider wireless substitution in determining market conditions for forbearance from regulating local telephony services.

Federal Court of Appeal grants leave to appeal winback restrictions imposed on incumbent local telephone companies

In September 2006, the Federal Court of Appeal granted leave to appeal various decisions dealing with winback rules. TELUS joined with Bell Canada in launching the appeals, arguing that the winback rules are an infringement of the freedom of expression enshrined within the Charter of Rights and Freedoms. For example, the winback rules deprive TELUS of the ability to contact former local service customers for a period of time. This matter is expected to be heard in 2007. In a related case, the Federal Court of Appeal also granted Bell Aliant leave to appeal whether matters like quality of service could be used to deny forbearance from regulation. If these appeals are successful, TELUS could enjoy some measure of relief in key ILEC cities of Vancouver, Calgary and Edmonton, prior to achieving forbearance from regulation under the current terms set by the CRTC in Telecom Decision 2006-15. However, there can be no assurance that any of these appeals will be successful.

Price cap regulation - Disposition of funds in the deferral accounts (Telecom Decision CRTC 2006-9)

On February 16, 2006, the CRTC issued a decision on the use of funds in the deferral account. The funds that have accumulated in the deferral account over the second price cap period (2002 to 2006) will be used to expand broadband facilities (95%) and to improve access to telecommunications services to persons with disabilities (5%). Any remaining balance in the deferral account will be addressed through and are to be dealt with via future residential local rate reductions.

In September 2006, the Federal Court of Appeal granted the Consumers Association of Canada and the National Anti-Poverty Organization leave to appeal CRTC Telecom Decision 2006-9. These consumer groups are expected to file their appeal over the coming months asking the Court to direct rebates to local telephone subscribers, rather than have the accumulated deferral account funds used for purposes determined by the CRTC, as noted above. Bell Canada was also granted leave to appeal Decision 2006-9 on the grounds that the CRTC exceeded its jurisdiction to the extent it approves rebates from the deferral account. These matters are expected to be heard in 2007. In the event that Bell Canada is successful in its appeal, TELUS may realize additional revenue equal to the amount of the deferral account that would otherwise have been rebated by the CRTC. Should the consumer groups be successful in their appeals, TELUS may be required to remit a one-time refund of approximately \$165 million in individually small amounts to its entire local residential subscriber base. Given the deferral account balance was fully provided for in previous financial statements, the potential refund will not impact the Company's subsequent income from operations. In addition, subject to the potential outcome of this leave to appeal, the Company may need to re-address its intent to extend broadband services to uneconomic remote and rural communities. TELUS supports Decision 2006-9 and its designated uses of the deferral account in order to extend high-speed broadband internet service to rural and remote communities and improve telecommunications services for people with disabilities.

It also uncertain what impact the Federal Court of Appeal's granting of leave to these appeals may have on the Commission's pending consideration of TELUS' and the other incumbent telephone companies' proposals for disposition of deferral account funds that were filed on September 1, 2006.

Correction to TELUS' co-location DC power service rates (Telecom Decision CRTC 2006-42-1)

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In August 2006, the CRTC issued a decision "erratum" to increase the rates that TELUS is allowed to charge for co-location DC power services, as an incorrect maintenance cost factor was used in the original decision issued on June 30, 2006. While Decision 2006-42 and Decision 2006-42-1 had approved rates on a final basis back to November 29, 2000, the Company had previously accrued most of the retroactive impact, with the balance recorded as an adjustments in the Company's second and third quarter 2006 financial statements. The Company estimates that its incumbent wireline revenue will be reduced by less than \$2 million over the subsequent 12-month period, based on current co-location and power arrangements.

Future environment facing the Canadian broadcasting system (Broadcasting Public Notice CRTC 2006-72)

On June 8, 2006, the Canadian Federal Government issued an Order in Council requesting that the CRTC provide a factual report on the future environment facing the Canadian broadcasting system. To respond to the request, the CRTC issued Broadcasting Public Notice 2007-72, calling for comments from interested parties by September 1, 2006. One of the key issues raised during the current review is a request by over-the-air broadcasters to receive subscriber fees or a "fee for carriage." The Telco TV Association of Canada, which includes TELUS, SaskTel and MTS Allstream, opposed this proposal, arguing that retransmission rights are a copyright issue, not a broadcasting issue, and therefore, the CRTC is not the appropriate body to deal with the matter. If over-the-air broadcasters are successful in obtaining fee-for-carriage, the costs of offering basic television service could increase significantly. Telco TV also provided evidence that over-the-air broadcasters are in good financial health.

TELUS called for reform to broadcasting regulation in order to harness opportunities in emerging technologies. The Company believes that the fundamental objectives of cultural policy (access, diversity and Canadian content) remain relevant, but technology is creating consumer friendly ways of achieving these objectives. In its filing, TELUS called for the following:

- Regulate only where still necessary to achieve these cultural policy objectives;
- Maintain the new media exemption for Internet and mobile wireless content and move towards extending that same regime to traditional broadcasters;
- Move toward a registration system rather than a licensing framework for competitive areas of broadcasting;
- Remove all restrictions on advertising; and
- Recognize the contribution distributors make to infrastructure development and give them the option of contributing to new media development instead of the Canadian Television Fund.

TELUS also urged the government to update copyright legislation in order to promote flexible and fair use of digital content by consumers.

The deadline for implementing wireless number portability ("WNP") is March 14, 2007 (Telecom Decision CRTC 2005-72)

On December 20, 2005, the CRTC issued Decision 2005-72 and directed Bell Mobility, Rogers Wireless Inc. and the wireless division of TELUS to implement wireless number portability in British Columbia, Alberta, Ontario and Quebec where local exchange carrier-to-local exchange carrier ("LEC-to-LEC") local number portability is currently in place by March 14, 2007. In other areas and for other wireless carriers, wireless number portability (where LEC-to-LEC local number portability is currently in place) for porting-out must be implemented by March 14, 2007 and for porting-in must be implemented by September 12, 2007. There is no assurance that TELUS and the other Canadian wireless carriers will be able to implement wireless number portability in the

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required timeframe without incurring significant additional costs and/or ongoing administration costs. Implementation of wireless number portability may result in increased migration of network access lines to wireless services, increased wireless subscriber monthly churn or additional customer retention costs for TELUS.

WNP, when instituted in the U.S. in 2003, did not lead to a large increase in churn as was initially anticipated. In addition, TELUS believes that WNP may open up an opportunity to more effectively market into the business/enterprise market in Central Canada where TELUS has a lower market share than our wireless competitors and lack of WNP is believed to have decreased its sales effectiveness. However, there can be no assurance that this will be the case.

10.2 Human resources

Two new collective agreements reached in the TELUS Quebec region

Two collective agreements in the TELUS Quebec region were open for renewal in 2006 and negotiations have concluded successfully with the ratification of new agreements in each case. An agreement between TELUS Quebec and the Syndicat des agents de maitrise de TELUS came into effect on April 1, with a one-year term, and covers more than 500 professional and supervisory employees. Another agreement between TELUS Quebec and the Syndicat quebecois des employes de TELUS was ratified in August and will remain in effect until December 31, 2009. The latter agreement covers more than 1,000 office, clerical and technical employees.

10.3 Business integration and internal reorganizations

On November 24, 2005, TELUS Corporation announced the integration of the wireline and wireless operations of the business into a single operating structure. This integration incorporates TELUS' customer-facing business units, technology infrastructure, operations and shared services. There is no assurance that this integration will provide the benefits and efficiencies that are planned and/or that there will not be significant difficulties in combining the two structures, which could result in a negative impact on operating and financial results.

10.4 Process risks

TELUS systems and processes could negatively impact financial results and customer service - Billing/revenue assurance and efficiency programs

TELUS continues to develop a new billing system for the wireline segment of our business, which includes re-engineering processes for order entry, pre-qualification, service fulfillment and assurance, customer care, collections/credit, customer contract and information management. This customer-focused project requires extensive system development and, in itself, presents implementation risks due to the complexity of the implementation task and resource constraints. TELUS plans to implement this project in phases beginning with a pilot and testing in the third quarter of 2006. A commercial launch of the converged billing system platform for consumer customers in Alberta is currently planned for the first quarter of 2007, with additional phases of conversion planned over the next few years. There can be no assurance that this undertaking will not negatively impact TELUS' customer service levels, competitive position and financial results. As well, significant time delays in implementing this system could negatively impact TELUS' competitive ability to quickly and effectively launch new products and services; achieve and maintain a competitive cost structure; and deliver better information and analytics to management.

Also, as a result of system changes, staff reduction and training

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requirements associated with TELUS' ongoing efficiency improvement efforts, there is potential for further impact on the operations of TELUS' internal processes involved with billing that could negatively affect TELUS' earnings.

10.5 Income trust reorganization risks

TELUS' intention to reorganize in its entirety as an income trust is subject to inherent risks and uncertainties including changes arising from the October 31, 2006 announcement by the federal Minister of Finance of a proposed new Tax Fairness Plan that is intended to change the relationships between the future levels of taxation of income trusts and corporations. Other risks and uncertainties are associated with obtaining approvals from security holders, courts and regulatory bodies. No assurance can be given that the income trust conversion will proceed, or be completed in the originally anticipated January 2007 time-frame, or that any of the anticipated benefits and implications of income trust conversion will be realized if the conversion were to proceed.

One element of the proposed plan is a tax on distributions of business income earned by non-passive investments by publicly traded income trusts and limited partnerships (other than those which hold passive real estate investments). This is intended to make an income trust's income tax treatment more like that of public corporations. The announcement by the federal Minister of Finance indicated that for income trusts, which begin trading after October 31, 2006, the new tax measures will apply to the later of their 2007 taxation year and the taxation year in which the income trust begins to trade. The result of the application of these new proposals would be to reduce the tax efficiency of publicly traded income trusts.

Should the proposed income trust conversion proceed, TELUS expects that it would be exposed to a new set of specific risks relating to the income trust structure that would arise upon closing of the conversion. Such risks include: the ability to utilize available income tax credits and losses before they expire, as well as the availability to use tax-related grants, subsidies or reductions that might otherwise be available to the Company or other related taxpayers. As TELUS is assessing the proposed conversion in light of the new tax plan announced on October 31, these risks are not all summarized above. Should the proposed reorganization proceed, the risks will be highlighted in the "Risk Factors" section of the information circular that would be provided to security holders in connection with the special meeting to consider the proposed conversion.

Furthermore, should the conversion to an income trust proceed, under the Minister of Finance's Tax Fairness Plan there would be limits to the expected tax benefits of such a structure as the tax benefits of income trusts are expected to be eliminated after 2011.

11. Reconciliation of non-GAAP measures and definition of key operating indicators

11.1 Earnings before interest taxes depreciation and amortization (EBITDA)

TELUS has issued guidance on and reports EBITDA because it is a key measure used by management to evaluate performance of business units, segments and the Company. EBITDA is also utilized in measuring compliance with debt covenants. EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

EBITDA is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to Operating income or Net income in measuring

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the Company's performance, nor should it be used as an exclusive measure of cash flow, because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows. Investors should carefully consider the specific items included in TELUS' computation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by TELUS may not be comparable in all instances to EBITDA as reported by other companies.

The following is a reconciliation of EBITDA with Net income and Operating income:

| (\$ millions) | Quarters ended | | Nine-month periods | |
|-----------------------------------|----------------|----------|--------------------|--------------------|
| | Sept. 30 | Sept. 30 | ended September 30 | ended September 30 |
| | 2006 | 2005 | 2006 | 2005 |
| Net income | 319.6 | 190.1 | 886.3 | 621.8 |
| Other expense (income) | 4.0 | 7.1 | 17.9 | 9.1 |
| Financing costs | 116.6 | 144.8 | 371.1 | 451.4 |
| Income taxes | 126.5 | 86.9 | 261.3 | 263.2 |
| Non-controlling interest | 2.4 | 1.6 | 7.1 | 4.9 |
| Operating income | 569.1 | 430.5 | 1,543.7 | 1,350.4 |
| Depreciation | 325.8 | 335.6 | 1,000.2 | 996.4 |
| Amortization of intangible assets | 57.5 | 73.6 | 168.3 | 214.1 |
| EBITDA | 952.4 | 839.7 | 2,712.2 | 2,560.9 |

In addition to EBITDA, TELUS calculates EBITDA less capital expenditures as a simple proxy for cash flow in its two reportable segments. EBITDA less capital expenditures is used for comparison to the reported results for other telecommunications companies and is subject to the potential comparability issues of EBITDA described above. EBITDA less capital expenditures is calculated for TELUS as follows:

| (\$ millions) | Quarters ended | | Nine-month periods | |
|----------------------------------|----------------|----------|--------------------|--------------------|
| | Sept. 30 | Sept. 30 | ended September 30 | ended September 30 |
| | 2006 | 2005 | 2006 | 2005 |
| EBITDA | 952.4 | 839.7 | 2,712.2 | 2,560.9 |
| Capital expenditures ("Capex") | (423.9) | (263.0) | (1,203.2) | (944.9) |
| EBITDA less capital expenditures | 528.5 | 576.7 | 1,509.0 | 1,616.0 |

11.2 Free cash flow

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The Company has issued guidance on and reports free cash flow because it is a key measure used by management to evaluate performance of TELUS Corporation. Free cash flow excludes certain working capital changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows. Free cash flow is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to the consolidated statements of cash flows. Free cash flow is a measure that can be used to gauge TELUS' performance over time. Investors should be cautioned that free cash flow as reported by TELUS may not be comparable in all instances to free cash flow as reported by other companies. While the closest GAAP measure is Cash provided by operating activities less Cash used by investing activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures, but before proceeds from divested assets, and changes in certain working capital items (such as trade receivables, which can be significantly distorted by securitization changes that do not reflect operating results, and trade payables).

The following reconciles free cash flow with Cash provided by operating activities less Cash used by investing activities:

| (\$ millions) | Quarters ended | | Nine-month periods | |
|--|----------------|---------|------------------------|----------------------------|
| | 2006 | 2005 | ended Sept. 30 2006 | ended September 30 2005 |
| Cash provided by operating activities | 570.4 | 693.5 | 2,056.5 | 2,109.6 |
| Cash (used) by investing activities | (451.0) | (263.3) | (1,253.2) | (979.5) |
| Net employee defined benefit plans expense | 119.4 | 430.2 | 803.3 | 1,130.1 |
| Employer contributions to employee defined benefit plans | 1.5 | 0.3 | 4.4 | (0.8) |
| Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net | 28.8 | 30.1 | 104.3 | 89.8 |
| Reduction (increase) in securitized accounts receivable | (3.9) | 3.6 | (12.5) | 3.9 |
| Non-cash working capital changes except changes in taxes, interest, and securitized accounts receivable, and other | 185.0 | - | 150.0 | - |
| Acquisition | 170.4 | 116.8 | 267.5 | 91.1 |
| Proceeds from the sale of property and other assets | 25.0 | - | 44.5 | 29.4 |
| Other investing activities | (6.9) | (0.1) | (14.9) | 3.5 |
| Free cash flow | 9.0 | 0.4 | 20.4 | 8.7 |
| | 528.3 | 581.3 | 1,367.0 | 1,355.7 |

The following shows management's calculation of free cash flow.

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| (\$ millions) | Quarters ended | | Nine-month periods | |
|--|----------------|----------|--------------------|--------------------|
| | Sept. 30 | Sept. 30 | ended September 30 | ended September 30 |
| | 2006 | 2005 | 2006 | 2005 |
| EBITDA | 952.4 | 839.7 | 2,712.2 | 2,560.9 |
| Restructuring and workforce reduction costs net of | | | | |
| cash payments | (1.2) | (5.7) | 2.2 | (19.0) |
| Share-based compensation | 14.2 | 10.3 | 35.3 | 21.2 |
| Cash interest paid | (13.0) | (12.2) | (297.6) | (319.1) |
| Cash interest received | 0.6 | 9.3 | 23.9 | 34.4 |
| Income taxes received (paid), less investment tax credits received | (0.8) | 2.9 | 94.2 | 22.2 |
| Capital expenditures | (423.9) | (263.0) | (1,203.2) | (944.9) |
| Free cash flow | 528.3 | 581.3 | 1,367.0 | 1,355.7 |

11.3 Definition of key operating indicators

These measures are industry metrics and are useful in assessing the operating performance of a wireless company.

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.

Average revenue per subscriber unit ("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 revenues derived from services such as text messaging, mobile computing, personal digital assistance devices, Internet browser activity and pay-per-use downloads.

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.

EBITDA excluding COA is a measure of operational profitability normalized for the period costs of adding new customers. COA for the third quarter and first nine months of 2006 was \$128.6 million and \$367.4 million, respectively. COA for the same periods in 2005 was \$113.7 million and \$305.6 million, respectively.

11.4 Definition of liquidity and capital resource measures

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The following definitions are presented in the order that they appear in Section 7.4 Liquidity and capital resource measures.

Net debt is a non-GAAP measure whose nearest GAAP measure is the sum of Long-term debt and Current maturities of long-term debt, as reconciled below. Net debt is one component of a ratio used to determine compliance with debt covenants (refer to the description of Net debt to EBITDA below).

| (\$ millions) | At September 30 | |
|--------------------------------------|-----------------|-----------|
| | 2006 | 2005 |
| Current maturities of long-term debt | 1,378.4 | 1,581.6 |
| Long-term debt | 3,407.6 | 4,497.3 |
| Net deferred hedging liability | 4,786.0 | 6,078.9 |
| | 985.8 | 1,159.0 |
| Debt | 5,771.8 | 7,237.9 |
| Cash and temporary investments | 25.4 | (1,322.1) |
| Net debt | 5,797.2 | 5,915.8 |

The deferred hedging liability in the table above relates to cross currency interest rate swaps that effectively convert principal repayments and interest obligations to Canadian dollar obligations in respect of the U.S. \$1,166.5 million debenture maturing June 1, 2007 and the U.S. \$1,925.0 million debenture maturing June 1, 2011. Management believes that Net debt is a useful measure because it incorporates the exchange rate impact of cross currency swaps put into place that fix the value of U.S. dollar-denominated debt, and because it represents the amount of long-term debt obligations that are not covered by available cash and temporary investments.

Total capitalization is defined as Net debt plus Non-controlling interest and Shareholders' equity.

Net debt to total capitalization provides a measure of the proportion of debt used in the Company's capital structure. The long-term target ratio for Net debt to total capitalization is 45 to 50%.

EBITDA excluding restructuring is used for the calculation of Net debt to EBITDA and EBITDA interest coverage, consistent with the calculation of the Leverage Ratio and the Coverage Ratio in credit facility covenants. Restructuring and workforce reduction costs were \$95.4 million and \$72.4 million, respectively, for the 12-month periods ended September 30, 2006 and 2005.

Net debt to EBITDA is defined as Net debt as at the end of the period divided by the 12-month trailing EBITDA excluding restructuring. This measure is substantially the same as the Leverage Ratio covenant in TELUS' credit facilities. TELUS' guideline range for Net debt to EBITDA is from 1.5:1 to 2.0:1.

Net interest cost is defined as Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis. No

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gains on redemption and repayment of debt were recorded in the respective periods. Losses recorded on the redemption of long-term debt are included in net interest cost. Net interest costs for the 12-months ending September 30, 2006 and 2005 are equivalent to reported quarterly financing costs over those periods.

Interest coverage on long-term debt is calculated on a 12-month trailing basis as Net income before interest expense on long-term debt and income tax expense divided by interest expense on long-term debt. Interest expense on long-term debt for the 12-month trailing period ending September 30, 2006 includes losses on redemption of long-term debt, while for the 12-month period ended September 30, 2005, it includes a significant accrual for estimated costs to settle a lawsuit.

EBITDA interest coverage is defined as EBITDA excluding restructuring divided by Net interest cost. This measure is substantially the same as the Coverage Ratio covenant in TELUS' credit facilities.

Dividend payout ratio is defined as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the 12-month trailing period. The target guideline for the annual dividend payout ratio on a prospective basis, rather than on a trailing basis, is 45 to 55% of sustainable net earnings.

Funded debt, in general terms, is borrowed funds less cash on hand as defined in the Company's bank agreements.

TELUS Corporation
consolidated statements of income

| Periods ended September 30 (millions except per share amounts) | Three months | | Nine months | |
|--|--------------|-----------|-------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| OPERATING REVENUES | \$2,210.7 | \$2,062.8 | \$6,426.4 | \$6,056.0 |
| OPERATING EXPENSES | | | | |
| Operations | 1,245.8 | 1,221.5 | 3,654.3 | 3,476.7 |
| Restructuring and workforce reduction costs | 12.5 | 1.6 | 59.9 | 18.4 |
| Depreciation | 325.8 | 335.6 | 1,000.2 | 996.4 |
| Amortization of intangible assets | 57.5 | 73.6 | 168.3 | 214.1 |
| | 1,641.6 | 1,632.3 | 4,882.7 | 4,705.6 |
| OPERATING INCOME | 569.1 | 430.5 | 1,543.7 | 1,350.4 |
| Other expense, net | 4.0 | 7.1 | 17.9 | 9.1 |
| Financing costs | 116.6 | 144.8 | 371.1 | 451.4 |
| INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST | 448.5 | 278.6 | 1,154.7 | 889.9 |
| Income taxes | 126.5 | 86.9 | 261.3 | 263.2 |
| Non-controlling interests | 2.4 | 1.6 | 7.1 | 4.9 |
| NET INCOME AND COMMON SHARE AND NON-VOTING SHARE INCOME | \$ 319.6 | \$ 190.1 | \$ 886.3 | \$ 621.8 |

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| INCOME PER COMMON SHARE AND NON-VOTING SHARE | | | | | | | | |
|--|----|-------|----|-------|----|-------|----|-------|
| - Basic | \$ | 0.94 | \$ | 0.53 | \$ | 2.57 | \$ | 1.74 |
| - Diluted | \$ | 0.92 | \$ | 0.53 | \$ | 2.54 | \$ | 1.72 |
| DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE | | | | | | | | |
| | \$ | 0.275 | \$ | 0.20 | \$ | 0.825 | \$ | 0.60 |
| TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING | | | | | | | | |
| - Basic | | 341.4 | | 356.8 | | 345.2 | | 358.3 |
| - Diluted | | 346.0 | | 361.7 | | 348.8 | | 362.1 |

TELUS Corporation
consolidated balance sheets

As at (millions) September 30, December 31,
2006 2005

| ASSETS | | | | |
|---|----|----------|----|----------|
| Current Assets | | | | |
| Cash and temporary investments, net | \$ | - | \$ | 8.6 |
| Short-term investments | | 98.8 | | - |
| Accounts receivable | | 739.7 | | 610.3 |
| Income and other taxes receivable | | 49.0 | | 103.7 |
| Inventories | | 144.0 | | 138.8 |
| Prepaid expenses and other | | 237.2 | | 154.7 |
| Current portion of deferred hedging asset | | 5.6 | | - |
| Current portion of future income taxes | | - | | 226.4 |
| | | 1,274.3 | | 1,242.5 |
| Capital Assets, Net | | | | |
| Property, plant, equipment and other | | 7,457.2 | | 7,339.4 |
| Intangible assets subject to amortization | | 551.9 | | 637.5 |
| Intangible assets with indefinite lives | | 2,966.3 | | 2,964.6 |
| | | 10,975.4 | | 10,941.5 |
| Other Assets | | | | |
| Deferred charges | | 979.6 | | 850.2 |
| Investments | | 32.9 | | 31.2 |
| Goodwill | | 3,192.3 | | 3,156.9 |
| | | 4,204.8 | | 4,038.3 |
| | \$ | 16,454.5 | \$ | 16,222.3 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current Liabilities | | | | |
| Cash and temporary investments, net | \$ | 25.4 | \$ | - |
| Accounts payable and accrued liabilities | | 1,405.0 | | 1,393.7 |
| Income and other taxes payable | | 12.9 | | - |

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| | | |
|---|-------------|-------------|
| Restructuring and workforce reduction | | |
| accounts payable and accrued liabilities | 59.3 | 57.1 |
| Advance billings and customer deposits | 571.0 | 571.8 |
| Current maturities of long-term debt | 1,378.4 | 5.0 |
| Current portion of deferred hedging liability | 186.4 | - |
| Current portion of future income taxes | 119.3 | - |
| | | |
| | 3,757.7 | 2,027.6 |
| | | |
| Long-Term Debt | 3,407.6 | 4,639.9 |
| | | |
| Other Long-Term Liabilities | 1,330.5 | 1,635.3 |
| | | |
| Future Income Taxes | 948.5 | 1,023.9 |
| | | |
| Non-Controlling Interests | 22.3 | 25.6 |
| | | |
| Shareholders' Equity | 6,987.9 | 6,870.0 |
| | | |
| | \$ 16,454.5 | \$ 16,222.3 |
| | | |
| | | |

TELUS Corporation
consolidated statements of cash flows

| Periods ended September 30 (millions) | Three months | | Nine months | |
|--|--------------|----------|-------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| OPERATING ACTIVITIES | | | | |
| Net income | \$ 319.6 | \$ 190.1 | \$ 886.3 | \$ 621.8 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | | |
| Depreciation and amortization | 383.3 | 409.2 | 1,168.5 | 1,210.5 |
| Future income taxes | 146.3 | 89.2 | 284.8 | 284.2 |
| Share-based compensation | 14.2 | 10.3 | 35.3 | 21.2 |
| Net employee defined benefit plans expense | (1.5) | (0.3) | (4.4) | 0.8 |
| Employer contributions to employee defined benefit plans | (28.8) | (30.1) | (104.3) | (89.8) |
| Restructuring and workforce reduction costs, net of cash payments | (1.2) | (5.7) | 2.2 | (19.0) |
| Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net | 3.9 | (3.6) | 12.5 | (3.9) |
| Net change in non-cash working capital | (265.4) | 34.4 | (224.4) | 83.8 |
| | | | | |
| Cash provided by operating activities | 570.4 | 693.5 | 2,056.5 | 2,109.6 |

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| | | | | |
|---|-----------|------------|------------|------------|
| ----- | | | | |
| INVESTING ACTIVITIES | | | | |
| Capital expenditures | (423.9) | (263.0) | (1,203.2) | (944.9) |
| Acquisitions | (25.0) | - | (44.5) | (29.4) |
| Proceeds from the sale of property and other assets | 6.9 | 0.1 | 14.9 | 3.5 |
| Change in non-current materials and supplies, purchase of investments and other | (9.0) | (0.4) | (20.4) | (8.7) |
| ----- | | | | |
| Cash used by investing activities | (451.0) | (263.3) | (1,253.2) | (979.5) |
| ----- | | | | |
| FINANCING ACTIVITIES | | | | |
| Common Shares and Non-Voting Shares issued | 37.2 | 56.3 | 82.9 | 200.3 |
| Dividends to shareholders | (93.8) | (71.7) | (284.5) | (215.6) |
| Purchase of Common Shares and Non-Voting Shares for cancellation | (119.7) | (233.1) | (600.7) | (663.5) |
| Long-term debt issued | 499.0 | 0.3 | 1,341.8 | 4.7 |
| Redemptions and repayment of long-term debt | (448.9) | (1.0) | (1,064.4) | (21.3) |
| Partial payment of deferred hedging liability | - | - | (309.4) | - |
| Dividends paid by a subsidiary to non-controlling interests | - | - | (3.0) | (7.9) |
| Other | - | - | - | (1.2) |
| ----- | | | | |
| Cash used by financing activities | (126.2) | (249.2) | (837.3) | (704.5) |
| ----- | | | | |
| CASH POSITION | | | | |
| Increase (decrease) in cash and temporary investments, net | (6.8) | 181.0 | (34.0) | 425.6 |
| Cash and temporary investments, net, beginning of period | (18.6) | 1,141.1 | 8.6 | 896.5 |
| ----- | | | | |
| Cash and temporary investments, net, end of period | \$ (25.4) | \$ 1,322.1 | \$ (25.4) | \$ 1,322.1 |
| ----- | | | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS | | | | |
| Interest (paid) | \$ (13.0) | \$ (12.2) | \$ (297.6) | \$ (319.1) |
| ----- | | | | |
| Interest received | \$ 0.6 | \$ 9.3 | \$ 23.9 | \$ 34.4 |
| ----- | | | | |
| Income taxes (inclusive of Investment Tax Credits) received (paid), net | \$ (0.6) | \$ 2.9 | \$ 94.4 | \$ 22.2 |
| ----- | | | | |
| ----- | | | | |

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TELUS Corporation
segmented information

| Three-month periods ended September 30 (millions) | Wireline | | Wireless | |
|---|-----------|-----------|-----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| ----- | | | | |
| Operating revenues | | | | |
| External revenue | \$1,200.3 | \$1,198.6 | \$1,010.4 | \$ 864.2 |
| Intersegment revenue | 23.5 | 23.6 | 6.0 | 5.7 |
| | 1,223.8 | 1,222.2 | 1,016.4 | 869.9 |
| ----- | | | | |
| Operating expenses | | | | |
| Operations expense | 742.5 | 794.5 | 532.8 | 456.3 |
| Restructuring and work- force reduction costs | 11.7 | 1.6 | 0.8 | - |
| | 754.2 | 796.1 | 533.6 | 456.3 |
| ----- | | | | |
| EBITDA (1) | \$ 469.6 | \$ 426.1 | \$ 482.8 | \$ 413.6 |
| ----- | | | | |
| CAPEX (2) | \$ 311.4 | \$ 176.5 | \$ 112.5 | \$ 86.5 |
| ----- | | | | |
| EBITDA less CAPEX | \$ 158.2 | \$ 249.6 | \$ 370.3 | \$ 327.1 |
| ----- | | | | |

| Three-month periods ended September 30 (millions) | Eliminations | | Consolidated | |
|---|--------------|--------|--------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| ----- | | | | |
| Operating revenues | | | | |
| External revenue | \$ - | \$ - | \$2,210.7 | \$2,062.8 |
| Intersegment revenue | (29.5) | (29.3) | - | - |
| | (29.5) | (29.3) | 2,210.7 | 2,062.8 |
| ----- | | | | |
| Operating expenses | | | | |
| Operations expense | (29.5) | (29.3) | 1,245.8 | 1,221.5 |
| Restructuring and work- force reduction costs | - | - | 12.5 | 1.6 |
| | (29.5) | (29.3) | 1,258.3 | 1,223.1 |
| ----- | | | | |
| EBITDA (1) | \$ - | \$ - | \$ 952.4 | \$ 839.7 |
| ----- | | | | |
| CAPEX (2) | \$ - | \$ - | \$ 423.9 | \$ 263.0 |
| ----- | | | | |
| EBITDA less CAPEX | \$ - | \$ - | \$ 528.5 | \$ 576.7 |
| ----- | | | | |

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| Nine-month periods ended September 30 (millions) | Wireline | | Wireless | |
|--|-----------|-----------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Operating revenues | | | | |
| External revenue | \$3,588.8 | \$3,637.3 | \$2,837.6 | \$2,418.7 |
| Intersegment revenue | 71.8 | 67.4 | 17.1 | 17.2 |
| | 3,660.6 | 3,704.7 | 2,854.7 | 2,435.9 |
| Operating expenses | | | | |
| Operations expense | 2,211.5 | 2,242.9 | 1,531.7 | 1,318.4 |
| Restructuring and work- force reduction costs | 56.4 | 18.4 | 3.5 | - |
| | 2,267.9 | 2,261.3 | 1,535.2 | 1,318.4 |
| EBITDA(1) | \$1,392.7 | \$1,443.4 | \$1,319.5 | \$1,117.5 |
| CAPEX(2) | \$ 881.8 | \$ 684.0 | \$ 321.4 | \$ 260.9 |
| EBITDA less CAPEX | \$ 510.9 | \$ 759.4 | \$ 998.1 | \$ 856.6 |

| Nine-month periods ended September 30 (millions) | Eliminations | | Consolidated | |
|--|--------------|--------|--------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| Operating revenues | | | | |
| External revenue | \$ - | \$ - | \$6,426.4 | \$6,056.0 |
| Intersegment revenue | (88.9) | (84.6) | - | - |
| | (88.9) | (84.6) | 6,426.4 | 6,056.0 |
| Operating expenses | | | | |
| Operations expense | (88.9) | (84.6) | 3,654.3 | 3,476.7 |
| Restructuring and work- force reduction costs | - | - | 59.9 | 18.4 |
| | (88.9) | (84.6) | 3,714.2 | 3,495.1 |
| EBITDA(1) | \$ - | \$ - | \$2,712.2 | \$2,560.9 |
| CAPEX(2) | \$ - | \$ - | \$1,203.2 | \$ 944.9 |
| EBITDA less CAPEX | \$ - | \$ - | \$1,509.0 | \$1,616.0 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 1, 2006

TELUS Corporation

/s/ Audrey Ho

Name: Audrey Ho
Title: Vice President, Legal Services and
General Counsel and Corporate Secretary