



# Human Resources and Compensation Committee report

## Mandate

The Human Resources and Compensation Committee of the Board of Directors (the Compensation Committee or Committee) is responsible for developing the compensation philosophy and guidelines on executive compensation, overseeing succession planning for the executive team, determining CEO goals and objectives relative to compensation, evaluating CEO performance, reviewing and recommending CEO compensation to the Board based on its evaluation, and determining compensation for executives other than the CEO. This Committee ensures that compensation design and practices do not encourage undue risks. The Compensation Committee reviews and administers the supplemental retirement arrangements (other than registered pension plans) for the executive team and all of our equity-based incentive plans. The Committee's mandate also includes oversight of executive compensation policies, health and safety policies, procedures and compliance, business continuity and disaster recovery planning, and certain aspects of our approach to business ethics and corporate conduct.

## Membership

The current membership of the Compensation Committee is as follows:

Name	Independent
John Lacey (Chair)	Yes
Micheline Bouchard	Yes
Ray Chan	Yes
Stockwell Day	Yes
Mary Jo Haddad	Yes

Prior to May 6, 2016, John Butler was a member of the Compensation Committee and held the role of Committee Chair. Effective May 6, 2016, John Lacey became Chair of the Compensation Committee, a position he also held from 2002 to 2007. On May 12, 2017, John will step down as Chair and Mary Jo Haddad will become Chair of the Compensation Committee. However, John will remain on the Compensation Committee for one more year to allow for continuity and support. As noted on page 6, Micheline Bouchard will be retiring from the Board in May 2017.

In accordance with the Compensation Committee's terms of reference, all members of the Committee are required to be independent. Furthermore, the Board has determined that

all members of the Compensation Committee meet the compensation committee independence requirements of the New York Stock Exchange (NYSE). This Committee has a formal policy limiting the number of currently serving CEOs of public companies on the Committee to no more than one-third of its members. None of the members of the Committee are currently serving as CEOs of other companies, other than personal holding companies.

Members of the Compensation Committee have a range of complementary skills in areas such as human resources, corporate governance, risk assessment, public company leadership and board experience, which allow them to make effective decisions on our compensation practices. All of the Compensation Committee members have served in executive capacities, in cabinet or senior political positions, or on compensation committees with other public issuers and, through those roles, have acquired direct experience relevant to their responsibilities in reviewing and considering executive compensation. The following is a brief description of the experience of each current member of this Committee that is relevant to the performance of his or her responsibilities as a member of the Committee:

- **John Lacey** – John is currently a director of Brookfield Business Partners (formerly Chairman, Brookfield Private Equity Fund) and is a seasoned executive who also acts as consultant to the Chairman of the Board of George Weston Ltd. John has a total of 10 years of service on TELUS' Compensation Committee, including six years as its Chair, and has also served on the compensation committee of the Canadian Imperial Bank of Commerce. As a result, he has extensive expertise in governance and compensation practices and programs.
- **Micheline Bouchard** – Micheline is an experienced executive and director. She is currently a member of the compensation committee of the Public Sector Pension Investment Board and served as the chair of the compensation committee of Harry Winston Diamond Corporation (now Dominion Diamond Corporation) from 2008 to 2013. Micheline has had organizational exposure to human resources issues through her previous roles as a senior executive and is knowledgeable in areas such as governance and regulatory requirements, the development and oversight of compensation programs, and pension-related matters. She has been a member of the Compensation Committee since 2009 and is also a member of our Pension Committee.

- **Ray Chan** – Ray has more than 30 years of experience in the oil and gas industry, and has held several senior executive positions, including as CFO and CEO. He is currently chair of Baytex Energy Corp. and is a director of TORC Oil & Gas Inc., as well as a member of its compensation committee. Ray also served on the compensation committee of the TMX Group Inc. Through his executive roles, Ray has been involved in a variety of compensation matters such as the development and financial analysis of compensation plans and leadership succession planning. Ray has been a member of the Compensation Committee since 2013 and is also a member of our Audit Committee.
- **Stockwell Day** – Now a strategic consultant and advisor, Stockwell enjoyed a successful political career for over 30 years, serving in senior roles with the Government of Alberta and holding various positions in the federal government including Leader of the Official Opposition, Minister of Public Safety, Minister of International Trade, Minister for the Asia-Pacific Gateway, senior Minister responsible for British Columbia and President of the Treasury Board. In these roles, Stockwell gained experience in governance and was responsible for the oversight of senior-level executive compensation. Stockwell has been a member of the Compensation Committee since 2013 and Chair of our Pension Committee since May 7, 2015.
- **Mary Jo Haddad** – Mary Jo has more than 30 years of experience in the healthcare industry in Canada and the U.S. In 2013, she retired as President and CEO of The Hospital for Sick Children (SickKids) in Toronto, a position she had held since 2004. As CEO, she established compensation framework programs and policies for SickKids. She is also a member of the compensation committee of Toronto-Dominion Bank and various non-profit organizations. Mary Jo became a member of the Compensation Committee in 2016 and is also a member of the Corporate Governance Committee.

Further information about the Compensation Committee members can be found under *Director biographies* starting on page 8.

## Meetings

The Compensation Committee meets at least once each quarter and reports to the Board on its activities. The matters reviewed at each quarterly meeting are based on the Committee's mandate and annual work plan. At each meeting, the Committee also holds an in-camera session without management present and an in-camera session with only the executive compensation consultant present. The Committee Chair meets by teleconference with the executive compensation consultant before each quarterly Committee meeting and at other times on an as-needed basis. The Compensation Committee also holds an in-camera session with the Executive Vice-President (EVP), People and Culture and Chief Human Resources Officer at each meeting. The Compensation Committee held a total of five meetings in 2016.

## Compensation Committee advisors

The Compensation Committee has retained Meridian as its independent executive compensation consultant. Meridian provides counsel to boards and management on executive and board compensation. The Committee first retained Meridian in 2010. The mandate of the executive compensation consultant is to serve the Company and to work for the Compensation Committee in its review of executive compensation, including advising on the competitiveness of pay levels, executive compensation design issues, market trends and technical considerations. The nature and scope of services provided by Meridian to the Compensation Committee in 2016 included:

- Market pay analyses and trends for executive compensation, including pay analyses for the CEO and Executive Leadership Team (ELT)
- An independent risk assessment of pay policies and practices
- Ongoing support with regard to the latest relevant regulatory, technical and accounting considerations impacting executive compensation and executive benefits programs, including proxy disclosure
- Advice on the comparator group used for benchmarking compensation
- Advice on CEO and ELT compensation
- Advice on the development of the corporate scorecard metrics and on adjustments to the scorecard results
- Preparation for, and attendance at, Compensation Committee meetings and selected management meetings, including meetings with the Chair of the Compensation Committee.

As an independent advisor, Meridian does not receive direction from the Compensation Committee to perform the above services in any particular manner or under any particular method. The Chair of the Committee approves all invoices for executive compensation work performed by Meridian. This Committee has the authority to hire and terminate Meridian as its executive compensation consultant and is responsible for determining the scope of services performed by Meridian. It assesses Meridian's performance annually and approves a letter of engagement each year.

Meridian also assisted in determining a comparator group and gathering market information regarding director compensation in 2016, which the Corporate Governance Committee used in making its recommendation for directors' compensation. The Corporate Governance Committee also used this information to make its recommendations for compensation of the independent Chair of the Board.

Meridian is required to obtain prior approval from the Compensation Committee Chair (or his or her delegate) for any material work for the Company or members of management, other than or in addition to compensation services provided in connection with our directors or executive officers. In 2016, the only services Meridian provided to TELUS or our directors or management were executive and director compensation services.

### Executive and director compensation related fees

The following table lists the fees billed by Meridian for the past two years.

Type of work	2016 (\$)	2015 (\$)
Services related to determining director and executive officer compensation	269,663	368,221
All other fees	Nil	Nil
<b>Total</b>	<b>269,663</b>	<b>368,221</b>

## Highlights

### Succession planning

Executive succession planning is fully integrated with the Company's overall strategic planning process, which covers all management positions to ensure the development of a strong talent pipeline.

In 2016, the Committee invested significant time focusing on the succession planning process and discussing the CEO and ELT positions. In addition, the top talent and future leaders across the organization were reviewed. The Compensation Committee leveraged the strategic framework that has been in place for over a decade and is used as the best-in-class model at all levels across the Company.

All ELT succession plans were reviewed with the Committee. They highlighted immediate and emergency or interim successors, as well as a deep pipeline of next generation leaders. Top talent successors were candidates with extensive expertise, an understanding of our culture and proven track records in a number of key roles across our business. In line with our diversity and inclusiveness goals, the strong leadership pipeline also reflected the diversity of our customers, communities and team members.

Given the material impact of CEO succession, and that it is one of the highest priorities for the Board, succession candidates for this role were discussed with the entire Board in great detail. Candidates for the CEO position were assessed relative to their leadership capabilities, sustained operational results and proven ability to drive strategy. The Board and CEO recommended additional development opportunities, mentorship and enhanced responsibilities to accelerate candidates' growth. The Board's review of the succession plan for the CEO is also discussed on page 20.

The CEO and Board were able to leverage the results of the rigorous succession planning efforts at the time of John Gossling's departure with the promotion of the named successor, Doug French, as Executive Vice-President and Chief Financial Officer.

### Performance-contingent RSUs payout factors

The Committee approved the payout factors associated with the performance-contingent restricted stock units (RSUs) that were granted in 2014 and vested on November 20, 2016 for the ELT, and provided its recommendation to the Board for the CEO. Further information about the performance-contingent RSUs and payout awards can be found on page 77.

## Additional highlights

In addition, the Compensation Committee took the following actions in 2016 (or with respect to 2016 performance) in accordance with its annual work plan:

### CEO

- Reviewed and recommended to the Board for approval the granting of long-term incentive (LTI) awards to the CEO (in respect of 2016 performance) where 50 per cent of the LTI granted is time-vested and 50 per cent is performance-contingent (see page 59 for details)
- Reviewed and approved the corporate goals and objectives relevant to CEO compensation (personal performance objectives and corporate scorecard)
- Reviewed and approved the 2016 corporate scorecard (targets at the beginning of the year and the final scorecard multiplier after year-end)
- Assessed the performance of the CEO, with the input of the Board
- Reviewed and recommended to the Board for approval the size of the performance bonus profit-sharing pool allocation for the CEO
- Reviewed and recommended to the Board for approval the CEO's compensation, based on its evaluation of his performance and its review of the form and adequacy of compensation, as well as a consideration of market trends and data
- Approved the replacement of the ratio of CEO total direct compensation to total customer connections with a more recognized best practice of comparing the CEO total direct compensation to that of the second highest paid named executive officer (NEO), and concluded that the CEO total direct compensation should be no greater than four times that of the next highest paid NEO
- Reviewed and approved the expenses of the CEO and his office staff
- Received an update on the CEO's share ownership relative to target
- Reviewed and approved the process governing the payout of the first performance-contingent RSUs
- Reviewed and approved the associated payouts resulting from the approved payout factors in respect of the 2014 performance-contingent RSUs that vested in 2016
- Reviewed and recommended to the Board for approval the performance criteria for performance-contingent RSUs granted in respect of 2016 performance.

### Executive Leadership Team (ELT)

- Recommended to the Board for approval the appointment of Doug French as EVP and CFO
- Reviewed and recommended to the Board for approval the aggregate dollar amount of RSU awards for the ELT (in respect of 2016 performance) where 50 per cent of the RSUs granted are time-vested and 50 per cent are performance-contingent
- Reviewed the degree of "stretch" in the financial goals on the corporate scorecard for compensation purposes and validated the measures relative to financial reporting
- Reviewed and recommended to the Board for approval the proposed appointment of individuals as executives and as corporate officers of the Company
- Reviewed and approved the 2016 corporate scorecard (targets and final scorecard multiplier)
- Reviewed the compensation philosophy and guidelines for executives by assessing (i) the linkage of the executive compensation philosophy and incentive plans to the Company's financial and non-financial performance and business strategy, and (ii) the alignment with our employee compensation philosophy
- Reviewed and approved an independent assessment conducted by Meridian of the following key compensation parameters to determine the extent to which there are appropriate mitigation safeguards in place: pay philosophy and governance, pay structure, performance metrics/measurement and risk mitigation practices. The Compensation Committee concluded that our compensation practices do not encourage undue risk-taking
- Reviewed and approved the selection of a Canadian comparator group for benchmarking executive compensation and the selection of a U.S.-based telecom comparator group used as a secondary reference, as identified by Meridian
- Reviewed and approved the appropriate compensation for executives other than the CEO, considering market trends and data
- Reviewed the CEO's evaluation of the performance of each executive
- Reviewed and approved the compensation of individual executives other than the CEO (including bonus, executive performance stock units (EPSUs), salary and LTIs), after considering the evaluation and recommendations of the CEO and applying the Company's compensation philosophy as described on page 52

- Received updates on the Share ownership of each ELT member relative to the established ownership target
- Reviewed and approved the performance criteria for the performance-contingent RSUs granted in respect of 2016 performance
- Reviewed and approved the associated payouts resulting from the approved payout factors in respect of the 2014 performance-contingent RSUs that vested in 2016
- Reviewed and approved the process governing the payout of the first performance-contingent RSUs.

### Equity plans

- Reviewed and recommended to the Board for approval the total spend on annual grants of RSUs to management below the ELT level under the Restricted Stock Unit Plan for 2016 performance
- Approved the total annual grants of EPSUs to ELT members and to management (management performance stock units or MPSUs) under the Performance Stock Unit Plan for 2016 performance
- Reviewed and recommended to the Board for approval the replenishment of a discretionary pool of RSUs that the CEO has the authority to grant to non-executive management for reward, retention and recognition purposes, subject to the parameters specified by the Compensation Committee
- Monitored the actual 2016 discretionary grants under the Restricted Stock Unit Plan to certain members of non-executive management for reward, retention or recognition purposes
- Received reports on the status of the option share reserves.

### Governance

- Approved the engagement agreement with Meridian
- Reviewed and approved the Compensation Committee's annual work plan
- Received regular updates from management and the compensation consultant on compensation matters, and considered proposed and new Canadian and U.S. regulatory requirements, as well as evolving best practices on executive compensation matters
- Conducted a review of all components of TELUS executive compensation
- Received compliance reports on a quarterly basis from the Respectful Workplace Office
- Received compliance reports on a quarterly basis in respect of business ethics at the Company, conducted an annual review of our code of ethics and conduct and recommended changes to the Board for approval
- Considered reports on our business continuity, including work stoppage, pandemic and disaster recovery plans
- Reviewed reports on employee health and safety programs and results
- Approved the annual work plan, budget and fees of the executive compensation consultant and conducted an annual assessment of its performance and independence
- Received an annual labour relations update from management
- Received an annual team engagement update from management
- Reviewed and amended various executive policies with minor language changes only.

### Public disclosure

- Reviewed and approved for publication this report of the Compensation Committee, and the compensation discussion and analysis that follows.