TELUS

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2017 ANNUAL REPORT

Management's discussion and analysis

Caution regarding forward-looking statements

This document contains forward-looking statements about expected events and the financial and operating performance of TELUS Corporation. The terms *TELUS*, *the Company*, *we*, *us* and *our* refer to TELUS Corporation and, where the context of the narrative permits or requires, its subsidiaries.

Forward-looking statements include any statements that do not refer to historical facts. They include, but are not limited to, statements relating to our objectives and our strategies to achieve those objectives, our targets, outlook, updates, and our multi-year dividend growth program. Forward-looking statements are typically identified by the words *assumption*, *goal*, *guidance*, *objective*, *outlook*, *strategy*, *target* and other similar expressions, or future or conditional verbs such as *aim*, *anticipate*, *believe*, *could*, *expect*, *intend*, *may*, *plan*, *predict*, *seek*, *should*, *strive* and *will*.

By their nature, forward-looking statements are subject to inherent risks and uncertainties and are based on assumptions, including assumptions about future economic conditions and courses of action. These assumptions may ultimately prove to have been inaccurate and, as a result, our actual results or events may differ materially from expectations expressed in or implied by the forward-looking statements. Our general outlook and assumptions for 2018 are presented in *Section 9 General trends, outlook and assumptions* in this Management's discussion and analysis (MD&A).

Risks and uncertainties that could cause actual performance or events to differ materially from the forward-looking statements made herein and in other TELUS filings include, but are not limited to, the following:

- Competition including: our ability to continue to retain customers through an enhanced customer service experience, including through the deployment and operation of evolving wireless and wireline networks; the ability of industry competitors to successfully launch their respective platforms and to combine a mix of residential local voice over Internet protocol (VoIP), long distance, high-speed Internet access (HSIA) and, in some cases, wireless services under one bundled and/or discounted monthly rate, along with their existing broadcast or satellite-based TV services; the success of new products, new services and supporting systems, such as Internet of Things (IoT) services for Internet-connected devices; continued intense rivalry across all services among wireless and wireline telecommunications companies, cable-TV providers, other communications companies and over-the-top (OTT) services, which, among other things, places pressures on current and future average revenue per subscriber unit per month (ARPU), cost of acquisition, cost of retention and churn rate for all services, as do customer usage patterns, flat-rate pricing trends for voice and data, inclusive rate plans for voice and data and availability of Wi-Fi networks for data; mergers and acquisitions of industry competitors; pressures on high-speed Internet and TV ARPU and churn rate resulting from market conditions, government actions and customer usage patterns; residential and business network access line (NAL) losses; subscriber additions and retention volumes, and associated costs for wireless, TV and high-speed Internet services; and our ability to obtain and offer content on a timely basis across multiple devices on wireless and TV platforms at a reasonable cost.
- Technological substitution including: reduced utilization and increased commoditization of traditional wireline voice local and long distance services from impacts of OTT applications and wireless substitution, a declining overall market for paid TV services, including as a result of content piracy and signal theft and as a result of a rise in OTT direct to consumer video offerings and virtual multichannel video programming distribution platforms; the increasing number of households that have only wireless and/or Internet-based telephone services; potential wireless ARPU declines as a result of, among other factors, substitution to messaging and OTT applications; substitution to increasingly available Wi-Fi services; and disruptive technologies such as OTT IP services, including Network as a Service in the business market, that may displace or re-rate our existing data services.
- Technology including: subscriber demand for data that may challenge wireless networks and spectrum capacity levels in the future and may be accompanied by increases in delivery cost; our reliance on information technology and our need to streamline our legacy systems; technology options, evolution paths and roll-out plans for video distribution platforms and telecommunications networks (including broadband initiatives, such as fibre to the premises (FTTP), wireless small-cell deployment, 5G wireless and availability of resources and ability to build out adequate broadband capacity); our reliance on wireless network access agreements, which have facilitated our deployment of wireless technologies; choice of suppliers and those suppliers' ability to maintain and service their product lines, which could affect the success of upgrades to, and evolution of, technology that we offer; supplier concentration and market power for network equipment, TELUS TV and wireless handsets; the performance of wireless technology; our expected long-term need to acquire additional spectrum capacity through future spectrum auctions and from third parties to address increasing demand for data; deployment and operation of new wireline broadband networks at a reasonable cost and availability and success of new products and services to be rolled out on such networks; network reliability and change management; self-learning tools and automation that may change the way we interact with customers; and uncertainties around our strategy to replace certain legacy wireline networks, systems and services to reduce operating costs.
- Capital expenditure levels and potential outlays for spectrum licences in spectrum auctions or from third parties, due to: our broadband initiatives, including connecting more homes and businesses directly to fibre; our ongoing deployment of newer wireless technologies, including wireless small cells to improve coverage and capacity and prepare for a more efficient and timely evolution to 5G wireless services; utilizing acquired spectrum; investments in network resiliency and reliability; subscriber demand for data; evolving systems and business processes; implementing efficiency initiatives; supporting large complex deals; and future wireless spectrum auctions held by Innovation, Science and Economic Development Canada (ISED). Our capital expenditure levels could be impacted if we do not achieve our targeted operational and financial results.
- Regulatory decisions and developments including: the potential of government intervention to further increase wireless competition; the CRTC wireless wholesale services review, in which it was determined that the CRTC will regulate wholesale GSM-based domestic roaming rates and the setting of such rates charged to wireless service providers (WSPs); the Governor in Council's order to the CRTC to reconsider whether Wi-Fi networks should be considered a home network for WSPs seeking mandated roaming; future spectrum auctions and spectrum policy determinations, including the recently announced repurposing of 600 MHz spectrum (and including limitations on established wireless providers, proposed spectrum set-aside that favours certain carriers and other advantages provided to new and foreign participants, and the amount and cost of spectrum acquired); restrictions on the purchase, sale and transfer of spectrum licences; the impact of the CRTC's wireline wholesale services review, with a formal review of rates for wholesale FTTP access still to be commenced for TELUS; disputes with certain municipalities regarding rights-of-way

bylaws; and other potential threats to unitary federal regulatory authority over telecommunications, including provincial wireless legislation; the potential impacts of the CRTC's decision to require pro-rated refunds when customers terminate their services; the CRTC's proposed phase-out of the local service subsidy regime and corresponding establishment of a broadband funding regime to support the enhancement of high-speed Internet services focusing on underserved areas in Canada; the impact of the review of the Minister of Canadian Heritage's new Creative Canada policy framework announced on September 28, 2017; the CRTC's consultation and report on distribution models of the future; vertical integration in the broadcasting industry resulting in competitors owning broadcast content services, and timely and effective enforcement of related regulatory safeguards; the review of the *Copyright Act* scheduled to begin in early 2018; the federal government's stated intention to review the *Broadcasting Act* and *Telecommunications Act* as announced in the March 22, 2017 federal budget; TELUS' applications for renewal of its broadcasting distribution licences; the North American Free Trade Agreement renegotiation; and restrictions on non-Canadian ownership and control of TELUS Common Shares and the ongoing monitoring and compliance with such restrictions.

- Human resource matters including: recruitment, retention and appropriate training in a highly competitive industry, and the level of employee engagement.
- Operational performance and business combination risks including: our reliance on legacy systems and ability to implement and support new products and services and business operations in a timely manner; our ability to implement effective change management for system replacements and upgrades, process redesigns and business integrations (such as our ability to successfully integrate acquisitions, complete divestitures or establish partnerships in a timely manner, and realize expected strategic benefits, including those following compliance with any regulatory orders); the implementation of complex large enterprise deals that may be adversely impacted by available resources, system limitations and degree of co-operation from other service providers; our ability to successfully manage operations in foreign jurisdictions; information security and privacy breaches, including data loss or theft of data; intentional threats to our infrastructure and business operations; and real estate joint venture re-development risks.
- Business continuity events including: our ability to maintain customer service and operate our networks in the event of human error or human-caused threats, such as cyberattacks and equipment failures that could cause various degrees of network outages; supply chain disruptions; natural disaster threats; epidemics; pandemics; political instability in certain international locations; and the completeness and effectiveness of business continuity and disaster recovery plans and responses.
- Ability to successfully implement cost reduction initiatives and realize planned savings, net of restructuring and other costs, without losing customer service focus or negatively affecting business operations. Examples of these initiatives are: our operating efficiency and effectiveness program to drive improvements in financial results, including the future benefits of the immediately vesting transformative compensation initiative; business integrations; business product simplification; business process outsourcing; offshoring and reorganizations, including any full-time equivalent (FTE) employee reduction programs; procurement initiatives; and real estate rationalization. Additional revenue and cost efficiency and effectiveness initiatives will continue to be assessed and implemented.
- Financing and debt requirements including: our ability to carry out financing activities, and our ability to maintain investment grade credit ratings in the range of BBB+ or the equivalent.
- Ability to sustain our dividend growth program through 2019. This program may be affected by factors such as the competitive environment, economic performance in Canada, our earnings and free cash flow, our levels of capital expenditures and spectrum licence purchases, acquisitions, the management of our capital structure, and regulatory decisions and developments. Quarterly dividend decisions are subject to assessment and determination by our Board of Directors (Board) based on the Company's financial position and outlook. Shares may be purchased under our normal course issuer bid (NCIB) when and if we consider it opportunistic, based on the Company's financial position and outlook, and the market price of TELUS shares. There can be no assurance that our dividend growth program or any NCIB will be maintained, not changed and/or completed through 2019.
- Taxation matters including: interpretation of complex domestic and foreign tax laws by the tax authorities that may differ from our interpretations; the timing of income and deductions, such as tax depreciation and operating expenses; changes in tax laws, including tax rates; tax expenses being materially different than anticipated, including the taxability of income and deductibility of tax attributes; elimination of income tax deferrals through the use of different tax year-ends for operating partnerships and corporate partners; and tax authorities adopting more aggressive auditing practices, for example, tax reassessments or adverse court decisions impacting the tax payable by us.
- Litigation and legal matters including: our ability to successfully respond to investigations and regulatory proceedings; our ability to defend against existing and potential claims and lawsuits, including intellectual property infringement claims and class actions based on consumer claims, data, privacy or security breaches and secondary market liability; and the complexity of legal compliance in domestic and foreign jurisdictions, including compliance with anti-bribery and foreign corrupt practices laws.
- Health, safety and the environment including: lost employee work time resulting from illness or injury, public concerns related to radio frequency emissions, environmental issues affecting our business including climate change, waste and waste recycling, risks relating to fuel systems on our properties, and changing government and public expectations regarding environmental matters and our responses.
- Economic growth and fluctuations including: the state of the economy in Canada, which may be influenced by economic and other developments outside of Canada, including potential outcomes of yet unknown policies and actions of foreign governments; future interest rates; inflation; unemployment levels; effects of fluctuating oil prices; effects of low business spending (such as reducing investments and cost structure); pension investment returns, funding and discount rates; and Canadian dollar: U.S. dollar exchange rates.

These risks are described in additional detail in *Section 9 General trends, outlook and assumptions* and *Section 10 Risks and risk management* in this MD&A. Those descriptions are incorporated by reference in this cautionary statement but are not intended to be a complete list of the risks that could affect the Company.

Many of these factors are beyond our control or our current expectations or knowledge. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, financial performance, cash flows, business or reputation. Except as otherwise indicated in this document, the forward-looking statements made herein do not reflect the potential impact of any non-recurring or special items or any mergers, acquisitions, dispositions or other business combinations or transactions that may be announced or that may occur after the date of this document.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements in this document describe our expectations and are based on our assumptions as at the date of this document and are subject to change after this date. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements.

This cautionary statement qualifies all of the forward-looking statements in this MD&A.

7 Liquidity and capital resources

This section contains forward-looking statements, including those with respect to our dividend payout ratio and net debt to EBITDA – excluding restructuring and other costs ratio. See *Caution regarding forward-looking statements* at the beginning of this MD&A.

7.1 Overview

Our capital structure financial policies and financing and capital structure management plans are described in *Section 4.3*.

Cash flows

Years ended December 31 ($ millions)	2017	2016	Change
Cash provided by operating activities	**3,947**	3,219	728
Cash used by investing activities	**(3,643)**	(2,923)	(720)
Cash used by financing activities	**(227)**	(87)	(140)
Increase in Cash and temporary investments, net	**77**	209	(132)
Cash and temporary investments, net, beginning of period	**432**	223	209
Cash and temporary investments, net, end of period	**509**	432	77

7.2 Cash provided by operating activities

Analysis of changes in cash provided by operating activities

Years ended December 31 ($ millions)	2017	2016	Change
EBITDA (see *Section 5.4* and *Section 5.5*)	**4,774**	4,229	545
Restructuring and other costs, net of disbursements	**(21)**	24	(45)
Employee defined benefit plans expense, net of employer contributions	**15**	22	(7)
Share-based compensation expense, net of payments	**17**	(2)	19
Interest paid, net of interest received	**(532)**	(506)	(26)
Income taxes paid, net of recoveries received	**(191)**	(600)	409
Other operating working capital changes	**(115)**	52	(167)
Cash provided by operating activities	**3,947**	3,219	728

- Income taxes paid, net of recoveries received, decreased in 2017. This reflected the reorganization of our legal structure, which impacted the timing of cash income tax payments. See *Assumptions for 2017 targets and results* in *Section 1.4* for additional information.
- For a discussion on Other operating working capital changes, see *Section 6 Changes in financial position* and *Note 31(a)* of the Consolidated financial statements.

CASH PROVIDED BY OPERATING ACTIVITIES
($ millions)

CASH USED BY INVESTING ACTIVITIES
($ millions)

7.3 Cash used by investing activities

Cash used by investing activities

Years ended December 31 ($ millions)	2017	2016	Change
Cash payments for capital assets, excluding spectrum licences	**(3,081)**	(2,752)	(329)
Cash payments for spectrum licences	**–**	(145)	145
Cash payments for acquisitions, net	**(564)**	(90)	(474)
Real estate joint ventures advances and contributions	**(26)**	(33)	7
Real estate joint ventures receipts	**18**	103	(85)
Proceeds on dispositions and Other	**10**	(6)	16
Cash used by investing activities	**(3,643)**	(2,923)	(720)

- The increase in Cash payments for capital assets, excluding spectrum licences for 2017 was composed of:
  - An increase in capital expenditures of $126 million in 2017 (see *Capital expenditure measures* table and discussion below)
  - Increased capital expenditure payments with respect to payment timing differences, as associated Accounts payable and accrued liabilities decreased by $258 million in 2017.
- For 2017, there were no cash payments for acquisition of spectrum licences, compared to 2016, in which we made payments as part of an approved spectrum licence exchange.
- In the full year of 2017, we made cash payments for multiple business acquisitions, as described in *Section 1.3*, including MTS, Kroll Computer Systems Inc. and Voxpro Limited.
- Receipts from real estate joint ventures, net of advances in 2016, resulted mainly from repayment of construction financing from the TELUS Garden real estate joint venture, as TELUS Garden opened in September 2015.

CAPITAL EXPENDITURES (EXCLUDING SPECTRUM LICENCES)
($ millions)

Capital expenditure measures

Years ended December 31 ($ millions, except capital intensity)	2017	2016	Change
Capital expenditures[1]			
Wireless segment	**978**	982	(0.4)%
Wireline segment	**2,116**	1,986	6.5%
Consolidated	**3,094**	2,968	4.2%
Wireless segment capital intensity (%)	**13**	14	(1) pt.
Wireline segment capital intensity (%)	**35**	34	1 pt.
Consolidated capital intensity[2] (%)	**23**	23	– pts.

1 Capital expenditures include assets purchased but not yet paid for, and therefore differ from Cash payments for capital assets, as presented on the Consolidated statements of cash flows.
2 See *Section 11.1 Non-GAAP and other financial measures*.

Wireless segment capital expenditures decreased by $4 million in 2017 due to the wind-down of spectrum deployment for HSIA over LTE. This was partly offset by continuing investments in our fibre-optic network to support our small-cell technology strategy to improve coverage, capacity and back-haul while preparing for a more efficient and timely evolution to 5G. We also made investments in Manitoba to improve coverage, speed and capacity and to significantly enhance our customer experience while supplementing the business acquisition of MTS subscribers, dealers and network. Also in 2017, retirement of legacy CDMA network asset costs and accumulated depreciation was approximately $1 billion.

Wireline segment capital expenditures increased by $130 million in 2017 due to continuing investments in our broadband infrastructure, including connecting more homes and businesses directly to our fibre-optic network, and investments to support systems reliability and operational efficiency and effectiveness. These investments support our high-speed Internet and TELUS TV subscriber growth, as well as our customers' demand for faster Internet speeds, and extend the reach and functionality of our Business and healthcare solutions. Additionally, the increase during the year was also attributed to readying TELUS TV product in preparation for deployment, as well as increased investments in Business Solutions to upgrade our offerings in managed Internet, virtual private network, wide area network and cloud solutions. We also made infrastructure upgrades in TELUS Health.

7.4 Cash used by financing activities

Cash used by financing activities

Years ended December 31 ($ millions)	2017	2016	Change
Dividends paid to holders of Common Shares	**(1,082)**	(1,070)	(12)
Purchases of Common Shares for cancellation	**–**	(179)	179
Long-term debt issued, net of redemptions and repayment	**865**	883	(18)
Issue of shares by subsidiary to non-controlling interests	**(1)**	294	(295)
Other	**(9)**	(15)	6
	(227)	(87)	(140)

Dividends paid to the holders of Common Shares

In connection with dividends declared during 2017, the dividend reinvestment and share purchase plan trustee (Trustee) purchased shares from Treasury for the dividend reinvestment and share purchase plan instead of acquiring Common Shares in the stock market. During 2017, cash dividends paid to the holders of Common Shares increased, reflecting higher dividend rates under our dividend growth program, partly offset by the Trustee purchasing Common Shares from Treasury. During 2017, the Trustee purchased approximately 2 million dividend reinvestment Common Shares for $91 million, with no discount applicable. In January 2018, we paid dividends of $279 million to the holders of Common Shares and the Trustee purchased dividend reinvestment Common Shares from Treasury for $20 million, totalling $299 million.

Purchases of Common Shares for cancellation

No Common Shares were purchased for cancellation in 2017.

Long-term debt issues and repayments

For the full year of 2017, long-term debt issues net of repayments were $865 million, a decrease of $18 million, primarily composed of:

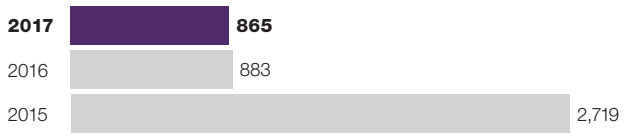
- A net increase in commercial paper, including foreign exchange effects, of $527 million to a balance of $1,140 million (US$908 million) at December 31, 2017 from $613 million (US$456 million) at December 31, 2016. Our commercial paper program, when utilized, provides low-cost funds and is fully backstopped by the five-year committed credit facility (see *Section 7.6 Credit facilities*).
- An increase in net draws on the TELUS International (Cda) Inc. credit facility of $6 million ($7 million net of unamortized issue costs) (US$23 million). As at December 31, 2017, net draws were $346 million ($339 million net of unamortized issue costs), all of which were denominated in U.S. dollars (US$276 million). As at December 31, 2016, net draws were $340 million ($332 million net of unamortized issue costs), all of which were denominated in U.S. dollars (US$253 million).
- The March 2017 issues of US$500 million of senior unsecured notes at 3.70% due September 15, 2027, and $325 million of senior unsecured notes at 4.70% due March 6, 2048. For the U.S. issuance, we have fully hedged the principal and interest obligations of the notes against fluctuations in the Canadian dollar: U.S. dollar foreign exchange rate for the entire term of the notes by entering into foreign exchange derivatives (cross currency interest rate exchange agreements). These derivatives effectively converted the principal payments and interest obligations to Canadian dollar obligations with

an effective fixed interest rate of 3.41% and an effective issued and outstanding amount of $667 million (reflecting a fixed exchange rate of $1.3348). For additional information on these notes, refer to *Note 26(b)* of the Consolidated financial statements.
- The March 2017 repayment of $700 million of Series CD Notes.

In comparison, for the full year of 2016, long-term debt issues net of repayments were $883 million and were composed of:
- A net increase in commercial paper, including foreign exchange effects, of $357 million from a balance of $256 million (US$185 million) at December 31, 2015.
- Net draws on the TELUS International (Cda) Inc. credit facility of $340 million ($332 million net of unamortized issue costs) (US$253 million).
- The September 2016 public issue of US$600 million of senior unsecured notes at 2.80%, due February 16, 2027.
- The May 2016 repayment of $600 million of Series CI Notes.

The average term to maturity of our long-term debt (excluding commercial paper and the revolving component of the TELUS International (Cda) Inc. credit facility) increased to approximately 10.7 years at December 31, 2017, compared to approximately 10.4 years at December 31, 2016. Additionally, our weighted average cost of long-term debt (excluding commercial paper and the revolving component of the TELUS International (Cda) Inc. credit facility) was 4.18% at December 31, 2017, as compared to 4.22% at December 31, 2016.

NET INCREASE IN LONG-TERM DEBT
($ millions)



AVERAGE TERM TO MATURITY OF LONG-TERM DEBT
(years)

Issue of shares by subsidiary to non-controlling interests
In June 2016, we announced the completion of the agreement whereby a subsidiary issued shares to Baring Private Equity Asia, which acquired a 35% non-controlling interest in TELUS International (Cda) Inc. Cash proceeds net of issue costs were $294 million as at December 31, 2016. There was no comparable activity in 2017.

7.5 Liquidity and capital resource measures

Net debt was $13.4 billion at December 31, 2017, an increase of $0.8 billion when compared to one year earlier, resulting mainly from a net increase in commercial paper outstanding in addition to the issuances of the US$500 million of senior unsecured notes and the $325 million of senior unsecured notes, partially offset by the repayment of Series CD Notes, as described in *Section 7.4*.

Fixed-rate debt as a proportion of total indebtedness was 89% as at December 31, 2017, down from 92% one year earlier, mainly due to the increase in commercial paper, which emulates floating-rate debt, partly offset by the two unsecured note issuances in 2017 described in *Section 7.4*.

Net debt to EBITDA – excluding restructuring and other costs ratio was 2.73 times, as measured at December 31, 2017, up from 2.69 one year earlier. Our long-term objective for this measure is within a range of 2.00 to 2.50 times, which we believe is consistent with maintaining investment grade credit ratings in the range of BBB+, or the equivalent, and providing reasonable access to capital. As at December 31, 2017, this ratio remains outside of the long-term objective range due to prior issuances of incremental debt primarily for the acquisition in 2014 and 2015 of spectrum licences for approximately $3.6 billion, and the elevated strategic capital investments in our fibre-optic network, partially offset by growth in EBITDA – excluding restructuring and other costs. These acquired licences have more than doubled our national spectrum holdings and represent an investment to extend our network capacity to support continuing data consumption growth, as well as growth in our wireless customer base. We expect this ratio to decline in 2018 and we continue to expect it to return to within the objective range in the medium term, consistent with our long-term strategy. While this ratio exceeds our long-term objective range, we are well in compliance with the leverage ratio covenant in our credit facilities, which states that we may not permit our net debt to operating cash flow ratio to exceed 4.00:1.00 (see *Section 7.6 Credit facilities*).

EBITDA – EXCLUDING RESTRUCTURING AND OTHER COSTS
($ millions)

EBITDA is a non-GAAP measure.

EBITDA – EXCLUDING RESTRUCTURING AND OTHER COSTS INTEREST COVERAGE
(times)

Liquidity and capital resource measures

As at, or years ended, December 31	2017	2016	Change
Components of debt and coverage ratios[1] ($ millions)			
Net debt	**13,422**	12,652	770
EBITDA – excluding restructuring and other costs	**4,913**	4,708	205
Net interest cost	**567**	566	1
Debt ratios			
Fixed-rate debt as a proportion of total indebtedness (%)	**89**	92	(3) pts.
Average term to maturity of long-term debt (excluding commercial paper) (years)	**10.7**	10.4	0.3
Weighted average interest rate on long-term debt (excluding commercial paper) (%)	**4.18**	4.22	(0.04) pts.
Net debt to EBITDA – excluding restructuring and other costs[1] (times)	**2.73**	2.69	0.04
Coverage ratios[1] (times)			
Earnings coverage	**4.6**	4.0	0.6
EBITDA – excluding restructuring and other costs interest coverage	**8.7**	8.3	0.4
Other measures[1] (%)			
Dividend payout ratio of adjusted net earnings	**80**	77	3 pts.
Dividend payout ratio	**80**	89	(9) pts.

1 See *Section 11.1 Non-GAAP and other financial measures*.

Earnings coverage ratio for 2017 was 4.6 times, up from 4.0 times one year earlier. An increase in income before borrowing costs and income taxes increased the ratio by 0.7, while an increase in borrowing costs reduced the ratio by 0.1.

EBITDA – excluding restructuring and other costs interest coverage ratio for 2017 was 8.7 times, up from 8.3 times one year earlier. Growth in EBITDA – excluding restructuring and other costs increased the ratio by 0.4.

Dividend payout ratios: Actual dividend payout decisions will continue to be subject to our Board's assessment and the determination of our financial position and outlook, as well as our long-term dividend payout objective range of 65 to 75% of prospective net earnings per share. The disclosed basic and adjusted dividend payout ratios are historical measures utilizing the last four quarters of dividends declared and earnings per share. We currently expect that we will be within our objective range when considered on a prospective dividend payout ratio basis within the medium term. The historical measures for the 12-month period ended December 31, 2017, are presented for illustrative purposes in evaluating our target guideline and both exceeded the objective range.

7.6 Credit facilities

At December 31, 2017, we had available liquidity of more than $1.1 billion from the TELUS revolving credit facility, approximately $242 million of available liquidity from the TELUS International (Cda) Inc. credit facility and $116 million available from uncommitted letters of credit facilities. In addition, we had $400 million available under our trade receivables securitization program (see *Section 7.7 Sale of trade receivables*). We are well within our objective of generally maintaining at least $1.0 billion of available liquidity.

TELUS revolving credit facility

We have a $2.25 billion (or U.S. dollar equivalent) revolving credit facility with a syndicate of financial institutions that expires on May 31, 2021. The revolving credit facility is used for general corporate purposes, including the backstop of commercial paper, as required.

TELUS revolving credit facility at December 31, 2017

($ millions)	Expiry	Size	Drawn	Outstanding undrawn letters of credit	Backstop for commercial paper program	Available liquidity
Five-year revolving facility[1]	May 31, 2021	2,250	–	–	(1,140)	1,110

1 Canadian dollars or U.S. dollar equivalent.

Our revolving credit facility contains customary covenants, including a requirement that we not permit our consolidated leverage ratio to exceed 4.00 to 1.00 and that we not permit our consolidated coverage ratio to be less than 2.00 to 1.00 at the end of any financial quarter. Our consolidated leverage ratio was approximately 2.73 to 1.00 as at December 31, 2017, and our consolidated coverage ratio was approximately 8.66 to 1.00 as at December 31, 2017. These ratios are expected to remain well above the covenants. There are certain minor differences in the calculation of the leverage ratio and coverage ratio under the revolving credit facility, as compared with the calculation of Net debt to EBITDA – excluding restructuring and other costs and EBITDA – excluding restructuring and other costs interest coverage. Historically, the calculations have not been materially different. The covenants are not impacted by revaluation, if any, of Property, plant and equipment, Intangible assets or Goodwill for accounting purposes. Continued access to our credit facilities is not contingent on maintaining a specific credit rating.

Commercial paper

TELUS Corporation has an unsecured commercial paper program, which is backstopped by our revolving credit facility, enabling us to issue commercial paper up to a maximum aggregate amount of $1.4 billion at December 31, 2017, including a U.S. dollar-denominated commercial paper program for up to US$1.0 billion within this maximum aggregate amount. Foreign currency forward contracts are used to manage currency risk arising from issuing commercial paper denominated in U.S. dollars. The commercial paper program is to be used for general corporate purposes, including, but not limited to, capital expenditures and investments. Our ability to reasonably access the commercial paper market in Canada and the U.S. is dependent on our credit ratings (see *Section 7.8 Credit ratings*).

TELUS International (Cda) Inc. credit facility

As at December 31, 2017, TELUS International (Cda) Inc. had a bank credit facility, secured by its assets, expiring on December 20, 2022 (2016 – May 31, 2021), with a syndicate of financial institutions. The credit facility is composed of a US$350 million (2016 – US$115 million) revolving component and an amortizing US$120 million (2016 – US$215 million) term loan component. The credit facility is non-recourse to TELUS Corporation. As at December 31, 2017, $346 million ($339 million net of unamortized issue costs) was outstanding, all of which was denominated in U.S. dollars (US$276 million), with a weighted average interest rate of 3.32%.Subsequent to December 31, 2017, an incremental $94 million (US$75 million) was drawn. See *Note 18(c)* of the Consolidated financial statements for additional detail.

Other letter of credit facilities

At December 31, 2017, we had $224 million of letters of credit outstanding (2016 – $210 million) issued under various uncommitted facilities; such letter of credit facilities are in addition to the ability to provide letters of credit pursuant to our committed bank credit facility. Available liquidity under various uncommitted letters of credit facilities was $116 million at December 31, 2017.

7.7 Sale of trade receivables

TELUS Communications Inc., a wholly owned subsidiary of TELUS, is a party to an agreement with an arm's-length securitization trust associated with a major Schedule I Canadian bank, under which it is able to sell an interest in certain trade receivables for an amount up to a maximum of $500 million. The agreement is in effect until December 31, 2018, and available liquidity was $400 million as at December 31, 2017. (See *Note 22* of the Consolidated financial statements.) Sales of trade receivables in securitization transactions are recognized as collateralized Short-term borrowings and thus do not result in our de-recognition of the trade receivables sold.

TELUS Communications Inc. is required to maintain at least a BB credit rating by DBRS Ltd., or the securitization trust may require the sale program to be wound down prior to the end of the term. The necessary credit rating was exceeded as of February 8, 2018.

7.8 Credit ratings

There were no changes to our investment grade credit ratings during 2017, or as of February 8, 2018. We believe adherence to most of our stated financial policies (see *Section 4.3*), coupled with our efforts to maintain a constructive relationship with banks, investors and credit rating agencies, continues to provide reasonable access to capital markets. (See discussion of risks in *Section 10.7 Financing, debt requirements and returning cash to shareholders*.)

7.9 Financial instruments, commitments and contingent liabilities

Financial instruments

Our financial instruments and the nature of certain risks that they may be subject to are set out below and described in *Note 4* of the Consolidated financial statements. Our policies in respect of the recognition and measurement of financial instruments are described in *Note 1(c)* of the Consolidated financial statements.

		Risks				
				Market risks		
Financial instrument	Recognition and measurement accounting classification	Credit	Liquidity	Currency	Interest rate	Other price
Measured at amortized cost						
Accounts receivable	Loans and receivables	X		X		
Construction credit facilities advances to real estate joint venture	Loans and receivables				X	
Short-term obligations	Other financial liabilities		X	X	X	
Accounts payable	Other financial liabilities		X	X		
Provisions	Other financial liabilities		X	X		X
Long-term debt	Other financial liabilities		X	X	X	
Measured at fair value						
Cash and temporary investments	Fair value through Net income	X		X	X	
Long-term investments (not subject to significant influence)[1]	Available-for-sale			X		X
Foreign exchange derivatives[2]	Fair value through Net income; part of a cash flow hedging relationship	X	X	X		
Share-based compensation derivatives[2]	Fair value through Net income; part of a cash flow hedging relationship	X	X			X

1 Long-term investments over which we do not have significant influence are measured at fair value if those fair values can be reliably measured.

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

Credit risk

Credit risk arises from Cash and temporary investments, Accounts receivable and derivative financial instruments. We mitigate credit risk as follows:

- Credit risk associated with Cash and temporary investments is managed by ensuring that these financial assets are placed with governments, major financial institutions that have been accorded strong investment grade ratings by a primary rating agency, and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.
- Credit risk associated with Accounts receivable is inherently managed by the size and diversity of our large customer base, which includes substantially all consumer and business sectors in Canada. We follow a program of credit evaluations of customers and limit the amount of credit extended when deemed necessary. As at December 31, 2017, the weighted average age of past-due customer Accounts receivable was 60 days (2016 – 61 days).

  We maintain allowances for lifetime expected credit losses related to doubtful accounts. Current economic conditions (including forward-looking macroeconomic data), historical information (including credit agency reports, if available), reasons for the accounts being past-due and line of business from which the customer Accounts receivable arose are all considered when determining whether to make allowances for past-due accounts. The same factors are considered when determining whether to write off amounts charged to the allowance for doubtful accounts against the customer Accounts receivable. The doubtful accounts expense is calculated on a specific-identification basis for customer Accounts receivable above a specific balance threshold and on a statistically derived allowance basis for the remainder. No customer Accounts receivable are written off directly to the doubtful accounts expense.
- Counterparties to our share-based compensation cash-settled equity forward agreements and foreign exchange derivatives are major financial institutions that have been accorded investment grade ratings by a primary credit rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. We do not give or receive collateral on swap agreements and hedging items due to our credit rating and those of our counterparties. While we are exposed to the risk of potential credit losses due to the possible non-performance of our counterparties, we consider this risk remote. Our derivative liabilities do not have credit risk-related contingent features.

Liquidity risk

Liquidity risk is the risk that we may not have cash available to satisfy our financial obligations as they come due. As a component of our capital structure financial policies, discussed in *Section 4.3 Liquidity and capital resources*, we manage liquidity risk by: maintaining a daily cash pooling process that enables us to manage our available liquidity and our liquidity requirements according to our actual needs; maintaining an agreement to sell trade receivables to an arm's-length securitization trust; maintaining bilateral bank facilities and syndicated credit facilities; maintaining a commercial paper program; maintaining an in-effect shelf prospectus; continuously monitoring forecast and actual cash flows; and managing maturity profiles of financial assets and financial liabilities.

Our debt maturities in future years are as disclosed in the long-term debt principal maturities chart in *Section 4.3*. As at December 31, 2017, we had liquidity of more than $1.1 billion available from unutilized credit facilities (see *Section 7.6 Credit facilities*) and $400 million available under our trade receivables securitization program (see *Section 7.7 Sale of trade receivables*), and we could offer $1.2 billion of debt or equity securities pursuant to a shelf prospectus that is in effect until April 2018. This adheres to our objective of generally maintaining at least $1 billion of available liquidity. We believe that our investment grade credit ratings contribute to reasonable access to capital markets.

The expected maturities of our undiscounted financial liabilities do not differ significantly from the contractual maturities, other than as shown in the table in *Note 4(c)* of the Consolidated financial statements.

Currency risk

Our functional currency is the Canadian dollar, but certain routine revenues and operating costs are denominated in U.S. dollars and some inventory purchases and capital asset acquisitions are sourced internationally. The U.S. dollar is the only foreign currency to which we have a significant exposure.

Our foreign exchange risk management includes the use of foreign currency forward contracts and currency options to fix the exchange rates on a varying percentage, typically in the range of 50 to 75%, of our domestic short-term U.S. dollar-denominated transactions and commitments and all U.S. dollar-denominated commercial paper. Other than in respect of U.S. dollar-denominated commercial paper, we designate only the spot element of these instruments as the hedging item; the forward element is wholly immaterial; in respect of U.S. dollar-denominated commercial paper, we designate the forward rate.

We are also exposed to currency risk in that the fair value or future cash flows of our U.S. Dollar Notes and our TELUS International (Cda) Inc. credit facility U.S. dollar borrowings could fluctuate because of changes in foreign exchange rates. Currency hedging relationships have been established for the related semi-annual interest payments and the principal payment at maturity in respect of the U.S. Dollar Notes.

Interest rate risk

Changes in market interest rates will cause fluctuations in the fair values or future cash flows of temporary investments, construction credit facility advances made to the real estate joint ventures, short-term obligations, long-term debt and interest rate swap derivatives.

When we have temporary investments, they have short maturities and fixed interest rates and as a result, their fair values will fluctuate with changes in market interest rates; absent monetization prior to maturity, the related future cash flows will not change due to changes in market interest rates.

If the balance of short-term investments includes dividend-paying equity instruments, we could be exposed to interest rate risk.

Due to the short-term nature of the applicable rates of interest charged, the fair value of the construction credit facilities advances made to the real estate joint venture is not materially affected by changes in market interest rates; associated cash flows representing interest payments will be affected until such advances are repaid.

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

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

All of our currently outstanding long-term debt, other than commercial paper and amounts drawn on our credit facilities, is fixed-rate debt (see *Section 7.5*). The fair value of fixed-rate debt fluctuates with changes in market interest rates; absent early redemption, the related future cash flows will not change. Due to the short maturities of commercial paper, its fair value is not materially affected by changes in market interest rates, but the associated cash flows representing interest payments may be affected if the commercial paper is rolled over.

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

Other price risk

- Long-term investments: We are exposed to equity price risk arising from investments classified as available-for-sale. Such investments are held for strategic rather than trading purposes.
- Share-based compensation derivatives: We are exposed to other price risk arising from cash-settled share-based compensation (appreciating Common Share prices increase both the expense and the potential cash outflow). Certain cash-settled equity swap agreements have been entered into that fix the cost associated with our estimate of our restricted stock units which are expected to vest and are not subject to performance conditions (see *Note 14(b)* of the Consolidated financial statements).

Market risks

Net income and Other comprehensive income for the years ended December 31, 2017 and 2016 could have varied if the Canadian dollar: U.S. dollar exchange rate and our Common Share price varied by reasonably possible amounts from their actual statement of financial position date amounts.

The sensitivity analysis of our exposure to market risks is shown in *Note 4(g)* of the Consolidated financial statements.

Fair values – General

The carrying values of Cash and temporary investments, Accounts receivable, short-term obligations, Short-term borrowings, Accounts payable and certain provisions (including restructuring provisions) approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair values are determined directly by reference to quoted market prices in active markets.

The carrying values of our investments accounted for using the cost method do not exceed their fair values. The fair values of our investments accounted for as available-for-sale are based on quoted market prices in active markets or other clear and objective evidence of fair value.

The fair value of our Long-term debt is based on quoted market prices in active markets.

The fair values of the derivative financial instruments we use to manage our exposure to currency risks are estimated based upon quoted market prices in active markets for the same or similar financial instruments or on the current rates offered to us for financial instruments of the same maturity, as well as discounted future cash flows determined using current rates for similar financial instruments of similar maturities subject to similar risks (such fair value estimates being largely based on the Canadian dollar: U.S. dollar forward exchange rate as at the statement of financial position dates).

The fair values of the derivative financial instruments we use to manage our exposure to increases in compensation costs arising from certain forms of share-based compensation are based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions (such fair value estimates being largely based on our Common Share price as at the statement of financial position dates).

The financial instruments that we measure at fair value on a recurring basis in periods subsequent to initial recognition and the level within the fair value hierarchy at which they are measured are as set out in *Note 4(h)* of the Consolidated financial statements.

Fair values – Derivative and non-derivative

The derivative financial instruments that we measure at fair value on a recurring basis subsequent to initial recognition, and our Long-term debt, which is measured at amortized cost, and the fair value thereof, are set out in tables in *Note 4(h)* of the Consolidated financial statements.

Recognition of derivative gains and losses

Gains and losses, excluding income tax effects, arising from derivative instruments that are classified as cash flow hedging items, as well as gains and losses arising from derivative instruments that are classified as held for trading and that are not designated as being in a hedging relationship, and their locations within the Consolidated statements of income and other comprehensive income, are detailed in *Note 4(i)* of the Consolidated financial statements.

Commitments and contingent liabilities

Contractual obligations as at December 31, 2017

($ millions)	2018	2019	2020	2021	2022	Thereafter	Total
Short-term borrowings							
Interest obligations	3	–	–	–	–	–	3
Principal obligations[1]	100	–	–	–	–	–	100
	103	–	–	–	–	–	103
Long-term debt							
Interest obligations	531	523	472	397	348	3,725	5,996
Principal maturities[2]	1,397	1,008	1,008	1,083	1,565	7,705	13,766
	1,928	1,531	1,480	1,480	1,913	11,430	19,762
Construction credit facilities commitment[3]	67	–	–	–	–	–	67
Minimum operating lease payments[3,4]	224	203	182	160	135	742	1,646
Occupancy costs[3]	95	91	87	84	80	379	816
Purchase obligations[5]							
Operating expenditures	420	130	114	78	74	275	1,091
Property, plant and equipment, and Intangible assets	183	33	4	–	–	–	220
	603	163	118	78	74	275	1,311
Non-interest bearing financial liabilities	2,232	40	19	76	18	16	2,401
Other obligations	51	2	2	2	2	88	147
Total	5,303	2,030	1,888	1,880	2,222	12,930	26,253

1 See *Section 7.7 Sale of trade receivables*.
2 See Long-term debt maturity chart in *Section 4.3*.
3 Construction credit facilities reflect loan amounts for a real estate joint venture, a related party. Minimum operating lease payments and occupancy costs include transactions with real estate joint ventures. See *Section 7.11 Transactions between related parties*.
4 Total minimum operating lease payments include approximately 33% in respect of our five largest leases for office premises over various terms, with expiry dates that range between 2024 and 2036 with a weighted average term of approximately 13 years; and approximately 29% in respect of wireless site leases with a weighted average term of approximately 17 years. Total minimum operating lease payments with related parties are immaterial. See *Note 19* of the Consolidated financial statements.
5 Where applicable, purchase obligations reflect foreign exchange rates at December 31, 2017. Purchase obligations include future operating and capital expenditures that have been contracted for at the current year-end and include the most likely estimates of prices and volumes, where necessary. As purchase obligations reflect market conditions at the time the obligation was incurred for the items being purchased, they may not be representative of future years. Obligations from personnel supply contracts and other such labour agreements have been excluded.

Claims and lawsuits

A number of claims and lawsuits (including class actions and intellectual property infringement claims) seeking damages and other relief are pending against us and, in some cases, numerous other wireless carriers and telecommunications service providers. As well, we have received notice of, or are aware of, certain possible claims (including intellectual property infringement claims) against us. (See the related risk discussion in *Section 10.9 Litigation and legal matters*.)

It is not currently possible for us to predict the outcome of such claims, possible claims and lawsuits due to various factors, including: the preliminary nature of some claims; uncertain damage theories and demands; an incomplete factual record; uncertainty concerning legal theories, procedures and their resolution by the courts, at both the trial and the appeal levels; and the unpredictable nature of opposing parties and their demands.

However, subject to the foregoing limitations, management is of the opinion, based upon legal assessments and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would have a material effect on our financial position and the results of our operations, including cash flows, with the exception of the items disclosed in *Note 29(a)* of the Consolidated financial statements. This is a significant judgment for us (see *Section 8.1 Critical accounting estimates*).

Indemnification obligations

In the normal course of operations, we provide indemnification in conjunction with certain transactions. The terms of these indemnification obligations range in duration. These indemnifications would require us to compensate the indemnified parties for costs incurred as a result of failure to comply with contractual obligations or litigation claims or statutory sanctions or damages that may be suffered by an indemnified party. In some cases, there is no maximum limit on these indemnification obligations. The overall maximum amount of an indemnification obligation will depend on future events and conditions and therefore cannot be reasonably estimated. Where appropriate, an indemnification obligation is recorded as a liability. Other than obligations recorded as liabilities at the time of such transactions, historically we have not made significant payments under these indemnifications.

As at December 31, 2017, we had no liability recorded in respect of our indemnification obligations.

7.10 Outstanding share information

Outstanding shares (millions)	December 31, 2017	January 31, 2018
Common Shares	595	595
Common Share options – all exercisable (one for one)	1	1

7.11 Transactions between related parties

Transactions with key management personnel

Our key management personnel have authority and responsibility for overseeing, planning, directing and controlling our activities. They consist of our Board of Directors and our Executive Leadership Team. Total compensation expense for key management personnel was $50 million in 2017, as compared to $54 million in 2016. See *Note 30(a)* of the Consolidated financial statements for additional details.

Transactions with defined benefit pension plans

We provided management and administrative services to our defined benefit pension plans. Charges for these services were on a cost recovery basis and were immaterial.

Transactions with real estate joint ventures

In 2017, we had transactions with real estate joint ventures, which are related parties to us, as set out in *Note 21* of our Consolidated financial statements.

As at December 31, 2017, the proportion of space leased in the TELUS Garden office tower was approximately 99%.

For the TELUS Sky real estate joint venture, commitments and contingent liabilities include construction-related contractual commitments through to 2019 (approximately $82 million at December 31, 2017) and construction financing ($342 million with three Canadian financial institutions as 66⅔% lender and TELUS as 33⅓% lender).

8 Accounting matters

8.1 Critical accounting estimates

Our significant accounting policies are described in *Note 1* of the Consolidated financial statements for the year ended December 31, 2017. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our critical accounting estimates and significant judgments are generally discussed with the Audit Committee each quarter.

Examples of our significant judgments, apart from those involving estimation, include the following:

- Assessments about whether line items are sufficiently material to warrant separate presentation in the primary financial statements and, if not, whether they are sufficiently material to warrant separate presentation in the notes to the financial statements. In the normal course, we make changes to our assessments regarding materiality for presentation so that they reflect current economic conditions. Due consideration is given to the view that it is reasonable to expect differing opinions of what is, and is not, material.
- In respect of revenue-generating transactions, we must make judgments that affect the timing of the recognition of revenue. See *Section 8.2 Accounting policy developments* below and *Note 2* of our Consolidated financial statements for significant changes to IFRS-IASB which are not yet effective and have not yet been applied, but which will significantly affect the timing of the recognition of revenue and the classification of revenues presented as either service or equipment revenues.
    - We must make judgments about when we have satisfied our performance obligations to our customers, either over a period of time or at a point in time. Service revenues are recognized based upon customers' access to, or usage of, our telecommunications infrastructure; we believe this method faithfully depicts the transfer of the services, and thus the revenues are recognized as the services are made available and/or rendered. We consider our performance obligations arising from the sale of equipment to have been satisfied when the equipment has been delivered to, and accepted by, the end-user customers.
    - Principally in the context of revenue-generating transactions involving wireless handsets, we must make judgments about whether third-party re-sellers that deliver equipment to our customers are acting in the transaction as principals or as our agents. Upon due consideration of the relevant indicators, we believe the decision to consider the re-sellers to be acting, solely for accounting purposes, as our agents is more representative of the economic substance of the transactions, as we are the primary obligor to the end-user customers. The effect of this judgment is that no equipment revenue is recognized upon the transfer of inventory to third-party re-sellers.
- The decision to depreciate and amortize any property, plant, equipment and intangible assets that are subject to amortization, on a straight-line basis, as we believe that this method reflects the consumption of resources related to the economic lifespan of those assets better than an accelerated method and is more representative of the economic substance of the underlying use of those assets.
- The preparation of financial statements in accordance with GAAP requires management to make judgments that affect the financial statement disclosure of information regularly reviewed by our chief operating decision-maker used to make resource allocation decisions and to assess performance (segment information, see *Note 5* of our Consolidated financial statements). A significant judgment we make is in respect of distinguishing between our wireless and wireline operations and cash flows, such distinction