TELUS CORP
Form 6-K
March 01, 2007
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 ___March___ 2007
(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 __X__

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 __X__

This Form 6-K consists of the following:

TELUS CORPORATION CONSOLIDATED FINANCIAL STATEMENTS
AND
MANAGEMNT'S DISUSSION AND ANALYSIS
DECEMBER 31, 2006

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TELUS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

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management's report

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

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

The Company has a formal policy on Corporate Disclosure and Confidentiality of Information, which sets out policies and practices including the mandate of the Disclosure Committee; the policy was approved by the Board of Directors, and put into effect, in 2003.

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

The Board of Directors has reviewed and approved these Consolidated financial statements. To assist the Board in meeting its oversight responsibilities, it has appointed an Audit Committee, which is comprised entirely of independent directors. All the members of the committee are financially literate and the Chair of the committee has financial expertise and meets the applicable securities laws as a financial expert. The committee oversees the Company's accounting and financial reporting, internal controls

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

| /s/Robert G. McFarlane | /s/Darren Entwistle |
|---|---|
| Robert G. McFarlane<br>Executive Vice-President<br>and Chief Financial Officer<br>February 14, 2007 | Darren Entwistle<br>President<br>and Chief Executive Officer<br>February 14, 2007 |

report of management on internal control over financial reporting

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

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

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on this assessment, management has determined that the Company's internal control over

financial reporting is effective as at December 31, 2006. In connection with this assessment, no material weaknesses in the Company's internal control over financial reporting were identified by management.

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

| /s/Robert G. McFarlane | /s/Darren Entwistle |
|---|---|
| Robert G. McFarlane | Darren Entwistle |
| Executive Vice-President | President |
| and Chief Financial Officer | and Chief Executive Officer |
| February 14, 2007 | February 14, 2007 |

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

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

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

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

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

/s/Deloitte & Touche LLP

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

report of independent registered chartered accountants

To the Board of Directors and Shareholders of TELUS Corporation

We have audited the accompanying consolidated balance sheets of TELUS Corporation and subsidiaries (the "Company") as at December 31, 2006 and 2005, and the related consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of TELUS Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their

operations and their cash flows for the years then ended in conformity with Canadian generally accepted accounting principles.

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

/s/Deloitte & Touche LLP

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

consolidated statements of income

| Years ended December 31 (millions except per share amounts) | 2 |
| --- | --- |
| OPERATING REVENUES | $ 8 |
| OPERATING EXPENSES | |
| Operations | 5 |
| Restructuring and workforce reduction costs (Note 7) | |
| Depreciation | 1 |
| Amortization of intangible assets | |
| | 6 |
| OPERATING INCOME | 2 |
| Other expense, net | |
| Financing costs (Note 8) | |
| INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST | 1 |
| Income taxes (Note 9) | |
| Non-controlling interests | |
| NET INCOME AND COMMON SHARE AND NON-VOTING SHARE INCOME | $ 1 |
| INCOME PER COMMON SHARE AND NON-VOTING SHARE (Note 10) | |
| -- Basic | $ |
| -- Diluted | $ |
| DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE | $ |
| TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING | |
| -- Basic | |
| -- Diluted | |

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

consolidated statements of retained earnings

| Years ended December 31 (millions) | 2 |
| --- | --- |
| BALANCE AT BEGINNING OF PERIOD | $ |
| Net income | 1 |
| | 1 |
| Common Share and Non-Voting Share dividends paid, or payable, in cash | |
| Purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 18(f)) | |
| Adjustment for purchase of share option awards not in excess of their fair value | |
| Adjustment of tax treatment of items charged directly to retained earnings | |
| Warrant proceeds used in determining intrinsic value of warrants in excess of amounts ultimately received (Note 18(c)) | |
| BALANCE AT END OF PERIOD (Note 18) | $ 1 |

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

consolidated balance sheets

| As at December 31(millions) | 2 |
| --- | --- |
| ASSETS | |
| Current Assets | |
| Cash and temporary investments, net | $ |
| Short-term investments | |
| Accounts receivable (Notes 13, 20(b)) | |
| Income and other taxes receivable | |
| Inventories | |
| Prepaid expenses and other (Note 20(b)) | |
| Deferred hedging asset (Note 17(b)) | |
| Current portion of future income taxes | |
| | 1 |
| Capital Assets, Net (Note 14) | |
| Property, plant, equipment and other | 7 |
| Intangible assets subject to amortization | |
| Intangible assets with indefinite lives | 2 |
| | 10 |
| Other Assets | |
| Deferred charges (Note 20(b)) | |
| Investments | |
| Goodwill (Note 15) | 3 |
| | 4 |

| | |
|---|---|
| | $16 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Current Liabilities | |
| Cash and temporary investments, net | $ |
| Accounts payable and accrued liabilities (Note 20(b)) | 1 |
| Income and other taxes payable | |
| Restructuring and workforce reduction accounts payable and accrued liabilities (Note 7) | |
| Advance billings and customer deposits (Note 20(b)) | |
| Current maturities of long-term debt (Note 17) | 1 |
| Current portion of deferred hedging liability (Note 17(b)) | |
| Current portion of future income taxes | |
| | 3 |
| Long-Term Debt (Note 17) | 3 |
| ther Long-Term Liabilities (Note 20(b)) | 1 |
| Future Income Taxes | 1 |
| Non-Controlling Interests | |
| Shareholders' Equity (Note 18) | 6 |
| | $16 |

Commitments and Contingent Liabilities (Note 19)

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

Approved by the Directors:

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

consolidated statements of cash flows

| Years ended December 31 (millions) | 2 |
|---|---|
| OPERATING ACTIVITIES | |
| Net income | $ 1 |
| Adjustments to reconcile net income to cash provided by operating activities: | |
| Depreciation and amortization | 1 |
| Future income taxes | |
| Share-based compensation (Note 11(a)) | |
| Net employee defined benefit plans expense | |
| Employer contributions to employee defined benefit plans | |
| Restructuring and workforce reduction costs, net of cash payments (Note 7) | |

| | |
|---|---|
| Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net | |
| Net change in non-cash working capital (Note 20(c)) | |
| Cash provided by operating activities | 2 |
| INVESTING ACTIVITIES | |
| Capital expenditures (Notes 6, 14) | (1 |
| Acquisitions | |
| Proceeds from the sale of property and other assets | |
| Change in non-current materials and supplies, purchase of investments and other | |
| Cash used by investing activities | (1 |
| FINANCING ACTIVITIES | |
| Common Shares and Non-Voting Shares issued | |
| Dividends to shareholders | |
| Purchase of Common Shares and Non-Voting Shares for cancellation (Note 18(f)) | |
| Long-term debt issued (Note 17) | 1 |
| Redemptions and repayment of long-term debt (Note 17) | (1 |
| Partial payment of deferred hedging liability (Note 17(b)) | |
| Dividends paid by a subsidiary to non-controlling interests | |
| Other | |
| Cash used by financing activities | (1 |
| CASH POSITION | |
| Decrease in cash and temporary investments, net | |
| Cash and temporary investments, net, beginning of period | |
| Cash and temporary investments, net, end of period | $ |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOWS | |
| Interest (paid) (Note 20(c)) | $ |
| Interest received | $ |
| Income taxes (inclusive of Investment Tax Credits (Note 9)) received, net | $ |

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

notes to consolidated financial statements

DECEMBER 31, 2006

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

| Notes to consolidated financial statements | Description |
|---|---|

| | |
|---|---|
| **General application** | |
| 1. Summary of significant accounting policies | Summary review of accounting principles their application by the Company |
| 2. Accounting policy developments | Summary review of forthcoming generally developments that will, or may, affect |
| 3. Capital structure financial policies | Summary review of the Company's objecti managing its capital structure |
| 4. Regulation of rates charged to customers | Summary review of rate regulation impac revenues |
| 5. Financial instruments | Summary schedule and review of financia values thereof |
| **Consolidated statements of income focused** | |
| 6. Segmented information | Summary disclosure of segmented informa Company's chief operating decision make |
| 7. Restructuring and workforce reduction costs | Summary continuity schedules and review reduction costs |
| 8. Financing costs | Summary schedule of items comprising fi |
| 9. Income taxes | Summary reconciliations of statutory ra provision for income taxes and analyses and liability |
| 10.Per share amounts | Summary schedules and review of numerat calculating per share amounts and relat |
| 11.Share-based compensation | Summary schedules and review of compens awards, restricted stock units and empl |
| 12.Employee future benefits | Summary and review of employee future b |
| **Consolidated balance sheets focused** | |
| 13.Accounts receivable | Summary schedule and review of arm's-le transactions and related disclosures |
| 14.Capital assets | Summary schedule of items comprising ca |
| 15.Goodwill | Summary schedule of goodwill and review acquisitions from which goodwill arises |
| 16.Short-term obligations | Summary review of bilateral bank facili |
| 17.Long-term debt | Summary schedule of long-term debt and |
| 18.Shareholders' equity | Summary schedules and review of shareho therein including share option price st issuer bid summaries |
| 19.Commitments and contingent liabilities | Summary review of contingent liabilitie obligations, guarantees, claims and law |
| **Other** | |
| 20.Additional financial information | Summary schedules of items comprising c statement line items |
| 21.Differences between Canadian and United States generally accepted accounting principles | Summary schedules and review of differe United States generally accepted accoun the Company |

1 summary of significant accounting policies

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

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

(a) Consolidation

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

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

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

(b) Use of estimates

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

Examples of significant estimates include:

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

(c) Revenue recognition

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

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

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

Voice Local, Voice Long Distance, Data and Wireless Network: The Company recognizes revenues on the accrual basis and includes an estimate of revenues

earned but unbilled. Wireline and wireless service revenues are recognized based upon usage of the Company's network and facilities and upon contract fees.

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

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

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

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

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

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

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

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

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

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

(d) Cost of acquisition and advertising costs

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

(e) Research and development

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

(f) Depreciation and amortization

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

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

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Property, plant, equipment and other
  Telecommunications assets
    Outside plant                                                                       1
    Inside plant
    Wireless site equipment                                                             6
  Balance of depreciable property, plant, equipment and other
Intangible assets subject to amortization
  Subscriber base
    Wireline
    Wireless
  Software
  Access to rights-of-way and other
-------------------------------------------------------------------------------------------------
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(1) The composite depreciation rate for the year ended December 31, 2006, was 6.3% (2005 -- 6.4%)
The rate is calculated by dividing depreciation expense by an average gross book value of dep
assets for the reporting period. A result of this methodology is that the composite depreciat
will be lower in a period that has a higher proportion of fully depreciated assets remaining