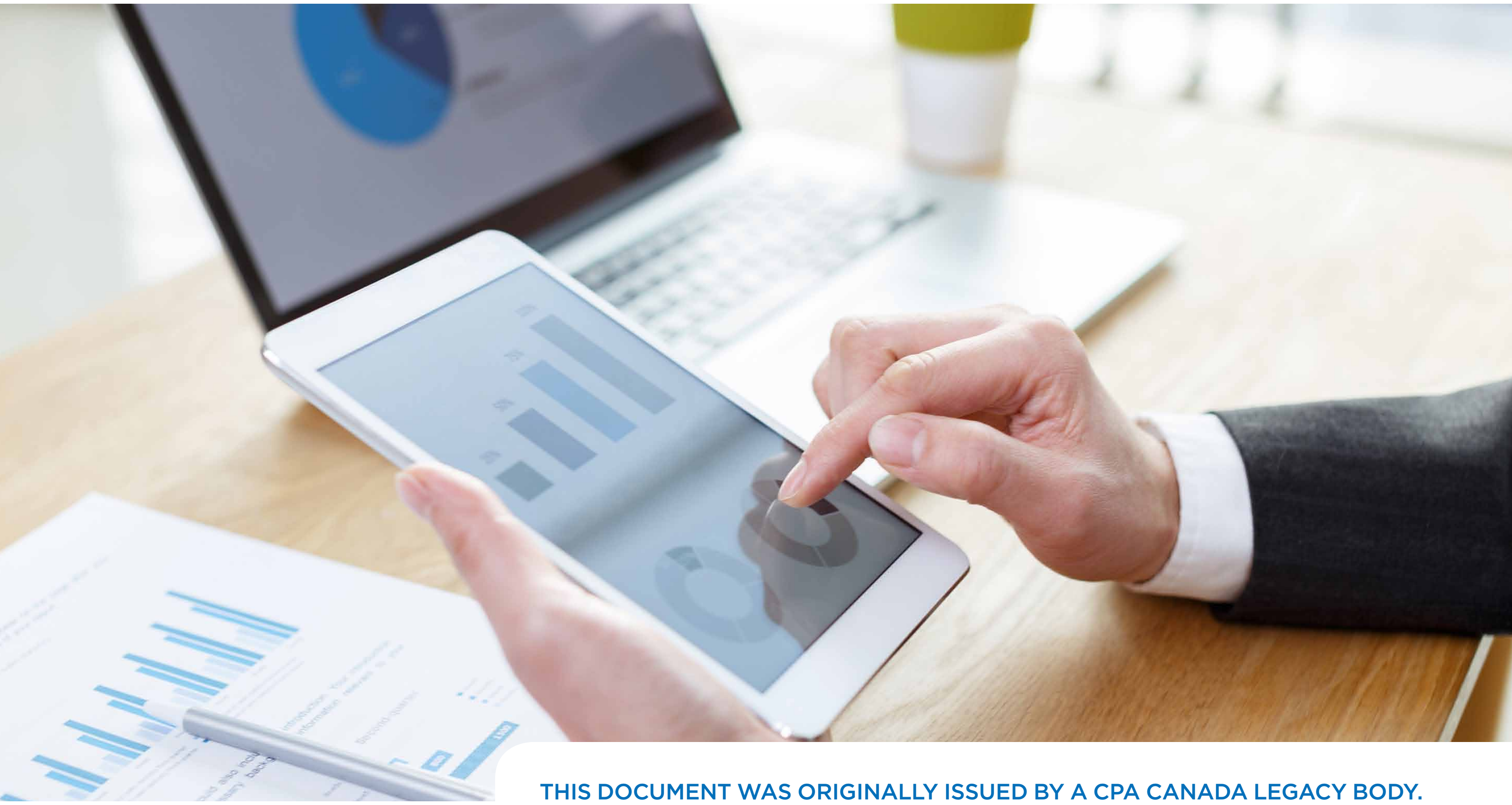
CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

Evaluating and Improving Management's Discussion & Analysis

A CANADIAN PERFORMANCE REPORTING BOARD PUBLICATION

October 2008



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INTRODUCTION

The Canadian Performance Reporting Board (CPRB) is charged with providing leadership to the CICA in improving and advancing the measurement and reporting of organizational performance (other than financial statement reporting).

In support of its mandate, the CPRB has devoted much of its efforts to providing guidance about Management's Discussion and Analysis (MD&A). The MD&A complements and supplements the financial statements and is a core element of the financial reporting package. The CPRB's MD&A guidance has been influential in shaping the MD&As of Canadian companies. This guidance includes: 1) *Management's Discussion and Analysis: Guidance on Preparation and Disclosure*, 2) an *MD&A Self Assessment Tool*, and, 3) *Building a Better MD&A - A Guide for Smaller Issuers*.

This publication supplements the above-noted guidance. It summarizes the results of applying an MD&A best-practice self-assessment checklist to a sample of annual reports for 2007 from 30 TSX listed companies with market capitalizations between $200 million and over $40 billion. The sample companies represent a wide range of industries, including mining, transportation, manufacturing, financial, telecommunications, retail, and real estate. The publication illustrates some real-life examples of best-practice disclosures from the companies reviewed and highlights areas most in need of improved reporting.

This is the first report using the best-practice self-assessment checklist. The CPRB expects to conduct future periodic reviews of MD&As and will compare those results against this baseline report.

October, 2008

CRITERIA AND PROCESS

The review was conducted against a comprehensive MD&A best-practice self-assessment checklist that details what a company should do to produce a high quality MD&A. The checklist draws on the above-noted CPRB guidance and securities regulatory requirements and should enable preparers to evaluate and determine those areas of their MD&A in need of improvement. The checklist and other CPRB guidance are available at CICA's Performance Reporting Resource Centre at www.cica.ca/cpr.

The checklist is closely related to the CICA's *Management's Discussion and Analysis: Guidance on Preparation and Disclosure*. References to additional topics that are important and relevant in today's changing environment have been included. These topics include the company's leadership and key people, current and potential environmental and climate change issues facing the company, and the effect of changes in capital assets on productive capacity. The CPRB reviewed the need for a discussion of leadership in its guidance for smaller issuers and is currently developing guidance around the other topics as part of its continual process of updating and improving MD&A reporting guidance.

The MD&A Best-Practice Self-Assessment Checklist is comprised of two components:

PART 1 — Overall Evaluation based on the six General Disclosure Principles set out in the CPRB's MD&A guidance and

PART 2 — A Qualitative Evaluation of each of the MD&A components

Part 1 Six General Disclosure Principles	***This section allows for an overall evaluation of the application of the six guiding principles for an MD&A***

Part 2 Qualitative Evaluation of MD&A Components	***The evaluation includes a determination as to whether the component is included and the quality of the discussion of the component***
A. Key Facts — Introduction	Does the MD&A provide an executive summary of the company and its industry; outline key segments, assets; describe the uniqueness of the company; and highlight results and activities for the year?
B. Strategy	Does the MD&A clearly communicate the strategy for the company and/or segments, including a discussion of the rationale and context for the strategy?
C. Key Performance Drivers	Does the MD&A clearly outline the key performance drivers for the company/segment, including a discussion of the significance of the driver to the strategy and a measure of the company's performance in relation to the driver?

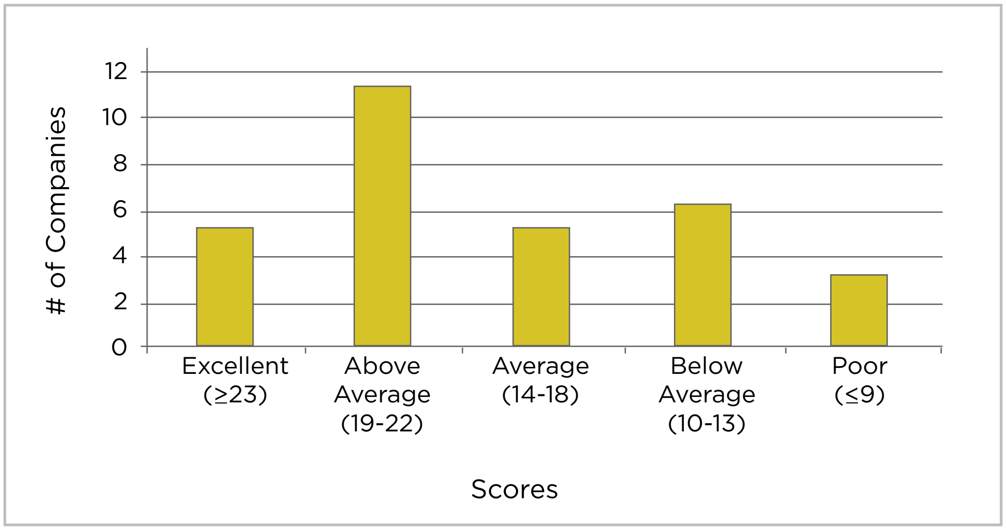
D. Capability to Deliver Results	Does the MD&A discuss and analyze the key leadership and people for the company?
	Does the MD&A discuss and analyze the company's financing strategy and liquidity, including a discussion of the need for financing and how it will be repaid?
	Does the MD&A discuss and analyze the company's productive capacity – financial condition (eg, tangible and intangible capital assets, acquisitions and disposals, financial and other instruments), including clear communication of the changes in capital assets, the capital asset expenditure plan, performance against the plan, and future capital asset expenditures?
E. Accounting Disclosures	Does the MD&A identify and discuss changes in accounting policies, significant accounting policies, and critical accounting estimates?
F. Results	Does the MD&A discuss and analyze both historical results and expected future performance for the company and/or segments, by providing information that is incremental to the financial statements? In this discussion, does the MD&A analyze results against goals, objectives and targets? If non-GAAP measures are used, are appropriate explanations and reconciliations provided?
G. Risk	Does the MD&A clearly disclose the company's principal risks and how the company evaluates, manages and/or mitigates these risks?
H. Environmental and Climate Change Issues?	Does the MD&A clearly discuss the current and potential environmental and climate change issues facing the company?
I. Regulatory Matters	Does the MD&A comply with the regulatory requirements?

Each company's compliance with the individual components of the checklist was evaluated, taking into account both the application of the six principles and the specific content for the component, and awarded a score of 0 to 3 where 0 = not discussed, 1= satisfactory, 2 = good, and 3 = excellent. A ranking of "satisfactory" implies the content element was discussed in general terms. A ranking of "good" implies the content was discussed with additional qualitative and/or quantitative information. A ranking of "excellent" implies the content was discussed as in the "good ranking", but that also the discussion and analysis provide further information, such as including implications for the company.

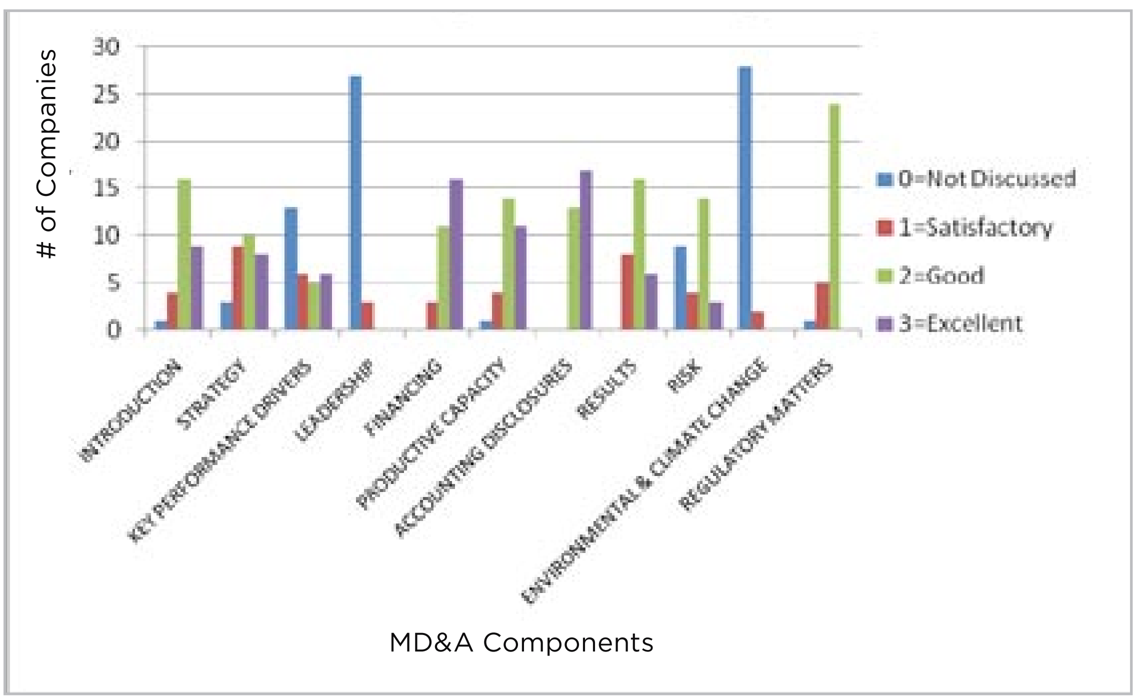
Overall, a company could receive a ranking as high as 33 as 11 components were analyzed. The overall scores of the 30 companies ranged from 7 to 25. A company with an overall score of 23 and above was given an excellent ranking; a score of 19-22 was given an above average ranking; a score of 14-18 was given an average ranking; a score of 10-13 was given a below average ranking; and a score of 9 and below was given a poor ranking.

SUMMARY OF THE RESULTS

Overall Scores of Evaluated Companies



Component Rankings



THEMES AND FINDINGS

Delving into the individual components of the checklist, the following themes and findings emerged from the review.

KEY FACTS — INTRODUCTION

An **executive summary or introduction** is helpful to the reader. It should: 1) overview the company, the industry and what makes the company unique or distinct; 2) identify key segments and assets; and 3) provide a summary of results and key events for the year. Not all companies included an executive summary and no company excelled in all components of an effective introduction, although overall this area was quite well done. It is recommended that preparers focus on a high quality and informative introduction as it frames and focuses the remainder of the MD&A.

AREAS FOR IMPROVEMENT

- Include a focused Introduction that frames the MD&A
- Include highlights for the year
- Describe the company and industry

THOUGHTS FOR CHANGE

- View the Introduction as an executive summary of the MD&A

WHAT TO STRIVE FOR

Gildan Activewear Inc provides an excellent introduction to its MD&A

- Provides the reader with a quick summary of the company and industry
- Discusses what makes the company unique and outlines the strategy
- Describes the distinctiveness of its products and provides a profile of its customers
- Outlines reasons for success and competitive factors

An excerpt of Gildan Activewear Inc. 2007 Annual Report business overview is presented below:

Our Business

Gildan is a vertically-integrated marketer and manufacturer of activewear, underwear and socks. The Company operates in one business segment, being high-volume, basic, frequently replenished, non-fashion apparel. We are the leading supplier of activewear for the wholesale imprinted sportswear market in the U.S. and Canada, and also a leading supplier for this market in Europe. As part of our growth strategy to sell our products into the mass-market retail channel in North America, in 2006, we expanded our product-line to include socks and underwear.

We are now one of the leading suppliers of socks in the U.S. mass-market retail channel.

More of the Overview of the Business section is outlined on pages 22-24 of the Gildan Activewear Inc 2007 Annual Report.

STRATEGY

The **Strategy** component is an area requiring improvement. A company's strategy is key to an investor's understanding of the decision making and actions of the company. However, many companies did not discuss their strategy. In some cases, the reader was required to either search for the strategy discussion or infer it from other areas of the MD&A. For those companies that explicitly discussed their strategy, there were different forms of successful approaches. For example, some companies elected to discuss a company-wide strategy with reference to segments, while others elected to discuss strategy at the segment level with less focus on the company as a whole. Companies that performed better in this area connected strategy to all aspects of the MD&A, demonstrating how financial results, and activities and events throughout the year related to the strategy of the company. Overall, companies that had a strong discussion of the strategy tended to have a stronger, more informative MD&A.

AREAS FOR IMPROVEMENT

- Include management insight
- Relate the Strategy to remainder of MD&A
- MD&A should explain the rationale for the Strategy
- Increase discussion of future in Strategy

THOUGHTS FOR CHANGE

- Include discussion of competitors

WHAT TO STRIVE FOR

Bank of Montreal's MD&A includes an excellent Strategy section

- Explicitly states BMO's vision — to be the top performing financial services company in North America
- Provides a detailed vision and strategy discussion for the company as a whole and each core business segment
- Outlines strategic priorities and reports progress against these priorities
- Explains the rationale for the strategy and strategic priorities by linking back to the vision of the company and what is and expected to be happening in the industry

An excerpt from BMO's 2007 Annual Report strategy discussion is presented below:

Vision

To be the top-performing financial services company in North America.

Our Enterprise-Wide Strategy in Context

We operate in a dynamic environment, where we must be able to respond quickly to our customers and to changes in local, national and global markets. Our customers are the anchor for our strategic plans to grow profitably and achieve our vision. Specific priorities for our growth, our customers and increasing our pace are outlined below:

Our Strategic Priorities and Progress in 2007

Build a superior Canadian personal banking business to ensure that we meet all our customers' financial needs:

- P&C Canada earned record net income of $1,250 million, up 9.4%, due to our branch-driven sales strategy, systems and process improvements and high-impact product offers.
- In P&C Canada, we introduced redesigned integrated branch and individual scorecards with a focus on the Net Promoter Score customer loyalty measure. We also reallocated resources to customer-facing positions.

More specific priorities are outlined on page 27 of the BMO 2007 Annual Report.

KEY PERFORMANCE DRIVERS

The discussion of **Key Performance Drivers** was missing in about half of the selected companies. Some that did discuss performance drivers did not clearly label them. The reader was required to hunt for the drivers and in many cases to also independently determine the measures used to evaluate the drivers. The level at which performance measures were discussed varied. While some discussed measures both at the company level and by core business segment, others restricted their discussion to either one or the other. Those companies that performed better under this component discussed and evaluated company performance against the drivers and the overall strategy via explicitly discussed performance measures. This is an area that requires improvement. The discussion of key performance drivers, how they are measured and how they impact company performance provide essential insights for the readers of MD&As. Only six of the 30 reviewed companies provided a high quality discussion of their performance drivers. It was also noted that those companies that were discussing an unfavourable year were less forthcoming in their discussion of performance drivers.

AREAS FOR IMPROVEMENT

- Explain purpose of Key Performance Drivers
- Explain how and why the performance measures are selected
- Link the Key Performance Drivers to the Strategy and Results

WHAT TO STRIVE FOR

PotashCorp provides effective insight into the selection and measurement of its Key Performance Drivers

- Links Key Corporate Goals with Key Performance Drivers and Indicators of Performance
- Explains how the drivers and indicators of performance are selected
- Involves employees when selecting the appropriate drivers and indicators of performance
- Explains how PotashCorp tracks the drivers of success

An excerpt from PotashCorp 2007 Annual Report Key Performance Drivers discussion is presented on the following page.

Excerpt from PotashCorp 2007 Annual Report Key Performance Drivers discussion:

KEY PERFORMANCE DRIVERS

Each year we set corporate-level targets – key performance indicators (KPIs) – to advance our goals and drive desired results, always striving to maximize shareholder value. Throughout the organization and in the spirit of growth and continuing improvement, these indicators of performance are regularly measured and monitored, with timely feedback provided about progress toward achieving our goals. The following outlines our key corporate goals, targets and results.

● ACHIEVED ◐ PARTIALLY ACHIEVED ○ DID NOT ACHIEVE

PEOPLE	**Encourage and Reward Performance** • To have motivated and productive employees committed to our long-term goals. **Prevent Harm to People**

2007 Targets	2007 Results
Fill at least 75 percent of senior staff openings with internal candidates.	● 85 percent of senior staff openings were filled with internal candidates.
Improve employee engagement, as measured by surveys, by 10 percent from 2006.	◐ Employee engagement improved by 3 percent.
Reduce recordable injury rate by 15 percent from 2006.	○ Recordable injury rate increased by 9 percent.
Reduce lost-time injury rate by 40 percent from 2006.	● Lost-time injury rate was reduced by 48 percent.

2008 Targets

1. Achieve an average employee engagement score that is in the top quartile as determined by the annual employee engagement survey.
2. Fill at least 75 percent of senior staff openings with internal candidates.
3. Continue safety initiatives to reduce severity and lost-time injury rates to zero. Reduce recordable injury rates by 15 percent from 2007 level. Reduce lost-time injury rates by 20 percent from 2007 level.

More Key Corporate Goals, Key Performance Drivers and Indicators of Performance are outlined on pages 25 - 27 of the PotashCorp 2007 Annual Report.

CAPABILITY TO DELIVER RESULTS

The analysis of **Capability to Deliver Results** section was broken down into i) Leadership – Key People; ii) Financing (Including Liquidity), and iii) Productive Capacity — Financial Condition. Each of these components was evaluated individually. Much of this section was discussed quite well, however some parts of the section could be improved.

- There was essentially no discussion of the **leadership** of the company in the evaluated MD&As. A couple of companies mentioned the importance of key people to the strategy and success of the company, but this was not developed or explained in any depth. Given the importance of the intellectual capabilities of an organization, more effort should be given to explaining the leadership, training and succession planning for an organization.

- **Financing** was discussed well, although explicit finance strategies were often difficult to find and were spread throughout the MD&A. Those companies with superior performance within this component explicitly outlined the financing strategy with targets and compared actual results against the financing plan. Additionally, they provided prospective targets. Those with stronger rankings in this area also linked financing plans to the company strategy. All but three companies received a ranking of 2 (good) or above. The straightforwardness of the material and the regulatory requirements are the likely reasons for the strong disclosure in this area. While not generally an issue in the companies reviewed, it should be noted that the Ontario Securities Commission 2008 Corporate Finance Branch Report cited inadequate liquidity and capital resources discussions as a recurring deficiency[1].

- **Productive Capacity** refers to an entity's capital investment, expressed in terms of its ability to convert inputs into outputs of goods & services. This is an area where improvement is needed and one where the CPRB is currently developing guidance. Reporting varied as to whether production capacity was discussed for the company as a whole or by segment. For the most part, the companies discussed all areas within this component, but often the discussion was minimal and capital expenditures were not related to changes in capacity. Those companies that were ranked as having a higher quality discussion included detailed capital asset expenditure plans, analyzed results against the plan, and provided plans or targets for the next year. In addition, it was helpful when companies linked the plan to the strategy of the company and/or core business segment. The major area of weakness related to the discussion of future plans. Very few companies discussed capital asset requirements and plans for the future.

[1] Also see CPR Alert, October, 2008 - MD&A Disclosures in Volatile and Uncertain Times.

AREAS FOR IMPROVEMENT

- Include an insightful discussion of leadership
- Include financing strategy and compare results against plan
- Increase discussion of forward-looking information

THOUGHTS FOR CHANGE

- More explicit discussion of productive capacity
- Discuss maintenance capital expenditures versus growth capital expenditures

WHAT TO STRIVE FOR

Canadian Tire comprehensively discusses Capability to Deliver Results

- States financing strategy, including financing benchmarks, results and future targets
- Provides details of the purpose and sources of funding
- Explains the purpose of capital acquisitions and links to company strategy
- Includes forward-looking information including a capital expenditure plan for next year for both company as a whole and core business segments

An excerpt from Canadian Tire's 2007 Annual Report discussion of Capability to Deliver Results is presented on the following page.

Excerpt from Canadian Tire's 2007 Annual Report discussion of Capability to Deliver Results is presented below:

6.1 Capital structure

Improving our financial flexibility is one of our long-term goals and one of the imperatives of our 2012 Strategic Plan.

We regularly review our funding plan and capital structure to ensure that we have sufficient funding options to provide us with the financial flexibility to implement our growth initiatives and meet the targets of our 2012 Strategic Plan.

Our financial position at the end of 2007 included:

- long-term debt at approximately 31 percent of capitalization;
- $1.2 billion in committed lines of credit; and
- over $2 billion in book value of unencumbered real estate.

6.3.2 2007 Capital program

Canadian Tire's capital expenditures totaled $593 million in 2007 (as disclosed in the Consolidated Financial Statements of Cash Flows, see Note 12), a 6.3 percent increase from the $557 million spent in 2006. These 2007 capital expenditures were comprised of:

- $363 million for real estate projects, including $304 million associated with the rollout of CTR's Concept 20/20 stores;
- $113 million for the Eastern Canada distribution centre;
- $54 million for information technology; and
- $63 million for other purposes.

Overall, capital investments for real estate projects were up significantly year-over-year in 2007, primarily due to the acceleration of the Concept 20/20 store rollout, investment in the construction of an Eastern Canada distribution centre and other capital required for certain larger urban store developments.

6.3.3 2008 Capital plan

The 2008 capital plan is for net capital expenditures in the range of $430 million to $455 million (including the impact of $145 million in proceeds we expect to receive from the sale and leaseback of three CTR urban store developments during the year). The 2008 gross capital plan is comprised of the following, which total $588 million:

- $416 million for real estate projects, including $200 million associated with the rollout of CTR's Concept 20/20 stores;
- $71 million for the Eastern Canada distribution centre;
- $78 million for information technology; and
- $23 million for other purposes.

More discussion of Capability to Deliver Results is outlined on pages 38-45 of the Canadian Tire 2007 Annual Report.

ACCOUNTING DISCLOSURES

The discussion of **Accounting Disclosures** received the highest score overall, with no companies scoring below 2. Again this is likely due to the straightforwardness of the material presented, the regulatory requirements and the tight linkages with the financial statements. Often the companies did not discuss the significant accounting policies, but rather referred the reader to the notes of the financial statements. Most companies, however, provided a comprehensive discussion of critical estimates. Discussion of changes in accounting policies, the most deficient area of this category, varied. The companies that excelled provided more information as to how the financial statements were or will be impacted by the changes. It is questionable, however, whether the current discussion of accounting policies is always providing additional and valuable information to the reader above and beyond the financial statements.

AREAS FOR IMPROVEMENT

- Provide greater analysis on how the critical accounting policies impact the financial statements
- Provide sensitivity analysis on the critical accounting estimates and changes in accounting policies

THOUGHTS FOR CHANGE

- Focus the discussion of accounting policies and estimates on information that is supplemental to the financial statements

WHAT TO STRIVE FOR

Catalyst Paper is a good example of the high quality of disclosure found for Accounting Disclosures

- Discusses in detail the critical accounting policies and estimates and refers the reader to the notes to the financial statements
- Provides additional analysis regarding what the impact would be if the estimates were not accurate
- Effectively discusses related party transactions
- Outlines how changes in accounting policies will impact the financial statements in the future

An excerpt from Catalyst Paper's 2007 Annual Report discussion of Accounting Disclosures is presented on the following page.

Excerpt from Catalyst Paper's 2007 Annual Report discussion of Accounting Disclosures:

10 Critical Accounting Policies and Estimates: The following accounting policies require management's most difficult, subjective and complex judgements, and are subject to a fair degree of measurement uncertainty.

Environmental and legal liabilities: Environmental and legal liabilities are recorded on an undiscounted basis when it is considered probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Liabilities for environmental matters require evaluations of applicable environmental regulations and estimates of remediation alternatives and the costs thereof. Provisions for liabilities relating to legal actions and claims require judgments regarding projected outcomes and the range of loss, based on such factors as historical experience and recommendations of legal counsel.

As at December 31, 2007, the Company had a provision of approximately $13 million for environmental remedial and other obligations. The Company expects capital expenditures relating to known environmental matters, including compliance issues and the assessment and remediation of the environmental condition of the Company's properties, will total approximately $1 million in 2008.

Income taxes: The amounts recorded for future income tax assets and liabilities are based on various judgments, assumptions and estimates. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates for the years in which assets and liabilities are expected to be recovered or settled. For these years, a projection is made of taxable income and estimates made of the ultimate recovery or settlement of temporary differences. The projection of future taxable income is based on management's best estimate and may vary from actual.

The Company's future tax assets are mainly composed of temporary differences relating to employee future benefits and loss carryforwards. Future tax liabilities are mainly composed of temporary differences pertaining to property, plant and equipment. Estimating the ultimate settlement period for these temporary differences requires judgment. The reversal of these temporary differences is expected to be at future substantially enacted rates which could change due to changes in income tax laws. As a result, a change in the timing of reversal or in the income tax rate could materially affect the future tax expense recorded in the consolidated statement of earnings. A one-percentage-point change in the Company's reported effective income tax rate would have the effect of changing the income tax expense by approximately $5.8 million.

In addition, the Company records provisions for federal, provincial and foreign taxes based on the respective tax laws of the jurisdictions in which the Company operates and its judgment as to the appropriate allocation of income and deductions to those jurisdictions. Canadian, U.S. and international tax laws are subject to interpretation and the Company's judgment may be challenged by taxation authorities. In such circumstances, the final resolution of these challenges can result in settlements that differ from the Company's estimated amounts.

More discussion of Accounting Disclosures, including Non-GAAP measures, Critical Accounting Policies and Estimates, Changes in Accounting Policies and Impact of Accounting Pronouncements Affecting Future Periods is included on pages 49-54 of the Catalyst Paper 2007 Annual Report.

RESULTS

The **Results** component rankings varied significantly between the companies. Those that excelled in this component explicitly compared results to the targets and strategy and provided comprehensive forward-looking information, thus, supplementing financial statement information. Many companies, however, only restated what could be inferred from the financial statements with minimal if any explanation of the results or future outlook. Similar to other components, such as financing and productive capacity, the future oriented information was the most deficient area for this component, as there was minimal discussion of targets or trends. It was also noted that those companies reporting a good year were more forthcoming in their discussion. Some focused the results discussion at the core business segment level while others looked to the overall company, depending on the organization of their MD&A. Both methods were viewed as effective.

AREAS FOR IMPROVEMENT

- Provide management insight into results beyond what is found in the financial statements
- Provide more future oriented analysis
- Increase comparison of results to targets
- Outline the nature and purpose of non-GAAP measures

THOUGHTS FOR CHANGE

- Increase emphasis on discussing information not included in the financial statements
- Increase decomposition of financial statement numbers to provide more insight to readers

WHAT TO STRIVE FOR

Telus' discussion of results is superior to most others

- Provides extensive insight into the results for current year not found in the financial statements
- Extensively discusses targets and compares results against targets
- Provides future targets and updates and explains changes to targets
- Clearly discusses the nature and purpose of non-GAAP measures

An excerpt of Telus' 2007 Annual Report Results and General Outlook sections are presented on the following pages.

An excerpt of Telus' 2007 Annual Report Results and General Outlook sections

Financing Costs

Interest expenses decreased by $46.1 million in 2007 when compared to 2006. The decrease was primarily due to financing activities in the first half of 2007 (*see Section 7.3 Cash used by financing activities*), which resulted in a lower effective interest rate for the full year of 2007 as well as a lower average debt balance in the second half of 2007, when compared to the same periods in 2006. Partly offsetting the lower effective interest rate was a higher average debt balance in 2007, as debt issues were completed in March 2007 and commercial paper was issued in May ahead of the June 1 maturity of $1,483.3 million (U.S. $1,166.5 million) Notes. The Company's closing net debt (calculated in *Section 11.4*), was $6,142 million at December 31, 2007, down 2% from $6,278 million one year earlier.

The decrease in interest expenses in 2007 also included an adjustment for application of the effective rate method for issue costs as required under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 (recognition and measurement of financial instruments). In March 2007, forward starting interest rate swaps were terminated, resulting in prepaid interest of approximately $10 million being deferred and amortized over 10 years, which is the term of the new debt.

Interest income increased by $25.1 million in 2007 when compared to 2006, due primarily to recognition of increased interest on tax refunds and increased interest from investments.

9 General Outlook

The following discussion is qualified in its entirety by the *Caution regarding forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10: Risks and risk management*.

In 2007, the Canadian telecom industry generated estimated revenues of approximately $40 billion, with Bell Canada and affiliated companies representing about 45% of the total. As the second largest telecommunications provider in Canada, TELUS generated almost $9.1 billion in revenues in 2007, or approximately 23% of the total.

Revenue in the Canadian telecom market grew an estimated 5.5% in 2007, consistent with the high end of the 3.5 to 6% growth experienced in recent years and better than overall GDP growth. Wireless and enhanced data continue to be the focus of increased investment and act as growth engines for the sector. Offsetting this growth was continued wireline industry weakness in voice service revenue, with declining long distance and legacy data revenues, partially offset by growth in enhanced data services.

TELUS' continued focus on national growth in wireless, data and IP, and the impact of a strong Western economy, were partially offset by wireline losses to cable telephony, resulting in 4.5% consolidated revenue growth. TELUS expects higher growth in 2008 due to a continued focus on data, IP and wireless, including the Future Friendly Home strategy that leverages investments in wireless, broadband facilities and TELUS TV, as well as the acquisition of Emergis.

9 General Outlook — continued

The telecom landscape is expected to remain competitive in 2008. On the wireline front, traditional services remain under pressure. Local and long distance revenues are expected to continue to be impacted by consumer migration from wireline to wireless and VoIP services. With basic cable-TV subscriber additions flat and high-speed Internet subscriber growth slowing, cable-TV companies have increased certain pricing, and are continuing to roll out higher-speed Internet services, Internet telephony and digital cable-TV services to fuel growth. At the end of 2007, Shaw Communications had more than 400,000 residential telephone subscribers, and Rogers Communications and Videotron continue to add Internet telephony customers in their service areas in Central Canada.

The federal government moved the telecommunications industry towards a more open and deregulated wireline environment, based on increased reliance on market forces, with an April 2007 Order in Council. This directed the CRTC to grant residential local exchange forbearance in markets with three independent facilities-based competitors each capable of serving at least 75% of residential lines, and business forbearance in markets with two facilities-based competitors each capable of serving at least 75% of business lines. It also reduced the number of quality-of-service indicators to be met and removed restrictions on winbacks and promotions by incumbent telecoms. Forbearance provides TELUS and other incumbent telecom companies with significantly enhanced flexibility in pricing, promotions and bundling to compete on a go-forward basis in an increasingly competitive market.

The wireless market in Canada is expected to continue to be very competitive and generate continued growth as penetration rates (wireless subscribers as a per cent of population) increase. In 2007, communications companies with greater wireless exposure generally benefited from higher revenue and cash flow growth. Rogers and TELUS, both with high exposure to wireless, announced dividend increases and share buyback programs.

On the other hand, low exposure to wireless and low growth were likely contributing factors leading to a strategic review process at BCE Inc., parent company of Bell Canada. As a result of this strategic review, in June 2007 BCE announced that it had entered into a definitive agreement to be acquired by a group of private equity investors. (See Section 1.2.) There may be a change in BCE's strategy as well as its operational and investment priorities after the completion of the privatization.

More discussion of Results and Future Outlook are outlined, respectively, on pages 27-34 and 49-51 of the Telus 2007 Annual Report.

RISK

Risks were ranked very low according to the checklist, with only two companies receiving a rank of 3. Even when there was a comprehensive discussion of risks, it tended to be boilerplate. The analysis of risks and discussion of how companies mitigated the risks varied. Those companies that provided a stronger focus on risks specific to the company and clearly discussed the risk management process performed better. Many companies did not focus their risks to their company or discuss how they mitigate the risks they face. There was very little quantitative or sensitivity analysis reported by any of the companies. Reporting for this component is an area for improvement for all companies.

AREAS FOR IMPROVEMENT

- Discuss risks specific to the company
- Eliminate boilerplate discussion
- Increase the quantitative and sensitivity analysis
- Include how the company monitors and mitigates risks

WHAT TO STRIVE FOR

Canadian Pacific provides a strong analysis of the risks it faces

- Includes an extensive list of the specific risks it faces
- Includes a comprehensive discussion of how the company monitors and mitigates the risk
- Includes some discussion of how the impact of the risks might change in future
- Provides sensitivity analyses and quantitative analyses related to the risks

An excerpt of Canadian Pacific Railways' 2007 Annual Report Risks section is presented on the following page.

22.0 Business Risks and Enterprise Risk Management

In the normal course of our operations, we are exposed to various business risks and uncertainties that can have an effect on our financial condition. While some financial exposures are reduced through insurance and hedging programs we have in place, there are certain cases where the financial risks are not fully insurable or are driven by external factors beyond our influence or control.

As part of the preservation and delivery of value to our shareholders, we have developed an integrated Enterprise Risk Management ("ERM") framework to support consistent achievement of key business objectives through daily pro-active management of risk. The objective of the program is to identify events that result from risks, thereby requiring active management. Each event identified is assessed based on the potential severity and the ability of the risk to impact our financial position and reputation, taking into account existing management control and likelihood. Risk mitigation strategies are formulated to accept, treat, transfer, or eliminate the exposure to the identified events.

The following is a discussion of key areas of business risks and uncertainties that we have identified through our ERM framework and our mitigating strategies. The risk areas below are listed in no particular order, as risks are evaluated on both severity and probability. Readers are cautioned that the following is not an exhaustive list of all the risks we are exposed to, nor will our mitigation strategies eliminate all risks listed.

22.1 COMPETITION

We face significant competition for freight transportation in Canada and the US, including competition from other railways and trucking companies. We are subject to competition for freight traffic from other Class I railways, particularly Canadian National Railway Company ("CN"), Burlington Northern Santa Fe Railway, CSX Corporation, Norfolk Southern Corporation and Union Pacific Corporation. Competition is based mainly on price, quality of service and access to markets. Competition with the trucking industry is generally based on freight rates, flexibility of service and transit time performance. The cost structure and service of our competitors could impact our competition and have a materially adverse impact on our business or operating results.

To mitigate competition risk, our strategies include:

- creating long-term value for customers, shareholders and employees by profitably growing within the reach of our rail franchise and through strategic additions to enhance access to markets and quality of service;
- improving handling through IOP to reduce costs and enhance quality of service;
- and exercising a disciplined yield approach to competitive contract renewals and bids.

More discussion of Risks is included on pages 44-48 of the Canadian Pacific Railways 2007 Annual Report.

ENVIRONMENTAL & CLIMATE CHANGE ISSUES

Environmental and Climate Change Issues were not discussed in any detail in the evaluated MD&As. If environmental issues were discussed, they tended to only be as part of an overall risk discussion. This is an area requiring significant increased discussion. The MD&A should outline both the current and potential environmental issues for the company. Both a quantitative and qualitative analysis of these issues would be useful to the reader of the MD&A. Climate change will directly or indirectly impact all companies. Discussion of the nature and magnitude of existing and potential impacts of climate change on the company should be clearly discussed in the MD&A. Again, both quantitative and qualitative analysis should be provided. The CPRB will be releasing guidance with respect to climate change reporting, *Building a Better MD&A: Climate Change Disclosures*, in the near future.

REGULATORY MATTERS

Regulatory Matters are discussed quite well overall, likely due to the high level of repetition of the material within other parts of the annual report, for example, the notes to financial statements. There were some areas, however, where disclosure, overall, was not in compliance with the regulatory requirements. For example, regulatory requirements, such as discussion of proposed transactions, unusual or infrequent transactions and total long-term financial liabilities were not always included in the evaluated MD&As. It is questionable, however, as to whether some of these regulatory requirements are providing additional and valuable information to the reader, given that some of this information is included in other required filing documents.

Notes

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