

staying ahead in economic performance

TELUS plays a strong role in Canada's economic growth through innovative telecommunications products and services that enrich the lives of Canadians, build sustainable communities and increase shareholder value. In this section, we demonstrate our commitment to economic growth now and for the future.



economic performance

Revenue, earnings and cash flow

Industry overview

In 2005, the telecommunications market displayed general trends similar to recent years. The wireless sector continued to drive growth and equity values, while the wireline sector remained soft with some recovery in data revenues. Canadian telecommunications operators continued to follow strategies focused on core operations, including efficiency measures and the integration of recent consolidations, to support cash flow.

The Canadian telecom industry generated revenues of approximately \$35.5 billion in 2005, with Bell Canada and its affiliated regional telecommunications companies representing about 48 per cent of the total. As the second largest full-service telecommunications provider in Canada, TELUS generated \$8.1 billion in 2005, or about 23 per cent of the total.

Overall revenue growth in the Canadian telecom market in 2005 was approximately three per cent, similar to that experienced in 2004, and roughly in line with overall GDP (gross domestic product) growth. Wireless continued to be the growth engine for the sector with wireless revenues growing approximately 16 per cent over 2004. Offsetting wireless growth was continued general industry weakness in wireline voice with declining long distance and legacy data revenues, partially offset by growth in enhanced data services. With a consistent focus on wireless, data and IP, over the past five years, TELUS outpaced the industry average with seven per cent consolidated revenue growth. Similar growth rates for TELUS and the industry are expected in 2006.

With continued challenges in margins and growth rates in legacy voice and data services, incumbent local exchange carriers (ILECs) are facing pressure to continue to focus on enhanced operating efficiencies. Indeed, most of the major ILECs have signaled an intent to invest in restructuring wireline operations to improve efficiencies in 2006. At TELUS, this has been an ongoing priority for four years.

TELUS' strategic focus on delivering national business service in data and IP, its consistent execution against its business priorities and targets, and its large exposure to the fast-growing Canadian wireless market position the company well to leverage continued above-average consolidated growth in 2006 and beyond.

Certain financial performance information presented here is extracted from our audited financial statements for the year 2005. A complete review of TELUS' financial and business information is available in our online annual report at telus.com/annualreport.

TELUS financial highlights

Operating revenues grew seven per cent in 2005 to \$8.1 billion, led by strong wireless growth. Operating earnings, or EBITDA (earnings before interest, taxes, depreciation and amortization), increased seven per cent, led by a 26 per cent wireless EBITDA growth.

Net income increased by \$135 million in 2005 on strong wireless growth partially offset by temporary expenses associated with the labour disruption in Western Canada. Cash flow, defined as EBITDA less capital expenditures, increased \$205 million to \$2.0 billion in 2005 despite the impact of the labour disruption.

Financial highlights

(\$ in millions except per share amount)	2005	2004	% change
Operating revenues	8,143	7,581	7.4
EBITDA ¹	3,295	3,091	6.6
Operating income	1,672	1,448	15.5
Net income	700	566	23.7
Earnings per share, basic	1.96	1.58	24.1
Capital expenditures	1,319	1,319	0.0
Cash flow ²	1,976	1,772	11.6
Dividends declared per share	0.875	0.65	34.6
Dividend payout ratio ³	56%	51%	-

1 EBITDA is earnings before interest, taxes, depreciation and amortization.

2 Cash flow defined as EBITDA less capital expenditures.

3 Last quarterly dividend declared per share, annualized, divided by basic earnings per share in the reported period.

Revenue composition – TELUS' total operating revenues in 2005 consisted of 38 per cent from voice (local and long distance) revenues, 40 per cent from wireless revenues and 19 per cent from data revenues. Combined data and wireless revenues were

59 per cent of total operating revenues in 2005, a three basis point increase from 2004. This is consistent with our continued focus on the growth markets of data and wireless and caused healthy revenue growth.

Revenue composition				
(\$ in millions)	2005	%	2004	%
Voice – local and long distance	3,063	38	3,067	40
Data	1,533	19	1,416	19
Wireless	3,296	40	2,812	37
Other	251	3	286	4
Total operating revenues	8,143	100	7,581	100

Segmented information – The company reports on two segments, wireline and wireless. The following table provides a segmented breakdown of various financial data.

Segmented data						
	2005			2004		
(\$ in millions)	Wireline	Wireless	Consolidated ²	Wireline	Wireless	Consolidated ²
Operating revenue	4,938	3,319	8,257	4,866	2,833	7,699
Operating expense	3,085	1,876	4,961	2,918	1,691	4,609
EBITDA ¹	1,852	1,443	3,295	1,948	1,142	3,091
Capital expenditures	914	405	1,319	964	355	1,319

1 EBITDA is earnings before interest, taxes, depreciation and amortization.

2 Intersegment revenues and associated operating expenses between wireline and wireless are eliminated upon consolidation.

Capital expenditures – TELUS' capital expenditures of \$1.3 billion in 2005 were the same as the previous year. Sixty-four per cent of the 2005 capital expenditure was spent

in B.C. and Alberta with 34 per cent spent in Ontario and Quebec. This compares to 63 and 36 per cent, respectively, of capital expenditures spent in the same provinces in 2004.

Capital expenditures by province				
(\$ in millions)	2005	%	2004	%
British Columbia	265	20.1	337	25.6
Alberta	579	43.9	496	37.6
Saskatchewan	1	0.1	2	0.1
Manitoba	7	0.5	4	0.3
Ontario	325	24.6	348	26.4
Quebec	126	9.5	124	9.4
Atlantic Canada	1	0.1	1	0.1
Outside Canada	15	1.2	7	0.5
Total capital expenditures	1,319	100	1,319	100.0

economic performance

Unleashing the power of the Internet – TELUS is the second largest Internet service provider (ISP) in Western Canada with one million Internet customers. In 2005, we increased our high-speed Internet subscriber base by 11 per cent, to end the year with 763,000 high-speed Internet subscribers across Canada. We are striving to have a majority of households in British Columbia, Alberta and Eastern Quebec connected to TELUS high-speed Internet service. The company has invested approximately \$900 million in this high-tech infrastructure.

Wireless serving 4.5 million Canadians – Our wireless subscriber base grew by 584,000 subscribers in 2005 and

we now serve more than 4.5 million subscribers from coast to coast. Our total network coverage of 30.6 million people brings digital wireless service to 94 per cent of the Canadian population.

Vendor payments – TELUS' total vendor payments in 2005 were approximately \$4.9 billion (including GST and PST). Eighty-eight per cent of these vendor payments were made to Canadian companies or multi-national companies with locations in Canada, with the remaining 12 per cent made to non-Canadian vendors. This compares to 82 per cent and 18 per cent, respectively, in 2004.

Vendor payments by location				
(\$ in millions)	2005	%	2004	%
Vendors with locations in Canada	4,366	88	2,713	82
Non-Canadian vendors	571	12	595	18
Total vendor payments	4,937	100	3,308	100

Comparative performance – The following chart summarizes TELUS' financial performance by comparing our revenue, EBITDA and cash flow growth to global telecom companies for the past

three years. The chart provides evidence that TELUS consistently performs at world-class levels.

2005 global telecom performance – world rankings			
(% growth)	2005	2004	2003
Revenue	top quartile	No. 1	top quartile
EBITDA	top quartile	No. 1	top quartile
Cash flow ¹	No. 2	No. 1	No. 1
EPS	No. 3	top quartile	n.m. ²

1 EBITDA less capital expenditures.

2 Not meaningful.

Note: A comparison of TELUS to 15 top major global incumbent telecom companies including: Aliant, AT&T, BCE, BellSouth, British Telecom, Deutsche Telecom, France Telecom, KPN, MTS, Nippon, PCCW, Sprint Nextel, TeliaSonera, Telstra and Verizon. Results provided by TD Securities and Bloomberg.

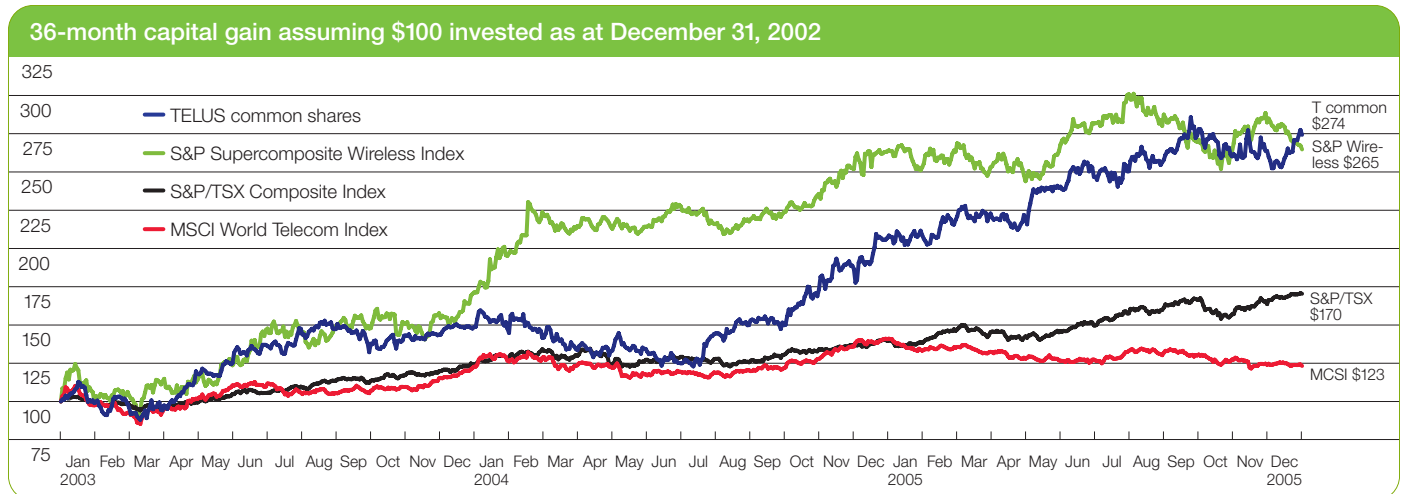
top honours for disclosure and 2004 annual report

At its annual Canadian awards in January 2006, *IR Magazine* recognized TELUS as the best in two categories – corporate disclosure policy and annual report for 2004. The *IR Magazine* awards recognize and celebrate Canadian corporations for excellence in investor relations communications.



Stock price performance – As shown in the share price performance chart below, TELUS' common and non-voting shares have outperformed the Canadian Standard & Poor's/ Toronto Stock Exchange (S&P/TSX) Composite Index, the

Morgan Stanley World Telecom Index and the Standard & Poor's Wireless Index over the past three years, based on a \$100 investment made on December 31, 2002.



TELUS taxes – TELUS pays taxes to three levels of government and these taxes support services for all Canadians. During

the last three years, TELUS paid taxes to the federal, provincial and municipal governments as follows:

TELUS taxes¹			
(\$ in millions)	2005	2004	2003
Federal government	65.2	64.3	65.6
Provincial and municipal governments:			
British Columbia	64.4	68.1	67.5
Alberta	39.5	39.3	35.7
Saskatchewan	0.1	0.3	0.1
Manitoba	0.8	0.5	0.5
Ontario	31.0	31.1	26.4
Quebec	26.3	24.2	21.1
Prince Edward Island	–	–	0.1
Provincial sub-total	162.1	163.5	151.4
Total	227.3	227.8	217.0

1 Table includes payroll taxes, property and business taxes, provincial corporation capital taxes, and sales taxes on goods and services used by TELUS.

economic performance

In 2005, TELUS recorded a net recovery of \$69.5 million (\$194.6 million in 2004) in federal and provincial corporation income taxes. The total amount was due to the application of losses net of federal capital tax payments, compared to \$177.8 million in 2004. TELUS did not earn federal investment

tax credits on projects qualifying as scientific research and experimental development in 2005 (\$16.8 million in 2004). In addition, TELUS collected from customers and remitted to governments the following amounts of sales taxes:

Sales taxes collected			
(\$ in millions)	2005	2004	2003
Goods and services tax and harmonized sales tax	553.2	526.5	505.4
Provincial sales taxes:			
British Columbia	118.6	120.9	120.8
Saskatchewan	1.4	1.2	1.0
Manitoba	2.2	1.6	1.3
Ontario	70.9	62.5	50.0
Quebec	60.2	56.8	52.3
Prince Edward Island	0.4	0.2	0.1
Provincial sub-total	253.7	243.2	225.5
Total sales taxes collected	806.9	769.7	730.9

For detailed information on TELUS' financial results, visit telus.com/annualreport.

Investment in research – TELUS' wireline operations are supported by research and development activities to test and trial emerging new technologies. TELUS also funds collaborative research and development activities with selected communications research organizations such as TRILabs (Telecommunications Research Laboratories). TRILabs is the largest not-for-profit applied telecommunications research consortium in Canada with annual revenues of more than \$15 million. As an industrial partner, TELUS contributes more than \$600,000 per year of sponsorship and in-kind funding to TRILabs.

TELUS' wireless operation has a research and development program that invests in wireless communication technologies such as third generation, or 3G, wireless communications.

As part of its PCS (personal communications services) licence conditions, TELUS' wireless operation must spend at least two per cent of certain PCS and cellular revenues on research and development. In 2005, this represented \$28.9 million.

Benefiting Canadians – TELUS' contributions to the Canadian economy are significant and include innovative high-tech job creation with competitive industry salaries and benefits for more than 26,000 Canadian team members, as well as payment of federal and provincial income taxes from these jobs. In 2005, the TELUS team shared \$1.9 billion in total salaries and benefits.

TELUS also has a positive impact on our industry with research and development activities and, as an increasingly profitable Imagine Caring Company, we are better able to make a difference in the areas we serve with our commitment to community investment.

Wireless investment in research and development			
(\$ in millions)	2005	2004	% change
	28.9	24.1	19.9