

# growing together through economic performance



TELUS is a strong contributor to Canada's economic growth through innovative telecommunications products and services that enhance the lives of Canadians, build sustainable communities and increase shareholder wealth. We are committed to economic growth now and for the future, for the benefit of our customers, our team, our shareholders and our communities.

## economic performance

### Revenue, earnings and cash flow

#### Industry overview

In 2006, the telecommunications market experienced similar trends as in recent years. The wireless sector continued to drive profitable growth, while the wireline sector faced increased competitive pressures.

The Canadian telecom industry, including wireline and wireless, generated estimated revenues of approximately \$38 billion in 2006, with Bell Canada and its affiliated telecommunications companies representing about 45 per cent of the total. As the second largest telecommunications provider in Canada, TELUS generated \$8.7 billion of revenue in 2006, or approximately 23 per cent of the total.

Revenue growth in the Canadian telecom market in 2006 was approximately six per cent, an improvement on the 3.5 to 4.5 per cent growth experienced over the past few years and better than overall gross domestic product growth. Wireless and enhanced data continued to be the growth engine for the sector with wireless revenues growing approximately 17 per cent over 2005. Offsetting wireless growth was continued general weakness in wireline voice with declining long distance and legacy data revenues, although this decline was partially offset

by growth in enhanced data services. TELUS' focus on wireless, data and IP resulted in TELUS surpassing the industry average in 2006 with 6.6 per cent consolidated revenue growth. We expect a similar growth rate for TELUS in 2007.

The telecom landscape remains competitive. On the consumer front, traditional services remain under pressure as local and long distance revenues are expected to continue to be affected by consumer migration from wireline to wireless and competitive VoIP services, while high-speed Internet access and wireless are expected to generate continued strong growth. TELUS expects to have continued success by offering enterprise clients integrated, managed solutions focused on key vertical markets such as healthcare, oil and gas, financial services and the public sector.

TELUS' strategic focus on delivering national business services in data and IP, coupled with high exposure to the fast-growing Canadian wireless market, solidly position the company to continue its growth in 2007 and beyond.

Certain financial performance information presented here is from our audited Consolidated financial statements for the year 2006. A complete review of TELUS' financial and business information is available at [telus.com/annualreport](http://telus.com/annualreport).

## awards for excellence in corporate governance disclosure and annual report



The Canadian Institute of Chartered Accountants (CICA) presented TELUS for the second year in a row with the Award of Excellence for best corporate governance disclosure across all industry sectors, indicating that TELUS consistently demonstrates a commitment to excellence in corporate governance through detailed disclosure of its practices in the information circular and on its website. TELUS was also recognized for having produced the best annual report in the world for 2005 in the Annual Report on Annual Reports by [enterprise.com](http://enterprise.com).

## TELUS financial highlights

Operating revenues increased 6.6 per cent in 2006 to \$8.7 billion, led by strong wireless growth. Operating earnings, or EBITDA (earnings before interest, taxes, depreciation and amortization), increased nine per cent, led by a 21 per cent wireless EBITDA growth. Combined data and wireless revenue were 63 per cent of total operating revenues in 2006, a 400 basis point increase from 2005. This is consistent with our continued focus on growth markets of data and wireless and contributed to healthy revenue growth.

Growth of \$422 million or 60 per cent in net income was primarily a result of the strong wireless sector, but was also affected by temporary net expenses leading up to and resulting from an extended labour disruption in 2005. The trend was also affected by reductions in income tax and tax adjustments and related interest for prior periods. Cash flow, defined as EBITDA less capital expenditures, remained relatively flat from last year, due to increased capital expenditures.

Financial highlights			
(\$ in millions except per share amounts)	2006	2005	% change
Operating revenues	8,681	8,143	6.6%
EBITDA <sup>1</sup>	3,590	3,295	9.0%
Operating income	2,015	1,672	21%
Net income	1,123	700	60%
Earnings per share, basic	3.27	1.96	67%
Capital expenditures	1,618	1,319	23%
Cash flow <sup>2</sup>	1,972	1,976	(0.2)%
Dividends declared per share	1.20	0.875	37%
Return on common equity	16%	9.9%	–
Dividend payout ratio <sup>3</sup>	46%	56%	–

1 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.

**Capital expenditures** – TELUS' capital expenditures of \$1.6 billion in 2006 increased as a result of enhanced investments in wireless and broadband networks and network access to serve strong housing growth in Western Canada,

as well as deferred capital expenditures resulting from the labour disruption in 2005. Seventy-one per cent of the 2006 capital expenditure was spent in B.C. and Alberta with 28 per cent spent in Ontario and Quebec.

Capital expenditures by province				
(\$ in millions)	2006	%	2005	%
British Columbia	428	26.5	265	20.1
Alberta	714	44.1	579	43.9
Saskatchewan	2	0.1	1	0.1
Manitoba	7	0.4	7	0.5
Ontario	314	19.4	325	24.6
Quebec	131	8.1	126	9.5
Atlantic Canada	1	0.1	1	0.1
Outside Canada	21	1.3	15	1.2
Total capital expenditures	1,618	100	1,319	100

# economic performance

**Unleashing the power of the Internet** – TELUS is the second largest Internet service provider in Western Canada and, combined with Eastern Quebec, serves 1.1 million Internet customers. In 2006, we increased our high-speed Internet subscriber base by 20 per cent, to end the year with 917,000 subscribers. The company invested approximately \$190 million in this high-tech broadband infrastructure in 2006. In September, TELUS announced an additional \$600 million commitment to further enhance our broadband infrastructure in communities across British Columbia, Alberta and Eastern Quebec by the end of 2009. This build complements a rural capital investment program to bring high-speed Internet services to more than

450 additional remote communities in the same provinces by 2010.

**Serving 5.1 million Canadians with wireless** – Our wireless subscriber base grew by 535,000 subscribers in 2006 and we now serve 5.1 million subscribers from coast to coast. Our total network coverage of 31 million people brings digital wireless service to 95 per cent of the Canadian population.

**Vendor payments** – TELUS' total vendor payments in 2006 were approximately \$5.5 billion (including goods and services tax and provincial sales tax). Eighty-seven per cent of these vendor payments were made to Canadian companies or multi-national companies with locations in Canada.

<b>Vendor payments by location</b>				
(\$ in millions)	2006	%	2005	%
Vendors with locations in Canada	4,812	87	4,366	88
Non-Canadian vendors	717	13	571	12
Total vendor payments	5,529	100	4,937	100

**Comparative performance** – TELUS' financial performance – growth in revenue, EBITDA and cash flow – demonstrates that TELUS consistently performs at world-class levels, when

compared to incumbent global telecom companies for the past three years.

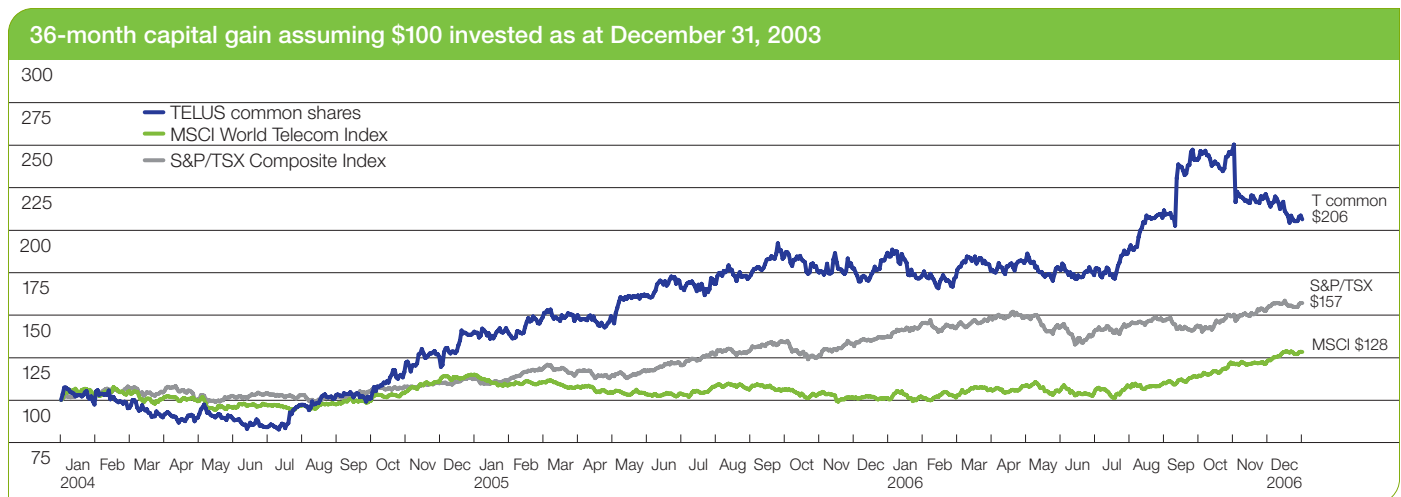
<b>2006 global incumbent telecom performance chart</b>			
(% growth)	2006	2005	2004
Revenue	top 25%	top 25%	No. 1
EBITDA	top 25%	top 25%	No. 1
EPS	top 25%	top 25%	top 25%

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



**Stock price performance** – TELUS' common and non-voting shares have outperformed the Canadian Standard & Poor's/ Toronto Stock Exchange (S&P/TSX) Composite Index and the

Morgan Stanley World Telecom Index over the past three years, based on a \$100 investment made on December 31, 2003.



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

<b>TELUS tax payments, excluding income taxes<sup>1</sup></b>			
(\$ in millions)	2006	2005	2004
Federal government	66.4	65.2	64.3
Provincial and municipal governments:			
British Columbia	69.5	64.4	68.1
Alberta	37.9	39.5	39.3
Saskatchewan	0.2	0.1	0.3
Manitoba	0.4	0.8	0.5
Ontario	31.9	31.0	31.1
Quebec	26.5	26.3	24.2
Provincial and municipal sub-total	166.5	162.1	163.5
<b>Total</b>	<b>232.8</b>	227.3	227.8

<sup>1</sup> Includes payroll taxes, property and business taxes, provincial corporation capital taxes, and sales taxes on goods and services used by TELUS.

**TELUS income tax recoveries, net of instalments** – In 2006, TELUS recorded a net recovery of \$103.0 million (compared to \$69.5 million in 2005) in federal and provincial corporation income taxes. Of this amount, \$102.8 million in 2006, versus \$69.5 million in 2005, was due to the application of losses net of instalment payments and \$0.2 million (nil in 2005) was federal investment tax credits earned on projects qualifying as scientific research and experimental development.

Based on the assumption of the continuation of the rate of TELUS earnings, the existing legal entity structure, and no substantive changes to tax regulations, the company expects to be able to substantially utilize its non-capital losses before the end of 2007. Under the existing legal entity structure, TELUS currently expects cash income tax payments to be minimal in 2007, increasing in 2008, with substantial cash tax payments in 2009.

## economic performance

In addition, TELUS collected taxes from customers and remitted them to governments.

<b>Sales taxes collected</b>			
(\$ in millions)	2006	2005	2004
Goods and services tax (GST) and harmonized sales tax	549.8	553.2	526.5
Provincial sales taxes (PST)			
British Columbia	126.0	118.6	120.9
Saskatchewan	1.4	1.4	1.2
Manitoba	3.0	2.2	1.6
Ontario	82.9	70.9	62.5
Quebec	75.2	60.2	56.8
Prince Edward Island	0.4	0.4	0.2
Provincial sub-total	288.9	253.7	243.2
Total	838.7	806.9	769.7

For detailed information on TELUS' financial results, visit [telus.com/annualreport](http://telus.com/annualreport).

<b>Estimated wireless investment in research and development</b>			
(\$ in millions)	2006	2005	2004
	35.9	28.9	24.1

### 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 communications research organizations such as TRLabs (Telecommunications Research Laboratories). TRLabs is the largest not-for-profit applied telecommunications research consortium in Canada with annual revenues of \$10.5 million. As an industrial partner, TELUS contributes \$563,000 per year of sponsorship and in-kind funding to TRLabs.

A research and development program in TELUS' wireless operation invests in wireless communication technologies such as third generation, or 3G, wireless communications. As part of PCS (personal communications services) licence conditions, we are required to spend at least two per cent of certain PCS and cellular revenues on research and development. In 2006, this was estimated at \$35.9 million.

