

the future is friendly

Dear fellow investor

In 2004, we continued to deliver on the benefits of the clear and consistent strategy we developed and put into action back in 2000. Four years ago, we committed to deliver on our national growth strategy focused on data, Internet protocol (IP) and wireless. Our relentless execution of this strategy has provided a strong foundation for our current achievements and positions us for continued success in 2005 and beyond.



2004 a momentous year for TELUS

A disciplined focus on our core business in the Canadian telecommunications market, combined with aligned and committed execution to plan, is proving effective. We are delivering on our brand promise of making the future friendly for our many stakeholders.

Through 2004, we built upon TELUS' considerable momentum in the wireless and data areas. Our high exposure to wireless is viewed favourably by investors, with TELUS Mobility ranked as the best performing wireless company in North America. Our managed data entry into the Central Canadian business market has also shown demonstrable progress in respect of the improved results achieved in the second half of 2004.

For the second year running, your company reported either leading or top quartile financial and operational results in the global telecom industry on a range of indicators. Superior wireless growth and solid results from our wireline business yielded a six per cent increase in revenue, a 10 per cent growth in operating earnings, a 75 per cent increase in net income and a 54 per cent increase in all-important free cash flow to \$1.3 billion at TELUS Corporation. Moreover, TELUS was successful in meeting or exceeding five of its six consolidated 2004 targets.

Our disciplined approach and sense of investor responsibility are also evident in what TELUS chose not to do in 2004. We did not enter a bidding contest when our offer to purchase the wireless operator, Microcell, was topped by Rogers Wireless. In this same vein, while we were disappointed that we did not win the telecommunications sponsorship bid for the 2010 Olympic and Paralympic Winter Games in Vancouver/Whistler, we felt our bid submission reflected strongly our sense of fiduciary responsibility. TELUS remains proud of its significant contribution in bringing the 2010 Games to Canada in the first place.

TELUS continued to honour its commitment to balance the interests of shareholders and debt holders again in 2004. Our first priority has been to repay the debt we incurred to implement our wireline and wireless infrastructure nationally. To this end, we reduced net debt by \$1.1 billion in 2004, following an \$839 million reduction in 2003. During 2004 and more than a year ahead of schedule, TELUS achieved two of its long-term de-leveraging targets; specifically, net debt to EBITDA of 2.2 times or less and net debt to total capitalization of 45 to 50 per cent.

With de-leveraging ahead of plan and strong free cash flow, we announced a series of shareholder value-enhancing initiatives in October, including:

- a quarterly dividend increase of 33 per cent to 20 cents per share, recognizing the desires of income-oriented shareholders



Darren Entwistle
Member of the
TELUS Team

- a dividend payout ratio guideline of 45 to 55 per cent on net earnings, providing a framework by which investors can assess the potential for future dividend increases
- a Normal Course Issuer Bid to repurchase up to 25.5 million TELUS shares, recognizing the desires of our growth-oriented investors and enhancing the value of the remaining shares. TELUS' bid was put into effect in late December, and by year-end we had purchased 2.2 million shares for \$78 million
- measures to restrict earnings dilution by reducing future issuances of TELUS shares, helping maintain the value of existing shares.

We have received support and appreciation from many of our investors for this comprehensive set of shareholder-friendly actions.

A highlight of 2004 was the sale of TELUS shares by Verizon Communications. In the fourth largest equity offering ever undertaken in Canada, Verizon successfully sold all of its 73.5 million TELUS shares for \$2.2 billion. This move was consistent with Verizon's strategy to focus on investing in its core U.S. market by selling international assets. TELUS shareholders benefited from the sale of Verizon's 20.5 per cent stake, including the receipt of a \$148 million cash payment from Verizon; the reduction of \$97 million in future payments to Verizon that were previously contracted; and an enhanced and highly beneficial long-term wireless roaming agreement with Verizon Wireless. The over-subscribed share offering that increased our public share float by 26 per cent, provided TELUS with a more diverse global shareholder base and increased our Canadian ownership.

For the second year in a row, shareholders have enjoyed large increases in share value. In 2004, your common shares increased by 40 per cent and non-voting shares by 44 per cent, compared to a 12 per cent average increase on the Canadian stock market. The market value of TELUS increased from \$8.8 billion a year ago to \$12.7 billion at year-end. Indeed, the success of our strategy

over the last five years is highlighted by the increase in TELUS' enterprise value from \$10.5 billion at the start of 2000 to \$18.2 billion at the conclusion of 2004.

Answering the challenges ahead

Notwithstanding our accomplishments in 2004, I want to assure you that TELUS is not proceeding as an over-optimistic organization. All TELUS team members are acutely aware of industry and company challenges and are aligned and focused on addressing them to ensure we achieve our goals. Moving into 2005, your management team is continuing to answer the major challenges facing TELUS, including:

- maintaining momentum in our wireless business while addressing competitive actions
- competing successfully with the inception of cable telephony in the local telephone market
- enhancing our economic performance in the competitive Central Canadian business market
- driving proactively the necessary productivity improvements across TELUS in response to developments in technology, competition and regulation
- achieving a new and beneficial collective agreement for TELUS and our unionized team members.

A consistent and effective strategic direction

TELUS has remained on course in our journey to become Canada's premier national provider of integrated telecommunications solutions. We are steadfast in pursuing the same six strategic imperatives established in 2000 that continue to dictate our investment decisions. These imperatives are as follows:

- **building national capabilities** across data, IP, voice and wireless
- **focusing relentlessly on the growth markets of data, IP and wireless**
- **providing integrated solutions** that differentiate TELUS from our competitors
- **partnering, acquiring and divesting** to accelerate the implementation of our strategy and focus our resources on core business
- **going to market as one team**, under a common brand, executing a single strategy
- **investing in internal capabilities** to build a high-performance culture and efficient operation.

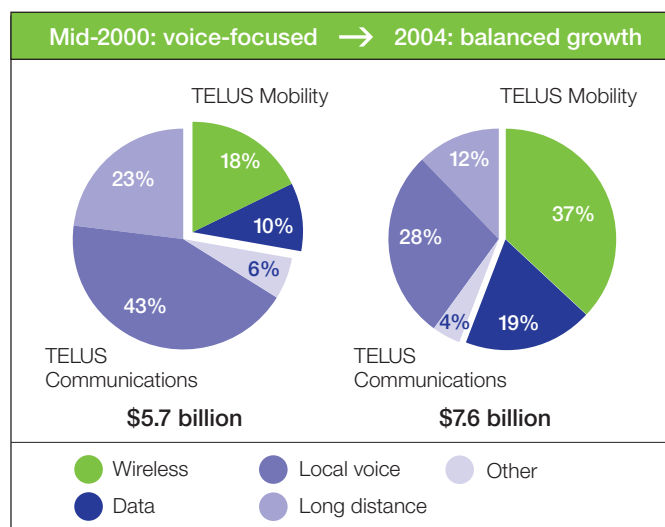
Execution against these imperatives through 2004 allowed us to realize tremendous success. Most noteworthy were the initiatives undertaken that produced strong growth in our wireless and our wireline data operations and, as well, provided integrated customer solutions.

Focusing relentlessly on the growth markets of data and wireless

Clearly, the strategic investment made to acquire Clearnet in 2000, in combination with the significant wireless capital investments made to extend digital coverage to 30 million Canadians, is paying off in growth and value creation for TELUS investors. In 2004, we added a record 512,000 new wireless subscribers, and increased wireless revenue and operating earnings by 19 per cent and 40 per cent, respectively.

Similar investments in wireline data networks have been made to extend high-speed Internet coverage in our incumbent territories in British Columbia, Alberta and Eastern Quebec. Moreover, TELUS has built and operationalized a leading-edge, next generation IP-based network for our business customers across Canada, and is establishing new business relationships in the urban markets of Ontario and Quebec. These investments in our core business technology build competitive advantage for TELUS and an economic return to our shareholders through non-price-based differentiation of service that is meaningful for our customers.

This strategic focus on the growth markets has created a dramatic shift in our consolidated revenue, earnings and cash flow streams. The result is a better balance between slower-growing traditional voice business and faster-growing wireless, data and IP business. As illustrated, wireless and data revenues have doubled from 28 per cent four years ago to 56 per cent today. We are clearly delivering on this imperative.



making homes future friendly

With the TELUS Future Friendly Home, fun, convenient and informative home communications solutions come together to allow customers to experience the future. TELUS Home Networking and TELUS HomeSitter are just the beginning.



Providing integrated solutions that differentiate TELUS

TELUS is taking steps to offset the competitive pressure on wireline revenue and margins that is pervasive in the global telecommunications industry. Our approach is three-pronged: geographic expansion into the Ontario and Quebec business markets; the introduction of new integrated business and consumer solutions; and institutionalizing a cost-conscious mindset throughout the organization.

Our efforts are achieving results. TELUS is increasingly recognized as a leader in providing IP-based solutions to customers large and small. We implemented smoothly a leading-edge, managed data network with IBM for the TD Bank Financial Group by successfully migrating more than 1,000 branches onto the TELUS IP network. This landmark seven-year, \$160 million contract provides a fully managed network service for TD Bank and TD Waterhouse branches and, soon, many automated bank machine locations right across Canada.

We continued to target large enterprise multi-year contracts, securing several wins during the year including a six-year, \$66 million contract with The Co-operators and a seven-year, \$10 million contract with the Laurentian Bank.

Building on TELUS IP-One Innovation, we continue to develop customized and enhanced features suitable for business customers. When launched in 2003, IP-one Innovation was Canada's first carrier-grade hosted and managed VoIP service. Our IP leadership position continues as we plan to launch TELUS IP-One Evolution™ in 2005. This is our latest hosted and managed VoIP offering, enabling business customers to migrate Centrex services to IP telephony services.

We are making the future friendly for consumers through the introduction of the first elements in our digital home strategy. The TELUS Future Friendly Home brings consumers secure

connectivity to the world through high-speed Internet and wireless connections, and delivers innovative solutions that enhance their lives. The first two components of the Future Friendly Home, TELUS Home Networking and TELUS HomeSitter, were introduced in 2004. We are the first major North American telecommunications company to offer a remote home monitoring solution for customers.

Tracking our strong progress against 2004 corporate priorities

Shared corporate priorities drive the actions of our team.

The following discusses our progression on the 2004 priorities I shared with you last year.

1 Enhancing our leadership position in wireless

TELUS Mobility had an outstanding year. Our wireless performance is the primary reason for the increased value of your TELUS shares. We surpassed expectations on almost every conceivable measure, by maintaining a strong focus on achieving profitable subscriber growth and offering unparalleled customer service. We achieved 19 per cent revenue growth (our public target was 12 to 14), EBITDA growth of 40 per cent (public target was 20 to 26) and simple cash flow of \$788 million, defined as EBITDA less capital expenditures, representing 21 per cent growth versus our original public target of \$650 million.

TELUS Mobility also generated a best-in-class result in respect of cash flow yield at 30 per cent, defined as simple cash flow as a percentage of network revenues. Encouragingly, there remains significant latent potential for growth in the Canadian wireless industry as the penetration of wireless customers as a percentage of the Canadian population was 47 per cent at the end of 2004. This is well below penetration levels being realized in the United States, Europe and Asia.

For three consecutive quarters, TELUS Mobility was rated the number one wireless company in North America by N. Moore Capital's Value Metric Rankings, an independent company providing industry analysis across a variety of financial and operating metrics.

2 Growing brand value through superior customer service As a customer service organization, we know the journey to wireline and wireless service excellence is unending. In 2004, we made good progress.

TELUS Mobility continues to provide exceptional customer service on both network performance and client care. This is evidenced by one of the lowest disconnect (churn) rates in North America. Our monthly churn rate of only 1.4 per cent means that TELUS wireless customers stay with us for almost six years on average.

TELUS Communications team members continued to focus on improving customer service in 2004 and achieved historically high levels on an array of customer service measures. Enhancements to our Web channels, including telus.com and mytelusmobility.com, have provided customers even greater control over their accounts. Ongoing improvements to our interactive voice recognition (IVR) system provide more effective management of customer calls. In October, we launched two information technology programs to transform and simplify the processes and tools for front-line teams, improving workflow and enhancing customer service.

3 Revitalizing wireline growth through innovation and national expansion Intent on addressing the industry-wide decline in wireline revenue, TELUS aggressively targeted 2004 wireline revenue growth of breakeven to a one per cent increase. After experiencing a mid-year decline of more than two per cent, we achieved year-over-year revenue growth in the third and fourth quarters, ending the year essentially flat.

This performance can be attributed to our differentiated approach on long distance, our avoidance of sharply discounted pricing, and the underlying five per cent growth in data revenue due in part to our success in the Central Canadian business market.

4 Driving towards leadership in high-speed Internet solutions We were successful in enhancing our market share by two points to 40 per cent in the high-speed Internet market, compared to our major cable-TV competitor, as we added 128,000 new subscribers to achieve our 2004 target.

Building on our \$800 million investment in high-speed Internet, we launched a variety of new business and consumer services. In November, we became the first Internet service provider (ISP) in Western Canada to offer customers an Anti-Spyware program, along with an array of leading-edge Internet security services that help customers manage their Internet connections.

5 Embracing continual cost efficiency The first three phases of our major, three-year wireline operational efficiency program, which began in 2001, were completed in early 2004. The effort realized cumulative annual savings of \$538 million. Additional cost efficiencies were also gained through the consolidation of our Information Technology sites from 15 to two primary locations and the integration of our two business units serving retail business customers. In the wireless business we continued to enjoy the scale efficiencies of being a national company with profitability increasing at double the rate of revenue growth.

6 Reaching a new collective agreement The goal of reaching a collective agreement for unionized team members was, unfortunately, not accomplished. TELUS was stalled in our labour relations strategy as we waited for the Canada Industrial Relations Board (CIRB) to rule on our request

top spot

Thanks to strong profitable growth and exceptional customer satisfaction, TELUS Mobility is at the forefront of the wireless industry. In December, TELUS Mobility ranked first among all North American wireless carriers, in an independent survey done by N. Moore Capital.



to reconsider its decision to impose binding arbitration, instead of allowing the parties to attempt to reach a settlement through the established process of negotiations. A CIRB decision received in February 2005 overturned binding arbitration. This should allow the parties to move forward and hopefully put in place a new collective agreement that reflects the needs of team members, shareholders and customers alike.

Continuing our journey into 2005

Our track record demonstrates that a strong commitment to an effective strategy, with a bias for action focused on clear priorities, has driven our success through the changing dynamics of the telecommunications industry. Our business focus remains constant. TELUS priorities this year extend and enhance our efforts in 2004. The 2005 corporate priorities are:

- 1 **Enhancing our leadership position in wireless** and continuing to generate world-class financial, operational and customer results as we realize fully the potential for growth in the Canadian wireless industry
- 2 **Leveraging our investments in high-speed Internet technology through Future Friendly Home services** in B.C., Alberta and Eastern Quebec
- 3 **Accelerating our wireline performance in the Ontario and Quebec business markets** by continuing to build scale and delivering for the first time a full year of operating profit
- 4 **Growing brand value by delivering a superior customer experience** via leading IP solutions and excellence in customer care
- 5 **Driving continual improvements in productivity** across TELUS that help mitigate the margin pressure we experience in our wireline business due to competitive, technological and regulatory pressures
- 6 **Reaching a new collective agreement** that reflects our industry dynamics and embraces the needs of all TELUS stakeholders.

Corporate social responsibility

Throughout the past year, TELUS team members have demonstrated passionate dedication to the role we collectively play in being good corporate citizens. Our team continues to make a positive difference in the communities where we live, work and serve. Aligned in our intent to become Canada's premier corporate citizen, the TELUS team demonstrated their commitment in many ways in 2004.

Our excellence in corporate sustainability was recognized in 2004 as we were named, for the fourth consecutive year, to the Dow Jones Sustainability Index. Your company was the only North American telecommunications company to qualify. In recognition of our environmental record, we were named the Best Environmental Corporate Citizen in the Corporate Knights' 2004 annual ranking of Canada's 50 best corporate citizens. For much more information, please see the summary section on page 16 of this report or visit telus.com/socialresponsibility.

We take our responsibilities for excellence in disclosure and corporate governance very seriously. Last year's annual report was judged by Corporate Essentials in a review of 1,000 reports from around the world to be ninth best, including the best on the key reporting attribute of "strategy, objectives and outlook." The same report was judged by the Canadian Institute of Chartered Accountants as the best annual report in Canada.

The future is friendly

In 2005 and beyond, we will remain true to our strategy by executing against our six corporate priorities and striving to attain the 15 financial and operational targets, set publicly last December, for the 2005 financial year.

I see tremendous opportunities for TELUS in the Canadian Internet, data and wireless markets that should benefit our investors, customers and team members. Your company enters 2005 from a position of strategic clarity, financial strength and momentum, and with a firm commitment to ensure that we live up to our brand promise of delivering a friendly future for our stakeholders.

Thank you for your ongoing support.

Sincerely,



Darren Entwistle
President and Chief Executive Officer
February 25, 2005