

staying ahead

Dear fellow investor



Robert McFarlane
Member of the TELUS Team

For TELUS investors, 2005 was a year of significant reward. Continued successful execution of our strategy and attainment of our financial targets, despite a labour disruption in our Western Canadian operations, translated into significant TELUS share price gains. As we embark upon 2006, we do so from a position of financial strength with very strong cash flow generation, a proven track record for setting and achieving financial targets and policies, and a commitment to staying ahead with best practices in corporate disclosure and governance.



2005 – a positive year for investors

In 2005, TELUS' financial performance was strong with leading results as compared to most telecommunications companies worldwide. Our results clearly demonstrate TELUS' superior and growing exposure to wireless growth (42 per cent of consolidated revenue in the fourth quarter) and industry-leading performance by our wireless business segment. Remarkably, TELUS achieved all of its original 2005 financial targets, despite an extended labour disruption primarily in wireline operations in Western Canada, which had one-time net costs of \$133 million that were not contemplated in those targets.

Returning capital to investors

Also noteworthy last year was the continued progress on our long-standing commitment to balance the interests of debt and equity holders. This was illustrated by the significant return of capital to investors through a number of value-enhancing initiatives, which included:

- Increasing the quarterly dividend by 33 per cent on January 1, 2005 and 37.5 per cent on January 1, 2006
- Repurchasing 23 million shares for \$970 million since establishing our first Normal Course Issuer Bid in mid-December 2004
- Redeeming \$150 million of convertible debentures in June 2005, with 88 per cent of holders converting to "in the money" non-voting shares and the balance being redeemed for cash
- Further reducing debt through the early redemption of \$1.6 billion of Notes on December 1, 2005, six months before their scheduled maturity.

For investors, TELUS' financial performance, along with capital-returning initiatives, contributed to an outstanding 32 per cent increase in our share prices in 2005, which built on a 40 per cent increase in 2004. This is particularly notable when compared to global telecom stocks, which on average decreased by 12 per cent in 2005 and increased by 15 per cent in 2004. TELUS' equity value, or market capitalization, ended the year up 30 per cent at \$16.6 billion while our enterprise value including net debt was \$22.4 billion.

Clear financial targets and policies

With a firm belief that "What gets measured, gets done," TELUS has publicly set for seven years annual financial and operating targets, which we report against and update through the year. TELUS has a solid record for achieving these targets. In the past six years, we have achieved 88 per cent of the consolidated targets and 66 per cent of business segment targets.

Furthermore, we continue to publicly set financial policies and guidelines that provide investors with transparent information

regarding future debt or equity enhancing initiatives we are likely to pursue. These policies, as noted in the following table, are carefully set to provide financial flexibility and minimize our cost of capital in the market. Our ability to meet these policies as detailed below, while at the same time repaying debt, resulted in TELUS receiving upgrades to its investment grade credit rating from all four credit rating agencies in 2005.

The dividend payout guideline provides investors with a framework to assess the potential for future dividend increases in relation to the earnings per share (EPS) growth momentum TELUS is generating.

Policies and guidelines		
	Target	2005 actual
Net debt to capital policy	45 to 50%	46%
Net debt to EBITDA policy	1.5 to 2.0	1.7
Bond ratings policy	BBB+ to A- (or equivalent)	Three agencies at BBB+ and one at BBB
Dividend payout guideline	45 to 55% of sustainable net earnings	56% ¹ 44% ²

1 Current dividend annualized on 2005 EPS.

2 Current dividend annualized on midpoint of 2006 EPS target.

Looking ahead to 2006

Our financial outlook for 2006 is very positive. We have set clear targets that show growth across the board, as outlined below. Revenue and EBITDA are expected to benefit from strong wireless growth. As well, consolidated EBITDA is expected to benefit from an 18 to 22 per cent increase in the wireless segment, offset by an estimated \$46 million incremental investment in restructuring efforts aimed at enhancing efficiency primarily in our wireline segment. Strong growth in EPS is expected to be driven by not only EBITDA, but also reduced interest costs from the early debt redemption of \$1.6 billion in December 2005. Capital expenditures growth is expected to be somewhat higher in 2006 due to a delay in certain wireline spending last year resulting from the labour disruption. Free cash flow, after capital expenditures and before dividends, is again expected to increase to a record \$1.55 to \$1.65 billion.

Consolidated 2006 targets		
	2006 target	Change over 2005
Revenue	\$8.6 to \$8.7 billion	+ 6 to 7%
EBITDA	\$3.5 to \$3.6 billion	+ 6 to 9%
EPS	\$2.40 to \$2.60	+ 22 to 33%
Capital expenditures	\$1.5 to \$1.55 billion	+ 14 to 17%
Free cash flow	\$1.55 to \$1.65 billion	+ 5 to 12%

courage to innovate

Our ability to adapt and continuously improve has earned TELUS external recognition for financial reporting and disclosure excellence by the Canadian Institute of Chartered Accountants for 11 consecutive years.

We also recognize that the future is not without challenges. We operate in a competitive industry and face challenges from new competitors and technological change such as the recent introduction in our incumbent consumer market of voice over IP-based local telephony offerings by a number of competitors. Meanwhile, the rapidly changing wireless market saw the introduction of a series of new resale competitors. I encourage you to understand these and other risks and uncertainties facing TELUS and invite you to read a comprehensive overview starting on page 48 of this report.

A commitment to governance and disclosure

Underlying all financial and operational practices at TELUS is a fundamental belief in corporate governance excellence, full and fair disclosure, and the highest level of ethics. Our commitment to this belief is a top priority, and our accomplishment in this area has been validated by external recognition.

We promote a philosophy of "Ask first, act later" whereby all team members and directors can raise questions, concerns, issues without fear of consequence. Much of our effort stems from a rigorous approach to risk management and ethics. We also actively seek opportunities for the early adoption of new disclosure requirements and follow appropriate accounting policies. For example, we include pension expense and workforce restructuring costs in EBITDA, and we use the liability method of accounting for the regulatory-related deferral account.

As well, we pay particular attention to the quality, relevance and ease of access to our disclosure with comprehensive written information (annual report, quarterly reports and news releases), an award-winning website, and value-added investor conference calls and webcasts with slides and complete question and answer sessions.

Our comprehensive corporate governance practices are available on pages 13 and 14 of this report, in the 2006 information circular and at about.telus.com/governance.

Gaining recognition

While TELUS has been recently recognized for progressive and best practices for corporate governance, we have gained tremendous recognition over the years for corporate reporting and disclosure. To name a few:

- The 2004 annual report was ranked second in the world out of 1,100 international companies reviewed in the 2005 Annual Report on Annual Reports by Corporate Essentials
- TELUS won the Canadian Institute of Chartered Accountants' Award of Excellence for Corporate Reporting in the communications and media sector for the 2004 annual report
- In January 2006, TELUS was recognized by IR Magazine as having the best 2004 annual report in Canada and the best corporate disclosure policy based on a survey of 250 Canadian investment professionals.

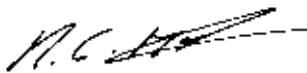
Awards and recognition for corporate governance received by TELUS are listed on page 14 of this report.

Leading the way to a friendly future

While we are pleased with our past achievements, we are working hard on your behalf to execute on our objectives for 2006 and beyond. Underpinning our actions is a commitment to staying ahead with communications transparency, clear policies and targets, full and fair disclosure, and best practices in corporate governance. We are intent on and well positioned to continue creating value for investors.

Thank you for your continued support.

Sincerely,



Robert McFarlane
Executive Vice-President and Chief Financial Officer
February 24, 2006