

# staying ahead

## Dear fellow investor



Darren Entwistle  
Member of the TELUS Team

For TELUS, 2005 was a remarkable year – a year when we delivered on our strategic priorities and met our operational and financial goals whilst overcoming the challenge of a four-month labour disruption. Now, with a strong business and financial foundation, a united team in place and a growing portfolio of innovative solutions, we

are staying ahead of our competition for the benefit of our shareholders, customers and team members. Please permit me to explain how.



## spirited teamwork

With the integration of wireless and wireline operations and a new collective agreement in place, our newly united team is embracing a philosophy of “our business, our customers, our team, my responsibility.”

### One team, one brand, one strategy

In 2005, TELUS made significant progress in its drive to improve its position as a national provider of integrated telecommunications solutions. For more than five years, we have remained true to our growth strategy and maintained a steadfast focus on data, Internet protocol (IP) and wireless services. Indeed, there is little doubt that our ability to relentlessly pursue this objective has resulted in TELUS maintaining a leadership position in the global telecommunications industry.

TELUS' six strategic imperatives, in place since the year 2000, continue to guide our actions. These are as follows:

- Building national capabilities across data, IP, voice 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
- Focusing relentlessly on growth markets of data, IP and wireless
- 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.

A significant advancement of this strategy is the recent merger of our wireless and wireline operations into a single operating structure. Effectively integrating these operations in 2006 will better differentiate TELUS in the marketplace and enable us to deliver innovative communications solutions, under one brand and defined by a common strategy. The integration improves our economies of scale and combines the talents, innovation and infrastructure of our wireless and wireline businesses to improve the effectiveness of TELUS' business operations in the market. Moreover, TELUS is now strongly positioned to leverage the ongoing convergence of wireline and wireless technology.

Another important objective was achieved in November with the realization of a new five-year collective agreement with unionized team members primarily based in Western Canada. This landmark agreement reflects the competitive industry in which we operate and establishes a new era for TELUS. It also delivers unprecedented opportunities to materially enhance TELUS' productivity, flexibility and competitiveness. Moreover, this progressive agreement recognizes the importance we place on our most valuable assets – our team members – by providing best-in-class remuneration, employment security and career development opportunities. Our entire team – more than 29,000 strong – can now fully focus on effectively serving our customers and continuing to grow value for our shareholders.

### Strong performance in 2005 bodes well for 2006

Your company generated excellent financial and operating results in 2005. For the third consecutive year, TELUS shares were one of the best-performing telecom stocks in the world. In 2005, our common share price increased by 32 per cent, compared to a 12 per cent decrease for telecom stocks globally. Indeed, an investment in TELUS five years ago is worth 82 per cent more than a similar investment in our global peers.

For the third year in a row, TELUS produced top-quartile results among our global telecom peers in growth of revenue, operating earnings (EBITDA), cash flow and earnings per share. Revenue and EBITDA were up seven per cent, and net income was up 24 per cent to \$700 million. Free cash flow also increased by 13 per cent to \$1.5 billion. These results were achieved despite the four-month labour disruption.

Greater exposure to wireless revenue growth at TELUS was an important driver of this performance in 2005. In fact, 42 per cent of TELUS' revenue in the fourth quarter of 2005 was derived from wireless services. Growth in the wireless segment is expected to continue, particularly since the penetration rate for wireless phones across Canada, which stood at 52 per cent at year-end, accelerated in 2005. It should be noted that Canada's wireless penetration rate is one of the lowest in the world, leaving ample growth opportunities for years to come.

# passion for growth

TELUS' new national wireless high-speed network gives customers access to the Internet at speeds as fast as wireline high-speed technology, and opens the door to new mobile applications.

Consistent with increased competition, especially from cable telephony, network access lines continued to erode and long distance revenue declined in 2005 as expected. However, TELUS wireline revenue was resilient in 2005, increasing slightly due to growth in data services and our national expansion into the Ontario and Quebec business markets.

The notable financial performance in TELUS' wireline business, in the face of competitive intrusion, a restrictive regulatory environment and an extended labour disruption, allowed TELUS to reflect the full strength of our significant exposure to wireless in our consolidated financial results.

Our leading share price performance is also a product of our ongoing and public commitment to return cash to investors. The company undertook the following initiatives in 2005, returning cash to shareholders by:

- Increasing the quarterly dividend for January 2006 by 37.5 per cent
- Repurchasing 20.8 million shares for \$892 million
- Announcing a second share repurchase program for up to 24 million shares by December 2006
- Redeeming \$1.6 billion of debt six months ahead of schedule.

Our excellence in financial disclosure and corporate governance was externally recognized in 2005 by many organizations, including the Canadian Institute of Chartered Accountants.

## Achieving our 2005 corporate priorities

Each year, we focus our efforts on corporate priorities that drive the collective efforts of our team in support of our growth strategy and the underlying strategic imperatives that define it. What follows is a summary of our performance against these priorities.

1

### Enhancing our leadership position in wireless

Our wireless operations continued to excel in 2005, leading the industry in many areas and significantly contributing to TELUS' overall growth in revenue and earnings. In fact, TELUS has been ranked as the best-performing wireless operator in North America in an independent assessment by N. Moore Capital and Associates out of New York.

Your company's wireless division exceeded expectations in 2005, generating a record number of new subscribers (584,000) and achieving 17 per cent revenue growth. Our wireless segment's excellence in marketing operations, client care and network performance has led to an industry-leading average revenue per customer, operating profit growth and cash flow yield, as well as one of the best customer loyalty and retention rates in the global wireless industry.

In August, we introduced TELUS mobile TV, giving customers access to television on their wireless handsets. We also introduced a new national wireless high-speed network, based on the EVDO (evolution data optimized) standard, which offers business customers the ability to transfer data at speeds at least six times faster than the previous TELUS transmission rate. Innovative solutions like these are a catalyst for continued wireless data growth.

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### Leveraging our investments in high-speed Internet technology

High-speed Internet continues to be the platform for TELUS' Future Friendly Home services, providing secure connectivity to the world. In 2005, we added 73,000 high-speed Internet subscribers, bringing our total Internet base to 1.0 million. Whilst these results were hindered by the labour disruption, TELUS expects to regain momentum in 2006 and we expect to add more than 100,000 high-speed customers in 2006.

In 2005, TELUS expanded its suite of Future Friendly Home services from mobility and security to entertainment. TELUS TV delivers differentiated customer choice without resorting to price discounting. We began a phased neighbourhood roll-out in Edmonton and Calgary of our innovative TELUS TV service, ushering in an exciting area of growth for our company. Further expansion of TELUS TV will continue on a targeted basis through 2006.

We entered into a \$110 million agreement with the Government of British Columbia to connect 119 communities to high-speed Internet and to expand broadband services. In addition, we secured a new master services agreement with the Government of British Columbia, our largest customer, and its Crown corporations. The agreement is projected at \$245 million over four years, with options for three more years.

**3****Accelerating wireline performance in Ontario and Quebec business markets**

We continue to pursue the significant growth opportunity that exists in the Ontario and Quebec business markets. Our leading-edge IP network and managed data and IP solutions provide business customers with new and tailored solutions to meet their business needs. Our non-incumbent business revenues increased by 13 per cent to \$632 million in 2005 and, for the first time, generated positive full-year EBITDA of \$21 million.

During the 2005 financial year, your company gained a number of new large multi-year customers including Hamilton Health Sciences, Government of Quebec, Intrawest Corporation and Best Buy Canada.

**4****Growing brand value by delivering a superior customer experience**

Delivering exceptional customer care continues to be of paramount importance. In our wireless business, we have consistently achieved high levels of customer satisfaction as evidenced by our very low churn rate of only 1.4 per cent in 2005. Moreover, TELUS' performance in customer loyalty and retention has been at, or near, best-in-class in the North American wireless industry consistently for the past five years.

In our wireline business, customer service levels remained higher than expected during the labour disruption due to the strength of your company's contingency plans and the dedication of our team members. Given the flexibility the new collective agreement has established and a united focus on serving customers, TELUS is positioned to deliver superior customer service going forward.

**5****Reaching a new collective agreement**

Reaching a collective agreement after a four-month labour disruption was a significant milestone for TELUS and heralds a new constructive era for our team.

The new five-year agreement provides increased operating flexibility and productivity, focuses team members on our core business, and facilitates better service for customers in an increasingly competitive marketplace. It fosters a culture of high performance with universal variable pay, which rewards team members when certain performance metrics are met, and encourages advancement based on merit as well as seniority.

The agreement also establishes a new paradigm for labour relations. For example, the company and the union have agreed to work together to withdraw various legal proceedings between the parties. As well, a Common Interest Forum has been established as a mechanism for cooperation and dialogue.

**6****Driving continual improvements in productivity**

TELUS' continual drive towards operational efficiency and effectiveness was impacted in the second half of the year due to the labour disruption. Our original 2005 goal of investing \$100 million in restructuring costs was halved in 2005 and the goal was reset for 2006 to the aforementioned amount.

The new collective agreement put in place in November and the recent integration of our wireline and wireless operations provide TELUS with opportunities for productivity and cost efficiencies going forward. For example, we can institute best practices, contract out non-core activities and continue to consolidate operations.

## making homes future friendly with TELUS TV

In 2005, TELUS extended its Future Friendly Home strategy with the targeted launch of an innovative all-digital television service in Edmonton and Calgary. TELUS TV offers differentiated and tailored entertainment solutions for our customers.



## Looking ahead

While TELUS enjoyed considerable success in 2005, there are challenges on the horizon that must be answered effectively. The following are some of the key tasks and challenges we are addressing to ensure we grow value for our shareholders.

- Effectively competing with local phone competitors, especially cable-TV providers, and addressing the resulting increased erosion of network access lines
- Minimizing any loss of momentum from completing the merger of our wireless and wireline operations
- Re-engaging our team members, engendering a renewed sense of spirited teamwork and fully educating managers to apply and realize the benefits of the new collective agreement
- Ensuring new product launches, such as TELUS TV and wireless data services, are executed effectively, differentiating TELUS from our competition through innovation rather than price.

## focus for 2006

To stay ahead and support the ongoing success of our national growth strategy, we have set the following corporate priorities for 2006.

### 1 Advance TELUS' leadership position in the consumer market through:

- TELUS' future friendly suite of data applications for customers at home and on the move
- Best-in-class customer loyalty through cost-effective customer experience
- Expanding TELUS' channel partner relationships to strengthen our distribution

### 2 Advance TELUS' position in the business market through:

- Innovative solutions that enhance the competitiveness of our customers and deepen their loyalty to TELUS
- Increasing our share in the business market by leveraging our mobile solutions, such as high-speed data
- Improving delivery of managed solutions to small business customers

### 3 Advance TELUS' position in the wholesale market through:

- Strengthening our North American reach through innovative IP solutions
- Establishing creative and preferred partnerships to grow our national customer base
- Optimizing the use of partner networks to complement TELUS' network investments

### 4 Drive improvements in productivity and service excellence by:

- Realizing efficiencies from the integration of wireline and wireless operations
- Driving improvements in enterprise-wide productivity and customer service excellence to increase competitiveness
- Capturing value from TELUS' investments in technology and innovation to streamline our operations

### 5 Strengthen the spirit of the TELUS team and brand, and develop the best talent in the global communications industry by:

- Continuing to leverage best practices across the company
- Cultivating a business ownership culture that embraces a philosophy of "our business, our customers, our team, my responsibility"
  - Capitalizing on TELUS' reputation as a progressive, high-performance company to attract and retain the best team in Canada
  - Providing team members innovative opportunities for growth, development and employment options.



# embrace change, initiate opportunity

Seven new TELUS Community Boards have been established across Canada with key community leaders actively involved in allocating \$3.5 million annually to local communities.

## Creating a friendly future

TELUS and its team members continue to support the communities in which we live, work and serve. Through a strong commitment to economic, social and environmental responsibility, we are working hard to realize our vision of becoming Canada's premier corporate citizen.

To ensure we provide support in a meaningful way, we are actively engaging the communities we serve through seven TELUS Community Boards established in 2005. Consisting of distinguished community representatives complemented by senior team members from TELUS, the boards are responsible for allocating \$3.5 million annually to local charities.

Your company also supports philanthropic donations made by our team members, most significantly by matching their Employee Charitable Giving Campaign donations dollar-for-dollar. In 2005, when the campaign was postponed due to the labour disruption, we provided the full funding – \$2 million – to eligible charities across Canada to ensure those who needed help would not be left short. Over the last five years, TELUS and its team members have contributed more than \$62 million of financial and in-kind assistance to charitable organizations across Canada.

Our community efforts have brought recognition for excellence in corporate social responsibility. In 2005, TELUS ranked as the seventh best corporate citizen in Canada in the Corporate Knights annual ranking of the Best 50 Corporate Citizens. For the fifth consecutive year, your company was named to the global Dow Jones Sustainability Index as an economic, environmental and social leader. Once again, TELUS was the only North American telecommunications company to be recognized and one of only 12 Canadian companies to make the list in 2005.

## Staying ahead in 2006

As we enter 2006, the future looks friendly for our investors, customers and team members. Building on the momentum from TELUS' record of success over the past five years, we are well positioned to further execute our proven strategy.

With our strong financial position and the enhanced customer focus of TELUS team members, your company is well equipped to compete successfully in the Canadian marketplace. In 2006 and beyond, we aim to stay ahead as the leading telecommunications provider with innovative solutions that improve the competitiveness of our business customers and enhance the lifestyle of consumers. By again working to attain our 15 public financial and operating targets for 2006, whilst remaining committed to being Canada's leading corporate citizen, we expect to stay ahead for all TELUS stakeholders.

Thank you for your continued support.



**Darren Entwistle**  
President and Chief Executive Officer  
February 24, 2006

