

growing together



Dear fellow investor

In 2006, we experienced a year of exciting growth and opportunity for TELUS. Due to a solid financial and business foundation, increasing benefits of integration and innovative service offerings, we are growing together...for our investors, customers, team members and the communities we serve.

Successfully progressing our national growth strategy

Through the dedicated commitment of the TELUS team and a keen focus on our core business, we continued to advance successfully our national growth strategy in 2006, resulting in leading financial performance amongst our global telecommunications peers.

Indicative of our success, in emerging as a national company, is the growth of the TELUS team in Ontario and Quebec since 2000. Our team has grown from approximately 300 to almost 10,000 members.

TELUS' winning strategy, superior asset mix, operational excellence and strong growth profile have remained intact for the past six years and we intend to continue delivering leading performance in the years ahead.

Delivering sustained growth for investors

TELUS' consistent strategy, coupled with our execution to plan, has enabled your company to again generate strong earnings growth in 2006.

During the past four years, TELUS produced top-quartile results amongst our incumbent global telecom peers in growth of revenue, operating earnings and earnings per share (EPS). This has led to TELUS' share price outperforming incumbent telecommunications companies worldwide over this four-year period.

In 2006, revenue and operating earnings (EBITDA) were up seven and nine per cent, respectively. Net income increased by \$422 million to \$1.1 billion or \$3.27 on an EPS basis. Free cash flow also increased by nine per cent to \$1.6 billion.

We are continuing to return capital to investors based on our commitment to balance the interests of debt holders and shareholders. TELUS instituted a 36 per cent increase in our dividend – a third consecutive sizeable increase – to a new all-time high of \$1.50 on an annualized basis. We are also continuing our share repurchase programs as part of an ongoing effort to reduce our share base and increase the value of the remaining shares. Since December 2004, a total of 39.4 million shares have been repurchased for \$1.77 billion.

Darren Entwistle, member of the TELUS team, is shown here with Shaniece and Gerald Angus, two teens from HEROS, the Hockey Education Reaching Out Society that teaches self-esteem and life skills through the game of hockey. By supporting programs like HEROS, TELUS is helping to make the future friendly for Canada's youth.

Building on our strategic imperatives

Since 2000, six strategic imperatives have been guiding our winning strategy and performance. The following discussion covers our key accomplishments and plans going forward.

Focusing on data and wireless

The execution of TELUS' national growth strategy has resulted in a distinct shift in our revenue streams from our mature voice businesses toward our higher-growth wireless and data businesses. Notably, wireless and data revenues have grown from \$1.6 billion to \$5.5 billion today. These services now represent 63 per cent of overall TELUS revenue, compared to just 28 per cent six years ago.

In 2006, wireless revenue and EBITDA advanced 17 and 21 per cent, respectively. This was due to 12 per cent subscriber growth, as we attracted 535,000 wireless customers, our second highest number of net additions since 2000, and higher average revenue per customer. The wireless data component of this average revenue increased by 89 per cent. We now serve 5.1 million wireless subscribers from coast to coast and expect to surpass 5.6 million by the end of 2007.



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63%

of total revenue comes from wireless and data

The wireline side of the business was largely resilient to the competitive dynamics typical of the industry due to our seven per cent growth in data revenue. TELUS' fastest-growing customer base is high-speed Internet subscribers, which increased by 154,000, or 20 per cent, to more than 900,000 in 2006. We expect to surpass one million customers in 2007.

The outlook for Canadian wireless industry growth remains bright with wireless penetration expected to increase from 56 per cent today to approximately 70 per cent in 2009. The potential for robust growth remains with approximately five million net new subscribers expected over the next three years. Owing to an industry-leading churn rate of 1.33 per cent, TELUS is positioned to win a fair portion of this expanding business through excellence in customer loyalty programs and innovative wireless solutions.

We significantly expanded our wireless high-speed (EVDO) network in 2006. EVDO provides consumer and business clients mobile access to the Internet, e-mail and other data at speeds similar to basic broadband Internet access. TELUS now provides wireless high-speed service to approximately 50 regions across Canada, covering two-thirds of the population, and roaming to 230 U.S. cities.

TELUS is positioned favourably for the implementation of Canadian wireless number portability in the spring of 2007, which will enable clients to maintain their phone numbers if they switch providers. This represents a challenge for TELUS, but also a meaningful opportunity in Central Canada where we have relatively low business market share.

Partnering, acquiring and divesting

Leveraging TELUS' wireless high-speed network platform, in the second quarter of 2007, we will launch our exclusive partnership with Amp'd Mobile. This will enable Canadian subscribers to access personalized content on their mobile handsets including 3D gaming, live sports and concert video streaming, and other unique features. TELUS will manage sales and distribution, billing, client support, network operations and pricing on behalf of the partnership.

We further strengthened our information technology (IT) capabilities in April by acquiring Assurent Secure Technologies, a world-leading Canadian IT security services and research company. Online security threats are increasing for businesses and TELUS is leveraging Assurent's reputation and expertise to provide solutions that help customers protect their assets, identities and information.

Providing integrated solutions

Robust competition from cable-TV companies, voice over IP providers and multiple wireless brands pushes us to perform. We continue improving customer service, developing innovative new solutions and implementing operational efficiencies.

TELUS is continuing to increase high-speed Internet access in our consumer markets. We also rolled out TELUS TV into additional neighbourhoods in B.C. and Alberta, delivering a fully digital television experience. In addition, we expanded high-speed Internet service to more than 100 rural areas in Quebec, increasing access to approximately 75 per cent of the market. This facilitates more growth and the launch of TELUS TV in 2007.

Recognizing that our broadband network represents a platform for sustainable growth, in 2006, we invested approximately \$190 million in broadband enhancements and upgrades. In fact, since we launched high-speed Internet service in 1997, we have invested approximately \$1 billion in our broadband programs.

Delivering more bandwidth and speed to our Internet customers continues to be both a challenge and an opportunity. Issues that must be closely managed include evolving broadband technology, capital investment, staffing and speed of deployment. By investing in new broadband technology, TELUS' enhanced platform will provide more exciting services, such as high-definition TV, and increased market coverage. Accordingly, we have announced an additional \$600 million investment to further enhance our broadband infrastructure and expand network coverage across B.C., Alberta and Eastern Quebec from 2007 to 2009.

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1 million

new customer connections in last two years

more room for growth

The wireless industry still has significant room for growth with just 56 per cent of Canadians having a mobile device. Up to five million new customers are expected by 2009, taking the penetration rate to approximately 70 per cent.



On the wireless front, TELUS introduced SPARK to the market in 2006. SPARK is the new brand name for our consumer portfolio of mobile entertainment and information services. TELUS was the first to market in Canada with TELUS Mobile Radio and TELUS Navigator, and has delivered innovative services such as TELUS Mobile TV, TELUS Mobile Music and Apna Des™, a South Asian mobile content service. Powered by strong growth in instant messaging, mobile computing, mobile e-mail and music downloads, wireless data revenue more than doubled in 2006 to \$280 million.

In the business market, we continued our history of IP innovation with the successful launch of a number of industry-focused integrated solutions for our key vertical markets including the energy sector, financial services, the public sector and the healthcare industry.

Building national capabilities

TELUS is leading the way in delivering best-in-class data solutions to select markets in the business and public sectors across Canada, generating sustainable revenue and profitable growth. As a result, we are achieving significant scale in the Ontario and Quebec wireline business market, with \$657 million in revenues and \$32 million in operating profit in 2006. We also achieved a milestone during the year by converting our 200th business customer onto our IP network.

Through a strong focus on our key vertical markets, we are demonstrating thought leadership and technology innovation in the IP world, which is differentiating TELUS from our competitors. As a result, we are winning a number of new multi-year contracts with large businesses and government.

In 2006, we secured a five-year, \$140 million contract with the Government of Ontario to provide fully managed network access services for its entire network, strengthening our presence in Ontario. We also attained several multi-million dollar contracts to implement best-in-class solutions for customers including Best Buy Canada, City of Toronto, Finning International, Canadian Tire Financial Services, Peterborough Regional Health Centre and Alberta Treasury Branches (ATB) Financial.

Going to market as one team in our communities

During 2006, the integration of our wireline and wireless businesses into a single operating structure continued across the company. Increasingly, we are working to provide one-stop shopping for our customers.

The integration is enabling us to achieve meaningful differentiation in the market, capitalizing on the technology convergence that our customers face and increasingly meeting their desire to have one point of contact. We believe this approach will provide TELUS with competitive advantage in 2007 and beyond.

During 2006, we continued to bring the TELUS brand to life, executing best-in-class events for TELUS, our customers and our communities, including the TELUS Skins Game, the TELUS World Ski and Snowboard Festival, and the TELUS National Day of Service. The powerful TELUS brand is one of the 10 highest valued brands in Canada.

Investing in internal capabilities

As we implement our new collective agreement, which was signed in late 2005, we are increasingly reaping the benefits of our high-performance culture. Streamlining systems, re-engineering processes and driving efficiencies remained priorities throughout the year, utilizing the knowledge we gained from the deployment of our management team during the 2005 labour disruption.

Significant work continued on the implementation of a consolidated wireline billing system, a national initiative to replace multiple legacy systems that will enable us to better serve customers. A pilot program covering more than 20,000 customers in Alberta was successfully implemented in 2006 and the phased conversion will progress in 2007.

During 2006, we placed a priority on giving our team members opportunities for personal growth and career development. This included new leadership development and job rotation programs. We continued to build a business ownership culture by fostering a philosophy of “our business, our customers, our team, my responsibility.”

letter to shareholders continued

The labour shortage across Canada, and particularly in Western Canada, is a challenge for many companies. We continue to strengthen the TELUS team through orientations, training initiatives and innovative hiring and retention programs. In 2006, TELUS held more than 150 external recruiting events including job fairs, information sessions and academic sponsorship. This retention and recruiting effort will continue in 2007.

As we continue to build our high-performance team, we were proud to see members of our executive leadership team – Karen Radford, Judy Shuttleworth and Janet Yale – named as three of the 100 most powerful women in Canada by The Women's Executive Network. Karen was also named to Canada's Top 40 Under 40 list, and 2006 Woman of the Year by the Canadian Women in Communications organization. As well, Janet was recognized as Businesswoman of the Year by the Women's Business Network of Ottawa.

Looking forward: Challenges to answer, opportunities to seize

The telecommunications regulatory environment underwent tremendous change and investor scrutiny during 2006. The federal government's telecom policy review, local forbearance decision and deregulatory directive to the CRTC, plus upcoming wireless number portability, are positive steps toward giving consumers more choice and ability to determine competitive outcomes. At the same time, TELUS stands to benefit from deregulation by gaining more competitive freedom in 2007.

Our strong performance in 2006 provides a solid foundation for continued success. Even so, we recognize there are challenges and opportunities to be addressed each year. Accordingly, we identify key corporate priorities that support our national growth strategy. For a report against our 2006 priorities, please see pages 20 and 21 of the Management's discussion and analysis in the TELUS 2006 annual report – financial review. TELUS' 2007 corporate priorities are as follows:

1 Advancing TELUS' leadership position in the consumer market

- Combining our suite of data applications with deregulated heritage services
- Attaining best-in-class customer loyalty and growth through unparalleled customer experiences
- Achieving customer addition targets by expanding our distribution channels and addressing key market segments with new service offerings

2 Advancing TELUS' leadership position in the business market

- Progressing further in key industry verticals with specific applications that provide non-price-based differentiation
- Leveraging wireless number portability to expand our business market share in Central Canada
- Focusing on small business customer loyalty and growth with innovative solutions

3 Advancing TELUS' leadership position in the wholesale market

- Growing in domestic and international markets through recognition that TELUS is Canada's IP leader
- Achieving excellence in customer service to support local forbearance in key incumbent markets
- Expanding our markets, channels and products by focusing on strategic relationships with our partners

4 Driving TELUS' technology evolution and improvements in productivity and service excellence

- Implementing technology roadmaps for Future Friendly Home and wireless service offerings that simplify our product portfolio and improve service development and execution
- Rolling out consolidated customer care systems to replace multiple legacy systems in Alberta and B.C.
- Accelerating customer service delivery dates

5 Strengthening the spirit of the TELUS team and brand, and developing the best talent in the global communications industry

- Growing our business ownership culture with a team philosophy of "our business, our customers, our team, my responsibility" thereby attracting, developing and retaining great talent
- Leading the way in corporate social responsibility as we strive to be Canada's premier corporate citizen.

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\$76 million
contributed to Canadian
charities over past six years

rolling up our sleeves

On September 30, more than 5,000 TELUS team members, alumni and their families volunteered in 1,400 projects and activities that made a significant difference in dozens of communities across Canada as part of the first annual TELUS National Day of Service.



Building a friendlier future together

Advancing our commitment to being Canada's premier corporate citizen, we introduced several innovative national initiatives and expanded a number of programs, which increase our ability to grow together for the benefit of all the communities where we live, work and serve.

To augment the significant donations and volunteer work that TELUS and our team members provide each year, we completed the launch of seven TELUS Community Boards across Canada. They are responsible for distributing a total of \$3.5 million annually to deserving local charitable organizations. The Boards, which include distinguished community representatives, focus on grassroots charitable projects and organizations that are building a sustainable future in their communities.

The first annual TELUS National Day of Service held in September was a tremendous success. Team members demonstrated their passion and dedication to changing the lives of those less fortunate. We also launched the TELUS Community Ambassadors™ program to support and fund our retirees and team members in providing much needed volunteer services and programs in local communities.

TELUS is building on its excellent reputation in the area of corporate social responsibility. For the sixth year in a row, TELUS was named to the global Dow Jones Sustainability Index. TELUS is the only North American telecommunications company included in the worldwide index.

To find out more about our community investment activities, please read pages 16 and 17 of this 2006 annual report – business review.

Growing together

Your company is well positioned to continue achieving financial and operational success and generating value for our investors. TELUS has an enviable track record of attaining our financial and operating targets. In fact, since 2001, we have met or exceeded 88 per cent of our 32 consolidated financial targets. Over the past six years, TELUS' share price has increased 58 per cent, which is the best performance amongst global incumbent telecommunications peers.

We intend to work hard to continue these trends and create ongoing value in the years ahead. The TELUS team's relentless focus on our proven strategy will persist, and I am confident we will stay ahead through innovation and operational excellence. We look forward to growing together with our many stakeholders in 2007 and beyond.

Thank you for your continued support.

Darren Entwistle
President and Chief Executive Officer
February 23, 2007