

growing together

Dear fellow investor

At TELUS, we continue to post strong financial results generated from a growth-oriented asset mix, and again largely achieved our 2006 consolidated financial targets. As we move into 2007, we do so from a position of considerable financial strength and with an ongoing commitment to corporate disclosure and governance excellence. We are growing together – with a focus on future opportunities and creating value for our investors, customers and team members.



Robert McFarlane
Member of the TELUS Team

Growing financial strength

Our national growth strategy and execution to plan continue to result in exceptional financial performance for TELUS. This is based on a superior asset mix compared to most global telecom companies such that 63 per cent of our annual revenue profile is generated from fast-growing wireless and data services.

In 2006, our operational excellence provided robust growth in revenue and EBITDA (earnings before interest, taxes, depreciation and amortization), up \$538 million and \$295 million, respectively. We continued to create growth in free cash flow, up \$135 million to \$1.6 billion. Our decision to early redeem \$1.6 billion of Notes in December 2005 contributed to lowering interest expense in 2006 by \$119 million. These factors, combined with positive tax impacts, drove net income up by an impressive 60 per cent – up \$422 million to \$1.1 billion.

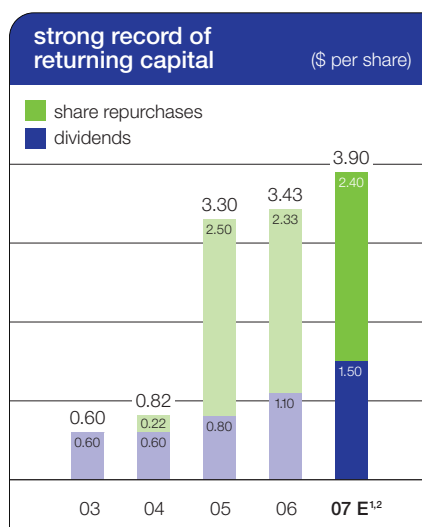
These results maintained our position as an industry leader for four years running on certain value-creating metrics. We achieved top quartile performance compared to other telecommunications companies globally, in terms of growth in revenue, operating earnings and earnings per share (EPS).

Creating ongoing investor value

The stock market reacted very positively to our mid-September proposal to convert TELUS in its entirety into an income trust. Disappointingly and surprisingly, the federal government reversed its twice-confirmed tax policy regarding income trusts at the end of October and accordingly TELUS decided not to proceed in November. While the proposed income trust conversion was value enhancing, it was a complement to, and not a substitute for, our ongoing national growth strategy. The underlying attributes of TELUS remain the same today as before, namely our premium asset mix, healthy growth prospects, strong cash flow generation and sound balance sheet.

We have maintained our long-standing commitment to balance the interests of our debt and equity holders and, in 2006, we augmented our strong record of returning capital to shareholders. For the third consecutive year, we made a sizeable increase in our quarterly dividend. Effective January 1, 2007, the Board declared a 36 per cent increase to a new all-time high of \$1.50 on an annualized basis.

We also continued our share repurchase programs in 2006, buying back more than 16 million shares at a cost of \$800 million. This is part of an ongoing effort to reduce dilution and increase the value of the remaining shares. Since December 2004, a total



- 1 Annualized dividend, plus share repurchases in 2006 as estimate for 2007. Assumes lower average shares outstanding of 330 million to 335 million in 2007.
- 2 See Forward-looking statements on page 12 of this report. Assumes continuation of share repurchase program.

of 39.4 million shares have been repurchased for \$1.77 billion. We have also implemented a new third share buyback program for up to 24 million shares that extends to December 2007. Finally, we have implemented an innovative program for the cash settlement of vested options that will result in reduced share dilution and significant cash tax savings going forward.

In 2006, we took two steps toward refinancing, at lower interest rates, a significant amount of the \$1.5 billion of 7.5% Notes coming due in June 2007. In May 2006, the issue of \$300 million of 5.0% Notes with a seven-year maturity was well received. We also entered into forward starting interest rate swap agreements that have the effect of fixing the underlying interest rate on up to \$500 million of future debt issuance that we plan to undertake in the first half of 2007. A portion of this refinancing may be a lower-cost new commercial paper program based on our strong investment grade credit ratings.

Setting targets for continued growth and investor clarity

At TELUS, we have a firm belief in clearly setting a comprehensive set of annual financial and operating targets and providing investors with updates throughout the year. Our track record for meeting and exceeding these targets is exemplary. Over the past six years, we have achieved 88 per cent of our consolidated financial targets. In 2006 alone, we met or exceeded four of five consolidated targets and seven of ten segment targets.

TELUS also has clear public long-term policies and guidelines for equity and debt holders, which are consistent with maintaining our targeted BBB+ to A- investment grade credit ratings:

- Dividend payout ratio of 45 to 55 per cent of sustainable net earnings – 46 per cent in 2006
- Net debt to EBITDA of 1.5 to 2.0 times – 1.7 at end of 2006
- Net debt to total capitalization of 45 to 50 per cent – 47.5 per cent at end of 2006.

The financial outlook for 2007 remains positive as shown. Revenue is expected to benefit from strong wireless growth in the range of 12 to 13 per cent. EBITDA is expected to benefit from an expected 11 to 14 per cent wireless increase,

growing together
\$1.6 billion
 in free cash flow was generated
 in 2006

responsibly managing your cash

With robust cash flow, TELUS is in an enviable position of being able to invest in long-term growth in our core business while also returning cash to investors via increased dividends and a significant share repurchase program.



partially offset by slightly lower wireline profitability due to competitive impacts, new contracts and service initiatives. The underlying EPS target growth rate in 2007 is 16 to 24 per cent when adjusted to exclude the net \$0.48 cents of positive tax impacts in 2006 and the non-cash charge for the settlement feature for options. This growth is driven by increasing EBITDA, lower financing costs and a decrease in shares outstanding.

To ensure continuation of this growth on a long-term basis, TELUS' capital expenditures are expected to increase moderately due to an increase in wireless spending. Wireline spending will remain cyclically high with investments in broadband infrastructure, IT systems consolidation, access infrastructure to serve strong housing growth in the West and implementing major contract wins.

Consolidated 2007 targets		Change over 2006
Revenue	\$9.175 to \$9.275 billion	+ 6 to 7%
EBITDA ¹	\$3.725 to \$3.825 billion	+ 4 to 7%
EPS ¹	\$3.25 to \$3.45	- 1 to + 6%
Capital expenditures	\$1.75 billion	+ 8%

1 Excludes a non-cash charge for the cash settlement feature for vested options of \$150 million to \$200 million or \$0.30 to \$0.40 per share on an after-tax basis.

Ongoing disclosure and governance excellence

We are committed to open and transparent financial reporting and pursuing best practices in corporate governance. Underlying our decisions is a fundamental belief in full and fair disclosure, the importance of excellence in corporate governance and high ethical standards.

As part of our commitment, we believe in regularly communicating with investors. In 2006, we held six conference calls with extensive question and answer sessions, all of which were webcast for instant access by shareholders. We also made nine presentations at conferences in Canada and the U.S. In addition, we conducted meetings with 183 institutional investors – 80 in Canada, 76 in the U.S. and 27 in Europe. These activities, coupled with our award-winning website and comprehensive

written information, serve to ensure investors are kept up-to-date on our progress and how TELUS is addressing various issues.

In the past year, we successfully concluded the extensive documentation and testing of internal controls over financial reporting in order to certify the adequacy of such controls under Section 404 of the U.S. Sarbanes-Oxley Act. I am pleased to report that we are fully compliant with the new U.S. regulations for the year ended 2006 and have no material control deficiencies to report.

We continue to gain external recognition for our clear and comprehensive corporate reporting and disclosure. For example:

- The TELUS 2005 annual report was recognized as the best in the world, according to the Annual Report on Annual Reports by enterprise.com, the only international ranking of corporate annual reports
- TELUS earned the Award of Excellence for Corporate Reporting in the communications and media sector from the CICA for the 2005 annual report.

For more details on our efforts related to corporate reporting and governance, and external recognition TELUS has received in this regard, please see pages 4 and 5 of this report.

Growing together

We are pleased with our performance in 2006 and have confidence that we are on track to continue achieving positive financial performance in 2007 and beyond. With clear targets and a host of corporate reporting and governance best practices in place, we are working hard to continue growing together for the benefit of our investors, customers and team members.

Sincerely,

Robert McFarlane
Executive Vice-President and Chief Financial Officer
February 23, 2007