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2012 ANNUAL REPORT

Management's discussion and analysis

Caution regarding forward-looking statements

This document contains forward-looking statements about expected future events and financial and operating performance of TELUS Corporation. The terms TELUS, the Company, "we," "us" or "our" refer to TELUS Corporation and where the context of the narrative permits or requires, its subsidiaries. By their nature, forward-looking statements are subject to inherent risks and uncertainties, and require us to make assumptions. There is significant risk that assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause future performance, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements, and reserve the right to change, at any time at our sole discretion, our current practice of updating annual targets and guidance. Annual targets for 2013 and related assumptions are described in *Sections 1.4* and *1.5*. Factors that could cause actual performance to differ materially include, but are not limited to:

- Competition including: continued intense competitive rivalry across all services among established telecommunications companies, advanced wireless services (AWS) entrants, cable-TV providers, other communications companies and emerging over-the-top (OTT) services; active price and brand competition; our ability to offer an enhanced customer service experience; industry growth rates including wireless penetration gain; network access line losses; subscriber additions and subscriber retention experience for wireless, TELUS TV® and TELUS high-speed Internet services; costs of subscriber acquisition and retention; pressures on wireless average revenue per subscriber unit per month (ARPU) such as through flat-rate pricing trends for voice and data, inclusive long distance plans for voice, and increasing availability of Wi-Fi networks for data; levels of smartphone sales and associated subsidy levels; and ability to obtain and offer data content across multiple devices on wireless and TV platforms.
- Technological substitution including: reduced utilization and increased commoditization of traditional wireline voice local and long distance services; increasing numbers of households that have only wireless telephone services; continuation of wireless voice ARPU declines such as through substitution to messaging and OTT applications like Skype; and OTT IP services that may cannibalize TV and entertainment services.
- Technology including: subscriber demand for data that could challenge wireless network and spectrum capacity, and service levels; reliance on systems and information technology; broadband and wireless technology options, evolution paths and roll-out plans; reliance on wireless network access agreements; choice of suppliers and suppliers' ability to maintain and service their product lines; wireless handset supplier concentration and market power; the expected benefits and performance of long-term evolution (LTE) wireless technology; dependence of rural LTE roll-out strategy on ability to acquire spectrum in the 700 MHz band; successful deployment and operation of new wireless networks and successful introduction of new products, new services and supporting systems; network reliability and change management (including risk of migration to new, more efficient Internet data centres (IDCs) and realizing the expected benefits); timing of future decommissioning of iDEN and CDMA wireless networks to redeploy spectrum and reduce operating costs, and the associated subscriber migration and retention risks; and successful upgrades and evolution of TELUS TV technology, which depends on third-party suppliers.
- Economic growth and fluctuations including: the strength and persistence of economic growth in Canada that may be influenced by economic developments in the United States, Europe, Asia and elsewhere; future interest rates; and pension investment returns and funding.
- Capital expenditure and spectrum licence expenditure levels in 2013 and beyond due to our wireless deployment strategy for LTE and future technologies, wireline broadband initiatives, new IDC initiatives, and Industry Canada wireless spectrum auctions, including auction of spectrum in the 700 MHz band expected in the second half of 2013 and the 2,500–2,690 MHz bands expected in 2014.
- Financing and debt requirements including ability to carry out refinancing activities.
- Ability to sustain growth objectives through 2013 including: dividend growth of circa 10% per annum and CEO goals of generating low double-digit percentage annualized growth in earnings per share (EPS) and greater growth in free cash flow, excluding spectrum costs. The growth objectives may be affected by factors such as regulatory and government developments and decisions, competitive environment, reasonable economic performance in Canada, and capital expenditure and spectrum auction requirements. The growth objectives are not necessarily indicative of earnings, dividends and free cash flow beyond 2013. There can be no assurance that we will initiate a normal course issuer bid in 2013 or that we will maintain a dividend growth model after 2013.
- Regulatory approvals and developments including: future spectrum auctions and rules for the 700 MHz and 2,500–2,690 MHz bands (including the amount and cost of spectrum acquired) or other spectrum purchases; whether application and ongoing enforcement of new regulatory safeguards regarding vertical integration by competitors into broadcast content ownership prove to be effective; compliance with restrictions on non-Canadian ownership of TELUS Common Shares; developments and changes in foreign ownership levels of TELUS; increased foreign control of certain AWS wireless entrants; interpretation and application of tower sharing and roaming rules; and amendments to consumer protection legislation by several provinces and a new Canadian Radio-television and Telecommunications Commission (CRTC) proceeding to establish a mandatory code and clarity for consumers in respect of terms and conditions of wireless services, where non-harmonized provincial rules create risk of significant compliance costs.
- Human resource matters including employee retention and recruitment.
- Ability to successfully implement cost reduction initiatives and realize expected savings net of restructuring costs, such as from business integrations, business process outsourcing, internal offshoring and reorganizations, procurement initiatives and administrative office consolidation, without losing customer service focus or negatively impacting client care.
- Process risks including: reliance on legacy systems and ability to implement and support new products and services; implementation of large enterprise deals that may be adversely impacted by available resources and degree of co-operation from other service providers; and real estate joint venture development risks.
- Tax matters including: a general tendency by tax collection authorities to adopt more aggressive auditing practices; possible higher than currently forecast corporate income tax rates in the future; the Canadian federal government's enacted policy change that eliminates the ability to defer income taxes through the use of different tax year-ends for operating partnerships and corporate partners, which is expected to increase income tax payments commencing in 2014; costs and complexity of complying with the Province of British Columbia's reversal of its harmonized sales tax back to a separate provincial sales tax and federal goods and services tax, as well as the Province of Quebec's sales tax harmonization; and international tax complexity and compliance.
- Business continuity events including: human-caused threats such as electronic attacks and human errors; equipment failures; supply chain disruptions; natural disaster threats; and effectiveness of business continuity and disaster recovery plans and responses.
- Acquisitions or divestitures including realizing expected strategic benefits.
- Health, safety and environmental developments; Litigation and legal matters; and other risk factors discussed herein and listed from time to time in our reports and public disclosure documents including our annual report, annual information form, and other filings with securities commissions in Canada (on SEDAR at sedar.com) and in our filings in the United States, including Form 40-F (on EDGAR at sec.gov). For further information, see *Section 10: Risks and risk management*.

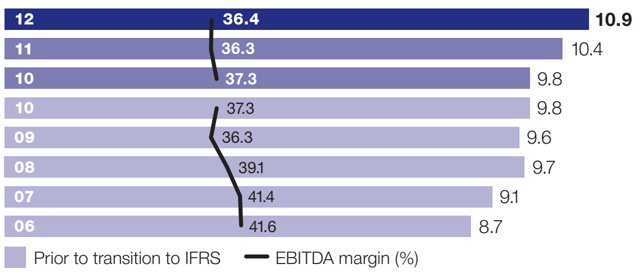
Annual consolidated financials

Consolidated	After transition to IFRS[1]			Prior to transition to IFRS				
Statement of income (millions)	**2012**	2011	2010	2010	2009	2008	2007	2006
Operating revenues[2]	**$ 10,921**	$ 10,397	$ 9,792	$ 9,779	$ 9,606	$ 9,653	$ 9,074	$ 8,681
Operating expenses before restructuring costs, depreciation and amortization[3]	**6,901**	6,584	6,062	6,062	5,925	5,815	5,465	4,998
Restructuring costs	**48**	35	80	74	190	59	20	68
EBITDA[4]	**3,972**	3,778	3,650	3,643	3,491	3,779	3,589	3,615
Depreciation and amortization	**1,865**	1,810	1,741	1,735	1,722	1,713	1,615	1,576
Operating income	**2,107**	1,968	1,909	1,908	1,769	2,066	1,974	2,039
Other expense, net	**–**	–	–	32	32	36	36	28
Financing costs before debt redemption loss	**332**	377	470	458	433	463	440	505
Debt redemption loss	**–**	–	52	52	99	–	–	–
Income before income taxes	**1,775**	1,591	1,387	1,366	1,205	1,567	1,498	1,506
Income taxes	**457**	376	335	328	203	436	233	353
Net income	**$ 1,318**	$ 1,215	$ 1,052	$ 1,038	$ 1,002	$ 1,131	$ 1,265	$ 1,153
Net income attributable to common shares and non-voting shares	**$ 1,318**	$ 1,219	$ 1,048	$ 1,034	$ 998	$ 1,128	$ 1,258	$ 1,145

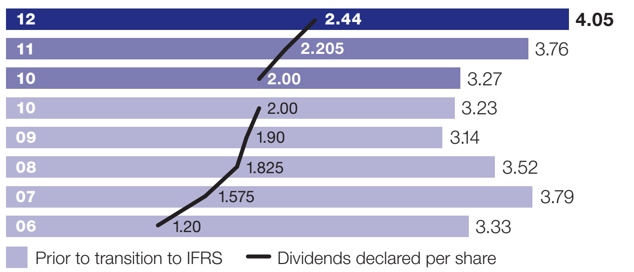
Share information[5]	**2012**	2011	2010	2010	2009	2008	2007	2006
Average shares outstanding – basic (millions)	**326**	324	320	320	318	320	332	344
Year-end shares outstanding (millions)	**326**	325	322	322	318	318	324	338
Earnings per share (EPS) – basic	**$ 4.05**	$ 3.76	$ 3.27	$ 3.23	$ 3.14	$ 3.52	$ 3.79	$ 3.33
Dividends declared per share	**2.44**	2.205	2.00	2.00	1.90	1.825	1.575	1.20

Financial position (millions)	**2012**	2011	2010	2010	2009	2008	2007	2006
Capital assets, at cost[6]	**$ 37,189**	$ 36,586	$ 35,203	$ 35,100	$ 34,357	$ 32,581	$ 30,129	$ 28,661
Accumulated depreciation and amortization[6]	**22,843**	22,469	21,220	22,244	21,480	20,098	19,007	17,679
Total assets	**20,445**	19,931	19,624	19,599	19,219	19,021	16,849	16,522
Net debt[7]	**6,577**	6,959	6,869	6,869	7,312	7,286	6,141	6,278
Total capitalization[8]	**14,223**	14,461	14,649	15,088	14,959	14,524	13,100	13,253
Long-term debt	**5,711**	5,508	5,209	5,313	6,090	6,348	4,584	3,475
Owners' equity	**7,686**	7,513	7,781	8,201	7,575	7,108	6,855	6,975

Operating revenues and EBITDA[9] margin ($ billions and %)



EPS – basic and dividends declared per share ($)



Quarterly consolidated financials

Consolidated								
Statement of income (millions)	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Operating revenues[2]	$ 2,851	$ 2,774	$ 2,665	$ 2,631	$ 2,690	$ 2,622	$ 2,554	$ 2,531
Operating expenses before restructuring costs, depreciation and amortization	1,885	1,753	1,654	1,609	1,800	1,651	1,592	1,541
Restructuring costs	19	3	13	13	16	3	12	4
EBITDA[4]	947	1,018	998	1,009	874	968	950	986
Depreciation and amortization	478	461	456	470	481	443	442	444
Operating income	469	557	542	539	393	525	508	542
Other expense, net	–	–	–	–	–	–	–	–
Financing costs	86	86	85	75	87	92	94	104
Debt redemption loss	–	–	–	–	–	–	–	–
Income before income taxes	383	471	457	464	306	433	414	438
Income taxes	92	120	129	116	69	107	90	110
Net income	$ 291	$ 351	$ 328	$ 348	$ 237	$ 326	$ 324	$ 328
Net income attributable to common shares and non-voting shares	$ 291	$ 351	$ 328	$ 348	$ 246	$ 325	$ 321	$ 327

Share information[5]	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Average shares outstanding – basic (millions)	326	326	326	325	325	325	324	324
Period-end shares outstanding (millions)	326	326	326	325	325	325	324	324
EPS – basic	$ 0.89	$ 1.08	$ 1.01	$ 1.07	$ 0.76	$ 1.00	$ 0.99	$ 1.01
Dividends declared per share	0.64	0.61	–	1.19	0.58	0.55	0.55	0.525

1 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Company's date of transition to IFRS-IASB was January 1, 2010 and its date of adoption was January 1, 2011.
2 IFRS includes certain revenues that, prior to the transition to IFRS, were classified as expense recoveries or Other expense, net.
3 In 2007, TELUS introduced a net-cash settlement feature for share option awards granted prior to 2005, which resulted in an incremental pre-tax charge of $169 million for that year.
4 For a definition of this measure (which is non-GAAP) see Section 11 of Management's discussion and analysis.
5 Common shares and non-voting shares.
6 Includes Property, plant and equipment and Intangible assets.
7 The summation of Long-term debt excluding unamortized debt issuance cost, current maturities of Long-term debt, net deferred hedging liability related to U.S. dollar Notes (prior to 2011) and short-term borrowings, less Cash and temporary investments.
8 Net debt plus Owners' equity excluding Accumulated other comprehensive income (loss).
9 The 2007 EBITDA margin has been adjusted to exclude an incremental charge of $169 million related to the introduction of a net-cash settlement feature for share option awards granted prior to 2005.

Note: Certain comparative information has been restated to conform with the 2012 presentation.