# 2004
## business review

the future is friendly®

TELUS®

# the future is friendly

## Profile

TELUS Corporation is the largest telecommunications company in Western Canada and the second largest in the country. We provide a wide range of telecommunications products and services including data, Internet protocol (IP), voice, video and wireless services.

In 2004, we generated $7.6 billion in revenues, and were a global leader among major telecom companies in growth of revenue, operating earnings and cash flow.

TELUS serves customers with…

- two state-of-the-art national digital wireless networks covering 30 million people across Canada and providing wireless solutions to 3.9 million customers
- our strong incumbent market position in Western Canada and Eastern Quebec, including 4.8 million network lines, 971,000 Internet customers, and innovative technology solutions such as the TELUS Future Friendly® Home
- our national wireline next generation network, which offers advanced IP-based network applications such as the TELUS IP-One™ product family to serve business customers across Canada.

## Strategic intent

To unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move.

## Social responsibility

We are committed to becoming Canada's premier corporate citizen by making a difference in the communities where we live, work and serve.

## inside



For detailed financial information, refer to the 2004 annual report – financial review.
This report can also be viewed anytime online at **telus.com/annualreport**.

**forward-looking statements summary**
This report contains statements about expected future events and financial and operating results of TELUS that are forward-looking and subject to risks and uncertainties. Accordingly, this report is qualified in its entirety by the inherent risks and uncertainties surrounding future expectations. Factors that could cause actual results to differ materially include, but are not limited to, competition, human resources (including the outcome of outstanding labour relations issues), regulatory developments, process risks, and other risk factors discussed in this document and listed from time to time in continuous disclosure documents filed on SEDAR (sedar.com) under applicable Canadian securities laws and filed on EDGAR (sec.gov) under applicable U.S. securities laws. For the complete Forward-looking statements, see page 10 in the accompanying Financial review.

# why invest in TELUS

TELUS provides an opportunity to invest in a focused, pure play Canadian telecom operating company with significant wireless exposure and potential investment upside from considerable earnings growth and strong free cash flow generation.

We are making the future friendly for investors:

- by delivering a consistent and focused telecommunications growth strategy in Canada
- with a solid management track record of setting and achieving the majority of our financial and operating targets
- with high exposure on a consolidated basis to the fast-growing wireless market
- by leveraging our competitive advantage with a full suite of innovative wireline and wireless services
- as a top-performing wireless carrier in North America, delivering strong profitable growth
- by increasing revenue and profitability in our Central Canadian wireline operations
- by generating attractive revenue and earnings growth as well as strong cash flow
- by maintaining a strong balance sheet
- with a 33% increase in quarterly dividend to 20 cents
- with a public dividend payout ratio guideline of 45 to 55% of net earnings to provide a framework for potential future increases
- through an equity buy-back program of up to 25.5 million shares
- with many corporate governance best practices and a 10-year record of financial reporting and disclosure excellence

# 2004 highlights

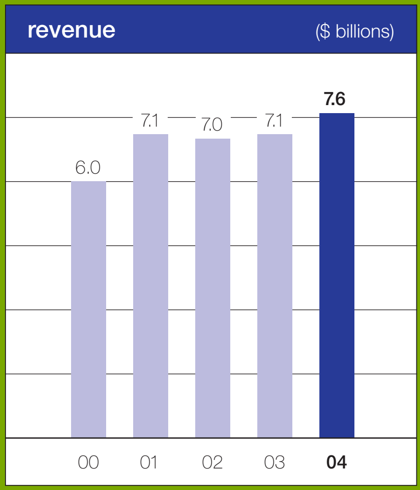
## financial and operating highlights

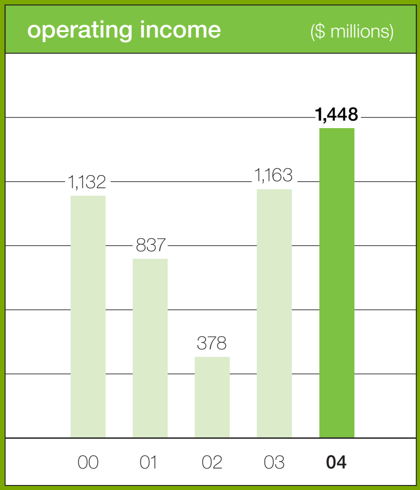
- Achieved all consolidated 2004 revenue, profitability and cash flow targets, largely driven by TELUS Mobility significantly exceeding expectations
- TELUS Communications finished 2004 reporting its third consecutive quarter of improved results
- Strong growth in wireless and Internet subscribers
- Increased net income by 75% and earnings per share by 72%, due to strong wireless operating earnings and lower financing costs
- Improved free cash flow by 54% due to strong EBITDA growth and reduced restructuring payments
- Significantly improved 2004 year-end leverage as measured by our net debt to EBITDA ratio, ending the year at 2.1 times

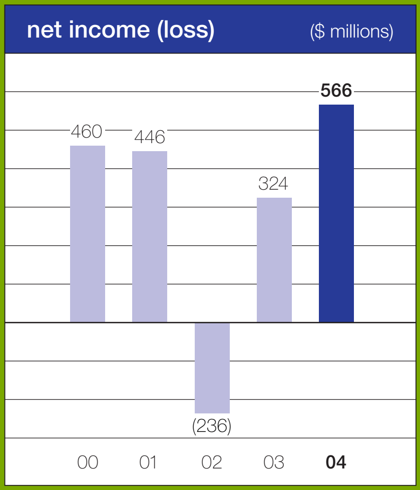
| ($ in millions except per share amounts) | **2004** | 2003 | % change |
|---|---|---|---|
| **Operations** | | | |
| Operating revenues | **$ 7,581** | $ 7,146 | 6.1 |
| EBITDA[1] | **3,091** | 2,816 | 9.8 |
| Operating income | **1,448** | 1,163 | 24.5 |
| Net income | **566** | 324 | 74.7 |
| Basic earnings per share | **1.58** | 0.92 | 71.7 |
| Dividends declared per share | **0.65** | 0.60 | 8.3 |
| Dividend payout ratio (%) | **41** | 65 | – |
| Return on common equity (%) | **8.4** | 5.1 | – |
| Cash from operations[2] | **2,538** | 2,134 | 18.9 |
| Capital expenditures | **1,319** | 1,253 | 5.3 |
| **Financial position** | | | |
| Total assets | **$17,838** | $17,478 | 2.1 |
| Net debt[3] | **6,478** | 7,571 | (14.4) |
| Net debt to EBITDA ratio[4] | **2.1** | 2.7 | (22.2) |
| Free cash flow[5] | **1,297** | 845 | 53.5 |
| Shareholders' equity | **7,026** | 6,521 | 7.7 |
| Market capitalization of equity[6] | **12,751** | 8,845 | 44.2 |
| **Other information** (as at December 31) | | | |
| Wireless subscribers (000s) | **3,936** | 3,424 | 15.0 |
| Network access lines (000s) | **4,808** | 4,870 | (1.3) |
| Total Internet subscribers (000s) | **971** | 881 | 10.2 |
| High-speed Internet subscribers (000s) | **690** | 562 | 22.8 |

1 Earnings before interest, taxes, depreciation and amortization.
2 Cash provided by operating activities.
3 Long-term debt plus current maturities of Long-term debt and cheques outstanding less Cash and temporary investments plus cross currency foreign exchange hedge liability (less cross currency foreign exchange hedge asset) related to U.S. dollar notes.
4 Net debt to EBITDA, where EBITDA excludes Restructuring and workforce reduction costs.
5 EBITDA, adding Restructuring and workforce reduction costs, cash interest received and excess of share compensation expense over share compensation payments, subtracting cash interest paid, cash taxes, capital expenditures, and cash restructuring payments.
6 Market capitalization based on year-end closing share prices and shares outstanding.

| net income | free cash flow | quarterly dividend |
|---|---|---|
| ↑ **$242 million** | ↑ **$452 million** | ↑ **33%** |



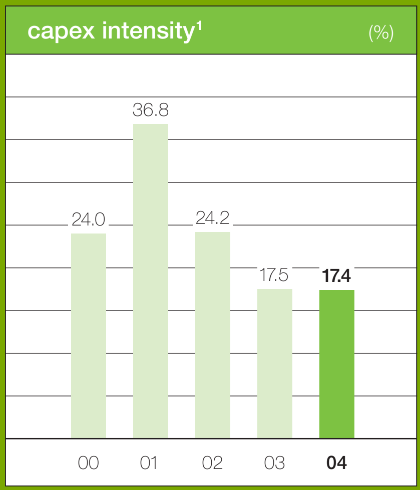



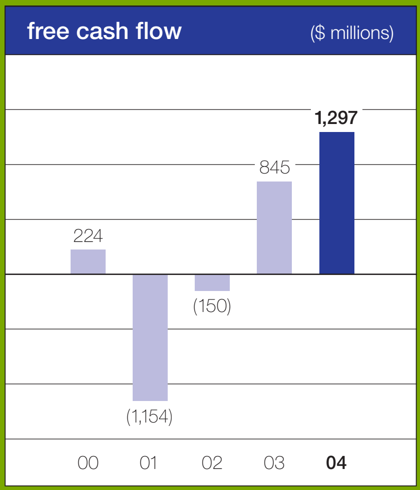



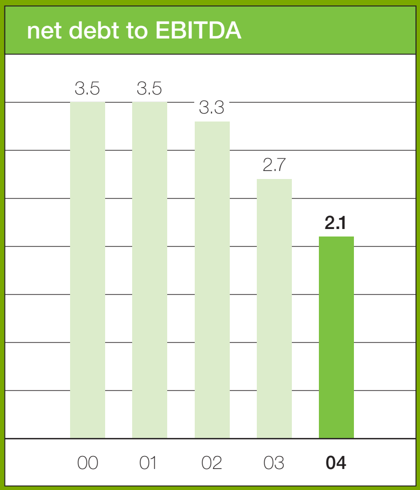

Revenues grew 6% in 2004 due to strong wireless revenue growth

Operating income increased by 25% in 2004 led by 40% wireless EBITDA growth

Net income increased by 75% in 2004 due primarily to strong operating income growth and lower financing costs




1 Capital expenditures divided by revenue.

Capex intensity was stable in 2004 due to revenue growth being offset by a modest increase in capital expenditures

Free cash flow improved by $452 million in 2004 due to higher EBITDA and lower cash outlays for restructuring costs

Net debt to EBITDA decreased significantly in 2004, achieving early the long-term target of less than or equal to 2.2 times

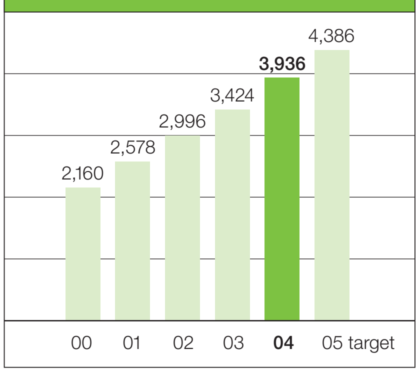
← open for TELUS at a glance

# TELUS Mobility

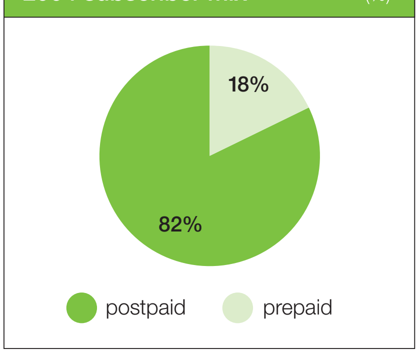
## who we are

- a national facilities-based wireless provider with 3.9 million subscribers and 32 million licensed POPs (population)
- a North American industry leader in cash flow growth, operating margins and churn rate, with an average revenue per unit approximately 20% higher than our Canadian peers
- we provide national digital wireless voice, Push To Talk™ (PTT™), data and Internet services across Canada
- we offer nationwide digital PCS (CDMA) service with national next generation 1X capability
- we are the leader in PTT service with Mike®, the only iDEN network in Canada and the only service that combines a digital PCS phone, Mike's Direct Connect® service, text messaging and Internet access

**wireless subscribers** (000s)




**2004 subscriber mix** (%)

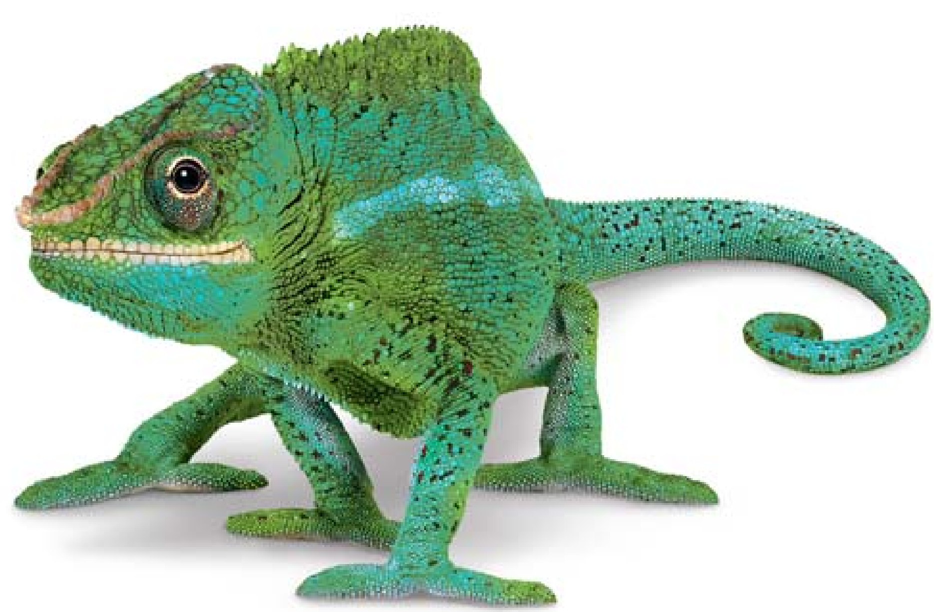



## our products and services


digital voice – PCS (postpaid and Pay & Talk® prepaid) and Mike all-in-one (iDEN); Push To Talk capability on both Mike (Direct Connect) and PCS (Instant Talk)

Internet – Wireless Web, text, picture and video messaging, ring-tone, image and game downloads, Wi-Fi Hotspots

data – next generation 1X and Mike packet data; RIM's BlackBerry service available on both PCS and Mike



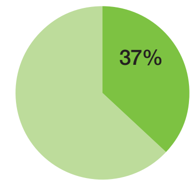
# in 2004, we delivered by…

- ranking first in North America among wireless operators across numerous operating indicators in an independent survey by N. Moore Capital Limited
- achieving record revenue and EBITDA growth while reducing cost of acquisition by 10%
- providing best-in-class coverage, client care and retention, as evidenced by achieving a top-quartile customer churn rate of only 1.4% per month
- increasing combined digital PCS and Mike coverage to 30 million POPs, or 94% of the Canadian population, including our 1X data network coverage to 91% of the population
- signing an enhanced long-term wireless roaming agreement with Verizon Wireless
- completing a Canadian and U.S. cross-border roaming partnership with Nextel Communications, allowing Nextel and TELUS Mobility Mike customers to use Direct Connect service to Push To Talk with each other across North America
- introducing the world's first Fastap-enabled mobile phones for fast text messaging
- launching wireless video messaging capabilities to complement our popular picture and text messaging services

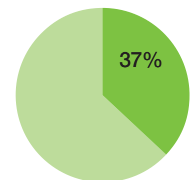
# in 2005, we are making the future friendly with…

- a continuation of our long-standing focus on profitable subscriber growth through EBITDA and cash flow generation, and world-class operating performance
- TELUS Mobility expecting to generate cash flow (EBITDA less capital expenditures) of $1 billion
- rigorous focus on customer retention and the maintenance of top-quartile North American churn levels through premium client care
- leadership in wireless data services that leverage our 1X and Mike iDEN networks
- ongoing expansion of our national points of distribution
- continued leveraging of our strategic relationships with Verizon Wireless for PCS (CDMA) and Nextel for Mike (iDEN) with enhanced coverage in North America, and with Mike roaming in Mexico, Argentina, Brazil and Peru
- continued leadership in Push To Talk services with both Mike Direct Connect and PCS Instant Talk

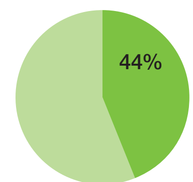
**2004 results – share of TELUS consolidated**




**revenue** $2.8 billion

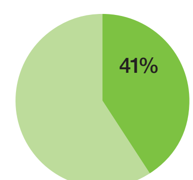



**EBITDA** $1.1 billion

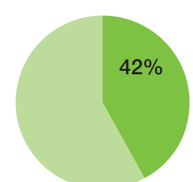



**cash flow*** $788 million

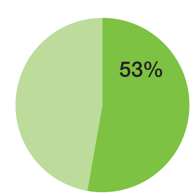
**2005 estimates – share of TELUS consolidated**




**revenue** $3.2 to $3.25 billion




**EBITDA** $1.35 to $1.4 billion




**cash flow*** $1.0 billion

*EBITDA less capital expenditures.

# TELUS Communications

## our products and services

voice – basic local and long distance phone service, personal call management services such as Call Display and Call Waiting, sale and rental of telephone equipment, and network wholesale rental to other service providers

data – private line, switched services, network wholesale, network management (local and wide area networks) and Web hosting

Internet – TELUS dial-up or high-speed Internet services with available security features (Firewall, Anti-Virus, Parental Control, Anti-Spyware and Spam Control)

IP-based – TELUS IP-One Innovation™ service provides business customers with a full suite of advanced IP applications and the ability to integrate voice mail, e-mail, data and video through a user-friendly Web portal

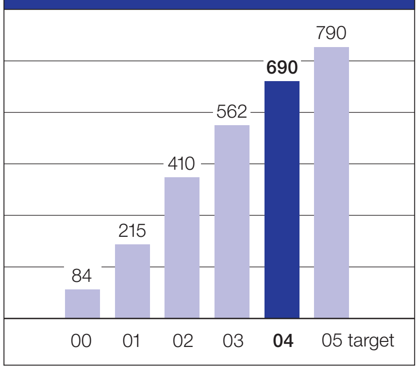
TELUS Future Friendly Home – leading-edge digital home strategy that includes TELUS Home Networking and TELUS HomeSitter® service, and other new services to be introduced in 2005

the Future Friendly® Home

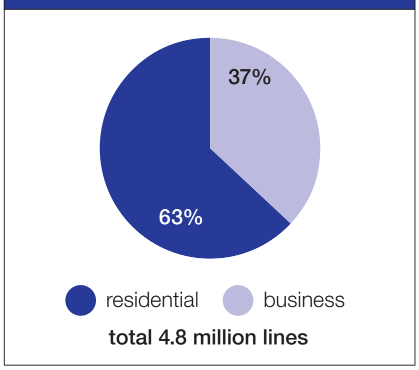
## who we are

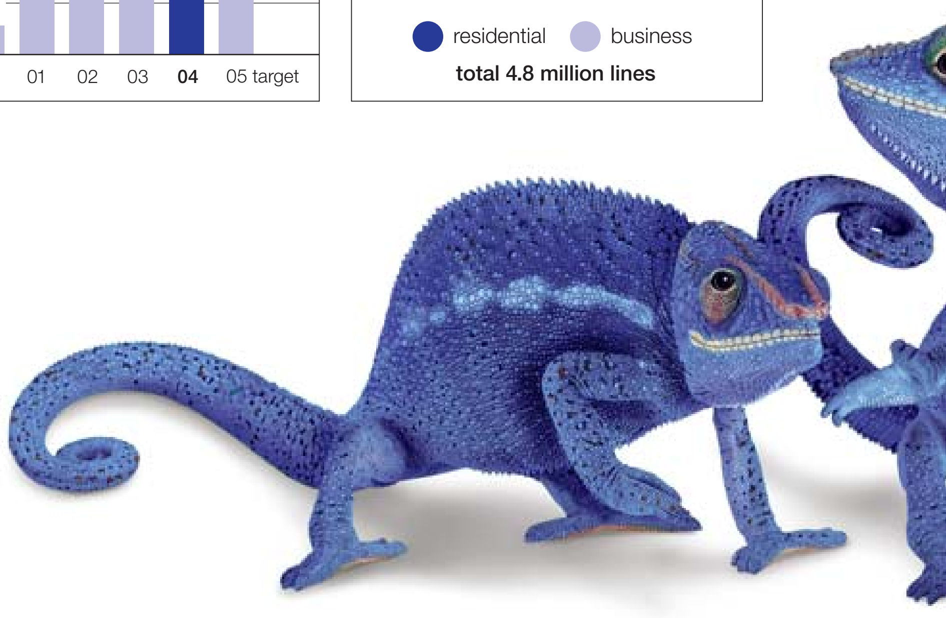
- a full-service incumbent local exchange carrier (ILEC) in Western Canada and Eastern Quebec offering local, long distance, data, Internet and other services to consumers and businesses
- a national provider of data, IP and voice solutions focusing on the business market, including non-incumbent operations located in Central Canada
- we provide 4.8 million network access lines
- the second largest Internet service provider (ISP) in Western Canada and third largest ISP in Canada with 971,000 Internet subscribers, of which 71% are high-speed

**high-speed Internet subscribers** (000s)




**2004 network access lines** (%)



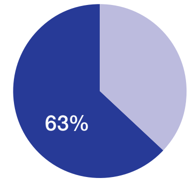
# in 2004, we delivered by…

- offering innovative digital home solutions to consumers with the launch of our TELUS Future Friendly Home
- expanding our suite of IP telephony solutions with new offerings to business customers across Canada
- adding 128,000 new high-speed Internet subscribers
- continuing the expansion of TELUS into Central Canada focused on the business markets
- successfully implementing the $160 million contract with IBM for the TD Bank Financial Group
- winning national contracts including a six-year, $66 million contract with The Co-operators, the largest Canadian-owned multi-product insurer, to provide data, IP and voice applications to more than 600 locations

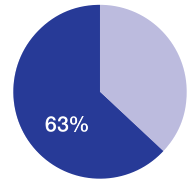
# in 2005, we are making the future friendly with…

- a continued drive toward leadership in the high-speed Internet market through the roll-out of innovative Future Friendly Home service offerings
- improved customer service providing a competitive advantage in the market
- enhanced operational effectiveness and efficiency improvements and savings
- our leadership in IP by continuing to exploit our first-to-market advantage in the IP space with our next generation network
- continued improvement in non-incumbent sales and profitability in Central Canada
- a commitment to achieve a collective agreement with our unionized team members that reflects the competitive realities of the telecom industry

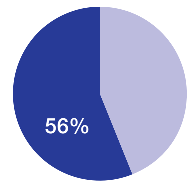
**2004 results – share of TELUS consolidated**




**revenue** $4.8 billion

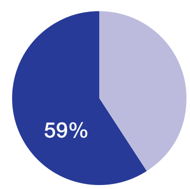



**EBITDA** $1.9 billion

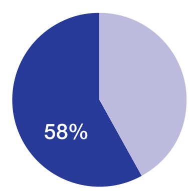



**cash flow*** $984 million

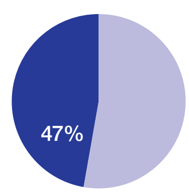
**2005 estimates – share of TELUS consolidated**




**revenue** $4.7 to $4.75 billion




**EBITDA** $1.85 to $1.9 billion



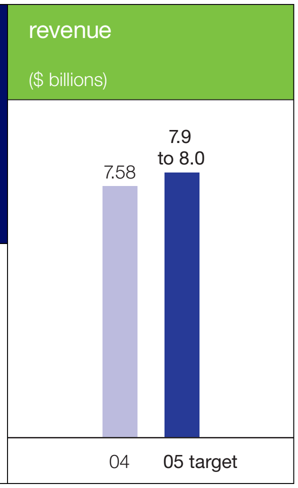

**cash flow*** $900 million

*EBITDA less capital expenditures.

# 2005 targets

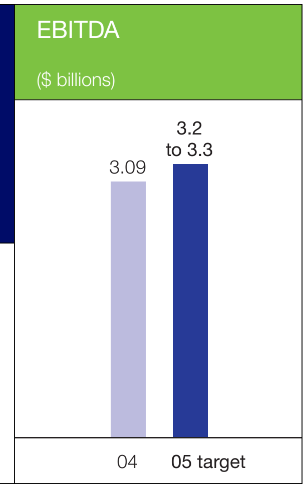
## Generate revenue of $7.9 to $8.0 billion

Up 4 to 6% driven by double-digit wireless growth, non-incumbent growth in Central Canada and TELUS Future Friendly Home initiatives in B.C., Alberta and Eastern Quebec



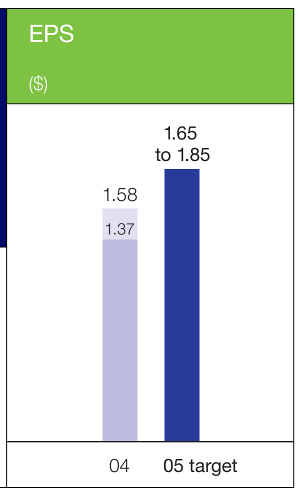

## Deliver EBITDA of $3.2 to $3.3 billion

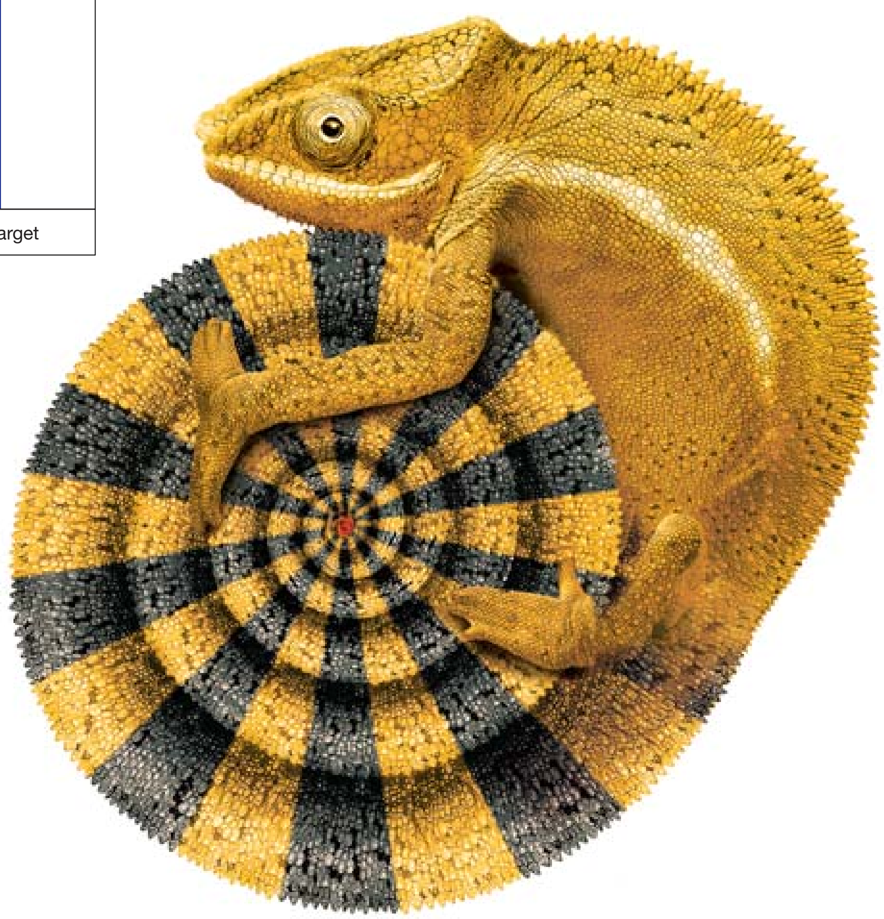
Up 4 to 7% driven by wireless growth and improved non-incumbent wireline operating profitability




## Achieve earnings per share (EPS) of $1.65 to $1.85

Up 4 to 17% due to growth in operating income, which includes increased restructuring costs, and lower interest cost. EPS in 2004 included $0.21 for favourable settlement of tax matters

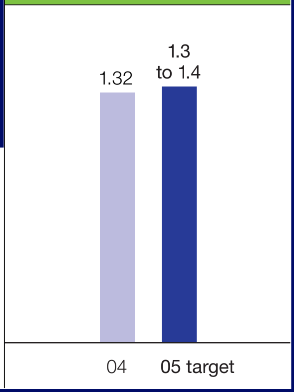


## Invest $1.3 to $1.4 billion

Flat to modest increase with continued investments in network infrastructure, new information technology systems, development of new services and additional wireless capacity

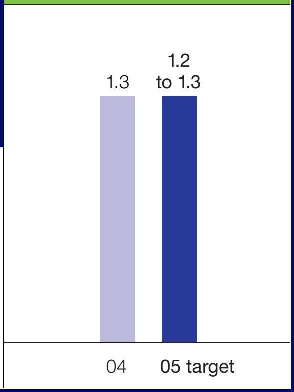
**capital expenditures**
($ billions)




## Generate $1.2 to $1.3 billion in free cash flow

Strong free cash flow available for dividend payments, share repurchases, net debt reduction and working capital requirements

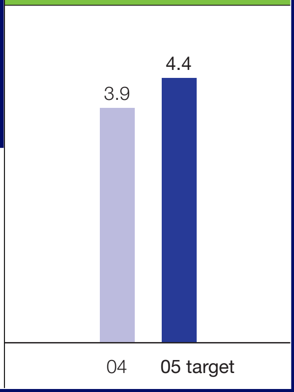
**free cash flow**
($ billions)




## Add 425,000 to 475,000 new wireless subscribers

An 11 to 12% increase in the wireless subscriber base supported by continued vibrant industry growth

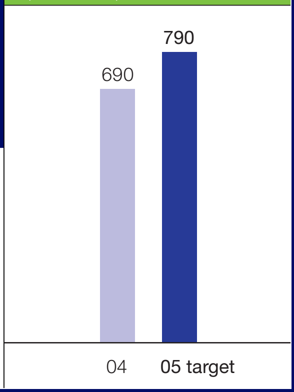
**wireless subscribers**
(millions)




## Attract 100,000 new high-speed Internet subscribers

A 14% increase in the high-speed Internet subscriber base, the cornerstone of the TELUS Future Friendly Home

**high-speed Internet subscribers**
(thousands)




For a complete set of 2005 financial and operating targets, see page 40 of the 2004 annual report – financial review.

# the future is friendly

## Dear fellow investor

In 2004, we continued to deliver on the benefits of the clear and consistent strategy we developed and put into action back in 2000. Four years ago, we committed to deliver on our national growth strategy focused on data, Internet protocol (IP) and wireless. Our relentless execution of this strategy has provided a strong foundation for our current achievements and positions us for continued success in 2005 and beyond.

## 2004 a momentous year for TELUS

A disciplined focus on our core business in the Canadian telecommunications market, combined with aligned and committed execution to plan, is proving effective. We are delivering on our brand promise of making the future friendly for our many stakeholders.

Through 2004, we built upon TELUS' considerable momentum in the wireless and data areas. Our high exposure to wireless is viewed favourably by investors, with TELUS Mobility ranked as the best performing wireless company in North America. Our managed data entry into the Central Canadian business market has also shown demonstrable progress in respect of the improved results achieved in the second half of 2004.

For the second year running, your company reported either leading or top quartile financial and operational results in the global telecom industry on a range of indicators. Superior wireless growth and solid results from our wireline business yielded a six per cent increase in revenue, a 10 per cent growth in operating earnings, a 75 per cent increase in net income and a 54 per cent increase in all-important free cash flow to $1.3 billion at TELUS Corporation. Moreover, TELUS was successful in meeting or exceeding five of its six consolidated 2004 targets.

Our disciplined approach and sense of investor responsibility are also evident in what TELUS chose not to do in 2004. We did not enter a bidding contest when our offer to purchase the wireless operator, Microcell, was topped by Rogers Wireless. In this same vein, while we were disappointed that we did not win the telecommunications sponsorship bid for the 2010 Olympic and Paralympic Winter Games in Vancouver/Whistler, we felt our bid submission reflected strongly our sense of fiduciary responsibility. TELUS remains proud of its significant contribution in bringing the 2010 Games to Canada in the first place.

TELUS continued to honour its commitment to balance the interests of shareholders and debt holders again in 2004. Our first priority has been to repay the debt we incurred to implement our wireline and wireless infrastructure nationally. To this end, we reduced net debt by $1.1 billion in 2004, following an $839 million reduction in 2003. During 2004 and more than a year ahead of schedule, TELUS achieved two of its long-term de-leveraging targets; specifically, net debt to EBITDA of 2.2 times or less and net debt to total capitalization of 45 to 50 per cent.

With de-leveraging ahead of plan and strong free cash flow, we announced a series of shareholder value-enhancing initiatives in October, including:

- a quarterly dividend increase of 33 per cent to 20 cents per share, recognizing the desires of income-oriented shareholders

Darren Entwistle
Member of the
TELUS Team

- a dividend payout ratio guideline of 45 to 55 per cent on net earnings, providing a framework by which investors can assess the potential for future dividend increases
- a Normal Course Issuer Bid to repurchase up to 25.5 million TELUS shares, recognizing the desires of our growth-oriented investors and enhancing the value of the remaining shares. TELUS' bid was put into effect in late December, and by year-end we had purchased 2.2 million shares for $78 million
- measures to restrict earnings dilution by reducing future issuances of TELUS shares, helping maintain the value of existing shares.

We have received support and appreciation from many of our investors for this comprehensive set of shareholder-friendly actions.

A highlight of 2004 was the sale of TELUS shares by Verizon Communications. In the fourth largest equity offering ever undertaken in Canada, Verizon successfully sold all of its 73.5 million TELUS shares for $2.2 billion. This move was consistent with Verizon's strategy to focus on investing in its core U.S. market by selling international assets. TELUS shareholders benefited from the sale of Verizon's 20.5 per cent stake, including the receipt of a $148 million cash payment from Verizon; the reduction of $97 million in future payments to Verizon that were previously contracted; and an enhanced and highly beneficial long-term wireless roaming agreement with Verizon Wireless. The over-subscribed share offering that increased our public share float by 26 per cent, provided TELUS with a more diverse global shareholder base and increased our Canadian ownership.

For the second year in a row, shareholders have enjoyed large increases in share value. In 2004, your common shares increased by 40 per cent and non-voting shares by 44 per cent, compared to a 12 per cent average increase on the Canadian stock market. The market value of TELUS increased from $8.8 billion a year ago to $12.7 billion at year-end. Indeed, the success of our strategy over the last five years is highlighted by the increase in TELUS' enterprise value from $10.5 billion at the start of 2000 to $18.2 billion at the conclusion of 2004.

## Answering the challenges ahead

Notwithstanding our accomplishments in 2004, I want to assure you that TELUS is not proceeding as an over-optimistic organization. All TELUS team members are acutely aware of industry and company challenges and are aligned and focused on addressing them to ensure we achieve our goals. Moving into 2005, your management team is continuing to answer the major challenges facing TELUS, including:

- maintaining momentum in our wireless business while addressing competitive actions
- competing successfully with the inception of cable telephony in the local telephone market
- enhancing our economic performance in the competitive Central Canadian business market
- driving proactively the necessary productivity improvements across TELUS in response to developments in technology, competition and regulation
- achieving a new and beneficial collective agreement for TELUS and our unionized team members.

## A consistent and effective strategic direction

TELUS has remained on course in our journey to become Canada's premier national provider of integrated telecommunications solutions. We are steadfast in pursuing the same six strategic imperatives established in 2000 that continue to dictate our investment decisions. These imperatives are as follows:

- **building national capabilities** across data, IP, voice and wireless
- **focusing relentlessly on the growth markets of data, IP 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
- **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.

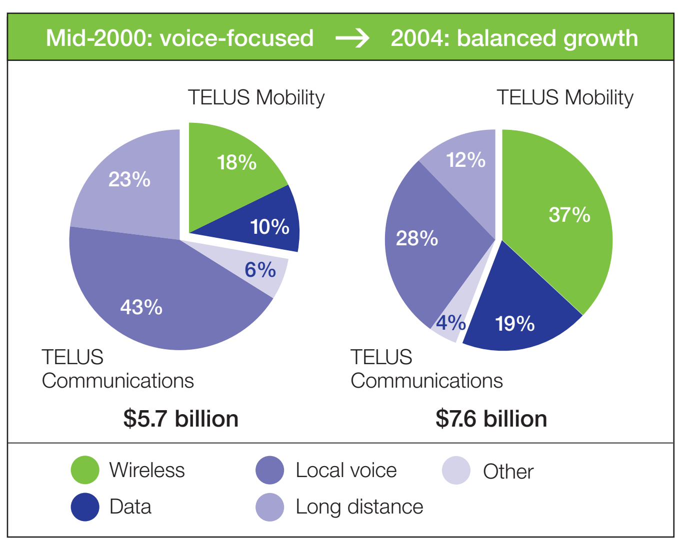
Execution against these imperatives through 2004 allowed us to realize tremendous success. Most noteworthy were the initiatives undertaken that produced strong growth in our wireless and our wireline data operations and, as well, provided integrated customer solutions.

## Focusing relentlessly on the growth markets of data and wireless

Clearly, the strategic investment made to acquire Clearnet in 2000, in combination with the significant wireless capital investments made to extend digital coverage to 30 million Canadians, is paying off in growth and value creation for TELUS investors. In 2004, we added a record 512,000 new wireless subscribers, and increased wireless revenue and operating earnings by 19 per cent and 40 per cent, respectively.

Similar investments in wireline data networks have been made to extend high-speed Internet coverage in our incumbent territories in British Columbia, Alberta and Eastern Quebec. Moreover, TELUS has built and operationalized a leading-edge, next generation IP-based network for our business customers across Canada, and is establishing new business relationships in the urban markets of Ontario and Quebec. These investments in our core business technology build competitive advantage for TELUS and an economic return to our shareholders through non-price-based differentiation of service that is meaningful for our customers.

This strategic focus on the growth markets has created a dramatic shift in our consolidated revenue, earnings and cash flow streams. The result is a better balance between slower-growing traditional voice business and faster-growing wireless, data and IP business. As illustrated, wireless and data revenues have doubled from 28 per cent four years ago to 56 per cent today. We are clearly delivering on this imperative.



# making homes future friendly

With the TELUS Future Friendly Home, fun, convenient and informative home communications solutions come together to allow customers to experience the future. TELUS Home Networking and TELUS HomeSitter are just the beginning.

## Providing integrated solutions that differentiate TELUS

TELUS is taking steps to offset the competitive pressure on wireline revenue and margins that is pervasive in the global telecommunications industry. Our approach is three-pronged: geographic expansion into the Ontario and Quebec business markets; the introduction of new integrated business and consumer solutions; and institutionalizing a cost-conscious mindset throughout the organization.

Our efforts are achieving results. TELUS is increasingly recognized as a leader in providing IP-based solutions to customers large and small. We implemented smoothly a leading-edge, managed data network with IBM for the TD Bank Financial Group by successfully migrating more than 1,000 branches onto the TELUS IP network. This landmark seven-year, $160 million contract provides a fully managed network service for TD Bank and TD Waterhouse branches and, soon, many automated bank machine locations right across Canada.

We continued to target large enterprise multi-year contracts, securing several wins during the year including a six-year, $66 million contract with The Co-operators and a seven-year, $10 million contract with the Laurentian Bank.

Building on TELUS IP-One Innovation, we continue to develop customized and enhanced features suitable for business customers. When launched in 2003, IP-one Innovation was Canada's first carrier-grade hosted and managed VoIP service. Our IP leadership position continues as we plan to launch TELUS IP-One Evolution™ in 2005. This is our latest hosted and managed VoIP offering, enabling business customers to migrate Centrex services to IP telephony services.

We are making the future friendly for consumers through the introduction of the first elements in our digital home strategy. The TELUS Future Friendly Home brings consumers secure connectivity to the world through high-speed Internet and wireless connections, and delivers innovative solutions that enhance their lives. The first two components of the Future Friendly Home, TELUS Home Networking and TELUS HomeSitter, were introduced in 2004. We are the first major North American telecommunications company to offer a remote home monitoring solution for customers.

## Tracking our strong progress against 2004 corporate priorities

Shared corporate priorities drive the actions of our team. The following discusses our progression on the 2004 priorities I shared with you last year.

### 1 Enhancing our leadership position in wireless

TELUS Mobility had an outstanding year. Our wireless performance is the primary reason for the increased value of your TELUS shares. We surpassed expectations on almost every conceivable measure, by maintaining a strong focus on achieving profitable subscriber growth and offering unparalleled customer service. We achieved 19 per cent revenue growth (our public target was 12 to 14), EBITDA growth of 40 per cent (public target was 20 to 26) and simple cash flow of $788 million, defined as EBITDA less capital expenditures, representing 21 per cent growth versus our original public target of $650 million.

TELUS Mobility also generated a best-in-class result in respect of cash flow yield at 30 per cent, defined as simple cash flow as a percentage of network revenues. Encouragingly, there remains significant latent potential for growth in the Canadian wireless industry as the penetration of wireless customers as a percentage of the Canadian population was 47 per cent at the end of 2004. This is well below penetration levels being realized in the United States, Europe and Asia.

For three consecutive quarters, TELUS Mobility was rated the number one wireless company in North America by N. Moore Capital's Value Metric Rankings, an independent company providing industry analysis across a variety of financial and operating metrics.

2 **Growing brand value through superior customer service** As a customer service organization, we know the journey to wireline and wireless service excellence is unending. In 2004, we made good progress.

TELUS Mobility continues to provide exceptional customer service on both network performance and client care. This is evidenced by one of the lowest disconnect (churn) rates in North America. Our monthly churn rate of only 1.4 per cent means that TELUS wireless customers stay with us for almost six years on average.

TELUS Communications team members continued to focus on improving customer service in 2004 and achieved historically high levels on an array of customer service measures. Enhancements to our Web channels, including telus.com and mytelusmobility.com, have provided customers even greater control over their accounts. Ongoing improvements to our interactive voice recognition (IVR) system provide more effective management of customer calls. In October, we launched two information technology programs to transform and simplify the processes and tools for front-line teams, improving workflow and enhancing customer service.

3 **Revitalizing wireline growth through innovation and national expansion** Intent on addressing the industry-wide decline in wireline revenue, TELUS aggressively targeted 2004 wireline revenue growth of breakeven to a one per cent increase. After experiencing a mid-year decline of more than two per cent, we achieved year-over-year revenue growth in the third and fourth quarters, ending the year essentially flat.

This performance can be attributed to our differentiated approach on long distance, our avoidance of sharply discounted pricing, and the underlying five per cent growth in data revenue due in part to our success in the Central Canadian business market.

4 **Driving towards leadership in high-speed Internet solutions** We were successful in enhancing our market share by two points to 40 per cent in the high-speed Internet market, compared to our major cable-TV competitor, as we added 128,000 new subscribers to achieve our 2004 target.

Building on our $800 million investment in high-speed Internet, we launched a variety of new business and consumer services. In November, we became the first Internet service provider (ISP) in Western Canada to offer customers an Anti-Spyware program, along with an array of leading-edge Internet security services that help customers manage their Internet connections.

5 **Embracing continual cost efficiency** The first three phases of our major, three-year wireline operational efficiency program, which began in 2001, were completed in early 2004. The effort realized cumulative annual savings of $538 million. Additional cost efficiencies were also gained through the consolidation of our Information Technology sites from 15 to two primary locations and the integration of our two business units serving retail business customers. In the wireless business we continued to enjoy the scale efficiencies of being a national company with profitability increasing at double the rate of revenue growth.

6 **Reaching a new collective agreement** The goal of reaching a collective agreement for unionized team members was, unfortunately, not accomplished. TELUS was stalled in our labour relations strategy as we waited for the Canada Industrial Relations Board (CIRB) to rule on our request

## top spot

Thanks to strong profitable growth and exceptional customer satisfaction, TELUS Mobility is at the forefront of the wireless industry. In December, TELUS Mobility ranked first among all North American wireless carriers, in an independent survey done by N. Moore Capital.

to reconsider its decision to impose binding arbitration, instead of allowing the parties to attempt to reach a settlement through the established process of negotiations. A CIRB decision received in February 2005 overturned binding arbitration. This should allow the parties to move forward and hopefully put in place a new collective agreement that reflects the needs of team members, shareholders and customers alike.

## Continuing our journey into 2005

Our track record demonstrates that a strong commitment to an effective strategy, with a bias for action focused on clear priorities, has driven our success through the changing dynamics of the telecommunications industry. Our business focus remains constant. TELUS priorities this year extend and enhance our efforts in 2004. The 2005 corporate priorities are:

1. **Enhancing our leadership position in wireless** and continuing to generate world-class financial, operational and customer results as we realize fully the potential for growth in the Canadian wireless industry
2. **Leveraging our investments in high-speed Internet technology through Future Friendly Home services** in B.C., Alberta and Eastern Quebec
3. **Accelerating our wireline performance in the Ontario and Quebec business markets** by continuing to build scale and delivering for the first time a full year of operating profit
4. **Growing brand value by delivering a superior customer experience** via leading IP solutions and excellence in customer care
5. **Driving continual improvements in productivity** across TELUS that help mitigate the margin pressure we experience in our wireline business due to competitive, technological and regulatory pressures
6. **Reaching a new collective agreement** that reflects our industry dynamics and embraces the needs of all TELUS stakeholders.

## Corporate social responsibility

Throughout the past year, TELUS team members have demonstrated passionate dedication to the role we collectively play in being good corporate citizens. Our team continues to make a positive difference in the communities where we live, work and serve. Aligned in our intent to become Canada's premier corporate citizen, the TELUS team demonstrated their commitment in many ways in 2004.

Our excellence in corporate sustainability was recognized in 2004 as we were named, for the fourth consecutive year, to the Dow Jones Sustainability Index. Your company was the only North American telecommunications company to qualify. In recognition of our environmental record, we were named the Best Environmental Corporate Citizen in the Corporate Knights' 2004 annual ranking of Canada's 50 best corporate citizens. For much more information, please see the summary section on page 16 of this report or visit **telus.com/socialresponsibility**.

We take our responsibilities for excellence in disclosure and corporate governance very seriously. Last year's annual report was judged by Corporate Essentials in a review of 1,000 reports from around the world to be ninth best, including the best on the key reporting attribute of "strategy, objectives and outlook." The same report was judged by the Canadian Institute of Chartered Accountants as the best annual report in Canada.

## The future is friendly

In 2005 and beyond, we will remain true to our strategy by executing against our six corporate priorities and striving to attain the 15 financial and operational targets, set publicly last December, for the 2005 financial year.

I see tremendous opportunities for TELUS in the Canadian Internet, data and wireless markets that should benefit our investors, customers and team members. Your company enters 2005 from a position of strategic clarity, financial strength and momentum, and with a firm commitment to ensure that we live up to our brand promise of delivering a friendly future for our stakeholders.

Thank you for your ongoing support.

Sincerely,

**Darren Entwistle**
President and Chief Executive Officer
February 25, 2005

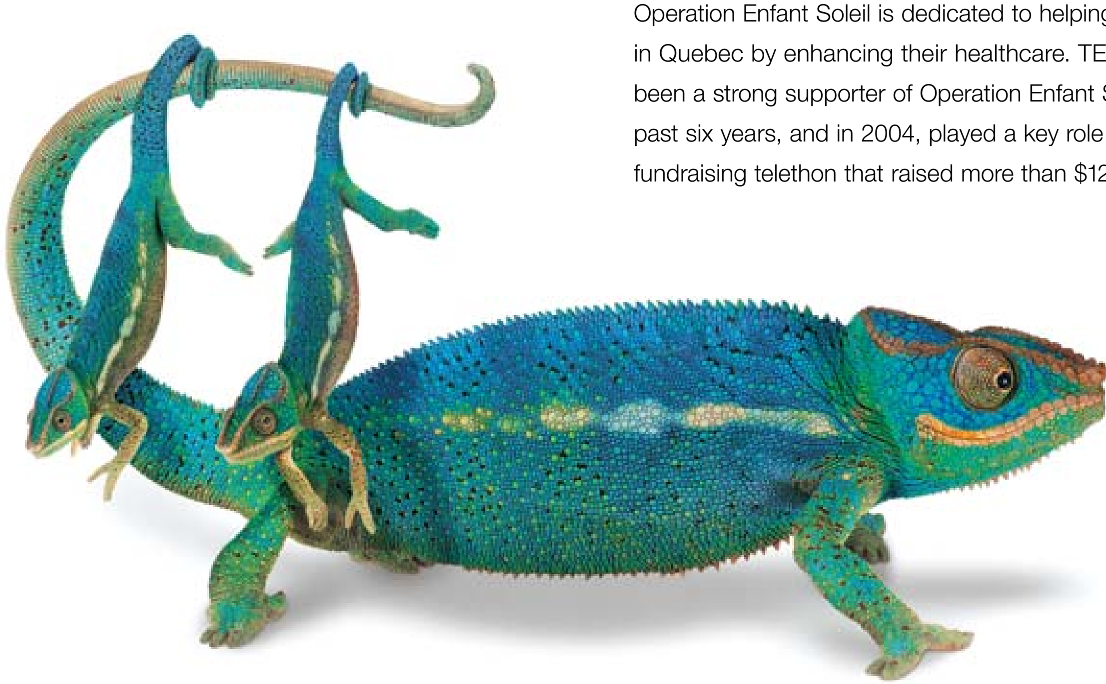
# becoming Canada's premier corporate citizen

At TELUS, we are committed to making a sustainable and positive difference in the communities where we live, work and serve. As we progress to become Canada's premier corporate citizen, we are focused on the social, economic, environmental and physical well-being of communities across Canada. We are taking a leadership role in supporting young Canadians – leveraging our funding, technology and expertise to help make a difference. At TELUS, the future is friendly...

## ...by supporting our communities

To ensure our support makes the most impact, we have strategically focused our efforts on health and wellness, education and sports, and arts and culture. Underlying this focus is an emphasis on supporting youth and enabling technology for young Canadians. Just a few examples of initiatives in 2004 include:

- Science World British Columbia We are promoting technological innovation and have invested in the future of tomorrow's leaders by supporting Vancouver's Science World. This represents a 15-year, $9 million investment that will be a multi-faceted partnership involving outreach and education programs, as well as initiatives to upgrade the facilities.
- TELUS Cybertales™ Utilizing Internet technology, TELUS Cybertales is helping Alberta children develop creative writing and technology skills through an innovative collaborative story-writing project. Participating classes go online to add ideas, and the final story is performed live at the International Children's Festival in St. Albert.
- Operation Enfant Soleil (Children's Miracle Network) Operation Enfant Soleil is dedicated to helping sick children in Quebec by enhancing their healthcare. TELUS has been a strong supporter of Operation Enfant Soleil for the past six years, and in 2004, played a key role in its annual fundraising telethon that raised more than $12.5 million.



- **Royal Conservatory of Music** TELUS committed $10 million over five years to the Royal Conservatory of Music's Building National Dreams Campaign. A new e.learning and multimedia educational facility in Toronto, the TELUS Centre for Performance and Learning™, will open in 2006. Using TELUS' innovative Internet technologies, the centre will provide enhanced online learning and development tools and opportunities to young musicians across Canada.
- **Investment in amateur sports** TELUS supports sports programs and organizations across Canada, and the development of Canada's amateur athletes from the playground to the podium. In 2004, we announced a number of long-term sponsorships of national and regional sports associations including Hockey Canada, Alpine Canada Alpin, the Canadian Soccer Association and the Canadian Snowboard Federation.

### …by continuing our tradition of giving

TELUS, our team members and our retirees have a history of being committed to helping our communities. Through the power of many, we are making a positive impact.

Imagine A Caring Company

Since 1995, we have been an Imagine Caring Company, a designation by the Canadian Centre for Philanthropy that means we donate a minimum of one per cent of our pre-tax profits to charitable organizations each year. In fact, over the past five years, TELUS and our team members have contributed $54 million of financial and in-kind assistance to a number of charitable organizations across Canada. In 2004 alone, contributions totalled $10 million.

Through the TELUS Employee Charitable Giving Campaign, our team members demonstrate their commitment to the community through pledges, which TELUS matches dollar for dollar. Based on the 2004 campaign, we will donate more than $2 million to Canadian charities in 2005. As well, through the TELUS Volunteer Involvement Fund, TELUS donated $362,800 to Canadian charitable organizations in 2004 in recognition of the 1,814 team members who each volunteered more than 60 hours of their personal time.

In late 2004 and early 2005, TELUS and our team members made significant contributions to the tsunami relief efforts in South Asia. Donations made by team members were matched by TELUS up to $250,000 and, combined, we donated more than $575,000 to the relief activities.

### …with economic, social and environmental leadership

We recognize that being a good corporate citizen means operating in an economically, socially and environmentally sustainable manner. Using this triple bottom line approach, we are continuing to implement practices that support our efforts to achieve long-term sustainable growth, while protecting the environment and improving the quality of life in the communities we serve.

05 Member of Dow Jones Sustainability Indexes DJSI

For the fourth year in a row, TELUS was recognized in 2004 for excellence in corporate sustainability in the Dow Jones Sustainability Index (DJSI), a worldwide corporate ranking of companies. Once again in 2004, TELUS was the only North American telecommunications company, and one of only 13 Canadian companies, to qualify.

50 Corporate Knights • 2004 Best Corporate Citizens

TELUS was again recognized for leadership and commitment to environmental stewardship and was named the 2004 Best Environmental Corporate Citizen in the Corporate Knights annual ranking of Canada's 50 best corporate citizens.

To read more about these awards and other recognition TELUS has received, visit **telus.com/awards**.

## corporate social responsibility

At TELUS, *the future is friendly* defines our dedication to corporate social responsibility. To find out more about our economic, social and environmental performance, visit **telus.com/socialresponsibility**.

# TELUS Mobility

With two national digital wireless services, world-class customer satisfaction levels, superior network performance, and innovative products and services, TELUS Mobility is uniquely positioned to offer the right wireless solution to our customers. At TELUS Mobility, the future is friendly...

## ...with leading wireless performance

For TELUS Mobility, 2004 was a year when all elements of our operations came together to produce exceptional results. With a continued focus on profitable subscriber growth and superior customer satisfaction, we demonstrated world-class operational and financial performance, placing us at the forefront of the North American wireless industry.

During 2004, we increased our subscriber base by 15 per cent, ending the year with more than 3.9 million wireless customers. We continued to concentrate our efforts on attracting and keeping the industry's highest-value customers, which resulted in a Canadian-best average revenue per subscriber unit (ARPU) of $60 per month in 2004, up from $57 per month in 2003. TELUS Mobility's ARPU remains at approximately a 20 per cent premium over our Canadian peers. Overall usage continued to climb, with monthly average minutes of use up 10 per cent in 2004, suggesting Canadians continue to see increased benefits from wireless phones.

Our intense focus on customer care and vigorous loyalty and retention programs also resulted in one of the lowest churn rates in the global wireless industry. Our 2004 churn rate was just 1.4 per cent.

## ...as wireless data demand accelerates

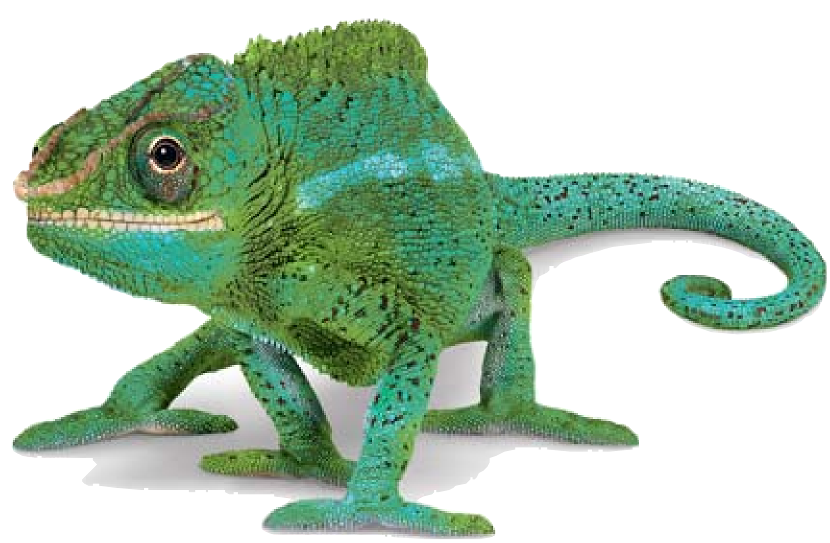
Wireless phones are not just for phone calls. We are providing data services to the business and enterprise market, with a focus on value-added services, unique data devices and the Mike network. Consumers are now sending text, picture and video messages; downloading the latest ringtones, images and interactive games; and surfing the World Wide Web more than ever before.

Picture messaging is increasingly popular with our customers, thanks to the personalized online photo albums that allow them to snap, save and send their photos. By the end of 2004, our customers were sending hundreds of thousands of photos each month, many with sound, voice and text messages attached. New for 2004 was a video messaging service, letting TELUS customers share business or personal videos instantly with colleagues, friends and family.

TELUS Mobility also brings fast mobile Internet access to Canadian business travellers. In addition to our 1X network offering coast-to-coast data solutions, we now operate approximately 200 Wi-Fi Hotspots in high-traffic locations across Canada, including office complexes, hotels, conference centres and certain international airports.

## ...with TELUS Mobility phones that do more

With the powerful Push To Talk (PTT) capabilities of Direct Connect, TELUS Mobility's Mike iDEN network has become the differentiated wireless service of choice for Canadian business, ranging from the largest enterprise and public-sector accounts



to small business. We underlined our leadership in the PTT market with the January 2005 introduction of Instant Talk, a service that brings the advantages of instant communication to consumers on our national CDMA network.

We continue to be a leader in wireless data by introducing innovative phones with extensive data capabilities as well as the infrastructure that allows customers to use those devices to their full advantage. TELUS Mobility now offers a broad range of data-capable phones – from Canada's first megapixel camera and the newest video phones to Java-capable handsets that provide the latest in mobile gameplay.

With our two digital networks, we also took the lead with powerful BlackBerry devices from Research in Motion (RIM). TELUS Mobility's offering includes the BlackBerry 7510, the first such device in Canada to operate on the powerful all-in-one Mike iDEN network for business and the first BlackBerry with a speakerphone.

Personalizing wireless phones is an increasingly popular trend, particularly in the youth market. With thousands of ringtones, voicetones and screen savers available from TELUS Mobility, customers can personalize their phones to reflect their own style.

TELUS Mobility took phone personalization a step further by introducing a broad roster of phones in vibrant colours, others that allow further customization with interchangeable faceplates, and phone pouches and holsters in a variety of colours.

### …with service standards that are second to none

To meet the increasing demand to provide self-serve options, we added further enhancements to our portal, **mytelusmobility.com**. Customers have greater flexibility in managing their own accounts and customizing their wireless products, and can go online to buy, activate and personalize their wireless phones – 24 hours a day.

With a strong focus on the customer, TELUS Mobility operates client care call centres across Canada, the newest of which was opened in the fast-growing community of Barrie, Ontario. During 2004, we opened 15 new TELUS Mobility flagship retail stores, bringing our total to more than 100 corporate stores. Our roster of national retail locations from Vancouver Island to Newfoundland grew to 2,500.

### …as we continuously reach more and more Canadians

We continued to expand and enhance our 1X digital wireless network across Canada in 2004. For example, in Quebec we completed a $4.5 million expansion that enhanced coverage in high-growth areas of the province. We also continued our B.C. Heartland Expansion program in 2004, adding further coverage to 10 small and remote communities in British Columbia.

Mike coverage continued to grow as well with the addition of coverage in Nova Scotia, allowing customers to use Mike's Direct Connect service from sea to sea.

In May, we joined with Nextel Communications to announce a cross-border walkie-talkie service that enables customers to use Direct Connect service across Canada and the U.S. on TELUS' and Nextel's all-digital networks. In the first quarter of 2005, we also announced Mike phone and PTT service into Mexico and several South American countries. As a result, Mike users will be able to Push To Talk with any of the almost 20 million iDEN users across North and South America.

## fast and easy messaging

TELUS Mobility was first in the world to introduce the Fastap LG 6190. By neatly integrating text keys around a standard numeric keypad, Fastap makes it fast and easy to send text, picture and e-mail messages, or input other data into the phone. Canadians sent more than 710 million phone-to-phone text messages in 2004, an increase of more than 100 per cent over the previous year.

# TELUS Communications

For TELUS Communications, 2004 was a year of steady progress, characterized by our competitive lead in IP business applications, a head start in providing compelling solutions for the home, and improved customer service. At TELUS, the future is friendly…

### …with leading Internet services

Our drive to a leadership position in Internet service continued in 2004 and we now serve close to one million subscribers, 71 per cent of which are high-speed. Our $800 million investment is a base for new IP applications and services.

To enhance our customers' online experience, we introduced Pureradio from TELUS in March, a new legal music service that lets high-speed Internet users listen to high-quality streaming music and quickly download songs.

In November, we introduced Anti-Spyware, the first Internet service provider (ISP) in Western Canada to do so. Now, business and residential customers can protect their computers with the TELUS Full Security Bundle, which includes Anti-Spyware along with Anti-Virus with Ad Block, Firewall, Parental Control and Spam Control.

TELUS Fast Dial-up service was introduced in 2004 to provide customers in B.C., Alberta and Quebec with up to five times faster Web browsing and downloading access, and improved e-mail capabilities.

### …with the TELUS Future Friendly Home

Last year, we saw the beginning of our digital home strategy, which entails offering a suite of integrated services that make it easier for families and friends to connect with the world. With high-speed Internet as the backbone, the new TELUS Future Friendly Home offers integrated and innovative products and services that are secure, simple to install and easy to use.

We introduced the first two components in 2004. In May, we launched TELUS Home Networking, an integrated solution that gives customers a simple way to connect multiple computers, wired and wirelessly, to high-speed Internet. Family members can use their computers anywhere in the home to access the Internet and share printers, scanners and files.

In November, TELUS became the first Canadian and first major North American telecommunications provider to introduce a home monitoring solution with TELUS HomeSitter. Using high-speed Internet and wireless connections, TELUS HomeSitter is a multi-camera video monitoring service that alerts customers of activities in their home through a wireless phone, pager or e-mail.

In 2005, we will continue to create new TELUS Future Friendly Home services. For example, we are currently evaluating TELUS TV, a customized digital entertainment service, for a potential future launch.

### …with network innovation and strength

Two years ago, TELUS became the first major telecommunications company in North America to transform its network to IP-based technology. This leading-edge IP-based network is designed to carry high-quality voice, data and video applications, giving us a distinct head start and advantage in the business marketplace.

In 2004, we successfully completed a migration of 84 per cent of our long distance traffic from the old national Stentor Alliance platform. This migration, which is estimated to save us millions of dollars, is planned to be completed in the first quarter of 2005. We also continue to migrate traffic from our traditional circuit-switched network onto our leading-edge IP-based network. Over time, as we move to a single IP-based network, we will continue to reduce network costs through the efficiencies of planning and operating one network.

During 2005, we plan to continue building out our IP infrastructure to bring additional innovative TELUS Future Friendly Home services to a growing number of consumer markets in B.C., Alberta and Quebec, and to roll out additional IP solutions to our business customers across Canada.

Through key wholesale arrangements with other large carrier partners, in 2004 we enabled seamless multi-protocol label switching (MPLS) connectivity across North America. With this connectivity in place, TELUS customers now enjoy access to a reliable network across the continent at the high bandwidth and service levels required for today's converged applications.

### …with revolutionary IP solutions

We advanced our IP telephony leadership position in 2004 by enhancing the capabilities of IP-One Innovation, Canada's first carrier-grade hosted and managed voice over IP (VoIP) service. Now, business customers have more customized choices with an expanded suite of telephony features and capabilities such as visual voicemail and Find me/Follow me services, all of which are presented in an easy-to-use Web portal.

We plan to introduce IP-One Evolution in the first half of 2005. By choosing IP-One Evolution, regional and national business customers can, at their own pace, seamlessly migrate from Centrex to IP telephony. Both IP-One Innovation and IP-One Evolution solutions converge voice, data and Internet communications onto a single, more efficient IP network, delivering lower costs and increased productivity for customers.

### …with improved performance in Central Canada

Our biggest wireline revenue growth opportunity is in non-incumbent operations in Central Canada. We are focused on winning high-quality, recurring, IP-based revenues in Ontario and Quebec that leverage the technology leadership, head start and service differentiation our IP network provides.

Our efforts have resulted in a number of multi-year contracts with large organizations. We smoothly implemented our landmark $160 million contract with IBM for the TD Bank Financial Group, with the successful migration of more than 1,000 branches onto TELUS' network. In 2005, we will continue to convert up to 400 automated banking machines over to TELUS.

We have gone on to win several other large deals in 2004. For example, in May, we announced a six-year, $66 million contract with The Co-operators, which will include wide area network (WAN) and local area network (LAN) data services to more than 600 locations, as well as an extensive portfolio of voice services. We also announced a seven-year, $10 million contract with the Laurentian Bank. TELUS will manage the bank's entire telephony infrastructure for 153 branches across Quebec and in Ottawa.

## greater peace of mind

the Future Friendly® Home

TELUS HomeSitter is ideal for customers wanting to keep a watchful eye on kids at home alone, elderly family members, pets or property. Using a wireless router that captures signals from wireless cameras, customers can remotely monitor their home or business – anytime and anywhere they have access to high-speed Internet.

# questions & answers

**Q** Why did Verizon sell its 21% stake in TELUS, and what does it mean for TELUS shareholders?

**A** The December 2004 sale was consistent with Verizon's strategy to focus more on its U.S. home market. Notably, this is similar to TELUS' existing strategy here in Canada. Verizon is investing billions of dollars in its core business growth opportunities focused primarily on wireless, wireline broadband and the national expansion of its wireline infrastructure to address the enterprise market segment in the U.S. To help fund these investments in its domestic business, Verizon has divested many of its international holdings in the last two years, including all of its 73.5 million TELUS shares for gross proceeds of Cdn $2.24 billion.

A long-term relationship agreement between the companies required Verizon to have approval from a majority of TELUS' independent directors in order to sell its equity stake. This condition allowed TELUS to negotiate favourable terms to permit the transaction to proceed in the best interests of both parties. TELUS received an immediate lump-sum payment of Cdn $148 million (US $125 million) from Verizon, with benefits to TELUS totalling Cdn $245 million (US $207 million) including reduced annual fees payable to Verizon under the amended wireline software and technology agreement.

Verizon and TELUS continue to have a mutually beneficial relationship to better serve our wireline and wireless customers, respectively. For example, TELUS Mobility and Verizon Wireless expanded their current roaming arrangements under a consolidated, long-term wireless roaming agreement. This gives our 3.9 million customers access to Verizon's nationwide state-of-the-art wireless network in the U.S. It also makes TELUS Mobility the preferred roaming partner for an ever-increasing number of Verizon Wireless' 44 million customers when they travel to Canada.

This was a sizable equity offering – the fourth largest ever completed in Canada. Demand from retail and institutional buyers significantly exceeded the number of shares being offered. From the day of the announced sale to the end of 2004, TELUS common shares were up 11% and TELUS non-voting shares were up 14%. A significant portion of the shares were placed in Canada, including 10 million allocated to smaller retail shareholders, thereby increasing Canadian ownership of TELUS. Moreover, we increased the breadth of our shareholder base with many new Canadian and, in particular, international institutional holders. Finally, the addition of 73.5 million shares to our public float, which increases it by a significant 26% and provides more trading liquidity, is a key consideration for large institutional investors.

TELUS believes that the amended wireline and wireless agreements, significant cash compensation received, very successful placement of the share offering and expansion of our shareholder base were all very positive developments for our shareholders.

Darren

Darren Entwistle
President and Chief Executive Officer
Member of the TELUS Team

**Q** Given that the company is still generating significant cash flow, will TELUS use this to pay down debt in 2005, or will TELUS consider returning some of this to shareholders including a further dividend increase?

**A** TELUS is producing significant free cash flow and we have made tremendous progress, reducing net debt in the past two years by $1.9 billion and, by the third quarter of 2004, meeting two out of three long-term leverage policy targets, a full 15 months ahead of schedule. Our net debt to total capital ratio at the end of the year stood at 48%, which is comfortably within the 45 to 50% target. In addition, our net debt to total EBITDA ratio at 2.1 is favourable to our target of less than or equal to 2.2. We also expect, over time, to see debt rating agencies recognize this performance and move our current triple B-mid ratings into our long-term target of triple B-high to A-low.

In 2005, our target is to generate between $1.2 to 1.3 billion in free cash flow. While a portion of this cash is required to fund working capital and other uses, TELUS has no significant debt maturities to be repaid until June 2006, other than our recently announced intention to redeem early, on June 16, 2005, $150 million of 6.75% convertible debentures due June 2010. We expect to maintain substantial cash balances in advance of the 2006 debt maturity and our positive cash flow gives us the additional flexibility to consider alternative, shareholder-friendly uses of the cash. Accordingly, we announced a series of shareholder value-enhancing initiatives in October 2004.

First, TELUS announced a 33% increase to our quarterly dividend to 20 cents, from 15 cents.

Second, TELUS established for the first time a going-forward public dividend guideline, targeting a dividend payout ratio of 45 to 55% of net earnings. TELUS is targeting an earnings per share increase next year of 4 to 17%, and is striving to grow earnings over the coming years. The dividend payout guideline provides a useful framework for investors to assess the potential for possible future dividend increases.

Third, we have embarked on a program to repurchase up to 25.5 million TELUS common and non-voting shares. This Normal Course Issuer Bid (NCIB) commenced on December 20, and in the last 12 days of 2004, TELUS repurchased 2.2 million shares for $78 million. Share repurchases are a method of returning capital to shareholders and increasing the scarcity value of the remaining outstanding shares.

Based on our public dividend payout ratio guideline, the early stage of the NCIB, and an ongoing assessment of appropriate uses of our free cash flow, TELUS should continue to be in a good position to evaluate future opportunities to enhance shareholder value.

Robert McFarlane
Executive Vice-President and Chief Financial Officer
Member of the TELUS Team

**Q** TELUS Mobility experienced very strong performance in 2004. How does the company plan to maintain this momentum in 2005 and beyond?

**A** TELUS Mobility is a key component of value creation for TELUS shareholders, and the wireless business remains the fastest growing segment in the telecommunications industry.

With wireless penetration in Canada expected to surpass 50% in 2005, the growth opportunity for wireless in Canada remains impressive. TELUS and industry observers expect the Canadian market to add about 1.5 million new subscribers each year for at least the next several years. TELUS Mobility is targeting 425,000 to 475,000 net additions in 2005, an 11 to 12% increase in our national base. This growth, coupled with our industry-leading average revenue per unit (ARPU), low customer disconnect rate (churn) and disciplined expense control, is expected to support double-digit revenue, earnings and cash flow growth at TELUS Mobility in 2005.

We expect continued revenue growth in 2005 from the expanded subscriber base, robust ARPU and uptake in new services. We continue to see strong ARPU – at an approximate 20% premium above our national competitors – as we remain focused on pricing discipline and as customers increase their usage and adopt new services, particularly our data offerings. We are seeing strong demand for new data services and products offered on both our PCS and Mike networks, and ongoing exponential growth in the use of mobile e-mail solutions, text messaging, picture messaging, and now, video messaging.

TELUS' investments in customer service and superior network quality also continue to pay off as we enjoy one of the highest customer satisfaction rates in the industry, evidenced by our low 1.4% churn rate. While TELUS Mobility has done very well in a four-player environment over the past few years, over time we expect to realize the benefits from the industry consolidation to a three-player market that occurred late in 2004, including improved industry churn and lower cost of acquisition for new subscribers.

Continuing double-digit growth, an intense focus on retention and disciplined cost containment are driving increased economies of scale and profitability. While TELUS Mobility is targeting 14 to 16% revenue growth in 2005, we expect a higher 18 to 23% increase in EBITDA. With capital expenditures flat, or up only modestly, we expect to generate approximately $1 billion in cash flow (EBITDA less capex) in 2005, up significantly from $788 million last year and $456 million in 2003.

TELUS Mobility remains at the forefront of the North American wireless industry, and we expect to build on that leadership role for the benefit of both our customers and our investors in 2005 and beyond.

George Cope
President and Chief Executive Officer, TELUS Mobility
Member of the TELUS Team

## Q Competition, technological substitution and regulation are putting downward pressure on wireline revenue industry-wide. What is TELUS doing given these challenges?

A TELUS' wireline business in Canada is experiencing increased pressure, which is being specifically addressed in its business plans for both the short and mid-term. While these challenges, as shown on the right-hand side of the diagram, are causing declines in traditional revenue sources at TELUS Communications, TELUS has some unique offsetting factors.

### Technological substitution and our wireless advantage

In respect of technological substitution, it is important to note that the trend of wireline to wireless substitution is a net positive for TELUS overall. We capture a portion of this shift to wireless phones in our incumbent regions in the West and Eastern Quebec, but elsewhere in Canada, where we are not the incumbent wireline telco, we enjoy a 100% gain for customers who choose TELUS Mobility as their primary phone line.

We are also well positioned to offset wireline revenue declines, compared to most telcos in the world, by our large national exposure to wireless. In 2005, we expect more than 40% of the company's total revenue and EBITDA to be generated by our fast-growing wireless operations, whereas many telcos have significantly less wireless exposure. It is also noteworthy that TELUS, as a full-service telecom operator, should increasingly benefit from wireless and wireline synergistic bundling opportunities. This is a differentiating competitive advantage for us compared to competitors with narrow or stand-alone service offerings.

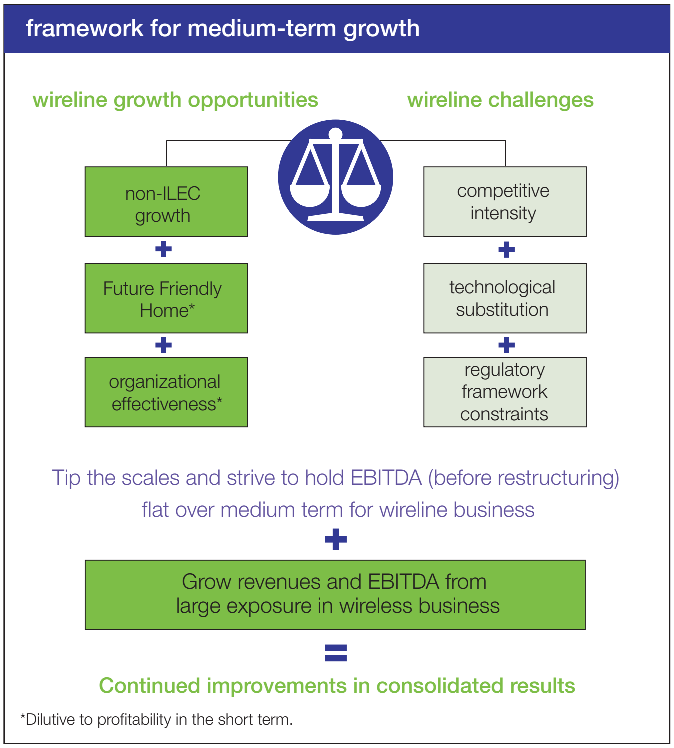
### Our regulatory hedge

Another hedge is our strategy to grow TELUS' presence into the much larger business market in Central Canada. This non-incumbent local exchange carrier (non-ILEC) expansion not only provides data revenue growth but also acts as a partial hedge, in respect of regulatory decisions emanating from the CRTC. Therefore, adverse regulatory rulings that impact our incumbent operations often provide relief to our non-ILEC operations and, obviously, the logic also holds in reverse.

The diagram outlines a specific three-pronged approach to the TELUS strategy to offset the wireline challenges we face.

### Pursuing balanced competition

As shown on the left-hand side of the diagram, the most significant growth opportunity is in our non-ILEC operations, focused on the business and public sectors. TELUS is leveraging its distinct leadership position in managed data and IP solutions and utilizing its next generation IP network to successfully implement long-term contracts being won in Ontario and Quebec. In 2005, we expect to generate $600 million to $650 million in revenue, a significant 7 to 16% increase, and to deliver positive operating earnings for the first time.




An important second element of our growth strategy is the TELUS Future Friendly Home initiative on the consumer side of our business. We have begun to offer a suite of advanced digital and wireless services that are easy to use, exploiting our significant investment in high-speed Internet infrastructure. The first two services, TELUS Home Networking and TELUS HomeSitter, were launched in 2004. We plan to launch exciting new retail consumer solutions in 2005 to add to the Future Friendly Home portfolio.

### A focus on continuous improvements in productivity

The third opportunity we are progressing in is to maintain wireline profitability by delivering continued improvements in operational effectiveness, building on the success of our past operational efficiency programs. To this end, up to $100 million is set aside for select restructuring and productivity initiatives in 2005.

While the early implications of the Future Friendly Home and ongoing operational efficiency activities may be dilutive to operating earnings in the short term, when combined with our Central Canadian expansion, the goal is to keep wireline EBITDA stable. This would allow expected significant growth in our wireless business to flow through to TELUS' consolidated revenue, earnings and cash flow for the benefit of investors.

Darren Entwistle
President and Chief Executive Officer
Member of the TELUS Team

**Q** A number of small providers have launched voice over IP (VoIP) telephony in TELUS' incumbent areas and your cable-TV competitors are launching telephony this year. What are the implications for TELUS?

**A** To date, we have not seen a significant impact from the VoIP service launched by smaller providers. The VoIP products that have been introduced into the market in 2004 have been positioned as a less expensive alternative for consumers to make long distance calls. Since long distance calling is already very inexpensive, many have found that the promised cost savings simply do not justify the subscription cost. However, our major Western-based cable-TV competitor has recently launched a more robust and feature-rich telephony service in Calgary and is expected to roll out service to other cities in 2005. We may also see a smaller scale cable-TV telephony launch in Eastern Quebec this year.

TELUS is the largest service provider in Western Canada and Eastern Quebec. Telephony is TELUS' core business and we continue to focus on providing high-quality, integrated and innovative communications solutions to customers. This focus naturally includes IP telephony, which has been the focal point of our data growth strategy since 2000 and has made us a leader in introducing IP-based solutions. In November 2003 we launched IP-One Innovation service, Canada's first carrier-grade hosted and managed VoIP service, targeting business customers in Ontario and Quebec. Building on this head start, we expanded our suite of IP telephony solutions in 2004, which has been a competitive advantage as we market into the large Central Canadian market.

In the residential market, we see good potential to apply our expertise in business VoIP technology to create innovative solutions for consumers that will enrich and simplify their lives. For example, customers would be able to provide their family and friends with a single contact number that could find them wherever they may be – instead of a list of numbers for home, cellular phone and office. Today, these separate devices have separate mailboxes that need to be checked and cleared. VoIP should simplify this down to one mailbox for all devices. In addition, VoIP should allow TELUS to cost effectively add high-quality video to telephone calls.

A range of potential new IP services, including VoIP, could lead to new revenue streams. Our decision regarding when and how to move forward with residential VoIP service in B.C., Alberta and Eastern Quebec is being affected in the short term as we wait for the CRTC regulatory decision on the rules for VoIP providers, which is expected in the first half of 2005. Our proactive approach to this type of IP opportunity is illustrated by the 2004 launch of the TELUS Future Friendly Home, a suite of integrated services that allow customers to experience the power of the Internet using their TELUS high-speed Internet connection. We intend to continue developing new applications such as VoIP and potentially TELUS TV, which we have been trialing with our employees.

On balance, IP is core to our business and we are confident in our strategy of differentiation based on the development and launch of unique Future Friendly Home applications, including a feature-rich IP telephony solution. We believe this strategy should create new revenue streams, ultimately save network costs and help alleviate the competitive inroads being made by new VoIP entrants.

Darren Entwistle
President and Chief Executive Officer
Member of the TELUS Team

**Q** What is the current status of reaching a new collective agreement? When do you expect a settlement and what would be the financial impact?

**A** The process to achieve a collective agreement moved significantly forward with the February 2, 2005 Canada Industrial Relations Board (CIRB) decision to overturn its year-old ruling that imposed binding arbitration on TELUS. In addition, the CIRB set aside its April 2004 communications ban that was broad in nature and reinstated its January 2004 narrower ban on communications with bargaining unit employees specifically on labour relations issues and negotiations. The lifting of the binding arbitration order allows TELUS and the Telecommunications Workers Union (TWU) to resume negotiations on a new collective agreement covering approximately 11,500 unionized employees.

The timing of reaching a settlement is still somewhat indeterminate and now depends on negotiating time, time for acceptance or rejection of any offer(s) presented to employees, whether any potential work interruption occurs, and potential further legal or CIRB appeals.

TELUS has accrued expenses in its income statements for wage and other related cost increases since the collective agreements expired in December 2000. A settlement will have an impact on our cash position at the time of settlement and going forward from wage and other potential payments or increases.

TELUS remains committed to reaching a collective agreement as indicated by this remaining as one of our 2005 corporate priorities. We are looking for a contract that reflects the competitive realities of the Canadian telecommunications industry and that meets the needs of our team members, customers and investors.

Judy Shuttleworth
Executive Vice-President, Human Resources
Member of the TELUS Team

# investor information

### Stock exchanges and TELUS trading symbols

**Toronto Stock Exchange (TSX)**

| | |
|---|---|
| common shares | T |
| non-voting shares | T.NV* |

*Prior to October 27, 2004, was T.A

**New York Stock Exchange (NYSE)**

| | |
|---|---|
| non-voting shares | TU |

### Transfer agent and registrar

**Computershare Trust Company of Canada**

Shareholder Services
100 University Avenue
Toronto, Ontario
Canada M5J 2Y1

| | |
|---|---|
| phone | 1-800-558-0046 (toll-free within North America) or (514) 982-7270 (outside North America) |
| fax | 1-888-453-0330 (toll-free within North America) or (416) 263-9394 (outside North America) |
| e-mail | **telus@computershare.com** |
| Web site | **computershare.com** |

Computershare also has offices in Vancouver, Calgary, Montreal and Halifax.

### TELUS Investor Relations

30, 10020 – 100th Street NW
Edmonton, Alberta
Canada T5J 0N5

| | |
|---|---|
| phone | 1-800-667-4871** (toll-free within North America) or (780) 493-7345 (outside North America) |
| fax | (780) 493-7399 |
| e-mail | **ir@telus.com** |
| Web site | **telus.com** |

**Fax-on-demand information available toll-free

### TELUS executive office

555 Robson Street
Vancouver, British Columbia
Canada V6B 3K9

| | |
|---|---|
| phone | (604) 697-8044 |
| fax | (604) 432-9681 |

### TELUS general information

| | |
|---|---|
| British Columbia | (604) 432-2151 |
| Alberta | (403) 530-4200 |
| Ontario | (416) 507-7400 |
| Quebec | (514) 788-8050 |


For more detailed investor information, refer to the 2004 annual report – financial review.

**2005 expected dividend[1] and earnings dates**

| | Ex-dividend dates[2] | Dividend record dates | Dividend payment dates | Earnings release dates |
|---|---|---|---|---|
| **Quarter 1** | March 9 | March 11 | April 1 | May 4 |
| **Quarter 2** | June 8 | June 10 | July 1 | August 5 |
| **Quarter 3** | September 7 | September 9 | October 1 | November 10 |
| **Quarter 4** | December 7 | December 9 | January 1, 2006 | February 2006 |

1 Dividends are subject to Board of Directors' approval.
2 Shares purchased on this date forward will not be entitled to the dividend payable on the corresponding dividend payment date.


Ce rapport annuel est disponible en français en ligne à telus.com/annualreport, auprès de l'agent des transferts ou de TELUS – Relations avec les investisseurs.

### Dividend reinvestment and share purchase plan

Take advantage of automatic dividend reinvestment to acquire additional shares without fees. Information booklets and enrolment forms are available at telus.com/drisp or by contacting Computershare.

### Annual and special meeting of shareholders

Wednesday, May 4, 2005
10:00 a.m. (Mountain Time)
Winspear Centre
9720 – 102 Avenue
Edmonton, Alberta

### Auditors

Deloitte & Touche LLP

### EthicsLine hotline

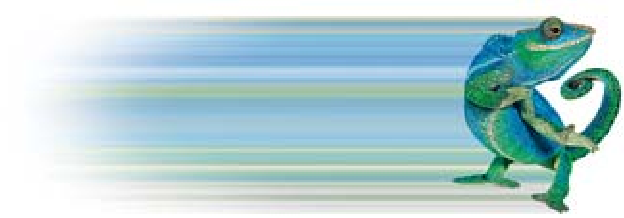
As part of our ethics policy, this hotline allows employees and others to anonymously and confidentially raise accounting, internal controls and ethical inquiries or complaints.

phone 1-866-515-6333
e-mail ethicsline@telus.com

### Corporate governance Web site

TELUS is firmly committed to full and fair financial disclosure and best practices in corporate governance for our investors. We are recognized as a leader for the quality and comprehensiveness of our financial reporting and have a long history of good governance practices. You are invited to visit this Web site at telus.com/governance.

## electronic delivery of shareholder documents



The benefits of electronic delivery (e.delivery) include access to important company documents in a convenient, timely and environmentally friendly manner, as well as a reduction in printing and mailing costs.

### Registered shareholders

TELUS has partnered with eTree to allow registered shareholders the opportunity to receive the annual report materials through e.delivery. As a thank you for enrolling, TELUS and the Tree Canada Foundation will plant a tree on your behalf.

To enrol, visit telus.com/electronicdelivery or contact Computershare. When you enrol, you can choose from the following options:

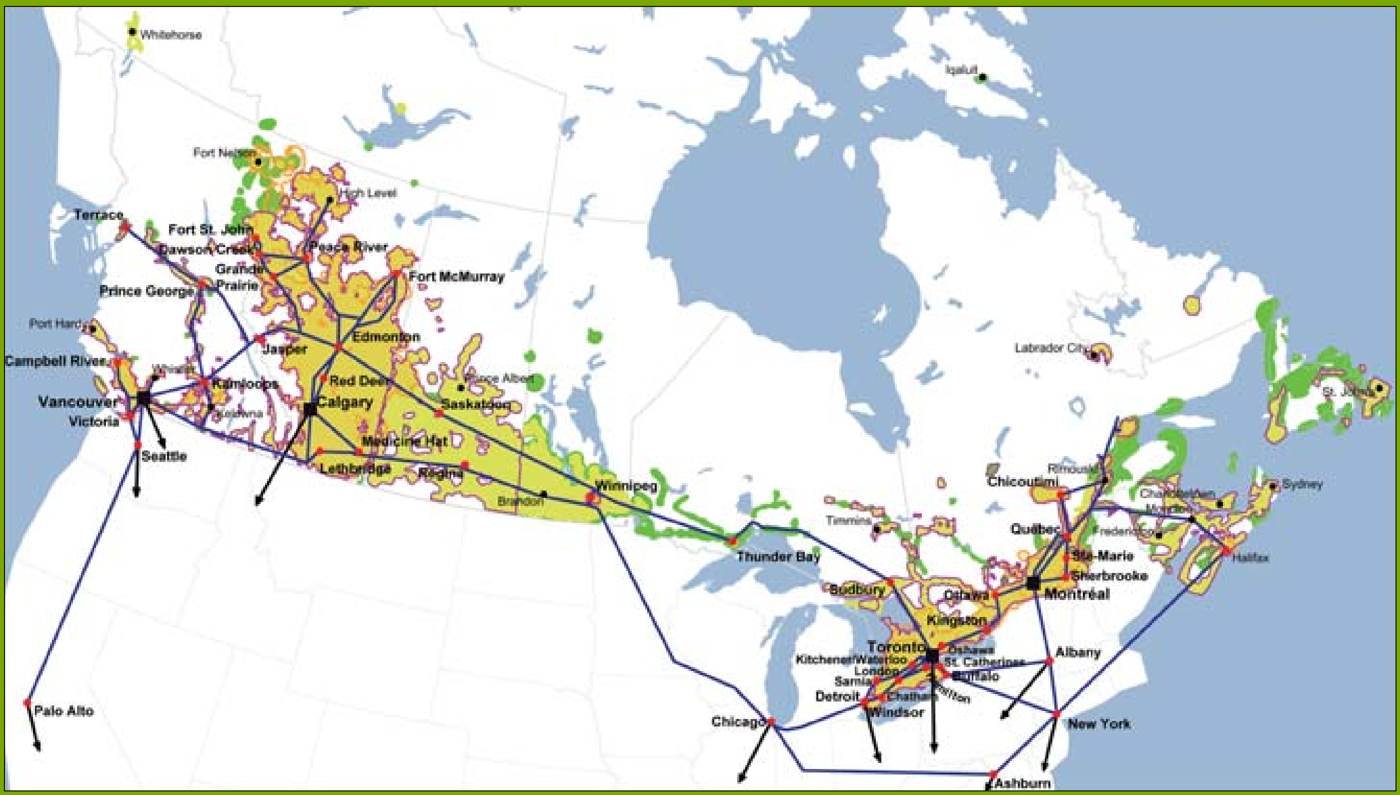
- receive all annual report and proxy materials electronically – you will be notified by e-mail with a link to the Web site where documents will be available, or
- discontinue receiving the annual report, both by mail and electronically, but still receive your proxy materials by mail.

### Beneficial shareholders

For shareholders who hold their shares with an investment dealer or financial institution, access investordeliverycanada.com or contact your investment advisor to enrol for the convenient electronic delivery service.

# where we are

## IP backbone and fibre network, and wireless coverage




1X, including roaming

Digital PCS, including roaming

Digital Mike

Analog, including roaming

IP backbone and fibre network

Interconnection with Canadian, U.S. and global carriers

Switching centres, and fibre and Internet backbone points of presence

Intelligent Internet data centres, switching centres, and fibre and Internet backbone points of presence

*Coverage areas are approximate as of December 2004. Actual coverage may vary and is subject to change

Source: Team member Barb Young, TELUS Geomatics

Key to TELUS' integrated customer solutions are our world-class networks and wireless coverage.

TELUS' national IP backbone and fibre network carries Internet, data and voice traffic between major urban centres in Canada and connects customers to the world. With our leading-edge IP-based next generation network, we have the ability to integrate voice, data and video to offer customers a variety of enhanced IP services with greater flexibility and efficiency.

TELUS Mobility provides extensive coast-to-coast digital wireless coverage via two networks – our CDMA 1X PCS network and our Mike iDEN network. Combined, our digital networks cover 94 per cent of the Canadian population. Wireless roaming is available across the United States with Verizon Wireless for PCS and with Nextel for Mike.

TELUS Corporation
555 Robson Street
Vancouver, British Columbia
Canada
V6B 3K9

telus.com

TELUS is committed to working in an environmentally responsible manner. The paper used in this annual report contains a minimum of 20 per cent post-consumer recovered fibre. Please recycle this annual report.

(where facilities exist)

Printed in Canada.

# 2004 financial review

the future is friendly®

TELUS®

# inside



This document contains forward-looking information. Please refer to Forward-looking statements on page 10.

For a more general overview of our financial and operating highlights, and key accomplishments, goals and challenges, refer to the 2004 annual report – business review.

This report can also be viewed anytime online at **telus.com/annualreport**.

# the future is friendly

TELUS Corporation is the largest telecommunications company in Western Canada and the second largest in the country. We provide a wide range of telecommunications products and services including data, Internet protocol (IP), voice, video and wireless services.

In 2004, we generated $7.6 billion in revenues, and were a global leader among major telecom companies in growth of revenue, operating earnings and cash flow.

## TELUS serves customers with:

- two state-of-the-art national digital wireless networks covering 30 million people across Canada and providing wireless solutions to 3.9 million customers
- our strong incumbent market position in Western Canada and Eastern Quebec, including 4.8 million network lines, 971,000 Internet customers, and innovative technology solutions such as the TELUS Future Friendly® Home
- our national wireline next generation network, which offers advanced IP-based network applications such as the TELUS IP-One™ product family to serve business customers across Canada.

## Our values:

TELUS team members work together to deliver a future friendly service, and our values guide the way:

- we embrace change and initiate opportunity
- we have a passion for growth
- we believe in spirited teamwork
- we have the courage to innovate.

## Social responsibility:

We are committed to becoming Canada's premier corporate citizen by making a difference in the communities where we live, work and serve. For more information, visit telus.com/socialresponsibility.

## Our strategy:

As we fulfill our strategic intent to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move, six strategic imperatives have guided our efforts since 2000 and serve as a framework for our actions:

- building national capabilities across data, IP, voice and wireless
- focusing relentlessly on the growth markets of data, IP 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
- 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.

## Our key priorities for 2005:

Each year, we establish a set of corporate priorities to address timely opportunities and challenges, focus our efforts and drive value for our investors:

- enhancing our leadership position in wireless
- leveraging our investments in high-speed Internet technology through Future Friendly Home services in B.C., Alberta and Eastern Quebec
- accelerating our wireline performance in Ontario and Quebec business markets
- growing brand value by delivering a superior customer experience via leading IP solutions and excellence in customer care
- driving continual improvements in productivity across TELUS
- reaching a new collective agreement that reflects our industry dynamics and embraces the needs of all TELUS stakeholders.

# TELUS at a glance

## TELUS Mobility

### who we are

- a national facilities-based wireless provider with 3.9 million subscribers and 32 million licensed POPs (population)
- a North American industry leader in cash flow growth, operating margins and churn rate, with an average revenue per unit approximately 20% higher than our Canadian peers
- we provide national digital wireless voice, Push To Talk™ (PTT™), data and Internet services across Canada
- we offer nationwide digital PCS (CDMA) service with national next generation 1X capability
- we are the leader in PTT service with Mike®, the only iDEN network in Canada and the only service that combines a digital PCS phone, Mike's Direct Connect® service, text messaging and Internet access

### our products and services

digital voice – PCS (postpaid and Pay & Talk® prepaid) and Mike all-in-one (iDEN); Push To Talk capability on both Mike (Direct Connect) and PCS (Instant Talk)

Internet – Wireless Web, text, picture and video messaging, ringtone, image and game downloads, Wi-Fi Hotspots

data – next generation 1X and Mike packet data; RIM's BlackBerry service available on both PCS and Mike

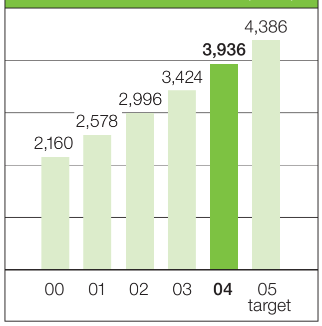

### in 2004, we delivered by…

- ranking first in North America among wireless operators across numerous operating indicators in an independent survey by N. Moore Capital Limited
- achieving record revenue and EBITDA growth while reducing cost of acquisition by 10%
- providing best-in-class coverage, client care and retention, as evidenced by achieving a top-quartile customer churn rate of only 1.4% per month
- increasing combined digital PCS and Mike coverage to 30 million POPs, or 94% of the Canadian population, including our 1X data network coverage to 91% of the population
- signing an enhanced long-term wireless roaming agreement with Verizon Wireless
- completing a Canadian and U.S. cross-border roaming partnership with Nextel Communications, allowing Nextel and TELUS Mobility Mike customers to use Direct Connect service to Push To Talk with each other across North America
- introducing the world's first Fastap-enabled mobile phones for fast text messaging
- launching wireless video messaging capabilities to complement our popular picture and text messaging services

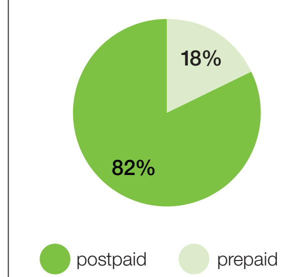
### in 2005, we are making the future friendly with…

- a continuation of our long-standing focus on profitable subscriber growth through EBITDA and cash flow generation, and world-class operating performance
- TELUS Mobility expecting to generate cash flow (EBITDA less capital expenditures) of $1 billion
- rigorous focus on customer retention and the maintenance of top-quartile North American churn levels through premium client care
- leadership in wireless data services that leverage our 1X and Mike iDEN networks
- ongoing expansion of our national points of distribution
- continued leveraging of our strategic relationships with Verizon Wireless for PCS (CDMA) and Nextel for Mike (iDEN) with enhanced coverage in North America, and with Mike roaming in Mexico, Argentina, Brazil and Peru
- continued leadership in Push To Talk services with both Mike Direct Connect and PCS Instant Talk

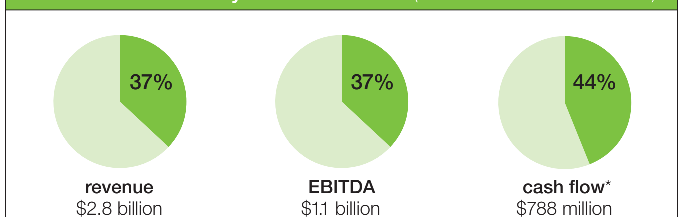
**wireless subscribers** (000s)



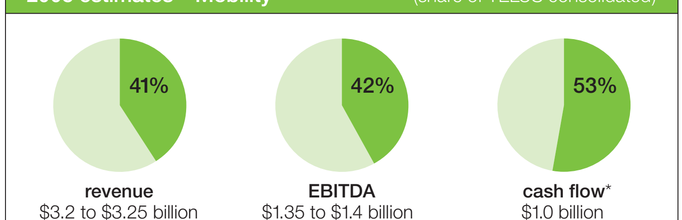

**2004 subscriber mix** (%)




**2004 results – Mobility** (share of TELUS consolidated)




**2005 estimates – Mobility** (share of TELUS consolidated)




*EBITDA less capital expenditures.

# TELUS Communications

## who we are

- a full-service incumbent local exchange carrier (ILEC) in Western Canada and Eastern Quebec offering local, long distance, data, Internet and other services to consumers and businesses
- a national provider of data, IP and voice solutions focusing on the business market, including non-incumbent operations located in Central Canada
- we provide 4.8 million network access lines
- the second largest Internet service provider (ISP) in Western Canada and third largest ISP in Canada with 971,000 Internet subscribers, of which 71% are high-speed

## our products and services

**voice –** basic local and long distance phone service, personal call management services such as Call Display and Call Waiting, sale and rental of telephone equipment, and network wholesale rental to other service providers

**data –** private line, switched services, network wholesale, network management (local and wide area networks) and Web hosting

**Internet –** TELUS dial-up or high-speed Internet services with available security features (Firewall, Anti-Virus, Parental Control, Anti-Spyware and Spam Control)

**IP-based –** TELUS IP-One Innovation™ service provides business customers with a full suite of advanced IP applications and the ability to integrate voice mail, e-mail, data and video through a user-friendly Web portal

**TELUS Future Friendly Home –** leading-edge digital home strategy that includes TELUS Home Networking and TELUS HomeSitter® services, and other new services to be introduced in 2005

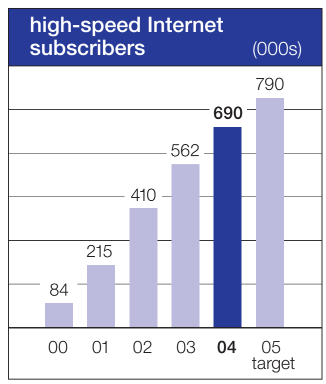
the Future Friendly® Home

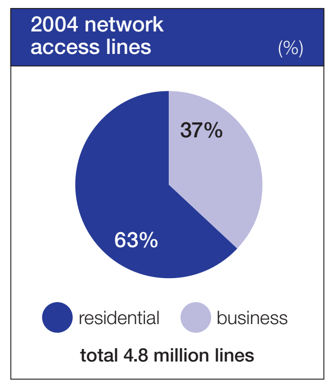
## in 2004, we delivered by…

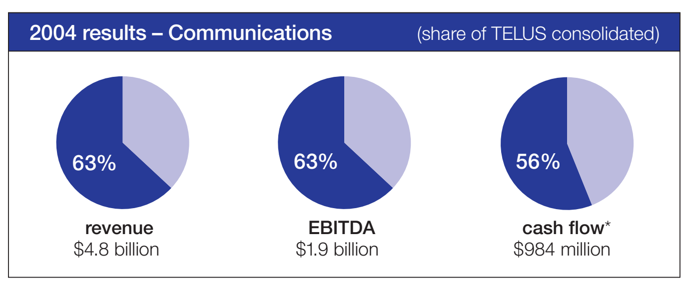
- offering innovative digital home solutions to consumers with the launch of our TELUS Future Friendly Home
- expanding our suite of IP telephony solutions with new offerings to business customers across Canada
- adding 128,000 new high-speed Internet subscribers
- continuing the expansion of TELUS into Central Canada focused on the business markets
- successfully implementing the $160 million contract with IBM for the TD Bank Financial Group
- winning national contracts including a six-year, $66 million contract with The Co-operators, the largest Canadian-owned multi-product insurer, to provide data, IP and voice applications to more than 600 locations

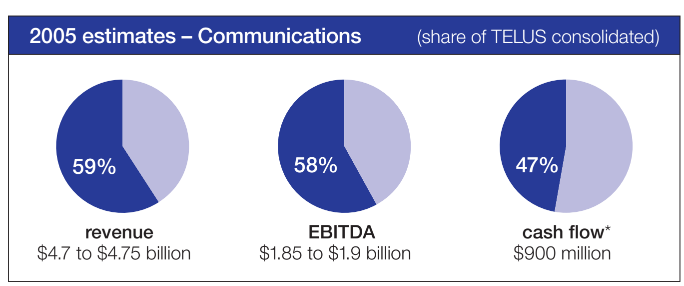
## in 2005, we are making the future friendly with…

- a continued drive toward leadership in the high-speed Internet market through the roll-out of innovative Future Friendly Home service offerings
- improved customer service providing a competitive advantage in the market
- enhanced operational effectiveness and efficiency improvements and savings
- our leadership in IP by continuing to exploit our first-to-market advantage in the IP space with our next generation network
- continued improvement in non-incumbent sales and profitability in Central Canada
- a commitment to achieve a collective agreement with our unionized team members that reflects the competitive realities of the telecom industry




*EBITDA less capital expenditures.

# annual consolidated financials

| | TELUS Consolidated | | | | |
|---|---|---|---|---|---|
| **Income statement** (millions) | **2004** | 2003 | 2002 | 2001 | 2000 |
| Operating revenues | **$ 7,581.2** | $ 7,146.0 | $ 7,006.7 | $ 7,080.5 | $ 5,998.4 |
| Operations expense | **4,438.0** | 4,301.9 | 4,488.1 | 4,550.9 | 3,684.1 |
| Restructuring and workforce reduction costs | **52.6** | 28.3 | 569.9 | 198.4 | – |
| EBITDA | **3,090.6** | 2,815.8 | 1,948.7 | 2,331.2 | 2,314.3 |
| Depreciation and amortization | **1,643.1** | 1,652.8 | 1,570.3 | 1,494.2 | 1,182.0 |
| Operating income from continuing operations | **1,447.5** | 1,163.0 | 378.4 | 837.0 | 1,132.3 |
| Other expense (income), net | **8.7** | 23.3 | 42.7 | (17.0) | 8.7 |
| Financing costs | **613.3** | 639.3 | 615.3 | 636.8 | 276.0 |
| Refinancing charge from debt restructuring | **–** | – | – | 96.5 | – |
| Income (loss) from continuing operations before income taxes, non-controlling interest and goodwill amortization | **825.5** | 500.4 | (279.6) | 120.7 | 847.6 |
| Income taxes (recovery) | **255.1** | 172.7 | (46.9) | 88.1 | 430.7 |
| Non-controlling interest | **4.6** | 3.3 | 3.1 | 3.6 | 8.7 |
| Goodwill amortization | **–** | – | – | 174.8 | 23.4 |
| Income (loss) from continuing operations | **565.8** | 324.4 | (235.8) | (145.8) | 384.8 |
| Income from discontinued operations | **–** | – | – | 592.3 | 74.7 |
| Net income (loss) | **565.8** | 324.4 | (235.8) | 446.5 | 459.5 |
| Preference and preferred share dividends | **1.8** | 3.5 | 3.5 | 3.5 | 3.5 |
| Common share and non-voting share income (loss) | **$ 564.0** | $ 320.9 | $ (239.3) | $ 443.0 | $ 456.0 |

| **Share information**[1] | **2004** | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Basic weighted average shares outstanding (millions) | **355.3** | 349.3 | 317.9 | 294.2 | 247.0 |
| Year-end shares outstanding (millions) | **358.5** | 351.8 | 345.7 | 302.2 | 287.1 |
| Basic earnings per share | **$ 1.58** | $ 0.92 | $ (0.75) | $ 1.51 | $ 1.85 |
| Dividends declared per share | **$ 0.65** | $ 0.60 | $ 0.60 | $ 1.20 | $ 1.40 |

| **Balance sheet** (millions) | **2004** | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Capital assets, at cost | **$26,631.9** | $25,778.2 | $25,037.3 | $23,888.4 | $21,782.5 |
| Accumulated depreciation and amortization | **15,410.9** | 14,214.6 | 13,062.8 | 11,128.6 | 10,251.5 |
| Total assets | **17,838.0** | 17,477.5 | 18,219.8 | 19,265.6 | 18,046.5 |
| Total capitalization[2] | **13,516.4** | 14,102.4 | 14,713.7 | 15,677.5 | 14,473.1 |
| Net debt[3] | **6,477.7** | 7,570.5 | 8,409.1 | 8,823.4 | 8,121.2 |
| Long-term debt | **6,332.2** | 6,609.8 | 8,336.6 | 8,792.2 | 3,188.1 |
| Total shareholders' equity | **7,025.6** | 6,521.2 | 6,293.4 | 6,846.1 | 6,277.6 |

1 Common shares and non-voting shares.
2 Net debt plus Non-controlling interest plus Total shareholders' equity.
3 Long-term debt plus current maturities of Long-term debt and cheques outstanding less Cash and temporary investments plus cross currency foreign exchange hedge liability (less cross currency foreign exchange hedge asset) related to U.S. dollar notes.

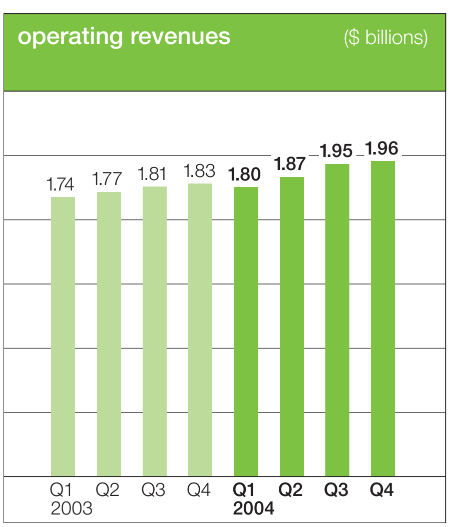
**Note: Certain comparative financial information has been reclassified to conform with the 2004 presentation.**

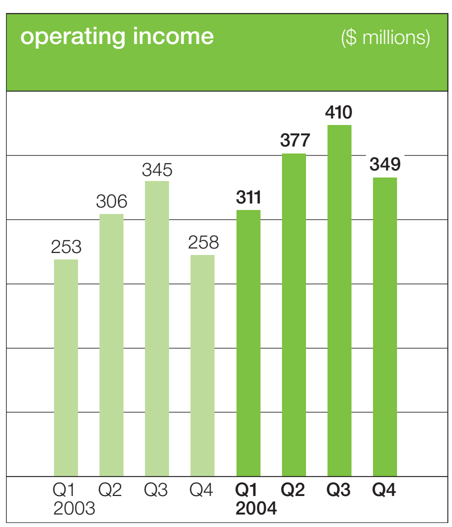
# quarterly consolidated financials

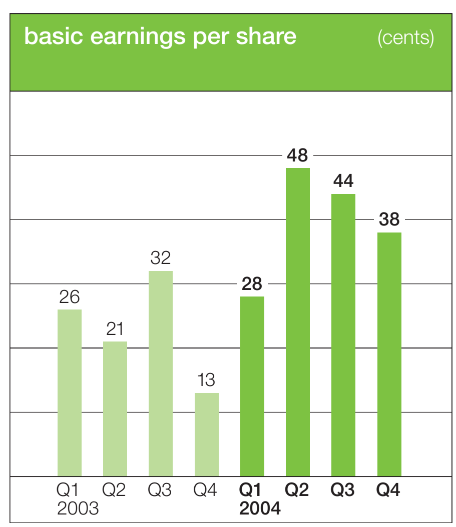
| Income statement (millions) | TELUS Consolidated Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 | Q2 2003 | Q1 2003 |
|---|---|---|---|---|---|---|---|---|
| Operating revenues | $1,964.9 | $1,946.9 | $1,865.6 | $1,803.8 | $1,825.6 | $1,806.2 | $1,773.3 | $1,740.9 |
| Operations expense | 1,178.5 | 1,112.8 | 1,080.1 | 1,066.6 | 1,126.6 | 1,051.7 | 1,053.5 | 1,070.1 |
| Restructuring and workforce reduction costs | 19.8 | 16.2 | 0.7 | 15.9 | 16.2 | 2.3 | 3.3 | 6.5 |
| EBITDA | 766.6 | 817.9 | 784.8 | 721.3 | 682.8 | 752.2 | 716.5 | 664.3 |
| Depreciation and amortization | 417.5 | 407.6 | 407.6 | 410.4 | 424.4 | 407.2 | 410.1 | 411.1 |
| Operating income | 349.1 | 410.3 | 377.2 | 310.9 | 258.4 | 345.0 | 306.4 | 253.2 |
| Other expense (income), net | 8.7 | (3.2) | 2.0 | 1.2 | 3.5 | 7.6 | 6.6 | 5.6 |
| Financing costs | 152.8 | 158.6 | 156.9 | 145.0 | 163.7 | 139.3 | 172.0 | 164.3 |
| Income before income taxes and non-controlling interest | 187.6 | 254.9 | 218.3 | 164.7 | 91.2 | 198.1 | 127.8 | 83.3 |
| Income taxes (recovery) | 50.4 | 97.2 | 44.9 | 62.6 | 42.8 | 83.0 | 53.8 | (6.9) |
| Non-controlling interest | 1.6 | 1.1 | 1.1 | 0.8 | 0.6 | 1.0 | 1.0 | 0.7 |
| Net income | 135.6 | 156.6 | 172.3 | 101.3 | 47.8 | 114.1 | 73.0 | 89.5 |
| Preference and preferred share dividends | – | 0.1 | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 | 0.9 |
| Common share and non-voting share income | $ 135.6 | $ 156.5 | $ 171.5 | $ 100.4 | $ 46.9 | $ 113.2 | $ 72.2 | $ 88.6 |

| Share information[1] | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 | Q2 2003 | Q1 2003 |
|---|---|---|---|---|---|---|---|---|
| Basic weighted average shares outstanding (millions) | 358.0 | 355.7 | 354.3 | 353.1 | 351.5 | 350.1 | 348.6 | 346.8 |
| Period-end shares outstanding (millions) | 358.5 | 356.3 | 354.7 | 353.7 | 351.8 | 350.4 | 349.0 | 347.3 |
| Basic earnings per share | $ 0.38 | $ 0.44 | $ 0.48 | $ 0.28 | $ 0.13 | $ 0.32 | $ 0.21 | $ 0.26 |
| Dividends declared per share | $ 0.20 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 | $ 0.15 |

**Note: Certain comparative financial information has been reclassified to conform with the 2004 presentation.**



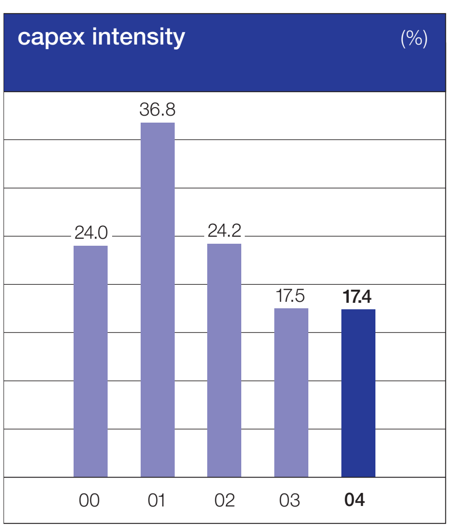
# annual operating statistics

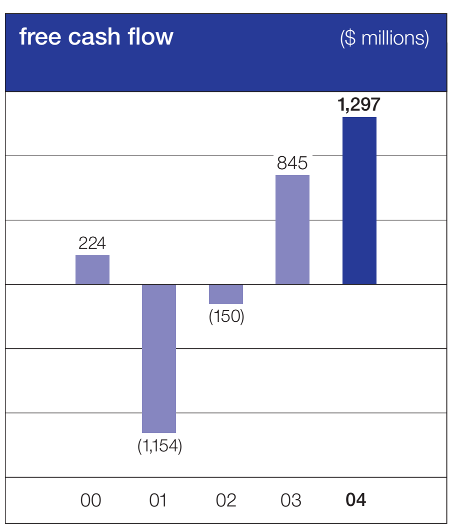
| Consolidated | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Cash flow statement information** | | | | | |
| Cash provided by operating activities (millions) | **$ 2,538.1** | $ 2,133.8 | $ 1,730.8 | $ 1,390.2 | $ 1,619.3 |
| Cash used by investing activities (millions) | **$ (1,299.5)** | $ (1,197.8) | $ (1,691.1) | $ (1,821.3) | $ (3,831.1) |
| Cash provided (used) by financing activities (millions) | **$ (348.3)** | $ (920.8) | $ (65.8) | $ 348.0 | $ 2,344.3 |
| **Performance indicators** | | | | | |
| Net income (loss) (millions) | **$ 565.8** | $ 324.4 | $ (235.8) | $ 446.5 | $ 459.5 |
| Dividend payout[1] | **41%** | 65% | n.m. | 79% | 76% |
| Return on common equity[2] | **8.4%** | 5.1% | (3.8%) | 6.9% | 9.6% |
| Return on assets[3] | **14.2%** | 12.2% | 9.5% | 7.2% | 9.0% |
| EBITDA interest coverage ratio[4] | **5.1** | 4.4 | 3.6 | 4.0 | 10.5 |
| Free cash flow (millions)[5] | **$ 1,297.3** | $ 844.9 | $ (149.7) | $ (1,154.0) | $ 223.7 |
| Net debt to EBITDA ratio[6] | **2.1** | 2.7 | 3.3 | 3.5 | 3.5 |
| Net debt to total capitalization | **47.9%** | 53.7% | 57.2% | 56.3% | 56.1% |
| Capital expenditures (millions) | **$ 1,319.0** | $ 1,252.7 | $ 1,697.9 | $ 2,605.3 | $ 1,441.3 |
| Capex intensity[7] | **17.4%** | 17.5% | 24.2% | 36.8% | 24.0% |
| **Other** | | | | | |
| Total employees, continuing operations | **25,798** | 24,719 | 25,752 | 30,701 | 29,122 |
| Full-time equivalent (FTE) employees | **24,754** | 23,817 | 24,829 | – | – |
| EBITDA per average FTE employees (000s)[8] | **$ 128.9** | $ 117.8 | $ 89.9 | – | – |
| Total salaries and benefits (millions) | **$ 1,938.2** | $ 1,883.2 | $ 1,995.7 | $ 1,954.4 | $ 1,643.6 |

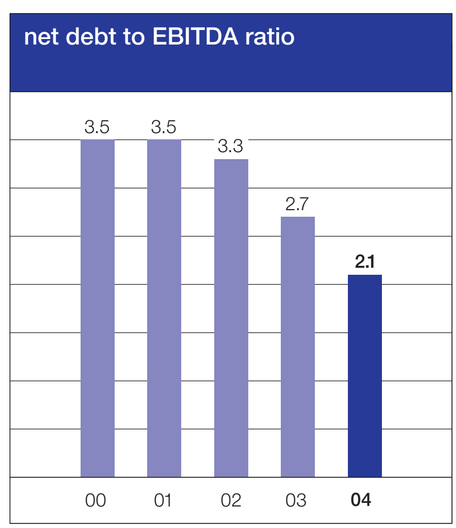
n.m. – not meaningful

1 Dividends declared per share divided by Basic earnings per share. Quarterly ratios are calculated on a 12-month trailing basis.
2 Common share and non-voting share income over the average quarterly common equity for the 12-month period. Quarterly ratios are calculated on a 12-month trailing basis.
3 Cash provided by operating activities divided by total assets. Quarterly ratios are based on a 12-month trailing cash flow provided by operating activities.
4 EBITDA excluding Restructuring and workforce reduction costs, divided by Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis.
5 EBITDA, adding Restructuring and workforce reduction costs, cash interest received and excess of share compensation expense over share compensation payments, less cash interest paid, cash taxes, capital expenditures, and cash restructuring payments.
6 Net debt at the end of the period divided by 12-month trailing EBITDA (excluding restructuring).
7 Capital expenditures divided by operating revenues.
8 EBITDA excluding Restructuring and workforce reduction costs, divided by average FTE employees. Quarterly ratios are annualized.

**Note: Certain comparative financial information has been reclassified to conform with the 2004 presentation.**



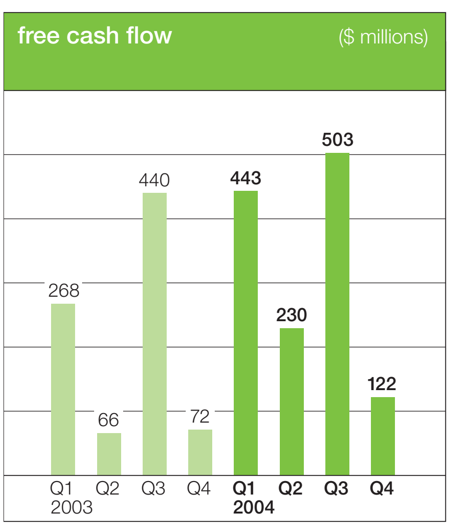



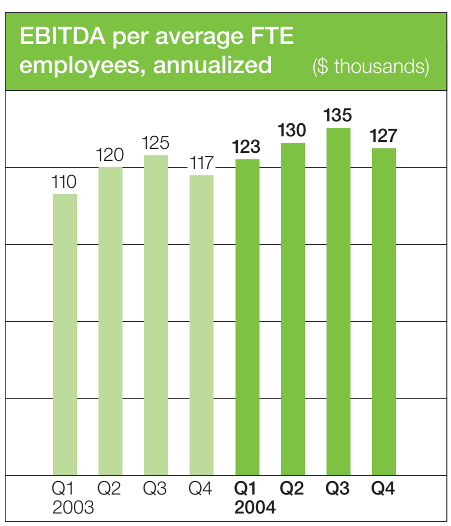
# quarterly operating statistics

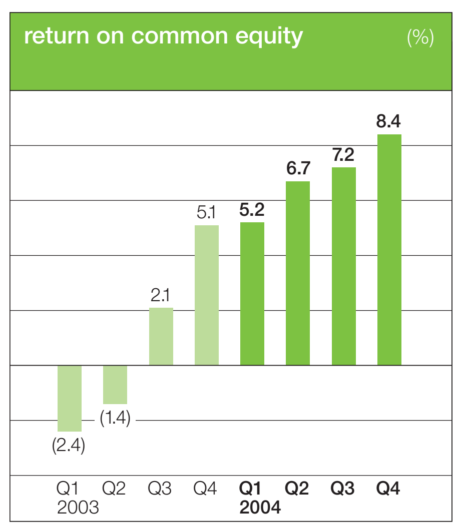
| Consolidated | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 | Q2 2003 | Q1 2003 |
|---|---|---|---|---|---|---|---|---|
| **Cash flow statement information** | | | | | | | | |
| Cash provided by operating activities (millions) | **$ 613.8** | **$ 847.2** | **$ 489.0** | **$ 588.1** | $ 409.8 | $ 849.7 | $ 469.6 | $ 404.7 |
| Cash used by investing activities (millions) | **$ (342.8)** | **$ (316.5)** | **$ (341.6)** | **$ (298.6)** | $ (421.4) | $ (307.8) | $ (286.0) | $ (182.6) |
| Cash provided (used) by financing activities (millions) | **$ 3.3** | **$ (266.2)** | **$ (63.2)** | **$ (22.2)** | $ (84.5) | $ (456.2) | $ (174.4) | $ (205.7) |
| **Performance indicators** | | | | | | | | |
| Net income (millions) | **$ 135.6** | **$ 156.6** | **$ 172.3** | **$ 101.3** | $ 47.8 | $ 114.1 | $ 73.0 | $ 89.5 |
| Dividend payout[1] | **41%** | **45%** | **50%** | **64%** | 65% | 158% | n.m. | n.m. |
| Return on common equity[2] | **8.4%** | **7.2%** | **6.7%** | **5.2%** | 5.1% | 2.1% | (1.4%) | (2.4%) |
| Return on assets[3] | **14.2%** | **13.2%** | **13.3%** | **13.2%** | 12.2% | 11.9% | 11.6% | 10.3% |
| EBITDA interest coverage ratio[4] | **5.1** | **4.9** | **4.9** | **4.7** | 4.4 | 4.4 | 4.0 | 3.8 |
| Free cash flow (millions)[5] | **$ 121.9** | **$ 502.6** | **$ 229.5** | **$ 443.3** | $ 71.5 | $ 440.3 | $ 65.5 | $ 267.6 |
| Net debt to EBITDA ratio[6] | **2.1** | **2.2** | **2.4** | **2.5** | 2.7 | 2.7 | 3.0 | 3.2 |
| Net debt to total capitalization | **47.9%** | **49.7%** | **51.9%** | **52.7%** | 53.7% | 53.7% | 55.7% | 56.3% |
| Capital expenditures (millions) | **$ 343.4** | **$ 319.8** | **$ 346.1** | **$ 309.7** | $ 435.4 | $ 304.0 | $ 305.5 | $ 207.8 |
| Capex intensity[7] | **17.5%** | **16.4%** | **18.6%** | **17.2%** | 23.8% | 16.8% | 17.2% | 11.9% |
| **Other** | | | | | | | | |
| Total employees, continuing operations | **25,798** | **25,464** | **25,406** | **24,885** | 24,719 | 24,901 | 24,713 | 25,026 |
| Full-time equivalent (FTE) employees | **24,754** | **24,538** | **24,521** | **23,892** | 23,817 | 24,112 | 23,956 | 24,236 |
| EBITDA per average FTE employees, annualized (000s)[8] | **$ 127.4** | **$ 135.4** | **$ 129.5** | **$ 123.1** | $ 116.8 | $ 124.6 | $ 120.1 | $ 109.6 |
| Total salaries and benefits (millions) | **$ 502.6** | **$ 490.3** | **$ 478.8** | **$ 466.5** | $ 464.9 | $ 467.8 | $ 476.3 | $ 474.2 |

n.m. – not meaningful

**Note: Certain comparative financial information has been reclassified to conform with the 2004 presentation.**



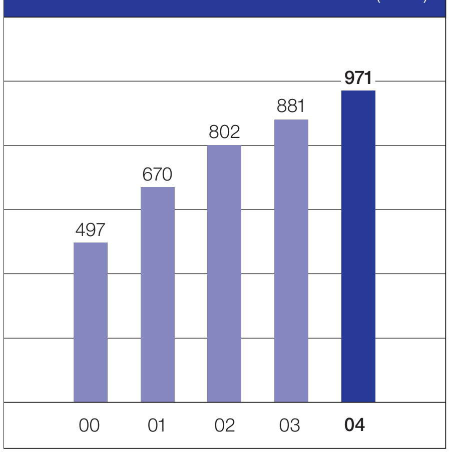



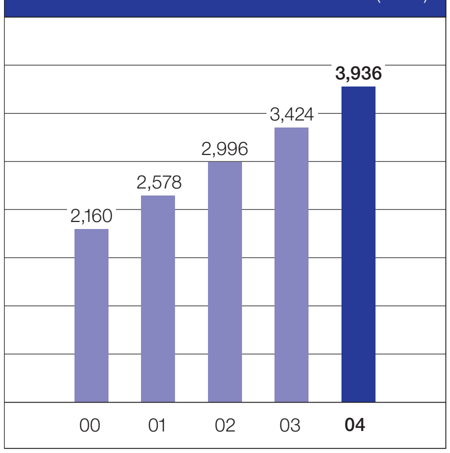
# annual segmented statistics

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Communications segment** | | | | | |
| Operating revenues (millions) | **$4,865.9** | $4,880.9 | $5,084.6 | $5,359.5 | $4,919.3 |
| Operations expense (millions) | **$2,864.9** | $2,852.2 | $3,100.8 | $3,185.7 | $2,912.4 |
| Restructuring and workforce reduction costs (millions) | **$ 52.6** | $ 28.3 | $ 563.4 | $ 135.4 | – |
| EBITDA (millions) | **$1,948.4** | $2,000.4 | $1,420.4 | $2,038.4 | $2,006.9 |
| Capital expenditures (millions) | **$ 964.3** | $ 892.8 | $1,238.2 | $1,605.8 | $1,218.4 |
| Cash flow (millions)[1] | **$ 984.1** | $1,107.6 | $ 182.2 | $ 432.6 | $ 788.5 |
| Network access lines in service (000s) | **4,808** | 4,870 | 4,911 | 4,967 | 4,944 |
| Net additions (losses) dial-up Internet subscribers (000s)[2] | **(38.2)** | (71.9) | (63.4) | 41.8 | 125.5 |
| Dial-up Internet subscribers (000s)[2] | **281.6** | 319.8 | 391.7 | 455.1 | 413.2 |
| Net additions high-speed Internet subscribers (000s)[2] | **128.1** | 151.6 | 195.2 | 131.2 | 57.9 |
| High-speed Internet subscribers (000s)[2] | **689.7** | 561.6 | 410.0 | 214.8 | 83.6 |
| Total employees, continuing operations | **19,500** | 19,029 | 20,332 | 25,545 | 24,165 |
| Full-time equivalent (FTE) employees | **18,839** | 18,430 | 19,668 | – | – |
| EBITDA[3] per average FTE employees (000s) | **$ 106.3** | $ 106.6 | $ 86.6 | $ – | $ – |
| **Mobility segment** (proforma for 2000) | | | | | |
| Operating revenues (millions) | **$2,833.4** | $2,375.3 | $2,034.9 | $1,825.9 | $1,617.2 |
| Operations expense (millions) | **$1,691.2** | $1,559.9 | $1,500.1 | $1,470.1 | $1,443.8 |
| Restructuring and workforce reduction costs (millions) | **$ –** | $ – | $ 6.5 | $ 63.0 | $ – |
| EBITDA (millions) | **$1,142.2** | $ 815.4 | $ 528.3 | $ 292.8 | $ 173.4 |
| EBITDA[3] excluding COA (millions) | **$1,578.0** | $1,240.0 | $ 944.0 | $ 782.4 | $ – |
| Capital expenditures (millions) | **$ 354.7** | $ 359.9 | $ 459.7 | $ 999.5 | $ 533.7 |
| Cash flow (millions)[1] | **$ 787.5** | $ 455.5 | $ 68.6 | $ (706.7) | $ (360.3) |
| Net additions wireless subscribers (000s)[4] | **512.4** | 431.1 | 417.8 | 417.5 | 474.1 |
| Gross additions wireless subscribers (000s) | **1,120.7** | 987.2 | 1,016.9 | 984.6 | 924.2 |
| Wireless subscribers (000s)[4] | **3,936.4** | 3,424.0 | 2,995.5 | 2,577.7 | 2,160.2 |
| Penetration rate[5] | **12.9%** | 11.5% | 10.9% | 10.5% | 9.1% |
| Wireless market share, subscriber based | **26.1%** | 25.5% | 25.0% | 24.1% | 24.5% |
| Average monthly revenue per subscriber unit (ARPU)[6] | **$ 60** | $ 57 | $ 55 | $ 57 | $ 59 |
| Average minutes per subscriber per month (MOU) | **384** | 350 | 290 | 270 | 271 |
| COA per gross addition[6] | **$ 389** | $ 430 | $ 425 | $ 446 | $ – |
| Monthly churn rate[4,6] | **1.4%** | 1.5% | 1.8% | 2.0% | 2.0% |
| Population coverage – digital (millions)[7] | **30.0** | 29.5 | 27.4 | 24.2 | 22.6 |
| Total employees, continuing operations | **6,298** | 5,690 | 5,420 | 5,156 | 4,957 |
| Full-time equivalent (FTE) employees | **5,915** | 5,387 | 5,161 | 4,851 | – |
| EBITDA[3] per average FTE employees (000s) | **$ 205.0** | $ 159.2 | $ 104.3 | $ – | $ – |

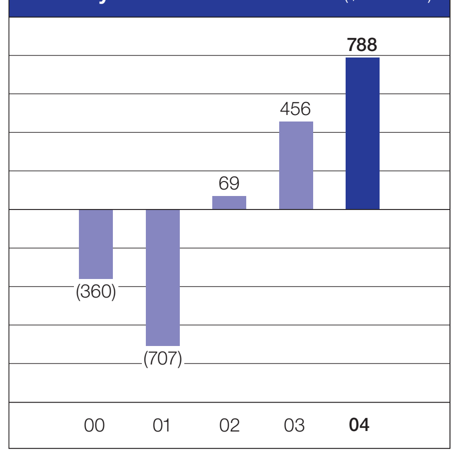
**total Internet subscribers** (000s)




**total wireless subscribers** (000s)




**Mobility cash flow** ($ millions)



# quarterly segmented statistics

| | Q4 2004 | Q3 2004 | Q2 2004 | Q1 2004 | Q4 2003 | Q3 2003 | Q2 2003 | Q1 2003 |
|---|---|---|---|---|---|---|---|---|
| **Communications segment** | | | | | | | | |
| Operating revenues (millions) | $1,233.9 | $1,224.8 | $1,211.1 | $1,196.1 | $1,205.5 | $1,210.9 | $1,232.6 | $1,231.9 |
| Operations expense (millions) | $ 732.2 | $ 714.2 | $ 711.8 | $ 706.7 | $ 696.5 | $ 701.9 | $ 714.1 | $ 739.7 |
| Restructuring and workforce reduction costs (millions) | $ 19.8 | $ 16.2 | $ 0.7 | $ 15.9 | $ 16.2 | $ 2.3 | $ 3.3 | $ 6.5 |
| EBITDA (millions) | $ 481.9 | $ 494.4 | $ 498.6 | $ 473.5 | $ 492.8 | $ 506.7 | $ 515.2 | $ 485.7 |
| Capital expenditures (millions) | $ 220.8 | $ 216.4 | $ 267.7 | $ 259.4 | $ 303.0 | $ 208.9 | $ 227.4 | $ 153.5 |
| Cash flow (millions)[1] | $ 261.1 | $ 278.0 | $ 230.9 | $ 214.1 | $ 189.8 | $ 297.8 | $ 287.8 | $ 332.2 |
| Network access lines in service (000s) | 4,808 | 4,817 | 4,827 | 4,848 | 4,870 | 4,883 | 4,887 | 4,913 |
| Net losses dial-up Internet subscribers (000s)[2] | (11.1) | (8.0) | (8.4) | (10.7) | (13.9) | (18.1) | (20.3) | (19.6) |
| Dial-up Internet subscribers (000s)[2] | 281.6 | 292.7 | 300.7 | 309.1 | 319.8 | 333.7 | 351.8 | 372.1 |
| Net additions high-speed Internet subscribers (000s)[2] | 34.8 | 30.6 | 19.1 | 43.6 | 45.5 | 47.2 | 26.7 | 32.1 |
| High-speed Internet subscribers (000s)[2] | 689.7 | 654.9 | 624.3 | 605.2 | 561.6 | 516.0 | 468.8 | 442.1 |
| Total employees, continuing operations | 19,500 | 19,493 | 19,640 | 19,197 | 19,029 | 19,497 | 19,459 | 19,734 |
| Full-time equivalent (FTE) employees | 18,839 | 18,857 | 19,036 | 18,522 | 18,430 | 18,937 | 18,923 | 19,215 |
| EBITDA[3] per average FTE employees, annualized (000s) | $ 106.5 | $ 107.4 | $ 106.1 | $ 105.4 | $ 109.2 | $ 106.6 | $ 109.5 | $ 101.3 |
| **Mobility segment** | | | | | | | | |
| Operating revenues (millions) | $ 761.9 | $ 752.0 | $ 682.2 | $ 637.3 | $ 647.3 | $ 623.9 | $ 568.0 | $ 536.1 |
| Operations expense (millions) | $ 477.2 | $ 428.5 | $ 396.0 | $ 389.5 | $ 457.3 | $ 378.4 | $ 366.7 | $ 357.5 |
| EBITDA (millions) | $ 284.7 | $ 323.5 | $ 286.2 | $ 247.8 | $ 190.0 | $ 245.5 | $ 201.3 | $ 178.6 |
| EBITDA[3] excluding COA (millions) | $ 429.1 | $ 429.6 | $ 383.2 | $ 336.1 | $ 336.0 | $ 340.6 | $ 297.3 | $ 266.1 |
| Capital expenditures (millions) | $ 122.6 | $ 103.4 | $ 78.4 | $ 50.3 | $ 132.4 | $ 95.1 | $ 78.1 | $ 54.3 |
| Cash flow (millions)[1] | $ 162.1 | $ 220.1 | $ 207.8 | $ 197.5 | $ 57.6 | $ 150.4 | $ 123.2 | $ 124.3 |
| Net additions wireless subscribers (000s)[4] | 186.4 | 136.2 | 113.7 | 76.1 | 166.0 | 100.6 | 102.8 | 66.7 |
| Gross additions wireless subscribers (000s) | 352.1 | 283.8 | 254.5 | 230.3 | 323.2 | 234.1 | 224.2 | 205.7 |
| Wireless subscribers (000s)[4] | 3,936.4 | 3,750.0 | 3,613.8 | 3,500.1 | 3,424.0 | 3,265.6 | 3,165.1 | 3,062.2 |
| Penetration rate[5] | 12.9% | 12.4% | 11.9% | 11.7% | 11.5% | 11.2% | 11.2% | 10.9% |
| Wireless market share, subscriber based | 26.1% | 26.1% | 26.0% | 25.6% | 25.5% | 25.5% | 25.4% | 25.1% |
| Average monthly revenue per subscriber unit (ARPU) | $ 61 | $ 62 | $ 59 | $ 57 | $ 59 | $ 60 | $ 56 | $ 54 |
| Average minutes per subscriber per month (MOU) | 390 | 393 | 390 | 362 | 373 | 367 | 342 | 315 |
| COA per gross addition | $ 410 | $ 374 | $ 381 | $ 383 | $ 452 | $ 406 | $ 428 | $ 425 |
| Monthly churn rate[4] | 1.5% | 1.3% | 1.3% | 1.5% | 1.6% | 1.4% | 1.3% | 1.5% |
| Population coverage – digital (millions)[7] | 30.0 | 29.7 | 29.7 | 29.5 | 29.5 | 29.0 | 28.0 | 27.9 |
| Total employees, continuing operations | 6,298 | 5,971 | 5,766 | 5,688 | 5,690 | 5,404 | 5,254 | 5,292 |
| Full-time equivalent (FTE) employees | 5,915 | 5,681 | 5,485 | 5,370 | 5,387 | 5,175 | 5,033 | 5,021 |
| EBITDA[3] per average FTE employees, annualized (000s) | $ 194.8 | $ 230.4 | $ 210.5 | $ 184.2 | $ 143.2 | $ 191.8 | $ 160.1 | $ 142.1 |

1 EBITDA less capital expenditures.
2 As a result of subscriber audit following a billing system conversion in the third quarter of 2002, Internet subscriber counts and net additions for the first six months of 2003 are net of reductions of approximately 13,000 dial-up subscribers and approximately 4,700 high-speed Internet subscribers.
3 EBITDA excluding Restructuring and workforce reduction costs.
4 Based on an audit of the prepaid platform in the fourth quarter of 2003, a one-time adjustment was made to the prepaid subscriber base. Cumulative subscribers were reduced by approximately 7,600 in the period. Of the 7,600, net additions as recorded for 2003 reflected a 5,000 adjustment for current year deactivations. Management believes the deactivations related to a prior period are immaterial and therefore net additions have not been restated. Furthermore, 2003 churn was calculated to reflect the 5,000 deactivations in the current year.
5 Subscribers divided by total population coverage.
6 Subscribers, churn, average monthly revenue per subscriber unit and marketing cost of acquisition per gross addition for 2000 have been adjusted to reflect definitional alignment between TELUS Mobility (pre-acquisitions), Clearnet and QuébecTel Mobilité. This includes a decrease of approximately 13,100 to the December 31, 2000 postpaid subscriber total partly offset by an increase of 4,100 to reflect inclusion of cellular digital packet data (CDPD) subscribers not previously counted. Marketing cost of acquisition as adjusted includes rebranding, retention and migration costs.
7 Includes expanded coverage due to roaming/resale agreements principally with Bell Mobility and Aliant Telecom Wireless of approximately 7.5 million PCS POPs.

# forward-looking statements

This document and the Management's discussion and analysis contain statements about expected future events and financial and operating results of TELUS Corporation (TELUS or the Company) that are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that 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 actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Factors that could cause actual results to differ materially include but are not limited to: competition; economic fluctuations; financing and debt requirements; tax matters; human resources (including the outcome of outstanding labour relations issues); technology (including reliance on systems and information technology); regulatory developments; process risks; manmade and natural threats; health and safety; litigation; business continuity events; and other risk factors discussed herein and listed from time to time in TELUS' reports, comprehensive public disclosure documents, including the Annual Information Form, and in other filings with securities commissions in Canada (filed on SEDAR at sedar.com) and the United States (filed on EDGAR at sec.gov).

For further information, see *Section 10: Risks and uncertainties* of Management's discussion and analysis.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# management's discussion and analysis

The following is a discussion of the consolidated financial condition and results of operations of TELUS Corporation for the years ended December 31, 2004 and 2003, and should be read together with TELUS' audited Consolidated financial statements. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the discussion regarding forward-looking statements above.

TELUS' audited Consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP), which differ in certain respects from U.S. GAAP. See Note 21 to the audited Consolidated financial statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS. The audited Consolidated financial statements and Management's discussion and analysis were reviewed by TELUS' Audit Committee on February 15, 2005 and approved by TELUS' Board of Directors on February 16, 2005. All amounts are in Canadian dollars unless otherwise specified.

The Company has issued guidance on and reports on certain non-GAAP measures that are used by management to evaluate performance of business units and segments. On a consolidated basis, non-GAAP measures are used in measuring compliance with debt covenants. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, reconciled with their nearest GAAP measure and given no more prominence than the closest GAAP measure. For the readers' reference, the definition, calculation and reconciliation of consolidated non-GAAP measures is provided in *Section 11: Reconciliation of non-GAAP measures and definition of key operating indicators*.

# management's discussion and analysis – contents

# 1 overall performance

### 1.1 Materiality for disclosures

Management determines whether or not information is "material" based on whether it believes a reasonable investor's decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated.

### 1.2 Economic growth and the telecommunications market

The Conference Board of Canada recently estimated Canadian real GDP growth in 2004 at 2.6%. In the context of a resilient Canadian economy in 2004, Canadian wireless industry revenues are estimated to have grown by about 18% as more Canadians adopt and expand their use of wireless services. TELUS Mobility achieved 19.2% revenue growth and its largest ever wireless subscriber net additions of 512,400. On the other hand, price competition and technological substitution of voice services to wireless and Internet contributed to further softness in Canadian wireline industry revenues, which declined by an estimated 2%. In the wireline business market, there is greater acceptance of Internet protocol or IP-based services, such as TELUS' IP-One services, and as a result, TELUS signed up additional business customers.

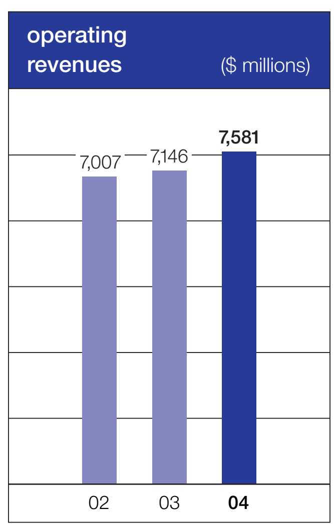
In the wireline consumer market, awareness of voice over Internet protocol (VoIP) services increased following a number of new service introductions by competitors, but it was not a significant competitive factor in 2004. TELUS' major cable-TV competitors have begun to or have announced their intention to offer VoIP telephony in its incumbent territories in 2005. Additional competition is expected from existing competitors that offer VoIP. See Risks and uncertainties *Section 10.1 Competition* and *Section 10.6 Technology* for the competitive and technology factors facing TELUS.

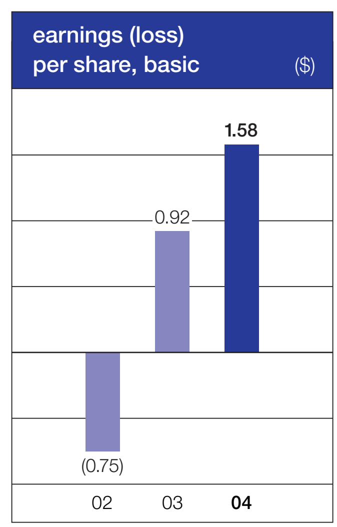
### 1.3 Consolidated highlights

| ($ in millions except per share amounts)<br>Years ended December 31 | 2004 | 2003 | Change |
|---|---|---|---|
| Operating revenues | **7,581.2** | 7,146.0 | 6.1% |
| EBITDA[1] | **3,090.6** | 2,815.8 | 9.8% |
| Operating income | **1,447.5** | 1,163.0 | 24.5% |
| Net income | **565.8** | 324.4 | 74.7% |
| Earnings per share, basic | **1.58** | 0.92 | 71.7% |
| Earnings per share, diluted | **1.57** | 0.91 | 72.5% |
| Cash dividends declared per share | **0.65** | 0.60 | 8.3% |
| Cash provided by operating activities | **2,538.1** | 2,133.8 | 18.9% |
| Cash used by investing activities | **1,299.5** | 1,197.8 | 8.5% |
| Capital expenditures | **1,319.0** | 1,252.7 | 5.3% |
| Cash used by financing activities | **348.3** | 920.8 | (62.2)% |
| Free cash flow[2] | **1,297.3** | 844.9 | 53.5% |

(1) Earnings before interest, taxes, depreciation and amortization is a non-GAAP measure. See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)*.
(2) Free cash flow is a non-GAAP measure. See *Section 11.2 Free cash flow*.

Consolidated Operating revenues and EBITDA increased significantly in 2004, when compared with 2003, driven by continued significant TELUS Mobility growth as well as improved results in the Communications segment, which has now experienced three quarters of sequential revenue growth and year-over-year growth in the third and fourth quarters of 2004. Net income increased due to improved operating profitability, lower Financing costs and lower effective income tax rates. Basic and diluted Earnings per share increased in 2004 as a result of higher Net income, partly offset by a larger number of shares outstanding. Strong growth in EBITDA combined with lower restructuring payments contributed to free cash flow growth. Cash used by financing activities decreased due mainly to lower repayments of debt maturing in 2004.



### 1.4 Performance relative to targets and revised guidance

TELUS met or exceeded all of its original consolidated targets for 2004, except for capital expenditures. TELUS Mobility exceeded or met all of its original targets, while TELUS' Communications segment original targets were not achieved, except for high-speed Internet subscriber net additions. TELUS met or exceeded all of its consolidated and segmented final guidance for 2004.

| Performance to 2004 targets and final guidance | 2004 results | Original targets for 2004 | Result | Final guidance for 2004 | Result |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| Revenues | **$7.581 billion** | $7.45 to $7.55 billion | ✓✓ | $7.5 to $7.575 billion | ✓✓ |
| EBITDA(1) | **$3.09 billion** | $2.95 to $3.05 billion | ✓✓ | $3.05 to $3.1 billion | ✓ |
| Earnings per share – basic | **$1.58** | $1.05 to $1.25 | ✓✓ | $1.50 to $1.55 | ✓✓ |
| Capital expenditures | **$1.319 billion** | Approx. $1.225 billion | ✗ | Approx. $1.3 billion | ✓ |
| Free cash flow(2)(3) | **$1.30 billion** | $1.13 to $1.23 billion | ✓✓ | $1.25 to $1.3 billion | ✓ |
| Net debt to EBITDA(4) | **2.1 times** | 2.5 times or less | ✓✓ | 2.2 times or less | ✓ |
| **Communications segment** | | | | | |
| Revenue (external) | **$4.769 billion** | $4.8 to $4.85 billion | ✗ | $4.725 to $4.775 billion | ✓ |
| Non-ILEC revenue | **$561 million(5)** | Approx. $610 million | ✗ | $545 to $555 million | ✓✓ |
| EBITDA | **$1.948 billion** | $1.975 to $2.025 billion | ✗ | $1.925 to $1.95 billion | ✓ |
| Non-ILEC EBITDA | **$(22) million** | Approx. $5 million | ✗ | $(20) to $(25) million | ✓ |
| Capital expenditures | **$964 million** | Approx. $875 million | ✗ | Approx. $950 million | ✓ |
| High-speed Internet subscriber net additions | **128,100** | Approx. 125,000 | ✓ | Approx. 125,000 | ✓ |
| **Mobility segment** | | | | | |
| Revenue (external) | **$2.812 billion** | $2.65 to $2.7 billion | ✓✓ | $2.775 to $2.8 billion | ✓✓ |
| EBITDA | **$1.142 billion** | $975 million to $1.025 billion | ✓✓ | $1.125 to $1.15 billion | ✓ |
| Capital expenditures | **$355 million** | Approx. $350 million | ✓ | Approx. $350 million | ✓ |
| Wireless subscriber net additions | **512,400** | 375,000 to 425,000 | ✓✓ | 425,000 to 475,000 | ✓✓ |

(1) See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)*.
(2) See *Section 11.2 Free cash flow*.
(3) Free cash flow (2004 method).
(4) Using EBITDA (excluding restructuring). *See Section 11.4 Definition of liquidity and capital resource measures*.
(5) Includes $4.6 million of revenues from ADCOM.

✓✓ Exceeded top of range of target or guidance.
✓ Met target or guidance.
✗ Did not meet target or guidance.

# 2 core business, vision and strategy

### 2.1 Core business

TELUS Corporation, as the largest telecommunications company in Western Canada and the second largest in Canada, provides a full range of telecommunications products and services including data, IP, voice, video and wireless services. TELUS earns the majority of its revenue from access to, and the use of, the Company's national telecommunications infrastructure, or from providing products and services that facilitate access to and usage of this national infrastructure.

The Company's reportable segments, which reflect TELUS' organizational structure and are used to manage the business, are TELUS Communications and TELUS Mobility. The two segments are differentiated based on management, products and services, distribution channels, technology, and regulatory treatment. Intersegment sales are recorded at the exchange value.

At December 31, 2004, the Company's principal subsidiary is wholly owned TELUS Communications Inc. (TCI), including TELE-MOBILE COMPANY partnership.

### 2.2 Vision and strategy

TELUS' strategic intent, or vision, is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move. TELUS' strategy for growth is to focus on its core telecommunications business in Canada. As a result it has evolved from a regional telecommunications company in 1999, serving 28% of Canada's population, to a strong national facilities-based player in the growth areas of wireless, data and IP. The Company embarked on this strategy to take advantage of the significant growth opportunities that the national market offers.

TELUS continues to be guided by its six long-standing strategic imperatives that serve as a guideline for the Company's actions. Some recent examples of TELUS' activities in support of these imperatives follow.

### 2.2.1 Building national capabilities across data, IP, voice and wireless

Expansion in Central Canada is key to TELUS' business growth strategy. In 2004, TELUS successfully implemented several major deals, including the $160 million managed data contract with IBM for the TD Bank Financial Group for more than 1,000 branches across Canada.

Wireless coverage was extended to 500,000 more Canadians in 2004, ending the year at 30 million. Distribution was extended with 15 new TELUS Mobility stores, resulting in more than 100 corporate stores and a total of 2,500 retail locations.

TELUS achieved another milestone in the migration of long distance voice traffic from competitors to its IP-based network, a migration that began in July 2003. In 2004, TELUS successfully migrated 84% of its long distance traffic from the old Stentor Alliance platform. The migration of calls is another step in the transformation of the TELUS network to a single ubiquitous IP network designed to carry high-quality voice, data and video applications. This should eventually eliminate the need for separate networks to carry these applications and reduce network costs.

### 2.2.2 Providing integrated solutions that differentiate TELUS from its competitors

TELUS as a full service telecom operator should increasingly benefit from wireless and wireline synergistic bundling opportunities. This is a differentiating competitive advantage compared to competitors with narrow or stand-alone service offerings.

As a result of research and development activities TELUS has undertaken, the next phase of the IP-One product family was launched in June 2004, and is currently offered to businesses in 24 cities in Ontario and Quebec. IP-One Innovation service uses TELUS' next generation IP-based network to route calls and data, while providing business customers with a full suite of advanced applications and services. It gives customers the opportunity to reduce operational expenses by eliminating costs associated with installing, managing and supporting three separate connections. IP-One Innovation service also provides the efficiency and accessibility of integrated messaging that allows standards-based e-mail programs to retrieve voice-mail.

TELUS began rolling out its digital home strategy to consumers, branded the Future Friendly Home, and introduced TELUS Home Networking and TELUS HomeSitter. The wireless home networking solution was introduced for residential customers in B.C. and Alberta for an additional $8 per month plus the cost of a home networking kit. The service includes enhanced Internet access with speeds up to 2.5 megabits per second and capability to connect multiple computers through a wireless network. TELUS HomeSitter is a unique home monitoring system based on wireless broadband technology that offers customers peace of mind by allowing them to remotely monitor their home or business through a private account via any high-speed Internet connection. TELUS HomeSitter service is being offered to TELUS high-speed Internet customers for $9.95 a month, or $14.95 for others.

### 2.2.3 Focusing relentlessly on the growth markets of data, IP and wireless

Executing against this imperative is central to the Company's success. TELUS achieved strong consolidated growth in 2004 based on record wireless subscriber net additions of 512,400, a 19% increase in wireless revenue and a 4% increase in data revenue.

In May 2004, TELUS announced its intention to acquire all of the publicly traded shares and warrants of Microcell, the smallest of the national wireless operators. In September 2004, Microcell's Board recommended its shareholders accept a higher-priced offer from competitor Rogers Wireless Communications Inc. Rogers completed the acquisition of Microcell in the fourth quarter of 2004. TELUS' offer was consistent with two other strategic imperatives of building national capabilities across data, IP, voice and wireless and partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy.

While TELUS ranks third in the Canadian wireless industry in terms of total subscribers, the success of its leadership position is reflected by TELUS Mobility, generating the highest growth in EBITDA and cash flow (EBITDA less capital expenditures) of the three Canadian operators. TELUS Mobility continues to focus on profitable wireless growth in the national market, which is now made up of three major facilities-based players and potential niche-market competitors operating on a resale basis.

### 2.2.4 Investing in internal capabilities to build a high-performance culture and efficient operations

TELUS team members are at the heart of the Company's competitive advantage in efforts to meet customer needs in the most effective way possible.

In early 2004, TELUS completed a major multi-phase three-year Operational Efficiency Program, which began in 2001 and attained cumulative annual savings of $538 million by the end of 2004. Building upon this base, in 2004 new restructuring activities in the Communications segment included a departmental reorganization of the information technology resources area, consolidating from 15 locations to two primary locations, which is expected to enable greater efficiencies of scale and effectiveness of program delivery. Two customer-facing business units were also integrated to improve the Company's competitiveness as well as its operating and capital productivity.

The Company is presently undertaking a billing initiative to re-engineer processes in the Communications segment for order entry, pre-qualification, service fulfillment and assurance, customer care, billing, collections/credit, customer contract and information management.

The Company also invested significantly in upgrading of skill sets, leadership training and team development. For example, in 2004 approximately $35 million was spent on training and learning, up from $33 million in 2003.

### 2.2.5 Partnering, acquiring and divesting to accelerate the implementation of TELUS’ strategy and focus TELUS’ resources on core business

In March 2004, TELUS, O.N. Telcom, and the Province of Ontario announced a strategic alliance in which TELUS will provide O.N. Telcom with management support services and access to its products and services. The agreement provides O.N. Telcom with access to the TELUS national IP backbone, technology and services while positioning O.N. Telcom for improved customer service from TELUS’ extensive product and market development initiatives.

In November, TELUS acquired the shares of ADCOM, Inc., the largest video conferencing company in Canada, for $12.2 million. Through this acquisition, TELUS gained approximately 80 employees, a new customer base, multi-site operations and state-of-the-art equipment. ADCOM has offices in Calgary, Edmonton, Ottawa, Montreal and Halifax. ADCOM’s annual revenues in 2003 were $24.7 million. Also in November, TELUS Sourcing Solutions signed an agreement with the B.C. Government to provide payroll systems and services. As a result, about 140 employees joined TELUS from the provincial government.

In December, Verizon sold its 20.5% equity interest in TELUS, or 73.5 million shares, through a secondary equity offering. The long-term relationship agreement between the companies required Verizon to have approval of a majority of TELUS’ independent directors, and resulted in TELUS agreeing to favourable terms to permit the transaction to proceed. TELUS received $148.1 million (US $125 million) and, under amendments to a business agreement, annual future fees of $97 million (US $84 million) payable to Verizon were reduced to a nominal amount. The secondary offering increased the public float of TELUS shares by approximately 26%, providing more trading liquidity, and increasing the breadth of the shareholder base. Verizon and TELUS continue to have a mutually beneficial relationship to serve both wireline and wireless customers. For example, TELUS Mobility and Verizon Wireless expanded their current roaming arrangements under a consolidated long-term roaming agreement.

TELUS also sold non-strategic properties and other assets for $27.6 million in 2004.

### 2.2.6 Going to market as one team, under a common brand, executing a single strategy

TELUS’ nature-based non-technical approach and *the future is friendly* brand promise are renowned in Canada. The approach is consistently applied to advertising in the Communications and Mobility segments and across all corporate communications programs.

TELUS also continues to execute on its commitment to becoming Canada’s premier corporate citizen by supporting the communities in which employees live, work and serve. The Company’s efforts are focused on health and wellness, education and sport, and arts and culture. In 2004, TELUS made a five-year commitment to the Royal Conservatory of Music to help strengthen the creative capital of young Canadians. The Company also announced multi-year sports sponsorships including Hockey Canada, *Alpine Canada Alpin* and the Canadian Soccer Association. Also announced was a multi-faceted partnership with Science World in Vancouver. For additional information, see TELUS’ 2004 Corporate Social Responsibility Report, which can be found at telus.com/socialresponsibility.

# 3 key performance drivers

To focus on the opportunities and challenges, and to create value for shareholders, TELUS sets corporate priorities each year. As TELUS’ business focus remains constant, the corporate priorities for 2005 continue the themes from 2004:

<table>
<tr><th>2004 corporate priorities</th><th>2005 corporate priorities</th></tr>
<tr><td colspan="2">Enhancing TELUS Mobility’s leadership position in wireless</td></tr>
<tr><td>Drive toward leadership in high-speed Internet</td><td>Leveraging investments in high-speed Internet technology through Future Friendly Home services in B.C., Alberta and Eastern Quebec</td></tr>
<tr><td>Revitalizing wireline growth</td><td>Accelerating wireline performance in Ontario and Quebec business markets</td></tr>
<tr><td colspan="2">Growing brand value by delivering a superior customer experience via leading IP solutions and excellence in customer care</td></tr>
<tr><td>Embracing continual cost efficiency</td><td>Driving continual improvements in productivity across TELUS</td></tr>
<tr><td colspan="2">Reaching a collective agreement that reflects industry dynamics and embraces the needs of all TELUS stakeholders</td></tr>
</table>

### 3.1 Enhancing TELUS Mobility's leadership position in wireless

In 2004, TELUS Mobility continued to lead the Canadian industry with the highest average revenue per subscriber unit per month (ARPU) of $60, while maintaining one of the lowest churn rates in North America at 1.40%. TELUS Mobility EBITDA margin increased to 40.3% in 2004, from 34.3% in 2003. As a result of continued EBITDA growth and steady capital expenditures, TELUS Mobility generated substantially improved cash flow (EBITDA excluding restructuring less capital expenditures) to a TELUS Mobility record of $787.5 million or 30.3% of Network revenue, as compared with $455.5 million or 20.9% of Network revenue in 2003.

For 2005, TELUS Mobility plans to maintain its leadership position in terms of the financial and operational performance of the wireless business, in the recently consolidated Canadian wireless marketplace with three national players. Innovative products and marketing, strong brand, and superior customer service and retention programs should once again fuel top-quartile industry growth in revenue, profitability and cash flow. TELUS Mobility is targeting 2005 revenue growth of 14 to 16% and EBITDA growth of 18 to 23%. These are being driven by expected wireless subscriber growth of 425,000 to 475,000 and continued margin expansion from improved scale efficiencies. TELUS Mobility expects 2005 capital expenditures of $350 to $400 million to be focused on capacity improvements as well as network and efficiency enhancements and possible investment in 3-G technology. TELUS Mobility cash flow is expected to increase to approximately $1.0 billion in 2005.

Wireless revenue and EBITDA as a proportion of TELUS consolidated results are expected to be approximately 41 and 42%, respectively, in 2005. This compares with 28 and 21%, respectively, in 2002.

### 3.2 Leveraging investments in high-speed Internet technology through Future Friendly Home services in B.C., Alberta and Eastern Quebec

In 2004, TELUS added 128,100 high-speed Internet net additions, and introduced new services as part of TELUS' digital home strategy, as described in *Section 2 Core business, vision and strategy*. In 2005, TELUS' target is to add approximately 100,000 high-speed Internet subscribers, down from 2004, a result of the high level of high-speed Internet adoption in Western Canada (approximately 50% of households), and despite an expected increase in competitive activity. In February 2005, a cable-TV competitor in TELUS' Western incumbent markets launched cable-based telephony services in Calgary that would roll out to additional markets over time, focusing on bundled television, Internet and digital services. TELUS has a broadcasting distribution licence to offer digital television services in select communities across Alberta and B.C., as well as a licence to offer commercial video-on-demand services. By using TELUS' existing high-speed infrastructure, these licences could enable the Company to compete with cable-TV companies and satellite service providers for TV entertainment services. TELUS is testing and evaluating these services for possible launch in the future.

### 3.3 Accelerating wireline performance in Ontario and Quebec business markets

In 2004, TELUS Communications revenue experienced a small annual decrease of 0.3%, with positive growth in the last two quarters of the year, compared to a 4% annual decline in 2003. In 2005, wireline annual revenue is expected to decrease between 0.4 and 1.5%. The Company is addressing the challenges the wireline industry faces in two ways. The most significant growth opportunity for TELUS is in non-incumbent operations, focused on business and government markets. TELUS is exploiting the competitive head start it has in managed data and IP solutions, utilizing its already-built next generation IP network, to secure recurring data revenues in Ontario and Quebec. In 2005, the Company expects to generate $600 to $650 million in non-incumbent revenue, a significant $39 to $89 million increase, and for the first time deliver positive operating earnings on a full year basis.

Another important element of the Company's wireline revenue growth strategy is the TELUS Future Friendly Home initiative in incumbent operations. TELUS offers a suite of integrated, advanced digital and wireless services that are easy to use, and that leverage significant investments in high-speed Internet. Two new services, TELUS Home Networking and TELUS HomeSitter, were launched in 2004. TELUS plans to launch new retail consumer solutions, which may include VoIP and IP TV in 2005, to continue enhancing the Future Friendly Home portfolio.

### 3.4 Growing brand value by delivering a superior customer experience via leading IP solutions and excellence in customer care

In 2004, TELUS focused on improving its customer service levels, as evidenced by improved levels on wireline service indicators and by continued low levels of churn at TELUS Mobility. New systems for the Communications segment, from order entry to billing, customer contract and information management, are expected to help improve customer service in the future. By delivering innovative IP and wireless solutions, and by consistently striving for customer care excellence, TELUS aims to strengthen the power and effectiveness of its nature-based national brand.

### 3.5 Driving continual improvements in productivity across TELUS

Various initiatives were undertaken in 2004 and are planned for 2005 to constantly improve and institutionalize a cost-conscious mindset throughout the organization.

### 3.6 Reaching a collective agreement

Reaching a collective agreement remains a priority in 2005. The recent decision by the Canada Industrial Relations Board (CIRB) overturning its year-old binding arbitration order returns the parties to the collective bargaining process. Every effort will be made to achieve a long overdue resolution to these negotiations, which first commenced in 2000. The status of certain CIRB decisions and related appeals in 2004 follows.

**Appeal for reconsideration of CIRB Decisions 1004 and 271**

In February 2004, TCI filed applications with both the CIRB and the Federal Court of Appeal seeking a review of the CIRB's earlier decisions, which imposed a communications ban and required TCI to offer binding arbitration to the Telecommunications Workers Union (TWU). On April 8, 2004, in Decision 271, the CIRB rendered the full reasons regarding the complaints that led to its earlier decisions. The CIRB imposed a further communications ban on TCI, prohibiting communications with bargaining unit members on matters of employment and collective interest until such time as the conditions of the Canada Labour Code with respect to gaining the right to strike or lockout had been satisfied. TCI then sought reconsideration and a judicial review of the CIRB's April 8, 2004 decision. The Federal Court of Appeal granted TCI a stay of its judicial review application until the CIRB issued the reconsideration decision. The CIRB issued a summary decision on February 2, 2005, overturning its previous ruling that imposed binding arbitration. In addition, the Board set aside the April 2004 broad communications ban, and re-instated its narrower January 2004 ban related to communications with bargaining unit team members on labour relations issues and negotiations. TCI is awaiting the CIRB's full reasons for its decision. In the interim, TCI has requested that the Federal Court of Appeal judicial review application be stayed until the CIRB issues its full written reasons for its February 2005 decision. TCI awaits the Federal Court of Appeal's determination. On February 16, 2005, the TWU filed an application in the Federal Court of Appeal of the CIRB's decision that reversed the Board's previous decision that placed the parties in binding arbitration.

**Appeal of CIRB Decisions 1088 and 278**

The CIRB in Decisions 1088 and 278 declared that TELUS Mobility's non-unionized team members, predominantly located in Ontario and Quebec, performing work similar to their unionized Mobility segment counterparts in Alberta and British Columbia, should be included in the TWU bargaining unit without a representational vote. TELUS Mobility's application to the Federal Court of Appeal for judicial review of Decisions 1088 and 278 was heard in October 2004. The Federal Court of Appeal dismissed the application on December 16, 2004, and TELUS Mobility applied to the Supreme Court of Canada for leave to appeal the decision in February 2005.

On February 4, 2005, the CIRB rendered a further decision to include the former QuébecTel Mobilité employees (clerical and administrative) represented by the Syndicat québecois des employées de TELUS, Local 5044 (SQET) in the bargaining unit represented by the TWU. The CIRB also confirmed that the former QuébecTel Mobilité employees (professional) represented by the Syndicat des agents de maîtrise de TELUS, Local 5144 (SAMT), would remain a separate/distinct bargaining unit continuing to be represented by the SAMT.

# 4 capability to deliver results

### 4.1 Operational capabilities – TELUS Communications

A little less than one-third of the Communications segment revenues are currently subject to rate regulation by the CRTC. Regulated services include residential and business services, competitor services and public telephone (payphone) services. See Note 3 of the Consolidated financial statements for a discussion of rate regulation in Canada, as it applies to TELUS.

In the past, management has indicated a need to address the declining revenue streams and profitability in the wireline business. This is caused by ongoing industry-wide trends including declining access lines, reduced long distance revenue as a result of price competition and lower usage due in part to technological substitution, and new revenue streams having lower margins. To meet these challenges, TELUS has set out to offset these factors in three ways. First, TELUS is pursuing the non-incumbent growth opportunity in the large business market in Ontario and Quebec with a focus on managed data and IP solutions. Second, in incumbent areas TELUS is investing in and launching a suite of integrated and advanced digital and wireless services with the TELUS Future Friendly Home initiative. Third, TELUS aims to deliver continued improvements in efficiency and productivity to address cost structure and maintenance of margins in the mid-term. TELUS Communications has had some success in 2004 with an increase in non-ILEC revenues in the second half of the year, the launch of two new services, TELUS Home Networking and TELUS HomeSitter, and new efficiency initiatives. It is encouraging that TELUS Communications attained sequential quarterly revenue growth in the second, third and fourth quarters of 2004 and year-over-year growth in the third and fourth quarters of 2004.

In 2004, TELUS Communications recorded $52.6 million in restructuring charges for three new restructuring initiatives. In light of strong competition from existing telecommunications companies, and plans by cable-TV companies and other competitors to expand VoIP offerings in TELUS' incumbent territories, ongoing efficiency initiatives continue to be necessary in 2005.

TELUS Communications' principal wireline competitors are:

| Canadian geographic market | Competition | TELUS Communications |
|---|---|---|
| National – business | BCE, Allstream – competing with their own national infrastructures – and others.<br>System integrators of managed solutions, such as CGI, EDS and IBM | IP-based national network overlaying extensive switched network in incumbent territories in Western Canada and Eastern Quebec.<br>Rate-regulated in incumbent territories of B.C., Alberta and Eastern Quebec for access and certain competitive digital network access services.<br>Non-rate-regulated operations in non-incumbent areas of Ontario and Quebec, focused on managed data solutions in the business market. |
| Western Canada (B.C. and Alberta) – consumer | Substitution to wireless including to TELUS Mobility.<br>Shaw Cable – access to most homes in cities and towns. Provides Internet, entertainment and VoIP-based telephony services. Not rate-regulated by the CRTC.<br>Call-Net (Sprint), Primus, various others – urban focus. Collectively offer local service on a resale basis and with VoIP offerings, Internet services sometimes on a resale basis, and long distance services. | Access to virtually every home. Rate-regulated for local services.<br>Significant investment in Internet infrastructure and innovative services.<br>Potential to offer VoIP service, but awaiting clarifying regulatory framework.<br>Has broadcasting distribution licences to potentially offer digital television services in select communities across Alberta and B.C., as well as licences to offer commercial video-on-demand services. In the midst of service trials by employees. |
| Eastern Quebec – consumer | Substitution to wireless including to TELUS Mobility.<br>COGECO (cable-TV) – urban focus. Offers entertainment and potentially VoIP-based telephony services. Provides less high-speed coverage.<br>Sprint, Excel, Distributel, Sears and Caztel compete in the provision of long distance services.<br>BCE and Vonage compete for VoIP-based services. | Access to virtually every home. Significant investment in Internet infrastructure and innovative services.<br>Has applied for broadcasting distribution licences and video-on-demand licences. |
| Non-ILEC areas of Quebec – consumer | Competitors include BCE, Videotron and Oricom in the provision of dial-up and high-speed Internet services. | Provides dial-up Internet services in the vast majority of Quebec areas. |

### 4.2 Operational capabilities – TELUS Mobility

Wireless services are not rate-regulated by the CRTC. TELUS Mobility's national facilities-based competitors are Bell Mobility and Rogers Wireless.

With the overall wireless marketplace exhibiting continued growth, TELUS Mobility has generated best-in-class results in many respects. Focus on customer care, value-added solutions and superior network quality provides its growing subscriber base with an exceptional service experience. With the strategic focus on profitable wireless growth and operating scale efficiencies, a significant proportion of every incremental network revenue dollar earned continues to flow through to EBITDA. As a result, TELUS Mobility is generating significant operating profitability and cash flow ahead of its peer group. This performance resulted in TELUS Mobility being named as the top ranked wireless operator in North America by N. Moore Capital for the third consecutive quarter in December 2004.

### 4.3 Liquidity and capital resources

TELUS' 2004 financing plan was to use free cash flow generated by its business operations to reduce or repurchase debt and amounts outstanding under its accounts receivable securitization program, as well as to redeem the publicly held Preference and Preferred Shares of TCI. As planned, new credit facilities were established in May 2004 for $1.6 billion, the Company maintained its foreign exchange hedging programs, and the proportion of fixed rate debt was reduced to 93.2% by a series of fixed-rate to floating interest rate swaps.

In 2004, TELUS repaid approximately $210 million in debt that matured in August, reduced the cash proceeds from the sale of securitized accounts receivable by $150 million, and redeemed $72.8 million in Preference and Preferred shares. Following acceptance of the Company's Normal Course Issuer Bid by the Toronto Stock Exchange in mid-December, a total of approximately 2.2 million Common Shares and Non-Voting Shares were repurchased for cancellation, for approximately $78 million. With a Net debt to EBITDA ratio of 2.1 times and a Net debt to total capitalization ratio of 47.9% at December 31, 2004, TELUS has achieved ahead of schedule, not only its original 2004 target for Net debt to EBITDA of 2.5 times or less, but also the long-term targets of 2.2 times or less for Net debt to EBITDA and 45 to 50% for Net debt to total capitalization. In October 2004, on a prospective basis, the Company set a target guideline for a dividend payout ratio of 45 to 55% of net earnings.

With $896.5 million of cash at December 31, 2004, access to undrawn credit facilities of $1.6 billion and cash provided by operating activities, the Company believes it has sufficient capability to fund its requirements in 2005 and refinancing requirements in 2006. See *Section 9.3 Financing Plan for 2005*. On February 16, 2005, TELUS announced its intention to redeem its $149.6 million of 6.75% convertible debentures at par on June 16, 2005.

# 5 results from operations

### 5.1 Selected annual information

The following selected three-year consolidated financial information has been derived from and should be read in conjunction with the audited Consolidated financial statements of TELUS for the year ended December 31, 2004, and its annual audited Consolidated financial statements for previous years. Certain comparative information has been restated on a basis consistent with the 2004 presentation.

| Years ended December 31 ($ in millions except per share amounts) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Operating revenues | **7,581.2** | 7,146.0 | 7,006.7 |
| Operations expense | **4,438.0** | 4,301.9 | 4,488.1 |
| Restructuring and workforce reduction costs | **52.6** | 28.3 | 569.9 |
| Financing costs and other expense | **622.0** | 662.6 | 658.0 |
| Income taxes (recovery) | **255.1** | 172.7 | (46.9) |
| Net income (loss) | **565.8** | 324.4 | (235.8) |
| Common Share and Non-Voting Share income (loss) | **564.0** | 320.9 | (239.3) |
| Earnings (loss) per share[1] – basic | **1.58** | 0.92 | (0.75) |
| Earnings (loss) per share[1] – diluted | **1.57** | 0.91 | (0.75) |
| Cash dividends declared per share[1] | **0.65** | 0.60 | 0.60 |
| Total assets | **17,838.0** | 17,477.5 | 18,219.8 |
| Current maturities of long-term debt | **4.3** | 221.1 | 190.3 |
| Long-term debt | **6,332.2** | 6,609.8 | 8,336.6 |
| Pension, post-retirement, deferred hedging liability and other long-term liabilities | **1,313.3** | 983.8 | 193.9 |
| Total long-term financial liabilities | **7,645.5** | 7,593.6 | 8,530.5 |
| Future income tax liabilities | **991.9** | 1,007.0 | 992.3 |
| Non-controlling interest | **13.1** | 10.7 | 11.2 |
| Common equity | **7,016.8** | 6,442.7 | 6,214.4 |
| Preference and preferred share capital | **–** | 69.7 | 69.7 |

(1) Includes Common Shares and Non-Voting Shares.

Some significant changes over the three years included:

- An increasing proportion of Operating revenues from the TELUS Mobility wireless segment (approximately 37% in 2004, 33% in 2003 and 28% in 2002). While the proportion of wireless revenue to consolidated revenue increased by 4 to 5% in each of the last two years, the proportion of wireless Operations expense to consolidated Operations expense increased by only 2 to 3% in each of the years, reflecting scale efficiencies at TELUS Mobility.
- The majority of restructuring charges in 2002 and all of the restructuring charges in 2003 and 2004 were for Communications segment Operational Efficiency Program initiatives. This program helped drive Communications segment 2004 expenses to 7.6% below the 2002 level.
- Financing costs and other expenses in 2002 were net of a non-recurring $82.7 million pre-tax gain on debt redemption.
- Net income included significant favourable impacts for the settlement of tax matters and consequential adjustments, as shown in the table below:

| Years ended December 31 ($ in millions except per share amounts) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Approximate Net income impact | **73** | 72 | 43 |
| Approximate earnings per share impact | **0.21** | 0.20 | 0.13 |
| Approximate earnings (loss) per share, excluding favourable tax-related impacts | **1.37** | 0.72 | (0.88) |

### 5.2 Quarterly results summary

| ($ in millions, except per share amounts) | 2004 Q4 | 2004 Q3 | 2004 Q2 | 2004 Q1 | 2003 Q4 | 2003 Q3 | 2003 Q2 | 2003 Q1 |
|---|---|---|---|---|---|---|---|---|
| Segmented revenue (external) | | | | | | | | |
| Communications segment | **1,209.3** | **1,199.9** | **1,189.0** | **1,171.1** | 1,182.4 | 1,186.3 | 1,209.2 | 1,208.5 |
| Mobility segment | **755.6** | **747.0** | **676.6** | **632.7** | 643.2 | 619.9 | 564.1 | 532.4 |
| Operating revenues (consolidated) | **1,964.9** | **1,946.9** | **1,865.6** | **1,803.8** | 1,825.6 | 1,806.2 | 1,773.3 | 1,740.9 |
| Restructuring and workforce reduction costs | **19.8** | **16.2** | **0.7** | **15.9** | 16.2 | 2.3 | 3.3 | 6.5 |
| Net income | **135.6** | **156.6** | **172.3** | **101.3** | 47.8 | 114.1 | 73.0 | 89.5 |
| Per weighted average Common Share and Non-Voting Share outstanding | | | | | | | | |
| – basic | **0.38** | **0.44** | **0.48** | **0.28** | 0.13 | 0.32 | 0.21 | 0.26 |
| – diluted | **0.37** | **0.43** | **0.48** | **0.28** | 0.13 | 0.32 | 0.21 | 0.26 |
| Dividends declared per Common Share and Non-Voting Share outstanding | **0.20** | **0.15** | **0.15** | **0.15** | 0.15 | 0.15 | 0.15 | 0.15 |

The trend in Operating revenues continued to reflect strong wireless growth resulting from an increased subscriber base and increased average revenue per subscriber unit (ARPU). TELUS Communications segment revenues increased for the third consecutive quarter, as a result of traction gained from new contracts. Strong data revenues helped Communications segment revenues increase in the third and fourth quarters of 2004, when compared to the same periods in 2003, partially offset by a more modest decline in voice revenues and equipment sales. Communications segment revenues include the impacts of regulatory price cap decisions.

Restructuring charges in 2003 and 2004 were recorded as a result of the Communications segment initiatives.

Net income and earnings per share reflect improved operating profitability, as well as decreasing interest on long-term and short-term debt. There is significant fourth quarter seasonality at TELUS Mobility in terms of subscriber gross additions, related acquisition costs and equipment sales, and to a lesser extent, at TELUS Communications in terms of high-speed Internet subscriber net additions. Significant semi-annual interest payments were also made in the fourth quarter, as well as the second quarter. For a more detailed discussion of fourth quarter results, refer to TELUS' fourth quarter press release, including its Management's discussion and analysis, filed on SEDAR and EDGAR.

For five of the periods shown above, Net income and earnings per share included significant favourable impacts for the settlement of tax matters and consequential adjustments, as shown in the table below:

| ($ in millions, except per share amounts) | 2004 Q4 | 2004 Q3 | 2004 Q2 | 2004 Q1 | 2003 Q4 | 2003 Q3 | 2003 Q2 | 2003 Q1 |
|---|---|---|---|---|---|---|---|---|
| Approximate Net income impact | **14** | **–** | **45** | **14** | – | 19 | – | 53 |
| Approximate earnings per share impact | **0.04** | **–** | **0.13** | **0.04** | – | 0.05 | – | 0.15 |
| Approximate basic earnings per share, excluding favourable tax-related impacts | **0.34** | **0.44** | **0.35** | **0.24** | 0.13 | 0.27 | 0.21 | 0.11 |

### 5.3 Consolidated results from operations

| Years ended December 31 ($ in millions except EBITDA margin) | 2004 | 2003 | Change |
|---|---|---|---|
| Operating revenues | **7,581.2** | 7,146.0 | 6.1% |
| Operations expense | **4,438.0** | 4,301.9 | 3.2% |
| Restructuring and workforce reduction costs | **52.6** | 28.3 | 85.9% |
| EBITDA[1] | **3,090.6** | 2,815.8 | 9.8% |
| EBITDA margin (%)[2] | **40.8** | 39.4 | 1.4 pts |

(1) EBITDA is a non-GAAP measure. See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)*.
(2) EBITDA margin is EBITDA divided by Operating revenues.

Consolidated Operating revenues and EBITDA increased significantly in 2004, when compared with 2003. This was driven by TELUS Mobility Operating revenue growth of 19.3%, while the corresponding increase in TELUS Mobility Operations expense was only 8.4%. TELUS' Communications segment Operating revenue growth was relatively flat, decreasing by 0.3% in 2004, while its Operations expense increased by 0.4%. Expenses increased to maintain high service levels and provide outsourcing services to customers, and were partly offset by savings from the Operational Efficiency Program phases, which concluded in 2003. Communications segment restructuring charges of $52.6 million in 2004 were recorded for ongoing efficiency initiatives, an increase of $24.3 million when compared with 2003.

For further detail by segment, see *Section 5.4 Communications segment results* and *Section 5.5 Mobility segment results*.

### Depreciation and amortization

| Years ended December 31 ($ in millions) | 2004 | 2003 | Change |
|---|---|---|---|
| Depreciation | **1,307.8** | 1,272.9 | 2.7% |
| Amortization of intangible assets | **335.3** | 379.9 | (11.7)% |
| | **1,643.1** | 1,652.8 | (0.6)% |

Increased depreciation for growth in data network and wireless capital assets, increased depreciation for certain other assets, as well as write-offs of network equipment and software assets in 2004, were offset by lower amortization resulting from certain software applications becoming fully amortized and from the write-off of software assets in 2003.

### Other expense, net

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **8.7** | 23.3 | (62.7)% |

Other expense includes accounts receivable securitization expense, gains and losses on disposal of property, income (loss) or impairments in equity or portfolio investments, and charitable donations. Accounts receivable securitization expense decreased by $9.8 million in 2004, when compared to 2003, due to the reduction in the amount of securitized receivables. See *Section 7.6 Accounts receivable sale*. Upon expiry of TELUS' offer to purchase Microcell in the fourth quarter of 2004, accumulated acquisition costs of approximately $5 million were written off. In addition, net gains from the sale of land and several buildings and investments increased by $10.4 million in 2004, when compared with 2003. Charitable donations expense continues to reflect TELUS' objective of donating 1% or more of average pre-tax income, as defined under the Imagine Caring Company formula.

### Financing costs

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| Interest on Long-term debt, short-term obligations and other | **655.5** | 683.0 | (4.0)% |
| Foreign exchange losses (gains) | **(3.1)** | (0.4) | – |
| Interest income | **(39.1)** | (43.3) | 9.7% |
| | **613.3** | 639.3 | (4.1)% |

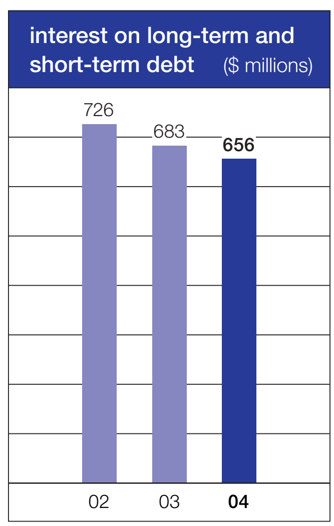
Interest on long-term and short-term debt decreased primarily due to the repayment of bank facilities, Medium-term Notes and First Mortgage Bonds during 2003, and the repayment of TCI Debentures and Medium-term Notes in the third quarter of 2004. TELUS maintains a hedging program using cross currency swaps, and as a result, long-term financing costs were generally unaffected by fluctuations in the value of the Canadian dollar against the U.S. dollar.

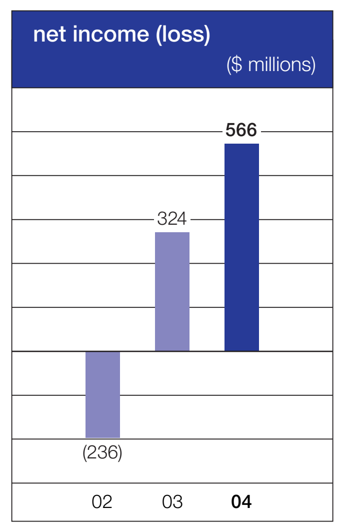
Debt, which includes Long-term Debt, Current maturities and the deferred hedging liability, but excludes cash-on-hand, was $7,374.2 million at December 31, 2004, when compared with $7,576.7 million at December 31, 2003. Interest income was recognized primarily as a result of tax refunds ($26.2 million in 2004 and $38.9 million in 2003) from the settlement of various tax matters, as well as from interest earned on cash and temporary investments.

### Income taxes

| Years ended December 31 ($ millions except tax rates) | 2004 | 2003 | Change |
|---|---|---|---|
| Blended federal and provincial statutory income tax | **286.6** | 185.7 | 54.3% |
| Tax rate differential on, and consequential adjustments from, the settlement of prior year tax issues | **(50.3)** | (49.7) | (1.2)% |
| Revaluation of future tax assets and liabilities for changes in statutory income tax rates | **(12.9)** | 13.6 | – |
| Large corporations tax and other | **31.7** | 23.1 | 37.2% |
| | **255.1** | 172.7 | 47.7% |
| Blended federal and provincial statutory tax rates (%) | **34.7** | 37.1 | (2.4) pts |
| Effective tax rates (%) | **30.9** | 34.5 | (3.6) pts |

Blended federal and provincial statutory income tax increased due to higher income before taxes of $325.1 million, partly offset by lower blended tax rates. Tax recoveries were related to losses carried back and settlement of tax matters and consequential adjustments for prior years that had higher tax rates. Revaluation of future tax balances arose from changes in federal and provincial tax rates.



### Non-controlling interest

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **4.6** | 3.3 | 39.4% |

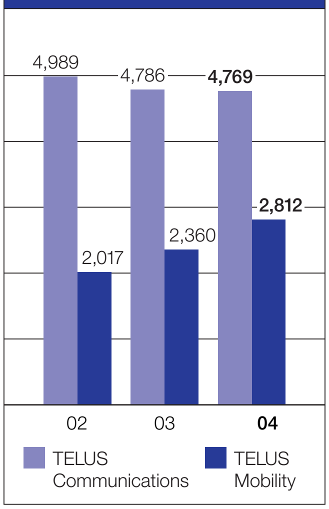
Non-controlling interest primarily represents minority shareholders' interests in several small subsidiaries.

### Preference and preferred dividends

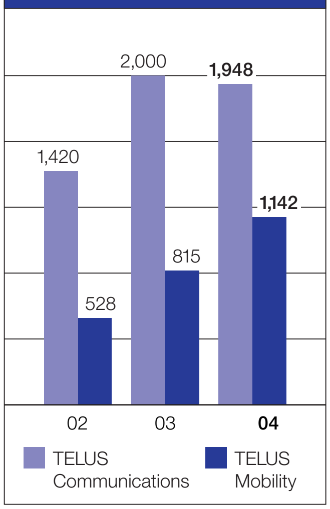
| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **1.8** | 3.5 | (48.6)% |

Preference and preferred dividends ended with the redemption of all of the publicly held TELUS Communications Inc. Preference and Preferred Shares, completed on August 3, 2004.

**segmented external operating revenues** ($ millions)




**segmented EBITDA** ($ millions)




## 5.4 Communications segment results

### Operating revenues – Communications segment

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| Voice local | **2,145.4** | 2,160.7 | (0.7)% |
| Voice long distance | **921.3** | 961.1 | (4.1)% |
| Data | **1,416.4** | 1,368.1 | 3.5% |
| Other | **286.2** | 296.5 | (3.5)% |
| External operating revenue | **4,769.3** | 4,786.4 | (0.4)% |
| Intersegment revenue | **96.6** | 94.5 | 2.2% |
| Total operating revenue | **4,865.9** | 4,880.9 | (0.3)% |

### Key operating indicators – Communications segment

| At December 31 (000s) | 2004 | 2003 | Change |
|---|---|---|---|
| Residential network access lines | **3,047** | 3,086 | (1.3)% |
| Business network access lines | **1,761** | 1,784 | (1.3)% |
| Total network access lines(1) | **4,808** | 4,870 | (1.3)% |
| High-speed Internet subscribers | **689.7** | 561.6 | 22.8% |
| Dial-up Internet subscribers | **281.6** | 319.8 | (11.9)% |
| Total Internet subscribers(2) | **971.3** | 881.4 | 10.2% |

| Years ended December 31 (000s) | 2004 | 2003 | Change |
|---|---|---|---|
| Change in residential network access lines | **(39)** | (36) | – |
| Change in business network access lines | **(23)** | (5) | – |
| Change in total network access lines | **(62)** | (41) | (51.2)% |
| High-speed Internet net additions | **128.1** | 151.6 | (15.5)% |
| Dial-up Internet net reductions | **(38.2)** | (71.9) | 46.9% |
| Total Internet subscriber net additions | **89.9** | 79.7 | 12.8% |

(1) Network access lines are measured at the end of the reporting period based on information in billing and other systems.
(2) Internet subscribers are measured at the end of the reporting period based on Internet access counts from billing and other systems.

Relative to a general industry trend of declining traditional revenues, the Communications segment performed relatively well due to improving data service revenues and a slowing of the rate of long distance revenue erosion.

- Voice local revenue is generated from access to the Company's network on a monthly subscription basis, from optional and pay-per-use services, and from voice contribution revenues. Voice contribution revenues represent TELUS' share of contribution pool funds for providing services in high cost areas. Local revenue for 2004 includes a positive adjustment of $10.2 million recorded in the second quarter of 2004 for CRTC Decision 2004-42. In the decision, TELUS was allowed to recover ongoing operating costs to support previously incurred local number portability and local competition capital investments. Excluding this adjustment, the local service decrease was primarily a result of a reduction in access lines, partly offset by implementation of approved rate increases for business single and multi-line services effective June 1, 2004. Interconnection revenue, contribution revenues and enhanced services revenues were relatively unchanged in 2004, when compared with 2003.

Residential network access lines continued to decrease as a result of competitive activity and technological substitution, including substitution to wireless services. Business lines decreased primarily as a result of incumbent local exchange carrier (ILEC) Centrex line losses to competition and migration to more efficient ISDN data services. It is expected that the trend of declining network access lines will worsen due to cable-TV competitors beginning to offer voice telephony services, and increased competition from new and existing VoIP competitors.

- Voice long distance revenue continued to decrease in 2004, but at a lower rate than the 5.4% revenue decrease observed in 2003, due primarily to non-incumbent minute growth. The decrease in revenue in 2004, when compared with 2003, was primarily a result of fewer consumer minutes, price competition, and technological substitution, partly offset by a $1 increase in certain monthly long distance plan administrative charges, effective June 2004, as well as increased non-incumbent long distance minute volumes. Price competition and substitution to alternative technologies are expected to continue.
- Communications segment data revenues include Internet access, hosting and applications, local area network/wide area network (LAN/WAN), gateway service, internetworking and remote access, managed information technology (IT) services, and legacy data services such as private line, switched data services, data local access and data equipment sales. TELUS' November 2004 acquisition of ADCOM, Inc. added $4.6 million of revenue in 2004, while in 2003 TELUS divested certain application development assets, which had 2003 revenues of $17.8 million.

  Internet and enhanced data service revenues increased by $63.1 million in 2004, when compared with 2003, primarily as a result of the 22.8% increase in the high-speed Internet subscriber base over the last 12 months and traction gained from contracts with new customers, partly offset by an 11.9% reduction in dial-up subscribers over the last 12 months. Managed workplace revenues increased by $28.9 million, due to providing higher functional outsourcing services and technology upgrades for TELUS' customers. Other data services and equipment sales decreased by $30.5 million in 2004.
- Other revenue decreased in 2004, when compared with 2003, primarily as a result of lower late payment fees, lower voice equipment sales and the conclusion in the first quarter of 2004 of amortization of deferred individual line service grant revenues (annual impact $6.7 million). Individual line service grants were provided in respect of the conversion of multi-party lines to single lines in high cost rural areas in Alberta in the early 1990s.
- Intersegment revenue represents services provided by the Communications segment to the Mobility segment. These revenues are eliminated upon consolidation together with the associated expense in TELUS Mobility.

Total external operating revenue discussed above included non-ILEC revenues of $560.7 million in 2004, as compared with $555.4 million in 2003. This reflects an increase of $5.3 million or 1.0% for the full year. The increase was primarily due to billings associated with a number of new multi-year contracts, including the TD Bank Financial Group and The Co-operators, a focus on recurring longer-term revenues and higher long distance traffic volume and prices, partly offset by lower equipment sales in 2004 and reduced revenues due to divestiture of certain application development assets in 2003. Non-ILEC revenues increased year-over-year in the third and fourth quarters following declines in the first two quarters of the year. This reflects execution on the Company's objective to migrate away from non-recurring equipment sales toward recurring revenues.

**Operations expense – Communications segment**

| Years ended December 31 ($ millions except employees) | 2004 | 2003 | Change |
|---|---|---|---|
| Salaries, benefits and other employee-related costs | **1,650.1** | 1,616.9 | 2.1% |
| Other operations expenses | **1,214.8** | 1,235.3 | (1.7)% |
| Total operations expense | **2,864.9** | 2,852.2 | 0.4% |
| Full-time equivalent employees, end of period | **18,839** | 18,430 | 2.2% |

Salaries, benefits and employee-related cost increases were incurred primarily to maintain high service levels, but also increased for the provision of in-sourcing of payroll services to government and health care industry clients, the purchase of ADCOM and the establishment of a call centre in Montreal to handle calls previously outsourced to a third party. Full-time equivalent employees increased by 221 employees for the provision of payroll services to the Government of B.C. and from the purchase of ADCOM. The decrease in Other operations expense was due mainly to lower facility costs and call centre outsourcing costs, partly offset by increased network support and maintenance costs with third parties. These increases were partly offset by Operational Efficiency Program savings.

- Salaries, benefits and employee-related cost increases included:
  - (i) Costs associated with temporary staff, overtime, training and travel increased by $34.2 million for the full year 2004, when compared with 2003. This increase was related to activities to maintain high customer service levels, improve internal processes, emergency operations training, and an increased expenditure on leadership training and team development;
  - (ii) Additional costs of $24.6 million in 2004 for operating structure changes. These costs were for the new partnership with the Calgary Health Region, the establishment of the new Montreal call centre, the purchase of ADCOM, and a new agreement in which TELUS Sourcing Solutions will provide payroll services to the Government of B.C. These increased costs were partly offset by savings on outsourcing of $10.4 million, which are included in Other operations expense. Non-cash share-based compensation expense recognized commencing January 1, 2004, as discussed in *Section 8.2 Accounting policy developments*, was $23.8 million in 2004;

(iii) Base compensation and benefits increases; and
(iv) Partly offsetting the increases noted above were savings from the Operational Efficiency Program of approximately $60.0 million in 2004. Communications segment pension expense for defined benefit and defined contribution plans decreased by $27.2 million, primarily as a result of increased investment returns.

- Other operations expenses were inclusive of additional Operational Efficiency Program savings of approximately $24.0 million in 2004, and decreased when compared with 2003, principally due to:
  (i) Reduced facilities, transit and termination costs, which decreased by $40.2 million due to lower rates for domestic, U.S. and international traffic termination, as well as migration to the IP network, partially offset by higher outbound traffic volumes;
  (ii) A lower bad debt expense that decreased by $16.4 million as a result of stringent enforcement of credit policy, more effective collection practices and reduced loss exposure;
  (iii) Increased capitalized labour of $15.4 million related to higher capital expenditure activity and more effective utilization of the workforce; and
  (iv) The above-noted expense reductions were partially offset by expense increases associated with network support and maintenance costs with third parties, product and service cost of sales due to higher associated revenue, advertising and promotion costs associated with the premier corporate citizen campaign and additional sponsorship costs, higher contract and consulting costs primarily due to increased use of Accenture information technology resources, partly offset by in-sourcing of certain call centre operations. All other costs collectively increased in line with inflation.

Included in the total segment expenses discussed above are non-ILEC operations expenses of $582.9 million in 2004, as compared with $584.1 million in 2003. Non-ILEC operations expense decreased primarily due to lower costs of sales associated with lower equipment sales, migration of domestic traffic to TELUS' IP-based network and a lower bad debt expense, partly offset by increased expenses from the acquisition of ADCOM, increased salaries and benefits, and increased wholesale transit and termination costs for higher outbound international and U.S. traffic volumes.

**Restructuring and workforce reduction costs – Communications segment**

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **52.6** | 28.3 | 85.9% |

Restructuring costs in 2004 include the following activities in the Communications segment:

- In the first quarter of 2004, a departmental reorganization was initiated, primarily in the Communications segment information technology resources area, consolidating from 15 locations to two primary locations. This reorganization, which had an implementation cost in 2004 of approximately $12 million, is expected to enable greater efficiencies of scale and effectiveness of program delivery.
- In the third quarter of 2004, a departmental reorganization was initiated in the Communications segment with the merging of two customer-facing business units. The resulting integration and consolidation aimed to improve the Company's competitiveness as well as its operating and capital productivity. This reorganization had an implementation cost in 2004 of approximately $24 million.
- In addition to the foregoing initiatives, the Company undertook additional activities in 2004 aimed at improving its operating and capital productivity and competitiveness. These additional activities had a cost in 2004 of approximately $16 million.

At December 31, 2004, no future costs remain to be recorded under the Operational Efficiency Program (2001 to 2003). Cumulative annual cost structure reductions in the Communications segment under the Operational Efficiency Program were approximately $538 million by December 31, 2004, or over 97% of the $550 million target set in mid-2002.

**EBITDA and EBITDA margin – Communications segment**

| Years ended December 31 | 2004 | 2003 | Change |
|---|---|---|---|
| EBITDA ($ millions) | **1,948.4** | 2,000.4 | (2.6)% |
| EBITDA margin (%) | **40.0** | 41.0 | (1.0) pt |

While Communications segment data revenue increased in 2004, when compared with 2003, EBITDA and EBITDA margin decreased due to higher restructuring charges, decreasing voice revenues and operations expense growth rates exceeding overall revenue growth rates. Non-ILEC EBITDA turned positive in the fourth quarter of 2004, while for the full year of 2004, non-ILEC EBITDA losses decreased by 22.6%.

Communications segment capital expenditures are discussed in *Section 7.2 Cash used by investing activities*.

## 5.5 Mobility segment results

### Operating revenues – Mobility segment

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| Network revenue | **2,599.9** | 2,183.7 | 19.1% |
| Equipment revenue | **212.0** | 175.9 | 20.5% |
| External operating revenue | **2,811.9** | 2,359.6 | 19.2% |
| Intersegment revenue | **21.5** | 15.7 | 36.9% |
| Total operating revenue | **2,833.4** | 2,375.3 | 19.3% |

### Key operating indicators – Mobility segment

| At December 31 (000s) | 2004 | 2003 | Change |
|---|---|---|---|
| Subscribers – postpaid | **3,240.3** | 2,811.8 | 15.2% |
| Subscribers – prepaid | **696.1** | 612.2 | 13.7% |
| Subscribers – total(1) | **3,936.4** | 3,424.0 | 15.0% |
| Digital POPs(2) covered including roaming/resale (millions)(3) | **30.0** | 29.5 | 1.7% |

| Years ended December 31 (000s) | 2004 | 2003 | Change |
|---|---|---|---|
| Subscriber net additions – postpaid | **428.5** | 321.2 | 33.4% |
| Subscriber net additions – prepaid | **83.9** | 109.9 | (23.7)% |
| Subscriber net additions – total | **512.4** | 431.1 | 18.9% |
| Churn, per month (%)(4) | **1.40** | 1.46 | (0.06) pts |
| COA(5) per gross subscriber addition ($)(4) | **389** | 430 | (9.5)% |
| ARPU ($)(4) | **60** | 57 | 5.3% |
| Average minutes of use per subscriber per month (MOU) | **384** | 350 | 9.7% |
| EBITDA to network revenue (%) | **43.9** | 37.3 | 6.6 pts |
| Retention spend to network revenue(4) (%) | **5.1** | 4.7 | 0.4 pts |
| EBITDA ($ millions) | **1,142.2** | 815.4 | 40.1% |
| EBITDA excluding COA ($ millions)(4) | **1,578.0** | 1,240.0 | 27.3% |

pts – percentage points

(1) Subscribers are measured at the end of the reporting period based on information from billing systems.
(2) POPs is an acronym for population. A POP refers to one person living in a population area, which in whole or substantial part is included in the coverage areas.
(3) At December 31, 2004, TELUS Mobility PCS digital population coverage was 22.5 million and 30.0 million including the roaming/resale agreements principally with Bell Mobility and Aliant Telecom Wireless.
(4) See *Section 11.3 Definition of key operating indicators*. These are industry measures useful in assessing operating performance of a wireless company, but are not defined under accounting principles generally accepted in Canada and the U.S.
(5) Cost of acquisition.

- TELUS Mobility Network revenue is generated from monthly billings for access fees, incremental airtime charges, prepaid time consumed or expired, wireless Internet services and fees for value-added services. Network revenue increased by 19.1% in 2004, when compared with 2003. This growth was a result of the continued expansion of the subscriber base by 15.0% in 2004 to approximately 3.9 million subscribers, combined with increased ARPU. As a result of an increase in average minutes of use per subscriber per month, an increase in roaming revenue, continued pricing discipline, and increased usage of data and Internet based products, including picture and text messaging, ARPU increased to $60 per month, $3 higher than in 2003.

  Average minutes of use per subscriber per month increased by 9.7% in 2004. At December 31, 2004, postpaid subscribers represented 82.3% of the total cumulative subscriber base remaining stable from one year earlier, contributing to the ARPU premium TELUS Mobility enjoys over its competitors. Postpaid subscriber net additions of 428,500 in 2004 represented 83.6% of total net additions, as compared with 74.5% for the same period in 2003, driven by six consecutive quarters of year-over-year positive net postpaid subscriber growth. Subscriber net additions of 512,400 in 2004 set a new record for TELUS Mobility.

  Blended postpaid and prepaid churn improved in 2004. Deactivations were 608,300 in 2004, as compared with 556,100 in 2003. These churn and deactivation results reflect a continued focus on client care including loyalty and retention efforts, value-added solutions and superior network quality providing the growing subscriber base with an exceptional service experience. Combined with the higher ARPU and improved churn, the lifetime revenue per subscriber increased in 2004 when compared with 2003.
- Equipment sales, rental and service revenue increased in 2004, when compared to 2003. Handset revenue increased mainly due to subscriber growth from a stronger wireless market, increased promotional, retention and contracting activity, and to a lesser extent, a shift in product mix to higher priced handsets. Gross subscriber additions grew to 1,120,700 for the full year of 2004, as compared to 987,200 in 2003. Handset revenues associated with gross subscriber activations are netted against costs in the calculation of COA per gross subscriber addition.
- Intersegment revenues represent services provided by the Mobility segment to the Communications segment and are eliminated upon consolidation along with the associated expense in TELUS Communications.

**Operations expense – Mobility segment**

| Years ended December 31 ($ millions except employees) | 2004 | 2003 | Change |
|---|---|---|---|
| Equipment sales expenses | **424.7** | 378.7 | 12.1% |
| Network operating expenses | **401.1** | 371.0 | 8.1% |
| Marketing expenses | **329.2** | 297.4 | 10.7% |
| General and administration expenses | **536.2** | 512.8 | 4.6% |
| Total operations expense | **1,691.2** | 1,559.9 | 8.4% |
| Full-time equivalent employees, end of period | **5,915** | 5,387 | 9.8% |

TELUS Mobility has been able to achieve significant economies of scale as evidenced by the 8.4% increase in total operations expense compared to Network revenue growth of 19.1% and subscriber growth of 15.0%.

- Expenses related to equipment sales increased in 2004 when compared with 2003, principally due to an increase in gross subscriber activations, more expensive handset costs and higher retention activity, partly offset by favourable foreign exchange rates. TELUS Mobility did hedge its foreign exchange rates for a certain proportion of its handset purchases. The increase in handset volume related in part to fourth quarter marketing promotions including a new high-resolution camera phone and other video phones. Handset costs associated with gross subscriber activations are included in the calculation of COA per gross subscriber addition.
- Network operating expenses consist of site-related expenses, transmission costs, spectrum licence fees, contribution revenue taxes, and other direct costs related to network operations. Transmission and site-related expenses increased to support the greater number of cell sites, a larger subscriber base, and improved network quality and coverage. Industry Canada spectrum licence fees were higher in 2004 principally due to a $6.4 million credit received during 2003, as part of a retroactive filing with Industry Canada for years prior to 2003. Network costs, once normalized for these events, increased by 6.3% over 2003. Further, network roaming costs increased by $15.2 million in 2004, as compared to 2003, largely due to higher volumes as well as successful marketing efforts in non-urban roaming/resale areas. TELUS Mobility believes this variable cost increase is reflective of the overall positive industry trend of subscriber growth and increased subscriber usage evidenced in the ongoing strength of Network revenue growth. Finally, in an effort to contain Network costs, TELUS Mobility negotiated improved roaming rates and continued to build out microwave facilities aimed at reducing future leased line transmission costs. The digital population coverage grew to 30 million at December 31, 2004, as a result of continued activation of digital roaming regions and network expansion.
- Marketing expenses increased primarily due to higher dealer compensation costs and advertising expenses associated with the expanded subscriber base and increased re-contracting activity. Despite the higher marketing expenses and significant subscriber growth, COA per gross subscriber addition improved by 9.5% to $389 in 2004, as compared with 2003.
- General and administration expenses consist of employee compensation and benefits, facilities, client services, bad debt and various other expenses. General and administration expenses increased by only 4.6% in 2004. TELUS Mobility increased full-time equivalent employees to support the significant growth in the subscriber base and continued expansion of the client care team and Company-owned retail stores, partly offset by a lower bad debt expense due to reduced loss experience.

**EBITDA and EBITDA margin – Mobility segment**

| Years ended December 31 | 2004 | 2003 | Change |
|---|---|---|---|
| EBITDA ($ millions) | **1,142.2** | 815.4 | 40.1% |
| EBITDA margin (%) | **40.3** | 34.3 | 6.0 pts |

Significant growth in TELUS Mobility EBITDA and EBITDA margin was attributed to its strategic focus on profitable subscriber growth. This was accomplished by achieving increased ARPU, a lower COA per gross subscriber addition, maintenance of a world-class churn rate, and successful cost containment efforts during the year, which offset the near-term dilutive impact of generating record subscriber net additions. The EBITDA margin, when calculated as a percentage of Network revenue, improved to 43.9% in 2004 as compared with 37.3% in 2003, representing a significant increase of 6.6 percentage points. Incremental Network revenue flowed through to EBITDA at a rate of 78.5% in 2004, as compared to 84.8% in 2003.

Mobility segment capital expenditures are discussed in *Section 7.2 Cash used by investing activities*.

# 6 financial condition

The following are the significant changes in the Consolidated balance sheets between December 31, 2003 and December 31, 2004.

| Years ended December 31<br>($ millions) | 2004 | 2003 | Change | Explanation |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and temporary investments, net | **896.5** | 6.2 | 890.3 | See *Section 7 Liquidity and capital resources* |
| Accounts receivable | **863.5** | 723.8 | 139.7 | Changes due to a reduction in securitized accounts receivables and increased Mobility billings partly offset by lower wireline trade receivables due to improved collection processes. *See Section 7.6 Accounts receivable sale* |
| Income and other taxes receivable | **132.5** | 187.4 | (54.9) | Decreased due to the receipt of tax settlements |
| Inventories | **133.3** | 123.5 | 9.8 | Increase in wireless handset inventory partly offset by reduced wireline consumer retail inventory |
| Prepaid expenses and other | **183.4** | 172.4 | 11.0 | Increase in prepaid maintenance contracts |
| Current portion of future income taxes | **438.4** | 304.0 | 134.4 | Expected increase in the use of loss carry forward amounts over next 12 months |
| **Current Liabilities** | | | | |
| Accounts payable and accrued liabilities | **1,362.6** | 1,294.5 | 68.1 | Increased payroll and other liabilities |
| Restructuring and workforce reduction accounts payable and accrued liabilities | **70.7** | 141.0 | (70.3) | Decreased as payments from previous programs exceeded new obligations |
| Dividends payable | **–** | 53.5 | (53.5) | Remittance of the fourth quarter 2004 dividend on December 31, 2004 |
| Advance billings and customer deposits | **531.5** | 445.0 | 86.5 | Increase in price cap deferred revenue and billings due to subscriber growth |
| Current maturities of long-term debt | **4.3** | 221.1 | (216.8) | Maturities in 2005 are primarily capital leases. See *Section 7.3 Cash used by financing activities* |
| **Working capital**(1) | **678.5** | (637.8) | 1,316.3 | Primarily reflects accumulation of cash, and lower debt maturities in 2005 |
| **Capital Assets, Net** | **11,221.0** | 11,563.6 | (342.6) | See *Sections 5.3 Consolidated results of operations – Depreciation and amortization* and *7.2 Cash used by investing activities* |
| **Other Assets** | | | | |
| Deferred charges | **704.4** | 610.7 | 93.7 | Primarily due to increased transitional pension assets and pension plan contributions in excess of charges to income partly offset by $25.1 million repayment of service and access fees by Verizon |
| Future income taxes | **99.8** | 626.0 | (526.2) | Reflects use of loss carry forward amounts |
| Investments | **38.4** | 41.9 | (3.5) | Consists of a number of small portfolio investments, of which certain investments were monetized in 2004 |
| Goodwill | **3,126.8** | 3,118.0 | 8.8 | The increase resulted from a small acquisition in 2004. No impairment was required following an annual impairment test for goodwill |
| **Long-Term Debt** | **6,332.2** | 6,609.8 | (277.6) | The decrease is primarily lower Canadian dollar value of U.S. dollar denominated Notes. See *Section 7.6 Liquidity and capital resource measures* |
| **Other Long-Term Liabilities** | **1,506.1** | 1,173.7 | 332.4 | Primarily an increase in the deferred hedging liability. See *Section 7.6 Liquidity and capital resource measures* |
| **Future Income Taxes** | **991.9** | 1,007.0 | (15.1) | Includes tax recoveries on amortization and revaluation for Alberta provincial tax decrease |
| **Non-Controlling Interest** | **13.1** | 10.7 | 2.4 | Increase in minority partners' share of earnings in several small subsidiaries |
| **Shareholders' Equity** | | | | |
| Convertible debentures | **8.8** | 8.8 | – | Value of the convertible debentures conversion option |
| Preference and preferred shares | **–** | 69.7 | (69.7) | See *Section 7.3 Cash used by financing activities* |
| Common equity | **7,016.8** | 6,442.7 | 574.1 | See *Section 7.3 Cash used by financing activities* |

(1) Current assets subtracting Current liabilities, is an indicator of the ability to finance current operations and meet obligations as they fall due.

# 7 liquidity and capital resources

### 7.1 Cash provided by operating activities

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **2,538.1** | 2,133.8 | 18.9% |

Cash provided by operating activities increased in 2004, when compared with 2003, principally due to improved operating profitability, lower payments under restructuring programs, the recovery of income taxes associated with settlement of tax matters (including interest income), and lower interest expense, partly offset by an increase in contributions to defined benefit plans.

- EBITDA increased by $274.8 million in 2004, when compared with 2003. EBITDA includes a non-cash share-based compensation expense of $23.8 million in 2004 ($nil in 2003) as a result of adopting the amended recommendations of the Canadian Institute of Chartered Accountants (CICA) for accounting for share-based compensation – see *Section 8.2 Accounting policy developments*.
- Restructuring and workforce reduction payments decreased by $164.8 million in 2004, when compared with 2003. The decrease was primarily from winding down the 2001 to 2003 Operational Efficiency Program and lower associated payments, partly offset by payments under new restructuring initiatives.
- Income taxes received increased by $29.1 million as the cash recovery of income taxes and investment tax credits net of tax installments was $194.6 million in 2004, compared with $165.5 million in 2003.
- Interest paid decreased by $24.6 million in 2004, when compared with 2003, as a result of debt repayments.
- TELUS received $33.3 million from Verizon, recorded as a reduction of prepaid and deferred services. The $33.3 million was part of the $148.1 million (US $125 million) received when the independent Directors of TELUS agreed to facilitate the divestiture by Verizon of its entire 20.5% equity interest in TELUS.
- Non-cash working capital included changes in proceeds from securitized accounts receivable. In 2004, the Company made payments of $150 million to reduce securitized accounts receivables, compared with payments of $175 million in 2003.

Partly offsetting the above increases were:

- Employer contributions to employee defined benefit plans increased by $37.0 million, in 2004, when compared with 2003. The increase reflects updated actuarial valuations and the net acceleration of discretionary funding.
- A decrease in interest received of $14.3 million in 2004, when compared with 2003. Interest received in both years was primarily from the settlement of tax matters, as well as from interest earned on cash and temporary investments.

### 7.2 Cash used by investing activities

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **1,299.5** | 1,197.8 | 8.5% |

Cash used by investing activities increased in 2004, when compared with 2003, primarily as a result of increased capital expenditures. The Company also received proceeds of $27.6 million in 2004 from the sale of non-strategic assets, including several real estate properties. In 2003, the Company disposed of non-strategic properties and monetized an investment for total proceeds of $51.2 million. Funds used for other investing activities in 2004 included TELUS' purchase of ADCOM, Inc.

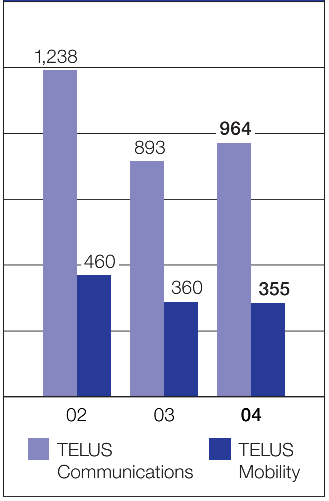
**Capital expenditures by segment**

| Years ended December 31 ($ in millions except capital expenditure intensity) | 2004 | 2003 | Change |
|---|---|---|---|
| Communications segment | **964.3** | 892.8 | 8.0% |
| Mobility segment | **354.7** | 359.9 | (1.4)% |
| TELUS consolidated | **1,319.0** | 1,252.7 | 5.3% |
| Capital expenditure intensity (%)(1) | **17.4** | 17.5 | (0.1) pts |

(1) Capital expenditure intensity is measured by dividing capital expenditures by operating revenues. This measure provides a method of comparing the level of capital expenditures to other companies of varying size within the same industry.

- Communications segment ILEC capital expenditures increased by 7.3% to $826.4 million in 2004, when compared with 2003. The increase was due to significant investments in internal systems and processes, as well as investments in network infrastructure to improve customer service and network reliability, the development of new services, and the delivery of services to new customers. In addition, capital spending in early 2003 was constrained by the impact of the Operational Efficiency Program, which temporarily delayed certain projects. Expenditures for high-speed Internet facilities (or ADSL) were relatively flat at $95.7 million in 2004, consistent with more moderate subscriber growth.

**segmented capital expenditures** ($ millions)




Non-ILEC capital expenditures increased by 12.4% to $137.9 million in 2004, when compared with 2003. The increase in non-ILEC expenditures was primarily to support the Company's IP strategy and delivery of services to new customers, which included implementation of several large contracts.

The Communications segment capital expenditure intensity ratio was 19.8% in 2004, compared with 18.3% in 2003. Cash flow (EBITDA less capital expenditures) decreased by 11.2% to $984.1 million in 2004, when compared to 2003, mainly due to higher capital spending and increased restructuring charges.

- Mobility segment capital expenditures decreased by 1.4% in 2004 when compared with 2003. TELUS Mobility continued the enhancement of digital wireless coverage and continued building microwave facilities during 2004 aimed at reducing future leased line transmission costs. Capital spending decreased from 2003 principally as a result of improved infrastructure equipment costs and a stronger Canadian dollar.

  Capital expenditure intensity for TELUS Mobility decreased to 12.5% in 2004 from 15.2% in 2003, due primarily to significant growth in Network revenues. As a result of continued strong growth in EBITDA and reduced capital expenditure intensity, Mobility generated cash flow (EBITDA less capital expenditures) of $787.5 million as compared with $455.5 million in 2003.

Consolidated cash flow (EBITDA less capital expenditures) increased by 13.3% to $1,771.6 million in 2004, when compared with 2003.

### 7.3 Cash used by financing activities

| Years ended December 31 ($ millions) | 2004 | 2003 | Change |
|---|---|---|---|
| | **348.3** | 920.8 | (62.2)% |

Cash used by financing activities decreased in 2004, when compared with 2003, due primarily to lower scheduled debt redemptions in 2004. Financing activities included the following:

- Proceeds from Common Shares and Non-Voting Shares issued increased by $62.2 million in 2004. Shares were issued from treasury under the employee share purchase plan and under share-based compensation plans in 2003 and 2004. In addition, 2004 proceeds included those from the exercise of warrants. Effective November 1, 2004, TELUS began to purchase employee share purchase plan shares in the market rather than issuing from treasury.
- In the fourth quarter of 2004, TELUS received $114.8 million from Verizon, part of the $148.1 million (US $125 million) received when the independent Directors of TELUS agreed to facilitate the divestiture by Verizon of its 20.5% equity interest in TELUS.
- Cash dividends paid to shareholders increased by $76.7 million in 2004, when compared with 2003. The increase in cash dividends paid was primarily due to remittance of the fourth quarter 2004 dividend on December 31, 2004, while the dividend for the fourth quarter of 2003 was remitted in January 2004. The increase in dividends paid was also due to the five-cent increase in the dividend declared and paid in the fourth quarter of 2004 and a larger number of Common Shares and Non-Voting Shares outstanding. Commencing with the dividend declared in the fourth quarter, TELUS began to purchase dividend reinvestment plan shares in the market rather than issuing from treasury and the previous 3% plan discount was eliminated.

**Normal Course Issuer Bid to December 31, 2004**

| (number of shares) | Purchased and cancelled | Purchased, but not cancelled at December 31, 2004 | Total purchased for cancellation | Maximum permitted under the program |
|---|---|---|---|---|
| Common Shares | 655,711 | 120,000 | **775,711** | 14,000,000 |
| Non-Voting Shares | 1,300,000 | 151,400 | **1,451,400** | 11,500,000 |
| | 1,955,711 | 271,400 | **2,227,111** | 25,500,000 |

- TELUS' Normal Course Issuer Bid for the repurchase of its Common Shares and Non-Voting Shares was accepted by the Toronto Stock Exchange, and commenced December 20, 2004. The repurchase program enables TELUS to repurchase on the market, over a 12-month period, up to a maximum of 14.0 million Common Shares and 11.5 million Non-Voting Shares, representing approximately 7% of the issued and outstanding Common Shares and Non-Voting Shares. In December 2004, TELUS purchased for cancellation Common Shares and Non-Voting Shares for a total outlay of $78.0 million, of which $39.3 million was recorded as a reduction to share capital and $38.7 million, representing the amount in excess of book value, was recorded as a reduction to retained earnings. The maximum number of shares that can be repurchased in any 30-day period is 2% of the issued and outstanding shares of each class of shares.

- The redemption of all of the publicly held TELUS Communications Inc. Preference and Preferred Shares was completed by August 3, 2004 for an outlay of $72.8 million.
- Debt redemptions in 2004 included $189.5 million of TELUS Communications Inc. Series A Debentures and $20 million of TELUS Communications Inc. Medium-term Notes. The maximum outstanding bank facility balance of $34 million was repaid in full in the first quarter of 2004.

### 7.4 Liquidity and capital resource measures

| Period ended December 31 | 2004 | 2003 | Change |
|---|---|---|---|
| **Components of debt and coverage ratios**(1) | | | |
| Net debt ($ millions) | **6,477.7** | 7,570.5 | (1,092.8) |
| Total capitalization – book value ($ millions) | **13,516.4** | 14,102.4 | (586.0) |
| EBITDA (excluding restructuring) ($ millions) | **3,143.2** | 2,844.1 | 299.1 |
| Net interest cost ($ millions) | **613.3** | 639.3 | (26.0) |
| **Debt ratios** | | | |
| Fixed rate debt as a proportion of total indebtedness (%) | **93.2** | 100.0 | (6.8) |
| Average term to maturity of debt (years) | **5.4** | 6.2 | (0.8) |
| Net debt to total capitalization (%)(1) | **47.9** | 53.7 | (5.8) |
| Net debt to EBITDA(1) | **2.1** | 2.7 | (0.6) |
| **Coverage ratios**(1) | | | |
| Earnings coverage | **2.3** | 1.7 | 0.6 |
| EBITDA interest coverage | **5.1** | 4.4 | 0.7 |
| **Other measures** | | | |
| Free cash flow (fourth quarter, $ millions) | **121.9** | 71.5 | 50.4 |
| Free cash flow ($ millions)(2) | **1,297.3** | 844.9 | 452.4 |
| Dividend payout ratio (%)(1) | **41** | 65 | (24) |

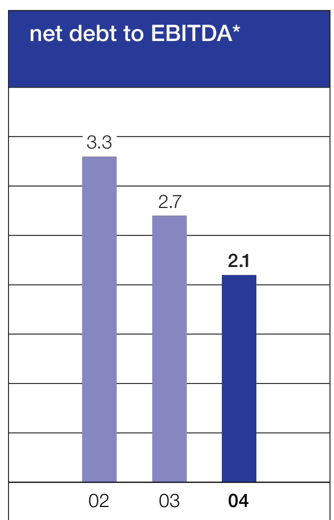
(1) See *Section 11.4 Definition of liquidity and capital resource measures*.
(2) See *Section 11.2 Free cash flow*.

The balance of Long-term Debt and Current maturities of Long-term Debt was $6,336.5 million as at December 31, 2004, a decrease of $494.4 million from December 31, 2003. The lower debt balance was due to redemptions and a $291.9 million decrease in the Canadian dollar value of U.S. dollar denominated Notes, as the Canadian dollar appreciated against the U.S. dollar by approximately 7.3% during 2004. TELUS' U.S. dollar debt is fully hedged, resulting in a corresponding increase of $291.9 million being recorded in the deferred hedging liability.

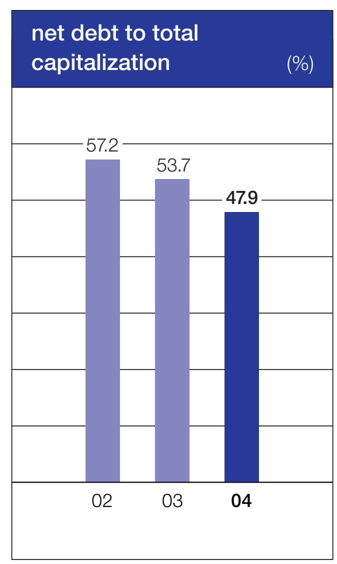
While the amount of utilized bank facilities decreased to $nil from $7.0 million one year earlier, TELUS converted $500 million of debt from a fixed rate to a floating rate basis during the first half of 2004, reducing the proportion of fixed rate debt. The net debt to total capitalization ratio measured at December 31, 2004 decreased, when compared with one year earlier, primarily as a result of debt repayments and increased common equity. The net debt to EBITDA ratio measured at December 31, 2004 improved significantly, when compared with one year earlier, as a result of debt reduction and an increase in 12-month trailing EBITDA (excluding restructuring).

The earnings coverage ratio improved significantly because of the improvement in income before interest and taxes and decreased interest on total debt. The EBITDA interest coverage ratio improved as a result of higher EBITDA (excluding restructuring) and lower interest costs, partly offset by lower interest income. The Free cash flow measure for the year ended December 31, 2004 increased, when compared with one year earlier, primarily because of improved EBITDA, higher tax recoveries, lower payments under restructuring programs and lower net interest payments, partly offset by increased capital expenditures.

As announced in October 2004, on a prospective basis, the Company has set a target guideline for the annual dividend payout ratio of 45 to 55% of net earnings. The annualized effective payout ratio of 20 cents per share per quarter is in the range of 43 to 48% based upon the annual 2005 targets for basic earnings per share of $1.65 to $1.85.



*EBITDA (excluding restructuring)



### 7.5 Credit facilities

The following are the credit facilities available to TELUS at December 31, 2004:

**Credit facilities**

| At December 31, 2004 ($ millions) | Expiry | Available | Drawn | Outstanding undrawn letters of credit |
|---|---|---|---|---|
| Revolving credit facility(1) | May 7, 2008 | 800.0 | – | 102.6 |
| 364-day revolving facility(2) | May 6, 2005 | 800.0 | – | – |
| Other bank facilities | – | 74.0 | – | 7.2 |
| Total | – | 1,674.0 | – | 109.8 |

(1) Canadian dollars or U.S. dollar equivalent.
(2) Canadian dollars or U.S. dollar equivalent, extendible at the Company's option on a non-revolving basis for one year for any amounts outstanding on the May 6, 2005 anniversary date.

Including cash of $896.5 million and the credit facilities described in the table above, TELUS had unutilized available liquidity well in excess of $2.0 billion at December 31, 2004. TELUS' credit facilities contain customary covenants including a requirement that TELUS not permit its consolidated Leverage Ratio (Funded Debt to trailing 12-month EBITDA) to exceed 4.0:1 (approximately 2.1:1 at December 31, 2004) and not permit its consolidated Coverage Ratio (EBITDA to Interest Expense on a trailing 12-month basis) to be less than 2.0:1 (approximately 5.1:1 at December 31, 2004) at the end of any financial quarter. There are certain minor differences in the calculation of the Leverage Ratio and Coverage Ratio under the credit agreement as compared with the calculation of net debt to EBITDA and EBITDA interest coverage. The calculations are not expected to be materially different. The covenants are not impacted by revaluation of capital assets, intangible assets and goodwill for accounting purposes, and continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.

### 7.6 Accounts receivable sale

TELUS Communications Inc., a wholly owned subsidiary of TELUS, is able to sell an interest in certain of its receivables up to a maximum of $650 million and is required to maintain at least a BBB(low) credit rating by Dominion Bond Rating Service (DBRS), or the purchaser may require the sale program to be wound down. The necessary credit rating was exceeded by two levels at BBB(high) as of February 16, 2005. The proceeds of securitized receivables were $150 million at December 31, 2004, as compared with $300 million at December 31, 2003. It is necessary to retain a minimum of $150 million proceeds under this program to keep it active. Average proceeds from securitization were $181 million in 2004 and $453 million in 2003.

### 7.7 Credit ratings

On July 1, 2004, TELUS completed a reorganization affecting two wholly owned subsidiaries. TELUS Communications (Québec) Inc. (TCQ) transferred substantially all the assets and business of TCQ to TELUS Communications Inc. (TCI). Following this reorganization, DBRS upgraded the long-term credit ratings of the First Mortgage Bonds and Medium-term Notes assumed by TCI to BBB(high), matching other DBRS credit ratings for TCI.

In the fourth quarter of 2004, in response to the announcement that Verizon was selling all its TELUS Voting Shares and Non-Voting Shares, three of four rating agencies that cover TELUS issued updates or confirmations. Moody's Investors Service affirmed its Baa3 senior unsecured rating for TELUS Corporation and changed its outlook to positive from stable. DBRS confirmed its ratings for TELUS Corporation and TELUS Communications Inc. with a stable trend. Standard and Poor's (S&P) announced that its ratings were unchanged.

On February 10, 2005, S&P revised its outlook to 'positive' from 'stable' and affirmed its long-term corporate credit and senior unsecured ratings for TELUS and TCI. On February 17, 2005, DBRS again confirmed its ratings for TELUS Corporation and TELUS Communications Inc. with a stable trend.

| Credit rating summary | DBRS(1) | S&P(2) | Moody's(2) | Fitch(1) |
|---|---|---|---|---|
| **TELUS Corporation** | | | | |
| Senior bank debt | – | – | – | BBB |
| Notes | BBB | BBB | Baa3 | BBB |
| Convertible debentures | – | BBB– | – | BBB |
| **TELUS Communications Inc.** | | | | |
| Debentures | BBB(high) | BBB | – | BBB |
| Medium-term Notes | BBB(high) | BBB | – | BBB |
| First mortgage bonds | BBB(high) | A– | – | – |

(1) Outlook or trend 'stable.'
(2) Outlook 'positive.'

TELUS has an objective to preserve access to capital markets at a reasonable cost by maintaining investment grade credit ratings and targeting improved credit ratings in the range of BBB+ to A–, or the equivalent, in future.

### 7.8 Off-balance sheet arrangements and contractual liabilities

*Financial instruments (Note 4 of the Consolidated financial statements)*

During the first half of 2004, the Company entered into two series of hedging relationships to which hedge accounting has been applied: one series of hedging relationships results in fixing the Company's compensation cost arising from a specific grant of restricted stock units, and the other series results in the notional conversion of $500 million of the 2006 (Canadian Dollar) Notes from a fixed interest rate of 7.5% to a floating interest rate based upon the three-month Bankers' Acceptance Canadian Dollar Offered Rate plus a spread. TELUS intends to hedge its exposure with respect to share-based compensation arrangements granted in 2005 using cash-settled equity forward transactions.

As at December 31, 2004, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rates on US $48 million of fiscal 2005 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the Mobility segment.

*Fair value:* The fair values of the Company's long-term debt and convertible debentures are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated similarly. The fair value of the Company's debt at December 31, 2004 was estimated at $8,643.1 million ($8,698.8 million at December 31, 2003).

*Commitments and contingent liabilities*
*(Note 16 of the Consolidated financial statements)*
The Company has a number of commitments and contingent liabilities as quantified in the following table. For further information, refer to Note 16(c) of the Consolidated financial statements.

| | Long-term debt maturities | | | | | |
|---|---|---|---|---|---|---|
| ($ millions) | All except capital leases | Capital leases | Other long-term liabilities | Operating leases | Purchase obligations | Total |
| 2005 | 1.6 | 2.7 | 16.4 | 163.1 | 432.3 | 616.1 |
| 2006 | 1,584.4 | 2.1 | 28.8 | 145.3 | 126.8 | 1,887.4 |
| 2007 | 1,868.2 | 2.2 | 14.3 | 135.3 | 97.6 | 2,117.6 |
| 2008 | – | 2.8 | 14.6 | 120.0 | 76.7 | 214.1 |
| 2009 | – | 0.9 | 14.9 | 113.0 | 33.5 | 162.3 |
| Thereafter | 3,929.9 | – | 128.9 | 512.5 | 40.8 | 4,612.1 |
| Total | 7,384.1 | 10.7 | 217.9 | 1,189.2 | 807.7 | 9,609.6 |

- The Company has $70.7 million in outstanding commitments for its restructuring programs as at December 31, 2004. In addition, the Company disclosed in its guidance for 2005 that it expected to record approximately $100 million of restructuring and employee reduction costs in 2005 in support of ongoing efficiency initiatives.
- In accordance with CRTC Price Cap Decisions 2002-34 and 2002-43, the Company defers a portion of revenues in a deferral account, which at December 31, 2004, was $128.7 million. Due to the Company's use of the liability method of accounting for the deferral account, the CRTC Decision 2005-6, in respect of the Competitor Digital Network Access (CDNA), does not currently affect the Company's income statement. The mechanism for disposing of the balance in this deferral account, other than as already approved by the CRTC in Decision 2005-6 and previous decisions, is currently the subject of a CRTC proceeding.
- On May 21, 2004, the Canada Industrial Relations Board (CIRB) declared TELE-MOBILE COMPANY and TELUS Communications Inc. a single employer for labour relations purposes. The CIRB also determined that TELUS Mobility's non-unionized team members, predominantly located in Ontario and Quebec, performing work similar to their unionized TELUS Mobility counterparts in Alberta and British Columbia, should be included in the bargaining unit represented by the Telecommunications Workers Union. The application to the Federal Court of Appeal for judicial review of Decision 278 was heard in October 2004 and the Court subsequently dismissed the appeal in a December 16, 2004 decision. On February 14, 2005, TELE-MOBILE COMPANY and TELUS Communications Inc. applied to the Supreme Court of Canada for leave to appeal the Federal Court of Appeal's December 16, 2004, decision. Should the ultimate operational and financial impacts of Decision 278 differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Canadian GAAP requires the disclosure of certain types of guarantees and their maximum, undiscounted amounts. The maximum potential payments represent a worst-case scenario and do not necessarily reflect results expected by the Company. Guarantees requiring disclosure are those obligations that require payments contingent on specified types of future events; in the normal course of its operations, the Company enters into obligations which GAAP may consider to be guarantees. As defined by Canadian GAAP, guarantees subject to these disclosure guidelines do not include guarantees that relate to the future performance of the Company. As at December 31, 2004, the Company has no liability recorded in respect of performance guarantees, and $1.0 million (December 31, 2003 – $1.5 million) recorded in respect of lease guarantees. The maximum undiscounted guarantee amounts as at December 31, 2004, without regard for the likelihood of having to make such payment, were not significant.

In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The term of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of the obligations under such indemnification obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share would be 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. As well, should the CRTC take any action which would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred. At December 31, 2004, the Company has no liability recorded in respect of indemnification obligations.

A number of claims and lawsuits seeking damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, excepting items disclosed previously. See Note 16(f) of the Consolidated financial statements.

### 7.9 Related party transactions

*(Note 20 of the Consolidated financial statements)*

On November 30, 2004, Verizon and the Company entered into an agreement pursuant to which the Company's independent members of the Board of Directors agreed to facilitate the divestiture by Verizon of its 20.5% equity investment in the Company. Such agreement was necessary due to certain restrictive provisions in the Long Term Relationship Agreement, dated January 31, 1999, between Verizon and the Company. Such divestiture was effected by a public secondary offering of Verizon's entire equity interest in the Company on December 14, 2004; post divestiture, Verizon and the Company are no longer related parties for purposes of generally accepted accounting principles and Verizon no longer has a pre-emptive right to buy shares from treasury.

Pursuant to the agreement, and the amended agreement pursuant to which the Company acquires certain rights to Verizon's software, technology, services and other benefits, Verizon paid the Company $148.1 million (US $125 million). In conjunction with the divestiture, a number of agreements between Verizon and the Company were terminated or altered, including the amended and restated software and related technology and services agreement (SRT) pursuant to which the Company acquired certain rights to Verizon's software, technology, services and other benefits. The term of the SRT was extended to 2008. The Company will continue to have exclusive rights in Canada to specified Verizon trademarks, software and technology acquired prior to Verizon's divestiture of its investment in the Company and Verizon is required to continue to provide upgrade and support on the software and technology licensed to the Company. The annual fees payable by the Company under the SRT for the years 2005 to 2008 have been reduced from an aggregate of US $82 million to a nominal amount; Verizon and the Company remain committed to use each other's cross-border services where capabilities and customer requirements permit and the Company has been released from its obligation not to compete in the United States.

As of December 31, 2004, in aggregate, $312.1 million of specified software licences and a trademark licence have been acquired under the agreement and have been recorded as capital and other assets. These assets are valued at fair market value at the date of acquisition as determined by an arm's-length party's appraisal. The total commitment under the SRT was US $275 million (2003 – US $377 million) for the period 2001 to 2008 and the commitment remaining after December 31, 2004, as a result of the amendment, is a nominal amount (2003 – US $102 million).

### 7.10 Outstanding share information

The following is a summary of the outstanding shares for each class of equity at December 31, 2004 and at January 31, 2005. In addition, for January 31, 2005, the total number of outstanding and issuable shares is presented, assuming full conversion of convertible debentures, options and warrants.

| Class of equity security | Common Shares outstanding | Non-Voting Shares outstanding | Total Shares outstanding |
|---|---|---|---|
| At December 31, 2004 | | | |
| Common equity – Common Shares outstanding | 192,748,738 | – | 192,748,738 |
| Common equity – Non-Voting Shares outstanding | – | 165,803,123 | 165,803,123 |
| | 192,748,738 | 165,803,123 | 358,551,861(1) |
| At January 31, 2005 | | | |
| Common equity – Common Shares outstanding | 192,853,859 | – | 192,853,859 |
| Common equity – Non-Voting Shares outstanding | – | 167,396,834 | 167,396,834 |
| | 192,853,859 | 167,396,834 | 360,250,693 |
| Outstanding and issuable shares(2) at January 31, 2005 | | | |
| Common Shares and Non-Voting Shares outstanding | 192,853,859 | 167,396,834 | 360,250,693 |
| TELUS Corporation convertible debentures | – | 3,765,820 | 3,765,820 |
| Options | 2,926,123 | 24,855,697 | 27,781,820 |
| Warrants | – | 562,423 | 562,423 |
| Channel stock incentive plan | – | 176,950 | 176,950 |
| | 195,779,982 | 196,757,724 | 392,537,706 |

(1) For the purposes of calculating diluted earnings per share for the fourth quarter of 2004, the number of shares outstanding at December 31, 2004 was 362,104,496.
(2) Assuming full conversion and ignoring exercise prices.

# 8 critical accounting estimates and accounting policy developments

### 8.1 Critical accounting estimates

TELUS' significant accounting policies are described in Note 1 of the Consolidated financial statements. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**General**

- Unless otherwise specified in the discussion of the specific critical accounting estimates, the Company is not aware of trends, commitments, events or uncertainties that it reasonably expects to materially affect the methodology or assumptions associated with the critical accounting estimates, subject to the items identified in the Forward-looking statements section of this Management's discussion and analysis.
- In the normal course, changes are made to assumptions underlying all critical accounting estimates to reflect current economic conditions, updating of historical information used to develop the assumptions and changes in the Company's debt ratings, where applicable. Unless otherwise specified in the discussion of the specific critical accounting estimates, it is expected that no material changes in overall financial performance and financial statement line items would arise either from reasonably likely changes in material assumptions underlying the estimate or within a valid range of estimates, from which the recorded estimate was selected, were used.
- All critical accounting estimates are uncertain at the time of making the estimate and affect the following Consolidated income statement line items: income taxes (except for estimates about goodwill) and Common Share and Non-Voting Share income. Similarly, all critical accounting estimates affect the following Consolidated balance sheet line items: current assets (income and other taxes receivable); future income tax assets or liabilities; and shareholders' equity (retained earnings). Generally, the discussion of each critical accounting estimate does not differ between the Company's two segments: Communications and Mobility. The critical accounting estimates affect the Consolidated income statement and Consolidated balance sheet line items as follows:

| | Consolidated income statement | | | | |
|---|---|---|---|---|---|
| | Operating expenses | | | | |
| Consolidated balance sheet | Operations | Restructuring and workforce reduction costs | Depreciation | Amortization of intangible assets | Other expense, net |
| Accounts receivable | X | | | | |
| Inventories | X | | | | |
| Capital assets and goodwill[(1)] | | | X | X | |
| Investments | | | | | X |
| Payroll and other employee-related liabilities[(2)] | X | | X | X | |
| Restructuring and workforce reduction costs | | X | | | |
| Employee defined benefit pension plans[(2)] | X | | X | X | |

(1) Accounting estimate, as applicable to intangible assets with indefinite lives and goodwill, primarily affects the Company's Mobility segment.
(2) Accounting estimate impact due to internal labour capitalization rates.

### Accounts receivable

*General*

- The Company considers the business area that gave rise to the accounts receivable, performs statistical analysis of portfolio delinquency trends and performs specific account identification when determining its allowance for doubtful accounts. This information is also used in conjunction with current market-based rates of borrowing to determine the fair value of its residual cash flows arising from accounts receivable securitization. The fair value of the Company's residual cash flows arising from the accounts receivable securitization is also referred to as its 'retained interest'.
- Assumptions underlying the allowance for doubtful accounts include portfolio delinquency trends and specific account assessments made when performing specific account identification. Assumptions underlying the determination of the fair value of residual cash flows arising from accounts receivable securitization include those developed when determining the allowance for doubtful accounts as well as the effective annual discount rate.
- These accounting estimates are in respect of the Accounts receivable line item on the Company's Consolidated balance sheet comprising approximately 5% of total assets as at December 31, 2004. If the future were to adversely differ from management's best estimates of the fair value of the residual cash flows and the allowance for doubtful accounts, the Company could experience a bad debt charge in the future. Such a bad debt charge does not result in a cash outflow.

*Key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization*

- The estimate of the Company's fair value of its retained interest could materially change from period to period due to the fair value estimate being a function of the amount of accounts receivable sold, which can vary on a monthly basis. See Note 10 of the Consolidated financial statements for further analysis.

*The allowance for doubtful accounts*

- The estimate of the Company's allowance for doubtful accounts could materially change from period to period due to the allowance being a function of the balance and composition of accounts receivable, which can vary on a month-to-month basis. The variance in the balance of accounts receivable can arise from a variance in the amount and composition of operating revenues, from a variance in the amount of accounts receivable sold to the securitization trust and from variances in accounts receivable collection performance.

### Inventories

*The allowance for inventory obsolescence*

- The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging and current and future expectations with respect to product offerings.
- Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. The estimate of the Company's allowance for inventory obsolescence could materially change from period to period due to changes in product offerings and consumer acceptance of those products.
- This accounting estimate is in respect of the Inventory line item on the Company's Consolidated balance sheet, which comprises approximately 1% of total assets as at December 31, 2004. If the allowance for inventory obsolescence was inadequate, the Company could experience a charge to operations expense in the future. Such an inventory obsolescence charge does not result in a cash outflow.

### Capital assets and Goodwill

*General*

- The accounting estimates for Capital assets and Goodwill represent approximately 63% and 18%, respectively, of the Company's Consolidated balance sheet, as at December 31, 2004. If the Company's estimated useful lives of assets were incorrect, the Company could experience increased or decreased charges for amortization of intangible assets or depreciation in the future. If the future were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Company could potentially experience future material impairment charges in respect of its intangible assets with indefinite lives and goodwill. If intangible assets with indefinite lives were determined to have finite lives at some point in the future, the Company could experience increased charges for amortization of intangible assets. Such charges do not result in a cash outflow and of themselves would not affect the Company's immediate liquidity.

*The estimated useful lives of assets; the recoverability of tangible assets*

- The estimated useful lives of assets are determined by a continuing program of asset life studies. The recoverability of tangible assets is significantly impacted by the estimated useful lives of assets.
- Assumptions underlying the estimated useful lives of assets include timing of technological obsolescence, competitive pressures and future infrastructure utilization plans.

*The recoverability of intangible assets with indefinite lives; the recoverability of goodwill*

- Consistent with current industry-specific valuation methods, the Company uses a discounted cash flow model combined with a market-based approach in determining the fair value of its spectrum licences and goodwill. See Note 11(c) of the Consolidated financial statements for further discussion of methodology.
- The most significant assumptions underlying the recoverability of intangible assets with indefinite lives and goodwill include: future cash flow and growth projections including economic risk assumptions and estimates of achieving desired key operating metrics and drivers; future weighted average cost of capital; and annual earnings multiples. The significant factors impacting these assumptions include estimates of future market share, key operating metrics such as churn and ARPU, level of competition, technological developments, interest rates, market economic trends, debt levels and the cost of debt. See Note 11(c) of the Consolidated financial statements for a discussion of assumption sensitivity testing.

**Investments**

*The recoverability of long-term investments*

- The Company assesses the recoverability of its long-term investments on a regular, recurring basis. The recoverability of investments is assessed on a specific identification basis taking into consideration expectations about future performance of the investments and comparison of historical results to past expectations.
- The most significant assumptions underlying the recoverability of long-term investments are the achievement of future cash flow and operating expectations. The estimate of the Company's recoverability of long-term investments could materially change from period to period due to the recurring nature of the recoverability assessment and due to the nature of long-term investments (the Company does not control the investees).
- If the allowance for recoverability of long-term investments were inadequate, the Company could experience an increased charge to Other expense in the future. Such a provision for recoverability of long-term investments does not result in a cash outflow.

**Future income tax assets and future income tax liabilities**

*The composition of future income tax assets and future income tax liabilities*

- Future income tax assets and liabilities are comprised of temporary differences between the carrying amount and tax basis of assets and liabilities as well as tax losses carried forward. The timing of the reversal of the temporary differences is estimated and the tax rate substantively enacted for the period of reversal is applied to the temporary difference. The carrying amounts of assets and liabilities are based upon the amounts recorded in the financial statements and are therefore subject to accounting estimates that are inherent in those balances. The tax basis of assets and liabilities as well as tax losses carried forward are based upon the applicable income tax legislation, regulations and interpretations, all of which in turn are subject to interpretation. The timing of the reversal of the temporary differences is estimated based upon assumptions of expectations of future results of operations.
- Assumptions underlying the composition of future income tax assets and future income tax liabilities include expectations about future results of operations and the timing of reversal of deductible temporary differences and taxable temporary differences. These assumptions also affect classification between income and other taxes receivable and future income tax assets. See *Section 10.4 Risks and uncertainties – Tax matters*. The composition of future income tax assets and future income tax liabilities is reasonably likely to change from period to period because of the significance of these uncertainties.
- This accounting estimate is in respect of material asset and liability line items on the Company's Consolidated balance sheet comprising approximately 3% of total assets and 6% of total liabilities and shareholders' equity, respectively, as at December 31, 2004. If the future were to adversely differ from management's best estimate of future results of operations and the timing of reversal of deductible temporary differences and taxable temporary differences, the Company could experience material future income tax adjustments. Such future income tax adjustments do not result in immediate cash outflows and, of themselves, would not affect the Company's immediate liquidity.

**Accounts payable and accrued liabilities (payroll and other employee-related liabilities)**

*The accruals for payroll and other employee-related liabilities*

- As discussed elsewhere in this Management's discussion and analysis, TELUS Communications Inc. is in collective bargaining with the Telecommunications Workers Union. The outcome of achieving a new collective agreement could differ from the Company's accrued estimates and any variance from the estimates could be material. Also contained within the accruals for payroll and other employee-related liabilities is a significant accrual in respect of performance-based, employee incentive compensation that may vary by quarter based upon estimates of achieving the pre-determined annual corporate objectives.
- Assumptions underlying the accruals for payroll and other employee-related liabilities that are uncertain at the time of making the estimate include the outcome of the collective bargaining process in the settlement of the collective agreement, personal performance of employees, and operational and financial performance as compared to pre-determined annual business unit and corporate objectives.
- These accounting estimates are included in the operating expense line within the Company's Consolidated income statement. If the settlement of the collective agreement or performance objective achievement resulted in the Company's associated accrual being materially different, the immediate impact on the Company's financial position could impact liquidity and a material adjustment may be recorded in the results of operations.

**Restructuring and workforce reduction costs**

*The accruals for restructuring and workforce reduction costs*

- As required by generally accepted accounting principles, accruals for Restructuring and workforce reduction costs were built up from a sufficiently detailed action plan that included a cost estimate for each action therein.
- Assumptions underlying the accruals for Restructuring and workforce reduction costs that are uncertain at the time of making the estimate include the proportion of eligible participants accepting offers under the Operational Efficiency Program.
- This accounting estimate is in respect of a material line item on the Company's Consolidated income statement for the years ended December 31, 2004 and 2003. If accruals for Restructuring and workforce reduction costs were inadequate, the Company could experience an increased charge to operations expense in the future.

**Employee defined benefit pension plans**

*Certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets*

- The Company reviews industry practices, trends, economic conditions and data provided by actuaries when developing assumptions used in the determination of defined benefit pension costs and accrued pension benefit obligations. Pension plan assets are generally valued using market prices, however, some assets are valued using market estimates when market prices are not readily available. Defined benefit pension costs are also affected by the quantitative methods used to determine estimated returns on pension plan assets. Actuarial support is obtained for interpolations of experience gains and losses that affect the defined benefit pension costs and accrued benefit obligations. The discount rate, which is used to determine the accrued benefit obligation, is usually based upon the yield on long-term, high-quality fixed term investments as at October 1 of each year. The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by plans' target asset allocations. Future increases in compensation are based upon the current benefits policies and economic forecasts.
- Assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets include: discount rates, long-term rates of return for plan assets, market estimates and rates of future compensation increases. Material changes in overall financial performance and financial statement line items would arise from reasonably likely changes, because of revised assumptions to reflect updated historical information and updated economic conditions, in the material assumptions underlying this estimate. See Note 18(h) of the Consolidated financial statements for further analysis.
- This accounting estimate is in respect of a component of the largest operating expense line item on the Company's Consolidated income statement. If the future were to adversely differ from management's best estimate of assumptions used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets, the Company could experience future increased defined benefit pension expense. The magnitude of the immediate impact is lessened, as the excess of net actuarial gains and losses in excess of 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees of the plan.

### 8.2 Accounting policy developments

#### Share-based compensation

*(Note 2(a) of the Consolidated financial statements)*
Commencing with the Company's 2004 fiscal year, the amended recommendations of the CICA for accounting for share-based compensation (such amendments arising in 2003) (CICA Handbook Section 3870) apply to the Company. The Company has selected the modified-prospective transition method (also referred to as the retroactive application without restatement method), implemented effective January 1, 2004. To reflect the fair value of options granted subsequent to 2001, and vesting prior to 2004, certain components of common equity in the December 31, 2004, Consolidated balance sheet balances have been restated.

#### Equity settled obligations

*(Note 2(b) of the Consolidated financial statements)*
Commencing with the Company's 2004 fiscal year, the Company early adopted the amended recommendations of the CICA for the presentation and disclosures of financial instruments (CICA Handbook Section 3860) specifically concerning the classification of obligations that an issuer can settle with its own equity instruments (such amendments arising in 2003). The amendments result in the Company's convertible debentures being classified as a liability on the Consolidated balance sheets (previously classified as a component of equity) and the associated interest expense correspondingly being classified with financing costs on the Consolidated statements of income (previously recorded net of income taxes as an adjustment to retained earnings). The conversion option embedded in the convertible debentures continues to be presented as a component of shareholders' equity. As required, these amended recommendations have been applied retroactively. As a result of the reclassification of convertible debentures, minor changes were effected in historical Net debt to EBITDA ratios, and historical Net debt to total capitalization ratios. The reclassification of the associated interest expense also resulted in minor changes in historical EBITDA interest coverage ratios.

#### Rate regulation disclosure

The Company early adopted the proposed guidelines of the CICA for disclosure by entities subject to rate regulation. See Note 3 of the Consolidated financial statements.

# 9 looking forward to 2005

### 9.1 General outlook

Setting the stage for 2005 was significant consolidation activity in the Canadian telecommunications industry that took place in 2004 combined with the market introduction of new telecom services by new competitive entrants facilitated by new technologies such as voice over IP (VoIP).

In February, Manitoba Telecom Services (MTS) sold its equity position in Bell West to BCE. In March, MTS announced the acquisition of Allstream reorienting its out-of-region growth strategy from the West to national in order to compete directly with Bell in the Eastern Canadian business market. In November, BCE acquired the assets of 360networks to support growth in Western Canada and to access its tax losses. In the wireless sector, Rogers Communications Inc. acquired Microcell in November, which took the wireless sector from a four to a three facilities-based player market.

Rogers Communications also acquired U.S.-based AT&T Corporation's stake in Rogers Wireless and took the company private by purchasing the remaining minority interest. The move by U.S. companies to focus on their domestic operations and to sell their equity stakes in Canadian telecommunications companies continued late in the year with the sale of Verizon's 20.5% interest in TELUS through a large, public secondary offering.

These consolidation developments marked a year in which the underlying telecommunications market displayed general trends similar to recent years with the wireless sector driving strong revenue growth and increased equity value, while wireline growth and value generally remained soft.

The Canadian telecom industry generated revenues of approximately $32 billion in 2004, with Bell Canada and its affiliated regional telecommunications companies representing about 50% of the total. As the second largest full-service telecommunications provider in Canada, TELUS generated $7.6 billion in 2004, or about 24% of the total.

Overall revenue growth in the Canadian telecom market in 2004 was approximately 3%, somewhat higher than the growth experienced in 2003, but with continued weakness in wireline voice, data, wholesale and business markets. Wireline local voice was flat, data was down slightly but showed some growth late in the year, and long distance continued to decline. Wireless was the growth engine for the sector, with industry revenues approximately 18% higher. As a result, TELUS, which has strategically focused on both wireless and data, outperformed the industry with 6% consolidated revenue growth.

It is expected that 2005 will be another year of transition for the Canadian telecommunications industry. Incumbent carriers expect increased competition for local voice and long distance as cable-TV companies prepare to launch IP telephony using VoIP. Wireless companies are expected to continue to focus on growth through subscriber additions and increased revenue from expansion of data services.

### Wireline

In 2005, the threat of VoIP to incumbent telecommunications companies is expected to emerge more strongly. In the past year, players such as Call-Net, Vonage, Primus and Navigata launched VoIP services in Canada for residential customers using other carriers' high-speed Internet infrastructure and facilities. Their impact has been somewhat muted with concerns over such issues as security and reliability. Cable-TV companies including Shaw Communications and Cogeco Cable have launched or announced plans to launch VoIP service offerings in 2005. They will use their own infrastructure to connect directly with customers and leverage their end-customer relationships and recognizable brands to market the service. The battle for the residential customer is expected to increasingly focus on the best bundled offerings of voice, Internet, TV/video and wireless that a company can deliver with reliability and superior customer service.

Residential access line growth will likely continue to be negatively impacted by the migration to wireless, decreases in second lines and substitution to cable-TV-based VoIP offerings. The market for long distance is likely to continue its declining trend, as VoIP providers introduce aggressively priced voice packages to entice customers to switch providers. Pending the outcome of a regulatory proceeding on the matter, incumbent telecoms are expected to react with their own VoIP offerings by continuing to introduce value bundles delivering enhanced functionality and convenience. TELUS is well positioned for these developments with its launch of the Future Friendly Home and a compelling set of fixed and mobile solutions for the residential customer, including the potential introduction of an IP-based TV service provided over TELUS' ADSL infrastructure.

At the end of 2004, the enterprise business market began showing signs of a modest rebound reflected by the resumption of data revenue growth. Voice and legacy data may continue to decline as in the past few years, but growth in business enhanced data service revenues should at least partially offset the trend, as small and medium business and enterprise clients look to upgrade legacy networks and equipment. Both these market segments are expected to adopt IP and managed services as a means to achieve operational savings, revenue generation and business innovation.

Canadian uptake for VoIP in the business market has been more subdued than anticipated. Most Canadian businesses consider VoIP as the next generation telecom solution and have been reluctant to adopt the new technology until it has been proven and matures. However, usage and adoption of VoIP is skewed towards the enterprise segment and it is expected that, by the end of 2005, approximately two-thirds of large businesses will be using some form of VoIP.

As customers migrate from legacy services to enhanced IP-based services, telecommunications providers anticipate pressure on overall wireline margins. The new products and services do not have the same profit margins as the legacy services and this transition will continue to pressure incumbent telephone companies' wireline EBITDA margins. Therefore, incumbent carriers are expected to continue to focus on operational cost efficiency and effective capital expenditure deployment to protect profitability and returns on investment.

Telecom providers are projected to migrate voice and data traffic to a single IP-based platform over the next several years, thereby achieving cost efficiencies while providing combined IP voice, data and video solutions. There will be a continued effort to look at the end-to-end delivery chain and fundamentally re-design the processes and systems associated with each element (ordering, provisioning, fulfillment, assurance, customer care, billing and collections) to improve productivity.

In 2005, the CRTC is expected to determine the VoIP regulatory rules for incumbent telecom companies and later in the year to commence proceedings on the regulatory framework for the next price cap period beginning in June 2006. The current CRTC price cap framework established in 2002, as well as recent decisions, continue to support the CRTC's facilities-based competition framework.

### Wireless

In contrast to the mature wireline sector, wireless industry growth continued to be very strong, with Canadian wireless industry revenue and EBITDA increasing by 18% and 33%, respectively. Capital expenditure levels are generally stable as carriers leverage previous investments, resulting in strong cash flow improvement.

Wireless penetration in Canada increased to 47% of the population in 2004, and based on the worldwide trend toward penetration levels of 70% or more, there remains considerable growth potential for the Canadian industry. Approximately 1.6 million new subscribers were added in Canada during 2004 representing a penetration gain of 4.8 percentage points of Canada's total population. Subscriber growth is predicted to continue as the industry is expected to attain about 60% wireless penetration of the Canadian population by the end of 2007.

The Rogers Communications purchase of Microcell should have a positive impact on the wireless sector as the number of national network-based competitors is reduced from four to three. Over time, this structure is expected to lead to a number of benefits including, among other things, lower industry churn, improved cost of acquisition and competitive rationality. Potentially offsetting the consolidation of Microcell is the expected entry by Virgin Mobile into the market in a joint venture with Bell Mobility. Virgin is expected to increase the competitive intensity and sales in the prepaid and youth markets. In the business market, competition may intensify in Push To Talk (PTT) offerings as CDMA-based PTT is introduced by Bell Mobility, ending the exclusive position TELUS has enjoyed in this segment, particularly with its full featured Mike iDEN product. However, the wider introduction of CDMA-based PTT services could stimulate usage and demand for PTT services overall, and in the youth and consumer segments.

Wireless data is estimated to be approaching 3 to 5% of industry service revenues. Companies are expecting accelerated data usage as they continue to aggressively market wireless data services including text and picture messaging, powerful and popular BlackBerry devices from Research in Motion (RIM), mobile computing and wireless Internet access. In 2005, the introduction of video messaging services is also expected to boost wireless data demand. Data usage is expected to continue to drive subscriber growth and support ARPU for all operators in 2005.

TELUS' strategic focus on delivering national business services in data and IP, and its large exposure (41% of consolidated 2005 revenue guidance) to the fast-growing Canadian wireless market, position the Company for above-average growth in 2005 and beyond.

### 9.2 Financial and operating targets and issues for 2005

TELUS continues to have the following policy guidelines, which were announced previously:

- Net debt to EBITDA of 2.2 times or less (compared with 2.1 times at December 31, 2004)
- Net debt to total capitalization of 45 to 50% (compared with 47.9% at December 31, 2004)
- In addition TELUS has a target Dividend payout ratio guideline of 45 to 55% of net earnings.

The following targets for 2005 were announced publicly on December 17, 2004 and the Company has a practice of reaffirming or adjusting guidance on a quarterly basis.

| | 2004 results | Targets for 2005 | Change |
|---|---|---|---|
| **Consolidated** | | | |
| Revenues | $7.58 billion | **$7.9 to $8.0 billion** | $320 to $420 million |
| EBITDA(1) | $3.09 billion | **$3.2 to $3.3 billion** | $110 to $210 million |
| Earnings per share – basic | $1.58 | **$1.65 to $1.85** | 7 to 27 cents |
| Capital expenditures | $1.32 billion | **$1.3 to $1.4 billion** | $(20) to $80 million |
| Free cash flow(2) | $1.30 billion | **$1.2 to $1.3 billion** | $(100) to $0 million |
| **Communications segment** | | | |
| Revenue (external) | $4.77 billion | **$4.7 to $4.75 billion** | $(20) to $(70) million |
| Non-ILEC revenue | $561 million | **$600 to $650 million** | $39 to $89 million |
| EBITDA | $1.95 billion | **$1.85 to $1.9 billion** | $(50) to $(100) million |
| Non-ILEC EBITDA | $(22) million | **$0 to $10 million** | $22 to $32 million |
| Capital expenditures | $964 million | **$950 million to $1.0 billion** | $(14) to $36 million |
| High-speed Internet net additions | 128,100 | **Approx. 100,000** | Approx. (28,100) |
| **Mobility segment** | | | |
| Revenue (external) | $2.81 billion | **$3.2 to $3.25 billion** | $390 to $440 million |
| EBITDA | $1.14 billion | **$1.35 to $1.40 billion** | $210 to $260 million |
| Capital expenditures | $355 million | **$350 to $400 million** | $(5) to $45 million |
| Wireless subscriber net additions | 512,400 | **425,000 to 475,000** | (37,400) to (87,400) |

(1) See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)* for the definition, calculation and reconciliation of 2004 EBITDA.
(2) See *Section 11.2 Free cash flow* for the definition, calculation and reconciliation of 2004 Free cash flow.

The 2005 targets reflect strong growth in both revenue and profitability, with the target range for consolidated earnings per share representing a 4 to 17% increase over 2004. With capital expenditures remaining near 2004 levels, TELUS expects to have another strong year of free cash flow of more than $1.2 billion in 2005. This bodes well for TELUS' ability to successfully overcome competitive pressures and continue to enhance shareholder value.

Communications segment EBITDA is expected to decline in the range of 3 to 5% in 2005, resulting from slightly lower wireline revenue and increased restructuring costs, partially offset by continued operating efficiencies. Excluding restructuring and workforce reduction costs, Communications segment EBITDA is expected to range between negative 2.5% and flat compared to that of 2004. Communications segment revenue growth in the non-incumbent territory in Central Canada is expected to increase 7 to 16%, while targeting positive EBITDA in 2005.

TELUS Mobility EBITDA is expected to increase by 18 to 23% driven by an approximate 14 to 16% increase in revenues, continued economies of scale, cost containment and expansion in wireless subscribers.

The double-digit earnings per share increase is not only being driven by higher consolidated operating profitability, but also by reduced depreciation due to improved capital efficiency in recent years and by lower financing costs as a consequence of lower debt levels, and potentially a lower number of shares outstanding. This significant growth in earnings per share is despite the fact that 2004 earnings included 21 cents of positive impacts from the settlement of tax matters (and related interest), which are not projected to reoccur in 2005.

**Key assumptions and sensitivities for 2005 targets**

Earnings per share, cash balances, net debt and common equity may be affected by purchases of up to 23.3 million additional TELUS shares under the Normal Course Issuer Bid.

For projection purposes, the following assumptions were made:

- No impact has been assumed for the possibility of a work stoppage resulting from the collective bargaining process;
- Assumed economic growth is consistent with provincial and national estimates by the Conference Board of Canada;
- No change in foreign ownership rules;
- Continued softness in wireline demand;
- A three-player national wireless market, with niche players offering products on a resale basis;
- An approximate four percentage point gain in wireless market penetration;
- Approximately $100 million of restructuring and workforce reduction expenses (compared with $52.6 million in 2004);
- Minimal cash income taxes due to utilization of tax losses carried forward;
- No significant changes in the effective tax rate;
- No prospective significant acquisitions or divestitures are reflected;
- Cash dividend payments of approximately $290 million;
- No significant debt retirements; and
- Maintenance or improvement of credit ratings.

There is no assurance that these assumptions or the 2005 financial and operating targets and projections will turn out to be accurate.

### 9.3 Financing plan for 2005

TELUS has no significant amount of debt maturing in 2005, and the $150 million amount outstanding under its accounts receivable securitization program at the end of 2004 is the minimum required to maintain the program. TELUS' financing plan is to use the $896.5 million cash-on-hand at December 31, 2004 and free cash flow generated by its business operations in 2005 to: (i) pay dividends; (ii) repurchase TELUS Common Shares and Non-Voting Shares under the Normal Course Issuer Bid; and (iii) maintain cash-on-hand in anticipation of the maturation of $1.6 billion of 7.5% Canadian dollar TELUS Corporation Notes in June 2006. Consideration may also be given to redeeming debt or repurchases of debt in the open market. On February 16, 2005, TELUS announced its intention to redeem its $149.6 million of 6.75% convertible debentures at par on June 16, 2005.

TELUS also expects to maintain its current position of fully hedging its foreign exchange exposure for indebtedness. At the end of 2004, approximately 93% of TELUS' total debt was borrowed on a fixed-rate basis. The Company plans to renew its $800 million 364-day revolving facility in May 2005 and generally expects to maintain a minimum of $1 billion in unutilized liquidity.

## 10 risks and uncertainties

The following sections summarize the major risks and uncertainties that could affect TELUS' future business results going forward.

### 10.1 Competition

*Increased competition may adversely affect market shares, volumes and pricing in certain TELUS business segments*

Competition is expected to remain intense, not only in the traditional telephony and Internet markets, but also from new entrants looking to provide alternatives to traditional wireline voice access and long distance through the use of IP telephony, or VoIP. Technology substitution by wireless and e-mail services will also continue to put pressure on traditional wireline services. Competitors are expected to continue to focus on local access, data and IP services in the business market and high-speed Internet and wireless services across both the consumer and business markets, as these services offer the highest growth potential. Wireline long distance is experiencing negative revenue growth and voice local access continues to experience a gradual decline in network access lines, both of which are expected to accelerate in the future. Competitors remain intent on winning market share in both the business and residential local and long distance voice markets as a way to sell additional data, Internet and wireless services, particularly through various bundled service arrangements. From a technology perspective, to a large extent the industry as a whole is migrating to IP and an IP-based service delivery model. Transition from legacy voice infrastructure to IP telephony and from legacy data to multi-protocol label switching (MPLS) is expected to accelerate in 2005, and this may negatively affect pricing and margins on select services.

*Wireline voice and data*

While TELUS expects local, long distance and data competitors – ranging from traditional facility carriers, resellers, long distance dial-around and card providers – to continue to focus mainly on the business market in 2005, an increasing number of new and smaller competitors have already begun combining residential local, long distance and wireless services (typically through marketing alliances) into one bundled monthly rate or are offering VoIP alternatives. TELUS' competitors already offer varying arrays of long distance, local and advanced data/IP services and they are increasingly bundling long distance with price-discounted local access, wireless and advanced data, Web-based and e-commerce services, and other information technology services and support. As a result, TELUS also increasingly faces competition from Internet and information technology hardware, software and business process/consulting related companies.

Certain other TELUS competitors, having either built extensive local fibre-optic facilities throughout Western Canada over the past several years, or having acquired facility assets through acquisitions, are increasingly focusing on marketing and revenue generation, particularly in the small and medium-sized business market due to the size of this market, its concentrated geographic urban clustering and attractive margins. With the industry consolidation that took place in 2004, most of these competitors have sound financial strength and other resources. At the same time, competition remains strong in the large business market, where a small number of major customers can deliver a significant amount of revenue and, as a result, overall industry pricing remains very competitive, especially in the long distance and data markets.

*Wireline Internet access*

With a Western Canadian industry high-speed Internet penetration rate typically much higher than most other Canadian and international locations, industry growth for Internet service may slow more quickly than anticipated, resulting in reduced net additions for all industry competitors and posing a constraint on TELUS' ability to increase its share of total high-speed subscribers in the market. TELUS Communications is targeting 100,000 high-speed net additions in 2005, a reduction of 28,000 from what was achieved in 2004. Pricing for basic high-speed Internet access in TELUS' markets continues to be among the lowest anywhere, resulting in a constraint on revenue growth regardless of higher penetration rates.

Residential dial-up Internet access competition and growth have declined dramatically, in large part due to increased high-speed Internet availability and lower pricing. Losses of existing TELUS dial-up subscribers to high-speed services of competitors are mitigated by TELUS' efforts to transfer these customers to its own high-speed Internet service. However, there can be no assurance that the rate of loss of dial-up subscribers or market share retained by TELUS will be as expected, as TELUS will continue to face significant competition from cable-TV high-speed Internet services. TELUS could also experience high future rates of churn or subscriber deactivations if its current quality of service and competitive pricing are not maintained or improved.

*Voice over Internet protocol (VoIP)*

Internet telephony, also referred to as VoIP, continues to be a developing service that could negatively impact TELUS' local and long distance business over the next few years. While the technology has existed for some time, particularly for business customer premise equipment and IP Centrex services, it was not until 2004 that a number of new entrants launched services aimed at the residential and small business markets throughout Canada. In addition, next generation cable-TV modems currently being deployed by cable-TV companies will allow the cable-TV companies to begin offering VoIP over their cable networks.

Cable-TV companies in Canada have recently launched or reaffirmed their intention to begin offering VoIP telephony in 2005. TELUS also began developing its IP telephony initiative in the fall of 2001 and began the transition from circuit-based switching to IP in the summer of 2003. This presents an opportunity for new services, network simplification and cost reduction. However, there can be no assurance that the adoption of VoIP services in the market or provision of such services by TELUS would not cannibalize existing revenues. If significant VoIP competition develops, it could erode TELUS' existing market share of traditional local and long distance services and adversely affect future revenues and profitability.

*Wireless*

Competition in the Canadian wireless market is expected to remain intense in 2005 in all regions of the country, including Western Canada. TELUS Mobility is targeting approximately 425,000 to 475,000 net subscriber additions in 2005, and there can be no assurance that it will achieve its objective given the level of competition and the possibility of declining growth rates in the Canadian wireless industry.

In 2004 Rogers Wireless acquired the smallest national wireless carrier, Microcell Telecommunications, to create the largest wireless carrier in Canada when measured by number of subscribers. This combination of the two GSM (Global System for Mobile Communications) carriers could give rise to increased scale efficiencies, which the new company could exploit to its advantage. There can be no assurance that TELUS will be able to compete as effectively against this larger rival as it did against the two companies separately.

With the entry of the Virgin Group to provide wireless services under the Virgin Mobile brand name on a resale basis from Bell Mobility, competition within the Canadian wireless market is expected to further intensify, particularly in the prepaid and youth segments. In addition, other competitors may offer wireless services regionally or nationally on a resale basis. This could lead to pricing pressures and higher costs of acquisition in the future, particularly in the prepaid market.

There is risk that increased competition could increase churn rates, cause marketing costs of acquisition per subscriber to be higher than otherwise, and lower the average revenue per subscriber. Aggressive advertising and innovative marketing approaches are expected to continue to be the norm. Certain competitors have offered unlimited local airtime packages in specific markets, subsidized low or zero-cost handsets, and/or lowered airtime prices, and may continue to do so. In addition, certain carriers have stated their intention to launch competitive Push To Talk products, which may compete directly with TELUS Mobility's Mike and CDMA Push To Talk services. (See *Section 10.6 Technology*.) TELUS Mobility intends to manage these risks by continuing to focus on differentiated value-added services and profitable subscriber growth.

Bell Mobility entered Western Canada in the fall of 2001, built its own network and operational capabilities, and launched its own 1X data network in urban centres in Alberta and B.C. in the fall of 2002.

In addition, the roaming/resale agreements among TELUS Mobility, Bell Mobility and affiliates, and Aliant Telecom Wireless, first operationalized in mid-2002, allowed Bell Mobility to expand the availability and range of its wireless services to approximately 2.5 million incremental POPs throughout rural Alberta and B.C. This allowed Bell Mobility to expand into Western Canada earlier and more cost-effectively than if it had to wait to fully build out its own rural network coverage. The entry of Bell Mobility in these rural areas has increased the effective number of competitors to three (including TELUS) in these regions. Roaming/resale agreements have similarly allowed TELUS Mobility, on a reciprocal basis, to expand its PCS network coverage and distribution primarily in Central and Atlantic Canada by approximately 7.5 million people, generally served by two other competitors, bringing TELUS Mobility's national digital coverage and addressable market to 30.0 million. There can be no assurance that TELUS Mobility's marketing efforts will be as successful in the new markets as in existing coverage areas.

Wireless competition is also coming from new digital wireless technologies, which may be offered from both traditional and non-traditional sources, utilizing licensed and/or unlicensed spectrum, that deliver higher-speed data and Internet services over current and next generation wireless devices. Such availability may lead to increased re-subsidization costs related to the migration of existing subscribers to advanced feature handsets based on newer technologies. There can be no assurance that new services offered by TELUS Mobility will be available on time, or that TELUS Mobility will be able to charge incrementally for the services. (See *Section 10.6 Technology*.)

*Fixed wireless*

Industry Canada concluded its initial auction for wireless spectrum in the 2.3 GHz and 3.5 GHz bands in February 2004 and recently concluded a re-auction for residual spectrum in these bands in January 2005. TELUS participated in both and obtained a number of licences. This spectrum is expected to be utilized primarily for services such as the provision of fixed wireless, which could be used as an alternative technology for delivering high-speed Internet and voice services. This could strengthen existing competitors or could result in new competitors formed by other successful bidders.

### 10.2 Economic fluctuations

*Significant economic downturns or recessions may adversely impact TELUS*

The Conference Board of Canada recently estimated Canadian real GDP growth in 2004 at 2.6%, down from 3.7% (annual rate) during the first half of 2004. During the fall of 2004, the Bank of Canada moved to reduce the amount of monetary stimulus in the economy by twice raising its target for overnight interest rates. Uncertainty concerning Canadian economic growth has increased and is related to concerns about the impact of higher oil prices on the world economy, the pace of expansion of emerging major market economies such as China and India, the current account imbalance in the United States, the removal of both monetary and fiscal stimulus in the North American economies, the appreciation of the Canadian dollar compared to the U.S. dollar, and geopolitical developments.

In an uncertain economy, residential and business telecommunications customers may delay new service purchases, reduce volumes of use and/or discontinue use of services. Significant economic downturns or recessions could adversely impact TELUS' profitability and free cash flow, realization of income tax losses carried forward, return on invested pension assets and associated pension expenses, and bad debt expense, and/or require the Company to record impairments to the carrying value of its assets, including, but not limited to, its intangible assets with indefinite lives (spectrum licences) and its goodwill. Impairments to the carrying value of assets would result in a charge to earnings and a reduction in shareholders' equity, but would not affect cash flow.

### 10.3 Financing and debt requirements

*TELUS' business plans and growth could be negatively affected if existing financing is not sufficient*

TELUS may finance future capital requirements with internally generated funds as well as, from time to time, borrowings under the unutilized portion of its bank facility or through the issuance of securities. In May 2004, new four-year term and 364-day bank facilities were established for $1.6 billion. Continued availability of the $800 million 364-day portion of the bank facility on a revolving basis is dependent on renewal of this portion of the facility on or prior to its maturity on May 6, 2005 on terms acceptable to TELUS. There can be no assurance that the 364-day portion of the bank facility will be renewed on terms acceptable to the Company. Failing such renewal, any amount drawn by TELUS on the 364-day portion of the facility that remains outstanding on May 6, 2005 will be available only for one year on a non-revolving basis. TELUS has not borrowed under and does not currently intend to borrow under the 364-day portion of the bank facility.

Disruptions in the capital markets, increased bank capitalization regulations, reduced lending to the telecom sector, or a reduced number of active Canadian chartered banks as a result of reduced activity or consolidation could reduce capital available for corporate credits such as TELUS.

On July 26, 2002, TELUS Communications Inc. (TCI), a wholly owned subsidiary of TELUS, entered into an agreement with an arm's-length securitization trust under which it is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. As at December 31, 2004, TCI had received aggregate cash proceeds of $150 million. Under the program, TCI is required to maintain at least a BBB(low) credit rating by Dominion Bond Rating Service. In the event this rating is not maintained, the Company may be required to wind down the program.

TELUS' financial policy is to target an optimal net debt to EBITDA ratio of less than or equal to 2.2 times (2.1 times as at December 31, 2004) and a net debt to total capitalization policy of approximately 45 to 50% (47.9% as at December 31, 2004) and to achieve over time debt credit ratings in the range of BBB+ to A–, or equivalent (split ratings of BBB and Baa3 as at February 16, 2005). A change in credit ratings could impact TELUS' cost of and access to capital. There can be no assurance that TELUS can maintain or improve current credit ratings.

While anticipated cash flow is expected to be sufficient to meet current requirements and remain in compliance with TELUS' financial policy, these intentions could constrain TELUS' ability to invest in its operations for future growth. There can be no assurance that TELUS will reduce its debt leverage or achieve its target credit ratings on a timely basis.

On October 29, 2004, TELUS announced its intention to repurchase under a Normal Course Issuer Bid up to 14,000,000 TELUS voting and up to 11,500,000 non-voting shares, representing approximately 7.1% of TELUS' issued and outstanding shares. TELUS expects to have sufficient cash flow to meet its financial policy objectives and to fund the repurchases of its shares. While there is no current plan to change the dividend payout rate, the TELUS Board reviews its dividend level quarterly based on a number of factors including a target dividend payout ratio guideline of 45 to 55% of net earnings, and there can be no assurance that a future change will not be implemented. TELUS expects to generate material free cash flow in 2005, which would be available to, amongst other things, repurchase or redeem debt (including convertible debentures) as well as to pay dividends to shareholders, repurchase shares and increase cash balances. However, if actual results are different from TELUS' expectations, there can be no assurance that TELUS will not need to change its financing plans, including its intention to redeem its convertible debentures, repurchase shares, or pay dividends according to the target payout guideline.

### 10.4 Tax matters

*Income tax assets may not be realized as expected*

The operations of TELUS are complex and related tax interpretations, regulations and legislation pertaining to TELUS' activities are continually subject to change. The Company has significant amounts of income taxes receivable, future income tax assets, including tax loss carry forwards, and future income tax liabilities. These amounts are based on estimates by TELUS management. Potential changes to either or both the amounts and the timing of the realization of such amounts can affect the determination of net income or realization of cash in future periods.

Timing surrounding the monetization or realization of future income tax assets is uncertain, since the timing is dependent on future earnings of the Company and other events. The amounts of future income tax assets and future income tax liabilities are also uncertain, since the amounts are based upon the substantially enacted future income tax rates in effect at the time, which can be changed by governments. The amount of future income tax assets is also based upon the Company's anticipated mix of revenues among the jurisdictions in which TELUS operates, which is also subject to future events.

The timing of the collection of income taxes receivable is substantially out of the control of the Company and is dependent on expected assessments, reassessments and other processes undertaken by the Canada Revenue Agency (CRA) and other provincial tax authorities. The attest-related activities of those authorities also affect the ultimate determination of the actual amounts of income taxes receivable, future income tax assets and future income tax liabilities. Therefore, there can be no assurance that income taxes will be sheltered as anticipated and/or the amount and timing of receipt or use of these assets will be as currently expected.

### 10.5 Human resources

*The outcome of outstanding labour relations issues may result in unanticipated increased costs and/or reduced productivity*

In 2000, TELUS commenced collective bargaining with the Telecommunications Workers Union (TWU), which represents approximately 11,500 employees, for a new collective agreement in both the Communications and Mobility business segments, replacing legacy agreements from BC TELECOM and Alberta-based TELUS. As a consequence of a January 28, 2004 decision of the Canada Industrial Relations Board (CIRB), the parties were placed into binding arbitration as a process to resolve outstanding bargaining issues. On February 16, 2004, TELUS filed an application with the CIRB for reconsideration of its decision with respect to binding arbitration. At the same time, TELUS also filed an appeal of the CIRB's decision with the Federal Court of Appeal. The appeal was stayed until the CIRB rendered its reconsideration decision. On April 8, 2004, the CIRB issued its reasons for imposing the binding arbitration order. TELUS subsequently filed an amendment to its earlier reconsideration application and judicial review application to include the CIRB's April 8 decision as well. On February 2, 2005, the CIRB issued its summary reconsideration decision returning the parties to collective bargaining. TELUS is still awaiting the full reasons for the decision. In the interim, TELUS Communications Inc. (TCI) has requested that the judicial review application before the Federal Court of Appeal be stayed until the CIRB issues its full reasons for the reconsideration decision.

As the CIRB's reconsideration decision reverses the original order to offer binding arbitration, leading to the resumption of collective bargaining, this may give rise to the associated risk of reduced productivity and work disruptions at TELUS' operations. On reaching a settlement, there can be no assurance that the compensation expenses will be as planned or that reduced productivity will not occur as a result of the process. Notwithstanding the expectation that the collective bargaining process will resume, on February 16, 2005, the TWU filed an application in the Federal Court of Appeal seeking to overturn the CIRB's decision that reversed the Board's previous decision that placed the parties in binding arbitration. The operational and financial impacts of the outcome of the appeal process on the Company are not practicably determinable currently.

The TWU has filed several applications with the CIRB to further expand the existing bargaining unit beyond Alberta and B.C. In March 2001, the TWU filed an application to include TELE-MOBILE employees (i.e. non-unionized former Clearnet employees and unionized employees in the former QuébecTel Mobilité operations) in the bargaining unit. On May 21, 2004, the CIRB issued its summary Letter Decision 1088 declaring TELE-MOBILE and TCI a single employer for labour relations purposes. In addition, the CIRB held that those formerly non-unionized Clearnet employees performing work similar to that performed by unionized employees in TELUS Mobility's Alberta and B.C. operations (i.e. former TELUS Mobility West) should be included in the bargaining unit. On June 24, 2004, the CIRB issued its written reasons for its summary Letter Decision 1088. Subsequently, TCI and TELE-MOBILE filed applications for judicial review of the CIRB's TELE-MOBILE decision, which was dismissed in a decision dated December 16, 2004. TELUS Mobility applied to the Supreme Court of Canada for leave to appeal this decision in February 2005.

On February 4, 2005, the CIRB issued a further decision concerning the TELUS Mobility application. As a result of that decision, the CIRB has ordered the former QuébecTel Mobilité employees represented by the SQET to be included in the bargaining unit represented by the TWU. The CIRB has also ordered that the former QuébecTel Mobilité employees represented by the SAMT remain a separate bargaining unit continuing to be represented by the SAMT. In June 2004, TELUS Mobility signed a renewal collective agreement with SAMT, in respect of the former QuébecTel Mobilité employees, which expires on March 31, 2007. TELUS Québec also concluded a settlement with SAMT for approximately 545 Quebec-based professional and supervisory employees in wireline operations, which was ratified on February 4, 2005.

In addition to the TELE-MOBILE application, the TWU has made three further applications seeking to extend its existing TELUS bargaining unit to include non-unionized employees working at TELUS National Systems Inc. (TNS), working east of Alberta (with the exception of unionized employees working at TELUS Québec) and working at TELUS Solutions de Soutien (TSS) – one of TELUS' call centres located in Montreal. The TNS hearing concluded in October 2003 and the CIRB has not yet rendered a decision. The employees east of Alberta application was filed in November 2002, while the TSS application was filed in December 2003. To date, neither of these cases has proceeded to hearing. There can be no assurance that compensation expenses will be as planned, or that reduced productivity will not occur as a result of or following any of the decisions made by the CIRB.

*Reliance on key personnel*

The success of TELUS is largely dependent on the abilities and experience of its key employees. Competition for highly skilled and entrepreneurial management and other key employees is intense in the communications industry. There can be no assurance that TELUS can retain its current key employees or attract and retain additional executive officers or key employees as needed. The loss of certain key employees, or deterioration in employee morale resulting from organizational changes, unresolved collective agreements or ongoing cost reductions, could have an adverse impact upon TELUS' growth, business and profitability.

*Legal and ethical compliance*

TELUS relies on its employees, officers, Board of Directors, key suppliers and partners to demonstrate reasonable legal and ethical standards. TELUS has instituted for its employees, officers and Directors an ethics policy and a toll-free EthicsLine for anonymous reporting by anyone who has issues or complaints. However, there can be no assurance that these standards will be adhered to by all parties and that results will not be negatively affected.

### 10.6 Technology

*Changing technology in data, IP and wireless may adversely affect revenues, costs and the value of assets*

The rapid pace and expanding scope of technological advancements in the communications industry are expected to continue. Three of the universal characteristics of technological advancements are lower unit costs, lower operating costs and increasing flexibility. This creates opportunities for new and existing competitors to offer new services, price reductions and service differentiation to gain market share. TELUS' future success depends in part upon its ability to anticipate, invest in and implement new technologies with high levels of service and competitive prices, while maintaining network, application and customer security integrity. TELUS may be required to make more capital expenditures than are currently expected if a technology's performance falls short of expectations and if new technological opportunities occur. TELUS' earnings may also be affected if technological advances shorten the useful life of certain existing assets.

In 2004, TELUS operationalized its next generation network (NGN) infrastructure, utilizing this core strategic asset for both circuit-switched voice and a significant portion of TELUS Mobility backhaul. As well, the TELUS IP-One suite of services continues to be carried on this infrastructure. As a result, the NGN is evolving from a platform used solely for providing improved operational efficiency to one that is providing convergence at a differentiated application level. As new, IP-based managed services are conceived and operationalized, the NGN backbone will continue to provide efficient connectivity for the holistic TELUS applications infrastructure. Although select customers have already begun adopting the first applications, including managed and integrated voice, data and video solutions with secure IP virtual private network (VPN) connectivity for large corporate customers and TELUS IP-One for small and medium-sized businesses, there can be no assurance that sufficient applications will be available or accepted as planned, that competitors will not begin to launch similar services, or that the efficiencies will materialize as expected. In addition, the underlying infrastructure supporting TELUS IP-One and other managed IP applications may be subject to accelerated technology rollover if advances are made in this infrastructure.

*Reliance on systems and information technology (IT) may cause operational problems and financial exposures*
TELUS, as a complex telecommunications company, is reliant on many legacy and new IT systems and applications such as billing systems, customer relationship management software, order entry and service systems, and network customer service. The value of IT assets could be negatively affected if the cost of IT solutions is uneconomic, legacy systems fail, projects to integrate systems and applications or introducing new systems and software are not effective, and/or third-party suppliers fail to or do not meet their performance or delivery obligations.

The Company is presently undertaking a transformational billing initiative to re-engineer processes in the Communications segment for order entry, pre-qualification, service fulfillment and assurance, customer care, billing, collections/credit, customer contract and information management. This customer-focused project requires extensive system development and in itself presents implementation risks due to the complexity of the implementation task.

*The digital protocols and technologies utilized by TELUS Mobility may become technologically inferior*
The wireless industry continues to expand the deployment of second (2.5G) and third generation (3G) technologies to deliver increased data speeds required for many new wireless, IP and data services. TELUS Mobility's Mike service uses the iDEN technology protocol and has operated 2.5G packet data capability and service offerings for over three years. TELUS Mobility continues to support and market 1X protocol 3G services on its digital CDMA PCS and cellular networks. TELUS Mobility may begin enhancing its network in 2005 with the next evolution of CDMA 3G technology, namely 1XEVDO (or 1X Evolution Data Only). While the Company believes that TELUS Mobility's CDMA protocol has a reasonable and cost-effective migration path to future evolutions of higher speed technologies beyond 1XEVDO, there can be no assurance that it will be successful and timely. Work is ongoing to determine an optimal migration path for iDEN to 3G, but there can be no assurance that the selected path will be successful or that operating expenses and capital expenditures will be economical.

Furthermore, there can be no assurance that the digital wireless technologies utilized by TELUS Mobility today will continue to enjoy competitive market pricing. The pricing for handsets and network infrastructure is subject to change due to world market buying patterns and foreign exchange rates and as a result, there may be an adverse impact on TELUS' future expenditures.

TELUS' Mike digital wireless iDEN network is in part differentiated by its wide-area, high-capacity digital Push To Talk (PTT) 2-way radio dispatch services, which are marketed as Direct Connect, as well as its installed base of customer work groups. One of TELUS' major wireless competitors announced plans to launch PTT services over CDMA in 2005, and PTT capabilities continue to advance for other carriers using different technologies. In the future, there can be no assurance that TELUS' current market advantage of extensive product sales and marketing experience, and large installed base of Mike iDEN users and work groups, will be maintained. TELUS also operates a CDMA network and launched a CDMA PTT service, marketed as Instant Talk, early in 2005, which may be competitive with the iDEN technology utilized by its Mike network. There can be no assurance that successful deployment and marketing of its own or a competitive CDMA or other PTT technologies will not reduce or eliminate the competitive differentiation of TELUS' Mike network.

In 2004, CDMA operator Sprint and iDEN operator Nextel announced plans to merge their operations. It is expected that the Sprint-Nextel merger will promote greater seamless interoperability between the CDMA and iDEN networks. Although TELUS is well positioned to follow the lead of the major infrastructure developments in the U.S., there can be no assurance that interoperability or the infrastructure migration path will be successful or economical for TELUS or its customers.

Wireless technologies and protocols continue to be developed and extended for a variety of applications and circumstances, such as the Institute of Electrical and Electronics Engineers (IEEE) suite of 802 series of standards. A number of wireless technologies are capable of exploiting both licensed and unlicensed spectrum for both fixed and future mobile applications. While TELUS constantly reviews and examines such developments, and may from time to time choose to utilize a number of these technologies, there can be no assurance that these developments may not adversely impact TELUS in the future. In particular, the emergence of Wi-Fi-based handsets may have a significant impact on traditional CDMA PCS services, and this may trigger accelerated incremental investment in next generation voice infrastructures. As well, with the recent spectrum auction activity in Canada for radio spectrum for WiMax (802.16) wireless technology, significant interest was shown by TELUS' competitors in licence areas inside the TELUS ILEC (incumbent local exchange carrier) region and TELUS CLEC (competitive local exchange carrier) operations. This fixed wireless technology may be exploited by TELUS' competitors to provide alternative voice and data services, in both the fixed and mobile business segments.

### 10.7 Regulatory

*Regulatory developments could have an adverse impact on TELUS' operating procedures, costs and revenues*
TELUS' telecommunications and broadcasting services are regulated under federal legislation by the CRTC, Industry Canada and Canadian Heritage. The CRTC has taken steps to forbear from regulating prices for services offered in competitive markets, such as long distance and some data services, and does not regulate the pricing of wireless services. Major areas of regulatory review currently include the competitive pricing safeguards for ILEC services, such as price floors and bundling rules, and the utilization of the funds in the ILECs' deferral accounts. On February 23, 2005, the Government of Canada announced its intention to appoint a panel of eminent Canadians to review Canada's telecommunications policy and regulatory framework.

The Government indicated that it will ask the panel to make recommendations before the end of 2005 on ways to modernize Canada's telecommunications framework in a manner that benefits Canadian industry and consumers.

The outcome of the regulatory reviews, proceedings and court or Federal Cabinet appeals discussed below and other regulatory developments could have a material impact on TELUS' operating procedures, costs and revenues.

*Price cap regulation*

The rules for price cap regulation and local competition were announced in major regulatory decisions issued in 1997. The CRTC adopted a facilities-based competition model that encouraged competitors to invest in facilities and did not provide discounts for use of incumbent facilities. In March 2001, the CRTC began its scheduled public review of the regulatory regime for 2002 and beyond. TELUS and other incumbent telecommunications companies sought to modify the price cap regime to achieve greater pricing flexibility for regulated services. Certain CLECs requested changes to the regulatory framework that would require ILECs to provide their facilities to CLECs at large discounts. Some parties also requested that the CRTC impose penalties on the incumbent companies for failure to meet CRTC-established quality of service indicators. On May 30, 2002, the CRTC announced its decision on the regulatory framework for the second price cap period for ILECs, which established the framework for regulation of ILECs, including TELUS. This decision covers a four-year period beginning June 2002. On July 31, 2002, the CRTC released its price cap decision for TELUS Communications (Québec) Inc., which established a four-year price cap period beginning August 2002 and moved TELUS Communications (Québec) Inc. from rate-of-return regulation to price cap regulation.

The CRTC 2002 price cap decisions reaffirmed the CRTC's preferred facilities-based competition framework, which TELUS supports. The decisions did not introduce the large discounts of up to 70% for use of ILEC facilities sought by competitors, and allowed TELUS the opportunity to benefit from annual inflation-adjusted productivity improvements greater than 3.5% on most tariffed services. However, the decisions extended the regulation of local prices and service levels, reduced the ability of the ILECs to raise prices, introduced more complexity and caused a negative impact on TELUS earnings. The 2002 price cap decisions also initiated a number of implementation proceedings, some of which are still underway.

The incremental impact of these decisions was an increase in consolidated EBITDA for TELUS of $15 million for the 12-month period ended December 31, 2004, primarily as a result of a $10.2 million recovery from the deferral account of previously incurred costs for local number portability and local competition capital investments. TELUS anticipates an approximate $5 million incremental negative impact on EBITDA for 2005, primarily as a result of the 2004 recovery for local number portability and local competition costs. TELUS can give no assurance that earnings will not be further adversely affected as regulatory rules continue to be reviewed, adjusted or changed. The price cap decision also established a rate adjustment plan and associated penalties for ILECs that do not meet the quality of service standards approved by the CRTC. TELUS incurred approximately $5 million in penalties in 2004, and would anticipate a slightly lower level of penalties in 2005. TELUS' quality of service continues to improve as new systems and processes are introduced and TELUS anticipates reduced penalties in 2005. Nevertheless, TELUS has no assurance that these penalties will not significantly affect earnings in the future.

On November 16, 2004, the CRTC approved TELUS' $23.5 million total service improvement program for extending and upgrading service where required in Alberta and B.C., to be completed over four years ending in 2006. The cost of the service improvement program specific to non-high-cost bands will be recovered from TELUS' deferral account established in the 2002 price cap decisions. The cost of the service improvement program in high-cost bands will be recovered through the existing high-cost subsidy mechanism for residential service in high-cost bands. The CRTC has not yet determined how the remaining balance of the deferral account liability will be utilized.

In the 2002 price cap decisions, the CRTC established new lower prices for some digital services provided by ILECs and made those new lower prices available only to competitors. The CRTC then initiated a proceeding to consider whether ILECs should be required to provide more digital services to competitors at prices below normal tariffed rates. The proceeding to consider competitor digital network access (CDNA) service was completed in December 2003 and a decision was released on February 3, 2005. Telecom Decision 2005-6 finalized the scope of the CDNA service and the terms and conditions under which it is made available. For existing CDNA elements (link and access), TELUS will be compensated through deferral account draw downs, calculated based on the difference between retail rates on June 1, 2002 and the rates approved in Decision 2005-6. Some new elements were added to the scope of CDNA (e.g. intra-exchange service, inter-exchange service in metropolitan areas, and a channelization service), which are to be priced above cost plus 15%, with higher margins up to and including existing retail rates. TELUS will be compensated through the deferral account for retail digital network access (DNA) rate reductions to competitors stemming from this decision, based on the difference between retail rates today and the reduced rates provided for in the decision. The reduced rates for the new elements apply on a prospective basis. For TELUS' incumbent operations, negative retail re-pricing is primarily confined to services on legacy copper facilities and the value of TELUS' investments in higher bandwidth intra- and inter-exchange fibre facilities is preserved. Competitors seeking deeper discounted rates must remain on copper facilities. TELUS' non-ILEC wireline business can take advantage of cost savings and the additional service elements included by the decision.

*Pricing safeguard review*

The CRTC has initiated a proceeding to review pricing safeguards and is proposing modifications to the service bundle pricing rules as well as the introduction of a new pricing safeguard for volume and term contracts for retail tariffed services. The CRTC is also proposing to modify the imputation test that is used when ILECs propose rate decreases. If the CRTC implements the changes it has proposed to the pricing safeguards, the ILECs will have less pricing flexibility and TELUS' ability to respond to competitive pressures will be constrained. TELUS' business operations could be negatively affected by the CRTC's decision in this proceeding, which is expected in early 2005.

*Terms of access*

In 1999, the CRTC had ordered power companies to grant access to their power poles to cable companies at fixed rates significantly lower than the expectations of the power companies. The Federal Court of Appeal determined the CRTC did not have jurisdiction over power poles of provincially regulated power companies, and on May 16, 2003, the Supreme Court of Canada upheld that decision. TELUS may be negatively affected by this decision to the extent that it relies on power poles to deliver services to its customers, rates may escalate over time, and it has facilities placed on approximately 200,000 poles owned by power companies. As part of the follow-up process to Decision 2003-11, a proposal was made to reassign the ILECs' support structure services so as to make them available at cost-based rates (cost plus an approved mark-up). The CRTC has yet to make a determination on this proposal, which may result in a reduction of the revenues that TELUS receives for the use of its support structure facilities.

On June 30, 2003, the CRTC ruled on a proceeding to establish terms of access to tenants in multi-dwelling units (MDUs), such as office complexes and apartment buildings. Building owners were demanding substantial fees for such access. In its decision, the CRTC announced principles that allow for access by all local telephone companies to equipment and wiring in MDUs. The decision reduced considerably the uncertainty TELUS faced in gaining access to such buildings. From a financial perspective, the decision reduced TELUS' exposure to potential significantly increased costs of building access. However, on November 8, 2003, an association representing building owners was granted leave to appeal this decision by the Federal Court of Appeal. It is possible that future costs to TELUS may materialize as a result of court challenges.

In July 2003, the CRTC directed the incumbent telephone companies to provide their retail high-speed Internet services to residential customers receiving primary local telephone service from competitors upon request. The CRTC also directed the incumbent telephone companies to provide their retail high-speed Internet services to business customers receiving primary local telephone service from competitors. Previously, the provision of high-speed Internet service was directly linked to the local telephone line.

*Interconnection*

On July 14, 2004, the CRTC released Telecom Decision 2004-46, which revised the interconnection regime between local exchange carriers. The CRTC expanded the use of the bill and keep mechanism that had previously been used for the exchange of traffic between local service carriers to include toll traffic as well. In addition, the CRTC consolidated exchanges to form local interconnection regions. Under the bill and keep mechanism, all local exchange carriers terminate each other's traffic within the local interconnection region, but do not specifically compensate each other for the traffic termination functions they perform. Where the exchange of traffic between local exchange carriers is not balanced, a local carrier is compensated for terminating traffic in accordance with a mutual per-minute traffic termination scheme based on CRTC-approved cost-based tariffs.

*TELUS' broadcasting distribution undertakings*

On August 20, 2003, the CRTC approved applications by TELUS Communications Inc. (TCI) to operate terrestrial broadcasting distribution undertakings to serve various communities in Alberta and British Columbia. On September 9, 2003, the CRTC approved TELUS' application for a video-on-demand undertaking licence with the same terms and conditions as previously licensed video-on-demand undertakings in Canada. The licence is national in scope and extends for a seven-year term. TCI continues to test and assess this opportunity. There can be no assurance that implementation costs or projected revenues and expenses will be as planned or that a launch will in fact occur.

*Voice over Internet protocol*

On April 7, 2004, the CRTC initiated a proceeding to determine how voice over Internet protocol (VoIP) service will be regulated in Canada. The CRTC expressed its preliminary view that ILEC in-territory VoIP services should be subject to the same economic regulation as ILEC primary exchange services. TELUS strongly opposed the CRTC's preliminary view during the proceeding because VoIP services can be provided over any high-speed retail Internet access line and VoIP services are already available in Canada from multiple sources. If the CRTC's preliminary view is adopted, TELUS' VoIP services would have to be offered as tariffed services. There can be no assurance that the CRTC will accept TELUS' position and will not regulate VoIP services as tariffed services. The CRTC is expected to render its decision in this proceeding in 2005.

*Radiocommunication licences regulated by Industry Canada*

All wireless communications depend on the use of radio transmissions and therefore require access to radio spectrum. Under the Radiocommunication Act, Industry Canada regulates, manages and controls the allocation of spectrum in Canada and licenses frequency bands and/or radio channels within various frequency bands to service providers and private users. Voice and data wireless communications via cellular, SMR, ESMR and PCS systems, among others, require such licences. TELUS Mobility's PCS and cellular licences include various terms and conditions, such as: meeting certain performance levels, meeting Canadian ownership requirements, obligations regarding coverage and build-out, spending at least 2% of certain PCS and cellular revenues on research and development, annual reporting, and resale to competitors. While TELUS believes that it is substantially in compliance with its licence conditions, there can be no assurance that it will be found to comply with all licence conditions, or if found not to be compliant that a waiver will be granted, or that the costs to be incurred to achieve compliance will not be significant. Initial licence fees and annual renewal fees are payable for licences which have not been obtained via spectrum auction. There can be no assurance that Industry Canada will not seek to increase these fees in the future.

*Wireless number portability*
The CRTC indicated in its 2005 work plan that wireless number portability would be an issue it would be looking at in 2005. In its February 2005 budget, the Government of Canada indicated that it intends to ask the CRTC to consider the matter of wireless number portability in Canada. While TELUS anticipates that proceedings will allow for an appropriate balanced approach to the issue, there can be no assurance that TELUS will be able to implement any required changes without incurring significant additional implementation costs and/or ongoing administration costs, or that TELUS will be able to pass these costs on to Canadian consumers. There can also be no assurance that any changes would not lead to increased subscriber churn, or additional customer retention costs for TELUS.

*Foreign ownership restrictions*
TELUS and its subsidiaries are subject to the foreign ownership restrictions imposed by the Telecommunications Act and the Radiocommunication Act. Although TELUS believes that TELUS Corporation and its subsidiaries are in compliance with the relevant legislation, there can be no assurance that a future CRTC or Industry Canada determination, or events beyond TELUS' control, will not result in TELUS ceasing to comply with the relevant legislation. If such a development were to occur, the ability of TELUS' subsidiaries to operate as Canadian carriers under the Telecommunications Act or to maintain, renew or secure licences under the Radiocommunication Act could be jeopardized and TELUS' business could be materially adversely affected.

### 10.8 Process risks

*TELUS systems and processes could negatively impact financial results and customer service – Billing/revenue assurance*
TELUS has merged with and acquired several companies, which have a variety of billing systems and billing processes. The number of different billing systems at TELUS presents the risk that the systems and processes are not sufficiently integrated, causing unrecognized revenue leakage, billing errors in customer accounts, and the sharing of incorrect and inaccurate information. Although TELUS has a finance department that focuses on revenue assurance and increasing the accuracy and completeness of billing, the risk associated with the volume and variety of billing system transactions could result in adverse effects on TELUS' earnings.

Also, as a result of system changes, staff reduction and training requirements associated with TELUS' ongoing efficiency improvement efforts, there is potential for further impact on the operations of TELUS' internal processes involved with billing that could negatively affect TELUS' earnings.

*Efficiency*
To remain cost competitive and maintain profitability when prices are lowered by regulatory and/or competitive actions, it is important for TELUS to continue reducing costs. Beginning in 2001, and continuing through the end of 2003, TELUS introduced a multi-phased operational efficiency program aimed at improving operating and capital productivity and competitiveness. From program inception to the end of 2003, TELUS reduced its net staff by approximately 7,500 employees.

In 2004, TELUS continued to focus on enhancing its competitive position by looking at ways to further improve its operations and achieve cost synergies. In 2004, a departmental reorganization was initiated, primarily in the Communications segment information technology resources area, consolidating from 15 locations to two primary locations. Also in 2004, a reorganization was initiated in the Communications segment with the merging of two customer-facing business units. The resulting integration and consolidation aimed to improve TELUS' competitiveness as well as its operating and capital capacity. However, there can be no assurance that the financial goals and maintenance and improvement of customer service levels will be achieved. If TELUS is unable to control costs, the Company may not achieve cost competitiveness and the profitability required to be attractive to investors.

With the local price cap formula regime, certain local prices decrease by a 3.5% productivity factor less inflation until 2006. It is expected that ongoing efficiency programs are necessary in order to avoid an adverse impact on earnings.

*Cost and availability of services*
The availability of various data, video and voice services in CLEC regions where TELUS' wireline network is only partly available represents a significant challenge in terms of delivery deadlines, quality and cost of services. The lease of facilities from other telecommunications companies and rebilling for the use of their networks may prove to be costly and unprofitable.

### 10.9 Manmade and natural threats

*Concerns about natural disasters and intentional threats to TELUS' infrastructure and operations*
Recognizing that TELUS as a communications company is a key provider of critical infrastructure to Canada, there exists the ongoing exposure of natural disasters and intentional threats to TELUS' network, IT and physical assets. Although TELUS has robust and ongoing business continuity planning processes there can be no assurance that specific events will not impact TELUS operations.

### 10.10 Health and safety

*Concerns about health and safety, particularly in the wireless business, may affect future prospects*

*Radio frequency emission concerns*
Some studies have asserted that radio frequency emissions from wireless handsets may be linked to certain adverse health effects. However, the overwhelming evidence in the scientific community, as determined and published in numerous studies worldwide, supports the conclusion that there is no demonstrated public health risk associated with the use of wireless phones. Government agencies in Canada responsible for establishing safe limits for signal levels of radio devices also support the conclusion that wireless telephones are not a health risk. TELUS believes that the handsets sold by TELUS Mobility comply with all applicable Canadian and U.S. government safety standards.

There can be no assurance that future health studies, government regulations or public concerns about the health effects of radio frequency emissions would not have an adverse effect on the business and prospects for TELUS. For example, public concerns could reduce customer growth and usage or increase costs as a result of modifying handsets and product liability lawsuits.

*Responsible driving*

Some studies, including reports released by the Insurance Corporation of B.C. and the University of Montreal, have shown an increase in distraction levels for drivers using wireless phones while driving.

In July 2004, New Jersey and Washington, D.C. followed a precedent set by New York in 2001 by enacting bans on handheld wireless phone use by drivers. In 2002, Newfoundland & Labrador became the only Canadian jurisdiction to ban drivers' use of handheld wireless phones (as with similar bans on handheld phone use while driving, the province allows the use of hands-free wireless kits).

TELUS promotes responsible driving and recommends that driving safely should be every wireless customer's first responsibility. TELUS believes that current laws adequately address all forms of careless and negligent driving, and laws that are specific to mobile phones are unnecessary and counterproductive.

There can be no assurance that additional laws against using wireless phones while driving will not be passed and that, if passed, such laws will not have a negative effect on subscriber growth rates, usage levels or wireless revenues.

### 10.11 Litigation

*Investigations, claims and lawsuits*

Given the size of TELUS, investigations, claims and lawsuits seeking damages and other relief are regularly threatened or pending against the Company and its subsidiaries. TELUS cannot predict with any certainty the outcome of such investigations, claims and lawsuits and as such, there can be no assurance that results will not be negatively impacted. See Note 16(f) of the Consolidated financial statements of TELUS.

*Uncertified class action*

A class action was brought August 9, 2004, under the Class Actions Act (Saskatchewan), against a number of past and present wireless service providers, including TELUS. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings have been filed by or on behalf of plaintiffs' counsel in other provincial jurisdictions, but plaintiffs' counsel has formally undertaken not to advance them until the Saskatchewan action has been decided.

The class action has not been certified and procedural objections to certification have been identified. TELUS further believes the claim is unsound on the merits. Should the ultimate resolution of this action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

*Privacy compliance*

TELUS has been subject to federal privacy legislation, the *Personal Information Protection and Electronic Documents Act* (PIPEDA), since January 1, 2001. TELUS has a privacy compliance program that is overseen by a designated privacy officer. Notwithstanding this, situations might occur where personal information of a TELUS customer or employee is inadvertently collected, used or disclosed in a manner which is not fully compliant with PIPEDA, thereby exposing TELUS to the possibility of sanctions under that Act. Although management cannot predict outcomes with certainty, management believes it is unlikely that any such sanctions would be material.

## 11 reconciliation of non-GAAP measures and definition of key operating indicators

### 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)

The Company has issued guidance on and reports EBITDA because it is a key measure used by management to evaluate performance of business units and it is utilized in measuring compliance with debt covenants. The Company also believes EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost.

EBITDA can be calculated from TELUS' Consolidated statements of income, as follows:

| Years ended December 31 ($ millions) | 2004 | 2003 |
|---|---|---|
| Operating revenues | **7,581.2** | 7,146.0 |
| Less: Operations expense | **4,438.0** | 4,301.9 |
| Less: Restructuring and workforce reduction costs | **52.6** | 28.3 |
| **EBITDA** | **3,090.6** | 2,815.8 |

EBITDA is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to Operating income or Net income in measuring the Company's performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed in the Consolidated statements of cash flows. Investors should carefully consider the specific items included in TELUS' computation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by TELUS may not be comparable in all instances to EBITDA as reported by other companies.

The following is a reconciliation of EBITDA with Net income and Operating income:

| Years ended December 31 ($ millions) | 2004 | 2003 |
|---|---|---|
| **Net income** | **565.8** | 324.4 |
| Other expense | **8.7** | 23.3 |
| Financing costs | **613.3** | 639.3 |
| Income taxes | **255.1** | 172.7 |
| Non-controlling interest | **4.6** | 3.3 |
| **Operating income** | **1,447.5** | 1,163.0 |
| Depreciation | **1,307.8** | 1,272.9 |
| Amortization of intangible assets | **335.3** | 379.9 |
| **EBITDA** | **3,090.6** | 2,815.8 |

### 11.2 Free cash flow

The Company has issued guidance on and reports Free cash flow because it is a key measure used by management to evaluate performance of the consolidated operations. Free cash flow excludes certain working capital changes, and other sources and uses of cash, which are disclosed in the Consolidated statements of cash flows. Free cash flow is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to the Consolidated statements of cash flows. Free cash flow is a measure that can be used to gauge TELUS' performance over time. Investors should be cautioned that Free cash flow as reported by TELUS may not be comparable in all instances to Free cash flow as reported by other companies. While the closest GAAP measure is Cash provided by operating activities less Cash used by investing activities, Free cash flow is relevant because it provides an indication of how much cash generated by operations is available after capital expenditures, but before proceeds from divested assets and changes in certain working capital items (such as trade receivables, which can be significantly distorted by securitization changes that do not reflect operating results, and trade payables).

The following shows management's calculation of Free cash flow.

| Years ended December 31 ($ millions) | 2004 | 2003 |
|---|---|---|
| **EBITDA** | **3,090.6** | 2,815.8 |
| Restructuring and workforce reduction costs, net of cash payments | **(70.3)** | (259.4) |
| Share-based compensation | **23.8** | – |
| Cash interest paid | **(632.9)** | (657.5) |
| Cash interest received | **27.3** | 41.6 |
| Income taxes received (paid) | **194.6** | 165.5 |
| Capital expenditures (capex) | **(1,319.0)** | (1,252.7) |
| Investment tax credits received (reported in current or prior EBITDA or capex, and in Income taxes received (paid)) | **(16.8)** | (8.4) |
| **Free cash flow** | **1,297.3** | 844.9 |

The following reconciles Free cash flow with Cash provided by operating activities less Cash used by investing activities:

| Years ended December 31 ($ millions) | 2004 | 2003 |
|---|---|---|
| **Cash provided by operating activities** | **2,538.1** | 2,133.8 |
| **Cash (used) by investing activities** | **(1,299.5)** | (1,197.8) |
| | **1,238.6** | 936.0 |
| Net employee defined benefit plans expense | **(18.4)** | (53.0) |
| Employer contributions to employee defined benefit plans | **136.8** | 99.8 |
| Other net operating activities | **(27.9)** | (45.1) |
| Related party transaction payment received | **(33.3)** | – |
| Non-cash working capital changes except changes in taxes and interest | **21.0** | (37.9) |
| Proceeds from the sale of property and other assets | **(27.6)** | (51.2) |
| Other investing activities | **8.1** | (3.7) |
| **Free cash flow** | **1,297.3** | 844.9 |

### 11.3 Definition of key operating indicators

These measures are industry metrics and are useful in assessing the operating performance of a wireless company.

**Churn**

Calculated as the number of subscriber units disconnected during the period divided by the average number of subscriber units on the network, expressed as a rate per month. A prepaid subscriber is deactivated when the subscriber has no usage for 90 days following expiry of the prepaid card.

**Cost of acquisition (COA)**

Consists of the total of handset subsidies, commissions, and advertising and promotion expenses related to the initial customer acquisition during a given period. As defined, COA excludes costs to retain existing subscribers (Retention spend).

**COA per gross subscriber addition**

COA divided by gross subscriber activations during the period.

**Average revenue per subscriber unit, or ARPU**

Calculated as Network revenue divided by the average number of subscriber units on the network during the period, expressed as a rate per month.

**Retention spend to Network revenue**

Represents direct costs associated with marketing and promotional efforts aimed at the retention of the existing subscriber base, divided by Network revenue.

**EBITDA excluding COA**

A measure of operational profitability, normalized for the period costs of adding new customers.

## 11.4 Definition of liquidity and capital resource measures

**Net debt**

Defined as Long-term Debt plus current maturities of Long-term Debt and cheques outstanding less Cash and temporary investments plus cross currency foreign exchange hedge liability (less cross currency foreign exchange hedge asset) related to U.S. dollar notes. The cross currency foreign exchange hedge liability was $1,037.7 million at December 31, 2004 (compared with deferred hedge liabilities of $745.8 million at December 31, 2003). Net debt is unaffected by foreign exchange fluctuations because it includes (deducts) the net deferred hedging liability (asset). Under TELUS' new credit facilities, a notional amount related to accounts receivable securitization is no longer added to the numerator of the Leverage Ratio covenant calculation. Consistent with the new credit facility calculation, Net debt for current and prior periods excludes notional accounts receivable securitization amounts.

**Total capitalization**

Defined as Net debt plus Non-controlling interest and Shareholders' equity.

**Net debt to total capitalization**

Provides a measure of the proportion of debt used in the Company's capital structure. The long-term target ratio for Net debt to total capitalization is 45 to 50%.

**EBITDA (excluding restructuring)**

EBITDA (excluding restructuring) is used for the calculation of Net debt to EBITDA and EBITDA interest coverage, consistent with the calculation of the Leverage Ratio and the Coverage Ratio in credit facility covenants. Restructuring and workforce reduction costs were $52.6 million and $28.3 million, respectively, for the 12-month periods ended December 31, 2004 and December 31, 2003.

**Net debt to EBITDA**

Defined as Net debt as at the end of the period divided by the 12-month trailing EBITDA (excluding restructuring). This measure is substantially the same as the Leverage Ratio covenant in TELUS' credit facilities. The TELUS target for Net debt to EBITDA is 2.2 times or less.

**Net interest cost**

Defined as Financing costs before gains on redemption and repayment of debt, calculated on a 12-month trailing basis. No gains on redemption and repayment of debt were recorded in 2004 and 2003.

**Earnings coverage ratio**

Calculated on a 12-month trailing basis as Net income before interest expense on total debt and income tax expense divided by interest expense on total debt.

**EBITDA interest coverage**

Defined as EBITDA (excluding restructuring) divided by Net interest cost. This measure is substantially the same as the Coverage Ratio covenant in TELUS' new credit facilities.

**Dividend payout ratio**

Defined as Dividends declared per share divided by basic Earnings per share. For interim periods, a 12-month trailing measurement is reported. The target guideline for the annual dividend payout ratio is 45 to 55% of net earnings.

# management's report

Management is responsible to the Board of Directors for the preparation of the Consolidated financial statements of the Company and its subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the Consolidated financial statements.

The Company maintains a system of internal controls that provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines that require TELUS team members (including Board members and Company employees) to maintain the highest ethical standards, and has established mechanisms for the reporting to the Audit Committee of perceived accounting and ethics policy complaints. In addition, the Chief Compliance Officer, appointed in 2003, works to ensure the Company has appropriate policies, controls and measurements in place to ensure compliance with all legal and regulatory requirements. Annually the Company performs an extensive risk assessment process, which includes interviews with senior management, a Web-enabled risk and control assessment survey distributed to a large sample of employees, and input from the Company's strategic planning activities. Results of this process influence the development of the internal audit program. Key enterprise-wide risks are assigned to executive owners for the development and implementation of appropriate risk mitigation plans. During 2002, the Company implemented a Sarbanes-Oxley certification enablement process, which, among other things, cascades informative certifications from the key stakeholders within the financial reporting process, which are reviewed by the Chief Executive Officer and the Chief Financial Officer as part of their due diligence process. In 2004, the process was enhanced to comply with new Canadian securities regulations, which went into effect in the first quarter of 2004. The Company also expanded its efforts to be able to comply with Section 404 of the Sarbanes-Oxley Act for fiscal year 2005.

The Company has a formal Policy on Corporate Disclosure and Confidentiality of Information, which sets out policies and practices including the mandate of the Disclosure Committee; the Policy was approved by the Board of Directors, and put into effect, in 2003.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of the Management's discussion and analysis and the Consolidated financial statements as well as other information contained in this report. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the Consolidated financial statements contained in this report were being prepared.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to when they were evaluated.

TELUS' Chief Executive Officer and Chief Financial Officer expect to certify TELUS' annual filing with the United States' Securities and Exchange Commission on Form 40-F as required by the United States Sarbanes-Oxley Act. TELUS also expects the Chief Executive Officer and Chief Financial Officer to certify its annual filings, including its Annual Information Form, that are filed with Canadian securities regulatory authorities.

The Board of Directors has reviewed and approved these Consolidated financial statements. To assist the Board in meeting its oversight responsibilities, it has appointed an Audit Committee, which is comprised entirely of independent directors. All the members of the committee are financially literate and the Chair of the committee is an Audit Committee financial expert as defined in accordance with applicable securities laws. The committee oversees the Company's accounting and financial reporting, internal controls and disclosure controls, legal and regulatory compliance, ethics policy and timeliness of filings with regulatory authorities, the independence and performance of the Company's external and internal auditors, the management of the Company's risks, its credit worthiness, treasury plans and financial policy, and its whistleblower and accounting and ethics complaint procedures. The committee meets no less than quarterly and, as a standard feature of regularly scheduled meetings, holds an in-camera session with the external auditors and separately with the internal auditors without other management, including management directors, present. It oversees the work of the external auditors and approves the annual audit plan. It also receives reports on the external auditor's internal quality control procedures and independence. Furthermore, the Audit Committee reviews: the Company's major accounting policies including alternatives and potential key management estimates and judgements; the Company's financial policies and compliance with such policies; the evaluation by either the internal or external auditors of management's internal control systems; the evaluation by management of the adequacy and effectiveness in the design and operation of the Company's disclosure controls and internal controls for financial reporting. The Audit Committee also considers reports on the Company's business continuity and disaster recovery plan; reports on financial risk management including derivative exposure and policies; tax planning, environmental, health and safety risk management and management's approach for safeguarding corporate assets, and regularly reviews key capital expenditures. The committee pre-approves all audit, audit-related and non-audit services provided to the Company by the external auditors (and its affiliates). The committee's terms of reference are available, on request, to shareholders and are available at telus.com/governance.

Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer

# auditors' report

To the Shareholders of TELUS Corporation

We have audited the consolidated balance sheets of TELUS Corporation as at December 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Vancouver, B.C.
February 11, 2005, except as to Note 14(c) and Note 16(b),
which are as of February 16, 2005

# consolidated statements of income

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| **Operating Revenues** | $ 7,581.2 | $ 7,146.0 |
| **Operating Expenses** | | |
| Operations | 4,438.0 | 4,301.9 |
| Restructuring and workforce reduction costs (Note 5) | 52.6 | 28.3 |
| Depreciation | 1,307.8 | 1,272.9 |
| Amortization of intangible assets | 335.3 | 379.9 |
| | 6,133.7 | 5,983.0 |
| **Operating Income** | 1,447.5 | 1,163.0 |
| Other expense, net | 8.7 | 23.3 |
| Financing costs (Note 6) | 613.3 | 639.3 |
| **Income Before Income Taxes and Non-Controlling Interest** | 825.5 | 500.4 |
| Income taxes (Note 7) | 255.1 | 172.7 |
| Non-controlling interest | 4.6 | 3.3 |
| **Net Income** | 565.8 | 324.4 |
| Preference and preferred share dividends | 1.8 | 3.5 |
| **Common Share and Non-Voting Share Income** | $ 564.0 | $ 320.9 |
| **Income Per Common Share and Non-Voting Share** ($) (Note 8) | | |
| – Basic | 1.58 | 0.92 |
| – Diluted | 1.57 | 0.91 |
| **Dividends Declared Per Common Share and Non-Voting Share** ($) | 0.65 | 0.60 |
| **Total Weighted Average Common Shares and Non-Voting Shares Outstanding** (millions) | | |
| – Basic | 355.3 | 349.3 |
| – Diluted | 357.6 | 351.8 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# consolidated statements of retained earnings

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| **Balance at Beginning of Year** | $ 741.7 | $ 630.4 |
| Transitional amount for share-based compensation arising from share options (Note 2(a)) | (25.1) | – |
| Adjusted opening balance | 716.6 | 630.4 |
| Net income | 565.8 | 324.4 |
| | 1,282.4 | 954.8 |
| Less: Common Share and Non-Voting Share dividends paid, or payable, in cash | 204.7 | 165.8 |
| Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury | 26.9 | 43.8 |
| Cost of purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 15(i)) | 38.6 | – |
| Preference and preferred share dividends | 1.8 | 3.5 |
| Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 15(b)) | 2.3 | – |
| **Balance at End of Year** (Note 15) | $ 1,008.1 | $ 741.7 |

*The accompanying notes are an integral part of these consolidated financial statements.*

# consolidated balance sheets

| As at December 31 (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| **Assets** | | |
| Current Assets | | |
| Cash and temporary investments, net | **$ 896.5** | $ 6.2 |
| Accounts receivable (Notes 10, 17(b)) | **863.5** | 723.8 |
| Income and other taxes receivable | **132.5** | 187.4 |
| Inventories | **133.3** | 123.5 |
| Prepaid expenses and other (Note 17(b)) | **183.4** | 172.4 |
| Current portion of future income taxes (Note 7) | **438.4** | 304.0 |
| | **2,647.6** | 1,517.3 |
| Capital Assets, Net (Note 11) | | |
| Property, plant, equipment and other | **7,528.2** | 7,764.3 |
| Intangible assets subject to amortization | **737.0** | 844.7 |
| Intangible assets with indefinite lives | **2,955.8** | 2,954.6 |
| | **11,221.0** | 11,563.6 |
| Other Assets | | |
| Deferred charges (Note 17(b)) | **704.4** | 610.7 |
| Future income taxes (Note 7) | **99.8** | 626.0 |
| Investments | **38.4** | 41.9 |
| Goodwill (Note 12) | **3,126.8** | 3,118.0 |
| | **3,969.4** | 4,396.6 |
| | **$ 17,838.0** | $ 17,477.5 |
| **Liabilities and Shareholders' Equity** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities (Note 17(b)) | **$ 1,362.6** | $ 1,294.5 |
| Restructuring and workforce reduction accounts payable and accrued liabilities (Note 5) | **70.7** | 141.0 |
| Dividends payable | **–** | 53.5 |
| Advance billings and customer deposits (Note 17(b)) | **531.5** | 445.0 |
| Current maturities of long-term debt (Note 14) | **4.3** | 221.1 |
| | **1,969.1** | 2,155.1 |
| Long-Term Debt (Note 14) | **6,332.2** | 6,609.8 |
| Other Long-Term Liabilities (Note 17(b)) | **1,506.1** | 1,173.7 |
| Future Income Taxes (Note 7) | **991.9** | 1,007.0 |
| Non-Controlling Interest | **13.1** | 10.7 |
| Shareholders' Equity (Note 15) | | |
| Convertible debentures conversion option | **8.8** | 8.8 |
| Preference and preferred shares (Note 15(b)) | **–** | 69.7 |
| Common equity | **7,016.8** | 6,442.7 |
| | **7,025.6** | 6,521.2 |
| | **$ 17,838.0** | $ 17,477.5 |

Commitments and Contingent Liabilities (Note 16)

*The accompanying notes are an integral part of these consolidated financial statements.*

Approved by the Directors:

Director:
Brian F. MacNeill

Director:
Brian A. Canfield

# consolidated statements of cash flows

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| **Operating Activities** | | |
| Net income | $ 565.8 | $ 324.4 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 1,643.1 | 1,652.8 |
| Future income taxes | 380.9 | 394.4 |
| Share-based compensation | 23.8 | – |
| Net employee defined benefit plans expense | 18.4 | 53.0 |
| Employer contributions to employee defined benefit plans | (136.8) | (99.8) |
| Restructuring and workforce reduction costs, net of cash payments (Note 5) | (70.3) | (259.4) |
| Payment received from Verizon Communications Inc. (Note 20) | 33.3 | – |
| Other, net | 27.9 | 45.1 |
| Net change in non-cash working capital (Note 17(c)) | 52.0 | 23.3 |
| Cash provided by operating activities | 2,538.1 | 2,133.8 |
| **Investing Activities** | | |
| Capital expenditures (Note 11(a)) | (1,319.0) | (1,252.7) |
| Proceeds from the sale of property and other assets | 27.6 | 51.2 |
| Other | (8.1) | 3.7 |
| Cash used by investing activities | (1,299.5) | (1,197.8) |
| **Financing Activities** | | |
| Common Shares and Non-Voting Shares issued | 148.8 | 86.6 |
| Dividends to shareholders | (248.7) | (172.0) |
| Purchase of Common Shares and Non-Voting Shares for cancellation (Note 15(i)) | (78.0) | – |
| Payment for redemption of preference and preferred shares (Note 15(b)) | (72.8) | – |
| Payment received from Verizon Communications Inc. (Note 20) | 114.8 | – |
| Long-term debt issued (Note 14) | 39.8 | 373.0 |
| Redemptions and repayment of long-term debt (Note 14) | (248.6) | (1,201.7) |
| Other | (3.6) | (6.7) |
| Cash used by financing activities | (348.3) | (920.8) |
| **Cash Position** | | |
| Increase in cash and temporary investments, net | 890.3 | 15.2 |
| Cash and temporary investments, net, beginning of year | 6.2 | (9.0) |
| Cash and temporary investments, net, end of year | $ 896.5 | $ 6.2 |
| **Supplemental Disclosure of Cash Flows** | | |
| Interest (paid) | $ (632.9) | $ (657.5) |
| Interest received | $ 27.3 | $ 41.6 |
| Income taxes (inclusive of Investment Tax Credits (Note 7)) received | $ 194.6 | $ 165.5 |

*The accompanying notes are an integral part of these consolidated financial statements*

# notes to consolidated financial statements

December 31, 2004

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications service provider in Western Canada and provides data, Internet Protocol, voice and wireless services to Central and Eastern Canada.

## 1 summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are expressed in Canadian dollars.

The terms TELUS or Company are used to mean TELUS Corporation and, where the context of the narrative permits or requires, its subsidiaries.

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and all of the Company's subsidiaries, of which the principal one is TELUS Communications Inc. TELUS Communications Inc. includes substantially all of the Company's Communications segment's operations and all of the Mobility segment's operations, through the TELE-MOBILE COMPANY partnership.

The financing arrangements of the Company and all of its subsidiaries do not impose restrictions on inter-corporate dividends.

On a continuing basis, TELUS Corporation reviews its corporate organization and effects changes as appropriate so as to enhance its value. This process can, and does, affect which of the Company's subsidiaries are considered principal subsidiaries at any particular point in time.

### (b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include: the key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization; the allowance for doubtful accounts; the allowance for inventory obsolescence; the estimated useful lives of assets; the recoverability of tangible assets; the recoverability of intangible assets with indefinite lives; the recoverability of long-term investments; the recoverability of goodwill; the composition of future income tax assets and future income tax liabilities; the accruals for payroll and other employee-related liabilities; the accruals for restructuring and workforce reduction costs; and certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets.

### (c) Revenue recognition

The Company earns the majority of its revenue (voice local, voice contribution, voice long distance, data and mobility network) from access to, and usage of, the Company's telecommunication infrastructure. The majority of the balance of the Company's revenue (other and mobility equipment) arises from providing products facilitating access to, and usage of, the Company's telecommunication infrastructure.

The Company offers complete and integrated solutions to meet its customers' needs. These solutions may involve the delivery of multiple services and products occurring at different points in time and/or over different periods of time. As appropriate, these multiple element arrangements are separated into their component accounting units, consideration is measured and allocated amongst the accounting units based upon their relative fair values and then the Company's relevant revenue recognition polices are applied to them.

*Voice Local, Voice Long Distance, Data and Mobility Network:* The Company recognizes revenues on the accrual basis and includes an estimate of revenues earned but unbilled. Wireline and wireless service revenues are recognized based upon usage of the Company's network and facilities and upon contract fees.

Advance billings are recorded when billing occurs prior to rendering the associated service; such advance billings are recognized as revenue in the period in which the services are provided. Similarly, and as appropriate, upfront customer activation and installation fees, along with the corresponding direct costs not in excess of the revenues, are deferred and recognized over the average expected term of the customer relationship.

When the Company receives no identifiable, separable benefit for consideration given to a customer, the consideration is recorded as a reduction of revenue rather than as an expense as the Company considers this to result in a more appropriate presentation of transactions in the financial statements.

The Company follows the liability method of accounting for its quality of service penalties that arise from the jurisdiction of the Canadian Radio-television and Telecommunications Commission (CRTC).

*Voice Contribution:* The CRTC has established a portable subsidy mechanism to subsidize Local Exchange Carriers, such as the Company, that provide residential service to high cost service areas (HCSAs). The CRTC has determined the per line/per band portable subsidy rate for all Local Exchange Carriers. The Company recognizes the portable subsidy on an accrual basis by applying the subsidy rate to the number of residential network access lines it has in HCSAs. Differences, if any, between interim and final subsidy rates set by the CRTC are accounted for as a change in estimate in the period in which the CRTC finalizes the subsidy rate.

*Other and Mobility Equipment:* The Company recognizes product revenues, including wireless handsets sold to re-sellers and customer premises equipment, when the products are delivered and accepted by the end-user customers. Revenues from operating leases of equipment are recognized on a systematic and rational basis (normally a straight-line basis) over the term of the lease. When the Company receives no identifiable, separable benefit for consideration given to a customer, the consideration is recorded as a reduction of revenue rather than as an expense as the Company considers this to result in a more appropriate presentation of transactions in the financial statements.

*Non-HCSA Deferral Account:* On May 30, 2002, and on July 31, 2002, the CRTC issued Decision 2002-34 and Decision 2002-43, respectively, pronouncements that will affect the Company's wireline revenues for four-year periods beginning June 1, 2002, and August 1, 2002, respectively. In an effort to foster competition for residential basic service in non-high cost service areas (non-HCSAs), the concept of a deferral account mechanism was introduced by the CRTC, as an alternative to mandating price reductions.

The deferral account arises from the CRTC requiring the Company to defer the income statement recognition of a portion of the monies received in respect of residential basic services provided to non-HCSAs. The revenue deferral is based on the rate of inflation (as measured by a chain-weighted Gross Domestic Product Price Index), less a productivity offset of 3.5%, and an exogenous factor that is associated with allowed recoveries in previous price cap regimes that have now expired. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs (SIPs) in qualifying non-HCSAs, rate reductions (including those provided to competitors as required in Decision 2002-34 and Decision 2002-43) and/or rebates to customers. To the extent that a balance remains in the deferral account, interest expense of the Company is required to be accrued at the Company's short-term cost of borrowing.

| Price cap factors for price cap years commencing June 1, | 2004 | 2003 |
|---|---|---|
| Rate of inflation (as measured by the chain-weighted Gross Domestic Product Price Index) | **3.44%** | 1.16% |
| Exogenous factor | **0%** | 0% |

The Company has adopted the liability method of accounting for the deferral account. This results in the Company recording a liability to the extent that activities it has undertaken, realized rate reductions for Competitor Services and other future qualifying events do not extinguish the balance of the deferral account (see Note 16(a) and Note 17(b)). This also results in the Company continuing to record incremental liability amounts, subject to reductions for the mitigating activities, for the remaining duration of the Decisions' four-year periods. Other than for the interest accrued on the balance of the deferral account, which would be included in financing costs, substantially all income statement effects of the deferral account are recorded through operating revenues. The CRTC can direct that the Company undertake activities drawing down the deferral account that would not affect the income statement; the financial statement impacts of those activities would be contingent on what the CRTC directed.

## (d) Advertising costs

Costs of advertising production, airtime and space are expensed as incurred.

## (e) Research and development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production, or in the case of serviceable property, plant and equipment, are included in the appropriate property group and are depreciated over its estimated useful life.

## (f) Depreciation and amortization

Assets are depreciated on a straight-line basis over their estimated useful life as determined by a continuing program of studies. Depreciation includes amortization of assets under capital leases. Intangible assets with finite lives (intangible assets subject to amortization) are amortized on a straight-line basis over their estimated lives; estimated lives are annually reviewed.

Estimated useful lives for the majority of the Company's capital assets subject to depreciation and amortization are as follows:

| | Estimated useful lives[1] |
|---|---|
| Property, plant, equipment and other | |
| Telecommunication assets | |
| Outside plant | 17 to 40 years |
| Inside plant | 8 to 20 years |
| Mobility site equipment | 6.5 to 8 years |
| Balance of depreciable property, plant, equipment and other | 5 to 20 years |
| Intangible assets subject to amortization | |
| Subscriber base | |
| Wireline | 50 years |
| Wireless | 7 years |
| Software | 3 to 5 years |
| Access to rights-of-way and other | 7 to 30 years |

(1) The composite depreciation rate for the year ended December 31, 2004, was 6.5% (2003 – 6.6%). The rate is calculated by dividing depreciation expense by an average gross book value of depreciable assets for the reporting period. A result of this methodology is that the composite depreciation rate will be lower in a period that has a higher proportion of fully depreciated assets remaining in use.

The Company chose to depreciate and amortize its assets on a straight-line basis as it believes that this method better reflects the consumption of resources related to the economic life span of the assets than use of an accelerated method and thus is more representative of the economic substance of the underlying use of the assets.

The carrying value of intangible assets with indefinite lives, and goodwill, are periodically tested for impairment using a two-step impairment test. The frequency of the impairment test generally is the reciprocal of the stability of the relevant events and circumstances, but intangible assets with indefinite lives and goodwill must, at a minimum, be tested annually; the Company has selected December as its annual test time. No impairment amounts arose from the December 2004 and December 2003 annual tests. The test is applied to each of the Company's two reporting units (the reporting units being identified in accordance with the criteria in the Canadian Institute of Chartered Accountants (CICA) Handbook section for intangible assets and goodwill): Communications and Mobility.

The Company assesses its goodwill by applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units. Consistent with current industry-specific valuation methods, the Company uses a combination of the discounted cash flow and the market comparable approaches in determining the fair value of its reporting units.

### (g) Translation of foreign currencies

Trade transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date with any resulting gain or loss being included in the Consolidated Statements of Income (see Note 6). Hedge accounting is applied in specific instances (see Note 1(h)).

The Company has a minor foreign subsidiary that is considered to be self-sustaining. Accordingly, foreign exchange gains and losses arising from the translation of the minor foreign subsidiary's accounts into Canadian dollars are deferred and reported as cumulative foreign currency translation adjustment in the equity section of the Consolidated Balance Sheets (see Note 15(a)).

### (h) Hedge accounting

*General:* The Company applies hedge accounting to the financial instruments used to:

- establish designated currency hedging relationships for its U.S. Dollar denominated long-term debt future cash outflows (semi-annual interest payments and principal payments at maturity) (see Note 4 and Note 14(b));
- notionally convert fixed interest rate debt to floating interest rate debt (semi-annual interest payments) (see Note 4 and Note 14(b));
- fix the compensation cost arising from a specific grant of restricted stock units (see Note 4 and Note 9(b));
- establish designated currency hedging relationships for U.S. Dollar denominated temporary investments (see Note 4); and
- for certain U.S. Dollar denominated future purchase commitments (see Note 4).

*Hedge accounting:* The purpose of hedge accounting, in respect of the Company's designated hedging relationships, is to ensure that counterbalancing gains and losses are recognized in the same periods. The Company chose to apply hedge accounting, as it believes this is more representative of the economic substance of the underlying transactions.

In order to apply hedge accounting, a high correlation (which indicates effectiveness) is required in the offsetting changes in the values of the financial instruments (the hedging items) used to establish the designated hedging relationships and all, or a part, of the asset, liability or transaction having an identified risk exposure that the Company has taken steps to modify (the hedged items). The Company assesses the anticipated effectiveness of designated hedging relationships at inception and for each reporting period thereafter. A designated hedging relationship is considered effective by the Company if the following critical terms match between the hedging item and the hedged item: the notional amount of the hedging item and the principal of the hedged item; maturity dates; payment dates, and interest rate index (if, and as, applicable). Any ineffectiveness, such as from a difference between the notional amount of the hedging item and the principal of the hedged item, or if a previously effective designated hedging relationship becomes ineffective, is reflected in the Consolidated Statements of Income as Financing costs if in respect of long-term debt or U.S. Dollar denominated temporary investments and as Operations expense if in respect of restricted stock units or U.S. Dollar denominated future purchase commitments.

Unrealized changes in the fair value of hedging items, net of the hedge value recorded (see Note 17(b)), are recognized when all the hedged cash flows have occurred (see Note 4).

*Deferred hedging assets and liabilities:* In the application of hedge accounting to U.S. Dollar denominated long-term debt future cash outflows and U.S. Dollar denominated temporary investments, an amount (the hedge value) is recorded in respect of the fair value of the hedging items only to the extent that their value counterbalances the difference between the Canadian dollar equivalent of the value of the hedged items at the rate of exchange at the balance sheet date and the Canadian dollar equivalent of the value of the hedged items at the rate of exchange in the hedging items.

In the application of hedge accounting to the compensation cost arising from a specific grant of restricted stock units, an amount (the hedge value) is recorded in respect of the fair value of the hedging items only to the extent that their value counterbalances the difference between the quoted market price of the Company's Non-Voting Shares at the balance sheet date and the price of the Company's Non-Voting Shares in the hedging items.

### (i) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

The Company's research and development activities may be eligible to earn Investment Tax Credits. The Company's research and development activities and their eligibility to earn Investment Tax Credits is a complex matter and, as a result, the threshold of more likely than not is normally only achieved after the relevant taxation authorities have made specific determinations. When it is more likely than not that the Investment Tax Credits will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate (see Note 7).

### (j) Share-based compensation

Commencing with the Company's 2004 fiscal year, the amended recommendations of the CICA for accounting for share-based compensation apply to the Company (see Note 2(a)). The amendments result in the Company no longer being able to use the intrinsic value based method of accounting for share options granted to employees for purposes of Canadian GAAP. Canadian GAAP now requires that a fair value be determined for share options at the date of grant and that such fair value be recognized in the financial statements.

For fiscal years prior to 2004, the Company applied the intrinsic value based method of accounting for share-based compensation awards granted to employees; accordingly, no compensation cost was recorded in the accounts for its share option plans prior to 2004. In respect of share options awarded to employees, for fiscal years prior to 2004, it was permissible to use either the fair value based method or the intrinsic value based method, however, if the intrinsic value based method was used, pro forma disclosure was required so as to show what the effect would have been had the fair value based method been applied (see Note 2(a) and Note 9(a)). Proceeds arising from the exercise of share options are credited to share capital.

In respect of restricted stock units, the Company accrues a liability equal to the product of the vesting restricted stock units multiplied by the fair market value of the corresponding shares at the end of the reporting period (see Note 9(b)). The expense for restricted stock units that are forfeited or cancelled is reversed against the expense that had been recorded up to the date of forfeiture or cancellation.

When share-based compensation vests in one amount at a future point in time (cliff vesting), the expense is recognized by the Company, either in the Consolidated Statements of Income or in the pro forma disclosures in Note 9(a), on a straight-line basis over the vesting period. When share-based compensation vests in tranches (graded vesting), the expense is recognized by the Company, either in the Consolidated Statements of Income or in the pro forma disclosures in Note 9(a), using the accelerated expense attribution method.

### (k) Cash and temporary investments, net

Cash and temporary investments, which include investments in money market instruments that are purchased three months or less from maturity, are presented net of outstanding items including cheques written but not cleared by the bank as at the balance sheet date. Cash and temporary investments, net, are classified as a liability on the balance sheet when the amount of the cheques written but not cleared by the bank exceeds the amount of the cash and temporary investments.

### (l) Sales of receivables

Effective July 1, 2001, transfers of receivables in securitization transactions are recognized as sales when the Company is deemed to have surrendered control over the transferred receivables and consideration, other than for its beneficial interests in the transferred receivables, has been received. When the Company sells its receivables it retains reserve accounts, which are retained interests in the securitized receivables, and servicing rights. When a transfer is considered a sale, the Company derecognizes all receivables sold, recognizes at fair value the assets received and the liabilities incurred and records the gain or loss on sale in the Consolidated Statements of Income as Other expense, net. The amount of gain or loss recognized on the sale of receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the receivables sold and the retained interests based upon their relative fair market value at the sale date. The Company estimates the fair value for its retained interests based on the present value of future expected cash flows using management's best estimates of the key assumptions (credit losses, the weighted average life of the receivables sold and discount rates commensurate with the risks involved).

### (m) Inventories

The Company's inventory consists primarily of wireless handsets, parts and accessories and communications equipment held for resale. Inventories of wireless handsets, parts and accessories are valued at the lower of cost and replacement cost, with cost being determined on an average cost basis. Inventories of the Communications segment's equipment are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis.

### (n) Capital assets

*General:* Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and applicable overhead costs. In addition, where construction projects exceed $20 million and are of a sufficiently long duration, an amount is capitalized for the cost of funds used to finance construction. The rate for calculating the capitalized financing costs is based on the Company's one-year cost of borrowing.

When property, plant and/or equipment are sold by the Company, the historical cost less accumulated depreciation is netted against the sale proceeds and the difference is included in the Consolidated Statements of Income as Other expense, net.

*Asset retirement obligations:* Liabilities are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property, plant and equipment (primarily certain items of outside plant and mobility site equipment) when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

### (o) Leases

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Where the Company is the lessee, asset values recorded under capital leases are amortized on a straight-line basis over the period of expected use. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

For the year ended December 31, 2004, real estate and vehicle operating lease expenses, which are net of the amortization of the deferred gain on the sale-leaseback of buildings (see Note 17(b)), were $165.8 million (2003 – $167.6 million).

### (p) Investments

The Company accounts for its investments in companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

The Company accounts for its other investments using the cost basis of accounting whereby investments are initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable.

Carrying values of equity and cost investments are reduced to estimated market values if there is other than a temporary decline in the value of the investment; such reduction recorded is included in the Consolidated Statements of Income as Other expense, net.

### (q) Employee future benefit plans

The Company accrues its obligations under employee defined benefit plans, and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees of the plan, as are past service costs and transitional assets and liabilities.

The Company uses defined contribution accounting for the union pension plan and public service pension plan that cover certain of the Company's employees.

### (r) Comparative amounts

Certain of the comparative amounts have been reclassified to conform to the presentation adopted currently.

# 2 accounting policy developments

### (a) Share-based compensation

Commencing with the Company's 2004 fiscal year, the amended recommendations of the CICA for accounting for share-based compensation (such amendments arising in 2003) (CICA Handbook Section 3870) apply to the Company. The amendments result in the Company no longer being able to use the intrinsic value based method of accounting for share options granted to employees for purposes of Canadian GAAP. The Company has selected the retroactive application without restatement method (also referred to as the modified-prospective transition method). The retroactive application without restatement method results in no share option expense being recognized in the Consolidated Statements of Income in fiscal years prior to 2004 (see Note 9(a)). The share option expense that is recognized in fiscal years subsequent to 2003 is in respect of share options granted after 2001 and vesting in fiscal periods subsequent to 2003.

To reflect the fair value of options granted subsequent to 2001, and vesting prior to 2004, certain components of common equity in the December 31, 2003, Consolidated Balance Sheet balances would have been restated as follows (had restatement occurred):

| (millions) | December 31, 2003, as previously reported | Cumulative transition adjustment for share-based compensation arising from share options | January 1, 2004 |
|---|---|---|---|
| Common equity | | | |
| Common shares | $ 2,349.1 | $ – | $ 2,349.1 |
| Non-voting shares | 3,296.6 | 0.4 | 3,297.0 |
| Options and warrants | 51.5 | – | 51.5 |
| Accrual for shares issuable under channel stock incentive plan | 0.6 | – | 0.6 |
| Cumulative foreign currency translation adjustment | (2.7) | – | (2.7) |
| Retained earnings | 741.7 | (25.1) | 716.6 |
| Contributed surplus | 5.9 | 24.7 | 30.6 |
| | $ 6,442.7 | $ – | $ 6,442.7 |

### (b) Equity settled obligations

Commencing with the Company's 2004 fiscal year, the Company early adopted the amended recommendations of the CICA for the presentation and disclosures of financial instruments (CICA Handbook Section 3860) specifically concerning the classification of obligations that an issuer can settle with its own equity instruments (such amendments arising in 2003). The amendments result in the Company's convertible debentures being classified as a liability on the Consolidated Balance Sheets and the associated interest expense correspondingly being classified with financing costs on the Consolidated Statements of Income. The conversion option embedded in the convertible debentures continues to be presented as a component of shareholders' equity. As required, these amended recommendations have been applied retroactively.

To reflect the reclassification of the convertible debentures as a liability, certain items of the Consolidated Statements of Income for the year ended December 31, 2003, have been restated as follows:

| Year ended December 31, 2003 (millions except per share amounts) | As previously reported | Adjustment to reflect convertible debentures as a liability | As currently reported |
|---|---|---|---|
| Operating revenues | $ 7,146.0 | $ – | $ 7,146.0 |
| Operating expenses | 5,983.0 | – | 5,983.0 |
| Operating income | 1,163.0 | – | 1,163.0 |
| Other expense, net | 23.3 | – | 23.3 |
| Financing costs | 628.0 | 11.3 | 639.3 |
| Income before income taxes and non-controlling interest | 511.7 | (11.3) | 500.4 |
| Income taxes (recovery) | 176.9 | (4.2) | 172.7 |
| Non-controlling interest | 3.3 | – | 3.3 |
| Net income | 331.5 | (7.1) | 324.4 |
| Preference and preferred share dividends | 3.5 | – | 3.5 |
| Interest on convertible debentures, net of income taxes | 7.1 | (7.1) | – |
| Common Share and Non-Voting Share income | $ 320.9 | $ – | $ 320.9 |
| Income per Common Share and Non-Voting Share | | | |
| – Basic | $ 0.92 | $ – | $ 0.92 |
| – Diluted | $ 0.91 | $ – | $ 0.91 |

To reflect the reclassification of the convertible debentures as a liability, certain line items of the December 31, 2003, Consolidated Balance Sheet balances have been restated as follows:

| (millions) | December 31, 2003, as previously reported | Adjustment to reflect convertible debentures as a liability | December 31, 2003, as currently reported |
|---|---|---|---|
| Accounts payable and accrued liabilities | $ 1,294.1 | $ 0.4 | $ 1,294.5 |
| Long-Term Debt | $ 6,469.4 | $ 140.4 | $ 6,609.8 |
| Shareholders' Equity | | | |
| Convertible debentures conversion option | $ – | $ 8.8 | $ 8.8 |
| Convertible debentures | $ 149.6 | $ (149.6) | $ – |

### (c) Rate regulation disclosure

Effective December 31, 2004, the Company early adopted the draft guidelines of the CICA for disclosures by entities subject to rate regulation that may apply to the Company in the future. This draft guideline results in incorporating, in the Company's specific instance, a discussion of rate regulation that affects it and how it affects the Company's consolidated financial statements (see Note 3).

### (d) Earnings per share

Commencing with the Company's 2005 fiscal year, proposed amendments to the recommendations of the CICA for the calculation and disclosure of earnings per share (CICA Handbook Section 3500) may apply to the Company. These proposed amendments, in the Company's specific instance, may result in the diluted earnings per share denominator being adjusted, using the reverse treasury stock method, for the theoretical issuance of shares from treasury to settle obligations arising from the issuance of restricted stock units (see Note 9(b)); for purposes of the calculation the Company will be required to assume that shares will be necessary to settle the obligation, and that the shares will be issued from treasury. The Company would not be materially affected by the proposed amendments to the recommendations.

### (e) Non-monetary transactions

Commencing in the Company's 2005 fiscal year, the amended recommendations of the CICA for measurement of non-monetary transactions (CICA Handbook Section 3830) will apply to the Company. The amended recommendations will result in non-monetary transactions normally being measured at their fair values, unless certain criteria are met. The Company's current operations are not materially affected by the amended recommendations.

### (f) Subsequent events

Commencing in the Company's 2005 fiscal year, the amended recommendations of the CICA for subsequent events (CICA Handbook Section 3820) will apply to the Company. The amended recommendations will result in closer harmony with the corresponding requirements of U.S. GAAP. The Company will not be materially affected by the amended recommendations.

### (g) Comprehensive income

Tentatively commencing with the Company's 2007 fiscal year, the new recommendations of the CICA for accounting for comprehensive income (CICA Handbook Section 1530) will apply to the Company. The timing is tentative, as application of the recommendations is not permitted prior to the CICA's completion of recommendations for accounting for the recognition and measurement of financial instruments (CICA Handbook Section 3855) and for hedges (CICA Handbook Section 3865). The concept of comprehensive income for purposes of Canadian GAAP will be to include changes in shareholders' equity arising from unrealized changes in the values of financial instruments.

## 3 regulation of rates charged to customers

### (a) General

The provision of telecommunications services by the Company through TELUS Communications Inc. and the TELE-MOBILE COMPANY partnership is subject to regulation under provisions of the *Telecommunications Act*. The regulatory authority designated to implement the *Telecommunications Act* is the CRTC, which is established pursuant to the terms of the *Canadian Radio-television and Telecommunications Act*.

Pursuant to Part III of the *Telecommunications Act*, the CRTC may forbear, conditionally or unconditionally, from regulating the rates for certain telecommunications services, or certain classes of telecommunications service providers, where the CRTC finds that the service or class of service provided by the telecommunications service provider is subject to competition sufficient to protect the interests of users. The TELE-MOBILE COMPANY partnership has, for example, been granted forbearance from regulation in relation to its entire portfolio of wireless and paging services. TELUS Communications Inc., in comparison, has been granted forbearance in relation to the setting of rates for a number of its wireline telecommunications services, including interexchange voice services, wide area network services and retail Internet services. TELUS Communications Inc. also operates as a forborne telecommunications service provider when it provides telecommunications services (primarily business local exchange service) outside of its traditional incumbent serving territory (Alberta, British Columbia and parts of Quebec) and, as such, all of its services are not subject to rate regulation.

The fact that the Company is subject to rate regulation does not result in the Company selecting accounting policies that would differ from generally accepted accounting principles.

Less than one-third of the Company's Communications segment revenues are currently subject to CRTC price regulation and none of the Company's Mobility segment revenues currently are. The major categories of telecommunications services provided by TELUS Communications Inc. that are subject to rate regulation or have been forborne from rate regulation are as follows:

| Regulated services | Forborne services (not subject to rate regulation) |
|---|---|
| • Residential wireline services in incumbent local exchange carrier regions<br>• Business wireline services in incumbent local exchange carrier regions<br>• Competitor services<br>• Public telephone services | • Non-incumbent local exchange carrier services<br>• Long distance services<br>• Internet services<br>• International telecommunication services<br>• Interexchange private line services<br>• Certain data services<br>• Cellular, enhanced specialized mobile radio digital (ESMR digital) and personal communications services digital (PCS digital)<br>• Other wireless services, including paging<br>• Sale of customer premises equipment (CPE) |

### (b) Price caps form of regulation

The CRTC has adopted a form of price cap regulation as the means by which it regulates the prices for the Company's telecommunications rate regulated services. The current four-year price regulation regime commenced on June 1, 2002, with the issuance of the CRTC's Decision 2002-34.

*Rate-setting methodology:* Under the current price regulation framework, services are separated into eight service categories, or sub-baskets. While the Company has a degree of flexibility to raise and lower rates in response to market pressures, prices for the sub-baskets are capped using a formula that depends on the relationship between the inflation rate (as measured by the chain-weighted Gross Domestic Product Price Index) and an estimate of the telephone companies' productivity gains, which the CRTC has set at 3.5% for each of the four years of the current price cap regime, irrespective of the unique operating conditions of each telephone company. On average, rates for basic residential services should not increase unless inflation goes above 3.5% whereas business services rates are allowed to increase equal to the annual inflation rate. Specific details on price cap constraints are as follows:

| | Price cap constraint | | | |
|---|---|---|---|---|
| Capped sub-basket | Inflation | Inflation less 3.5% productivity offset | Deferral account(1) | Overriding maximum annual increase |
| Residential services | | | | |
| In non-high cost service areas | | X | X | 5%(2) |
| In high cost service areas | | X | | 5%(2) |
| Business services | X | | | 10% |
| Other capped services | | X | | |
| Competitor services | | X | | |
| Public telephone services | | | | 0%(3) |
| Services with frozen rates (*e.g.* 9-1-1 service) | | | | 0% |

(1) When inflation is less than 3.5%, an amount equal to the revenue reduction otherwise required by the pricing constraint, but not implemented, will be placed in the deferral account (see Note 1(c), Note 16(a) and Note 17(b)). The Company may subsequently recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs in qualifying non-high cost service areas, rate reductions (including those mandatorily provided to competitors) and/or rebates to customers. The deferral account is the most significant obligation recorded on the Consolidated Balance Sheets that arises from the CRTC's regulatory authority.
(2) For residential optional features, the maximum annual increase is $1 per feature, excepting service bundles.
(3) The rates for payphone services will remain at current levels until the CRTC reviews payphone service policy issues.

### (c) Other non-price cap regulation

*Other:* The CRTC has adopted an imputation test filing requirement to set floor prices for rate regulated services. The imputation test filing requirements ensure that the incumbent telephone companies do not reduce rates for services below their costs in an effort to thwart competitive entry or engage in predatory pricing to drive out existing competitors.

*Unbundling of essential facilities:* In an effort to foster facilities-based competition in the provision of telecommunications services, the CRTC has mandated that certain essential or near-essential facilities be made available to competitors at rates based on their incremental costs plus an approved mark-up. The CRTC has defined essential facilities as facilities which are monopoly controlled, required by competitors as an input to provide services and which cannot be economically or technically duplicated by competitors (which include central office codes, subscriber listings and certain local loops in high-cost service areas). The incumbent local exchange carriers must provide certain non-essential facilities, which the CRTC deems to be near essential, such as local loop facilities in low cost areas and transiting arrangements, at prices determined as if they were essential facilities. This obligation on the part of the incumbent local exchange carriers will continue until the market for near essential loops and transiting arrangements is competitive.

*Voice contribution expense and portable subsidy revenue:* Local exchange carriers' costs of providing the level of basic residential services that the CRTC requires to be provided in high cost service areas is more than the CRTC allows the local exchange carriers to charge for the level of service. To ameliorate the situation, the CRTC collects contribution payments, in a central fund, from all Canadian telecommunication service providers (including voice, data and wireless service providers) that are then disbursed as portable subsidy payments to subsidize the costs of providing residential telephone services in high cost service areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per line/per band subsidy rate (see Note 1(c)). The CRTC currently determines, at a national level, the total contribution requirement necessary to pay the portable subsidies and then collects contribution payments from the Canadian telecommunication service providers, calculated as a percentage of their telecommunication service revenue (as defined in CRTC Decision 2000 – 745 and Telecom Order CRTC 2001-220). The final contribution expense rate for 2004 is 1.1% and the interim rate for 2005 has been similarly set at 1.1%. The Company's contributions to the central fund, $59.8 million for the year ended December 31, 2004 (2003 – $61.7 million), are accounted for as an operations expense and the portable subsidy receipts, $62.1 million for the year ended December 31, 2004 (2003 – $62.8 million), are accounted for as local revenue.

# 4 financial instruments

The Company's financial instruments consist of cash and temporary investments, accounts receivable, investments accounted for using the cost method (see Note 1(p)), accounts payable, restructuring and workforce reduction accounts payable, dividends payable, short-term obligations, long-term debt (including convertible debentures), interest rate swap agreements, restricted stock unit compensation cost hedges (see Note 9(b)) and foreign exchange hedges.

The Company uses various financial instruments, the fair values of some which are not reflected on the balance sheets, to reduce or eliminate exposure to interest rate and foreign currency risks and to reduce or eliminate exposure to increases in the compensation cost arising from a specific grant of restricted stock units. These instruments are accounted for on the same basis as the underlying exposure being hedged. The majority of these instruments, from a notional amount view, which were newly added during 2001, pertain to TELUS' U.S. Dollar borrowing. Use of these instruments is subject to a policy, which requires that no derivative transaction be effected for the purpose of establishing a speculative or a levered position, and sets criteria for the credit worthiness of the transaction counterparties.

*Price risk – interest rate:* The Company is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments, short-term obligations and long-term debt.

*Price risk – currency:* The Company is exposed to currency risks arising from fluctuations in foreign exchange rates on its U.S. Dollar denominated long-term debt. Currency hedging relationships have been established for the related semi-annual interest payments and principal payments at maturity (see Note 1(h) and Note 14(b)).

The Company's foreign exchange risk management also includes the use of foreign currency forward contracts to fix the exchange rates on short-term foreign currency transactions and commitments. Hedge accounting is applied to these short-term foreign currency forward contracts on an exception basis only.

As at December 31, 2004, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rates on U.S.$48 million of fiscal 2005 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the Mobility segment.

*Credit risk:* The Company is exposed to credit risk with respect to its short-term deposits, accounts receivable, interest rate swap agreements and foreign exchange hedges.

Credit risk associated with short-term deposits is minimized substantially by ensuring that these financial assets are placed with governments, well-capitalized financial institutions and other credit-worthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Company's large customer base, which covers all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Counterparties to the Company's interest rate swap agreements and foreign exchange hedges are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedges due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the nonperformance of its counterparties, the Company considers the risk of this remote; if all counterparties were not to perform, the pre-tax effect would be limited to the value of any deferred hedging asset.

*Fair value:* The carrying value of cash and temporary investments, accounts receivable, accounts payable, restructuring and workforce reduction accounts payable, dividends payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method would not exceed their fair values.

The fair values of the Company's long-term debt and convertible debentures are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated similarly.

| | 2004 | | 2003 | |
|---|---|---|---|---|
| (millions) | Carrying amount | Fair value | Carrying amount | Fair value |
| | | | | (restated – Note 2(b)) |
| Long-term debt | | | | |
| Principal(1) (Note 14) | $ 6,345.3 | $ 7,342.3 | $ 6,839.7 | $ 7,840.2 |
| Derivative financial instruments(2) used to manage interest rate and currency risks associated with U.S. dollar denominated debt (Note 17(b)) | 1,032.6 | 1,299.5 | 739.6 | 858.6 |
| Derivative financial instruments(2) used to manage interest rate risk associated with Canadian dollar denominated debt | – | 1.3 | – | – |
| | $ 7,377.9 | $ 8,643.1 | $ 7,579.3 | $ 8,698.8 |
| Derivative financial instruments(2) used to manage changes in compensation costs arising from restricted stock units (Note 9(b)) | $ 2.1 | $ 6.3 | $ – | $ – |
| Derivative financial instruments(2) used to manage currency risks arising from U.S. dollar denominated temporary investments | $ 3.4 | $ 3.4 | $ – | $ – |
| Derivative financial instruments(2) used to manage currency risks arising from U.S. dollar denominated purchases | | | | |
| – To which hedge accounting is applied | $ – | $ (2.6) | $ – | $ (0.1) |
| – To which hedge accounting is not applied | $ – | $ (2.0) | $ – | $ (0.2) |

(1) Carrying amount of long-term debt, for purposes of this table, includes the carrying amount of the convertible debenture conversion option.
(2) Notional amount of all derivative financial instruments outstanding is $5,651.6 (2003 – $4,822.9).

# 5 restructuring and workforce reduction costs

## (a) Overview

| Years ended December 31 (millions) | 2004 | | | 2003 |
|---|---|---|---|---|
| | Programs initiated in 2004 (b) | Operational Efficiency Program (2001–2003) (c) | Total | Operational Efficiency Program (2001–2003) (c) |
| Restructuring and workforce reduction costs | | | | |
| Workforce reduction | | | | |
| Voluntary | $ – | $ – | $ – | $ 1.9 |
| Involuntary | 49.7 | – | 49.7 | 13.1 |
| Lease termination | – | – | – | 2.4 |
| Other | 2.0 | 0.9 | 2.9 | 10.9 |
| | 51.7 | 0.9 | 52.6 | 28.3 |
| Disbursements | | | | |
| Workforce reduction | | | | |
| Voluntary (Early Retirement Incentive Plan, Voluntary Departure Incentive Plan and other) | – | 70.7 | 70.7 | 184.1 |
| Involuntary and other | 16.3 | 28.8 | 45.1 | 81.7 |
| Lease termination | – | 4.0 | 4.0 | 7.9 |
| Other | 1.8 | 1.3 | 3.1 | 14.0 |
| | 18.1 | 104.8 | 122.9 | 287.7 |
| Expenses greater than (less than) disbursements | 33.6 | (103.9) | (70.3) | (259.4) |
| Restructuring and workforce reduction accounts payable and accrued liabilities, beginning of year | – | 141.0 | 141.0 | 400.4 |
| Restructuring and workforce reduction accounts payable and accrued liabilities, end of year | $ 33.6 | $ 37.1 | $ 70.7 | $ 141.0 |

## (b) Programs initiated in 2004

In the first quarter of 2004, a departmental reorganization was initiated, primarily in the Communications segment information technology resources area, consolidating from 15 locations to two primary locations. This reorganization, which had an implementation cost in 2004 of approximately $12 million, is expected to enable greater efficiencies of scale and effectiveness of program delivery.

In the third quarter of 2004, a departmental reorganization was initiated in the Communications segment with the merging of two customer-facing business units. The resulting integration and consolidation aimed to improve the Company's competitiveness as well as its operating and capital productivity. This reorganization had an implementation cost in 2004 of approximately $24 million.

In addition to the foregoing initiatives, the Company had undertaken additional activities in 2004 aimed at improving its operating and capital productivity and competitiveness. These additional activities had a cost in 2004 of approximately $16 million.

## (c) Operational Efficiency Program (2001 – 2003)

In 2001, the Company initiated the phased Operational Efficiency Program aimed at improving the Company's operating and capital productivity and competitiveness. The first phase of the Operational Efficiency Program was to complete merger-related restructuring activities in TELUS Mobility and the reorganization for TELUS Communications. The second phase of the Operational Efficiency Program, which commenced at the beginning of 2002, continued to focus on reducing staff, but also entailed a comprehensive review of enterprise-wide processes to identify capital and operational efficiency opportunities. The third phase of the Operational Efficiency Program, which commenced in the third quarter of 2002, was focused on operationalizing the initiatives identified during the second phase review and included: streamlining of business processes; reducing the TELUS product portfolio and processes that support them; optimizing the use of real estate, networks and other assets; improving customer order management; reducing the scope of corporate support functions; consolidating operational and administrative functions; and consolidating customer contact centres.

As at December 31, 2004, no future costs remain to be recorded under the Operational Efficiency Program (2001–2003), but variances from estimates currently recorded may be recorded in subsequent periods.

## (d) 2005

The Company's estimate of restructuring and workforce reduction costs in 2005 is $100 million.

# 6 financing costs

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| Interest on long-term debt | $ 647.0 | $ 678.0 |
| Interest on short-term obligations and other | 8.5 | 5.0 |
| Foreign exchange[1] | (3.1) | (0.4) |
| | 652.4 | 682.6 |
| Interest income | | |
| Interest on tax refunds | (26.2) | (38.9) |
| Other interest income | (12.9) | (4.4) |
| | (39.1) | (43.3) |
| | $ 613.3 | $ 639.3 |

(1) For the year ended December 31, 2004, these amounts include gains (losses) of $(0.6) (2003 – $0.5) in respect of cash flow hedge ineffectiveness; no gains or losses were experienced arising from fair value hedge ineffectiveness.

# 7 income taxes

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| Current | $ (125.8) | $ (221.7) |
| Future | 380.9 | 394.4 |
| | $ 255.1 | $ 172.7 |

The Company's income tax expense differs from that calculated by applying statutory rates for the following reasons:

| Years ended December 31 ($ in millions) | 2004 | | 2003 | |
|---|---|---|---|---|
| | | | *(restated – Note 2(b))* | |
| Basic blended federal and provincial tax at statutory income tax rates | $ 286.6 | 34.7% | $ 185.7 | 37.1% |
| Tax rate differential on, and consequential adjustments from, settlement of prior year tax issues | (50.3) | | (49.7) | |
| Revaluation of future tax assets and liabilities for changes in statutory income tax rates | (12.9) | | 13.6 | |
| Share option compensation | 6.6 | | – | |
| Other | 6.6 | | 1.8 | |
| | 236.6 | 28.7% | 151.4 | 30.3% |
| Large corporations tax | 18.5 | | 21.3 | |
| Income tax expense per Consolidated Statements of Income | $ 255.1 | 30.9% | $ 172.7 | 34.5% |

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its future income tax assets and future income tax liabilities. The operations of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. Temporary differences comprising the future tax assets (liabilities) are estimated as follows:

| (millions) | 2004 | 2003 |
|---|---|---|
| Capital assets | | |
| Property, plant, equipment, other and intangible assets subject to amortization | $ (13.4) | $ 95.3 |
| Intangible assets with indefinite lives | (991.9) | (1,007.0) |
| Reserves not currently deductible | 167.9 | 156.1 |
| Losses available to be carried forward | 424.9 | 622.2 |
| Other | (41.2) | 56.4 |
| | $ (453.7) | $ (77.0) |
| Presented on the Consolidated Balance Sheets as: | | |
| Future tax assets | | |
| Current | $ 438.4 | $ 304.0 |
| Non-current | 99.8 | 626.0 |
| | 538.2 | 930.0 |
| Future tax liabilities | (991.9) | (1,007.0) |
| Net future tax assets (liabilities) | $ (453.7) | $ (77.0) |

The Company expects to be able to fully utilize its non-capital losses over the next several years. The Company's assessment is that the risk of expiry of such non-capital losses is remote.

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits. During the year ended December 31, 2004, the Company recorded Investment Tax Credits of $0.6 million (2003 – $1.5 million) of which $0.6 million (2003 – $1.3 million) was recorded as a reduction of Operations expense and the balance was recorded as a reduction of capital expenditures.

# 8 per share amounts

Basic income per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income by the total weighted average Common Shares and Non-Voting Shares outstanding during the period. Diluted income per Common Share and Non-Voting Share is calculated to give effect to share options and warrants and shares issuable on conversion of debentures.

The following tables present the reconciliations of the numerators and denominators of the basic and diluted per share computations.

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| Net income | $ 565.8 | $ 324.4 |
| Deduct: | | |
| Preference and preferred share dividends | 1.8 | 3.5 |
| Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 15(b)) | 2.3 | – |
| Diluted Common Share and Non-Voting Share income | $ 561.7 | $ 320.9 |

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Basic total weighted average Common Shares and Non-Voting Shares outstanding | 355.3 | 349.3 |
| Effect of dilutive securities | | |
| Exercise of share options and warrants | 2.3 | 2.5 |
| Diluted total weighted average Common Shares and Non-Voting Shares outstanding | 357.6 | 351.8 |

For the year ended December 31, 2004, certain outstanding share options, in the amount of 7.9 million (2003 – 17.9 million) were not included in the computation of diluted income per Common Share and Non-Voting Share because the share options' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods. Convertible debentures, which were convertible into 3.8 million shares, were not included in the computation of diluted income per Common Share and Non-Voting Share as they were antidilutive.

# 9 share-based compensation

### (a) Share options

Effective January 1, 2004, for purposes of Canadian generally accepted accounting principles, the Company applies the fair value based method of accounting for share-based compensation awards granted to employees. As the Company has selected the retroactive application without restatement method (see Note 2(a)), it must disclose the impact on net income and net income per Common Share and Non-Voting Share as if the fair value based method of accounting for the share-based compensation had been applied in the comparative period.

| Years ended December 31 (millions except per share amounts) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| Net income | | |
| As reported | $ 565.8 | $ 324.4 |
| Add: Share-based compensation arising from share options included in reported net income | 19.1 | – |
| Deduct: Share-based compensation arising from share options determined under the fair value based method for all awards | (19.1) | (18.4) |
| Pro forma | $ 565.8 | $ 306.0 |
| Net income per Common Share and Non-Voting Share | | |
| Basic | | |
| As reported (using fair value method) | $ 1.58 | N/A(2) |
| As reported (using intrinsic value method) | N/A(1)(2) | $ 0.92 |
| Pro forma (using fair value method) | $ 1.58 | $ 0.87 |
| Diluted | | |
| As reported (using fair value method) | $ 1.57 | N/A(2) |
| As reported (using intrinsic value method) | N/A(1)(2) | $ 0.91 |
| Pro forma (using fair value method) | $ 1.57 | $ 0.86 |

(1) For the year ended December 31, the per share amount of share-based compensation arising from share options determined under the fair value based method for all awards per Common Share and Non-Voting Share would be $0.05 basic and diluted.
(2) N/A – Net income per Common Share and Non-Voting Share have not been presented using the method indicated in the period indicated.

As only share options granted after 2001 are included, these disclosures are not likely to be representative of the effects on reported net income for future years. These disclosures reflect weighted average fair values of $7.76 (2003 – $6.63) for options granted in the year ended December 31, 2004. Share options typically vest over a three-year period and the vesting method of options, which is determined at the date of grant, may be either cliff or graded. The fair value of each option granted is estimated at the time of grant using the Black-Scholes model with weighted average assumptions for grants as follows:

| | 2004 | 2003 |
|---|---|---|
| Risk free interest rate | **3.9%** | 4.5% |
| Expected lives (years) | **4.5** | 4.5 |
| Expected volatility | **40.0%** | 40.0% |
| Dividend yield | **2.5%** | 2.9% |

Had weighted average assumptions for grants of share options that are reflected in the disclosures above been varied by 10 per cent and 20 per cent changes, the compensation cost arising from share options for the year ended December 31, 2004, would have varied as follows:

| ($ in millions) | Hypothetical change in assumptions[(1)] 10% | 20% |
|---|---|---|
| Risk free interest rate | $ 0.4 | $ 0.8 |
| Expected lives (years) | $ 0.6 | $ 1.1 |
| Expected volatility | $ 1.6 | $ 3.2 |
| Dividend yield | $ 0.6 | $ 1.2 |

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in a decreased amount, and unfavourable hypothetical changes in the assumptions result in an increased amount, of the pro forma compensation cost arising from share options. As the figures indicate, changes in fair value based on a 10 per cent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear; in particular, variations in expected lives are constrained by vesting periods and legal lives. Also, in this table, the effect of a variation in a particular assumption on the amount of the pro forma compensation cost arising from share options is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in risk free interest rates may result in increased dividend yields), which might magnify or counteract the sensitivities.

### (b) Other share-based compensation

The Company uses restricted stock units as a form of incentive compensation. Each restricted stock unit is equal in value to one Non-Voting Share and the dividends that would have arisen thereon had it been an issued and outstanding Non-Voting Share are recorded as additional restricted stock units during the life of the restricted stock unit. The restricted stock units become payable as they vest over their lives (typically the vesting period is 33 months and the vesting method, which is determined at the date of grant, may be either cliff or graded). Reflected in the Consolidated Statements of Income as Operations expense for the year ended December 31, 2004, is compensation expense arising from restricted stock units of $9.4 million (2003 – $1.6 million).

The following table presents a summary of the activity related to the Company's restricted stock units.

| Years ended December 31 | 2004 | | 2003 | |
|---|---|---|---|---|
| | Number of restricted stock units | Weighted average price | Number of restricted stock units | Weighted average price |
| Outstanding, beginning of year | **316,630** | | 77,970 | |
| Issued | | | | |
| Initial allocation | **884,624** | **$ 24.11** | 229,973 | $ 16.35 |
| In lieu of dividends | **27,479** | **25.02** | 8,687 | 20.34 |
| Settled | **(184,513)** | **25.04** | – | – |
| Forfeited and cancelled | **(45,733)** | **26.31** | – | – |
| Outstanding, end of year | **998,487** | | 316,630 | |

With respect to restricted stock units issued in the first quarter of 2004, and which cliff vest in the fourth quarter of 2006, the Company entered into a cash-settled equity forward agreement that fixes the cost to the Company at $26.61 per restricted stock unit in respect of 652,550 restricted stock units. The counterparty of the cash-settled equity forward agreement is a highly rated financial institution and the Company does not anticipate any non-performance. TELUS has not required collateral or other security from the counterparty due to its assessment of their creditworthiness (see Note 4).

# 10 accounts receivable

On July 26, 2002, TELUS Communications Inc., a wholly-owned subsidiary of TELUS, entered into an agreement, which was amended September 30, 2002, with an arm's-length securitization trust under which TELUS Communications Inc. is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. As a result of selling the interest in certain of the trade receivables on a fully-serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables. This revolving-period securitization agreement has an initial term ending July 18, 2007. TELUS Communications Inc. is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service or the securitization trust may require the sale program to be wound down prior to the end of the initial term; at December 31, 2004, the rating was BBB (high).

| (millions) | 2004 | 2003 |
|---|---|---|
| Total managed portfolio | $ 1,021.7 | $ 1,036.9 |
| Securitized receivables | (181.3) | (369.5) |
| Retained interest in receivables sold | 23.1 | 56.4 |
| Receivables held | $ 863.5 | $ 723.8 |

For the year ended December 31, 2004, the Company recognized losses of $1.1 million (2003 – $3.9 million) on the sale of receivables arising from the securitization.

Cash flows from the securitization are as follows:

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Cumulative proceeds from securitization, beginning of year | $ 300.0 | $ 475.0 |
| Proceeds from new securitizations | – | 34.0 |
| Securitization reduction payments | (150.0) | (209.0) |
| Cumulative proceeds from securitization, end of year | $ 150.0 | $ 300.0 |
| Proceeds from collections reinvested in revolving period securitizations | $ 1,745.6 | $ 4,112.3 |
| Proceeds from collections pertaining to retained interest | $ 313.6 | $ 875.1 |

The key economic assumptions used to determine the loss on sale of receivables, the future cash flows and fair values attributed to the retained interest (see Note 1(l)) are as follows:

| Years ended December 31 | 2004 | 2003 |
|---|---|---|
| Expected credit losses as a percentage of accounts receivable sold | 1.4% | 1.5% |
| Weighted average life of the receivables sold (days) | 39 | 40 |
| Effective annual discount rate | 3.4% | 4.3% |
| Servicing | 1.0% | 1.0% |

Generally, the sold trade receivables do not experience prepayments.

At December 31, 2004, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 per cent and 20 per cent changes in those assumptions are as follows:

| | | Hypothetical change in assumptions(1) | |
|---|---|---|---|
| ($ in millions) | 2004 | 10% | 20% |
| Carrying amount/fair value of future cash flows | $ 23.1 | | |
| Expected credit losses as a percentage of accounts receivable sold | | $ 0.2 | $ 0.4 |
| Weighted average life of the receivables sold (days) | | $ – | $ – |
| Effective annual discount rate | | $ – | $ – |

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased value, and unfavourable hypothetical changes in the assumptions result in a decreased value, of the retained interest in receivables sold. As the figures indicate, changes in fair value based on a 10 per cent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in increased credit losses), which might magnify or counteract the sensitivities.

# 11 capital assets

## (a) Capital assets, net

| | Cost | Accumulated depreciation and amortization | Net book value | |
|---|---|---|---|---|
| (millions) | | | **2004** | 2003 |
| Property, plant, equipment and other | | | | |
| Telecommunications assets | $ 17,205.0 | $ 11,337.1 | **$ 5,867.9** | $ 6,002.4 |
| Assets leased to customers | 421.3 | 368.4 | **52.9** | 60.0 |
| Buildings and leasehold improvements | 1,672.8 | 820.2 | **852.6** | 832.0 |
| Office equipment and furniture | 969.5 | 715.7 | **253.8** | 265.0 |
| Assets under capital lease | 15.6 | 3.9 | **11.7** | 14.2 |
| Other | 328.4 | 237.3 | **91.1** | 113.8 |
| Land | 46.8 | – | **46.8** | 49.0 |
| Plant under construction | 329.6 | – | **329.6** | 405.0 |
| Materials and supplies | 21.8 | – | **21.8** | 22.9 |
| | 21,010.8 | 13,482.6 | **7,528.2** | 7,764.3 |
| Intangible assets subject to amortization | | | | |
| Subscriber base | 362.9 | 94.7 | **268.2** | 289.7 |
| Software | 1,160.4 | 772.0 | **388.4** | 473.7 |
| Access to rights-of-way and other | 123.5 | 43.1 | **80.4** | 81.3 |
| | 1,646.8 | 909.8 | **737.0** | 844.7 |
| Intangible assets with indefinite lives | | | | |
| Spectrum licences(1) | 3,974.3 | 1,018.5 | **2,955.8** | 2,954.6 |
| | $ 26,631.9 | $ 15,410.9 | **$ 11,221.0** | $ 11,563.6 |

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

Included in capital expenditures for the year ended December 31, 2004, were additions of intangible assets subject to amortization of $227.8 million (2003 – $213.0 million) and intangible assets with indefinite lives of $1.2 million (2003 – $1.5 million).

The Company's estimate of 2005 expenditures for capital assets is approximately $1,300 million to $1,400 million. Purchase commitments have been made in connection with a portion of these capital assets as at December 31, 2004. In January 2005, the Company acquired, at auction, spectrum licences for $8.8 million.

## (b) Intangible assets subject to amortization

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at December 31, 2004, for each of the next five fiscal years is as follows:

| Years ending December 31 (millions) | |
|---|---|
| 2005 | $ 259.9 |
| 2006 | 152.8 |
| 2007 | 63.4 |
| 2008 | 14.3 |
| 2009 | 8.5 |

## (c) Intangible assets with indefinite lives

As referred to in Note 1(b) and Note 1(f), the carrying value of intangible assets with indefinite lives and goodwill are periodically tested for impairment and this test represents a significant estimate for the Company. There is a material degree of uncertainty with respect to this estimate given the necessity of making key economic assumptions about the future. The Company considers a range of reasonably possible amounts and decides upon an amount that represents management's best estimate. If the future was to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to be materially adversely affected, the Company could potentially experience future material impairment charges in respect of its intangible assets with indefinite lives and goodwill.

Consistent with current industry-specific valuation methods, the Company uses a discounted cash flow model combined with a market-based approach as a part of determining the fair value of its spectrum licences and goodwill. The discounted cash flow methodology uses management's best estimate of the cash flows and a discount rate established by calculating a weighted average cost of capital for each reporting unit. The market comparable approach uses current (at the time of test) market consensus estimates and equity trading prices for U.S. and Canadian firms in the same industry. In addition, the Company ensures that the combination of the valuations of the reporting units is reasonable based on current market values of the Company.

Based upon sensitivity testing conducted as a part of the December 2004 annual test, and the results of operations for 2004, the Company estimates that its annual cash flows would be sufficient to recover its carrying value of its intangible assets with indefinite lives and goodwill. A component of the sensitivity testing was a break-even analysis; an assumption of no growth rate, with all other assumptions being held constant, resulted in the Company continuing to be able to recover its carrying value of intangible assets with indefinite lives and goodwill for the foreseeable future. Stress testing included moderate declines in annual cash flows with all other assumptions being held constant; this too resulted in the Company continuing to be able to recover its carrying value of intangible assets with indefinite lives and goodwill for the foreseeable future.

# 12 goodwill

For the year ended December 31, 2004, goodwill additions, arising from acquisitions and other, and in 2003, contingent consideration paid in respect of a prior year's acquisition, were $8.8 million (2003 – $1.2 million). For the year ended December 31, 2004, there were no reductions of goodwill (2003 – $7.8 million arising from the disposition of minor businesses).

The 2004 goodwill addition, none of which is expected to be deductible for tax purposes, arose from the November 15, 2004, cash acquisition of ADCOM, Inc., a national videoconferencing company. Effective the same date, ADCOM, Inc.'s results are included in the Company's Consolidated Statements of Income and are included in the Company's Communications segment.

The following is a summarized balance sheet disclosing the fair values assigned to each major asset and liability class as at the date of acquisition:

| (millions) | |
|---|---|
| **Assets** | |
| Current Assets | $ 5.9 |
| Capital Assets, Net | |
| Property, plant, equipment and other | 1.0 |
| Intangible assets subject to amortization[(1)] | 1.5 |
| | 2.5 |
| Other Assets | |
| Future income taxes | 2.9 |
| Goodwill | 6.9 |
| | 9.8 |
| | $ 18.2 |
| **Liabilities** | |
| Current Liabilities | $ 5.6 |
| Future Income Taxes | 0.4 |
| | 6.0 |
| **Purchase Price** | 12.2 |
| | $ 18.2 |

(1) Intangible assets subject to amortization will be amortized on a straight-line basis over four years.

In February 2005, the Company invested approximately $26.5 million in a joint venture, with operations in Asia, which provides inbound sales and customer care solutions to U.S.-based clients.

# 13 short-term obligations

At December 31, 2004, the Company's available bilateral bank facilities totalled $74 million (2003 – $74 million), none of which was utilized in the form of an overdraft (2003 – $3.3 million) and $7.2 million (2003 – $24 million) was utilized as outstanding undrawn letters of credit.

# 14 long-term debt

### (a) Details of long-term debt

($ in millions)

| Series | Rate | Maturity | 2004 | 2003 |
|---|---|---|---|---|
| | | | | *(restated – Note 2(b))* |
| TELUS Corporation Notes | | | | |
| CA | 7.5%(1) | June 2006 | **$ 1,574.6** | $ 1,572.1 |
| U.S. | 7.5%(1) | June 2007 | **1,398.6** | 1,507.4 |
| U.S. | 8.0%(1) | June 2011 | **2,303.9** | 2,484.4 |
| | | | **5,277.1** | 5,563.9 |
| TELUS Corporation Convertible Debentures | 6.75%(1) | June 2010 | **141.6** | 140.4 |
| TELUS Corporation Credit Facilities | –%(2) | May 2008 | **–** | 7.0 |
| TELUS Communications Inc. Debentures | | | | |
| 1 | 12.00%(1) | May 2010 | **50.0** | 50.0 |
| 2 | 11.90%(1) | November 2015 | **125.0** | 125.0 |
| 3 | 10.65%(1) | June 2021 | **175.0** | 175.0 |
| 5 | 9.65%(1) | April 2022 | **249.0** | 249.0 |
| A | 9.50%(1) | August 2004 | **–** | 189.5 |
| B | 8.80%(1) | September 2025 | **200.0** | 200.0 |
| | | | **799.0** | 988.5 |
| TELUS Communications Inc. First Mortgage Bonds(3) | | | | |
| U | 11.50%(1) | July 2010 | **30.0** | 30.0 |
| TELUS Communications Inc. Medium Term Notes(3) | | | | |
| 1 | 7.10%(1) | February 2007 | **70.0** | 70.0 |
| TELUS Communications Inc. Medium Term Note Debentures | | | | |
| 96-9 | 6.375%(1) | August 2004 | **–** | 20.0 |
| 99-1 | 7.25%(1) | June 2030 | **0.1** | 0.1 |
| | | | **0.1** | 20.1 |
| TELUS Communications Inc. Senior Discount Notes | | | **–** | 0.4 |
| Capital leases issued at varying rates of interest from 4.1% to 8.5% and maturing on various dates up to 2011 | | | **10.7** | 10.3 |
| Other | | | **8.0** | 0.3 |
| Total debt | | | **6,336.5** | 6,830.9 |
| Less – current maturities | | | **4.3** | 221.1 |
| Long-Term Debt | | | **$ 6,332.2** | $ 6,609.8 |

(1) Interest is payable semi-annually.
(2) Weighted average rate as at December 31, 2004 (December 31, 2003 – 4.875%).
(3) Pursuant to a July 1, 2004, internal transaction between two wholly-owned subsidiaries, these former TELUS Communications (Québec) Inc. debts became obligations of TELUS Communications Inc. on July 1, 2004.

### (b) TELUS Corporation notes

The notes are senior, unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all existing and future unsecured, unsubordinated obligations of the Company, are senior in right of payment to all existing and future subordinated indebtedness of the Company, and are effectively subordinated to all existing and future obligations of, or guaranteed by, the Company's subsidiaries.

The indentures governing the notes contain certain covenants which, among other things, place limitations on the ability of TELUS and certain of its subsidiaries to: grant security in respect of indebtedness, enter into sale and lease-back transactions and incur new indebtedness.

*2006 (Canadian Dollar) Notes:* In May 2001, the Company issued $1.6 billion Notes at a price of $992.30 per $1,000.00 of principal to the public. The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 and not more than 60 days' prior notice, at a redemption price equal to the greater of (a) the present value of the notes discounted at the Government of Canada yield plus 35 basis points, or (b) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

*2006 Interest Rate Swap Agreements:* In 2004 the Company entered into a series of interest rate swap agreements which result in the notional conversion of $500 million of the 2006 (Canadian Dollar) Notes from a fixed interest rate of 7.5% to a floating interest rate based upon the three-month Banker's Acceptance Canadian Dollar Offered Rate plus a spread. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. TELUS has not required collateral or other security from the counterparties due to its assessment of their credit-worthiness (see Note 4).

*2007 and 2011 (U.S. Dollar) Notes:* In May 2001, the Company issued U.S.$1.3 billion 2007 Notes at a price of U.S.$995.06 per U.S.$1,000.00 of principal to the public and U.S.$2.0 billion 2011 Notes at a price of U.S.$994.78 per U.S.$1,000.00 of principal to the public. The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 nor more than 60 days' prior notice, at a redemption price equal to the greater of (a) the present value of the notes discounted at the Adjusted Treasury Rate plus 25 basis points in the case of the 2007 Notes and 30 basis points in the case of the 2011 Notes, or (b) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

*2007 and 2011 Cross Currency Interest Rate Swap Agreements:* With respect to the 2007 and 2011 (U.S. Dollar) Notes, U.S.$3.1 billion (2003 – U.S.$3.1 billion) in aggregate, the Company entered into cross currency interest rate swap agreements which effectively convert the principal repayments and interest obligations to Canadian dollar obligations with effective fixed interest rates of 8.109% (2003 – 8.109%) and 8.493% (2003 – 8.493%), respectively.

The cross currency interest rate swap agreements contain an optional early termination provision which states that either party may elect to terminate these swap agreements on May 30, 2006, if (1) the highest of the long term unsecured unsubordinated debt ratings of the Company falls below BBB as determined by Standard & Poor's Rating Services or Baa2 as determined by Moody's Investors Service or (2) in the case of these two ratings having a difference of two or more rating increments, the lower of the two ratings is below BBB- or Baa3 or (3) the rating for the Company's counterparties fall below A or A2.

The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. TELUS has not required collateral or other security from the counter-parties due to its assessment of their creditworthiness (see Note 4).

As disclosed in Note 1(g), the Company translates items such as the U.S. Dollar notes into equivalent Canadian dollars at the rate of exchange in effect at the balance sheet date. The swap agreements, which at December 31, 2004, comprised a deferred hedging liability of $1,032.6 million (see Note 17(b)) (2003 – $739.6 million), in addition to fixing the Company's effective interest rate, effectively fix the economic exchange rate of the U.S. Dollar notes at $1.54:U.S.$1.00 (2003 – $1.54:U.S.$1.00). The asset value of the swap agreements increases (decreases) when the balance sheet date exchange rate increases (decreases) the Canadian dollar equivalent of the U.S. Dollar notes.

### (c) TELUS Corporation convertible debentures

The 6.75% convertible debentures are unsecured, subordinated obligations of the Company which mature on June 15, 2010, and are convertible at the holders' option into Non-Voting Shares of the Company at a rate reflecting a share price of $39.73. The convertible debentures were not redeemable prior to June 15, 2003. Redemption in the period from June 15, 2003, through June 15, 2005, is allowed provided that the average trading price of the Non-Voting Shares for a defined period exceeds 125% of the conversion price.

The holder's embedded conversion option is valued using the residual value approach and continues to be presented as a component of shareholders' equity (see Note 2(b) and Note 15(a)).

On February 16, 2005, the Company announced its intention to redeem its $149.6 million of 6.75% convertible debentures at par, plus accrued and unpaid interest, on June 16, 2005.

### (d) TELUS Corporation credit facilities

TELUS Corporation's syndicated bank credit facilities at December 31, 2004, consist of: i) an $800 million (or U.S. Dollar equivalent) revolving credit facility expiring on May 7, 2008, used for general corporate purposes, and ii) an $800 million (or U.S. Dollar equivalent) 364-day revolving credit facility which is extendible at the Company's option on a non-revolving basis for any amounts outstanding on May 6, 2005, for one year on a non-revolving basis. These new facilities, which were put in place in the second of quarter of 2004, replaced the Company's existing committed credit facilities prior to the availability termination dates of such facilities.

TELUS Corporation's credit facilities are unsecured and bear interest at prime rate, U.S. Dollar Base Rate, a bankers' acceptance rate or London interbank offered rate (LIBOR) (all such terms as used or defined in the credit facilities), plus applicable margins. The credit facilities contain customary representations and warranties and covenants including two financial quarter end financial ratio tests. The financial ratio tests are that the Company may not permit its long-term debt to operating cash flow ratio to exceed 4.0:1 and may not permit its operating cash flow to interest expense ratio to be less than 2.0:1, each as defined under the credit facilities.

Continued access to TELUS Corporation's credit facilities is not contingent on the maintenance by TELUS Corporation of a specific credit rating.

Outstanding undrawn letters of credit, as at December 31, 2004, under the facility maturing May 7, 2008, totalled $102.6 million. The 364-day facility was undrawn at year-end and there were no outstanding undrawn letters of credit.

### (e) TELUS Communications Inc. debentures

The outstanding Series 1 through 5 debentures were issued by BC TEL, a predecessor corporation of TELUS Communications Inc., under a Trust Indenture dated May 31, 1990 and are non-redeemable.

The outstanding Series A Debentures and Series B Debentures were issued by AGT Limited, a predecessor corporation of TELUS Communications Inc., under a Trust Indenture dated August 24, 1994 and a supplemental trust indenture dated September 22, 1995 relating to Series B Debentures only. They are redeemable at the option of the Company, in whole at any time or in part from time to time, on not less than 30 days' notice at the Government of Canada Yield plus 15 basis points. During 1995 the Company terminated an interest rate swap contract relating to the Series A Debentures and realized a gain on early termination in the amount of $16.8 million which was being amortized and credited to interest expense over the remaining term of the Series A Debentures. The amortization of the gain resulted in an effective rate of interest on Series A Debentures in 2004 of 8.79% (2003 – 8.79%).

Pursuant to an amalgamation on January 1, 2001, all these Debentures became obligations of TELUS Communications Inc. The debentures are not secured by any mortgage, pledge or other charge and are governed by certain covenants including a negative pledge and a limitation on issues of additional debt, subject to a debt to capitalization ratio and interest coverage test.

### (f) TELUS Communications Inc. first mortgage bonds

The first mortgage bonds are secured by an immovable hypothec and by a movable hypothec charging specifically certain immovable and movable property of the subsidiary TELUS Communications Inc., such as land, buildings, equipment, apparatus, telephone lines, rights-of-way and similar rights limited to certain assets located in the province of Quebec. The first mortgage bonds are not redeemable prior to maturity. Pursuant to a corporate reorganization effected July 1, 2004, the outstanding TELUS Communications (Québec) Inc. First Mortgage Bonds became obligations of TELUS Communications Inc.

### (g) TELUS Communications Inc. medium term note program

The medium term notes were issued under a trust indenture dated September 1, 1994 as supplemented from time to time, and are unsecured and not redeemable prior to maturity. New issues of medium term notes are subject to restrictions as to debt ratio and interest coverage. Pursuant to a corporate reorganization effected July 1, 2004, the outstanding TELUS Communications (Québec) Inc. Medium Term Notes became obligations of TELUS Communications Inc.

### (h) TELUS Communications Inc. medium term note programs

At December 31, 2004, TELUS Communications Inc. had one series of extendible medium term notes outstanding. These unsecured notes were originally issued by BC TEL pursuant to a Trust Indenture dated May 31, 1990 and a supplement dated October 24, 1994. In June 2000, $200 million of 6.4% notes were issued that were to mature in June 2003 and were extendible to 2030 at the option of the holder. If extended, the coupon rate increases to 7.25%. In June 2003, $150.9 million of the notes matured and were repaid. At December 31, 2004, the remaining series of medium term notes has maturities of $0.1 million in 2030.

### (i) TELUS Communications Inc. Senior Discount Notes

In June 2001, the indentures governing the notes were amended by supplemental indentures pursuant to an Offer to Repay and Consent Solicitation. The effect of the supplemental indentures was to remove the limitations on business activities previously imposed by restrictive covenants. The Offer to Repay resulted in the redemption of approximately 99.9% of the four series of Senior Discount Notes. Pursuant to a corporate reorganization effected September 30, 2002, the outstanding Clearnet Inc. Senior Discount Notes became obligations of TELUS Communications Inc.

### (j) Debt covenants

As at December 31, 2004, the Company and its subsidiaries are in compliance with all of their debt covenants.

### (k) Long-term debt maturities

Anticipated requirements to meet long-term debt repayments during each of the five years ending December 31 are as follows:

| (millions) | Total(1) |
|---|---|
| 2005 | $ 4.3 |
| 2006 | 1,586.5 |
| 2007 | 1,870.4 |
| 2008 | 2.8 |
| 2009 | 0.9 |

(1) Where applicable, repayments reflect hedged foreign exchange rates.

# 15 shareholders' equity

### (a) Details of shareholders' equity

| ($ in millions except per share amounts) | | | | | 2004 | 2003 |
|---|---|---|---|---|---|---|
| | | | | | | *(restated – Note 2(b))* |
| Convertible debentures conversion option (Note 14(c)) | | | | | $ 8.8 | $ 8.8 |
| TELUS Communications Inc. Preference Shares and Preferred Shares (b) | | | | | | |
| Authorized | | Amount | | | | |
| Non-voting first preferred shares | | Unlimited | | | | |
| Issued | | | | Redemption | | |
| Cumulative | | | | premium | | |
| $6.00 | Preference | — | (Dec. 31, 2003 – 8,090) | 10.0% | – | 0.8 |
| $4.375 | Preferred | — | (Dec. 31, 2003 – 53,000) | 4.0% | – | 5.3 |
| $4.50 | Preferred | — | (Dec. 31, 2003 – 47,500) | 4.0% | – | 4.8 |
| $4.75 | Preferred | — | (Dec. 31, 2003 – 71,250) | 5.0% | – | 7.1 |
| $4.75 | Preferred (Series 1956) | — | (Dec. 31, 2003 – 71,250) | 4.0% | – | 7.1 |
| $5.15 | Preferred | — | (Dec. 31, 2003 – 114,700) | 5.0% | – | 11.5 |
| $5.75 | Preferred | — | (Dec. 31, 2003 – 96,400) | 4.0% | – | 9.6 |
| $6.00 | Preferred | — | (Dec. 31, 2003 – 42,750) | 5.0% | – | 4.3 |
| $1.21 | Preferred | — | (Dec. 31, 2003 – 768,400) | 4.0% | – | 19.2 |
| | | | | | – | 69.7 |
| Preferred equity | | | | | | |
| Authorized | | Amount | | | | |
| First Preferred Shares | | 1,000,000,000 | | | | |
| Second Preferred Shares | | 1,000,000,000 | | | | |
| Common equity | | | | | | |
| Shares | | | | | | |
| Authorized | | Amount | | | | |
| Common Shares | | 1,000,000,000 | | | | |
| Non-Voting Shares | | 1,000,000,000 | | | | |
| Issued | | | | | | |
| Common Shares (c) | | | | | 2,407.5 | 2,349.1 |
| Non-Voting Shares (c) | | | | | 3,426.7 | 3,296.6 |
| Options and warrants (d) | | | | | 26.9 | 51.5 |
| Accrual for shares issuable under channel stock incentive plan (e) | | | | | 0.8 | 0.6 |
| Cumulative foreign currency translation adjustment | | | | | (2.2) | (2.7) |
| Retained earnings | | | | | 1,008.1 | 741.7 |
| Contributed surplus (f) | | | | | 149.0 | 5.9 |
| | | | | | 7,016.8 | 6,442.7 |
| Total Shareholders' Equity | | | | | $ 7,025.6 | $ 6,521.2 |

### (b) TELUS Communications Inc. preference and preferred shares

Pursuant to its right to redeem the Preference and Preferred shares upon giving three months' previous notice, on March 25, 2004, TELUS Communications Inc. issued notices of redemption for all nine classes of its outstanding publicly traded preference and preferred shares for redemption during the third quarter of 2004 for total consideration of approximately $72.8 million. Of the redemption premium of $3.1 million, $0.8 million is chargeable against contributed surplus with the balance being charged to retained earnings.

### (c) Changes in Common Shares and Non-Voting Shares

| Years ended December 31 | 2004 | | 2003 | |
|---|---|---|---|---|
| | Number of shares | Amount (millions) | Number of shares | Amount (millions) |
| **Common Shares** | | | | |
| Beginning of year | 190,800,015 | $ 2,349.1 | 187,271,994 | $ 2,275.1 |
| Exercise of share options (g) | 267,584 | 6.5 | 36,682 | 0.7 |
| Employees' purchase of shares (h) | 2,235,290 | 56.1 | 3,175,129 | 67.1 |
| Dividends reinvested in shares | 201,560 | 5.2 | 316,210 | 6.2 |
| Purchase of shares for cancellation pursuant to normal course issuer bid (i) | (755,711) | (9.4) | – | – |
| End of year | 192,748,738 | $ 2,407.5 | 190,800,015 | $ 2,349.1 |
| **Non-Voting Shares** | | | | |
| Beginning of year | 161,042,369 | $ 3,296.6 | 158,407,931 | $ 3,243.2 |
| Transitional amount for share-based compensation arising from share options (Note 2(a)) | – | 0.4 | – | – |
| Adjusted opening balance | 161,042,369 | 3,297.0 | 158,407,931 | 3,243.2 |
| Exercise of warrants (d) | 190,989 | 7.1 | – | – |
| Channel stock incentive plan (e) | 46,075 | 1.1 | 46,150 | 1.0 |
| Exercise of share options (g) | 4,231,196 | 112.4 | 346,357 | 11.6 |
| Acquisitions (j) | – | – | (16) | – |
| Dividend Reinvestment and Share Purchase Plan (k) | | | | |
| Dividends reinvested in shares | 1,709,610 | 38.3 | 2,189,432 | 39.8 |
| Optional cash payments | 34,284 | 0.8 | 52,515 | 1.0 |
| Purchase of shares for cancellation pursuant to normal course issuer bid (i) | (1,451,400) | (30.0) | – | – |
| End of year | 165,803,123 | $ 3,426.7 | 161,042,369 | $ 3,296.6 |

### (d) Options and warrants

Upon its acquisition of Clearnet Communications Inc. (Clearnet) in 2000, the Company was required to record the intrinsic value of Clearnet options and warrants outstanding at that time. As these options and warrants are exercised, the corresponding intrinsic values are reclassified to share capital. As these options and warrants are forfeited or expire, the corresponding intrinsic values are reclassified to contributed surplus. Proceeds arising from the exercise of these options and warrants are credited to share capital.

Under the terms of the arrangement to acquire Clearnet, effective January 18, 2001, TELUS Corporation exchanged the warrants held by former Clearnet warrant holders. Each warrant entitles the holder to purchase a Non-Voting Share at a price of U.S.$10.00 per share until September 15, 2005.

### (e) Channel stock incentive plan

The Company initiated the Plan to increase sales of various products and services by providing additional performance-based compensation in the form of Non-Voting Shares. As at December 31, 2004, shares earned, but not yet issued, are accrued as a component of Common Equity.

### (f) Contributed surplus

The following table presents a summary of the activity related to the Company's contributed surplus for the year ended December 31:

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Balance, beginning of year | $ 5.9 | $ 7.4 |
| Transitional amount for share-based compensation arising from share options (Note 2(a)) | 24.7 | – |
| Adjusted opening balance | 30.6 | 7.4 |
| Share option expense recognized in year (Note 9(a)) | 19.1 | – |
| Share option expense reclassified to Non-Voting Share capital account upon exercise of share options | (14.7) | – |
| Redemption premium on preference and preferred shares (b) | (0.8) | – |
| Payment received from Verizon Communications Inc. (Note 20) | 114.8 | – |
| Intrinsic value of Clearnet options and warrants forfeited or expired (d) | – | (1.5) |
| Balance, end of year | $ 149.0 | $ 5.9 |

### (g) Share option plans

The Company has a number of share option plans under which directors, officers and other employees receive options to purchase Common Shares and/or Non-Voting Shares at a price equal to the fair market value at the time of grant. Options granted under the plans may be exercised over specific periods not to exceed 10 years from the time of grant.

The following table presents a summary of the activity related to the Company's share option plans for the years ended December 31.

| Years ended December 31 | 2004 | | 2003 | |
|---|---|---|---|---|
| | Number of shares | Weighted average option price | Number of shares | Weighted average option price |
| Outstanding, beginning of year | **25,773,832** | **$ 24.85** | 24,689,860 | $ 25.60 |
| Granted | **1,849,341** | **24.78** | 3,485,225 | 21.32 |
| Exercised | **(4,498,780)** | **18.75** | (383,039) | 14.53 |
| Forfeited | **(1,078,652)** | **25.42** | (1,801,305) | 30.50 |
| Expired and cancelled | **(130,981)** | **24.76** | (216,909) | 25.03 |
| Outstanding, end of year | **21,914,760** | **$ 26.07** | 25,773,832 | $ 24.85 |

The following is an option life and price stratification of the Company's share options outstanding as at December 31, 2004.

| Options outstanding | | | | | | | | Options exercisable | |
|---|---|---|---|---|---|---|---|---|---|
| Range of option prices | | | | | | | Total | | |
| Low | $ 4.44 | $ 6.81 | $ 10.51 | $ 16.15 | $ 24.25 | $ 37.40 | $ 4.44 | | |
| High | $ 5.95 | $ 9.33 | $ 15.30 | $ 24.09 | $ 35.90 | $ 46.75 | $ 46.75 | | |
| Year of expiry and number of shares | | | | | | | | Number of shares | Weighted average price |
| 2005 | 818 | – | 8,143 | 800 | 13,100 | 138,603 | 161,464 | 161,464 | $ 39.08 |
| 2006 | – | 8,343 | – | 18,131 | 135,367 | – | 161,841 | 161,841 | $ 23.54 |
| 2007 | – | 16,404 | 98,458 | 37,934 | 230,332 | – | 383,128 | 383,128 | $ 23.65 |
| 2008 | 36,807 | – | – | – | 181,220 | 167,200 | 385,227 | 385,227 | $ 35.26 |
| 2009 | – | 846 | 339,256 | 2,404,894 | 535,379 | 80,595 | 3,360,970 | 2,366,913 | $ 20.45 |
| 2010 | – | – | 739,935 | 2,293,784 | 359,083 | 1,456,745 | 4,849,547 | 2,041,905 | $ 33.22 |
| 2011 | – | – | – | 3,801,521 | 6,416,323 | – | 10,217,844 | 8,429,413 | $ 30.02 |
| 2012 | – | 45,530 | 96,910 | 2,252,299 | – | – | 2,394,739 | 2,053,902 | $ 17.89 |
| | 37,625 | 71,123 | 1,282,702 | 10,809,363 | 7,870,804 | 1,843,143 | 21,914,760 | 15,983,793 | $ 27.45 |
| Weighted average remaining contractual life (years) | 3.9 | 5.8 | 5.0 | 6.4 | 5.7 | 4.8 | 5.9 | | |
| Weighted average price | $ 5.87 | $ 8.47 | $ 13.98 | $ 21.22 | $ 31.77 | $ 39.64 | $ 26.07 | | |
| Options exercisable | | | | | | | | | |
| Number of shares | 37,625 | 67,123 | 785,770 | 7,170,909 | 6,179,223 | 1,743,143 | 15,983,793 | | |
| Weighted average price | $ 5.87 | $ 8.48 | $ 13.44 | $ 20.98 | $ 33.65 | $ 39.63 | $ 27.45 | | |

### (h) Employee share purchase plan

The Company has an employee share purchase plan under which eligible employees can purchase Common Shares through regular payroll deductions by contributing between 1% and 6% (between 1% and 10% effective January 1, 2005) of their pay. The Company contributes 40% for every dollar contributed by an employee; for the employee population up to a certain job classification, effective January 1, 2005, the Company's contribution increased from 40% to 45%, to a maximum of 6% of employee pay. The Company records its contributions as a component of operating expenses. For the years ended December 31, the Company contributed $23.0 million (2003 – $20.6 million) to this plan. Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior to February 2001 and subsequent to November 1, 2004, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices; in the intervening period shares were also issued from Treasury.

### (i) Shares purchased and cancelled

During the year ended December 31, 2004, the Company purchased for cancellation 755,711 Common Shares and 1,451,400 Non-Voting Shares for a cost of $27.3 million and $50.7 million, respectively. These purchases were made pursuant to a normal course issuer bid that runs for a twelve-month period ending December 19, 2005, for up to 14.0 million Common Shares and 11.5 million Non-Voting Shares. The excess of the purchase price over the average stated value of shares purchased for cancellation was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter. As at December 31, 2004, 120,000 Common Shares and 151,400 Non-Voting Shares that had been purchased had not yet been cancelled.

### (j) Acquisitions

During 2001, the Company issued Non-Voting Shares as partial consideration for acquisitions made during the year. Some of these Non-Voting Shares, which were held in an escrow account, represented contingent consideration that met the requirements for recording as capital at the time of the acquisition. The excess of the amount of contingent consideration over the amount actually earned has been recorded as a reduction of Non-Voting Share capital.

### (k) Dividend Reinvestment and Share Purchase Plan

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible shareholders may acquire Non-Voting Shares through the reinvestment of dividends and additional optional cash payments. Excluding Non-Voting Shares purchased by way of additional optional cash payments, the Company, at its discretion, may offer the Non-Voting Shares at up to a 5% discount from the market price. As at December 31, 2004, the Company offered Non-Voting Shares at a 3% discount (2003 – 3% discount) from the market price; effective January 1, 2005, the Company no longer offered Non-Voting Shares at a discount. Shares purchased through optional cash payments are subject to a minimum investment of $100 per transaction and a maximum investment of $20,000 per calendar year. Under this Plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior to July 1, 2001, when the acquisition of shares from Treasury commenced, all Non-Voting Shares were acquired in the market at normal trading prices; acquisition in the market at normal trading prices recommenced on January 1, 2005.

### (l) Shares reserved for issuance

| (millions) | 2004 | | 2003 | |
|---|---|---|---|---|
| | **Common Shares** | **Non-Voting Shares** | Common Shares | Non-Voting Shares |
| For exercise of: | | | | |
| Convertible debentures conversion option | **–** | **3.8** | – | 3.8 |
| Share options | **3.0** | **26.4** | 3.4 | 26.1 |
| Warrants | **–** | **0.6** | – | 0.8 |
| Channel Stock Incentive Plan | **–** | **0.2** | – | 0.2 |
| Employee share purchase plan | **–** | **–** | 3.5 | – |
| Dividend Reinvestment and Share Purchase Plan | **–** | **0.5** | – | 2.3 |
| | **3.0** | **31.5** | 6.9 | 33.2 |

### (m) Pre-emptive rights

Concurrent with the sale by Verizon Communications Inc. of all of its equity interest in the Company on December 14, 2004 (see Note 20), Verizon Communications Inc. ceased to have the right, to acquire from Treasury, a pro rata share of any issue by the Company of Common Shares and Non-Voting Shares.

# 16 commitments and contingent liabilities

**(a) CRTC Decisions 2002-34 and 2002-43 deferral accounts**

On May 30, 2002, and on July 31, 2002, the CRTC issued Decisions 2002-34 and 2002-43, respectively, and introduced the concept of a deferral account. The Company must make significant estimates and assumptions in respect of the deferral accounts given the complexity and interpretation required of Decisions 2002-34 and 2002-43. Accordingly, the Company estimates, and records, a liability ($129 million as of December 31, 2004 (2003 – $76 million)) to the extent that activities it has undertaken, other qualifying events and realized rate reductions for Competitor Services do not extinguish it. Management is required to make estimates and assumptions in respect of the offsetting nature of these items. If the CRTC, upon its annual review of the Company's deferral account, disagrees with management's estimates and assumptions, the CRTC may adjust the deferral account balance and such adjustment may be material.

On March 24, 2004, the CRTC issued Telecom Public Notice CRTC 2004-1, Review and disposition of the deferral accounts for the second price cap period, which initiated a public proceeding inviting proposals on the disposition of the amounts accumulated in the incumbent local exchange carriers' deferral accounts during the first two years of the second price cap period. The Company is uncertain when the CRTC will make its determination on this proceeding.

Due to the Company's use of the liability method of accounting for the deferral account (see Note 1(c)), the CRTC Decision 2005-6, in respect of Competitor Digital Network Access, does not currently affect the Company's income statement.

**(b) Labour negotiations**

*Collective bargaining with the Telecommunications Workers Union:* In 2000, TELUS commenced collective bargaining with the Telecommunications Workers Union for a new collective agreement replacing the multiple legacy agreements from BC TELECOM and Alberta-based TELUS. This is the first round of collective bargaining since the merger of BC TELECOM and TELUS Alberta and the Company's aim is to replace the legacy collective agreements with a single collective agreement for the new bargaining unit.

During the fourth quarter of 2002, the Company's application to the Federal Minister of Labour, as provided for under the Canada Labour Code, requesting the appointment of a federal conciliator was granted. In the first quarter of 2004, the extended conciliation process, that included a global review of all outstanding issues, concluded and the outstanding issues were not resolved. On January 15, 2004, the Federal Minister of Labour appointed the two conciliators as mediators to continue to work with the Company and the Telecommunications Workers Union towards a possible resolution.

On January 28, 2004, the Canada Industrial Relations Board ruled, in response to an unfair labour practice complaint filed by the Telecommunications Workers Union, that the Company must make an offer of binding arbitration to the Telecommunications Workers Union to settle the collective agreement between the parties. The Company made the offer of binding arbitration on January 29, 2004, and on January 30, 2004, the Telecommunications Workers Union accepted the offer. The Company filed an application for reconsideration and on February 2, 2005, the Canada Industrial Relations Board reversed the decision that placed the parties in binding arbitration. It is expected that collective bargaining with the Telecommunications Workers Union will resume to settle the collective agreement. Notwithstanding that expectation, on February 16, 2005, the Telecommunications Workers Union filed an application in the Federal Court of Appeal seeking to overturn the Canada Industrial Relations Board's decision that reversed the Canada Industrial Relations Board's previous decision that placed the parties in binding arbitration.

There can be no assurance that, with the resumption of collective bargaining, compensation increases will be as planned or that reduced productivity will not occur as a result of a labour disruption. Should the ultimate operational and financial impacts differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result. The operational and financial impacts of the outcome of the appeal process on the Company are not practicably determinable currently.

*Canada Industrial Relations Board Letter Decision 1088 and Decision 278:* On May 21, 2004, the Canada Industrial Relations Board declared TELE-MOBILE COMPANY and TELUS Communications Inc. a single employer for labour relations purposes. The Canada Industrial Relations Board also determined that the Mobility segment's non-unionized team members, predominantly located in Ontario and Quebec, performing work similar to their unionized Mobility segment counterparts in British Columbia and Alberta, should be included in the Telecommunications Workers Union bargaining unit without a representational vote.

On June 23, 2004, both TELE-MOBILE COMPANY and TELUS Communications Inc. filed an application to the Federal Court of Appeal for a judicial review of the Canada Industrial Relations Board Letter Decision 1088 and the subsequent Decision 278. The judicial review was heard on October 4–5, 2004, and subsequently, on December 16, 2004, the Federal Court of Appeal released its decision dismissing the appeal of Decision 278 by TELE-MOBILE COMPANY and TELUS Communications Inc.

On February 14, 2005, TELE-MOBILE COMPANY and TELUS Communications Inc. applied to the Supreme Court of Canada for leave to appeal the Federal Court of Appeal's December 16, 2004, decision.

Should the ultimate operational and financial impacts of Decision 278 and Letter Decision 1088 differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

### (c) Contractual obligations

The Company's known contractual obligations at December 31, 2004, are as follows:

| (millions) | Long-term debt maturities[(1)] (see Note 14): All except capital leases | Long-term debt maturities[(1)] (see Note 14): Capital leases | Other long-term liabilities[(2)] (see Note 17(b)) | Operating leases (see Note 16(d)) | Purchase obligations[(3)] | Total |
|---|---|---|---|---|---|---|
| 2005 | $ 1.6 | $ 2.7 | $ 16.4 | $ 163.1 | $ 432.3 | $ 616.1 |
| 2006 | 1,584.4 | 2.1 | 28.8 | 145.3 | 126.8 | 1,887.4 |
| 2007 | 1,868.2 | 2.2 | 14.3 | 135.3 | 97.6 | 2,117.6 |
| 2008 | – | 2.8 | 14.6 | 120.0 | 76.7 | 214.1 |
| 2009 | – | 0.9 | 14.9 | 113.0 | 33.5 | 162.3 |
| Thereafter | 3,929.9 | – | 128.9 | 512.5 | 40.8 | 4,612.1 |
| Total | $ 7,384.1 | $ 10.7 | $ 217.9 | $ 1,189.2 | $ 807.7 | $ 9,609.6 |

(1) Where applicable, long-term debt maturities reflect hedged foreign exchange rates.
(2) Items that do not result in a future outlay of economic resources, such as deferred gains on sale-leasebacks of buildings and deferred customer activation and installation fees, have been excluded. As long-term debt maturities reflect hedged foreign exchange rates, the deferred hedging liability is included therein. Funding of pension and other benefit plans has been included for 2005 for all plans that have a net accrued benefit liability position as at the current year end; only funding of unfunded plans has been included in years subsequent to 2005, up to the liability recognized at the current year end.
(3) Where applicable, purchase obligations reflect foreign exchange rates as at the current year end. Purchase obligations include both future operating and capital expenditures that have been contracted for as at the current year end and include most likely estimates of prices and volumes where necessary. As purchase obligations reflect market conditions at the time the obligation was incurred for the items being purchased, they may not be representative of future years. Excepting a significant, multi-year information technology services agreement, obligations arising from personnel supply contracts and other such labour agreements have been excluded.

### (d) Leases

The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases. As a result of the consolidation of leased premises arising from various initiatives, including the Operational Efficiency Program (see Note 5), some of the leased building premises were sub-let. At December 31, 2004, the future minimum lease payments under capital leases and operating leases, and future receipts from real estate operating sub-leases, are as follows:

| (millions) | Capital lease payments | Operating lease payments: Land and buildings: Rent | Operating lease payments: Land and buildings: Occupancy costs | Operating lease payments: Land and buildings: Gross | Operating lease payments: Vehicles and other equipment | Operating lease payments: Total | Operating lease receipts from sub-let land and buildings |
|---|---|---|---|---|---|---|---|
| 2005 | $ 2.8 | $ 91.9 | $ 52.8 | $ 144.7 | $ 18.4 | $ 163.1 | $ 2.1 |
| 2006 | 2.4 | 81.3 | 52.5 | 133.8 | 11.5 | 145.3 | 0.9 |
| 2007 | 2.4 | 76.0 | 52.7 | 128.7 | 6.6 | 135.3 | 0.1 |
| 2008 | 3.1 | 66.4 | 51.9 | 118.3 | 1.7 | 120.0 | 0.1 |
| 2009 | 1.0 | 63.0 | 49.4 | 112.4 | 0.6 | 113.0 | 0.1 |
| Total future minimum lease payments | 11.7 | | | | | | |
| Less imputed interest | 1.0 | | | | | | |
| Capital lease liability | $ 10.7 | | | | | | |

### (e) Guarantees

Canadian generally accepted accounting principles require the disclosure of certain types of guarantees and their maximum, undiscounted amounts. The maximum potential payments represent a worst-case scenario and do not necessarily reflect results expected by the Company. Guarantees requiring disclosure are those obligations that require payments contingent on specified types of future events; in the normal course of its operations, the Company enters into obligations which GAAP may consider to be guarantees. As defined by Canadian GAAP, guarantees subject to these disclosure guidelines do not include guarantees that relate to the future performance of the Company.

*Performance guarantees:* Performance guarantees contingently require a guarantor to make payments to a guaranteed party based on a third party's failure to perform under an obligating agreement. TELUS provides sales price guarantees in respect of employees' principal residences as part of its employee relocation policies. In the event that the Company is required to honour such guarantees, it purchases (for immediate resale) the property from the employee.

The Company has guaranteed a third party's financial obligations as part of a facility naming rights agreement. The guarantee, in total, runs through to August 31, 2008, on a declining-balance basis and is of limited recourse.

As at December 31, 2004, the Company has no liability recorded in respect of the aforementioned performance guarantees.

*Financial guarantees:* In conjunction with its 2001 exit from the equipment leasing business, the Company provided a guarantee to a third party with respect to certain specified telecommunication asset and vehicle leases. If the lessee were to default, the Company would be required to make a payment to the extent that the realized value of the underlying asset is insufficient to pay out the lease; in some instances, the Company could be required to pay out the lease on a gross basis and realize the underlying value of the leased asset itself.

As at December 31, 2004, the Company has a liability of $1.0 million (2003 – $1.5 million) recorded in respect of these lease guarantees.

The following table quantifies the maximum undiscounted guarantee amounts as at December 31, 2004, without regard for the likelihood of having to make such payment.

| (millions) | Performance guarantees(1) | Financial guarantees(1) | Total |
|---|---|---|---|
| 2005 | $ 2.7 | $ 2.8 | $ 5.5 |
| 2006 | 1.5 | 2.1 | 3.6 |
| 2007 | 1.0 | 1.1 | 2.1 |
| 2008 | 0.5 | 0.3 | 0.8 |
| 2009 | – | – | – |

(1) Annual amounts for performance guarantees and financial guarantees include the maximum guarantee amounts during any year of the term of the guarantee.

*Indemnification obligations:* In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The terms of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of the obligations under such indemnification obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS' directory business, the Company agreed to bear a proportionate share of the new owner's increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company's proportionate share would be 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. As well, should the CRTC take any action which would result in the owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred.

As at December 31, 2004, the Company has no liability recorded in respect of indemnification obligations.

### (f) Claims and lawsuits

*General:* A number of claims and lawsuits seeking damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon legal assessment and information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position, excepting the items enumerated following.

*Pay equity:* On December 16, 1994, the Telecommunications Workers Union filed a complaint against BC TEL, a predecessor of TELUS Communications Inc., with the Canadian Human Rights Commission, alleging that wage differences between unionized male and female employees in British Columbia were contrary to the equal pay for work of equal value provisions in the *Canadian Human Rights Act*. In December 1998, the Canadian Human Rights Commission advised that it would commence an investigation of the Telecommunications Workers Union complaint. In February 2003, the Canadian Human Rights Commission offered to mediate a settlement of the complaint, but the Company declined the offer. The Canadian Human Rights Commission referred the complaint to conciliation under the *Canadian Human Rights Act* and appointed a conciliator to assist in settling the complaint. Conciliation efforts failed in 2004 and the complaint was referred back to the Canadian Human Rights Commission. Under the terms of referral back to the Canadian Human Rights Commission, the complaint may be dismissed, subjected to further investigation or placed before a tribunal for adjudication. The Company believes that it has good defences to the Telecommunications Workers Union's complaint and has taken the position that it should be dismissed. Should the ultimate resolution of the pay equity complaint differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

*TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan:* In January 2002, the Company became aware of two statements of claim filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, by plaintiffs alleging to be either members or business agents of the Telecommunications Workers Union. In one action, the three plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and in the other action, the two plaintiffs allege to be suing on behalf of all current or future beneficiaries of the TELUS Edmonton Pension Plan. The statement of claim in the TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of $445 million. The statement of claim in the TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan and claims damages in the sum of $15.5 million. On February 19, 2002, the Company filed statements of defence to both actions and also filed notices of motion for certain relief, including an order striking out the actions as representative or class actions. On May 17, 2002, the statements of claim were amended by the plaintiffs and include allegations, *inter alia*, that benefits provided under the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan are less advantageous than the benefits provided under the respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted. The Company filed statements of defence to the amended statements of claim on June 3, 2002.

An application for an order striking out the actions as representative or class actions was dismissed on December 17, 2003. The Company believes that it has good defences to the actions. Should the ultimate resolution of these actions differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

*Uncertified class action:* A class action was brought August 9, 2004, under the Class Actions Act (Saskatchewan), against a number of past and present wireless service providers including the Company. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. The class has not been certified. The Company believes that it has good defences to the action.

Similar proceedings have been filed by or on behalf of plaintiffs' counsel in other provincial jurisdictions, but plaintiffs' counsel has formally undertaken not to advance them until the Saskatchewan action has been decided.

Should the ultimate resolution of this action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

# 17 additional financial information

## (a) Income statement

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Operations expense[1]: | | |
| Cost of sales and service | $ 2,407.2 | $ 2,299.3 |
| Selling, general and administrative | 2,030.8 | 2,002.6 |
| | $ 4,438.0 | $ 4,301.9 |
| Advertising expense | $ 165.0 | $ 153.2 |

(1) Cost of sales and service include cost of goods sold and costs to operate and maintain access to and usage of the Company's telecommunication infrastructure. Selling, general and administrative costs include sales and marketing costs (including commissions), customer care, bad debt expense, real estate costs and corporate overhead costs such as information technology, finance (including billing services, credit and collection), legal, human resources and external affairs.
Employee salaries, benefits and related costs are included in one of the two components of operations expense to the extent that the costs are related to the component functions.

## (b) Balance sheet

| (millions) | 2004 | 2003 |
|---|---|---|
| Accounts receivable | | |
| Customer accounts receivable | $ 727.0 | $ 624.1 |
| Accrued receivables | 195.8 | 158.4 |
| Allowance for doubtful accounts | (69.3) | (67.6) |
| Other | 10.0 | 8.9 |
| | $ 863.5 | $ 723.8 |
| Prepaid expense and other | | |
| Prepaid expenses | $ 101.4 | $ 86.6 |
| Deferred customer activation and installation costs | 76.2 | 77.2 |
| Other | 5.8 | 8.6 |
| | $ 183.4 | $ 172.4 |
| Deferred charges | | |
| Recognized transitional pension assets and pension plan contributions in excess of charges to income | $ 556.7 | $ 426.8 |
| Deferred customer activation and installation costs (Note 1(c)) | 94.4 | 80.8 |
| Cost of issuing debt securities, less amortization | 32.1 | 39.2 |
| Other | 21.2 | 63.9 |
| | $ 704.4 | $ 610.7 |

| (millions) | 2004 | 2003 |
|---|---|---|
| Accounts payable and accrued liabilities | | |
| Trade accounts payable | $ 313.0 | $ 377.2 |
| Accrued liabilities | 409.1 | 352.6 |
| Payroll and other employee-related liabilities | 535.4 | 459.1 |
| Interest payable | 65.0 | 72.8 |
| Asset retirement obligations | 3.1 | 2.8 |
| Other | 37.0 | 30.0 |
| | $ 1,362.6 | $ 1,294.5 |
| Advance billings and customer deposits | | |
| Advance billings | $ 294.4 | $ 265.1 |
| CRTC Decisions 2002-34 and 2002-43 deferral accounts (Note 1(c), Note 3(b) and Note 16(a)) | 128.7 | 75.8 |
| Deferred customer activation and installation fees | 79.6 | 77.2 |
| Customer deposits | 28.8 | 26.9 |
| | $ 531.5 | $ 445.0 |
| Other Long-Term Liabilities | | |
| Deferred hedging liability | $ 1,032.6 | $ 739.6 |
| Pension and other post-retirement liabilities | 172.8 | 161.3 |
| Deferred gain on sale-leaseback of buildings | 98.7 | 109.1 |
| Deferred customer activation and installation fees (Note 1(c)) | 94.4 | 80.8 |
| Asset retirement obligations | 22.3 | 20.3 |
| Other | 85.3 | 62.6 |
| | $ 1,506.1 | $ 1,173.7 |

## (c) Supplementary cash flow information

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Net change in non-cash working capital | | |
| Accounts receivable | $ (139.7) | $ (83.4) |
| Income and other taxes receivable | 54.9 | (53.4) |
| Inventories | (9.8) | (27.0) |
| Prepaid expenses and other | (19.2) | (0.8) |
| Accounts payable and accrued liabilities | 79.3 | 73.2 |
| Advance billings and customer deposits | 86.5 | 114.7 |
| | $ 52.0 | $ 23.3 |

# 18 employee future benefits

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees. Other benefit plans include TELUS Québec Inc. healthcare costs. The benefit plan(s) in which an employee is a participant reflects the general development of the Company.

*Pension Plan for Management and Professional Employees of TELUS Corporation:* This defined benefit pension plan, which comprises approximately one-quarter of the Company's total accrued benefit obligation, provides a non-contributory base level of pension benefits. Additionally, on a contributory basis, employees can annually choose increased and/or enhanced levels of pension benefits over the base level of pension benefits. At an enhanced level of pension benefits, the defined benefit pension plan has indexation of 100% of a specified cost-of-living index, to a maximum of 2%. Pensionable remuneration is determined by the average of the best five consecutive years.

*TELUS Corporation Pension Plan:* Management and professional employees in Alberta who joined the Company prior to January 1, 2001, and certain unionized employees are covered by this contributory defined benefit pension plan, which comprises slightly more than one-half of the Company's total accrued benefit obligation. Indexation is up to 70% of a specified cost-of-living index and pensionable remuneration is determined by the average of the best five years in the last ten years preceding retirement.

*TELUS Corporation Pension Plan for Employees of TELUS Communications (Québec) Inc. (formerly the TELUS Communications Quebec Pension Plan):* This contributory defined benefit, which comprises approximately one-tenth of the Company's total accrued benefit obligation, has no indexation and pensionable remuneration is determined by the average of the best four years.

*TELUS Edmonton Pension Plan:* This contributory defined benefit pension plan ceased accepting new participants January 1, 1998. Indexation is 60% of a specified cost-of-living index and pensionable remuneration is determined by the annualized average of the best sixty consecutive months in the last ten years preceding retirement.

*Other defined benefit pension plans:* In addition to the foregoing plans, the Company has non-registered, non-contributory supplementary defined benefit pension plans which have the effect of maintaining the earned pension benefit once the allowable maximums in the registered plans are attained.

The Company has three contributory, non-indexed pension plans arising from a pre-merger acquisition which comprise less than 1% of the Company's total accrued benefit obligation; these plans ceased accepting new participants September 1989.

*Other defined benefit plans:* Other defined benefit plans, which are all non-contributory, are comprised of a disability income plan, a healthcare plan for retired employees and two life insurance plans. The healthcare plan for retired employees and one of the life insurance plans ceased accepting new participants effective January 1, 1997; the second life insurance plan ceased accepting new participants July 1, 1994.

*Telecommunication Workers Pension Plan:* Certain employees in British Columbia are covered by a union pension plan. Contributions are determined in accordance with provisions of negotiated labour contracts and are generally based on employee gross earnings.

*British Columbia Public Service Pension Plan:* Certain employees in British Columbia are covered by a public service pension plan. Contributions are determined in accordance with provisions of labour contracts negotiated by the Province of British Columbia and are generally based on employee gross earnings.

*Defined contribution pension plans:* The Company offers two defined contribution pension plans. The first of the Company's defined contribution pension plans requires a 3% base level of Company contributions. Additionally, employees can annually choose to contribute to the plan, at a rate of between 3% and 6% of their pensionable earnings, and the Company will match the contributions of the employees to a maximum of 50%, depending upon the amount of the employee contribution and the years of service of the employee. In the second of the Company's defined contribution pension plans, employees can choose to contribute to the plan, at a rate of between 2% and 5% of their pensionable earnings, and the Company will match the contributions of the employees to a maximum of 80%. Similarly, for certain employees, the Company offers a registered retirement savings plan-based program in which the Company matches employee contributions, dollar for dollar, to an annual maximum of $2,500 per employee.

### (a) Defined benefit plans

Information concerning the Company's defined benefit plans, in aggregate, is as follows:

| | Pension benefit plans | | Other benefit plans | |
|---|---|---|---|---|
| (millions) | **2004** | 2003 | **2004** | 2003 |
| Accrued benefit obligation: | | | | |
| Balance at beginning of year | **$ 5,038.7** | $ 4,585.7 | **$ 67.7** | $ 67.3 |
| Current service cost | **103.5** | 100.6 | **4.8** | 5.0 |
| Interest cost | **312.4** | 307.0 | **2.4** | 3.8 |
| Benefits paid (b) | **(242.0)** | (234.6) | **(5.3)** | (4.9) |
| Actuarial loss (gain) | **154.1** | 280.0 | **(8.5)** | (3.5) |
| Balance at end of year (c)-(d) | **5,366.7** | 5,038.7 | **61.1** | 67.7 |
| Plan assets (f): | | | | |
| Fair value at beginning of year | **5,002.4** | 4,506.8 | **49.6** | 52.8 |
| Annual return on plan assets | **527.3** | 599.6 | **2.7** | 0.9 |
| Employer contributions (g) | **135.8** | 95.3 | **1.2** | 0.8 |
| Employees' contributions | **33.7** | 35.3 | **–** | – |
| Benefits paid (b) | **(242.0)** | (234.6) | **(5.3)** | (4.9) |
| Fair value at end of year | **5,457.2** | 5,002.4 | **48.2** | 49.6 |
| Funded status – plan surplus (deficit) | **90.5** | (36.3) | **(12.9)** | (18.1) |
| Unamortized net actuarial loss (gain) | **769.1** | 793.3 | **(23.6)** | (16.3) |
| Unamortized past service costs | **6.6** | 7.3 | **–** | – |
| Unamortized transitional obligation (asset) | **(322.8)** | (367.6) | **4.0** | 4.8 |
| Accrued benefit asset (liability) | **543.4** | 396.7 | **(32.5)** | (29.6) |
| Valuation allowance | **(127.0)** | (101.6) | **–** | – |
| Accrued benefit asset (liability), net of valuation allowance | **$ 416.4** | $ 295.1 | **$ (32.5)** | $ (29.6) |

In 2001, the Company sold substantially all of the TELUS Advertising Services directory business and the TELUS Québec directory business. As a result of this transaction, the pension obligation relating to the former TELUS Advertising Services employees, contained within the TELUS Corporation Pension Plan, will be transferred upon receipt of the requisite regulatory approvals; such approvals have not been received as at December 31, 2004. The pension obligation of $17.2 million has been actuarially determined as at July 31, 2001. In accordance with the sale agreement, TELUS Corporation Pension Plan assets of $17.2 million, plus interest accrued to December 31, 2004, of $4.5 million (2003 – $3.1 million) will be transferred along with the pension obligation. Interest will continue to accrue, at 7% per annum, up to the date that the assets are transferred. The transfer will be accounted for as a settlement in the period in which the transfer occurs.

The accrued benefit asset (liability), net of valuation allowance, is reflected in the Consolidated Balance Sheets as follows:

| (millions) | **2004** | 2003 |
|---|---|---|
| Pension benefit plans | **$ 416.4** | $ 295.1 |
| Other benefit plans | **(32.5)** | (29.6) |
| | **$ 383.9** | $ 265.5 |
| Presented on the Consolidated Balance Sheets as: | | |
| Deferred charges (Note 17(b)) | **$ 556.7** | $ 426.8 |
| Other long-term liabilities (Note 17(b)) | **(172.8)** | (161.3) |
| | **$ 383.9** | $ 265.5 |

The measurement date used to determine the plan assets and accrued benefit obligation was December 31.

The Company's net defined benefit plan costs were as follows:

| Years ended December 31 (millions) | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Incurred in year | Matching adjustments[1] | Recognized in year | Incurred in year | Matching adjustments[1] | Recognized in year |
| **Pension benefit plans** | | | | | | |
| Current service cost | $ 70.4 | $ – | $ 70.4 | $ 65.3 | $ – | $ 65.3 |
| Interest cost | 312.4 | – | 312.4 | 307.0 | – | 307.0 |
| Return on plan assets | (527.3) | 154.2 | (373.1) | (599.6) | 265.0 | (334.6) |
| Past service costs | – | 0.7 | 0.7 | – | 0.6 | 0.6 |
| Actuarial loss (gain) | 154.1 | (129.5) | 24.6 | 280.0 | (250.7) | 29.3 |
| Valuation allowance provided against accrued benefit asset | – | 25.4 | 25.4 | – | 25.4 | 25.4 |
| Amortization of transitional obligation (asset) | – | (44.8) | (44.8) | – | (44.8) | (44.8) |
| | $ 9.6 | $ 6.0 | $ 15.6 | $ 52.7 | $ (4.5) | $ 48.2 |

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

| Years ended December 31 (millions) | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Incurred in year | Matching adjustments[1] | Recognized in year | Incurred in year | Matching adjustments[1] | Recognized in year |
| **Other benefit plans** | | | | | | |
| Current service cost | $ 4.8 | $ – | $ 4.8 | $ 5.0 | $ – | $ 5.0 |
| Interest cost | 2.4 | – | 2.4 | 3.8 | – | 3.8 |
| Return on plan assets | (2.7) | 0.1 | (2.6) | (0.9) | (1.8) | (2.7) |
| Actuarial loss (gain) | (8.5) | 7.1 | (1.4) | (3.5) | 2.3 | (1.2) |
| Amortization of transitional obligation (asset) | – | 0.8 | 0.8 | – | 0.8 | 0.8 |
| | $ (4.0) | $ 8.0 | $ 4.0 | $ 4.4 | $ 1.3 | $ 5.7 |

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

### (b) Benefit payments

Estimated future benefit payments from the Company's defined benefit plans are as follows:

| Years ending December 31 (millions) | Pension benefit plans | Other benefit plans |
|---|---|---|
| 2005 | $ 251.1 | $ 5.1 |
| 2006 | 261.4 | 5.3 |
| 2007 | 273.2 | 5.5 |
| 2008 | 285.7 | 5.6 |
| 2009 | 301.3 | 5.8 |
| 2010–2014 | 1,761.3 | 31.1 |

### (c) Disaggregation of defined benefit pension plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date.

The Company's disaggregation of defined benefit pension plans surplus and deficits at year-end are as follows:

| (millions) | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Accrued benefit obligation | Plan assets | Funded status – plan surplus (deficit) | Accrued benefit obligation | Plan assets | Funded status – plan surplus (deficit) |
| Pension plans that have plan assets in excess of accrued benefit obligations | $ 2,977.5 | $ 3,356.9 | $ 379.4 | $ 2,800.4 | $ 3,123.7 | $ 323.3 |
| Pension plans that have accrued benefit obligations in excess of plan assets | | | | | | |
| Funded | 2,230.2 | 2,100.3 | (129.9) | 2,091.7 | 1,878.7 | (213.0) |
| Unfunded | 159.0 | – | (159.0) | 146.6 | – | (146.6) |
| | 2,389.2 | 2,100.3 | (288.9) | 2,238.3 | 1,878.7 | (359.6) |
| (see (a)) | $ 5,366.7 | $ 5,457.2 | $ 90.5 | $ 5,038.7 | $ 5,002.4 | $ (36.3) |

At December 31, 2004 and 2003, undrawn Letters of Credit secured certain of the unfunded defined benefit pension plans (see Note 14(d)).

### (d) Disaggregation of other defined benefit plan funding status

Accrued benefit obligations are the actuarial present values of benefits attributed to employee services rendered to a particular date.

The Company's disaggregation of other defined benefit plans surplus and deficits at year-end are as follows:

| (millions) | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Accrued benefit obligation | Plan assets | Funded status – plan surplus (deficit) | Accrued benefit obligation | Plan assets | Funded status – plan surplus (deficit) |
| Other benefit plans that have plan assets in excess of accrued benefit obligations | $ 33.9 | $ 48.2 | $ 14.3 | $ 40.0 | $ 49.6 | $ 9.6 |
| Unfunded other benefit plans that have accrued benefit obligations in excess of plan assets | 27.2 | – | (27.2) | 27.7 | – | (27.7) |
| (see (a)) | $ 61.1 | $ 48.2 | $ (12.9) | $ 67.7 | $ 49.6 | $ (18.1) |

### (e) Accumulated pension benefit obligations

Accumulated benefit obligations differ from accrued benefit obligations in that accumulated benefit obligations do not include assumptions about future compensation levels. The Company's disaggregation of defined pension benefit plans accumulated benefit obligations and plan assets at year-end are as follows:

| (millions) | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Accumulated benefit obligation | Plan assets | Difference | Accumulated benefit obligation | Plan assets | Difference |
| Pension plans that have plan assets in excess of accumulated benefit obligations | $ 3,582.1 | $ 4,126.5 | $ 544.4 | $ 2,965.2 | $ 3,408.5 | $ 443.3 |
| Pension plans that have accumulated benefit obligations in excess of plan assets | | | | | | |
| Funded | 1,357.5 | 1,330.7 | (26.8) | 1,650.8 | 1,593.9 | (56.9) |
| Unfunded | 148.4 | – | (148.4) | 128.0 | – | (128.0) |
| | 1,505.9 | 1,330.7 | (175.2) | 1,778.8 | 1,593.9 | (184.9) |
| | $ 5,088.0 | $ 5,457.2 | $ 369.2 | $ 4,744.0 | $ 5,002.4 | $ 258.4 |

### (f) Plan investment strategies and policies

The Company's primary goal for the defined benefit plans is to ensure the security of the retirement income and other benefits of the plan members and their beneficiaries. A secondary goal of the Company is to maximize the long-term rate of return of the defined benefit plans' assets within a level of risk acceptable to the Company.

*Risk management:* The Company considers absolute risk (the risk of contribution increases, inadequate plan surplus and unfunded obligations) to be more important than relative return risk. Accordingly, the defined benefit plans' designs, the nature and maturity of defined benefit obligations and characteristics of the plans' memberships significantly influence investment strategies and policies. The Company manages risk through specifying allowable and prohibited investment types, setting diversification strategies and determining target asset allocations.

*Allowable and prohibited investment types:* Allowable and prohibited investments types, along with associated guidelines and limits, are set out in each fund's *Pension Benefits Standards Act* required Statement of Investment Policies and Procedures (SIP&P) which is reviewed and approved annually by management and the Company's Pension Committee or designated governing fiduciary, respectively. The SIP&P guidelines and limits are further governed by the *Pension Benefits Standards Regulations*' permitted investments and lending limits. As well as conventional investments, each fund's SIP&P may provide for the use of derivative products to facilitate investment operations and to manage risk provided that no short position is taken, no use of leverage is made and there is no violation of guidelines and limits established in the SIP&P. Internally managed funds are prohibited from increasing grandfathered investments in securities of the Company; grandfathered investments were made prior to the merger of BC TELECOM Inc. and TELUS Corporation, the Company's predecessors. Externally managed funds are permitted to invest in securities of the Company, provided that the investments are consistent with the funds' mandate and are in compliance with the relevant SIP&P.

*Diversification:* The Company's strategy for equity security investments is to be broadly diversified across individual securities, industry sectors and geographical regions. A meaningful portion (15–25% of total plans' assets) of the investment in equity securities is allocated to foreign equity securities with the intent of further increasing the diversification of the plans' assets. Debt securities may include a meaningful allocation to mortgages with the objective of enhancing cash flow and providing greater scope for the management of the bond component of the plans' assets. Debt securities also may include real return bonds to provide inflation protection, consistent with the indexed nature of some defined benefit obligations. Real estate investments are used to provide diversification of plans' assets, potential long-term inflation hedging and comparatively stable investment income.

*Relationship between plan assets and benefit obligations:* With the objective of lowering its long-term costs of defined benefit plans, the Company purposely mismatches plan assets and benefit obligations. This mismatching is implemented by including equity investments in the long-term asset mix as well as fixed income securities and mortgages with durations that differ from the benefit obligations. Compensation for liquidity issues that may have otherwise arisen from mismatching of plan assets and benefit obligations comes from broadly diversified investment holdings (including cash and short-term investment holdings) and cash flows from dividends, interest and rents from diversified investment holdings.

*Asset allocations:* Information concerning the Company's defined benefit plans' target asset allocation and actual asset allocation is as follows:

| | Pension benefit plans | | | Other benefit plans | | |
|---|---|---|---|---|---|---|
| | Target allocation | Percentage of plan assets at end of year | | Target allocation | Percentage of plan assets at end of year | |
| | 2005 | **2004** | 2003 | 2005 | **2004** | 2003 |
| Equity securities | 55–65% | **64%** | 63% | – | **–** | – |
| Debt securities | 30–40% | **33%** | 31% | 0–5% | **–** | – |
| Real estate | 0–5% | **3%** | 3% | – | **–** | – |
| Other | 0–5% | **–** | 3% | 95–100% | **100%** | 100% |
| | | **100%** | 100% | | **100%** | 100% |

At December 31, 2004, shares of TELUS Corporation (2003 – share of TELUS Corporation combined with shares of Verizon Communications Inc., formerly a significant shareholder (see Note 20)), accounted for less than 1% of the assets held in the pension and other benefit trusts administered by the Company.

### (g) Employer contributions

The best estimates of fiscal 2005 employer contributions to the Company's defined benefit plans are $105.9 million and $1.1 million for defined pension benefit plans and other defined benefit plans, respectively. These estimates are based upon the mid-year 2004 annual funding reports that were prepared by actuaries using previous actuarial valuations. The funding reports are based on the pension plans' fiscal years, which are calendar years. The next annual funding valuations are expected to be prepared mid-year 2005.

### (h) Assumptions

Management is required to make significant estimates about certain actuarial and economic assumptions to be used in determining defined benefit pension costs, accrued benefit obligations and pension plan assets. These significant estimates are of a long-term nature, which is consistent with the nature of employee future benefits. The significant weighted average actuarial assumptions arising from these estimates and adopted in measuring the Company's accrued benefit obligations are as follows:

| | Pension benefit plans | | Other benefit plans | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| Discount rate used to determine: | | | | |
| Net benefit costs for the year ended December 31 | **6.25%** | 6.75% | **5.55%** | 5.64% |
| Accrued benefit obligation as at December 31 | **6.00%** | 6.25% | **5.30%** | 5.51% |
| Expected long-term rate of return(1) on plan assets used to determine: | | | | |
| Net benefit costs for the year ended December 31 | **7.50%** | 7.48% | **5.50%** | 5.50% |
| Accrued benefit obligation as at December 31 | **7.25%** | 7.50% | **5.50%** | 5.50% |
| Rate of future increases in compensation used to determine: | | | | |
| Net benefit costs for the year ended December 31 | **3.50%** | 3.80% | **–** | – |
| Accrued benefit obligation as at December 31 | **3.00%** | 3.50% | **–** | – |

(1) The expected long-term rate of return is based upon forecasted returns of the major asset categories and weighted by the plans' target asset allocations (see (f)). Forecasted returns arise from the Company's ongoing review of trends, economic conditions, data provided by actuaries and updating of underlying historical information.

| 2004 sensitivity of key assumptions | Pension benefit plans | | Other benefit plans | |
|---|---|---|---|---|
| (millions) | Change in obligation | Change in expense | Change in obligation | Change in expense |
| Impact of hypothetical 0.25% change(1) in: | | | | |
| Discount rate | $ 175.7 | $ 15.4 | $ 1.1 | $ 0.1 |
| Expected long-term rate of return on plan assets | | $ 12.4 | | $ 0.1 |
| Rate of future increases in compensation | $ 30.7 | $ 6.3 | $ – | $ – |

(1) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in decreased amounts, and unfavourable hypothetical changes in the assumptions result in increased amounts, of the obligations and expenses. Changes in amounts based on a 0.25 per cent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. Also, in this table, the effect of a variation in a particular assumption on the change in obligation or change in expense is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in discount rates may result in increased expectations about the long-term rate of return on plan assets), which might magnify or counteract the sensitivities.

The Company's health benefit costs were estimated to increase at an annual rate of 9.5% (2003 – 10%), decreasing to an annual growth rate of 5% (2003 – 5%) over a nine-year period.

### (i) Defined contribution plans

The Company's total defined contribution pension plan costs recognized were as follows:

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Union pension plan and public service pension plan contributions | **$ 38.6** | $ 39.6 |
| Other defined contribution pension plans | **13.9** | 10.4 |
| | **$ 52.5** | $ 50.0 |

Regular benefit contributions for the union pension plan include other benefit amounts of $2.7 million (2003 – $2.8 million).

# 19 segmented information

The Company's reportable segments, which are used to manage the business, are Communications and Mobility. The Communications segment includes voice local, voice long distance, data and other telecommunication services excluding wireless. The Mobility segment includes digital personal communications services and wireless Internet services. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, and the distribution channels used. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties.

| | Communications | | Mobility | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| Years ended December 31 (millions) | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| External revenue | **$ 4,769.3** | $ 4,786.4 | **$ 2,811.9** | $ 2,359.6 | **$ –** | $ – | **$ 7,581.2** | $ 7,146.0 |
| Intersegment revenue | **96.6** | 94.5 | **21.5** | 15.7 | **(118.1)** | (110.2) | **–** | – |
| Total operating revenue | **4,865.9** | 4,880.9 | **2,833.4** | 2,375.3 | **(118.1)** | (110.2) | **7,581.2** | 7,146.0 |
| Operations expense | **2,864.9** | 2,852.2 | **1,691.2** | 1,559.9 | **(118.1)** | (110.2) | **4,438.0** | 4,301.9 |
| Restructuring and workforce reduction costs | **52.6** | 28.3 | **–** | – | **–** | – | **52.6** | 28.3 |
| EBITDA(1) | **$ 1,948.4** | $ 2,000.4 | **$ 1,142.2** | $ 815.4 | **$ –** | $ – | **$ 3,090.6** | $ 2,815.8 |
| CAPEX(2) | **$ 964.3** | $ 892.8 | **$ 354.7** | $ 359.9 | **$ –** | $ – | **$ 1,319.0** | $ 1,252.7 |
| EBITDA less CAPEX | **$ 984.1** | $ 1,107.6 | **$ 787.5** | $ 455.5 | **$ –** | $ – | **$ 1,771.6** | $ 1,563.1 |

(1) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is defined by the Company as operating revenues less operations expense and restructuring and workforce reduction costs. The Company has issued guidance on, and reports, EBITDA because it is a key measure used by management to evaluate performance of its business segments and is utilized in measuring compliance with certain debt covenants.
(2) Total capital expenditures (CAPEX).

# 20 related party transactions

In 2001, the Company entered into an agreement with Verizon Communications Inc. (Verizon, including its subsidiaries), then a significant shareholder, with respect to acquiring certain rights to Verizon's software, technology, services and other benefits, thereby replacing and amending a previous agreement between the Company and GTE Corporation. The agreement is renewable annually at the Company's sole option up to December 31, 2008, and it has been renewed for 2005.

On November 30, 2004, Verizon and the Company entered into an agreement pursuant to which the Company's independent members of the Board of Directors agreed to facilitate the divestiture by Verizon of its 20.5% equity investment in the Company. Such agreement was necessary due to certain restrictive provisions in the Long Term Relationship Agreement, dated January 31, 1999, between Verizon and the Company. Such divestiture was effected by a public secondary offering of Verizon's entire equity interest in the Company on December 14, 2004; post divestiture, Verizon and the Company are no longer related parties for purposes of generally accepted accounting principles and Verizon no longer has a pre-emptive right to buy shares from Treasury (see Note 15(m)).

Pursuant to the agreement, and the amended agreement pursuant to which the Company acquires certain rights to Verizon's software, technology, services and other benefits, Verizon paid the Company $148 million (U.S.$125 million). This related party transaction was not in the normal course of operations and did not result in a substantive change in ownership interests, so the transaction was measured at the respective parties' carrying amounts.

The analysis of the payment is as follows:

| Year ended December 31 (millions) | **2004** |
|---|---|
| Allocation of net proceeds | |
| Refund of amounts prepaid in respect of software and related technology | |
| Prepaid expenses and other | **$ 8.1** |
| Deferred charges | **25.2** |
| Contributed surplus | **114.8** |
| | **$ 148.1** |

In conjunction with the divestiture, a number of agreements between Verizon and the Company were terminated or altered, including the amended and restated software and related technology and services agreement (SRT) pursuant to which the Company acquired certain rights to Verizon's software, technology, services and other benefits.

The term of the SRT was extended to 2008. The Company will continue to have exclusive rights in Canada to specified Verizon trademarks, software and technology acquired prior to Verizon's divestiture of its investment in the Company and Verizon is required to continue to provide upgrade and support on the software and technology licensed to the Company. The annual fees payable by the Company under the SRT for the years 2005 to 2008 have been reduced from an aggregate of U.S.$82 million to four U.S. dollars; Verizon and the Company remain committed to use each other's cross-border services where capabilities and customer requirements permit and the Company has been released from its obligation not to compete in the United States.

As of December 31, 2004, in aggregate, $312.1 million of specified software licences and a trademark licence have been acquired under the agreement and have been recorded as capital and other assets. These assets are valued at fair market value at the date of acquisition as determined by an arm's-length party's appraisal. The total commitment under the SRT is U.S.$275 million (2003 – U.S.$377 million) for the period 2001 to 2008 and the commitment remaining after December 31, 2004, is four U.S. dollars (2003 – U.S.$102 million).

In the normal course of operations and on market terms and conditions, ongoing services and other benefits have been received and expensed. In connection with the 2001 disposition of TELUS' directory business to Verizon, the Company bills customers, and collects, for directory listings on Verizon's behalf. The Company owed Verizon, on a net basis and including directory rebilling and collections done on Verizon's behalf as well as dividends payable, $40.9 million at December 31, 2003.

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Verizon agreement – Ongoing services and benefits expensed | **$ 25.2** | $ 27.7 |
| Sales to Verizon (Verizon customers' usage of TELUS' telecommunication infrastructure and other) | **$ 52.4** | $ 47.2 |
| Purchases from Verizon (TELUS customers' usage of Verizon's telecommunication infrastructure and other) | **$ 33.2** | $ 35.9 |

# 21 differences between Canadian and United States generally accepted accounting principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP. The principles adopted in these financial statements conform in all material respects to those generally accepted in the United States except as summarized below. Significant differences between Canadian GAAP and U.S. GAAP would have the following effect on reported net income of the Company:

| Years ended December 31 (millions except per share amounts) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| Net income in accordance with Canadian GAAP | **$ 565.8** | $ 324.4 |
| Adjustments: | | |
| Operating expenses | | |
| Operations (b) | **2.2** | (16.9) |
| Depreciation (c) | **6.5** | 93.4 |
| Amortization of intangible assets (d) | **(81.8)** | (81.8) |
| Financing costs (f) | **8.4** | 9.6 |
| Accounting for derivatives (g) | **(4.4)** | 2.0 |
| Taxes on the above adjustments (h) | **32.1** | (1.7) |
| Net income in accordance with U.S. GAAP | **528.8** | 329.0 |
| Other comprehensive income (loss) (i) | **(63.0)** | (205.0) |
| Comprehensive income in accordance with U.S. GAAP | **$ 465.8** | $ 124.0 |
| Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share | | |
| – Basic | **$ 1.48** | $ 0.93 |
| – Diluted | **$ 1.46** | $ 0.93 |

The following is an analysis of retained earnings (deficit) reflecting the application of U.S. GAAP:

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Balance at beginning of year | **$ (844.7)** | $ (960.6) |
| Net income in accordance with U.S. GAAP | **528.8** | 329.0 |
| | **(315.9)** | (631.6) |
| Less: Common Share and Non-Voting Share dividends paid, or payable, in cash | **204.7** | 165.8 |
| Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury | **26.9** | 43.8 |
| Cost of purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 15(i)) | **38.6** | – |
| Preference and preferred share dividends | **1.8** | 3.5 |
| Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 15(b)) | **2.3** | – |
| Balance at end of year | **$ (590.2)** | $ (844.7) |

The following is an analysis of major balance sheet categories reflecting the application of U.S. GAAP:

| (millions) | 2004 | 2003 |
|---|---|---|
| Current Assets | $ 2,647.6 | $ 1,517.3 |
| Capital Assets | | |
| Property, plant, equipment and other | 7,528.2 | 7,757.8 |
| Intangible assets subject to amortization | 2,476.5 | 2,666.0 |
| Intangible assets with indefinite lives | 2,955.8 | 2,954.6 |
| Goodwill | 3,545.4 | 3,536.6 |
| Deferred Income Taxes | 218.8 | 709.0 |
| Other Assets | 658.5 | 623.1 |
| | $ 20,030.8 | $ 19,764.4 |
| Current Liabilities | $ 1,969.1 | $ 2,154.7 |
| Long-Term Debt | 6,341.1 | 6,628.4 |
| Other Long-Term Liabilities | 1,763.8 | 1,367.1 |
| Deferred Income Taxes | 1,593.7 | 1,638.8 |
| Non-Controlling Interest | 13.1 | 10.7 |
| Shareholders' Equity | 8,350.0 | 7,964.7 |
| | $ 20,030.8 | $ 19,764.4 |

The following is a reconciliation of shareholders' equity incorporating the differences between Canadian and U.S. GAAP:

| (millions) | 2004 | 2003 |
|---|---|---|
| | | *(restated – Note 2(b))* |
| Shareholders' Equity under Canadian GAAP | $ 7,025.6 | $ 6,521.2 |
| Adjustments: | | |
| Purchase versus Pooling Accounting (a), (c) – (f) | 1,458.9 | 1,512.9 |
| Additional goodwill on Clearnet purchase (e) | 123.5 | 123.5 |
| Convertible debentures (including conversion option) (f) | (8.0) | (8.8) |
| Accounting for derivatives (g) | (3.0) | (0.1) |
| Accumulated other comprehensive income (loss) (i) | (247.0) | (184.0) |
| Shareholders' Equity under U.S. GAAP | $ 8,350.0 | $ 7,964.7 |
| Composition of Shareholders' Equity under U.S. GAAP | | |
| Preference and preferred shares | | |
| TELUS Communications Inc. | | |
| Preference Shares and Preferred Shares (Note 15(b)) | $ – | $ 69.7 |
| Common equity | | |
| Common Shares | 4,341.0 | 4,282.6 |
| Non-Voting Shares | 4,700.8 | 4,585.8 |
| Options and warrants (Note 15(d)) | 26.9 | 51.5 |
| Accrual for shares issuable under channel stock incentive plan | 0.8 | 0.6 |
| Cumulative foreign currency translation adjustment | (2.2) | (2.7) |
| Retained earnings (deficit) | (590.2) | (844.7) |
| Accumulated other comprehensive income (loss) (i) | (247.0) | (184.0) |
| Contributed surplus | 119.9 | 5.9 |
| | 8,350.0 | 7,895.0 |
| | $ 8,350.0 | $ 7,964.7 |

### (a) Merger of BC TELECOM and TELUS

The business combination between BC TELECOM and TELUS Corporation (renamed TELUS Holdings Inc. which was wound up June 1, 2001) was accounted for using the pooling of interests method under Canadian GAAP. Under Canadian GAAP, the application of the pooling of interests method of accounting for the merger of BC TELECOM and TELUS Holdings Inc. resulted in a restatement of prior periods as if the two companies had always been combined. Under U.S. GAAP, the merger is accounted for using the purchase method. Use of the purchase method results in TELUS (TELUS Holdings Inc.) being acquired by BC TELECOM for $4,662.4 million (including merger related costs of $51.9 million) effective January 31, 1999.

### (b) Operating expenses – Operations

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Future employee benefits | $ (16.9) | $ (16.9) |
| Share-based compensation | 19.1 | – |
| | $ 2.2 | $ (16.9) |

*Future employee benefits:* Under U.S. GAAP, TELUS' future employee benefit assets and obligations have been recorded at their fair values on acquisition. Accounting for future employee benefits under Canadian GAAP changed to become more consistent with U.S. GAAP effective January 1, 2000. Canadian GAAP provides that the transitional balances can be accounted for prospectively. Therefore, to conform to U.S. GAAP, the amortization of the transitional amount needs to be removed from the future employee benefit expense.

*Share-based compensation:* Effective January 1, 2004, Canadian GAAP required the adoption of the fair value method of accounting for share-based compensation for awards made after 2001 (see Note 2(a) and Note 9(a)). U.S. GAAP requires disclosure of the impact on net income and net income per Common Share and Non-Voting Share as if the fair value based method of accounting had been applied for awards made after 1994; the Company continues to use the intrinsic value method for purposes of U.S. GAAP. The fair values of the Company's options granted in 2004 and 2003, and the weighted average assumptions used in estimating the fair values, are set out in Note 9(a). Such impact, using the fair values set out in Note 9(a), would approximate the pro forma amounts in the following table.

| Years ended December 31 (millions except per share amounts) | 2004 | 2003 |
|---|---|---|
| Net income in accordance with U.S. GAAP | | |
| As reported | **$ 528.8** | $ 329.0 |
| Deduct: Share-based compensation arising from share options determined under fair value based method for all awards | **(22.0)** | (43.9) |
| Pro forma | **$ 506.8** | $ 285.1 |
| Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share | | |
| Basic | | |
| As reported (using intrinsic value method) | **$ 1.48** | $ 0.93 |
| Pro forma (using fair value method) | **$ 1.42** | $ 0.81 |
| Diluted | | |
| As reported (using intrinsic value method) | **$ 1.46** | $ 0.93 |
| Pro forma (using fair value method) | **$ 1.40** | $ 0.80 |

### (c) Operating expenses – Depreciation

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Merger of BC TELECOM and TELUS | **$ 6.5** | $ 35.8 |
| Asset impairment | **–** | 57.6 |
| | **$ 6.5** | $ 93.4 |

*Merger of BC TELECOM and TELUS:* Under the purchase method, TELUS' capital assets on acquisition have been recorded at fair value rather than at their underlying cost (book values) to TELUS. Therefore, depreciation of such assets based on fair values at the date of acquisition under U.S. GAAP will be different than TELUS' depreciation based on underlying cost (book values). As of March 31, 2004, the amortization of this difference had been completed.

*Asset impairment:* In the first quarter of 1998, BC TELECOM took an asset impairment charge. In assessing if a capital asset is impaired, estimated future net cash flows are not discounted in computing the net recoverable amount. Under Canadian GAAP, at the time the assessment took place, the impairment amount recorded was the excess of the carrying amount over the recoverable amount; under U.S. GAAP the impairment amount recorded was the excess of the carrying amount over the discounted estimated future net cash flows that were used to determine the net recoverable amount. Under U.S. GAAP, the net of tax charge taken in 1998 would be $232.2 million higher and would not be considered an extraordinary item. The annual depreciation expense would be approximately $72 million lower subsequent to when the increased impairment charge was taken under U.S. GAAP. As of December 31, 2003, the amortization of this difference had been completed.

### (d) Operating expenses – Amortization of intangible assets

As TELUS' intangible assets on acquisition have been recorded at their fair value (see (a)), amortization of such assets, other than for those with indefinite lives, needs to be included under U.S. GAAP; consistent with prior years, amortization is calculated using the straight-line method.

The incremental amounts recorded as intangible assets arising from the TELUS acquisition above are as follows:

| | Cost | Accumulated amortization | Net book value | |
|---|---|---|---|---|
| (millions) | | | 2004 | 2003 |
| Intangible assets subject to amortization | | | | |
| Subscribers – wireline | $ 1,950.0 | $ 257.4 | **$ 1,692.6** | $ 1,731.0 |
| Subscribers – wireless | 250.0 | 203.1 | **46.9** | 90.3 |
| | 2,200.0 | 460.5 | **1,739.5** | 1,821.3 |
| Intangible assets with indefinite lives | | | | |
| Spectrum licences[1] | 1,833.3 | 1,833.3 | **–** | – |
| | $ 4,033.3 | $ 2,293.8 | **$ 1,739.5** | $ 1,821.3 |

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at December 31, 2004, for each of the next five fiscal years is as follows:

| Years ending December 31 (millions) | |
|---|---|
| 2005 | $ 341.7 |
| 2006 | 194.7 |
| 2007 | 101.8 |
| 2008 | 52.7 |
| 2009 | 46.9 |

### (e) Goodwill

*Merger of BC TELECOM and TELUS:* Under the purchase method of accounting, TELUS' assets and liabilities at acquisition (see (a)) have been recorded at their fair values with the excess purchase price being allocated to goodwill in the amount of $403.1 million. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill is periodically tested for impairment.

*Additional goodwill on Clearnet purchase:* Under U.S. GAAP, shares issued by the acquirer to effect an acquisition are measured at the date the acquisition was announced; however, under Canadian GAAP, at the time the transaction took place, shares issued to effect an acquisition were measured at the transaction date. This results in the purchase price under U.S. GAAP being $131.4 million higher than under Canadian GAAP. The resulting difference is assigned to goodwill. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill is periodically tested for impairment.

### (f) Financing costs

*Merger of BC TELECOM and TELUS:* Under the purchase method, TELUS' long-term debt on acquisition has been recorded at its fair value rather than at its underlying cost (book value) to TELUS. Therefore, interest expense calculated on the debt based on fair values at the date of acquisition under U.S. GAAP will be different than TELUS' interest expense based on underlying cost (book value).

*Convertible debentures:* Under Canadian GAAP, the conversion option embedded in the convertible debentures is presented separately as a component of shareholders' equity. Under U.S. GAAP, the embedded conversion option is not subject to bifurcation and is thus presented as a liability along with the balance of the convertible debentures. The principal accretion occurring under Canadian GAAP is not required under U.S. GAAP and the adjustment is included in the interest expense adjustment in the reconciliation.

### (g) Accounting for derivatives

On January 1, 2001, the Company adopted, for U.S. GAAP purposes, the provisions of Statement of Financial Accounting Standards No. 133, Accounting For Derivative Instruments and Hedging Activities. This standard requires that all derivatives be recognized as either assets or liabilities and measured at fair value. This is different from the Canadian GAAP treatment for financial instruments. Under U.S. GAAP, derivatives which are fair value hedges, together with the financial instrument being hedged, will be marked to market with adjustments reflected in income and derivatives which are cash flow hedges will be marked to market with adjustments reflected in comprehensive income (see (i)).

### (h) Income taxes

| Years ended December 31 (millions) | 2004 | 2003 |
|---|---|---|
| Current | **$ (125.8)** | $ (221.7) |
| Deferred | **348.8** | 395.4 |
| | **223.0** | 173.7 |
| Investment Tax Credits | **(0.6)** | (1.3) |
| | **$ 222.4** | $ 172.4 |

The Company's income tax expense (recovery), for U.S. GAAP purposes, differs from that calculated by applying statutory rates for the following reasons:

| Years ended December 31 ($ in millions) | 2004 | | 2003 | |
|---|---|---|---|---|
| Basic blended federal and provincial tax at statutory income tax rates | **$ 262.0** | **34.7%** | $ 186.8 | 37.1% |
| Tax rate differential on, and consequential adjustments from, settlement of prior year tax issues | **(50.3)** | | (49.7) | |
| Revaluation of deferred tax assets and liabilities for changes in statutory income tax rates | **(14.0)** | | 13.0 | |
| Investment Tax Credits | **(0.4)** | | (0.8) | |
| Other | **6.6** | | 1.8 | |
| | **203.9** | **27.0%** | 151.1 | 30.0% |
| Large corporations tax | **18.5** | | 21.3 | |
| U.S. GAAP income tax expense (recovery) | **$ 222.4** | **29.5%** | $ 172.4 | 34.3% |

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its future income tax assets and future income tax liabilities. The operations of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question.

Temporary differences comprising the deferred tax assets (liabilities) are estimated as follows:

| (millions) | 2004 | 2003 |
|---|---|---|
| Capital assets | | |
| Property, plant, equipment, other and intangible assets subject to amortization | **$ (615.2)** | $ (534.1) |
| Intangible assets with indefinite lives | **(991.9)** | (1,007.0) |
| Reserves not currently deductible | **167.9** | 156.1 |
| Losses available to be carried forward | **424.9** | 622.2 |
| Other | **77.8** | 137.0 |
| | **$ (936.5)** | $ (625.8) |
| Deferred tax assets | | |
| Current | **$ 438.4** | $ 304.0 |
| Non-current | **218.8** | 709.0 |
| | **657.2** | 1,013.0 |
| Deferred tax liabilities | **(1,593.7)** | (1,638.8) |
| Deferred tax assets (liabilities) | **$ (936.5)** | $ (625.8) |

### (i) Additional disclosures required under U.S. GAAP – Comprehensive income

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, requires that a statement of comprehensive income be displayed with the same prominence as other financial statements. Comprehensive income, which incorporates net income, includes all changes in equity during a period except those resulting from investments by and distributions to owners. There is currently no requirement to disclose comprehensive income under Canadian GAAP.

| Years ended December 31 (millions) | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | **Unrealized fair value of derivative cash flow hedges** | **Minimum pension liability** | **Total** | Unrealized fair value of derivative cash flow hedges | Minimum pension liability | Total |
| Amount arising | **$ (72.9)** | **$ (23.6)** | **$ (96.5)** | $ (303.8) | $ (12.5) | $ (316.3) |
| Income tax expense (recovery) | **(25.4)** | **(8.1)** | **(33.5)** | (114.5) | 3.2 | (111.3) |
| Net | **(47.5)** | **(15.5)** | **(63.0)** | (189.3) | (15.7) | (205.0) |
| Accumulated other comprehensive income (loss), beginning of year | **(73.6)** | **(110.4)** | **(184.0)** | 115.7 | (94.7) | 21.0 |
| Accumulated other comprehensive income (loss), end of year | **$ (121.1)** | **$ (125.9)** | **$ (247.0)** | $ (73.6) | $ (110.4) | $ (184.0) |

### (j) Recently issued accounting standards not yet implemented

*Equity-based compensation:* Under U.S. GAAP, effective for the third quarter of its 2005 fiscal year, the Company will be required to apply the fair value method of accounting for share-based compensation awards granted to employees, as prescribed by SFAS 123(R). As compared with the information that has been previously and currently disclosed for U.S. GAAP purposes, the adoption of this standard will result in a reclassification between share capital, contributed surplus and retained earnings. The Company expects that it will use the modified prospective transition method. The Company is in the process of estimating the impact on the U.S. GAAP reconciliation disclosures, but has not yet finalized the amounts; such amount would be in excess of the $176.9 million in share option expense reported in the U.S. GAAP reconciliation disclosures for the fiscal years ended December 31, 2004–1999, inclusive, due to the initial effective date of SFAS 123.

*Other:* As would affect the Company, there are no other U.S. accounting standards currently issued and not yet implemented that would differ from Canadian accounting standards currently issued and not yet implemented.

# excellence in corporate reporting and governance

At TELUS, we have a serious commitment to transparency, full and fair disclosure, and best practices in corporate governance.

We take a proactive approach to financial reporting and corporate governance, often going above and beyond what is required and, where practical, adopting early emerging best practices. The result of our approach is a series of initiatives across the company that sustain our commitment, ensure the effective management of TELUS, and thereby serve to increase investor confidence.

In 2004, we maintained our focus on strong corporate governance by building on our long-standing practices such as:

- separation of the roles of Chief Executive Officer and Board chair;
- at least quarterly meetings of the Audit Committee;
- the Chief Internal Auditor reporting to the Audit Committee and having regular quarterly discussions with the Audit Committee chair; and
- in-camera sessions at regularly scheduled Audit Committee meetings where committee members meet separately with the external auditor and the internal auditor without management being present.

We took additional steps in 2004 to update our insider trading policy, update our Board policy manual, roll out a corporate disclosure and confidentiality of information policy, and update our corporate security policies. The Pension Committee of the Board also conducted a comprehensive review in 2004 of the defined benefit and defined contribution pension plans' governance structure and recommended changes, which the Board approved, to streamline decision-making and more clearly delineate the responsibilities and areas of accountability of pension plan fiduciaries.

We made further enhancements to our comprehensive ethics policy, which ties together all policies regulating business behaviour and provides guidelines for the high standards of ethical conduct at TELUS. To promote ethical behaviour, all team members are asked annually to review our updated e.Ethics course, an online learning tool. Ninety-seven per cent of employees (excluding TELUS Mobility) completed the 2004 course. We also monitor and resolve calls made to our EthicsLine – a hotline for anonymous and confidential questions or complaints on accounting, internal controls or ethical issues – and then provide quarterly reports to the Audit Committee on the status and resolution of the calls. In 2004, the Ethics Office fielded 250 calls, of which 143 involved advice on ethical situations or complaints. At the end of 2004, the Ethics Office concluded there had been 22 breaches of the ethics policy and none involved fraud by any employee with a significant role in internal controls over financial reporting.

We continue to ensure robust processes are in place to identify, evaluate and mitigate key risks. In 2004, we enhanced our enterprise-wide risk management program by capturing enterprise and business unit specific risks; comparing and differentiating risks between our wireline and wireless business segments; and analyzing the perception of key risks by various management levels. In addition, we expanded our planning efforts to enable us to comply in 2005 with section 404 of the U.S. Sarbanes-Oxley Act regarding internal controls over financial reporting.

In 2005, we are continuing to look for ways to improve and enhance our corporate governance. For example, we will follow closely the development of the newly proposed Canadian National Instrument and National Policy on Corporate Governance.

A key component of our strong corporate governance efforts is the emphasis we place on communication to better meet investor needs. In 2004, we made additional enhancements to our Web site (telus.com/governance) such as publishing our insider trading policy, our Board policy manual, and copies of the certifications made by our Chief Executive Officer and Chief Financial Officer under the Sarbanes-Oxley Act and Canadian securities laws. We also Web cast our quarterly investor calls, made 11 conference presentations and held 122 investor meetings across North America and Europe. As we have for six years, we continue to publicly set measurable performance targets – 15 in recent years – which are updated at least quarterly. This type of comprehensive forward-looking information resulted in TELUS being ranked number one in the world for "strategy, objectives and outlook" as part of the annual report ranking by Corporate Essentials.

Our history of disclosure and governance excellence continues to be recognized. For example:

- For the tenth year in a row, TELUS was acknowledged for excellence in corporate reporting by the Canadian Institute of Chartered Accountants (CICA). In November, we received the Award of Excellence for the best annual report in Canada and the overall Award of Excellence in the Communications and Media sector.
- The TELUS 2003 annual report was ranked ninth globally out of 1,000 international companies, first in Canada and second in North America, in the 2004 Annual Report on Annual Reports by Corporate Essentials, the only international survey and ranking of company reports.
- Moody's Investors Service completed a corporate governance assessment of TELUS in July 2004, stating that the company has strong corporate governance practices.

For a full statement of TELUS corporate governance practices, including disclosure regarding our governance practices against those required of U.S. domestic issuers by the New York Stock Exchange, visit **telus.com/governance** or refer to the 2005 TELUS Information Circular.

## Corporate governance initiatives and practices

| Required[1] practices |
|---|
| CEO and CFO certification of Form 40-F filed with the U.S. Securities and Exchange Commission (including the financial statements, management's discussion and analysis (MD&A), annual information form and information circular) and certification of interim financial statements filed with various Canadian securities commissions<br>• Based on enhanced formalized internal due diligence and investigation process |
| Disclosure controls and procedures<br>• Extensive checklists developed and cascaded to senior managers and key disclosure positions |
| MD&A and Consolidated financial statement enhancements<br>• Reported off balance sheet arrangements and contractual liabilities<br>• Early-adopted enhanced pension plan and rate regulation disclosure<br>• Critical accounting estimates disclosure<br>• Reconciliation of non-GAAP (generally accepted accounting principles) to GAAP operating performance measures |
| TELUS ethics policy made publicly available |
| Instituted TELUS EthicsLine hotline<br>• Anonymous reporting of ethics, accounting and internal control inquiries or complaints |
| Audit Committee comprised of individuals who are "financially literate"[2] and at least one "Audit Committee financial expert"[2] |
| External auditor independence and pre-approval by Audit Committee of non-audit and audit services |

1 As required by the Canadian Institute of Chartered Accountants, various provincial securities commissions, the Toronto Stock Exchange, the U.S. Securities and Exchange Commission, the U.S. Sarbanes-Oxley Act, and/or the New York Stock Exchange.
2 The TELUS Board has determined that all members of the Audit Committee are "financially literate" as defined in the Canadian Securities Administrators Investor Confidence Rules and that at least one member of the Audit Committee is an "Audit Committee financial expert" as defined under the rules of the Securities and Exchange Commission and has "accounting or related financial management expertise" as defined in the New York Stock Exchange Governance Guidelines.

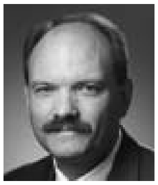
| Voluntary practices |
|---|
| Improvements to enterprise risk management process<br>• Conducted more extensive risk and control assessment interviews and surveys and assigned mitigation responsibilities at the executive level<br>• Reviewed and updated the TELUS risk profile throughout the year to reflect dynamically changing risks<br>• Adopted a rigorous model of internal control (COSO, the Committee of Sponsoring Organizations of the Treadway Commission) to help assess the control environment across the organization<br>• Expanded preparations for 2005 compliance with section 404 of the U.S. Sarbanes-Oxley Act sections regarding internal controls over financial reporting |
| TELUS ethics policy<br>• Refreshed annually for all employees by mandatory online interactive course<br>• Enhanced to refer to the updated insider trading policy, new corporate disclosure and confidentiality of information policy, and a description of the EthicsLine process |
| Blended more comprehensive MD&A framework recommended by the CICA with required disclosure framework of the Canadian Securities Administrators |
| Public disclosure of the corporate disclosure and confidentiality of information policy |
| Public disclosure of the TELUS bank credit facility agreement |
| Public disclosure of the Board policy manual, including committee terms of reference |
| Eliminated option grants to Board of Directors |

## Board committees

The Board of Directors has appointed four committees, each of which operates under its own mandate and terms of reference. All members of these committees are independent. For full details, visit **about.telus.com/governance/board.html** or refer to the 2005 TELUS Information Circular.

| | |
|---|---|
| Audit committee | ensures the integrity of TELUS' accounting and financial reporting; internal and disclosure controls; legal and regulatory compliance; ethics policy; independence and performance of auditors; management of risks; credit worthiness; treasury plans and financial policy; and whistleblower and complaint procedures |
| Corporate governance committee | ensures the effectiveness of TELUS' corporate governance system; establishes a process to identify, recruit, appoint and educate directors; develops corporate governance principles; and oversees evaluation of the Board |
| Human resources and compensation committee | develops TELUS' philosophy and guidelines on executive compensation; oversees executive succession planning; evaluates executive performance and determines compensation; and reviews and administers equity-based incentive plans and executive supplemental retirement plans |
| Pension committee | oversees the administration, financial reporting and investment activities of most pension plans at TELUS; and reviews administrative aspects and investment policy of the plans, performance of the investment portfolios, and compliance with government legislation |

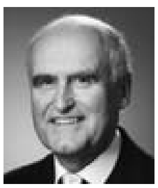
# board of directors



## R.H. (Dick) Auchinleck

**Residence:**
Calgary, AB
**Principal occupation:**
Director
**Director since:** 2003
**Education:**
- Bachelor of Applied Science (Chemical Engineering), University of British Columbia 1976

**Other Boards:** Conoco-Phillips Inc. and Enbridge Commercial Trust
**TELUS Committees:** Corporate Governance, and Human Resources and Compensation



## A. Charles Baillie

**Residence:**
Toronto, ON
**Principal occupation:**
Director
**Director since:** 2003
**Education:**
- Honours Bachelor of Arts (Political Science & Economics), Trinity College, University of Toronto 1962
- MBA, Harvard Business School 1964
- Honorary Doctorate of Laws, Queen's University 2000

**Other Boards:** Dana Corporation, Ballard Power Systems Inc., Canada's National History Society, Canadian National Railway Company, and George Weston Limited; President of The Art Gallery of Ontario; Chancellor of Queen's University; Honorary Chair of Canadian Council of Chief Executives; and Co-chair of Capital Campaign of the Nature Conservatory of Canada
**TELUS Committee:** Audit

## Micheline Bouchard

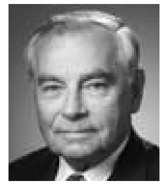
**Residence:**
Montreal, QC
**Principal occupation:**
President and CEO, ART Advanced Research Technologies
**Director since:** 2004
**Education:**
- Bachelor of Applied Science (Engineering Physics), Ecole Polytechnique 1969
- Master of Applied Science (Electrical Engineering), Ecole Polytechnique 1978
- Appointed to the Order of Canada 1995
- Honorary Doctorate in Business, Université de Montréal (HEC) 2000
- Honorary Doctorate in Engineering, University of Waterloo 2002, University of Ottawa 2001, and Ryerson Polytechnic University 1998
- Honorary Doctorate of Laws, McMaster University 1999

**Other Boards:** Conference Board of Canada
**TELUS Committee:** Audit

## R. John Butler, Q.C.

**Residence:**
Edmonton, AB
**Principal occupation:**
Counsel, Bryan & Company
**Director since:** 1995
**Education:**
- Bachelor of Arts, University of Alberta 1965
- Bachelor of Laws, University of Alberta 1968
- Called to Alberta Bar 1969

**Other Boards:** Trans Global Insurance Company, Trans Global Life Insurance Company, Liquor Stores Income Trust, and Board of Governors of the Canadian Football League; and Chair of Edmonton Eskimos Football Club
**TELUS Committees:** Chair, Pension and Member, Corporate Governance



## Brian A. Canfield

**Residence:**
Point Roberts, WA
**Principal occupation:**
Chairman, TELUS Corporation
**Director since:** 1993
**Education:**
- Honorary Doctorate in Technology, British Columbia Institute of Technology 1997
- Appointed to the Order of British Columbia 1998

**Other Boards:** Terasen Inc., Suncor Energy Inc., and Canadian Public Accountability Board
**TELUS Committee:** Pension

## Darren Entwistle

**Residence:**
Vancouver, BC
**Principal occupation:**
President and CEO, TELUS Corporation
**Director since:** 2000
**Education:**
- Bachelor of Economics (Honours), Concordia University, Montreal 1986
- MBA (Finance), McGill University 1988
- Diploma (Network Engineering), University of Toronto 1990

**Other Boards:** TD Bank Financial Group, Vancouver Symphony Orchestra, and Leading Edge Endowment Fund; Board of Governors, International Institute of Telecommunications; and Chair of Royal Conservatory of Music's Capital Campaign

## R.E.T. (Rusty) Goepel

**Residence:**
Vancouver, BC
**Principal occupation:**
Senior Vice President, Raymond James Financial Ltd., Canadian operations
**Director since:** 2004
**Education:**
- Bachelor of Commerce, University of British Columbia 1965

**Other Boards:** Chairman of Business Council of British Columbia; Member of Vancouver 2010 Olympic Organizing Committee, Vancouver Airport Authority, Spur Ventures Inc., Amerigo Resources Ltd., and Premium Brands Ltd.
**TELUS Committee:** Audit

**John S. Lacey**
**Residence:** Don Mills, ON
**Principal occupation:** Chairman, Alderwoods Group, Inc.
**Director since:** 2000
**Education:**

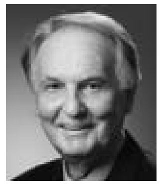
- Program for Management Development, Harvard Business School 1976

**Other Boards:** Advisory Board of Tricap, Cancer Care Ontario, CIBC, Canadian Tire Corporation, and Western Forest Products Ltd.; and Chairman of Doncaster Racing Inc. and Doncaster Consolidated Ltd.
**TELUS Committees:** Chair, Human Resources and Compensation and Member, Corporate Governance

**Brian F. MacNeill**
**Residence:** Calgary, AB
**Principal occupation:** Chairman, Petro-Canada
**Director since:** 2001
**Education:**

- Bachelor of Commerce, Montana State University 1965
- Certified Public Accountant (California) 1967
- Chartered Accountant (Canada) 1970
- Fellow of the Chartered Accountants of Alberta 1995

**Other Boards:** TD Bank Financial Group, Dofasco Inc., West Fraser Timber Co. Ltd., and Legacy Hotels REIT
**TELUS Committee:** Chair, Audit



**Ronald P. Triffo**
**Residence:** Edmonton, AB
**Principal occupation:** Chairman, Stantec Inc.
**Director since:** 1995
**Education:**

- Bachelor of Applied Science (Civil Engineering), University of Manitoba 1961
- MSc (Engineering), University of Illinois 1963
- Studies in economic theory and policy, and business management, Concordia University, Montreal, and the Banff School of Advanced Management 1970–74

**Other Boards:** Chairman, ATB Financial; Co-chair of Alberta Economic Development Authority; and Member of Alberta Ingenuity Fund, and Board of Governors of Junior Achievement of Northern Alberta
**TELUS Committees:** Chair, Corporate Governance and Member, Pension

**Donald P. Woodley**
**Residence:** Mono Township, ON
**Principal occupation:** President, The Fifth Line Enterprise
**Director since:** 1998
**Education:**

- Bachelor of Commerce, University of Saskatchewan 1967
- MBA, University of Western Ontario 1970

**Other Boards:** DataMirror Corporation, Onx Enterprise Solutions Inc., Steam Whistle Brewing Inc., The Hospital for Sick Children Foundation, and Ivey School of Business at the University of Western Ontario
**TELUS Committees:** Human Resources and Compensation, and Pension

Additional biographical information and any updates during the year may be found at telus.com/bios.

# executive leadership team

### Guy Beauchamp
Executive Vice-President and President, Consumer Solutions

**Location:** Edmonton, AB
**Education:**
- Bachelor of Laws, University of Montreal 1983
- Called to Quebec Bar 1984

### George Cope
President and Chief Executive Officer, TELUS Mobility

**Location:** Scarborough, ON
**Education:**
- Business Administration (Honours), University of Western Ontario 1984

**Boards and committees:** NII Holdings, Inc. (formerly known as Nextel International), OnX Inc., Canadian Wireless Telecommunications Association, Toronto General & Western Foundation, and Advisory Board of Richard Ivey School of Business at the University of Western Ontario; and Board of Governors, Crescent School

### Darren Entwistle
President and Chief Executive Officer

**Location:** Vancouver, BC
**Education:**
- Bachelor of Economics (Honours), Concordia University, Montreal 1986
- MBA (Finance), McGill University 1988
- Diploma (Network Engineering), University of Toronto 1990

**Boards and committees:** TD Bank Financial Group, Vancouver Symphony Orchestra, and Leading Edge Endowment Fund; Board of Governors, International Institute of Telecommunications; and Chair of Royal Conservatory of Music's Capital Campaign

### Joseph Grech
Executive Vice-President, Technology & Operations

**Location:** Vancouver, BC
**Education:**
- Bachelor of Applied Science (Electrical Engineering), University of Toronto 1985

**Boards and committees:** CANARIE (Canada's Advanced Internet Development Organization)

### Robert McFarlane
Executive Vice-President and Chief Financial Officer

**Location:** Vancouver, BC
**Education:**
- Bachelor of Commerce (Honours), Queen's University 1983
- MBA, University of Western Ontario 1985

**Boards and committees:** Royal & SunAlliance Insurance Company of Canada, and The Salvation Army, British Columbia Division, Vancouver Advisory Board; and Vice-chair of Business Council of British Columbia

### Joseph Natale
Executive Vice-President and President, Business Solutions

**Location:** Toronto, ON
**Education:**
- Bachelor of Applied Science (Electrical Engineering), University of Waterloo 1987

**Boards and committees:** Livingston International Inc. and Royal Conservatory of Music

### Wade Oosterman
Executive Vice-President and Chief Marketing Officer

**Location:** Scarborough, ON
**Education:**
- Bachelor of Arts (Economics and Finance), University of Western Ontario 1982
- MBA, University of Western Ontario 1986

**Boards and committees:** The Foundation Fighting Blindness – Canada

### Karen Radford
Executive Vice-President and President, Partner Solutions

**Location:** Calgary, AB
**Education:**
- Bachelor of Science, Mount Allison University 1989
- MBA, Dalhousie University 1991

**Boards and committees:** Center for Telecom Management, University of Southern California; and National Advisor to Youth in Motion

### Kevin Salvadori

Executive Vice-President, Business Transformation and Chief Information Officer

**Location:** Vancouver, BC
**Education:**
- Bachelor of Applied Science (Systems Design Engineering), University of Waterloo 1993

**Boards and committees:** Soltrus Inc.

### Judy Shuttleworth

Executive Vice-President, Human Resources

**Location:** Vancouver, BC
**Education:**
- Executive programs at Queen's University (1979), University of British Columbia (1997), and Verizon Executive Development (1998)

**Boards and committees:** Human Resources Committee of the Conference Board of Canada

### Hugues St-Pierre

President and Chief Executive Officer, TELUS Québec

**Location:** Rimouski, QC
**Education:**
- Bachelor of Business Administration, Université du Québec à Rimouski 1974
- Advanced Management Program, Harvard Business School 1998

**Boards and committees:** Jeunesses Musicales of Canada Foundation, CEFRIO (the Centre francophone d'informatisation des organisations), and National Optics Institute; Member of CEO Network of Quebec, Accord Bas-Saint-Laurent Regional Development Committee, and Consulting Committee of Corporation Inno-Centre du Québec

### Janet Yale

Executive Vice-President, Corporate Affairs

**Location:** Ottawa, ON
**Education:**
- Bachelor of Arts, McGill University 1975
- Master of Economics, University of Toronto 1976
- Bachelor of Laws, University of Toronto 1981
- Called to Ontario Bar 1983

**Boards and committees:** Ashbury College, the Ottawa Hospital, Information Technology Association of Canada (ITAC), the Council for Business and the Arts in Canada, and the Canadian Film Centre; Chair of Board of Directors, United Way/Centraide Ottawa; and Chair of Theatre Renewal Campaign, National Arts Centre

Visit **telus.com/bios** for additional biographical information.

# glossary

The following definitions are also available on our Web site at telus.com/glossary

**1X:** Technology standard for 3G (third generation) high-speed wireless Internet service at speeds up to 153 Kbps. 1X was the first step in the CDMA2000 evolution after IS-95. 1X provides enhanced voice network capacity as well as high-speed packet data mobile wireless Internet access. 1X was previously known as 1XRTT.

**1XEV-DO:** The second step in the CDMA2000 evolution includes the 1XEV family of technologies. 1XEV-DO focuses on data only, delivering download peak data rates of up to 2.4 Mbps to the end user. It is suitable for high bandwidth download applications such as enterprise VPN computing, MP3 transfers and video streaming.

**1XEV-DV:** The second member of the 1XEV family. 1XEV-DV integrates both voice and data, providing integrated voice with simultaneous high-speed packet data services, such as video, video-conferencing and other multimedia services at speeds of up to 3.09 Mbps. It is backward compatible with 1X.

**3G (third generation):** Describes next generation wireless technology that is expected to be CDMA-based and offer high-speed packet data mobile wireless Internet access and multimedia communications at minimum transmission rates of 144 Kbps in mobile (outdoor) and two Mbps in fixed (indoor) environments. Analog cellular is considered the first generation of wireless, while digital is second generation.

**ADSL (asymmetric digital subscriber line):** A technology for transmitting digital information at a high bandwidth on existing phone lines. Unlike dial-up Internet service, ADSL provides continuously available connectivity. It is asymmetric in that it uses most of the channel to transmit downstream to the user and only a small part to receive information from the user.

**analog:** A transmission method employing a continuous (rather than pulsed or digital) electrical signal.

**ARPU (average revenue per unit):** Average revenue per unit, or wireless subscriber, expressed as a rate per month for a given measurement period.

**ATM (asynchronous transfer mode):** A high-speed switching technology that routes voice, data and video at high speeds over the same network.

**bandwidth:** The difference between the top and bottom limiting frequencies of a continuous frequency band, or indicator of the information-carrying capacity of a channel. The greater the bandwidth, the greater the information-carrying capacity.

**bits per second (bps):** A measurement of data transmission speed used for measuring the amount of data that is transferred in a second between two telecommunication points or within network devices. Kbps (kilobits per second) is thousands of bits per second; Mbps (megabits per second) is millions; Gbps (gigabits per second) is billions; and Tbps (terabits per second) is trillions.

**bundle:** A group of telecommunications services (i.e., Internet, wireless, local exchange service, long distance and calling features) that are sold together, which may offer customer benefits such as a lower price, a single point of contact and convenience. Bundles in Canada that include tariffed services must be approved by the CRTC.

**CDMA (code division multiple access):** This technique spreads a signal over a frequency band that is larger than the signal to enable the use of a common band by many users and to achieve signal security and privacy. See also IS-95 and CDMA2000.

**CDMA2000:** A third generation wireless standard adopted by the International Telecommunications Union (ITU) that prescribes an evolutionary path to 3G for IS-95 based systems. The first step in the CDMA2000 evolution after IS-95 is called 1X. See also IS-95 and CDMA.

**CDNA (competitor digital network access):** Provides access arrangements to competitors for the digital transmission of information between end-customer premises served by an ILEC wire centre and a competitor's switch located in an ILEC's wire centre area or at an ILEC's wire centre, in which case it must terminate on the competitor's co-located equipment.

**CDPD (cellular digital packet data):** A specification for supporting wireless access to the Internet and other public packet-switched networks at speeds up to 19.2 Kbps.

**cell site:** Individual locations of network transmitter, receiver, antenna signaling and related base station equipment. Cell sites may be located on a transmission tower or building rooftop, or consist of an in-building system.

**cellular:** The mobile radio-telephone service, licensed by Industry Canada in Canada and the Federal Communications Commission (FCC) in the United States to utilize 50 MHz of spectrum in the 800 MHz band. There are two 25 MHz licences in each region of Canada.

**churn rate:** The number of subscriber units disconnected divided by the average number of units on the network, expressed as a rate per month for a given measurement period.

**CLEC (competitive local exchange carrier):** A category of telecommunications carriers, identified for regulatory purposes, that provides local exchange service in competition with an ILEC, using either the CLEC's own switching and network or the CLEC's switching facilities and a combination of either the CLEC's network facilities or an ILEC's unbundled network facilities.

**COA (cost of acquisition):** Consists of the total of handset subsidies, commissions, and advertising and promotion expenses related to the initial customer acquisition during a given period. As defined, COA excludes costs to retain existing subscribers.

**core network:** The ultra high-speed national backbone carrying the aggregated traffic from all services from city to city, and within cities, to the edge of the network where individual access connections then carry the customer-specific traffic to the customer residence or premises.

**CRTC (Canadian Radio-television and Telecommunications Commission):** The federal regulator for radio and television broadcasters, and cable-TV and telecommunications companies in Canada.

**dial-up access:** Connecting to another computer or network using a modem over a regular telephone line.

**digital:** A transmission method employing a sequence of discrete, distinct pulses that represent the binary digits 0 and 1 to indicate specific information, in contrast to the continuous signal of analog. Digital networks provide improved clarity, capacity, features and privacy compared to analog systems.

**DSL (digital subscriber line):** A technology that allows existing copper telephone lines to carry voice, data and video images at very high speeds.

**DSLAM (digital subscriber line access multiplexer):** A network device that receives signals from multiple customer DSL connections and puts the signal on a high-speed backbone line using multiplexing techniques.

**ESMR (enhanced specialized mobile radio):** Specialized mobile radio networks that incorporate frequency reuse and digital technology to increase their capacity and to provide service over very large coverage areas. An ESMR network is designed not only for the dispatch service associated with SMR, but also for mobile telephony and short messaging services as well as circuit-switched and packet data services. See also iDEN.

**fibre network:** Transmits information by light pulses along hair-thin glass fibres. Cables of optical fibres can be made smaller and lighter than conventional cables using copper wires or coaxial cable, yet they can carry much more information, making them useful for transmitting large amounts of data between computers or many simultaneous telephone conversations.

**frame relay:** A high-speed packet switching technology that has evolved to meet the LAN-to-LAN interconnection market. Frame relay is designed to provide high-speed packet transmission, very low network delay and efficient use of network bandwidth.

**GAAP:** Generally accepted accounting principles.

**hertz:** The dimensional unit for measuring the frequency with which an electromagnetic signal cycles through the zero-value state between lowest and highest states. One hertz (Hz) equals one cycle per second. KHz (kilohertz) equals one thousand hertz. MHz (megahertz) equals one million hertz. GHz (gigahertz) equals one billion hertz.

**hosting:** The business of housing, serving and maintaining files for one or more Web sites. Using a hosting service lets many companies share the cost of a fast Internet connection for serving files, as well as other Internet infrastructure and management costs. Also known as Web hosting.

**Hotspot:** A Wi-Fi wireless access point in a public place such as a café, train station, airport, commercial office property or conference centre.

**iDEN (integrated digital enhanced network):** An ESMR network technology developed by Motorola to utilize 800 MHz SMR channels for ESMR digital service. The digital signals offer greatly enhanced spectrum efficiency and system capacity.

**ILEC (incumbent local exchange carrier):** The established telecommunications company providing local telephone service.

**Internetworking:** TELUS Internetworking provides LAN-to-LAN connection services allowing data transport and capacity distribution among customer locations and/or access to the TELUS Internet backbone.

**IP (Internet protocol):** Standards adopted by the Internet community to help with specific tasks such as transferring files between computers and sending mail.

**IP-One:** The registered brand name for TELUS' suite of IP telephony solutions, which utilize IP technology to send voice calls and associated data and video streams over integrated networks. TELUS IP-One solutions provide advanced IP applications that integrate voice mail, e-mail, data and video through a Web portal interface.

**IS-95 (Interim Standard 95):** A version of CDMA specified by the Telecommunications Industry Association (TIA) that is used by TELUS Mobility and other networks around the world. IS-95 is often referred to as cdmaOne. See also CDMA.

**ISDN (integrated services digital network):** Switched network providing end-to-end digital connection for simultaneous transmission of voice and/or data over multiple multiplexed communication channels and employing transmission that conforms to internationally defined standards.

**ISP (Internet service provider):** A company that provides Internet access service to residences and/or businesses.

**Java:** A general purpose programming language with a number of features that make the language well suited for use on the Web. Small Java applications are called Java applets and can be downloaded from a Web server to run on a computer or wireless phone with a Java-compatible Web browser.

**LAN (local area network):** A way of connecting several computers, typically in the same room or building, so they can share files and devices like printers and copiers.

**local loop:** The transmission path between the telecommunications network and a customer's terminal equipment.

**m-commerce:** Mobile commerce is the buying and selling of goods and services through wireless handheld devices such as cellular telephones and personal digital assistants.

**MMS (multimedia messaging service):** Allows wireless customers to send and receive messages that contain much more than text including formatted text, graphics, photographs, and audio and video clips.

**MNVO (mobile virtual network operator):** A mobile service operator without licensed spectrum or network that leases wireless capacity from other carriers.

**multiplexing:** Sending multiple signals or streams of information on a carrier at the same time in the form of a single, complex signal and then recovering the separate signals at the receiving end.

**network edge:** The point in the network where customer access traffic enters or exits the service provider's shared core network. Functionality at the network edge ensures traffic streams are handled appropriately within the core network to allow privacy, security, reliability and service quality to the level appropriate for that traffic type or service.

**next generation network (also known as IP-based network):** A network designed using IP and QoS (Quality of Service) technology to reliably and efficiently support all types of customer traffic including voice, data and video. This network enables a variety of IP-based customer devices and next generation and advanced applications to communicate over a single common network.

**non-ILEC (non-incumbent local exchange carrier):** The telecommunications operations of TELUS outside of TELUS' traditional operating territories, where TELUS competes with the incumbent telephone company (e.g. Ontario and Quebec). TELUS' non-ILEC operations are focused on data and IP services for business in urban centres.

**PCS (personal communications services):** Digital wireless voice, data and text messaging services. In Canada and the United States, PCS spectrum has been allocated for use by public systems at the 1.9 GHz frequency range.

**points of presence:** An access point to the Internet that has a unique IP address. The number of points that an Internet service provider has is sometimes used as a measure of its size or growth rate.

**POP:** One person living in a population area that, in whole or in substantial part, is included in a network's coverage area.

**postpaid:** A conventional method of payment for wireless service where a subscriber pays for a significant portion of services and usage in arrears, subsequent to consuming the services.

**prepaid:** A method of payment for wireless service that allows a subscriber to prepay for a set amount of airtime in advance of actual usage. Generally, a subscriber's prepaid account is debited at the time of usage so that actual usage cannot exceed the prepaid amount until an additional prepayment is made.

**roaming:** A service offered by wireless network operators that allows subscribers to use their mobile phones while in the service area of another operator; this requires a roaming agreement between the operators.

**SMS (short messaging service):** A wireless messaging service that permits the transmission of a short text message from and/or to a digital wireless terminal.

**spam:** Unsolicited bulk or junk e-mail.

**spectrum:** The range of electromagnetic radio frequencies used in the transmission of sound, data and video. The potential capacity of a wireless network is in part a function of the amount of spectrum licensed to the carrier.

**switch:** In a telecommunications network, a device that channels incoming data from any of multiple input ports to the specific output port that will take the data toward its intended destination.

**VoIP (voice over Internet protocol):** The real-time transmission of voice signals over the Internet or IP network.

**VPN (virtual private network):** A private data network that makes use of a public telecommunications infrastructure, maintaining privacy through the use of a private secure network and security procedures.

**WAN (wide area network):** A data network extending a LAN (local area network) outside its building, over telecommunication lines or wirelessly, to link to other LANs over great distances.

**WAP (wireless application protocol):** An industry standard for the development of data applications and services over wireless communications networks. TELUS Mobility is a member of the WAP Forum, which is developing the open, global wireless protocol specification that works across differing wireless network technology types.

**Web portal:** An Internet gateway providing customers with access to online news and information, 24 hours a day, seven days a week.

**Wi-Fi (wireless fidelity):** The commercial name for networking technology, which allows any user with a Wi-Fi enabled device to connect to a wireless access point at speeds of up to 11 Mbps.

**wireless Web/Internet access:** Technology that provides access to the Internet through the wireless cellular network instead of the traditional wireline telephone network.

**WLANs or wireless LANs:** A type of local area network that uses high-frequency radio waves rather than wires to communicate between nodes.

# investor information

## Stock exchanges and TELUS trading symbols

**Toronto Stock Exchange (TSX)**

| | |
|---|---|
| common shares | T |
| non-voting shares | T.NV* |

*Prior to October 27, 2004, was T.A

**New York Stock Exchange (NYSE)**

| | |
|---|---|
| non-voting shares | TU |

**Member of**

S&P/TSX Composite Index
S&P/TSX 60 Index
MSCI World Telecom Index (Morgan Stanley Capital International)
S&P Supercomposite Wireless Index
Dow Jones Sustainability Index (DJSI)

**Share facts**

- common and non-voting shares receive the same dividend
- common and non-voting shares have the same rights and privileges, with the exception of voting rights
- if foreign ownership restrictions were removed, non-voting shares may convert on a one-for-one basis to common shares

## Ownership at December 31, 2004

| | | | |
|---|---|---|---|
| Total outstanding shares | **358,551,861** | | |
| Common share ownership | | % of class | % of total |
| TELUS Employee Share Plan | 7,999,351 | 4.2% | 2.2% |
| Widely held | 184,749,387 | 95.8% | 51.5% |
| Total outstanding | **192,748,738** | **100.0%** | |
| Non-voting share ownership | | | |
| Widely held | 165,803,123 | 100.0% | 46.3% |
| Total outstanding | **165,803,123** | **100.0%** | **100.0%** |

## Reservation system – non-Canadian common shares

Under federal legislation, total non-Canadian ownership of common shares of Canadian telecommunications companies, including TELUS, is limited to 33⅓ per cent. A reservation system controls and monitors this level. This system requires non-Canadian purchasers of common shares to obtain a reservation number from Computershare by calling the Reservations Unit at 1-877-267-2236 (toll-free). The purchaser is notified within two hours if common shares are available for registration. There are no ownership restrictions on non-voting shares.

## 2005 expected dividend[1] and earnings dates

| | Ex-dividend dates[2] | Dividend record dates | Dividend payment dates | Earnings release dates |
|---|---|---|---|---|
| **Quarter 1** | March 9 | March 11 | April 1 | May 4 |
| **Quarter 2** | June 8 | June 10 | July 1 | August 5 |
| **Quarter 3** | September 7 | September 9 | October 1 | November 10 |
| **Quarter 4** | December 7 | December 9 | January 1, 2006 | February 2006 |

1 Dividends are subject to Board of Directors' approval.
2 Shares purchased on this date forward will not be entitled to the dividend payable on the corresponding dividend payment date.

## Dividend developments

In October 2004, as part of a comprehensive series of shareholder value enhancing initiatives, TELUS increased its quarterly dividend by five cents, or 33 per cent, to 20 cents per share paid on January 1, 2005.

TELUS also established a forward-looking annual dividend payout ratio guideline of 45 to 55% of net earnings to provide a useful framework for investors to assess the potential for future dividend increases.

## Normal Course Issuer Bid

On December 20, 2004, TELUS implemented a Normal Course Issuer Bid to repurchase up to 25.5 million of its common (14 million) and non-voting (11.5 million) shares over a 12-month period. In the last 12 days of December, TELUS repurchased 2.2 million shares for $78 million.

## Registered shareholders[1]

| | **2004** | 2003 |
|---|---|---|
| TELUS common | **39,521** | 42,398 |
| TELUS non-voting | **37,724** | 40,307 |

1 The Canadian Depository for Securities (CDS) represents one registration and holds securities for many institutions. At the end of 2004, it was estimated that TELUS had approximately 118,000 non-registered shareholders combined in the two classes of stock.

## Share prices and volumes

### Toronto Stock Exchange

| Common shares (T) | | | | | 2004 | | | | | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| (C$ except volume) | **Year 2004** | **Q4** | **Q3** | **Q2** | **Q1** | Year 2003 | Q4 | Q3 | Q2 | Q1 |
| High | **37.40** | 37.40 | 27.35 | 25.30 | 28.52 | 26.85 | 26.50 | 26.85 | 24.50 | 19.73 |
| Low | **20.81** | 26.30 | 20.81 | 21.26 | 23.03 | 15.25 | 23.05 | 22.60 | 16.38 | 15.25 |
| Close | **36.22** | 36.22 | 26.20 | 21.81 | 23.30 | 25.95 | 25.95 | 23.07 | 23.91 | 16.49 |
| Volume (millions) | **198.1** | 71.8 | 35.9 | 38.2 | 52.2 | 190.4 | 42.2 | 55.1 | 59.4 | 33.7 |
| Dividend paid (per share) | **0.60** | 0.15 | 0.15 | 0.15 | 0.15 | 0.60 | 0.15 | 0.15 | 0.15 | 0.15 |

| Non-voting shares (T.NV) | | | | | 2004 | | | | | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| (C$ except volume) | **Year 2004** | **Q4** | **Q3** | **Q2** | **Q1** | Year 2003 | Q4 | Q3 | Q2 | Q1 |
| High | **36.10** | 36.10 | 25.26 | 23.60 | 26.79 | 24.75 | 24.73 | 24.75 | 22.60 | 18.54 |
| Low | **19.21** | 24.05 | 19.21 | 19.45 | 21.55 | 13.85 | 21.15 | 20.76 | 15.21 | 13.85 |
| Close | **34.74** | 34.74 | 24.50 | 20.14 | 21.99 | 24.20 | 24.20 | 21.15 | 22.35 | 15.64 |
| Volume (millions) | **150.8** | 69.5 | 17.0 | 32.8 | 31.5 | 99.1 | 31.6 | 26.8 | 26.1 | 14.6 |
| Dividend paid (per share) | **0.60** | 0.15 | 0.15 | 0.15 | 0.15 | 0.60 | 0.15 | 0.15 | 0.15 | 0.15 |

### New York Stock Exchange

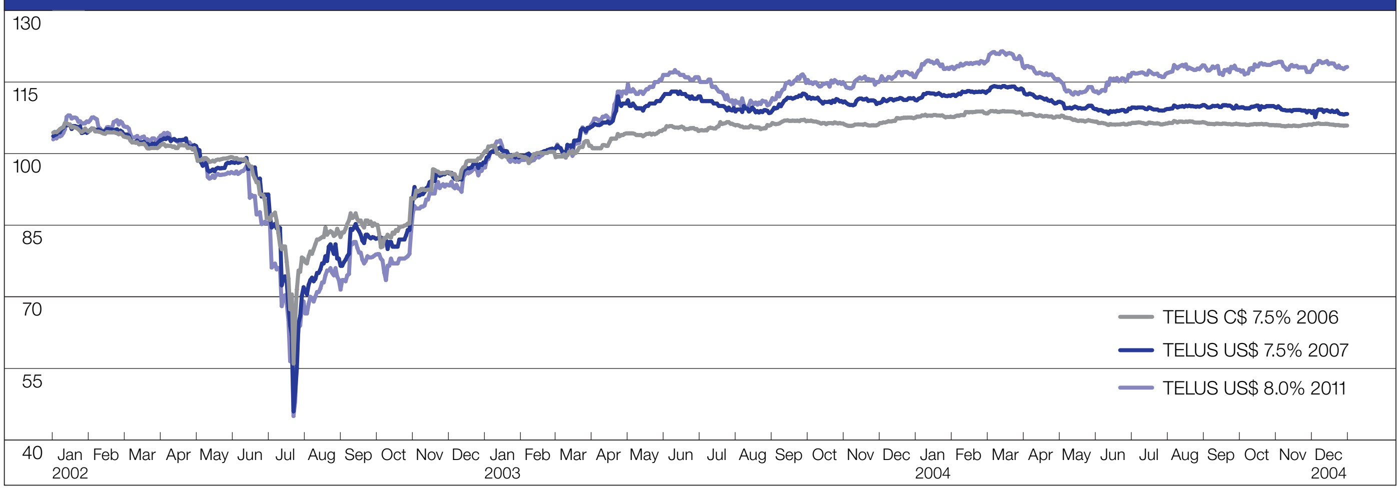
| Non-voting shares (TU) | | | | | 2004 | | | | | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|
| (US$ except volume) | **Year 2004** | **Q4** | **Q3** | **Q2** | **Q1** | Year 2003 | Q4 | Q3 | Q2 | Q1 |
| High | **29.43** | 29.43 | 19.63 | 17.30 | 20.76 | 18.76 | 18.76 | 17.72 | 16.80 | 12.04 |
| Low | **14.22** | 19.18 | 14.61 | 14.22 | 16.25 | 9.37 | 15.65 | 14.90 | 10.39 | 9.37 |
| Close | **28.90** | 28.90 | 19.23 | 15.03 | 16.79 | 18.61 | 18.61 | 15.78 | 16.50 | 10.63 |
| Volume (millions) | **12.8** | 9.4 | 0.9 | 1.0 | 1.5 | 4.2 | 1.2 | 0.7 | 1.0 | 1.3 |
| Dividend paid (per share) | **0.45** | 0.12 | 0.11 | 0.11 | 0.11 | 0.42 | 0.11 | 0.11 | 0.10 | 0.10 |

**three-year daily closing TELUS share prices for T, T.NV and TU** ($)

### TELUS share price performance comparison ($)


## Notes and debentures

### three-year daily closing prices for TELUS Corporation notes ($)




### TELUS Corporation notes

| | Rate | Amount | Maturing |
|---|---|---|---|
| Canada | 7.5% | $1.57 billion | June 2006 |
| U.S. | 7.5% | $1.40 billion | June 2007 |
| U.S. | 8.0% | $2.30 billion | June 2011 |

For details and a complete list of notes, debentures and other publicly traded debt of the Company and the Company's subsidiaries, refer to Note 14 of the Consolidated financial statements.

### Convertible debentures

TSX stock symbol: T.DB

On February 16, 2005, TELUS announced its intention to redeem at par on June 16, 2005 all outstanding TELUS 6.75% convertible debentures due June 15, 2010. For more details on these convertible debentures, see Note 14(c) of the Consolidated financial statements.

## Credit rating summary

| As of December 31, 2004 | Dominion Bond Rating Service (DBRS)[1] | Standard & Poor's Rating Services (S&P)[2] | Moody's Investors Service[2] | Fitch Ratings[1] |
|---|---|---|---|---|
| **TELUS Corporation** | | | | |
| Senior bank debt | – | BBB | – | BBB |
| Notes | BBB | BBB | Baa3 | BBB |
| Convertible debentures | – | BBB– | – | BBB |
| **TELUS Communications Inc.** | | | | |
| Debentures | BBB(high) | BBB | – | BBB |
| Medium-term notes | BBB(high) | BBB | – | BBB |
| First mortgage bonds | BBB(high) | A– | – | – |

1 Outlook or trend 'stable.'
2 Outlook 'positive.'

## Dividend reinvestment and share purchase plan

Take advantage of automatic dividend reinvestment to acquire additional shares without fees.

Under the Dividend Reinvestment feature, eligible shareholders can have their dividends reinvested automatically into additional non-voting shares acquired at market price. Under the Share Purchase feature, eligible shareholders can, on a monthly basis, buy TELUS non-voting shares (maximum $20,000 per calendar year and minimum $100 per transaction) at market price without brokerage commissions or service charges.

Information booklets and enrolment forms are available at **telus.com/drisp** or by contacting Computershare.

## Investor relations activities

**2004 conferences and meetings**

- total of 11 conference presentations, five in Canada and six in the U.S., most of which were Web cast for easy access for shareholders
- five conference calls with Web cast – four quarterly earnings calls and one 2005 targets call
- annual general meeting with Web cast
- investor meetings – 40 in Canada, 59 in the U.S. and 23 in Europe

**2004 key investment events**

- Moody's upgraded TELUS' corporate debt to investment grade in March and revised outlook to positive in December
- Verizon sold 73.5 million shares; second largest secondary equity offering and fourth largest equity offering in Canadian history
- Verizon sale resulted in many new institutional shareholders in Canada, the U.S. and abroad; 10 million shares were allocated to small retail shareholders in Canada

**Analyst coverage**

In February 2005, 19 telecom equity analysts covered TELUS. For a detailed list, visit **about.telus.com/investors/investor-factsheet.html**.

## Valuation dates and prices

For capital gains purposes, valuation dates and prices are as follows:

| (C$) | Valuation date | Price | Price when exchanged into TELUS shares |
|---|---|---|---|
| BC TELECOM | December 22, 1971 | 6.375 | 6.375 |
| BC TELECOM | February 22, 1994 | 25.250 | 25.250 |
| Pre-merger TELUS | February 22, 1994 | 16.875 | 21.710 |

## Electronic delivery of shareholder documents

The benefits of electronic delivery (e.delivery) include access to important company documents in a convenient, timely and environmentally friendly manner, as well as a reduction in printing and mailing costs.

**Registered shareholders**

TELUS has partnered with eTree to allow registered shareholders the opportunity to receive the annual report materials through e.delivery. As a thank you for enrolling, TELUS and the Tree Canada Foundation will plant a tree on your behalf.

To enrol, visit **telus.com/electronicdelivery** or contact Computershare. When you enrol, you can choose from the following options:

- receive all annual report and proxy materials electronically – you will be notified by e-mail with a link to the Web site where documents will be available, or
- discontinue receiving the annual report, both by mail and electronically, but still receive your proxy materials by mail.

**Beneficial shareholders**

For shareholders who hold their shares with an investment dealer or financial institution, access **investordeliverycanada.com** or contact your investment advisor to enrol for the convenient electronic delivery service.

## Information for security holders outside of Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to Canadian non-resident withholding tax of 15 per cent. If you have any questions, contact Computershare.

For individual investors who are U.S. citizens and/or U.S. residents, quarterly dividends paid on TELUS Corporation common and non-voting shares are considered qualified dividends under the Internal Revenue Code and may be eligible for special U.S. tax treatment under recently enacted legislation.

## Merger and acquisitions – shareholder impact

### BC TELECOM and TELUS

The common shares of BC TELECOM and pre-merger TELUS Corporation no longer trade on any stock exchange. If you did not exchange your pre-merger share certificates by the expiry date of January 31, 2005, your share certificates have expired. You no longer have any legal entitlement to exchange them for TELUS share certificates or to receive dividends. If you have questions regarding unexchanged share certificates, please contact Computershare.

The following is an example of the exchange based on 100 shares:

| Pre-merger holdings | Exchange ratio[1] | Post-merger holdings |
|---|---|---|
| 100 BC TELECOM common shares | 1 for 1 | • 75 TELUS common shares<br>• 25 TELUS non-voting shares |
| 100 TELUS common shares | 1 for 0.7773 | • 58 TELUS common shares plus a 0.2975 fractional payout[2]<br>• 19 TELUS non-voting shares plus a 0.4325 fractional payout[2] |

1 75 per cent common / 25 per cent non-voting split.
2 Any fractional shares were paid by cheque.

### QuébecTel

TELUS completed its offer to purchase all the outstanding publicly held shares of QuébecTel Group Inc. on June 1, 2000. If you still hold share certificates of QuébecTel, you must tender your shares to National Bank Trust for the payment of $23.00 per share. You may contact them at 1-800-341-1419 (toll-free) or (514) 871-7171.

### Clearnet

TELUS completed its offer to purchase all of the outstanding common shares of Clearnet Communications Inc. on January 12, 2001. If you still hold share certificates for Clearnet, you must tender your shares to Computershare to receive your consideration.

Upon exchange of your Clearnet shares to TELUS non-voting shares, you will receive dividend payments retroactive to April 1, 2001.

### Daedalian eSolutions

TELUS completed its offer to purchase all of the outstanding common shares of Daedalian eSolutions Inc. on June 21, 2001. If you still hold share certificates for Daedalian, you must tender your shares to Computershare to receive your consideration.

Visit telus.com/m&a for additional information on how your shareholdings have been affected by various merger and acquisition transactions.

## Annual and special meeting of shareholders

On Wednesday, May 4, 2005, the annual and special meeting will be held at 10:00 a.m. (Mountain Time) at the Winspear Centre, 9720 – 102 Avenue, Edmonton, Alberta.

A live Internet Web cast, complete with video and audio, will be available to shareholders wherever they may be in the world. Shareholders unable to attend the meeting in person can vote by Internet, telephone or mail. Visit **telus.com/agm** for details.

# investor information continued

## If you need help with the following…

- participation in Dividend Reinvestment and Share Purchase Plan
- electronic delivery of shareholder documents
- dividend payments or direct deposit of dividends into your Canadian bank account
- change of address
- transfer of shares
- loss of share certificates
- consolidation of multiple mailings to one shareholder
- estate settlements
- exchange of share certificates to the new TELUS common and/or non-voting certificates due to a merger or acquisition

## contact the transfer agent and registrar

Computershare Trust Company of Canada
Shareholder Services
100 University Avenue
Toronto, Ontario, Canada M5J 2Y1

phone 1-800-558-0046 (toll-free within North America)
or (514) 982-7270 (outside North America)
fax 1-888-453-0330 (toll-free within North America)
or (416) 263-9394 (outside North America)
e-mail telus@computershare.com
Web site computershare.com

Computershare also has offices in Vancouver, Calgary, Montreal and Halifax.

## If you need help with the following…

- additional financial or statistical information
- industry and company developments
- latest news releases or investor presentations
- merger information

## contact TELUS Investor Relations

30, 10020 – 100th Street NW
Edmonton, Alberta, Canada T5J 0N5

phone 1-800-667-4871* (toll-free within North America)
or (780) 493-7345 (outside North America)
fax (780) 493-7399
e-mail ir@telus.com
Web site telus.com/investors

*fax-on-demand information available toll-free

## TELUS executive office

555 Robson Street
Vancouver, British Columbia
Canada V6B 3K9
phone (604) 697-8044
fax (604) 432-9681

## TELUS general information

| | |
|---|---|
| British Columbia | (604) 432-2151 |
| Alberta | (403) 530-4200 |
| Ontario | (416) 507-7400 |
| Quebec | (514) 788-8050 |

## Auditors

Deloitte & Touche LLP

## EthicsLine hotline

As part of our ethics policy, this hotline allows employees and others to anonymously and confidentially raise accounting, internal controls and ethical inquiries or complaints.
phone 1-866-515-6333
e-mail ethicsline@telus.com

Ce rapport annuel est disponible en français en ligne à **telus.com/annualreport**, auprès de l'agent des transferts ou de TELUS – Relations avec les investisseurs.

# telus.com

## telus.com/investors

Our easy-to-use Web site continues to provide current and timely investor information. Each year, as part of our commitment to full and fair financial disclosure and best practices in corporate governance, we regularly update and enhance our Web site to meet the increasing information needs of our shareholders.

To stay current with the latest TELUS investor information updates, sign up for our e-mail alerts. Visit **telus.com/investors** and click on "e-mail alerts" to sign up for the service.

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| telus.com/annualreport | financial reports |
| telus.com/bios | TELUS executive leadership team and board of directors' biographies |
| telus.com/drisp | Dividend Reinvestment and Share Purchase Plan details |
| telus.com/electronicdelivery | where to sign up for e.delivery of shareholder documents |
| telus.com/glossary | glossary of terms |
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