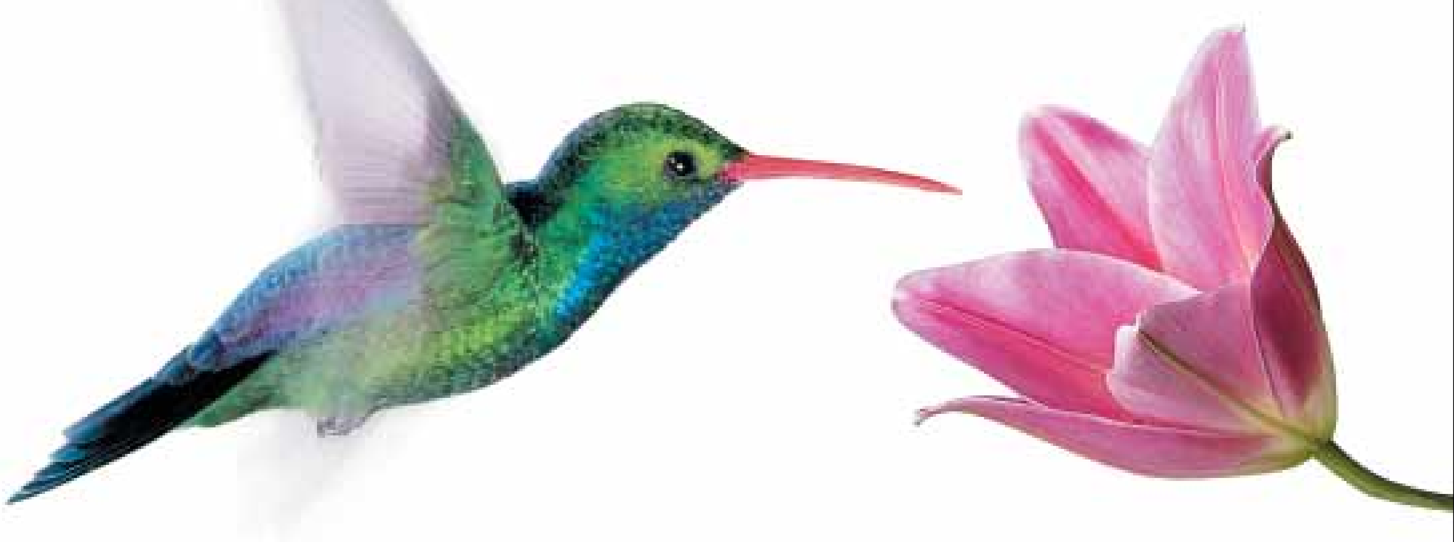
staying ahead

2005 financial review



TELUS®

inside

Forward-looking statements summary

This document contains statements about expected future events and financial and operating results of TELUS 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 the 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 and events to differ materially from that expressed in the forward-looking statements. Accordingly this document is subject to the disclaimer and qualified in its entirety by the assumptions (including assumptions for 2006 targets), qualifications and risk factors referred to in the Management's discussion and analysis starting on page 15 of the TELUS 2005 annual report – financial review.

For a more general overview of our financial and operating highlights, and key accomplishments, goals and challenges, refer to the 2005 annual report – business review. This annual report in its entirety can also be viewed anytime online at **telus.com/annualreport**.

All financial information is reported in Canadian dollars unless otherwise specified.

staying ahead

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

In 2005, we generated $8.1 billion in revenues, and were a top-quartile global leader among major telecom companies in growth of revenue, operating earnings, earnings per share and cash flow.

We are staying ahead for consumers and business

- Our two state-of-the-art national digital wireless networks cover 30.6 million people across Canada and provide wireless services to 4.5 million subscribers
- Our new wireless high-speed data network, launched in 2005 in major centres across Canada, enables wireless data transfers at least six times faster than previous TELUS services
- Our strong incumbent market position in Western Canada and Eastern Quebec, including 4.7 million network access lines and 1.0 million Internet subscribers, provides a wireline platform for innovative TELUS Future Friendly® Home services such as TELUS TV®
- Our national wireline IP-based network offers advanced IP-based applications to business customers across Canada.

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 guide our efforts and serve as a framework for our actions:

- Building national capabilities across data, IP, voice and wireless
- Providing integrated solutions that differentiate TELUS from our competitors
- Partnering, acquiring and divesting to accelerate the implementation of our strategy and focus our resources on core business
- Focusing relentlessly on the growth markets of data, IP and wireless
- Going to market as one team, under a common brand, executing a single strategy
- Investing in internal capabilities to build a high-performance culture and efficient operation.

Our values

The TELUS team works together to deliver future friendly services, 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 key priorities for 2006

Each year, we establish corporate priorities to address timely opportunities and challenges, and drive value for our investors:

- Advance TELUS' leadership position in the consumer market
- Advance TELUS' position in the business market
- Advance TELUS' position in the wholesale market
- Drive improvements in productivity and service excellence
- Strengthen the spirit of the TELUS team and the brand, and develop the best talent in the global communications industry.

TELUS at a glance

TELUS wireless

who we are

- A national wireless provider with 4.5 million consumer and business subscribers, and extensive digital coverage to 94% of Canada's population
- A North American industry leader in cash flow yield, operating margins and churn rate, with an average revenue per unit approximately 20% higher than our major Canadian peers
- A national provider of integrated digital wireless voice, data and Internet services, including innovative Push To Talk™ (PTT) services with Mike®, Canada's only iDEN network, and Instant Talk®, a national CDMA PTT service
- A leader in network performance with nationwide digital PCS (CDMA) service, including 1X data and newly launched wireless high-speed (EVDO) service

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, music, ringtone, image and game downloads, Wi-Fi Hotspots and TELUS mobile TV™

data – wireless high-speed (EVDO), 1X, Mike packet data and personal digital assistants (PDAs), such as BlackBerry available on both PCS and Mike

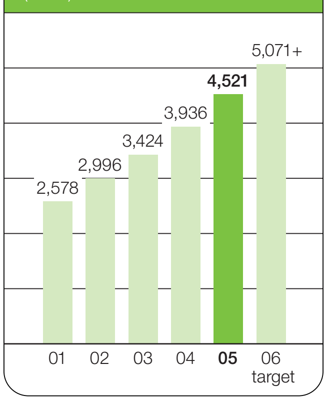
in 2005, we delivered by…

- Providing best-in-class coverage, customer service and retention, as evidenced by achieving a top-quartile North American subscriber churn rate of only 1.4% per month
- Increasing combined digital PCS and Mike coverage to 30.6 million POPs, or 94% of the Canadian population, including 1X data network coverage to 92% of the population
- Introducing Instant Talk, a new PTT service on our PCS network that enables customers to communicate instantly, at the push of a button
- Helping customers stay in touch around the world by launching both the Motorola A840 World Phone and a global system for mobile (GSM) global roaming card, and expanding our international roaming capabilities to more than 120 countries
- Launching our national wireless high-speed (EVDO) data network in five cities, enabling data transfers at least six times faster than previous TELUS services
- Introducing TELUS mobile TV service, which offers customers real-time access to live television programming on their wireless phones

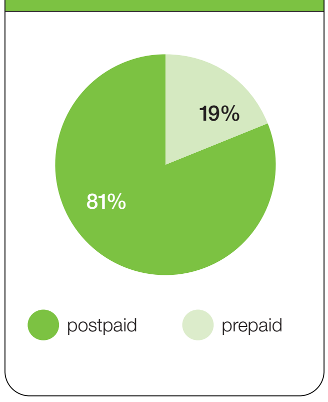
in 2006, we are staying ahead with…

- A continued focus on profitable subscriber growth through EBITDA and cash flow generation, as well as world-class operating performance
- A target of $1.25 billion to $1.3 billion in cash flow (EBITDA less capital expenditures) from our wireless operations, a 20 to 25% increase
- A rigorous focus on customer retention and on maintaining top-quartile North American churn levels through premium customer service, which is being further facilitated by the integration of our wireless and wireline operations
- New wireless data products and services that leverage our 1X, EVDO and iDEN networks
- Ongoing expansion of our national points of distribution
- Enhanced coverage in North America and expanded international roaming with other carriers
- Expansion of the largest PTT services base in Canada with both Mike Direct Connect and PCS Instant Talk

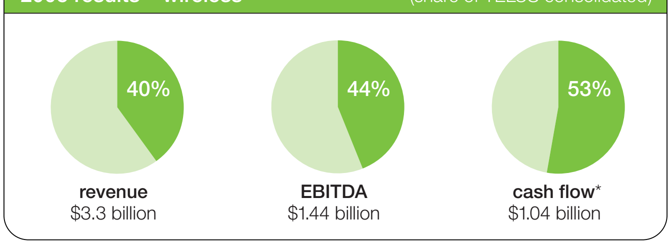
wireless subscribers
(000s)



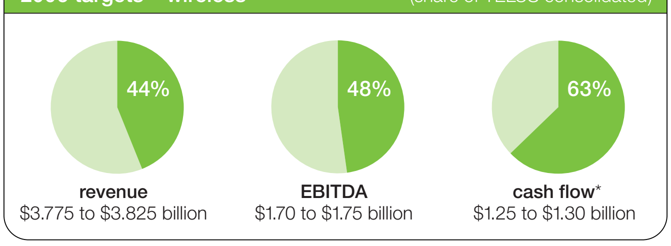
2005 subscriber mix



2005 results – wireless (share of TELUS consolidated)



2006 targets – wireless (share of TELUS consolidated)



*EBITDA less capital expenditures.

TELUS wireline

who we are

- A full-service incumbent local exchange carrier in Western Canada and Eastern Quebec offering local, long distance, data, Internet, video, entertainment 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 urban centres in Central Canada
- A provider of 4.7 million network access lines
- The second largest Internet service provider in Western Canada with 1.0 million Internet subscribers, 76% of whom are high-speed

our products and services

voice – 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 – IP networks, private line, switched services, network wholesale, network management for local and wide area networks (LAN and WAN), and hosting
Internet – TELUS high-speed or dial-up Internet services with available security features (Firewall, Anti-Virus, Parental Control, Anti-Spyware and Spam Control)
IP-based solutions – TELUS IP-One Innovation® and TELUS IP-One Evolution®, advanced IP applications for business customers
managed IT services – a suite of managed IT solutions and infrastructure delivered nationally through TELUS' wireline and wireless IP networks connected to TELUS' state-of-the-art Internet Data Centres
outsourcing solutions – contact centre and human resource and occupational health and safety solutions
TELUS Future Friendly Home – a suite of leading-edge digital residential services that include TELUS Home Networking (wireless LAN), TELUS HomeSitter® and TELUS TV

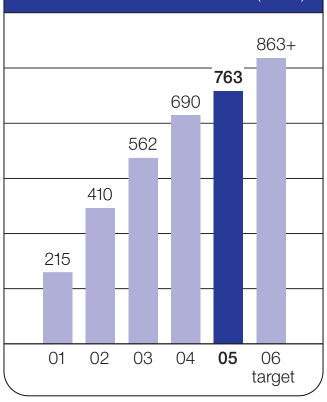
in 2005, we delivered by…

- Finalizing a five-year collective agreement with our unionized team members that reflects the competitive realities of the telecom industry
- Successfully implementing a number of large IP contracts as part of our business market expansion into Central Canada
- Winning major multi-year contracts including the Government of Quebec, Intrawest Corporation and Best Buy Canada
- Providing leading-edge HR outsourcing services and expertise through TELUS Sourcing Solutions and signing long-term contracts with the Calgary Board of Education and Hamilton Health Sciences
- Launching CallCentreAnywhere, Canada's first fully integrated on-demand hosted contact centre service, for business customers
- Offering TELUS TV, our innovative digital consumer entertainment solution, with targeted commercial launches in Calgary and Edmonton, Alberta

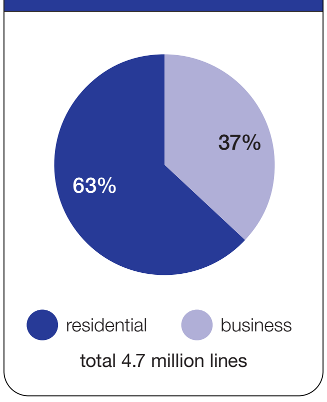
in 2006, we are staying ahead with…

- Additional efforts to drive operating efficiency and effectiveness through the integration of our wireless and wireline operations
- An increase in our high-speed Internet subscriber base and continued network upgrades to increase broadband capacity and expand our addressable market
- The expansion of our innovative Future Friendly Home suite of services with the further geographic roll-out of TELUS TV
- Improvements in productivity and customer service excellence, achieved by capturing value from TELUS' investments in technology and streamlining operating systems and processes
- An increase in non-incumbent revenue and profitability in Central Canada
- The creation of additional managed solutions for our business customers that enhance their competitiveness and their commitment to TELUS

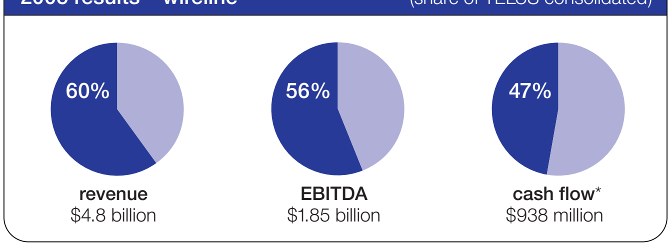
high-speed Internet subscribers (000s)



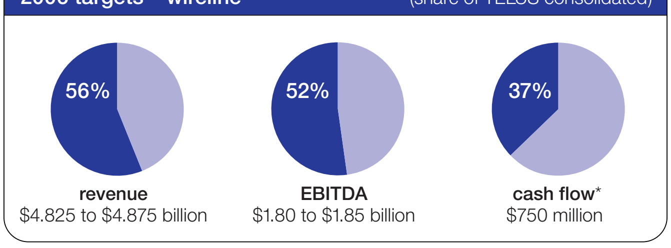
2005 network access lines



2005 results – wireline (share of TELUS consolidated)



2006 targets – wireline (share of TELUS consolidated)



*EBITDA less capital expenditures.

annual consolidated financials

Consolidated

Income statement (millions)	**2005**	2004	2003	2002	2001
Operating revenues	**$ 8,142.7**	$ 7,581.2	$ 7,146.0	$ 7,006.7	$ 7,080.5
Operations expense	**4,793.5**	4,438.0	4,301.9	4,488.1	4,550.9
Restructuring and workforce reduction costs	**53.9**	52.6	28.3	569.9	198.4
EBITDA[1]	**3,295.3**	3,090.6	2,815.8	1,948.7	2,331.2
Depreciation and amortization	**1,623.7**	1,643.1	1,652.8	1,570.3	1,494.2
Operating income from continuing operations	**1,671.6**	1,447.5	1,163.0	378.4	837.0
Other expense (income), net	**18.4**	8.7	23.3	42.7	(17.0)
Financing costs	**623.1**	613.3	639.3	615.3	636.8
Refinancing charge from debt restructuring	**–**	–	–	–	96.5
Income (loss) from continuing operations before income taxes, non-controlling interest and goodwill amortization	**1,030.1**	825.5	500.4	(279.6)	120.7
Income taxes (recovery)	**322.0**	255.1	172.7	(46.9)	88.1
Non-controlling interest	**7.8**	4.6	3.3	3.1	3.6
Goodwill amortization	**–**	–	–	–	174.8
Income (loss) from continuing operations	**700.3**	565.8	324.4	(235.8)	(145.8)
Income from discontinued operations	**–**	–	–	–	592.3
Net income (loss)	**700.3**	565.8	324.4	(235.8)	446.5
Preference and preferred share dividends	**–**	1.8	3.5	3.5	3.5
Common share and non-voting share income (loss)	**$ 700.3**	$ 564.0	$ 320.9	$ (239.3)	$ 443.0

Share information[2]	**2005**	2004	2003	2002	2001
Basic weighted average shares outstanding (millions)	**357.1**	355.3	349.3	317.9	294.2
Year-end shares outstanding (millions)	**350.1**	358.5	351.8	345.7	302.2
Basic earnings per share	**$ 1.96**	$ 1.58	$ 0.92	$ (0.75)	$ 1.51
Dividends declared per share	**0.875**	0.65	0.60	0.60	1.20

Balance sheet (millions)	**2005**	2004	2003	2002	2001
Capital assets, at cost	**$ 27,455.7**	$ 26,631.9	$ 25,778.2	$ 25,037.3	$ 23,888.4
Accumulated depreciation and amortization	**16,514.2**	15,410.9	14,214.6	13,062.8	11,128.6
Total assets	**16,222.3**	17,838.0	17,477.5	18,219.8	19,265.6
Total capitalization[3]	**12,690.0**	13,516.4	14,102.4	14,713.7	15,677.5
Net debt[4]	**5,794.4**	6,477.7	7,570.5	8,409.1	8,823.4
Long-term debt	**4,639.9**	6,332.2	6,609.8	8,336.6	8,792.2
Total shareholders' equity	**6,870.0**	7,025.6	6,521.2	6,293.4	6,846.1

1 Operating revenues less Operations expense less Restructuring and workforce reduction costs.
2 Common shares and non-voting shares.
3 Net debt plus Non-controlling interest and Shareholders' equity.
4 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.

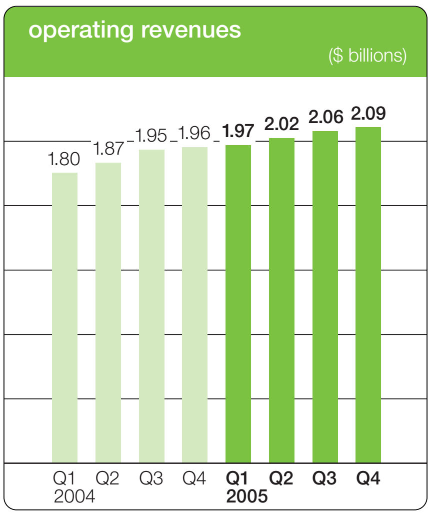
Note: Certain comparative financial information has been reclassified to conform with the 2005 presentation. The five-year financial history presented reflects the significant acquisitions of Clearnet in October 2000 and QuébecTel in June 2000.

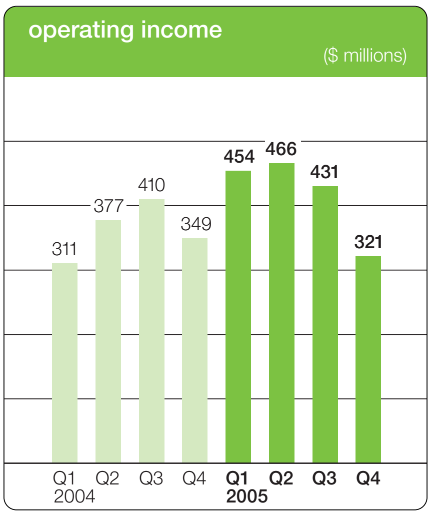
quarterly consolidated financials

Consolidated								
Income statement (millions)	**Q4 2005**	**Q3 2005**	**Q2 2005**	**Q1 2005**	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Operating revenues	**$ 2,086.7**	**$ 2,062.8**	**$ 2,018.5**	**$ 1,974.7**	$ 1,964.9	$ 1,946.9	$ 1,865.6	$ 1,803.8
Operations expense	**1,316.8**	**1,221.5**	**1,146.1**	**1,109.1**	1,178.5	1,112.8	1,080.1	1,066.6
Restructuring and workforce reduction costs	**35.5**	**1.6**	**7.4**	**9.4**	19.8	16.2	0.7	15.9
EBITDA[1]	**734.4**	**839.7**	**865.0**	**856.2**	766.6	817.9	784.8	721.3
Depreciation and amortization	**413.2**	**409.2**	**399.1**	**402.2**	417.5	407.6	407.6	410.4
Operating income	**321.2**	**430.5**	**465.9**	**454.0**	349.1	410.3	377.2	310.9
Other expense (income), net	**9.3**	**7.1**	**0.5**	**1.5**	8.7	(3.2)	2.0	1.2
Financing costs	**171.7**	**144.8**	**168.2**	**138.4**	152.8	158.6	156.9	145.0
Income before income taxes and non-controlling interest	**140.2**	**278.6**	**297.2**	**314.1**	187.6	254.9	218.3	164.7
Income taxes	**58.8**	**86.9**	**106.0**	**70.3**	50.4	97.2	44.9	62.6
Non-controlling interest	**2.9**	**1.6**	**1.7**	**1.6**	1.6	1.1	1.1	0.8
Net income	**78.5**	**190.1**	**189.5**	**242.2**	135.6	156.6	172.3	101.3
Preference and preferred share dividends	**–**	**–**	**–**	**–**	–	0.1	0.8	0.9
Common share and non-voting share income	**$ 78.5**	**$ 190.1**	**$ 189.5**	**$ 242.2**	$ 135.6	$ 156.5	$ 171.5	$ 100.4

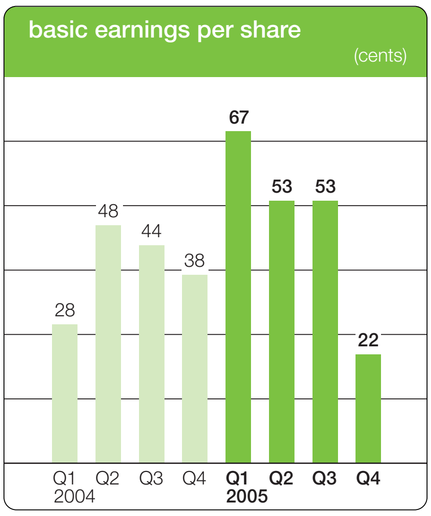
Share information[2]	**Q4 2005**	**Q3 2005**	**Q2 2005**	**Q1 2005**	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Basic weighted average shares outstanding (millions)	**353.4**	**356.8**	**358.1**	**360.2**	358.0	355.7	354.3	353.1
Period-end shares outstanding (millions)	**350.1**	**354.4**	**357.4**	**358.4**	358.5	356.3	354.7	353.7
Basic earnings per share	**$ 0.22**	**$ 0.53**	**$ 0.53**	**$ 0.67**	$ 0.38	$ 0.44	$ 0.48	$ 0.28
Dividends declared per share	**0.275**	**0.20**	**0.20**	**0.20**	0.20	0.15	0.15	0.15

Note: Certain comparative financial information has been reclassified to conform with the 2005 presentation.





Decline in the third and fourth quarters of 2005 was primarily due to increased temporary expenses resulting from the labour disruption that ended in November.



The 2005 fourth quarter decline was mainly due to increased temporary labour disruption expenses, higher restructuring costs and higher financing costs resulting from an early bond redemption.

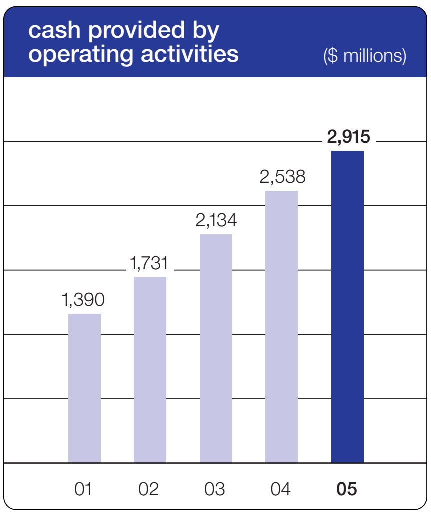
annual operating statistics

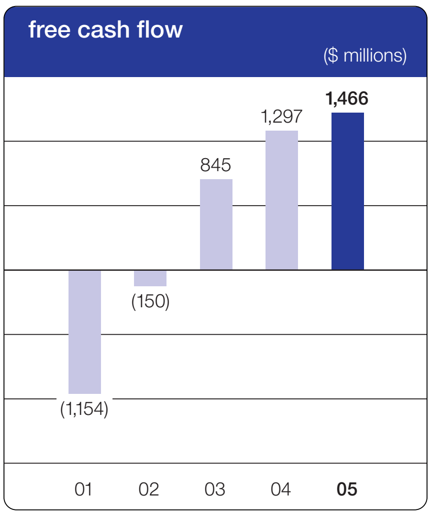
Consolidated	2005	2004	2003	2002	2001
Cash flow statement information					
Cash provided by operating activities (millions)	**$ 2,914.6**	$ 2,538.1	$ 2,133.8	$ 1,730.8	$ 1,390.2
Cash used by investing activities (millions)	**(1,355.2)**	(1,299.5)	(1,197.8)	(1,691.1)	(1,821.3)
Cash provided (used) by financing activities (millions)	**(2,447.3)**	(348.3)	(920.8)	(65.8)	348.0
Performance indicators					
Net income (loss) (millions)	**$ 700.3**	$ 565.8	$ 324.4	$ (235.8)	$ 446.5
Dividend payout[1]	**56%**	51%	65%	n.m.	79%
Return on common equity[2]	**9.9%**	8.4%	5.1%	(3.8%)	6.9%
Return on assets[3]	**18.0%**	14.2%	12.2%	9.5%	7.2%
EBITDA interest coverage ratio[4]	**5.4**	5.1	4.4	3.6	4.0
Free cash flow (millions)[5]	**$ 1,465.5**	$ 1,297.3	$ 844.9	$ (149.7)	$(1,154.0)
Net debt to EBITDA ratio[6]	**1.7**	2.1	2.7	3.3	3.5
Net debt to total capitalization	**45.7%**	47.9%	53.7%	57.2%	56.3%
Capital expenditures (millions)	**$ 1,319.0**	$ 1,319.0	$ 1,252.7	$ 1,697.9	$ 2,605.3
Capex intensity[7]	**16.2%**	17.4%	17.5%	24.2%	36.8%
Other					
Total employees, continuing operations	**29,819**	25,798	24,719	25,752	30,701
Full-time equivalent (FTE) employees[8]	**n.m.**	24,754	23,817	24,829	–
EBITDA per average FTE employee (000s)[8,9]	**n.m.**	$ 128.9	$ 117.8	$ 89.9	–
Total salaries and benefits (millions)	**$ 1,921.4**	$ 1,938.2	$ 1,883.2	$ 1,995.7	$ 1,954.4

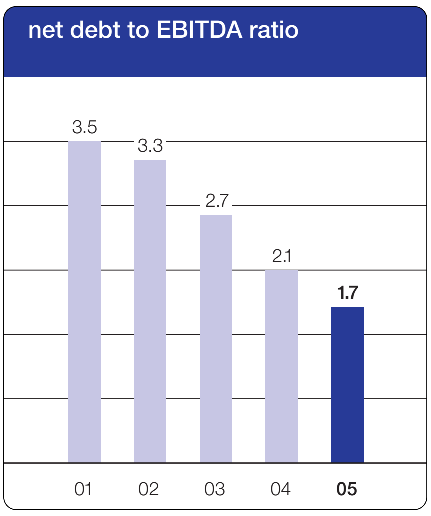
n.m. – not meaningful

1 Last quarterly dividend declared per share, in the respective reporting period, annualized, divided by the sum of Basic earnings per share reported in the most recent four quarters.
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 The measure of full-time equivalent employees is not reported for the third quarter, fourth quarter and annual 2005, as it does not factor in effective overtime hours on staff equivalents because of the labour disruption.
9 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 2005 presentation.







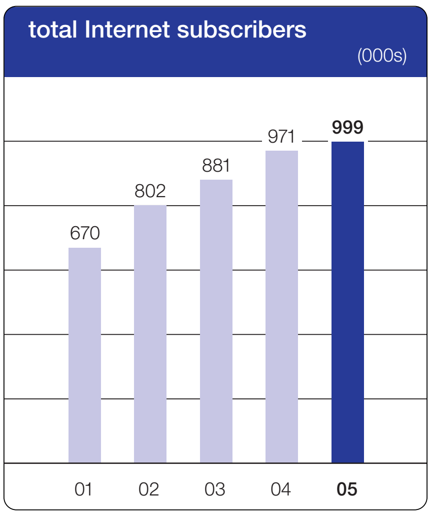
quarterly operating statistics

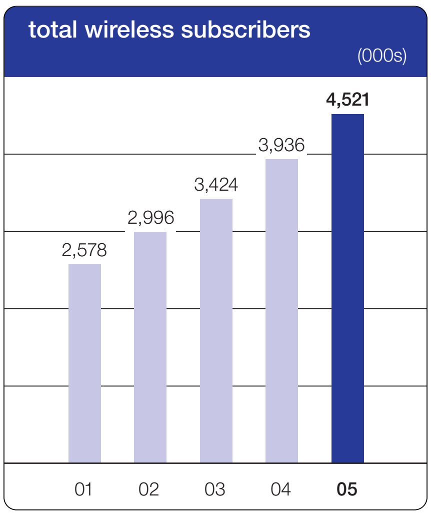
Consolidated	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Cash flow statement information								
Cash provided by operating activities (millions)	$ 805.0	$ 693.5	$ 687.7	$ 728.4	$ 613.8	$ 847.2	$ 489.0	$ 588.1
Cash used by investing activities (millions)	(375.7)	(263.3)	(410.0)	(306.2)	(342.8)	(316.5)	(341.6)	(298.6)
Cash provided (used) by financing activities (millions)	(1,742.8)	(249.2)	(383.9)	(71.4)	3.3	(266.2)	(63.2)	(22.2)
Performance indicators								
Net income (millions)	$ 78.5	$ 190.1	$ 189.5	$ 242.2	$ 135.6	$ 156.6	$ 172.3	$ 101.3
Dividend payout[1]	56%	38%	40%	41%	51%	45%	50%	64%
Return on common equity[2]	9.9%	10.8%	10.4%	10.3%	8.4%	7.2%	6.7%	5.2%
Return on assets[3]	18.0%	15.1%	16.0%	14.8%	14.2%	13.2%	13.3%	13.2%
EBITDA interest coverage ratio[4]	5.4	5.6	5.4	5.4	5.1	4.9	4.9	4.7
Free cash flow (millions)[5]	$ 109.8	$ 581.3	$ 207.8	$ 566.6	$ 121.9	$ 502.6	$ 229.5	$ 443.3
Net debt to EBITDA ratio[6]	1.7	1.8	1.8	1.9	2.1	2.2	2.4	2.5
Net debt to total capitalization	45.7%	45.4%	46.0%	46.2%	47.9%	49.7%	51.9%	52.7%
Capital expenditures (millions)	$ 374.1	$ 263.0	$ 408.7	$ 273.2	$ 343.4	$ 319.8	$ 346.1	$ 309.7
Capex intensity[7]	17.9%	12.7%	20.2%	13.8%	17.5%	16.4%	18.6%	17.2%
Other								
Total employees, continuing operations	29,819	20,743	28,706	28,456	25,798	25,464	25,406	24,885
Full-time equivalent (FTE) employees[8]	n.m.	n.m.	27,789	27,411	24,754	24,538	24,521	23,892
EBITDA per average FTE employee, annualized (000s)[8,9]	n.m.	n.m.	$ 126.4	$ 135.0	$ 127.4	$ 135.4	$ 129.5	$ 123.1
Total salaries and benefits (millions)	$ 461.8	$ 465.7	$ 501.6	$ 492.3	$ 502.6	$ 490.3	$ 478.8	$ 466.5

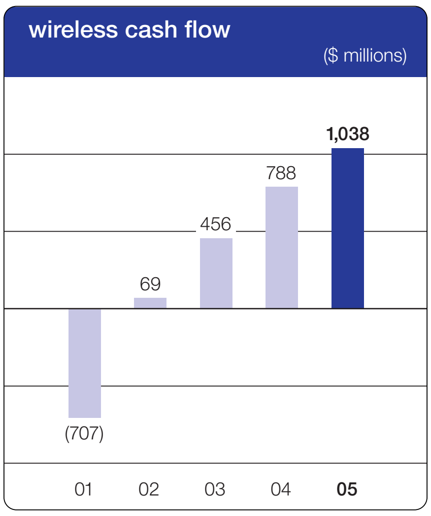
Note: Certain comparative financial information has been reclassified to conform with the 2005 presentation.

annual segmented statistics

	2005	2004	2003	2002	2001
Wireline segment					
Operating revenues (millions)	**$ 4,937.6**	$ 4,865.9	$ 4,880.9	$ 5,084.6	$ 5,359.5
Operations expense (millions)	**3,031.4**	2,864.9	2,852.2	3,100.8	3,185.7
Restructuring and workforce reduction costs (millions)	**53.9**	52.6	28.3	563.4	135.4
EBITDA (millions)	**$ 1,852.3**	$ 1,948.4	$ 2,000.4	$ 1,420.4	$ 2,038.4
Capital expenditures (millions)	**$ 914.2**	$ 964.3	$ 892.8	$ 1,238.2	$ 1,605.8
Cash flow (millions)[1]	**938.1**	984.1	1,107.6	182.2	432.6
Network access lines in service (000s)	**4,691**	4,808	4,870	4,911	4,967
Net additions (losses) dial-up Internet subscribers (000s)[2]	**(45.5)**	(38.2)	(71.9)	(63.4)	41.8
Dial-up Internet subscribers (000s)[2]	**236.1**	281.6	319.8	391.7	455.1
Net additions high-speed Internet subscribers (000s)[2]	**73.4**	128.1	151.6	195.2	131.2
High-speed Internet subscribers (000s)[2]	**763.1**	689.7	561.6	410.0	214.8
Total employees, continuing operations	**22,888**	19,500	19,029	20,332	25,545
Full-time equivalent (FTE) employees[3]	**n.m.**	18,839	18,430	19,668	–
EBITDA per average FTE employee (000s)[3,4]	**n.m.**	$ 106.3	$ 106.6	$ 86.6	$ –
Wireless segment					
Operating revenues (millions)	**$ 3,319.0**	$ 2,833.4	$ 2,375.3	$ 2,034.9	$ 1,825.9
Operations expense (millions)	**1,876.0**	1,691.2	1,559.9	1,500.1	1,470.1
Restructuring and workforce reduction costs (millions)	**–**	–	–	6.5	63.0
EBITDA (millions)	**$ 1,443.0**	$ 1,142.2	$ 815.4	$ 528.3	$ 292.8
EBITDA[5] excluding cost of acquisition (COA) (millions)	**$ 1,937.3**	$ 1,578.0	$ 1,240.0	$ 944.0	$ 782.4
Capital expenditures (millions)	**404.8**	354.7	359.9	459.7	999.5
Cash flow (millions)[1]	**1,038.2**	787.5	455.5	68.6	(706.7)
Net additions wireless subscribers (000s)[6]	**584.3**	512.4	431.1	417.8	417.5
Gross additions wireless subscribers (000s)	**1,279.0**	1,120.7	987.2	1,016.9	984.6
Wireless subscribers (000s)[6]	**4,520.7**	3,936.4	3,424.0	2,995.5	2,577.7
Penetration rate[7]	**14.5%**	12.9%	11.5%	10.9%	10.5%
Wireless market share, subscriber-based	**26.9%**	26.1%	25.5%	25.0%	24.1%
Average monthly revenue per subscriber unit (ARPU)	**$ 62**	$ 60	$ 57	$ 55	$ 57
Average minutes per subscriber per month (MOU)	**399**	384	350	290	270
COA, per gross addition	**$ 386**	$ 389	$ 430	$ 425	$ 446
Monthly churn rate[6]	**1.39%**	1.40%	1.46%	1.80%	2.04%
Population coverage – digital (millions)[8]	**30.6**	30.0	29.5	27.4	24.2
Total employees, continuing operations	**6,931**	6,298	5,690	5,420	5,156
Full-time equivalent (FTE) employees[3]	**n.m.**	5,915	5,387	5,161	4,851
EBITDA per average FTE employee (000s)[3,4]	**n.m.**	$ 205.0	$ 159.2	$ 104.3	$ –







quarterly segmented statistics

	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Wireline segment								
Operating revenues (millions)	$ 1,232.9	$ 1,222.2	$ 1,237.7	$ 1,244.8	$ 1,233.9	$ 1,224.8	$ 1,211.1	$ 1,196.1
Operations expense (millions)	788.5	794.5	731.8	716.6	732.2	714.2	711.8	706.7
Restructuring and workforce reduction costs (millions)	35.5	1.6	7.4	9.4	19.8	16.2	0.7	15.9
EBITDA (millions)	$ 408.9	$ 426.1	$ 498.5	$ 518.8	$ 481.9	$ 494.4	$ 498.6	$ 473.5
Capital expenditures (millions)	$ 230.2	$ 176.5	$ 293.9	$ 213.6	$ 220.8	$ 216.4	$ 267.7	$ 259.4
Cash flow (millions)[1]	178.7	249.6	204.6	305.2	261.1	278.0	230.9	214.1
Network access lines in service (000s)	4,691	4,709	4,741	4,793	4,808	4,817	4,827	4,848
Net losses dial-up Internet subscribers (000s)	(13.7)	(10.7)	(9.9)	(11.2)	(11.1)	(8.0)	(8.4)	(10.7)
Dial-up Internet subscribers (000s)	236.1	249.8	260.5	270.4	281.6	292.7	300.7	309.1
Net additions high-speed Internet subscribers (000s)	27.0	7.1	17.1	22.2	34.8	30.6	19.1	43.6
High-speed Internet subscribers (000s)	763.1	736.1	729.0	711.9	689.7	654.9	624.3	605.2
Total employees, continuing operations	22,888	14,958	22,334	22,172	19,500	19,493	19,640	19,197
Full-time equivalent (FTE) employees[3]	n.m.	n.m.	21,777	21,519	18,839	18,857	19,036	18,522
EBITDA per average FTE employee, annualized (000s)[3,4]	n.m.	n.m.	$ 93.5	$ 106.9	$ 106.5	$ 107.4	$ 106.1	$ 105.4
Wireless segment								
Operating revenues (millions)	$ 883.1	$ 869.9	$ 807.7	$ 758.3	$ 761.9	$ 752.0	$ 682.2	$ 637.3
Operations expense (millions)	557.6	456.3	441.2	420.9	477.2	428.5	396.0	389.5
EBITDA (millions)	$ 325.5	$ 413.6	$ 366.5	$ 337.4	$ 284.7	$ 323.5	$ 286.2	$ 247.8
EBITDA[5] excluding cost of acquisition (COA) (millions)	$ 514.2	$ 527.3	$ 468.6	$ 427.2	$ 429.1	$ 429.6	$ 383.2	$ 336.1
Capital expenditures (millions)	143.9	86.5	114.8	59.6	122.6	103.4	78.4	50.3
Cash flow (millions)[1]	181.6	327.1	251.7	277.8	162.1	220.1	207.8	197.5
Net additions wireless subscribers (000s)	235.0	138.0	131.1	80.2	186.4	136.2	113.7	76.1
Gross additions wireless subscribers (000s)	420.6	306.6	298.6	253.2	352.1	283.8	254.5	230.3
Wireless subscribers (000s)	4,520.7	4,285.7	4,147.7	4,016.6	3,936.4	3,750.0	3,613.8	3,500.1
Penetration rate[7]	14.5%	14.0%	13.5%	13.1%	12.9%	12.4%	11.9%	11.7%
Wireless market share, subscriber-based	26.9%	26.6%	26.6%	26.5%	26.1%	26.1%	26.0%	25.6%
Average monthly revenue per subscriber unit (ARPU)	$ 63	$ 64	$ 61	$ 58	$ 61	$ 62	$ 59	$ 57
Average minutes per subscriber per month (MOU)	410	408	405	371	390	393	390	362
COA, per gross addition	$ 449	$ 371	$ 342	$ 355	$ 410	$ 374	$ 381	$ 383
Monthly churn rate	1.42%	1.33%	1.37%	1.45%	1.45%	1.34%	1.32%	1.49%
Population coverage – digital (millions)[8]	30.6	30.2	30.2	30.2	30.0	29.7	29.7	29.5
Total employees, continuing operations	6,931	5,785	6,372	6,284	6,298	5,971	5,766	5,688
Full-time equivalent (FTE) employees[3]	n.m.	n.m.	6,012	5,892	5,915	5,681	5,485	5,370
EBITDA per average FTE employee, annualized (000s)[3,4]	n.m.	n.m.	$ 246.0	$ 229.5	$ 194.8	$ 230.4	$ 210.5	$ 184.2

n.m. – not meaningful

1 EBITDA less capital expenditures.
2 As a result of a 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 The measure of full-time equivalent employees is not reported for the third quarter, fourth quarter and annual 2005, as it does not factor in effective overtime hours on staff equivalents because of the labour disruption.
4 EBITDA excluding Restructuring and workforce reduction costs, divided by average FTE employees. Quarterly ratios are annualized.
5 EBITDA excluding Restructuring and workforce reduction costs.
6 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 an adjustment of 5,000 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.
7 Subscribers divided by total population coverage.
8 Includes expanded coverage due to roaming/resale agreements, principally with Bell Mobility and Aliant Telecom Wireless, of approximately 7.5 million PCS POPs.

staying ahead

Dear fellow investor

Robert McFarlane
Member of the TELUS Team

For TELUS investors, 2005 was a year of significant reward. Continued successful execution of our strategy and attainment of our financial targets, despite a labour disruption in our Western Canadian operations, translated into significant TELUS share price gains. As we embark upon 2006, we do so from a position of financial strength with very strong cash flow generation, a proven track record for setting and achieving financial targets and policies, and a commitment to staying ahead with best practices in corporate disclosure and governance.

2005 – a positive year for investors

In 2005, TELUS' financial performance was strong with leading results as compared to most telecommunications companies worldwide. Our results clearly demonstrate TELUS' superior and growing exposure to wireless growth (42 per cent of consolidated revenue in the fourth quarter) and industry-leading performance by our wireless business segment. Remarkably, TELUS achieved all of its original 2005 financial targets, despite an extended labour disruption primarily in wireline operations in Western Canada, which had one-time net costs of $133 million that were not contemplated in those targets.

Returning capital to investors

Also noteworthy last year was the continued progress on our long-standing commitment to balance the interests of debt and equity holders. This was illustrated by the significant return of capital to investors through a number of value-enhancing initiatives, which included:

- Increasing the quarterly dividend by 33 per cent on January 1, 2005 and 37.5 per cent on January 1, 2006
- Repurchasing 23 million shares for $970 million since establishing our first Normal Course Issuer Bid in mid-December 2004
- Redeeming $150 million of convertible debentures in June 2005, with 88 per cent of holders converting to "in the money" non-voting shares and the balance being redeemed for cash
- Further reducing debt through the early redemption of $1.6 billion of Notes on December 1, 2005, six months before their scheduled maturity.

For investors, TELUS' financial performance, along with capital-returning initiatives, contributed to an outstanding 32 per cent increase in our share prices in 2005, which built on a 40 per cent increase in 2004. This is particularly notable when compared to global telecom stocks, which on average decreased by 12 per cent in 2005 and increased by 15 per cent in 2004. TELUS' equity value, or market capitalization, ended the year up 30 per cent at $16.6 billion while our enterprise value including net debt was $22.4 billion.

Clear financial targets and policies

With a firm belief that "What gets measured, gets done," TELUS has publicly set for seven years annual financial and operating targets, which we report against and update through the year. TELUS has a solid record for achieving these targets. In the past six years, we have achieved 88 per cent of the consolidated targets and 66 per cent of business segment targets.

Furthermore, we continue to publicly set financial policies and guidelines that provide investors with transparent information regarding future debt or equity enhancing initiatives we are likely to pursue. These policies, as noted in the following table, are carefully set to provide financial flexibility and minimize our cost of capital in the market. Our ability to meet these policies as detailed below, while at the same time repaying debt, resulted in TELUS receiving upgrades to its investment grade credit rating from all four credit rating agencies in 2005.

The dividend payout guideline provides investors with a framework to assess the potential for future dividend increases in relation to the earnings per share (EPS) growth momentum TELUS is generating.

Policies and guidelines

	Target	2005 actual
Net debt to capital policy	45 to 50%	46%
Net debt to EBITDA policy	1.5 to 2.0	1.7
Bond ratings policy	BBB+ to A– (or equivalent)	Three agencies at BBB+ and one at BBB
Dividend payout guideline	45 to 55% of sustainable net earnings	56%[1] 44%[2]

1 Current dividend annualized on 2005 EPS.
2 Current dividend annualized on midpoint of 2006 EPS target.

Looking ahead to 2006

Our financial outlook for 2006 is very positive. We have set clear targets that show growth across the board, as outlined below. Revenue and EBITDA are expected to benefit from strong wireless growth. As well, consolidated EBITDA is expected to benefit from an 18 to 22 per cent increase in the wireless segment, offset by an estimated $46 million incremental investment in restructuring efforts aimed at enhancing efficiency primarily in our wireline segment. Strong growth in EPS is expected to be driven by not only EBITDA, but also reduced interest costs from the early debt redemption of $1.6 billion in December 2005. Capital expenditures growth is expected to be somewhat higher in 2006 due to a delay in certain wireline spending last year resulting from the labour disruption. Free cash flow, after capital expenditures and before dividends, is again expected to increase to a record $1.55 to $1.65 billion.

Consolidated 2006 targets

	2006 target	Change over 2005
Revenue	$8.6 to $8.7 billion	+ 6 to 7%
EBITDA	$3.5 to $3.6 billion	+ 6 to 9%
EPS	$2.40 to $2.60	+ 22 to 33%
Capital expenditures	$1.5 to $1.55 billion	+ 14 to 17%
Free cash flow	$1.55 to $1.65 billion	+ 5 to 12%

CORE VALUE

courage to innovate

Our ability to adapt and continuously improve has earned TELUS external recognition for financial reporting and disclosure excellence by the Canadian Institute of Chartered Accountants for 11 consecutive years.

We also recognize that the future is not without challenges. We operate in a competitive industry and face challenges from new competitors and technological change such as the recent introduction in our incumbent consumer market of voice over IP-based local telephony offerings by a number of competitors. Meanwhile, the rapidly changing wireless market saw the introduction of a series of new resale competitors. I encourage you to understand these and other risks and uncertainties facing TELUS and invite you to read a comprehensive overview starting on page 48 of this report.

A commitment to governance and disclosure

Underlying all financial and operational practices at TELUS is a fundamental belief in corporate governance excellence, full and fair disclosure, and the highest level of ethics. Our commitment to this belief is a top priority, and our accomplishment in this area has been validated by external recognition.

We promote a philosophy of "Ask first, act later" whereby all team members and directors can raise questions, concerns, issues without fear of consequence. Much of our effort stems from a rigorous approach to risk management and ethics. We also actively seek opportunities for the early adoption of new disclosure requirements and follow appropriate accounting policies. For example, we include pension expense and workforce restructuring costs in EBITDA, and we use the liability method of accounting for the regulatory-related deferral account.

As well, we pay particular attention to the quality, relevance and ease of access to our disclosure with comprehensive written information (annual report, quarterly reports and news releases), an award-winning website, and value-added investor conference calls and webcasts with slides and complete question and answer sessions.

Our comprehensive corporate governance practices are available on pages 13 and 14 of this report, in the 2006 information circular and at **about.telus.com/governance**.

Gaining recognition

While TELUS has been recently recognized for progressive and best practices for corporate governance, we have gained tremendous recognition over the years for corporate reporting and disclosure. To name a few:

- The 2004 annual report was ranked second in the world out of 1,100 international companies reviewed in the 2005 Annual Report on Annual Reports by Corporate Essentials
- TELUS won the Canadian Institute of Chartered Accountants' Award of Excellence for Corporate Reporting in the communications and media sector for the 2004 annual report
- In January 2006, TELUS was recognized by IR Magazine as having the best 2004 annual report in Canada and the best corporate disclosure policy based on a survey of 250 Canadian investment professionals.

Awards and recognition for corporate governance received by TELUS are listed on page 14 of this report.

Leading the way to a friendly future

While we are pleased with our past achievements, we are working hard on your behalf to execute on our objectives for 2006 and beyond. Underpinning our actions is a commitment to staying ahead with communications transparency, clear policies and targets, full and fair disclosure, and best practices in corporate governance. We are intent on and well positioned to continue creating value for investors.

Thank you for your continued support.

Sincerely,

Robert McFarlane
Executive Vice-President and Chief Financial Officer
February 24, 2006

staying ahead with corporate reporting and governance

At TELUS, we are firmly committed to transparent and comprehensive disclosure, and to best practices in corporate governance. We take a proactive approach, often going beyond what is required by adopting, and sometimes developing, emerging best practices. Our goal is to provide first-class corporate and financial disclosure, and to empower investors with relevant and valuable information.

Enhancing our focus in 2005

Throughout 2005, we continued to enhance our focus on good corporate governance by building on our existing best practices. Notably, TELUS is in full compliance with the corporate governance standards of Canadian securities regulators and the New York Stock Exchange. Some examples of our long-standing best practices include:

- Separating the roles of Chief Executive Officer and Board Chair
- Having both the Chief Internal Auditor and the external auditor report to the Audit Committee
- Conducting quarterly in-camera sessions of the Board where the independent Directors meet without management present
- Conducting in-camera sessions at quarterly Audit Committee meetings where committee members meet with the external and internal auditors without management present
- Continuing to develop extensive disclosure controls and procedures checklists, and cascading them to senior managers and key disclosure positions.

During 2005, succession plan processes were developed for the Board Chair as well as for the Chairs of Board Committees. As well, diligent efforts were underway in preparation for Section 404 of the U.S. Sarbanes-Oxley Act regarding internal controls over financial reporting, and we are currently on track to meet the 2006 U.S. compliance deadlines. Specifically, using a top-down risk-based approach, we have conducted an extensive and comprehensive examination of those business and operating processes across the Company that have a significant impact on financial reporting. This activity also enables us to mitigate both financial reporting and business risks and identify opportunities for further improvements to internal controls over financial reporting.

Going above and beyond with voluntary practices

TELUS often exceeds compliance requirements to address more than just the letter of the law. Some examples of our voluntary practices include:

- Early adopting many of the disclosure provisions of the new equity compensation standard FAS 123(R), issued by the U.S. Financial Accounting Standards Board. These provisions will increase the insight financial statement users have of how share-based compensation affects the Company's financial position and results of operation
- Having the Chief Compliance Officer report to the Audit Committee on a quarterly basis
- Making ongoing improvements to our comprehensive enterprise risk management processes by:
  - Reviewing and updating the TELUS risk profile throughout the year to reflect dynamically changing risks, and assigning executive-level ownership for mitigation
  - Adopting 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
  - Further integrating top-down enterprise risk assessment with traditional bottom-up property and environment, health and safety risk approaches
- Continuing to blend the more comprehensive MD&A framework recommended by the Canadian Institute of Chartered Accountants (CICA) with the required disclosure framework of the Canadian Securities Administrators
- Making available our award-winning corporate disclosure and confidentiality of information policy
- Publicly disclosing our insider trading policy
- Publicly disclosing the entire Board policy manual including all of the Board Committees' terms of reference, not just the Audit Committee's terms of reference as is required. This information is posted on telus.com/governance.

Maintaining the highest ethical standards

Recognizing that how we work can be as important as what we do, TELUS places great emphasis on striving to ensure that the highest level of ethics and integrity is demonstrated in all business activities and decisions.

Each year, our ethics policy is reviewed and updated with the goal of keeping it current and relevant for team members. It is also used as an education and training tool to help employees when they are faced with ethical uncertainties. For example, in 2005, a policy section was added relating to ethical considerations in dealing with suppliers, contractors, consultants and agents. While ethics training was prepared for all team members in 2005, it was deferred due to the four-month labour disruption. In 2006, all team members will be again asked to review and complete the updated e.Ethics online training course.

Throughout 2005, we continued to monitor and resolve calls to the EthicsLine, a hotline for anonymous and confidential questions or complaints on accounting, internal controls or ethical issues.

Each quarter, reports regarding the status of these calls are made to the Audit Committee. In 2005, a total of 325 calls were fielded by the Ethics Office, 170 of which involved advice on ethical situations or complaints. Each complaint was investigated, resolved appropriately and reported to the Audit Committee. The Ethics Office determined that 26 breaches of the ethics policy occurred in 2005, but none involved fraud by team members with a significant role in internal controls over financial reporting. In fact, of all complaints made to our Ethics Office since its inception in 2003, no breaches of the ethics policy have involved fraudulent financial reporting.

Communicating with investors

An integral part of TELUS' corporate governance and reporting efforts is a series of significant communications activities that are intended to keep investors informed. During 2005, we held four quarterly conference calls and one 2006 targets call, which were also webcast to provide easy access for shareholders, and we made 14 conference presentations in Canada and the United States. Additionally, we conducted meetings with 228 institutional investors across Canada, the United States and Europe.

Leading with award-winning corporate governance

TELUS is widely recognized for governance excellence. For example:

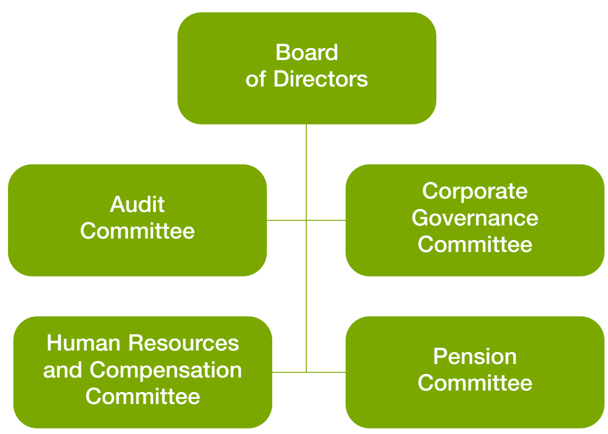
- In December, TELUS was given the Award of Excellence for Best Corporate Governance Disclosure across all industry sectors by the CICA
- In January 2006, TELUS was recognized by IR Magazine as having the best corporate disclosure policy in Canada based on a survey of 250 Canadian investment professionals
- TELUS tied for the third best board in Canada by the Canadian Business magazine's Top 25 Boards in Canada survey in August 2005.

Moody's Investors Service, in its Corporate Governance Assessment issued in December 2005, stated that "TELUS has strong corporate governance practices" and that "The company is committed to high standards of corporate governance, in our view, and clearly demonstrates this commitment in key areas such as disclosure, executive compensation and attention by the board to ensure management is focused on the long-term interests of the company." Moody's assessment indicated that TELUS' key positive attributes include its best practices approach on corporate governance, strong control structures, executive pay that appears disciplined and based on a useful mix of metrics, and notably good disclosure that extends to governance transparency.

Board committees

TELUS' Board of Directors is responsible for the stewardship of the Company and for overseeing the management of TELUS' business. The Board has appointed four committees, each of which operates under its own mandate and terms of reference. All members of the Audit, Corporate Governance, and Human Resources and Compensation Committees are independent, as is required by those committees' mandates. In addition, all members of the Pension Committee are independent, even though the Pension Committee's mandate only requires the majority of members to be independent. For full details, visit telus.com/governance or refer to the 2006 TELUS Information Circular.

In 2005, TELUS' Board of Directors met eight times and had full attendance at each meeting. (Note that TELUS Director Pierre Ducros was appointed in September 2005 and attended the three Board meetings that took place after his appointment.) Additionally during 2005, the Audit Committee met five times, the Corporate Governance Committee met six times, the Human Resources and Compensation Committee met five times, and the Pension Committee met four times.



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 2006 TELUS Information Circular.

forward-looking statements

This report and 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 financial and operating targets, expectations, estimates or intentions expressed in the forward-looking statements.

Assumptions for 2006 target purposes include: economic growth consistent with recent provincial and national estimates by the Conference Board of Canada that were available in 2005, including gross domestic product growth of 3.1% in Canada; increased wireline competition in both business and consumer markets; a wireless industry market penetration gain similar to the approximately five percentage point gain in 2005; approximately $100 million restructuring and workforce reduction expenses; an effective tax rate of approximately 35%; no prospective significant acquisitions or divestitures; no change in foreign ownership rules; and maintenance or improvement of investment-grade credit ratings.

Factors that could cause actual results to differ materially include but are not limited to: competition; technology (including reliance on systems and information technology); regulatory developments; human resources (including possible labour disruptions); business integrations and internal reorganizations; process risks (including the conversion of legacy systems and security); financing and debt requirements (including share repurchases and debt redemptions); tax matters; health, safety and environment developments; litigation and legal matters; business continuity events (including manmade and natural threats); economic growth and fluctuations; and other risk factors discussed herein and listed from time to time in TELUS' reports, public disclosure documents including the Annual Information Form, and 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 risk management* of Management's discussion and analysis.

management's discussion and analysis

February 24, 2006

The following is a discussion of the consolidated financial condition and results of operations of TELUS Corporation for the years ended December 31, 2005 and 2004, and should be read together with TELUS' 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' 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 Consolidated financial statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS. The Consolidated financial statements and Management's discussion and analysis were reviewed by TELUS' Audit Committee and approved by TELUS' Board of Directors. 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. 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, and reconciled with their nearest 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

A summary of 2005 consolidated results and a description of performance against annual targets set for 2005

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 Canadian telecommunications market

Canadian real GDP (gross domestic product) growth was recently estimated at 2.8% in 2005 by the Conference Board of Canada. Canadian wireless industry revenues grew by approximately 16% as market penetration for the industry increased by approximately five percentage points. TELUS' wireless segment, carrying on business as TELUS Mobility, achieved 17% revenue growth in 2005 and its largest ever wireless subscriber net additions of 584,300. Price competition and technological substitution of voice services to wireless and Internet contributed to further softness in Canadian wireline industry revenues, estimated to have been flat in 2005. TELUS' wireline segment revenues grew by 1.5% in 2005.

Voice over Internet protocol (VoIP) services became an important competitive factor in the wireline consumer market in 2005. TELUS' major cable-TV competitors began to offer VoIP telephony in the Company's incumbent territories, while other VoIP competitors expanded their offerings. At the end of 2005, the Company began a limited commercial launch of TELUS TV services following extended employee-based trials. The business market is also increasingly adopting Internet protocol (IP) and managed services as a means of achieving operational efficiencies and improving revenue generation. Wireless resellers entered the prepaid market in 2005. Technology also continues to evolve, both increasing the Company's opportunities and facilitating increased competition. See *Risks and risk management Sections 10.1 Competition* and *10.2 Technology* for the discussion of competitive and technology risks facing TELUS.

1.3 Consolidated highlights

($ in millions, except margin and per share amounts)

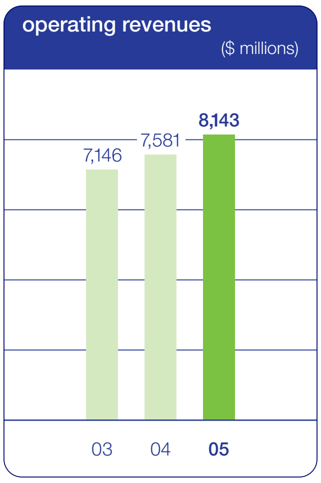
Years ended December 31	2005	2004	Change
Operating revenues	8,142.7	7,581.2	7.4%
EBITDA(1)	3,295.3	3,090.6	6.6%
EBITDA margin (%)(2)	40.5	40.8	(0.3) pts
Operating income	1,671.6	1,447.5	15.5%
Net income	700.3	565.8	23.8%
Earnings per share, basic ($)	1.96	1.58	24.1%
Earnings per share, diluted ($)	1.94	1.57	23.6%
Cash dividends declared per share ($)	0.875	0.65	34.6%
Cash provided by operating activities	2,914.6	2,538.1	14.8%
Cash used by investing activities	1,355.2	1,299.5	4.3%
Capital expenditures	1,319.0	1,319.0	0.0%
Cash used by financing activities	2,447.3	348.3	n.m.
Free cash flow(3)	1,465.5	1,297.3	13.0%

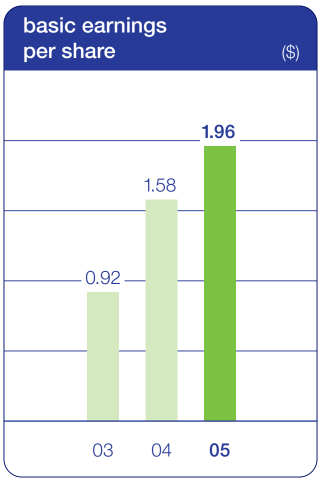
pts – percentage points
n.m. – not meaningful
(1) Earnings before interest, taxes, depreciation and amortization is a non-GAAP measure. See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)*.
(2) EBITDA margin is EBITDA divided by Operating revenues.
(3) Free cash flow is a non-GAAP measure. See *Section 11.2 Free cash flow*.

Despite the labour disruption experienced in Western Canada from late July to late November of 2005, solid growth in consolidated Operating revenues was achieved, with wireless segment revenues increasing by 17% for the full year. Wireline segment revenues increased by 1.5% for the full year, as growth in data revenues more than offset the decline in voice long distance and equipment revenues. The increase in consolidated EBITDA resulted from improved wireless profitability, partly offset by a temporary increase in wireline expenses in order to maintain operations during the labour disruption. The 6.6% growth in consolidated EBITDA was the primary contributor to $224.1 million higher Operating income in 2005, when compared with 2004. The net effect of the labour disruption was estimated at approximately $133 million additional operations expense in 2005.

Net income and earnings per share increased for the full year of 2005, when compared with 2004, due primarily to increased Operating income, partly offset by one-time financing costs arising from the early redemption of $1.578 billion Canadian dollar Notes on December 1, 2005.

Cash provided by operating activities increased by $376.5 million in 2005, when compared with 2004. The increase was primarily from the receipt of $350 million additional proceeds from securitized accounts receivable on November 30. Free cash flow increased because of improved EBITDA, lower payments under restructuring programs and higher interest received, partly offset by lower cash tax recoveries.





Effect of the labour disruption on TELUS operations during 2005
TELUS 2005 results were affected by a labour disruption that commenced on July 21 and concluded following the ratification of a collective agreement on November 18 (see *Reaching a collective agreement* in *Section 3.1 Corporate priorities for 2005*). Revenue grew at a slower pace in the second half of the year due in part to the work stoppage and increased competitive activity. However, the recent increase in competition for local residential telephony services by resellers, cable-TV companies, and other competitors offering VoIP services makes it difficult to fully separate the competitive effects from the impacts of the labour disruption on wireline revenues and subscribers. Reduced availability of field resources resulted in the Company giving priority to repair activities, and business and data services, which limited installations of residential access lines.

Significant emergency operations planning costs were incurred in the second quarter. With the labour disruption beginning in July, emergency operations procedures were put in place to maintain customer service at the highest possible level. The labour disruption was most evident in British Columbia, where all unionized employees were not at work for the duration of the labour disruption. A sizeable number of bargaining unit employees were working in Alberta. There was no labour disruption in the Ontario and Quebec operations, but additional costs were incurred for extra workload in areas such as call centres. Incremental expenses that arose from emergency operations procedures included management reassignments, paid overtime, third-party security and contractor costs, travel and accommodation and reduced capitalization of labour. These incremental expenses exceeded cost savings, such as those arising from lower compensation expenses for employees who stayed off work and adjustments to accruals for payroll and other employee-related expenses, as shown in the table that follows.

With ratification of the new collective agreement, and the return to work of TELUS team members by early December, certain capital spending resumed, and in fact increased, in the fourth quarter of 2005, when compared to the same period in 2004. For the full year of 2005, capital expenditures were still lower than originally planned, due to deferral of some construction activities, while the balance of assets under construction rose due to delays in completion of in-progress work.

The new five-year agreement provides increased operating flexibility and productivity, while facilitating better service for customers in an increasingly competitive marketplace. It fosters a performance culture with universal variable incentive pay, when performance metrics are met, and promotions that are based on performance as well as seniority. The agreement also establishes a new paradigm. For example, the Company and union agreed to work together to withdraw various types of lawsuits between the parties. As well, a Common Interest Forum has been established as a mechanism for co-operation and dialogue.

Estimated impacts of the work stoppage	2005 Quarterly			**2005**
	Q2	Q3	Q4	**Full year**
Net incremental Operations expenses, pre-tax ($ millions)	16	65	52	**133**
Approximate earnings per share impact, after tax ($)	(0.03)	(0.12)	(0.10)	**(0.25)**

1.4 Performance scorecard for 2005 results

TELUS' original targets for 2005 did not include the impacts of the four-month work stoppage. Despite this, the majority of the original targets were achieved or exceeded as a result of being ahead of plan early in the year. Guidance was revised for selected items in the interim reports for the first, second and third quarters (released in May, August and November, respectively), as well as the December 16, 2005 announcement of 2006 targets. Generally, guidance revisions were improvements from the original targets or narrowing of guidance ranges. All of the final guidance items were achieved. See *Section 9 Looking forward to 2006* for the 2006 targets announced on December 16, 2005.

- The original target for consolidated revenues was exceeded because of strong wireless average revenue per subscriber unit per month (ARPU) and subscriber growth, as well as growth in wireline data revenues.
- The original targets for consolidated and wireline EBITDA were achieved, while the original target for wireless EBITDA was exceeded. Guidance for wireline segment EBITDA was revised upward in the first quarter to $1.875 billion to $1.925 billion based on being ahead of plan at the time, but this higher range was not achieved as a result of the work stoppage. Guidance for wireline EBITDA was lowered in the third quarter to $1.8 billion to $1.875 billion to reflect the net effects of the work stoppage somewhat offset by lower restructuring charges, and updated in December to narrow the expected range to $1.84 billion to $1.865 billion.

- The guidance for consolidated capital expenditures was revised in May to approximately $1.4 billion due to an expected increase in the wireline segment. The expectation was subsequently reduced in November to approximately $1.3 billion as a result of the work stoppage. Guidance for wireline capital expenditures increased to the upper end of the target range of approximately $1.0 billion in May, and was subsequently reduced to approximately $900 million in November. The original consolidated target was achieved.
- The original target for free cash flow was exceeded because of lower capital expenditures and higher wireless EBITDA.
- The target for high-speed Internet subscriber net additions was not achieved, as the work stoppage limited gross additions of subscribers and increased competitor activity, particularly in the third quarter. Guidance was lowered to approximately 65,000, while competitive activity increased in the second half of 2005. In December, the guidance was revised to more than 65,000, which was achieved.
- The original target for wireless subscriber net additions was exceeded due to successful wireless marketing, as well as the fact that the Canadian wireless industry market penetration increased by approximately five percentage points rather than the approximately four percentage points originally anticipated.

Performance to 2005 targets and revised guidance

	2005 results	Original targets for 2005	Result	Final guidance	Result
Consolidated					
Revenues	$8.14 billion	$7.9 to $8.0 billion	✓✓	$8.1 to $8.15 billion	✓
EBITDA(1)	$3.295 billion	$3.2 to $3.3 billion	✓	$3.275 to $3.325 billion	✓
Earnings per share – basic	$1.96	$1.65 to $1.85	✓✓	$1.90 to $2.00	✓
Capital expenditures	$1.32 billion	$1.3 to $1.4 billion	✓	Approx. $1.3 billion	✓
Free cash flow(2)	$1.47 billion	$1.2 to $1.3 billion	✓✓	$1.4 to $1.5 billion	✓
Wireline segment					
Revenue (external)	$4.85 billion	$4.7 to $4.75 billion	✓✓	$4.825 to $4.85 billion	✓
Non-ILEC(3) revenue	$632 million	$600 to $650 million	✓	$625 to $635 million	✓
EBITDA	$1.85 billion	$1.85 to $1.9 billion	✓	$1.84 to $1.865 billion	✓
Non-ILEC EBITDA	$21 million	$0 to $10 million	✓✓	$15 to $20 million	✓✓
Capital expenditures	$914 million	$950 million to $1.0 billion	✓✓	Approx. $900 million	✓
High-speed Internet subscriber net additions	73,400	Approx. 100,000	✗	More than 65,000	✓
Wireless segment					
Revenue (external)	$3.30 billion	$3.2 to $3.25 billion	✓✓	$3.275 to $3.3 billion	✓
EBITDA	$1.44 billion	$1.35 to $1.4 billion	✓✓	$1.425 to $1.45 billion	✓
Capital expenditures	$405 million	$350 to $400 million	~	Approx. $400 million	✓
Wireless subscriber net additions	584,300	425,000 to 475,000	✓✓	More than 550,000	✓

(1) See *Section 11.1 Earnings before interest, taxes, depreciation and amortization (EBITDA)*.
(2) See *Section 11.2 Free cash flow.*
(3) Non-incumbent local exchange carrier.

✓✓ Outperformed target or guidance
✓ Met target or guidance
~ Approximated target or guidance
✗ Missed target or guidance

2 core business, vision and strategy

A discussion of TELUS' core business, vision and strategy, including examples of TELUS' activities in support of its six strategic imperatives

The following discussion is qualified in its entirety by the *Forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10. Risks and risk management*.

2.1 Core business

TELUS Corporation, as the largest telecommunications company in Western Canada and the second largest in Canada, provides a wide range of wireline and wireless telecommunications products and services including data, Internet, voice, video and entertainment 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 infrastructure.

The Company has two reportable segments: wireline and wireless. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value. Segmented information is regularly reported to the Company's chief operating decision maker.

At December 31, 2005, the Company's principal subsidiary is wholly owned TELUS Communications Inc. (TCI), including the 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 markets with only 28% of Canada's population, to a strong national facilities-based player in the growth areas of wireless, data and Internet protocol (IP). The Company embarked on this strategy in 2000 to take advantage of the significant growth opportunities the national market offers.

TELUS continues to be guided by its six long-standing strategic imperatives that guide the Company's actions and are generating the financial results of the Company. TELUS' activities in support of, and the results from, these imperatives include the following:

Building national capabilities across data, IP, voice and wireless

In 2005, the Company expanded its suite of advanced IP-based network applications with the introduction of TELUS IP-One Evolution. This new service enables business customers to migrate from their existing Centrex systems to IP telephony at a pace that best suits their needs. In addition to utilizing the benefits of Centrex, customers gain the power of IP telephony, which converges voice, data and Internet and offers productivity-enhancing applications like integrated messaging and remote activation of services.

Expansion in Central Canada is key to TELUS' business growth strategy. An example of this is the new five-year contract that TELUS signed with a large manufacturer to provide and manage Internet-based voice and data services. The contract will migrate Centrex-based infrastructure to an IP-One Evolution solution. Another example is the eight-year, $30 million agreement with Intrawest Corporation to be the exclusive supplier of certain IP and telecommunications services to all Intrawest resorts across Canada.

Wireless population coverage was extended to 600,000 more Canadians in 2005, ending the year at 30.6 million. Distribution was extended with 19 new Company-owned wireless stores to approximately 140 corporate stores and a total of more than 2,000 retail locations across Canada. International roaming for PCS clients was expanded to China, New Zealand and Taiwan, building on existing roaming capability in, among other countries, Bermuda, the Dominican Republic, Guam, Hong Kong, Mexico, Puerto Rico, South Korea, the U.S. Virgin Islands, Venezuela and the United States. Two new global communications solutions were introduced in 2005: the Motorola A840 Worldphone, operating on both code division multiple access (CDMA) and global system for mobile (GSM) networks, and a GSM global roaming card. TELUS wireless clients can roam in more than 120 countries worldwide.

TELUS mobile TV service, launched in August, allows wireless clients to access unlimited live television on their wireless phones for just $15 per month. TELUS mobile TV now offers access to ten channels and boasts a high-quality display rate of four to six frames per second. In addition to faster speeds with EVDO (evolution data optimized), channel and handset selection for TELUS mobile TV is being expanded.

In addition, the wireless segment introduced the multi-network data access (MNDA) solution, a reliable way for public safety and enterprise clients to access mission-critical data wirelessly and pass it between data networks without losing connections. In late 2005, a new wireless high-speed network (EVDO) was introduced in major centres across Canada, offering business customers wireless data transfers at typical speeds of 400 to 700 kilobits per second – at least six times faster than previous TELUS wireless data services.

Providing integrated solutions that differentiate TELUS from its competitors

The Calgary Board of Education (CBE) signed in October a 10-year, $65 million contract with TELUS Sourcing Solutions for the delivery of some of the district's human resource (HR) services. This groundbreaking collaboration will allow the school board to benefit from leading-edge HR technology and expertise without up-front capital investment. The CBE is the first Canadian school district to enter into this type of HR services agreement with a private sector organization. TELUS Sourcing Solutions will provide a range of HR and payroll services to the CBE. To support the delivery of these services, TELUS will implement and manage a new Human Resource Management System (HRMS) for the CBE, delivering services including payroll, benefits, leave administration and recruitment and administrative activities related to the placement of support and temporary staff. This will enable the CBE to focus on its business of providing quality education programs for students. Approximately 50 CBE employees transferred to TELUS Sourcing Solutions under their existing terms and conditions of employment.

TELUS Sourcing Solutions signed a 15-year agreement with Hamilton Health Sciences to deliver the process and information technology components of its HR services. Valued at $137 million, the agreement will see TELUS implement technology and application upgrades to Hamilton Health Sciences' HR management system, as well as assume the day-to-day management and delivery of its HR services including payroll, recruitment, compensation, occupational health and safety and benefits. Through the partnership, approximately 70 Hamilton Health Sciences employees joined TELUS. The agreement will also see the establishment of a new TELUS Centre of Excellence in Ontario, enabling TELUS in co-operation with Hamilton Health Sciences to develop, test and evaluate innovative HR system solutions that will be marketed to other health sector and broader public sector clients.

TELUS announced the extension of its Future Friendly Home strategy and the expansion of its suite of services from mobility and security to entertainment. TELUS began a targeted launch of its innovative all-digital television service, TELUS TV, in Edmonton and Calgary. Further expansion of TELUS TV is expected to continue on a targeted basis through a phased neighbourhood roll-out, with TELUS' own skilled team members selling, installing and supporting TELUS TV. For the associated technology risks, see *Section 10.2 Technology.*

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

The acquisition of a 52.5% ownership interest in Ambergris Solutions Inc. in February 2005, combined with the acquisition of ADCOM, Inc. in November 2004, provided aggregate incremental revenues of approximately $59 million and incremental EBITDA of approximately $10 million in 2005. The purchase of Ambergris provides TELUS with international call centre capabilities and backup capabilities. The international capability also supports TELUS in its bids to offer competitive call centre services to potential new clients. The purchase of ADCOM gained TELUS a new customer base, multi-site operations and state-of-the-art equipment.

In April 2005, TELUS and the B.C. provincial government announced an initiative, called Connecting Communities, that consolidates some 340 existing competitive services contracts (covering 10 broader public sector entities such as Crown corporations and health authorities) into one contract with the Province of B.C. and is to bring access to high-speed data and voice services to 119 rural B.C. communities by the end of 2006. TELUS expects to invest an estimated $110 million over four years to connect the communities to high-speed Internet and expand broadband services. With the additional 119 communities, a total of 334 communities in B.C. are to be connected by TELUS.

This agreement helps secure a large share of provincial government business projected at more than $245 million for the next four years. It also positions TELUS for new revenue growth opportunities for up to seven years by enabling the Company to deploy innovative IP-based technology and services. TELUS will create a $12 million innovation fund to allow the public sector in B.C. to develop pilot opportunities in strategic areas of future growth, including health care and education. The fund can be used for future upgrades and infrastructure enhancements, subject to certain criteria and approval by TELUS, as set out in the contract.

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

TELUS continued to achieve strong consolidated growth in 2005 based on record wireless subscriber net additions of 584,300, a 17% increase in wireless revenue and an 8% increase in wireline data revenue.

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 EBITDA and EBITDA less capital expenditures of the three national Canadian operators. TELUS continues to focus on profitable wireless growth in the national market, which is now made up of three major facilities-based players and niche-market competitors operating on a resale basis.

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

Holiday season promotions in late 2005 using TELUS' nature-based brand were well received by the public and generated a significant amount of media attention. The popular and instantly recognized national master brand provides TELUS with a strong and differentiated marketing edge. For example, TELUS ads were ranked number one in the National Most Liked and Most Noticed categories in November as reported by Marketing Magazine.

TELUS is committed to improving the economic, social and environmental well-being of communities across Canada. With a focus on young Canadians, TELUS looks for opportunities to use its technology and expertise in ways that positively influence the communities in which TELUS team members live, work and serve. To ensure the greatest impact possible, TELUS community investment efforts are focused in three areas – arts and culture, education and sport, and health and wellness. In 2005, seven TELUS Community Boards were established across Canada. Located in Vancouver, Edmonton, Calgary, Toronto, Ottawa, Montreal and Rimouski, the Boards meet quarterly to discuss local giving opportunities and strategically allocate approximately $3.5 million annually to local charities. In doing so, the Boards help TELUS determine where and how to invest resources to best optimize the benefits that flow to the community.

In 2005, TELUS formed partnerships with five science centres across Canada to help promote technological innovation and learning in science and technology. Over the next 20 years, TELUS expects to invest more than $43 million in the TELUS World of Science® centres in Vancouver, Calgary and Edmonton, and the Ontario and Montreal Science Centres. These partnerships will help to foster educational opportunities for young Canadians through the innovative use of technology and ensure these facilities remain leading-edge for future generations.

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

As a full-service telecom operator, TELUS 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, and is expected to be supported by the integration of wireline and wireless operations, initiated in late 2005, subject to the risks described in *Section 10.5 Business integration and internal reorganizations*.

3 key performance drivers

Corporate priorities in place for 2005 and planned for 2006

To advance our strategy, focus on the near term opportunities and challenges, and create value for shareholders, TELUS sets corporate priorities each year. A report on the progress against 2005 priorities is described below.

3.1 Corporate priorities for 2005 – reporting back

Progress against 2005 corporate priorities

Enhancing TELUS' leadership position in wireless

- Generated a record number of subscriber net additions at 584,300, representing 34% of the net additions of the three national competitors, while obtaining 36% of the EBITDA and 39% of EBITDA less capital expenditures
- Launched a new wireless high-speed network called EVDO for business in five major cities across Canada
- Introduced real-time access of live television programming to wireless phones in 2005 with the August launch of TELUS mobile TV service
- Continued to lead the Canadian industry with the highest average revenue per subscriber unit per month (ARPU) of $62, while maintaining one of the lowest churn rates in North America at 1.39%. With significant EBITDA growth, EBITDA less capital expenditures increased to a record $1,038.2 million or 33.9% of Network revenue, as compared with $788 million or 30.3% of 2004 Network revenue.

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

- Starting in May, promoted two additional varieties of high-speed Internet:
  - TELUS High-Speed Enhanced Internet service offers much more speed than TELUS' regular high-speed Internet service and is ideal for online gaming and downloading large files
  - TELUS High-Speed Lite Internet service offers speeds five times faster than dial-up Internet, but is not as fast as TELUS' regular high-speed Internet, and is suitable for surfing the Internet and accessing e-mail
- In November, started a phased neighbourhood roll-out in Edmonton and Calgary of TELUS TV, an innovative all-digital television service.

Accelerating wireline performance in Ontario and Quebec business markets

- Non-ILEC revenue of $632 million increased by 12.6% when compared with 2004
- Full-year non-ILEC EBITDA became positive for the first time in 2005 at $21 million
- Gained a number of new large multi-year customers including Hamilton Health Sciences and the Government of Quebec.

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

- Launched three new TELUS IP security solutions:
  - Intrusion Prevention Service (a hardware-based solution, which continuously monitors customer network traffic for anomalies and destroys them before they affect legitimate users' services)
  - Secure Socket Layer virtual private network (VPN) (a turn-key solution that insulates a network environment against external attacks)
  - Distributed Denial of Service (eliminates the need for client software deployment, costly maintenance and desktop support by utilizing the Internet's capacity for data transportation)
- Launched TELUS Telecommuting, a suite of communications services that allow business clients to work out of their homes. The services – high-speed Internet, VPN, a variety of phone options, and collaboration services such as web, audio and video conferencing – allow workers to create virtual offices at home
- TELUS and Telephony@Work partnered to offer Canada's first fully integrated on-demand hosted contact centre service, CallCentreAnywhere™.

Driving continual improvements in productivity across TELUS

- A number of smaller efficiency initiatives were undertaken in 2005, facilitated by $54 million in Restructuring and workforce reduction costs, with many activities delayed by the four-month work stoppage.

Reaching a collective agreement

- A positive outcome for TELUS and team members was the ratification of a new five-year collective agreement on November 18, 2005. For a summary of labour relations activity in 2005 and the new contract, see *Reaching a collective agreement* that follows.

Reaching a collective agreement

A labour disruption that began on July 21, 2005 was settled on November 18, 2005, following the ratification of a new five-year collective agreement covering approximately 14,000 employees located predominantly in TELUS' western incumbent region in B.C. and Alberta. The new agreement merges six previously separate collective agreements into one and applies to all unionized team members in B.C. and Alberta represented by the Telecommunications Workers Union (TWU), as well as TELUS Mobility team members in Central Canada who were included in the scope of the bargaining unit by Canada Industrial Relations Board (CIRB) Decisions 1088 and 278.

The new agreement provides TELUS and its team members the flexibility to compete on a level playing field and supports TELUS' leadership position in data, IP and wireless. After ratification, substantially all regular team members were recalled and working by the first week of December. The terms and conditions of the new collective agreement are effective from November 20, 2005 to November 19, 2010.

The following are highlights of the new contract:

- One-time lump sum payments in lieu of retroactive wage adjustments were provided for the period from the expiry of the previous collective agreements to the effective date of the ratified agreement (January 1, 2001 to November 20, 2005).
- Total compensation increases, consistent with earlier guidance, for the majority of employees include base pay increases of a minimum of 2% per year with additional variable pay increasing over the term of the contract from 3 to 5% per year. Base pay harmonization between similar jobs in B.C. and Alberta is provided.
- Terms and conditions related to contracting out, scheduling of hours of work, paid time off the job, benefits, etc., are in line with competitive telecom benchmarks and are believed to provide TELUS with the required flexibility to effectively compete.
- A foundation now exists for a renewed, constructive union-management relationship. For example, the parties agreed to work together to withdraw a number of cases currently before the CIRB, Federal Court of Appeal and other courts or administrative bodies, to enable the parties to put an end to previous disputes. In addition, Common Interest Forums will involve executives from both the union and TELUS for ongoing constructive dialogue on issues.
- The proposed settlement of a long-standing pay equity complaint with respect to employees in British Columbia includes the establishment of a $10 million pay equity fund by TELUS, subject to acceptance by the Canadian Human Rights Commission.
- By March 2006, team members currently working in TELUS National Systems (TNS) and TELUS solutions de soutien will be included in the bargaining unit. In addition, the parties have agreed that team members employed in TELUS Mobility's directly owned retail store operations are to remain excluded from the bargaining unit.
- Transition options, including the offer of a voluntary departure package, are available for approximately 700 team members affected by three offices that were closed in February 2006 and the outsourcing of non-core functions. In addition, TELUS made a commitment that several remaining call centres in B.C. will remain open for the term of the contract.

3.2 Corporate priorities for 2006

TELUS developed new corporate priorities for 2006 to: advance its industry-leading strategy; achieve meaningful commercial differentiation in the markets; capitalize on the technology convergence of wireless and wireline; and drive continued operating efficiency and effectiveness.

2006 corporate priorities across wireline and wireless

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

Advance TELUS' position in the business market through:
- Innovative solutions that enhance the competitiveness of TELUS' customers and deepen their loyalty to TELUS
- Increasing the Company's share in the business market by leveraging TELUS' mobile solutions such as high-speed data
- Improving delivery of managed solutions to small business customers.

Advance TELUS' position in the wholesale market through:
- Strengthening the Company's North American reach through innovative IP solutions
- Establishing creative and preferred partnerships to grow TELUS' national customer base
- Optimizing the use of partner networks to complement TELUS' network investments.

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

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

4 capability to deliver results

A description of the factors that affect the capability to execute strategies, manage key performance drivers and deliver results

4.1 Operational capabilities – Wireline

Less than one-third of the Company's revenues are from wireline segment regulated revenues. Wireline regulated services include residential and business wireline services in incumbent local exchange carrier (ILEC) regions, competitor services and payphone services. Services that are forborne from regulation include non-incumbent local exchange carrier (non-ILEC) services, long distance services, Internet services, international telecommunications services, inter-exchange private line services, certain data services, and the sale of customer premises equipment.

In 2005, ongoing industry-wide trends of increased competition and new technologies facilitated the decline in network access lines and reduced long distance prices. With agreements such as those with the Government of B.C. and the Calgary Board of Education, and growth initiatives in the business markets in Ontario and Quebec, TELUS endeavours to retain existing customers and position itself for future revenue growth, particularly in the areas of data and IP. Measures taken for consumer services include new Future Friendly Home services introduced in 2004, limited commercial launch of TELUS TV in 2005, and the introduction of a three-year contract option for consumer optional features bundles in 2005. This initiative was launched to help retain customers, lock in revenues over the contract period, and delay or reduce churn to competitors. In addition, TELUS expects to achieve further improvements in efficiency and productivity through the recently implemented five-year collective agreement, including office closures and contracting out of specified non-core functions, as well as integration of operations in the wireline and wireless segments. See *Section 5.4 Wireline segment results – Restructuring and workforce reduction costs* and *Section 10.5 Business integration and internal reorganizations*.

During 2005, the Company continued to develop a new billing system in the wireline segment, which will include re-engineering processes for order entry, pre-qualification, service fulfillment and assurance, customer care, collections/credit, customer contract and information management. The expected benefits of this project include streamlined and standardized processes and the elimination over time of multiple legacy information systems. The Company plans to implement this project in phases, beginning with a launch for consumer mass market accounts currently planned in 2006. See *Section 10.6 Process risks*.

The Company's principal wireline geographic markets and competitors are:

Canadian geographic market	TELUS wireline	Competition
National – business	IP-based national network overlaying extensive switched network in incumbent territories in Western Canada and Eastern Quebec. Rate-regulated in incumbent territories of B.C., Alberta and Eastern Quebec for access and certain competitive digital network access services. Non-rate-regulated operations in non-incumbent areas of Ontario and Quebec. Focused on managed data solutions in the business market.	BCE and Manitoba Tel (Allstream) competing with their own national infrastructures, and others such as Navigata (owned by SaskTel). System integrators of managed solutions, such as CGI, EDS and IBM. Substitution to wireless including to TELUS wireless offerings.
Western Canada (B.C. and Alberta) – consumer	Access to virtually every home. Rate-regulated for local services. Significant investment in Internet infrastructure and innovative services. Plans to offer VoIP service. Has broadcasting distribution licences to offer digital television services in select communities across Alberta and B.C., as well as licences to offer commercial video-on-demand services. Began roll-out of service in Edmonton and Calgary following extensive employee trials.	Substitution to wireless including to TELUS wireless offerings. Shaw Cable – access to most homes in market. Provides Internet, entertainment and VoIP-based telephony services. Not rate-regulated by the CRTC. Call-Net (owned by Rogers Communications), Navigata, Primus, Vonage, and 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.
Eastern Quebec – consumer	Access to virtually every home. Significant investment in Internet infrastructure and innovative services. Has broadcasting distribution licences and video-on-demand licences.	Substitution to wireless including to TELUS wireless offerings. COGECO (cable-TV) – urban focus. Offers entertainment and VoIP-based telephony services. Sprint, Excel, Distributel, Sears and Caztel compete in the provision of long distance services. BCE and Vonage compete for VoIP-based services.

4.2 Operational capabilities – Wireless

TELUS Mobility's continued delivery of value-added solutions, excellent network quality, and an exceptional client service experience contributed to profitable growth despite new competitive pressures. Future profitability and cash flow growth are expected to be realized from continued subscriber growth and operating scale efficiencies through a well managed client-focused organization, as well as integration of operations with the wireline segment.

Wireless services are not rate-regulated by the CRTC. The Company's principal wireless market and competitors are:

Canadian geographic market	TELUS wireless	Competition
National, business and consumer	Facilities-based services with access to 94% of Canadian population, operating a CDMA network with state-of-the-art high-speed EVDO in major centres, and iDEN-based Push To Talk service focused on the commercial marketplace.	Facilities-based competitors such as Rogers Wireless, nationally, and wireless offerings by various regional telcos including Bell Mobility, SaskTel, MTS Mobility and Aliant Telecom Wireless. Resellers of BCE and Rogers networks, such as the Virgin MobileGroup, 7-eleven and certain cable-TV companies.

4.3 Liquidity and capital resources

TELUS generally achieved all of the objectives under its 2005 financing plan, as illustrated in the following table. With access to undrawn credit facilities of $1.4 billion at December 31, 2005, and expected cash flow from operations, the Company believes it has sufficient capability to fund its requirements in 2006. See *Section 9.3 Financing plan for 2006* and the associated risks in *Section 10.7 Financing and debt requirements*.

2005 financing plan and results

TELUS' 2005 financing plan was to use free cash flow generated by its business operations to:

- **Maintain cash-on-hand in anticipation of the maturity of $1.578 billion of 7.5% TELUS Corporation Notes in June of 2006**
  The Company exercised its right to early redeem, on December 1, 2005, the remaining $1.578 billion of 7.50%, Series CA, Notes outstanding. See *Section 7.3 Cash used by financing activities*.

- **Repurchase Common Shares and Non-Voting Shares under the Normal Course Issuer Bid (NCIB)**
  Repurchased approximately 20.8 million TELUS shares for $892.1 million during 2005 under two NCIB programs.

  Purchased for cancellation 73% of the maximum 14.0 million Common Shares and 100% of the maximum 11.5 million Non-Voting Shares permitted under the first program, which was effective from December 20, 2004 to December 19, 2005, for a cumulative outlay of approximately $913 million.

  A second program was approved that runs for a 12-month period ending December 19, 2006, for potential repurchase and cancellation of up to 12.0 million Common Shares and 12.0 million Non-Voting Shares. Approximately 634,000 Common Shares and 608,000 Non-Voting Shares were repurchased under this NCIB in December 2005 for $57.5 million. See *Section 7.3 Cash used by financing activities*.

- **Pay dividends**
  Dividends of 20 cents per share were declared for each of the first three quarters. The declared dividend was increased to 27.5 cents per share for the fourth quarter dividend, which was paid on January 1, 2006. The target dividend payout ratio guideline continues to be in the range of 45 to 55% of sustainable earnings.

- **Give consideration to redeeming or repurchasing debt in the open market**
  On May 9, 2005, the Company provided notice of redemption for its convertible debentures at par, plus accrued and unpaid interest, for redemption on June 16, 2005. Convertible debenture holders exercised conversion options resulting in $131.7 million of convertible debenture principal being converted into approximately 3.3 million Non-Voting Shares. The conversion option in respect of $17.9 million of convertible debenture principal was not exercised and this principal amount was redeemed. See *Section 6 Financial condition – Shareholders' equity*.

Other financing objectives included:

- **Preserve access to the capital markets at a reasonable cost by maintaining investment grade credit ratings and targeting improved credit ratings in the range of BBB+ to A– in the future**
  Investment grade credit ratings were maintained and improved ratings were received from all four rating agencies that cover TELUS. See *Section 7.7 Credit ratings*.
- **Maintain position of fully hedging foreign exchange exposure for indebtedness**
  Maintained as planned.
- **Renew the $800 million 364-day revolving credit facility in May 2005**
  TELUS arranged for new credit facilities in May 2005 to replace $1.6 billion of prior credit facilities. See *Section 7.5 Credit facilities*.
- **Maintain a minimum $1 billion in unutilized liquidity**
  Maintained as planned throughout the year, with more than $1.4 billion of unused credit facilities at December 31, 2005, as well as availability under the accounts receivable securitization program and cash on hand.

4.4 Disclosure controls and procedures

Management's responsibility for the financial reporting process that produces the financial statements is described in Management's report in the Consolidated financial statements found on page 61.

TELUS Corporation 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 as at the end of December 31, 2005. 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.

Certification

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. For the year ending December 31, 2006, TELUS expects to comply with Section 404 of the Sarbanes-Oxley Act.

5 results from operations

A detailed discussion of operating results for 2005

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 Consolidated financial statements of TELUS for the year ended December 31, 2005, and its annual Consolidated financial statements for previous years. Certain comparative information has been restated on a basis consistent with the 2005 presentation.

Years ended December 31 ($ in millions except per share amounts)	2005	2004	2003
Operating revenues	8,142.7	7,581.2	7,146.0
Operations expense	4,793.5	4,438.0	4,301.9
Restructuring and workforce reduction costs	53.9	52.6	28.3
Financing costs and other expense	641.5	622.0	662.6
Income taxes	322.0	255.1	172.7
Net income	700.3	565.8	324.4
Common Share and Non-Voting Share income	700.3	564.0	320.9
Earnings per share(1) – basic	1.96	1.58	0.92
Earnings per share(1) – diluted	1.94	1.57	0.91
Cash dividends declared per share(1)	0.875	0.65	0.60
Total assets	16,222.3	17,838.0	17,477.5
Current maturities of long-term debt	5.0	4.3	221.1
Long-term debt	4,639.9	6,332.2	6,609.8
Deferred hedging and other long-term financial liabilities	1,420.9	1,293.8	983.8
Total long-term financial liabilities	6,060.8	7,626.0	7,593.6
Future income tax liabilities	1,023.9	991.9	1,007.0
Non-controlling interest	25.6	13.1	10.7
Common equity	6,870.0	7,016.8	6,442.7
Preference and preferred share capital	–	–	69.7

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

Some significant changes over the three years included:

- Wireless segment revenues increased to approximately 40% of consolidated revenues in 2005 (approximately 37% in 2004 and 33% in 2003). This reflects wireless revenue growth rates of 15 to 17% in each of the last two years, while wireline revenue growth was 0 to 1.5% in each of the last two years.
- Consolidated operations expenses in 2005 included the effects of a four-month work stoppage including incremental expenses of approximately $133 million net of cost savings. These incremental costs primarily affected the wireline segment.
- Financing costs in 2005 included two significant one-time expenses totalling $51.0 million, as discussed in *Section 5.3 Consolidated results from operations*.
- Net income included significant favourable impacts for the settlement of prior years' tax matters and consequential adjustments. The amounts were approximately $65 million (18 cents per share) in 2005, approximately $73 million (21 cents per share) in 2004, and approximately $72 million (20 cents per share) in 2003.

5.2 Quarterly results summary

($ in millions, except per share amounts)	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1
Segmented revenue (external)								
Wireline segment	1,209.9	1,198.6	1,216.5	1,222.2	1,209.3	1,199.9	1,189.0	1,171.1
Wireless segment	876.8	864.2	802.0	752.5	755.6	747.0	676.6	632.7
Operating revenues (consolidated)	2,086.7	2,062.8	2,018.5	1,974.7	1,964.9	1,946.9	1,865.6	1,803.8
Net income	78.5	190.1	189.5	242.2	135.6	156.6	172.3	101.3
Per weighted average Common Share and Non-Voting Share outstanding								
– basic	0.22	0.53	0.53	0.67	0.38	0.44	0.48	0.28
– diluted	0.22	0.53	0.52	0.66	0.37	0.43	0.48	0.28
Dividends declared per Common Share and Non-Voting Share outstanding	0.275	0.20	0.20	0.20	0.20	0.15	0.15	0.15

The trend in consolidated Operating revenues continued to reflect strong wireless growth resulting from an increased subscriber base and increased average revenue per subscriber unit (ARPU). TELUS' wireline segment revenue growth slowed in the second half of 2005, due in part to the work stoppage and increased competitive activity. The wireline revenue growth continues to be generated from data revenues, partially offset by reduced voice long distance revenues and voice equipment sales. Wireline segment revenues include the impacts of regulatory price cap decisions.

Net income and earnings per share for the second, third and fourth quarters of 2005 were impacted by increased net expenses leading up to and resulting from the labour disruption, as described earlier. In addition, financing costs in the fourth quarter of 2005 included a one-time $33.5 million pre-tax loss on early redemption of debt, while in the second quarter of 2005, a one-time $17.5 million pre-tax provision was recorded for estimated damages stemming from an Ontario Court of Appeal ruling. See *Section 10.10 Litigation and legal matters*. Aside from the effects of the work stoppage and one-time financing costs, the trend in Net income and earnings per share reflected improved operating profitability and lower interest on long-term and short-term debt.

There is significant fourth quarter seasonality in terms of wireless subscriber gross additions, related acquisition costs and equipment sales, and to a lesser extent, wireline high-speed Internet subscriber gross additions. For a more detailed discussion of fourth quarter results, refer to TELUS' fourth quarter press release, including Management's discussion and analysis.

Net income and earnings per share for seven of the quarters included net favourable impacts for the settlement of prior years' tax matters and consequential adjustments, as shown in the table below:

($ in millions, except per share amounts)	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1
Approximate Net income impact	4	4	3	54	14	–	45	14
Approximate earnings per share impact	0.01	0.01	0.01	0.15	0.04	–	0.13	0.04
Approximate basic earnings per share, excluding favourable tax-related impacts	0.21	0.52	0.52	0.54	0.34	0.44	0.35	0.24

On February 15, 2006, the Board of Directors of TELUS declared a quarterly dividend of 27.5 cents per share on outstanding Common and Non-Voting Shares payable on April 1, 2006 to shareholders of record on the close of business on March 10, 2006.

5.3 Consolidated results from operations

Years ended December 31

($ in millions except EBITDA margin)	2005	2004	Change
Operating revenues	8,142.7	7,581.2	7.4%
Operations expense	4,793.5	4,438.0	8.0%
Restructuring and workforce reduction costs	53.9	52.6	2.5%
EBITDA(1)	3,295.3	3,090.6	6.6%
EBITDA margin (%)(2)	40.5	40.8	(0.3) pts
Total employees, end of period	29,819	25,798	15.6%

(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 increased by $561.5 million in 2005, when compared with 2004, primarily as a result of strong revenue growth in the wireless segment as well as growth in wireline segment data revenues. Consolidated EBITDA increased by $204.7 million in 2005, when compared with 2004, as a result of improved wireless profitability, partly offset by the effects of the labour disruption.

The increase in employees was primarily from the acquisition of Ambergris in February 2005, which had approximately 3,200 employees at the end of 2005, as well as growth at TELUS Mobility to support a larger subscriber base.

For further detail by segment, see *Section 5.4 Wireline segment results* and *Section 5.5 Wireless segment results*.

Depreciation and amortization

Years ended December 31

($ in millions)	2005	2004	Change
Depreciation	1,342.6	1,307.8	2.7%
Amortization of intangible assets	281.1	335.3	(16.2)%
	1,623.7	1,643.1	(1.2)%

Depreciation increased in 2005, when compared with 2004, due primarily to growth in shorter life data and wireless network assets and a reduction in service lives for ADSL (high-speed Internet) customer equipment, partly offset by lower depreciation arising from full amortization of older cell sites. Amortization of intangible assets decreased in 2005, when compared with 2004, as a result of several software assets becoming fully depreciated partly offset by a $5.0 million write-down of an intangible right, related to termination of an indefeasible right-of-use contract for fibre, in the third quarter of 2005.

Other expense, net

Years ended December 31 ($ millions)	2005	2004	Change
	18.4	8.7	111.5%

Other expense includes charitable donations, accounts receivable securitization expense, gains and losses on disposal of property, and income (loss) or impairments in equity or portfolio investments. Charitable donations were approximately $9 million in 2005, an increase of approximately $2 million, when compared with 2004. The accounts receivable securitization expense was $7.3 million in 2005, or approximately $3 million higher than 2004, as a result of the $350 million increase in proceeds from securitized accounts receivable on November 30, 2005 (see *Section 7.6 Accounts receivable sale*). The balance of other expense in both years included losses and impairments in equity and portfolio investments, net of gains from the sale of real estate. Gains on real estate in 2005 included recognition of a portion of gain deferred under sale and leaseback arrangements for administrative properties sold in 2002, following the return of some space to the respective landlords. The balance of other expense in 2004 also included a write-off of approximately $5 million of accumulated acquisition costs for the expired offer to purchase Microcell.

Financing costs

Years ended December 31 ($ millions)	2005	2004	Change
Interest on long-term debt before unusual items	618.0	647.0	(4.5)%
Accrual for settlement of a lawsuit	17.5	–	n.m.
Interest on long-term debt	635.5	647.0	(1.8)%
Interest on short-term obligations and other	8.2	8.5	(3.5)%
Interest on long-term debt, short-term obligations and other	643.7	655.5	(1.8)%
Loss on redemption of long-term debt	33.5	–	n.m.
Foreign exchange losses (gains)	4.6	(3.1)	n.m.
Interest income	(58.7)	(39.1)	(50.1)%
	623.1	613.3	1.6%

In 2005, Financing costs included two significant one-time items. The first item was the second quarter accrual for estimated damages stemming from a June Ontario Court of Appeal ruling on litigation affecting TELUS Communications Inc. (TCI). This ruling related to a BC TEL bond redemption matter dating back to 1997. See *Section 10.10 Litigation and legal matters*. The second one-time item was a loss on redemption of long-term debt recorded when the Company exercised its right to early redeem, on December 1, 2005, the remaining $1.578 billion of 7.50%, Series CA, Notes outstanding. The loss on redemption amount included the loss that arose from the settlement of the financial instrument that was an interest rate hedge associated with the debt redeemed on December 1. The loss on redemption was lower than the interest expense that would have been recorded over the remaining term of the debt.

Aside from these one-time items, interest on long-term debt decreased by $29.0 million, when compared with 2004. This included approximately $10 million lower interest expense in December 2005 as a result of the early redemption. The remaining decrease was primarily due to the repayment of TCI Debentures and Medium-term Notes in 2004 and conversion/redemption of convertible debentures in the second quarter of 2005. 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 (the sum of Long-term Debt, Current maturities and the deferred hedging liability) was $5,803.0 million at December 31, 2005, a 21% reduction when compared with $7,374.2 million one year earlier.

Interest income earned in 2005 includes $25.2 million interest for the settlement of various prior years' tax matters (as compared to $26.2 million in 2004). The balance of interest income earned primarily from cash and temporary investments was $33.5 million in 2005 and $12.9 million in 2004.

Income taxes

Years ended December 31 ($ millions, except tax rates)	2005	2004	Change
Blended federal and provincial statutory income tax based on net income before tax	352.3	286.6	22.9%
Changes in estimates of available deductible differences in prior years	(37.5)	(9.1)	n.m.
Tax rate differential on, and consequential adjustments from, the reassessment of prior year tax issues	(13.9)	(41.2)	66.3%
Revaluation of future tax assets and liabilities for changes in statutory income tax rates	(5.1)	(12.9)	60.5%
Large corporations tax and other	26.2	31.7	(17.4)%
	322.0	255.1	26.2%
Blended federal and provincial statutory tax rates (%)	34.2	34.7	(0.5) pts
Effective tax rates (%)	31.3	30.9	0.4 pts

The increase in the blended federal and provincial statutory income tax expense was due to 24.8% growth in income before taxes in 2005, when compared with 2004. The blended federal and provincial tax rate decreased due mainly to changes in the B.C. tax rate. The B.C. provincial government enacted a reduction to general corporate income tax rates from 13.5% to 12.0% on income taxed in B.C., effective July 1, 2005. The change in the B.C. tax rate also required a revaluation of the future tax liability and the future tax asset, resulting in a further net recovery of $12.8 million, recorded in the third quarter of 2005. The Quebec provincial government substantially enacted an increase to general corporate income tax rates from 8.9% to 11.9% to be phased in over four years beginning January 1, 2006. The prospective increases in the Quebec tax rate required a revaluation of the future tax liability and the future tax asset, resulting in a net expense of $7.7 million in the fourth quarter of 2005. Reductions in tax also included changes in estimates of available deductible differences in prior years and a tax rate differential and consequential adjustments from the favourable reassessment of prior years' tax issues.

Based on the assumption of the continuation of the rate of TELUS earnings, the legal entity structure and the first quarter of 2006 reorganization of TELUS, and no substantive changes to tax regulations, the Company expects to be able to fully utilize its non-capital losses before the end of 2007. The Company's assessment is that the risk of expiry of such non-capital losses is remote. Based on a review of the Company's tax position, any material current income taxes recorded in 2006 are not expected to be paid until 2008.

Other items

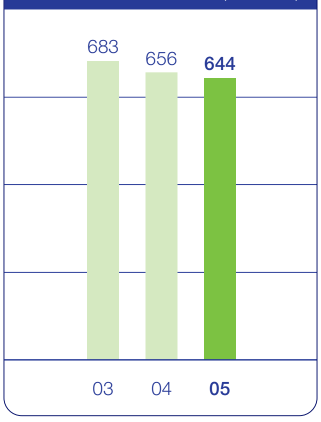
Years ended December 31

($ millions)	2005	2004	Change
Non-controlling interest	7.8	4.6	69.6%
Preference and preferred dividends	–	1.8	(100.0)%

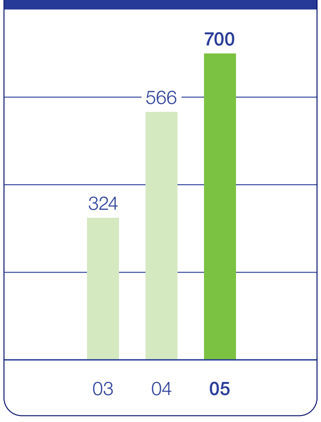
Non-controlling interest represents minority shareholders' interests in several small subsidiaries, including minority shareholders' interest in Ambergris, acquired in February 2005.

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

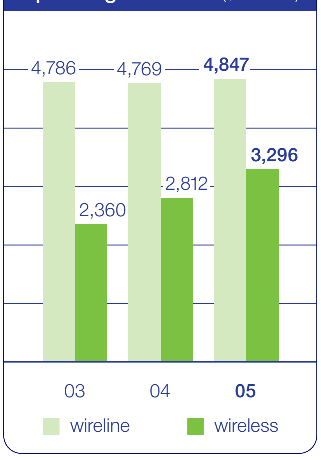
interest on long-term and short-term debt ($ millions)



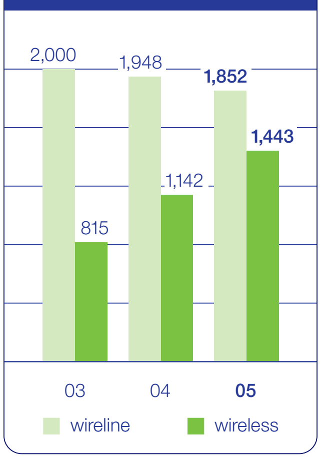
net income ($ millions)



segmented external operating revenues ($ millions)



segmented EBITDA ($ millions)



5.4 Wireline segment results

Operating revenues – wireline segment

Years ended December 31

($ millions)	2005	2004	Change
Voice local	2,174.1	2,145.4	1.3%
Voice long distance	888.4	921.3	(3.6)%
Data	1,533.4	1,416.4	8.3%
Other	251.3	286.2	(12.2)%
External operating revenue	4,847.2	4,769.3	1.6%
Intersegment revenue	90.4	96.6	(6.4)%
Total operating revenue	4,937.6	4,865.9	1.5%

Key operating indicators – wireline segment

At December 31

(000s)	2005	2004	Change
Residential network access lines	2,937	3,047	(3.6)%
Business network access lines	1,754	1,761	(0.4)%
Total network access lines(1)	4,691	4,808	(2.4)%
High-speed Internet subscribers	763.1	689.7	10.6%
Dial-up Internet subscribers	236.1	281.6	(16.2)%
Total Internet subscribers(2)	999.2	971.3	2.9%

Years ended December 31

(000s)	2005	2004	Change
Change in residential network access lines	(110)	(39)	(182.1)%
Change in business network access lines	(7)	(23)	69.6%
Change in total network access lines	(117)	(62)	(88.7)%
High-speed Internet net additions	73.4	128.1	(42.7)%
Dial-up Internet net reductions	(45.5)	(38.2)	(19.1)%
Total Internet subscriber net additions	27.9	89.9	(69.0)%

(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.

Wireline revenues increased by $71.7 million in 2005, when compared with 2004, as growth in data services revenue significantly exceeded long distance revenue erosion and lower voice equipment sales.

- Voice local revenue increased by $28.7 million in 2005, when compared with 2004, as regulatory recoveries and the effect of business rate increases implemented June 1, 2005 were partly offset by the effect of continued line losses and a one-time regulatory recovery in 2004. Regulatory recoveries in 2005 included approximately $50 million drawn from the price cap deferral account to offset mandated additional discounts for competitive digital network services (in basic data services) pursuant to CRTC Decision 2005-6. This adjustment was required because TELUS used the liability method for recording price cap deferrals. See the discussion below for data revenues, which contains the equal and offsetting negative revenue impact for Decision 2005-6. Another regulatory recovery affecting 2005 results was a one-time positive $6.4 million recorded in the first quarter of 2005 for CRTC Decision 2005-4 (pertaining to subsidy requirements for high cost serving areas in TELUS Québec ILEC territory for 2003 to 2005). In 2004, a $10.2 million regulatory recovery was recognized in the second quarter (in respect of CRTC Decision 2004-42 pertaining to deferral account recognition items).

The increase in residential line losses in 2005, when compared with 2004, was due to increased competition from resellers, VoIP competitors (including the introduction of cable telephony in Calgary, Edmonton, Rimouski and Victoria), technological substitution to wireless services, lower numbers of second lines resulting from migration of dial-up Internet subscribers to high-speed Internet, and the labour disruption. The trend of declining residential network access lines may worsen in the future due to increased competition facilitated by cable telephony launches in January 2006 into Vancouver and likely into additional regions in the future. Net business line losses in 2005 improved from 2004 due to growth in non-incumbent regions partly offsetting competitive losses and migration to more efficient ISDN (integrated services digital network) services in ILEC regions.

- Voice long distance revenues decreased by $32.9 million in 2005, when compared with 2004. The decrease is consistent with industry-wide trends of strong price competition and technological substitution. The 3.6% rate of revenue erosion for the full year of 2005 improved from the 4.1% rate of erosion experienced in 2004, because of increased minute volumes (including growth in non-incumbent volumes) as well as an increase in the monthly long distance administration fee in certain long distance plans. This was despite continued decreases in average per-minute prices arising from strong competition as well as reduced call centre winback activity in the second half of the year because of the labour disruption.
- Wireline segment data revenues increased by $117.0 million in 2005, when compared with 2004. This included an aggregate increase of approximately $59 million from two recent acquisitions (Ambergris in February 2005 and ADCOM in late 2004).

  Data revenue growth that was not attributable to acquisitions was approximately $58 million in 2005. This growth was primarily due to: (i) increased Internet, enhanced data and hosting service revenues of approximately $79 million as a result of traction from new business contracts, continued growth in high-speed Internet subscribers and a higher average price; (ii) increased managed data revenues from the provision of business process outsourcing services to customers; and (iii) increased data equipment sales. These increases were partly offset by the additional discounts for competitive digital network services of approximately $50 million recorded in basic data services, mandated by CRTC Decision 2005-6, as well as migration to enhanced data services. The increase in data revenues from acquisitions described above was substantially offset by these additional discounts in the same periods.

  The rate of growth in high-speed Internet subscribers has slowed, as expected, from that observed in 2004 due to the high existing household penetration rates for high-speed Internet services in Western Canada and lower gross additions caused by increased competitive activity and the labour disruption, mitigated in part by fewer deactivations of existing customers. In addition, the Company had experienced high net additions in the first quarter of 2004 due to a very attractive introductory marketing promotion of limited duration.
- Other revenue decreased by $34.9 million in 2005, when compared with 2004, due mainly to lower voice equipment sales. In addition, an increase in the provision for expected retail and competitive quality of service penalties was made for lower service levels resulting from the work stoppage. The Company expects to apply to the CRTC in 2006 for an exemption from quality of service penalties related to the work stoppage.
- Intersegment revenue represents services provided by the wireline segment to the wireless segment. These revenues are eliminated upon consolidation together with the associated expense in the wireless segment.

Total external operating revenue discussed above included non-ILEC revenues of $631.6 million in 2005, an increase of $70.9 million or 12.6% when compared with 2004. The increase was a result of revenues from the purchase of ADCOM and growth in data service revenues, partly offset by competitive pricing pressures on voice services.

Operations expense – wireline segment

Years ended December 31

($ millions, except employees)	2005	2004	Change
Salaries, benefits and other employee-related costs	**1,612.8**	1,649.4	(2.2)%
Other operations expenses	**1,418.6**	1,215.5	16.7%
Total operations expense	**3,031.4**	2,864.9	5.8%
Total employees, end of period	**22,888**	19,500	17.4%

Operations expense increased by $166.5 million in 2005, when compared with 2004. The increase was due primarily to activation of emergency operations procedures to minimize the impact on customer services during the labour disruption. As a result, customer service was maintained at higher than anticipated levels. Increased temporary expenses associated with the labour disruption included: management reassignments, overtime, third-party security and contractor costs, travel and accommodation, and lower capitalization of labour, which exceeded savings in compensation for employees who were not working, and a revision to the labour settlement estimate. Expenses increased by $49 million in aggregate due to acquisitions (ADCOM in late 2004 and Ambergris in February 2005). The addition of a contract in late 2004 to provide payroll services to the B.C. government, as well as two new human resource services contracts in the fourth quarter of 2005, also contributed to increased expenses. The total number of employees, aside from those added with the acquisition of Ambergris and the new payroll and HR services contracts, was not significantly changed in 2005.

- Salaries, benefits and employee-related expenses decreased by $36.6 million in 2005, when compared with 2004. The decrease was due primarily to lower compensation expenses for employees who stayed off work and adjustments to accruals for payroll and other employee-related expenses, partly offset by increased expenses due to acquisitions and new contracts for the provision of payroll and human resources services described above, as well as increased compensation. The expense for defined benefit pension plans decreased by approximately $16 million for the year due to favourable returns on plan assets more than offsetting the negative impact of a lower discount rate for 2005, when compared with 2004.

- Other operations expenses increased by $203.1 million in 2005, when compared with 2004. The increase was due primarily to temporary expenses incurred during the labour disruption, such as increased third-party security and contractors. Increased expenses of approximately $43 million for the year were recorded due to lower capitalization of labour resulting from deferral of capital expenditures and reassignment of staff to operational activities during the labour disruption. Expenses also increased as a result of acquisitions and the new contracts for the provision of payroll and human resources services described above, and increased product and service cost of sales associated with higher data equipment sales. Otherwise, expenses decreased as a result of: (i) nominal payments to Verizon under the renegotiated Software and Related Technology and Service Agreement, compared with approximately $33 million in 2004; (ii) reduced facilities, transit and termination costs of approximately $22 million due to the movement of traffic on-net and price cap discounts from competitor ILECs arising from CRTC Decision 2005-6, partly offset by higher outbound traffic volumes; and (iii) a lower bad debt expense of approximately $10 million due to lower credit risk and continued improvement of collection practices that have reduced credit loss exposure.

Included in the total segment expenses discussed above are non-ILEC operations expenses of $610.4 million in 2005, an increase of $27.5 million or 4.7%, when compared with 2004. The increase in operations expense supported growth in non-ILEC revenues for the same period.

Restructuring and workforce reduction costs – wireline segment

Years ended December 31 ($ millions)	2005	2004	Change
	53.9	52.6	2.5%

General

In 2005, the Company undertook a number of smaller initiatives within the ILEC portion of the wireline segment, such as operational consolidation, rationalization and integrations. These initiatives are aimed at improving the Company's operating and capital productivity. As at December 31, 2005, no future expenses remain to be accrued or recorded under the smaller initiatives substantially completed in 2005, but variances from estimates currently recorded may be recorded in subsequent periods. The Company's estimate of restructuring and workforce reduction costs in 2006, arising from its competitive efficiency program, which includes the office closures and contracting out and integration of wireline and wireless operations, does not currently exceed $100 million. See *Forward-looking statements* at the beginning of Management's discussion and analysis.

Office closures and contracting out

In connection with the collective agreement signed in the fourth quarter of 2005, as further discussed, an accompanying letter of agreement set out the planned closure, on February 10, 2006, of a number of offices in British Columbia. This initiative is aimed to improve the Company's operating and capital productivity and is a component of the Company's competitive efficiency program. The approximately 250 bargaining unit employees affected by these office closures were offered the option of redeployment or participation in a voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan).

Similarly, an additional accompanying letter of agreement set out that the Company intends to contract out specific non-core functions over the term of the collective agreement. This initiative is aimed at allowing the Company to focus its resources on those core functions that differentiate the Company for its customers and is a component of the Company's competitive efficiency program. The approximately 250 bargaining unit employees currently affected by contracting out initiatives were offered the option of redeployment or participation in the voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan).

As at December 31, 2005, no future expenses remain to be accrued or recorded under the letter of agreement setting out the planned closure of a number of offices in British Columbia, but variances from estimates currently recorded may be recorded in subsequent periods. Other costs, such as other employee departures and those associated with real estate, will be incurred and recorded subsequent to December 31, 2005.

As at December 31, 2005, no future expenses remain to be accrued or recorded under the letter of agreement setting out the contracting out of specific non-core functions, in respect of the approximately 250 bargaining unit employees currently affected, but variances from estimates currently recorded may be recorded in subsequent periods. Future costs will be incurred as the initiative continues.

Integration of wireline and wireless operations

On November 24, 2005, the Company announced the integration of its wireline and wireless operations, an initiative that will continue into future years and that is a component of the Company's competitive efficiency program. During the year ended December 31, 2005, $3.0 million of restructuring and workforce reduction costs were recorded in respect of this initiative and were included with general programs initiated in 2005.

EBITDA and EBITDA margin – wireline segment

Years ended December 31	2005	2004	Change
EBITDA ($ millions)	1,852.3	1,948.4	(4.9)%
EBITDA margin (%)	37.5	40.0	(2.5) pts

EBITDA decreased by $96.1 million in 2005, when compared with 2004. The primary causes included temporary expenses associated with maintaining operations during the labour disruption, emergency operations planning expenses prior to July 21, increased restructuring charges and flat revenues in the second half of 2005, despite improved non-ILEC profitability. Included in these results were net labour disruption related expenses of approximately $133 million for the full year. Non-ILEC EBITDA was $21.2 million in 2005, compared with $(22.2) million in 2004.

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

5.5 Wireless segment results

Operating revenues – wireless segment

Years ended December 31 ($ millions)	2005	2004	Change
Network revenue	3,064.6	2,599.9	17.9%
Equipment revenue	230.9	212.0	8.9%
External operating revenue	3,295.5	2,811.9	17.2%
Intersegment revenue	23.5	21.5	9.3%
Total operating revenue	3,319.0	2,833.4	17.1%

Key operating indicators – wireless segment

At December 31 (000s)	2005	2004	Change
Subscribers – postpaid	3,666.8	3,240.3	13.2%
Subscribers – prepaid	853.9	696.1	22.7%
Subscribers – total(1)	4,520.7	3,936.4	14.8%
Digital POPs(2) covered including roaming/resale (millions)(3)	30.6	30.0	2.0%

Years ended December 31 (000s)	2005	2004	Change
Subscriber net additions – postpaid	426.5	428.5	(0.5)%
Subscriber net additions – prepaid	157.8	83.9	88.1%
Subscriber net additions – total	584.3	512.4	14.0%
Churn, per month (%)(4)	1.39	1.40	(0.01) pts
COA(5) per gross subscriber addition ($)(4)	386	389	(0.8)%
ARPU ($)(4)	62	60	3.3%
Average minutes of use per subscriber per month (MOU)	399	384	3.9%
EBITDA to network revenue (%)	47.1	43.9	3.2 pts
Retention spend to network revenue (%)(4)	6.0	5.1	0.9 pts
EBITDA ($ millions)	1,443.0	1,142.2	26.3%
EBITDA excluding COA ($ millions)(4)	1,937.3	1,578.0	22.8%

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, 2005, TELUS' wireless PCS digital population coverage included expanded coverage of approximately 7.5 million PCS POPs due to 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.

- Wireless segment Network revenue increased by $464.7 million in 2005, when compared with 2004. Wireless Network revenue for 2005 was a record for TELUS. This growth was a result of the 14.8% expansion of the subscriber base combined with a $2 increased average revenue per subscriber unit per month (ARPU). The ARPU growth can be attributed to increased data usage including text messaging, mobile computing and downloads as well as higher voice revenues related to increased roaming, features and average minutes of use per subscriber per month (MOU).

  At December 31, 2005, postpaid subscribers represented 81.1% of the total cumulative subscriber base, remaining relatively stable from one year earlier and contributing to the significant ARPU premium attained over TELUS' competitors. Despite the commercial launch by new competitors in the prepaid market, the wireless segment achieved significant growth in prepaid net subscriber additions primarily as a result of a successful offering of the Talk Away bundle. Consequently, total subscriber net additions of 584,300 for the full year of 2005 represented an annual record for the wireless segment.

  Blended postpaid and prepaid monthly churn rates improved slightly in 2005, when compared with 2004. This is a significant accomplishment in the context of the challenges from labour disruptions, new competition, and other aggressive prepaid and Push To Talk offerings. Deactivations were 694,700 in 2005 as compared with 608,300 in 2004. The monthly churn rate has improved steadily during 2005. These churn and deactivation results reflect a continued focus on customer care including successful loyalty and retention efforts, enhanced product offerings and superior network quality.
- Equipment sales, rental and service revenue for the full year of 2005 increased mainly due to continued subscriber growth. Gross subscriber additions grew to 1,279,000 in 2005 as compared with 1,120,700 in 2004. Handset revenues associated with gross subscriber activations are included in COA per gross subscriber addition.
- Intersegment revenues represent services provided by the wireless segment to the wireline segment and are eliminated upon consolidation along with the associated expense in the wireline segment.

Operations expense – wireless segment

Years ended December 31 ($ millions, except employees)	2005	2004	Change
Equipment sales expenses	**478.9**	424.7	12.8%
Network operating expenses	**392.2**	401.1	(2.2)%
Marketing expenses	**403.7**	329.2	22.6%
General and administration expenses	**601.2**	536.2	12.1%
Total operations expense	**1,876.0**	1,691.2	10.9%
Total employees, end of period	**6,931**	6,298	10.1%

Wireless segment operations expense increased in 2005, when compared with 2004, to support growth in the subscriber base. The wireless segment continued to achieve economies of scale as total 2005 operations expenses increased by only 10.9%, while the corresponding Network revenue growth was 17.9% and year-over-year subscriber growth was 14.8%.

- Expenses related to equipment sales increased in 2005, when compared with 2004, principally due to an increase in gross subscriber activations, higher handset costs from a shift in product mix and increased retention activity. Handset costs associated with gross subscriber activations are included in COA per gross subscriber addition.
- The decrease in Network operating expenses in 2005, when compared with 2004, was a result of efforts to improve roaming rates and reduce leased line costs through microwave build, as well as scale efficiencies, and the competitive digital network services discounts arising from CRTC Decision 2005-6. In addition, the fourth quarter of 2005 included a $5.3 million credit related to years 2003 to 2005, which reflected the December 6, 2005 Federal Court ruling that TELUS not be required to include wireless revenues in the calculation of telecommunications fees payable to the CRTC. These decreases were partly offset by increased transmission and site-related expenses to support the greater number of cell sites, a larger subscriber base, and improved network quality and coverage. The digital population coverage grew to 30.6 million at December 31, 2005, as a result of continued activation of digital roaming regions and network expansion.
- Marketing expenses in 2005 increased primarily due to higher dealer compensation costs, expenses associated with the expanded subscriber base, increased advertising and promotions costs and increased re-contracting activity. COA per gross subscriber addition improved by $3 to $386 for the full year of 2005, when compared with the same period in 2004. With the higher ARPU and lower churn rate, COA per gross subscriber addition expressed as a ratio of the lifetime revenue of the subscriber improved for the full year of 2005 as compared with the same period in 2004.
- General and administration expenses increased by 12.1% in 2005, when compared to 2004, due to the increase in employees to support the significant growth in the subscriber base and continued expansion in the number of Company-owned retail stores. For the full year, the impact of additional labour disruption-related costs was offset by the payroll savings from fewer active employees during the labour disruption.

EBITDA and EBITDA margin – wireless segment

Years ended December 31	2005	2004	Change
EBITDA ($ millions)	**1,443.0**	1,142.2	26.3%
EBITDA margin (%)	**43.5**	40.3	3.2 pts

Wireless segment EBITDA increased by $300.8 million in 2005, when compared to 2004. Despite the labour disruption, the improvement in EBITDA and EBITDA margin in 2005 was attributed to the wireless segment's focus on profitable subscriber growth, increased ARPU, a lower COA per gross subscriber addition, excellent monthly churn rates, and successful cost containment efforts. The EBITDA margin, when calculated as a percentage of Network revenue, improved to 47.1% in 2005, compared with 43.9% in 2004, representing an increase of 3.2 percentage points.

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

6 financial condition

A discussion of significant changes in the balance sheet at December 31, 2005, as compared to December 31, 2004

The following are the significant changes in the Consolidated balance sheets between December 31, 2004 and December 31, 2005.

($ millions)	Dec. 31, 2005	Dec. 31, 2004	Change	% Change	Explanation
Current Assets					
Cash and temporary investments, net	8.6	896.5	(887.9)	(99.0)%	Used accumulated cash to partially fund debt redemptions See *Section 7. Liquidity and capital resources*
Accounts receivable	610.3	863.5	(253.2)	(29.3)%	Reduced by the $350 million increase in proceeds from securitized accounts receivable on November 30, partly offset by higher sales
Income and other taxes receivable	103.7	132.5	(28.8)	(21.7)%	Refunds received net of changes in estimates of near-term recoverable taxes
Inventories	138.8	133.3	5.5	4.1%	Primarily an increase in wireless inventory levels
Prepaid expenses and other	154.7	183.4	(28.7)	(15.6)%	Primarily net amortization of maintenance contracts and a reduction in connection and activation fees
Current portion of future income taxes	226.4	438.4	(212.0)	(48.4)%	Decrease in available tax loss pools and non-deductible reserves
Current Liabilities					
Accounts payable and accrued liabilities	1,393.7	1,362.6	31.1	2.3%	Principally an increase in payables associated with higher fourth quarter capital expenditures, and the accrual for settlement of a lawsuit, partly offset by reduced payroll liabilities and lower interest payable
Restructuring and workforce reduction accounts payable and accrued liabilities	57.1	70.7	(13.6)	(19.2)%	Payments under previous programs exceeded new obligations
Advance billings and customer deposits	571.8	531.5	40.3	7.6%	Primarily an increase in price cap deferred revenues and increased Mobility billings, partly offset by lower activation and connection fees
Current maturities of long-term debt	5.0	4.3	0.7	16.3%	Current maturities of capital leases
Working capital(1)	(785.1)	678.5	(1,463.6)	n.m.	Primarily the reduction of cash and an increase in securitized receivables associated with early redemption of debt, as well as the decrease in the current future income tax asset
Capital Assets, Net	10,941.5	11,221.0	(279.5)	(2.5)%	See *Sections 5.3 Consolidated results from operations – Depreciation and amortization* and *7.2 Cash used by investing activities*
Other Assets					
Deferred charges	850.2	704.4	145.8	20.7%	Primarily pension plan contributions in excess of charges to income
Future income taxes	–	99.8	(99.8)	(100.0)%	Reflects use of loss carry forward amounts and reclassifications to the long-term future income tax liability
Investments	31.2	38.4	(7.2)	(18.8)%	Write-down of certain portfolio investments, net of new investments
Goodwill	3,156.9	3,126.8	30.1	1.0%	Primarily goodwill added for acquisition of Ambergris, net of foreign exchange changes

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

($ millions)	Dec. 31, 2005	Dec. 31, 2004	Change	% Change	Explanation
Long-Term Debt	**4,639.9**	6,332.2	(1,692.3)	(26.7)%	TELUS Corporation 7.5% Notes ($1.578 billion) were redeemed early on Dec. 1, 2005; the $141.6 million Dec. 31, 2004 balance of Convertible debentures was converted to equity or redeemed; and the Canadian dollar value of U.S. dollar Notes decreased by $120.4 million because of a strengthening Canadian dollar. Partly offsetting these items was a draw of $142 million against TELUS' three-year credit facility outstanding at the end of 2005
Other Long-Term Liabilities	**1,635.3**	1,506.1	129.2	8.6%	Primarily an increase in the deferred hedging liability for U.S. dollar Notes, resulting from a strengthening Canadian dollar
Future Income Taxes	**1,023.9**	991.9	32.0	3.2%	Reclassification from the long-term future income tax asset plus the net increase in temporary differences for long-term assets and liabilities, particularly pension assets
Non-Controlling Interest	**25.6**	13.1	12.5	95.4%	The increase arose from minority partners' share of several small subsidiaries, including an acquisition in 2005
Shareholders' Equity					
Convertible debentures	**–**	8.8	(8.8)	(100.0)%	$7.8 million was transferred to share capital (in Common equity) when shareholders exercised their conversion option in 2005, while the balance was transferred to contributed surplus (in Common equity) with the redemption of the remaining debentures on June 15, 2005
Common equity	**6,870.0**	7,016.8	(146.8)	(2.1)%	The reduction during 2005 was comprised of: ▪ Normal Course Issuer Bid expenditures of $892.1 million to repurchase 10.7 million Non-Voting Shares and 10.1 million Common Shares; ▪ Dividends of $312.2 million; and ▪ Other of $7.1 million; partly offset by increases from: ▪ Net income of $700.3 million; ▪ Share options exercised of $232.6 million to issue 7.6 million Non-Voting Shares and 1.0 million Common Shares; and ▪ Conversion of $131.7 million of Convertible debentures into 3.3 million Non-Voting Shares

7 liquidity and capital resources

A discussion of cash flow, liquidity, credit facilities, off-balance sheet arrangements and other disclosures

7.1 Cash provided by operating activities

Years ended December 31

($ millions)	2005	2004	Change
	2,914.6	2,538.1	14.8%

Cash provided by operating activities increased by $376.5 million in 2005, when compared with 2004. Changes in cash provided by operating activities were mainly due to the following:

- Cash was provided by a $350 million increase in proceeds from securitized accounts receivable in 2005, compared with a $150 million reduction in securitized accounts receivable in 2004
- EBITDA increased by $204.7 million
- Restructuring and workforce reduction payments decreased by $52.3 million
- Interest received increased by $20.0 million
- Employer contributions to employee defined benefit plans decreased by $18.0 million due to updated actuarial valuations and net acceleration of funding in 2004. The Pension Plan for Management and Professional Employees of TELUS Corporation ceased accepting new participants on January 1, 2006. See Note 18 of the Consolidated financial statements for further information on TELUS employee future benefits.

Partly offsetting the above were:

- Income tax recoveries net of installment payments decreased by $125.1 million
- In 2004, 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 (U.S. $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

- Interest paid increased by $5.4 million due to the $30.9 million paid in respect of early redemption of 7.50%, Series CA, Notes on December 1, 2005, partly offset by lower interest due to conversion and redemption of Convertible debentures in 2005, and debt repayments in 2004
- Other changes in non-cash working capital in 2005 including a reduction in payroll and employee-related liabilities, and the payment of lump sum amounts to bargaining unit employees.

7.2 Cash used by investing activities

Years ended December 31

($ millions)	2005	2004	Change
	1,354.6	1,299.5	4.2%

Cash used by investing activities increased by $55.7 million in 2005, when compared with 2004. The increase was primarily from the $29.4 million investment in Ambergris (compared with the acquisition of ADCOM for $12.2 million in 2004) and lower proceeds from the sale of non-core assets. Assets under construction increased to $516.4 million at December 31, 2005, compared with $329.6 million at December 31, 2004, due to delays in completing capital projects caused by the labour disruption, as well as capitalized costs related to development of a new billing system in the wireline segment.

Capital expenditures by segment

Years ended December 31

($ in millions, except capital expenditure intensity)	2005	2004	Change
Wireline segment	914.2	964.3	(5.2)%
Wireless segment	404.8	354.7	14.1%
TELUS consolidated	1,319.0	1,319.0	0.0%
Capital expenditure intensity(1) (%)	16.2	17.4	(1.2) pts

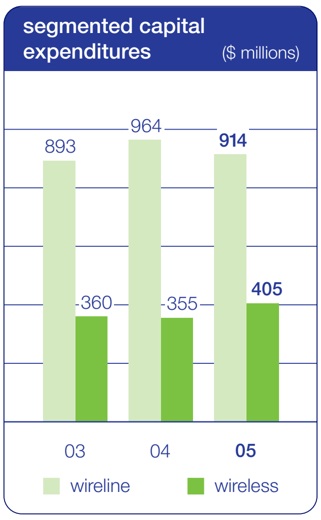
(1) Capital expenditure intensity is measured by dividing capital expenditures by operating revenues. This measure provides a method of comparing the level of capital expenditures to other companies of varying size within the same industry.

- Wireline segment ILEC capital expenditures decreased by 3.3% to approximately $799 million in 2005, when compared with 2004. The decrease included some deferral of capital expenditures due to the work stoppage. Greater investment in internal systems and processes was more than offset by lower expenditures on network infrastructure and other projects.

  For the full year of 2005, non-ILEC capital expenditures decreased by 16.6% to $115 million, when compared with 2004, as spending in 2004 required up-front investment to support certain major enterprise customers.

  The wireline segment capital expenditure intensity ratio was 18.5% in 2005, compared with 19.8% in 2004. Cash flow (EBITDA less capital expenditures) decreased by 4.7% to $938.1 million in 2005, when compared to 2004, due to lower EBITDA.
- Wireless segment capital expenditures increased by $50.1 million in 2005 and were attributed to strategic investments in next-generation EVDO-capable wireless network technology and continued enhancement of digital wireless capacity and coverage.

  Capital expenditure intensity for the wireless segment was 12.2% in 2005, as compared with 12.5% in 2004, as growth in capital expenditures paralleled growth in revenues. The work stoppage resulted in lower than originally planned capital expenditures for the full year of 2005. Wireless cash flow in 2005 exceeded wireline cash flow for the first time on a full year basis, increasing by 31.8% over 2004 to a wireless segment record $1,038.2 million.



TELUS' EBITDA less capital expenditures (see *Section 11.1 EBITDA* for the calculation) increased by 11.6% to $1,976.3 million in 2005, when compared with 2004, as a result of higher EBITDA.

7.3 Cash used by financing activities

Years ended December 31

($ millions)	2005	2004	Change
	2,446.7	348.3	n.m.

Cash used by financing activities increased significantly in 2005, when compared with 2004, primarily due to the early redemption on December 1, 2005, of the remaining $1.578 billion of 7.50%, Series CA, Notes, as well as purchases of shares under Normal Course Issuer Bids (NCIBs). Financing activities included:

- Proceeds from Common Shares and Non-Voting Shares issued were $219.4 million in 2005, an increase of $70.6 million when compared with 2004. The increase was mainly due to the exercise of options and warrants in 2005, partly offset by lower proceeds from share purchases for employee share plans, as TELUS now purchases these shares in the market, rather than issue shares from treasury.

  In addition, during the second quarter of 2005, convertible debentures with a principal value of $131.7 million were converted into approximately 3.3 million Non-Voting Shares. Due to the non-cash nature of these transactions, the conversions are shown as balance sheet adjustments and are not included in the financing activities of the cash flow statements.
- Cash dividends paid to shareholders were $312.2 million in 2005, representing an increase of $63.5 million when compared with 2004. The increase arose principally from the declaration of higher per share dividends in 2005, when compared with 2004, as well as the purchase of dividend reinvestment plan shares in the market rather than issuing shares from treasury. Dividends declared were 87.5 cents per share in 2005, compared with 65 cents per share in 2004.

- Under the first NCIB program that was initiated on December 20, 2004 and expired on December 19, 2005, TELUS purchased for cancellation approximately 73% of the maximum 14 million Common Shares permitted and 100% of the maximum 11.5 million Non-Voting Shares permitted. The $912.6 million total outlay under this program was comprised of a $369.5 million reduction to share capital representing the book value of shares repurchased, and a $543.1 million reduction to retained earnings representing the amount in excess of book value.

  On December 16, 2005, TELUS announced that a new NCIB program was accepted by the Toronto Stock Exchange (TSX). Under the new program, TELUS may purchase for cancellation over a 12-month period up to 12 million of its outstanding Common Shares and up to 12 million of its outstanding Non-Voting Shares, representing approximately 6.5% and 7.2%, respectively, of the public float on the date of the announcement. The new program became effective on December 20, 2005, and will expire on December 19, 2006. By December 31, 2005, TELUS had purchased for cancellation under this new program approximately 634,000 Common Shares and 608,000 Non-Voting Shares. The $57.5 million outlay under the new program was comprised of a $20.9 million reduction to share capital and a $36.6 million reduction to retained earnings.

  The following tables enumerate the shares repurchased and costs under these programs for 2005 and cumulatively.

Normal Course Issuer Bid Programs – shares

	First program beginning Dec. 20, 2004 and ending Dec. 19, 2005			Second program beginning Dec. 20, 2005			Total of both programs	
Shares repurchased for cancellation	In 2005	Total for program duration	Percentage of maximum permitted	In 2005	Maximum shares permitted for repurchase	Percentage of maximum permitted	In 2005	Cumulative[1]
Common	9,503,300	10,259,011	73.3%	634,469	12,000,000	5.3%	10,137,769	10,893,480
Non-Voting	10,048,600	11,500,000	100.0%	607,700	12,000,000	5.1%	10,656,300	12,107,700
	19,551,900	21,759,011	85.3%	1,242,169	24,000,000	5.2%	20,794,069	23,001,180

Normal Course Issuer Bid programs – cost

	First program beginning Dec. 20, 2004 and ending Dec. 19, 2005		Second program beginning Dec. 20, 2005	Total of both programs	
Outlay ($ millions)	In 2005	Total for program duration	In 2005	In 2005	Cumulative[1]
Reduction of:					
Share capital	330.1	369.5	20.9	351.0	390.4
Retained earnings	504.5	543.1	36.6	541.1	579.7
	834.6	912.6	57.5	892.1	970.1

(1) From December 20, 2004 to December 31, 2005.

- Long-term debt issued in 2005 was comprised of a draw of $142 million against TELUS' three-year facility, and the balance was capital leases. Repayments in 2005 consisted of the early redemption of the $1.578 billion Canadian dollar Notes described earlier, and the June 16, 2005 redemption of convertible debentures not converted into Non-Voting Shares, of $17.9 million.
- In 2004, the redemption of all of the publicly held TELUS Communications Inc. Preference and Preferred Shares was completed for an outlay of $72.8 million.
- In 2004, TELUS received $114.8 million from Verizon, part of the $148.1 million (U.S. $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.
- Long-term debt issues in 2004 were primarily bank facilities that were repaid. 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.

7.4 Liquidity and capital resource measures

Years ended December 31	2005	2004	Change
Components of debt and coverage ratios[1]			
Net debt ($ millions)	5,794.4	6,477.7	(683.3)
Total capitalization – book value ($ millions)	12,690.0	13,516.4	(826.4)
EBITDA excluding restructuring ($ millions)	3,349.2	3,143.2	206.0
Net interest cost ($ millions)	623.1	613.3	(9.8)
Debt ratios			
Fixed-rate debt as a proportion of total indebtedness (%)	97.6	93.2	4.4
Average term to maturity of debt (years)	5.4	5.4	–
Net debt to total capitalization (%)[1]	45.7	47.9	(2.2)
Net debt to EBITDA[1]	1.7	2.1	(0.4)
Coverage ratios[1]			
Interest coverage on long-term debt	2.5	2.3	0.2
EBITDA interest coverage	5.4	5.1	0.3
Other measures			
Free cash flow ($ millions)[2]	1,465.5	1,297.3	168.2
Dividend payout ratio (%)[1]	56	51	5

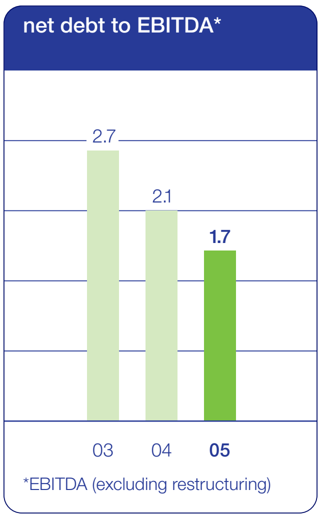
(1) See *Section 11.4 Definition of liquidity and capital resource measures.*
(2) See *Section 11.2 Free cash flow.*

Net debt decreased at the end of 2005, when compared to 2004, due to early redemption of Notes and the conversion and redemption of convertible debentures in 2005, partly offset by the use of cash and temporary investments (cash is netted against debt for the purposes of this calculation). The proportion of fixed-rate debt increased when TELUS terminated swap agreements concurrent with the early redemption of Notes. Total capitalization also decreased for these reasons as well as a decrease in common equity due primarily to share repurchases under NCIB programs. The net debt to EBITDA ratio measured at December 31, 2005 improved significantly, when compared with one year earlier, as a result of debt reduction and an increase in 12-month trailing EBITDA excluding restructuring.

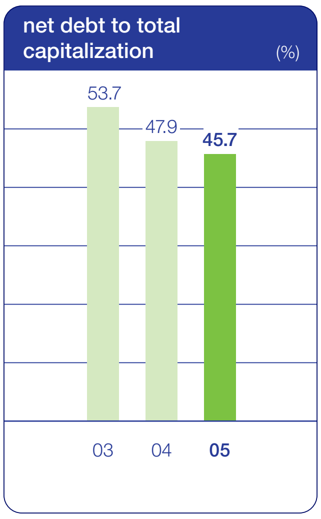
Interest coverage on long-term debt improved because of increased income before interest and taxes, partly offset by higher interest expense. The EBITDA interest coverage ratio improved by 0.3 as a result of higher EBITDA excluding restructuring, and decreased by 0.1 due to higher interest. The free cash flow measure for 2005 increased, when compared with 2004, primarily because of improved EBITDA, lower payments under restructuring programs and higher interest received, partly offset by lower cash tax recoveries and higher interest paid. The dividend payout ratio for 2005 exceeded the target guideline of 45 to 55% of reported net earnings as a result of the temporary expenses associated with the work stoppage and the loss on debt redemption. More relevantly, the dividend payout ratio for 2005, excluding these two items, was approximately 48%.

Long-term guidelines for certain of TELUS' liquidity measures, as defined in *Section 11.4 Definition of liquidity and capital resource measures*, are:

- Net debt to total capitalization of 45 to 50%
- Net debt to EBITDA of 1.5:1 to 2.0:1
- Dividend payout ratio of 45 to 55% of sustainable net earnings.



*EBITDA (excluding restructuring)



7.5 Credit facilities

TELUS arranged new credit facilities in May 2005 to replace $1.6 billion of prior credit facilities. The prior 364-day facility, which was due to expire, and a term facility with three years remaining to maturity were replaced with a new three-year facility due in May 2008 and a longer maturity five-year term facility due in May 2010. The new credit facilities have no substantial changes in terms and conditions, other than reduced pricing and the extension of term, which reflect favourable market conditions and TELUS' strong financial position.

TELUS had unutilized available liquidity in excess of $1.4 billion at December 31, 2005.

Credit facilities

At December 31, 2005 ($ in millions)	Expiry	Size	Drawn	Outstanding undrawn letters of credit
Five-year revolving facility[1]	May 4, 2010	800.0	–	–
Three-year revolving facility[1]	May 7, 2008	800.0	142.0	100.6
Other bank facilities	–	74.0	–	7.3
Total	–	1,674.0	142.0	107.9

(1) Canadian dollars or U.S. dollar equivalent.

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 1.7:1 at December 31, 2005) 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 5.6:1 at December 31, 2005) 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 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. (TCI), 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 three levels at A (low) as of February 24, 2006. The proceeds of securitized receivables increased from $150 million to $500 million on November 30, 2005. The balance of proceeds from securitized receivables was reduced on January 31, 2006 to $325 million.

7.7 Credit ratings

During 2005, each of the four credit rating agencies that cover TELUS increased their investment grade ratings for the Company's debt instruments. On June 27, Moody's Investors Service Inc. increased its rating for TELUS Corporation Notes from Baa3 with a positive outlook to Baa2 with a stable outlook. On September 27, Standard & Poor's (S&P) raised its ratings for long-term corporate credit and senior unsecured debt of TELUS Corporation and TCI from BBB to BBB+, while revising the outlook to stable. On October 18, Fitch Ratings upgraded its long-term BBB ratings for TELUS and TCI to BBB+ with a stable outlook. On October 24, DBRS upgraded its BBB rating for TELUS Corporation Notes and its BBB (high) ratings for TCI to BBB (high) and A (low), respectively, while the trend was revised to stable.

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

Credit rating summary

	DBRS[1]	S&P[1]	Moody's[1]	Fitch[1]
TELUS Corporation				
Senior bank debt	–	–	–	BBB+
Notes	BBB (high)	BBB+	Baa2	BBB+
TELUS Communications Inc.				
Debentures	A (low)	BBB+	–	BBB+
Medium-term Notes	A (low)	BBB+	–	BBB+
First mortgage bonds	A (low)	A–	–	–

(1) Outlook or trend stable.

7.8 Off-balance sheet arrangements, commitments and contingent liabilities

Financial instruments (Note 4 of the Consolidated financial statements)
The Company's financial instruments consist of cash and temporary investments, accounts receivable, investments accounted for using the cost method, accounts payable, restructuring and workforce reduction accounts payable, dividends payable, short-term obligations, long-term debt, interest rate swap agreements, restricted stock unit compensation cost hedges, 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 specified grants 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, as further discussed in Note 1(h) and set out in 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, 2005, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rates on U.S. $47.0 million of fiscal 2006 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the wireless 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 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 carrying amount and fair value of long-term debt are as follows:

	As at December 31, 2005		As at December 31, 2004	
($ millions)	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt				
Principal	4,644.9	5,371.6	6,345.3	7,342.3
Derivative financial instruments used to manage interest rate and currency risks associated with U.S. dollar denominated debt (Hedging item maximum maturity date: June 2011)	1,154.3	1,470.5	1,032.6	1,299.5
Derivative financial instruments used to manage interest rate risk associated with Canadian dollar denominated debt	–	–	–	1.3
	5,799.2	6,842.1	7,377.9	8,643.1

Commitments and contingent liabilities
(Note 16 of the Consolidated financial statements)
The Company has $57.1 million in outstanding commitments for its restructuring programs as at December 31, 2005, of which $15.1 million relates to programs initiated prior to 2005. In addition, the Company disclosed in its targets for 2006 that it expected to record approximately $100 million of restructuring and employee reduction costs in 2006. See *Forward-looking statements* at the beginning of Management's discussion and analysis.

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, 2005 was $158.7 million. Due to the Company's use of the liability method of accounting for the deferral account, the CRTC Decision 2005-6, as it relates to the Company's provision of Competitor Digital Network services, is not expected to affect the Company's revenues. To the extent that the CRTC Decision 2005-6 requires the Company to provide discounts on Competitor Digital Network services, both for current and prior periods, the Company draws down the deferral account by an offsetting amount. For the year ended December 31, 2005, the Company drew down the deferral account by $50.5 million in respect of discounts on Competitor Digital Network services.

The Company's known contractual obligations at December 31, 2005, are 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
2006	1.8	3.2	17.9	177.2	380.1	580.2
2007	1,869.9	3.5	28.4	155.7	160.1	2,217.6
2008	144.2	3.3	17.8	139.3	106.1	410.7
2009	0.7	0.8	17.1	126.7	44.9	190.2
2010	80.0	1.7	16.9	112.7	10.1	221.4
Thereafter	3,716.5	–	140.1	476.7	34.6	4,367.9
Total	5,813.1	12.5	238.2	1,188.3	735.9	7,988.0

Canadian generally accepted accounting principles (GAAP) 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 that 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, 2005, the Company has no liability recorded in respect of performance guarantees, and $0.5 million (December 31, 2004 – $1.0 million) recorded in respect of lease guarantees. The maximum undiscounted guarantee amounts as at December 31, 2005, 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 that 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, 2005, 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 in Note 16(f) of the Consolidated financial statements. See also *Section 10.10 Litigation and legal matters*.

Pay equity
On December 16, 1994, the Telecommunications Workers Union (TWU) 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. As a term of the settlement between TELUS Communications Inc. and the TWU that resulted in the collective agreement effective November 20, 2005, and subject to acceptance by the Canadian Human Rights Commission of the settlement and closure of its file on this complaint, the parties have agreed to settle this complaint without any admission of liability, on the basis that the Company will establish a pay equity fund of $10 million to be paid out during the term of the new collective agreement and the TWU will withdraw and discontinue this complaint.

On December 21, 2005, the TWU withdrew and discontinued this complaint. On January 10, 2006, the Canadian Human Rights Commission advised the Company that its investigator had recommended no further proceedings in this complaint, however, the Company is awaiting the Canadian Human Rights Commission's decision in this regard. Should the Canadian Human Rights Commission refuse consent or the complaint continue for any other reason and its ultimate resolution differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

7.9 Outstanding share information

The following is a summary of the outstanding shares for each class of equity at December 31, 2005 and at January 31, 2006. In addition, for January 31, 2006, the total number of outstanding and issuable shares is presented, assuming full conversion of options. Issuable shares at January 31, 2006 include shares held in reserve, but not issued.

Class of equity security (millions of shares)	Common Shares outstanding	Non-Voting Shares outstanding	Total Shares outstanding
At December 31, 2005			
Common equity – Common Shares outstanding	183.5	–	183.5
Common equity – Non-Voting Shares outstanding	–	166.6	166.6
	183.5	166.6	350.1(1)
At January 31, 2006			
Common equity – Common Shares outstanding	183.5	–	183.5
Common equity – Non-Voting Shares outstanding	–	166.9	166.9
	183.5	166.9	350.4
Outstanding and issuable shares(2) at January 31, 2006			
Common Shares and Non-Voting Shares outstanding	183.5	166.9	350.4
Options	1.5	21.8	23.3
	185.0	188.7	373.7

(1) For the purposes of calculating diluted earnings per share for the full year of 2005, the number of shares was 361.0 million.
(2) Assuming full conversion and ignoring exercise prices.

8 critical accounting estimates and accounting policy developments

A description of accounting estimates, which are critical to determining financial results, and changes to accounting policies

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. Management's estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's critical accounting estimates are described below and are generally discussed with the Audit Committee each quarter.

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 from selection of a different estimate from within a valid range of estimates.
- 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: wireline and wireless. The critical accounting estimates affect the Consolidated income statement and Consolidated balance sheet line items as follows:

Consolidated balance sheet	Consolidated income statement					
		Operating expenses				
	Operating revenues	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			
Advanced billings and customer deposits	X	X		X	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 wireless 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 4% of total assets as at December 31, 2005. 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, 2005. 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 67% and 19%, respectively, of the Company's Consolidated balance sheet, as at December 31, 2005. 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 capital assets, including 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 10.8 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 1% of total assets and 6% of total liabilities and shareholders' equity, respectively, as at December 31, 2005. 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

- 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. In 2005, as a result of reaching a new five-year collective agreement with the Telecommunications Workers Union, the Company revised estimates that had been made over a period of years, resulting in a revision of accruals for payroll and other employee-related liabilities.
- Assumptions underlying the accruals for payroll and other employee-related liabilities that are uncertain at the time of making the estimate include the 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 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 various restructuring initiatives.
- This accounting estimate is in respect of a material line item on the Company's Consolidated income statement for the years ended December 31, 2005 and 2004. If accruals for Restructuring and workforce reduction costs were inadequate, the Company could experience an increased charge to operations expense in the future.

Advance billings and customer deposits

The accruals for Canadian Radio-television and Telecommunications Commission deferral account liabilities

- 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-high cost serving areas. The revenue deferral is based on the rate of inflation, 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 critical estimate arises from the Company's recognition of the deferred amounts. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs in qualifying non-high cost serving areas, rate reductions (including those already mandated by the CRTC in respect of discounts on Competitor Digital Network services) and/or rebates to customers.
- Assumptions underlying the accruals for the CRTC deferral account that are uncertain at the time of making the estimate include what actions will ultimately qualify for recognition of deferred amounts and over what period of time qualifying deferred amounts are to be recognized in the Company's income statement. The manner in which deferred amounts are recognized, and the amounts thereof, are reasonably likely to change as such recognition is ultimately dependent upon future decisions made by the CRTC.
- This accounting estimate is in respect of an item within the advance billings and customer deposits line item on the Company's Consolidated balance sheet and which, itself, comprises approximately 1% of total liabilities and shareholders' equity. If the Company's estimate of deferred amounts recognized, and the timing of the recognition thereof, were to differ materially from what the CRTC ultimately decides is allowable, revenues could possibly be materially impacted. Such a revenue impact would not be expected to be accompanied by a corresponding impact in net cash inflows.

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, and is set annually. 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

(Note 2 of the Consolidated financial statements)

Possibly, commencing with the Company's 2006 fiscal year, proposed amendments to the recommendations of the Canadian Institute of Chartered Accountants (CICA) for the calculation and disclosure of earnings per share (CICA Handbook Section 3500) may apply to the Company. The proposed amendments are not expected to materially impact the Company.

Commencing with the Company's 2006 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.

In early 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period. During 2006, the Accounting Standards Board is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. As this convergence initiative is very much in its infancy as of the date of this report, it would be premature to currently assess the impact of the initiative on the Company.

9 looking forward to 2006

A discussion of the outlook for 2006 and TELUS' 2006 financial and operational targets, including key assumptions and financing plans

The following discussion is qualified in its entirety by the *Forward-looking statements* at the beginning of Management's discussion and analysis, and *Section 10. Risks and risk management*.

9.1 General outlook

In 2005, the telecommunications market displayed general trends similar to recent years. The wireless sector continued to drive growth and equity values, while the wireline sector remained soft with some recovery in data revenues. Canadian telecommunications operators continued to follow strategies focused on core operations and maintenance of cash flow, including efficiency measures and the integration of past consolidating acquisitions.

The Canadian telecom industry, including wireline and wireless, generated estimated revenues of approximately $35.5 billion in 2005, with Bell Canada and its affiliated regional telecommunications companies representing about 48% of the total. As the second largest full-service telecommunications provider in Canada, TELUS generated $8.1 billion in 2005, or about 23% of the total.

Revenue growth in the Canadian telecom market in 2005 was approximately 3%, similar to that experienced in 2004 and roughly in line with overall gross domestic product (GDP) growth. Wireless continued to be the growth engine for the sector with wireless revenues growing approximately 16% over 2004. Offsetting wireless growth was continued general industry weakness in wireline voice with declining long distance and legacy data revenues, partially offset by growth in enhanced data services. With a focus over the past five years on wireless, data and IP, TELUS outpaced the industry average in 2005 with 7% consolidated revenue growth. Similar growth rates for both TELUS and the industry are expected in 2006.

The competitive environment in 2006 is likely to be influenced by past industry consolidations. In May, Rogers Communications acquired Call-Net and gained access to Call-Net's residential and small business customer base and CLEC (competitive local exchange carrier) network, potential operational synergies and cost savings, as well as access to significant tax losses. Combined with the acquisition of Microcell in 2004, this enhanced Rogers' national competitive position across a number of business and consumer segments. Transactions completed in 2004 – including Manitoba Telecom Services' acquisition of Allstream, primarily a national long distance and legacy data provider, and BCE's acquisition of the assets of 360networks – continue to have some impact on the competitive telecom landscape.

With margins and growth rates in legacy voice and data services trending downward, ILECs (incumbent local exchange carriers) are continuing to focus on enhanced operating efficiencies. Indeed, most of the major ILECs have signaled their intent to invest in restructuring wireline operations to improve efficiencies in 2006. At TELUS, this has been an ongoing priority for four years.

New service offerings are expected to play an important role in shaping the competitive landscape in 2006. In February 2005, Shaw Communications launched VoIP-based local telephony service in Calgary, and subsequently expanded it to other major centres in Alberta, B.C. and Manitoba. Other cable-TV operators, including Videotron, Cogeco and Rogers, have all launched comparable services in Eastern Canada during 2005. Bell Canada responded with a VoIP offer.

Capital markets and investors are expected to watch closely how operators are going to protect revenues and margins, and fend off competitive threats with new and existing services as well as efficiency enhancements. At the same time, they will be looking for growth in wireless and data to generate continued operating earnings and cash flow growth.

Wireless

The wireless industry continues to experience robust growth with year-over-year industry revenue and EBITDA growth of approximately 16% and 22%, respectively. Capital expenditure levels have generally stabilized as carriers leveraged previous investments and took a disciplined approach to third generation (3G) network upgrades, resulting in substantial industry cash flow improvement.

Wireless penetration in Canada increased to approximately 52% of the population in 2005. Approximately 1.8 million new subscribers were added in Canada during 2005, representing a penetration gain of approximately five percentage points, a third consecutive year of accelerated subscriber growth. There remains considerable growth potential for the Canadian industry as subscriber growth is expected to continue at a healthy pace towards penetration rates seen in other developed countries such as the U.S. (currently estimated at more than 70%).

Industry revenues from wireless data have been growing exponentially in recent years, and are expected to continue to gain traction with both the higher penetration of existing data services (such as text messaging, picture messaging, gaming, ringtones and Canada-U.S./international data roaming) and the introduction of new services (such as mobile TV, video messaging, java games and music on demand).

New devices such as BlackBerry devices, PDAs and new high-speed EVDO network cards are expected to drive continued growth in the business segment. Data growth is expected to help offset voice revenue pressures or lower monthly revenues from new lower usage customers.

Both of TELUS' major national wireless competitors are pursuing wireless resale, or MVNO (mobile virtual network operator), partnership opportunities. In March 2005, Virgin Mobile launched prepaid consumer wireless service in several of Canada's largest cities. Virgin Mobile Canada, a joint venture between Virgin Mobile and Bell Mobility, uses Bell's network for the provisioning of wireless resale services. Virgin's strategy focuses on offering prepaid products and services at discounted prices to the youth segment. Other MVNO wireless resale agreements have been announced including one by a well-known food retailer. Though the MVNO market share is currently small in Canada, this activity can create enhanced awareness and broaden distribution in certain wireless market segments.

While wireless industry operating fundamentals remain healthy in Canada, dynamic competition is expected to continue in 2006. There is likely to be continued focus on the price-sensitive prepaid market and pricing pressures may arise from other new MVNO entrants. Additionally, both of TELUS' major competitors have continued to promote discount brands in the marketplace.

The wireless sector continues to pursue an industry-wide approach toward implementing wireless local number portability (WLNP) on an expedited timeframe by March 2007, as mandated by the federal government and Canadian Radio-television and Telecommunications Commission (CRTC) in 2005. WLNP may increase competitive intensity in the wireless industry, due to the removal of a key barrier to switching from one carrier to another.

Wireline

In contrast to the robust predictions for the wireless sector, expectations for the more mature wireline segment are modest.

Consumer residential access line growth is expected to continue to be impacted by the migration to wireless service, decreases in second lines, and substitution to cable telephony and other VoIP services. The market for long distance is also expected to continue declining, as VoIP providers promote aggressively priced voice packages to entice customers to switch providers.

In past years, non-facilities-based VoIP service providers (such as Vonage, Skype and Primus) had modest success with local telephony, although concerns remained over reliability and safety issues due to provision over public Internet versus the more reliable, circuit-switched telephony. However, Canadian cable-TV companies with their own facilities and distribution channels are expected to be more formidable competitors. It is estimated that the four cable companies captured more than 300,000 local telephony subscribers in 2005.

Competition for the residential customer is expected to increasingly focus on the best integrated offerings of voice, Internet, TV/video and wireless that deliver reliability, enhanced functionality and convenience along with good customer service. In November 2005, TELUS commercially launched TELUS TV in Edmonton and Calgary, with plans to launch in other urban centres of British Columbia and Alberta. TELUS' goal is to achieve competitive differentiation compared to its cable competitor by being able to offer a larger quadruple-play range of services – wireline local and long distance, wireless, high-speed Internet and TV. The roll-out of video entertainment services gives TELUS the opportunity to grow wallet share with retail customers, while enhancing customer loyalty and retention due to customers using multiple services.

The business market continued to show signs of growth as evidenced by data revenue growth in 2005. While voice and legacy data services are expected to continue declining, growth in enhanced data service revenues is expected to at least partially offset the trend, as the adoption of data services increases, and as small and medium-sized business and enterprise customers look to upgrade legacy networks and equipment. The business market segment is increasingly adopting IP and managed services as a means of achieving operational efficiencies and improving revenue generation.

Telecom providers are expected to continue migrating voice and data traffic to a single IP-based platform over the next several years, providing combined IP voice, data and video solutions. It is expected that the resulting cost efficiencies will, at least in part, compensate for margin pressure anticipated from the transition from legacy to enhanced IP-based services. There will likely be an increasing effort to look at the end-to-end delivery chain and to fundamentally redesign the processes and systems associated with each element (ordering, provisioning, fulfillment, assurance, customer care, billing and collections) to improve productivity.

In May 2005, the CRTC ruled that VoIP services are to be regulated for incumbent telecommunications providers only, with the extension of all local exchange tariff obligations to all ILEC local VoIP offerings in-territory. A joint appeal made in July 2005 by TELUS, Bell Canada and other ILECs to the Federal Cabinet to reverse the CRTC's VoIP decision is pending.

In December 2005, the CRTC announced the extension of the current price cap regime by one year to mid-2007. Although the ILECs have advocated changes to the price cap regime to allow more flexibility, the current CRTC price cap framework established in 2002, as well as other recent decisions, continue to support the CRTC's facilities-based competition framework. Carriers are also awaiting a CRTC decision in 2006 on local forbearance signaling how long, and under what conditions, ILECs can obtain increased freedom and flexibility to compete with cable-TV and other providers of local services.

Within the CRTC's facilities-based competition framework, TELUS' strategic focus on delivering national business services in data and IP, and its more than 40% exposure to the fast-growing Canadian wireless market, positions the company to generate above-average consolidated growth in 2006 and beyond.

9.2 Financial and operating targets for 2006

The following targets for 2006 were announced to the public on December 16, 2005. The Company has a practice of reaffirming or adjusting annual guidance on a quarterly basis.

	Targets for 2006	Results for 2005	Change
Consolidated			
Revenues	$8.6 to $8.7 billion	$8.14 billion	6 to 7%
EBITDA[1]	$3.5 to $3.6 billion	$3.30 billion	6 to 9%
Earnings per share – basic	$2.40 to $2.60	$1.96	22 to 33%
Capital expenditures	$1.5 to $1.55 billion	$1.32 billion	14 to 17%
Free cash flow[2]	$1.55 to $1.65 billion	$1.47 billion	5 to 12%
Wireline segment			
Revenue (external)	$4.825 to $4.875 billion	$4.85 billion	(1) to 1%
Non-ILEC revenue	$650 to $700 million	$632 million	3 to 11%
EBITDA	$1.8 to $1.85 billion	$1.85 billion	(3) to 0%
Non-ILEC EBITDA	$25 to $40 million	$21 million	18 to 89%
Capital expenditures	$1.05 to $1.1 billion	$914 million	15 to 20%
High-speed Internet net additions	More than 100,000	73,400	More than 36%
Wireless segment			
Revenue (external)	$3.775 to $3.825 billion	$3.30 billion	14 to 17%
EBITDA	$1.7 to $1.75 billion	$1.44 billion	18 to 22%
Capital expenditures	Approx. $450 million	$405 million	Approx. 11%
Wireless subscriber net additions	More than 550,000	584,300	(6)% or better

(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.

For the wireline segment, 2006 EBITDA is expected to be flat to a decline of $50 million, resulting from increased restructuring costs partially offset by continued operating efficiencies. Wireline revenue growth in the non-incumbent territory in Central Canada is expected to increase in the range of $18 million to $68 million in 2006, while targeting another strong increase in EBITDA.

For the wireless segment, 2006 EBITDA is expected to increase by $260 million to $310 million as a result of a 14 to 17% increase in revenues, continued economies of scale, cost containment and continued strong growth in wireless subscribers.

The 22 to 33% growth rate for earnings per share is being generated not only by higher operating profitability, but also by lower financing costs as a consequence of reduced debt levels. The significant growth in earnings per share is despite expectations for higher restructuring costs in 2006. In addition, the 2005 earnings included 18 cents of positive impacts from the settlement of prior year tax matters, which are not projected to reoccur in 2006 to the same magnitude.

Key assumptions and sensitivities for 2006 targets

For 2006 target purposes, a number of assumptions were made including:

- Economic growth consistent with recent provincial and national estimates by the Conference Board of Canada that were available in 2005, including gross domestic product growth of 3.1% in Canada
- Increased wireline competition in both business and consumer markets
- A wireless industry market penetration gain similar to the approximately five percentage point gain in 2005
- Approximately $100 million of restructuring and workforce reduction expenses ($53.9 million in 2005)
- Effective tax rate of approximately 35%
- No prospective significant acquisitions or divestitures are reflected
- No change in foreign ownership rules
- Maintenance or improvement of investment grade credit ratings.

Earnings per share, cash balances, net debt and common equity may be affected by the potential purchases of up to 24 million TELUS shares under the Normal Course Issuer Bid that was accepted by the Toronto Stock Exchange and commenced December 20, 2005. There is no assurance that these assumptions or the 2006 financial and operating targets and projections will turn out to be accurate.

9.3 Financing plan for 2006

TELUS has no significant amount of debt maturing in 2006. TELUS' financing plan is to use free cash flow generated by its business operations in 2006 to: (i) repurchase TELUS Common Shares and Non-Voting Shares under the Normal Course Issuer Bid; (ii) pay dividends; and (iii) retain cash-on-hand for corporate purposes. The Company expects to increase and reduce the balance of proceeds from securitized receivables and use bank facilities, as needed, to meet any other cash requirements.

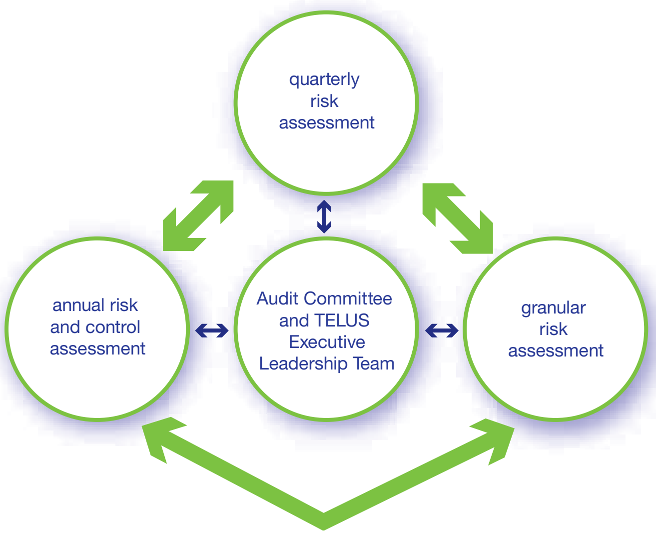
TELUS also expects to maintain its current position of fully hedging its foreign exchange exposure for indebtedness and generally expects to maintain a minimum of $1 billion in unutilized liquidity. At the end of 2005, almost all of TELUS' total debt was borrowed on a fixed-rate basis.

TELUS may also consider refinancing all or a portion of its Notes due June 1, 2007 in advance of the regularly scheduled maturity date. These U.S. dollar denominated liabilities were fully hedged into Canadian dollar liabilities at the time of issue and TELUS may also terminate or restructure these swap arrangements prior to maturity. Potential sources for the refinancing of these Notes may include retained cash from operations as well as public long-term debt and short-term debt such as commercial paper. For the related risk discussion, see *Section 10.7 Financing and debt requirements*.

10 risks and risk management

An update of risks and uncertainties facing TELUS and how it manages these risks

TELUS' risk and control assessment process



TELUS utilizes a three-level enterprise risk and control assessment process that includes the expertise and insight of team members from all areas of the business. Level one is the annual risk and control assessment, which includes one-on-one interviews with key senior managers, an extensive risk and control assessment survey based on the COSO (the Committee of Sponsoring Organizations of the Treadway Commission) enterprise risk management and internal control frameworks, a review of issues from recent internal and external audits, the prioritization of key risks and the engagement of executive owners charged with risk mitigation. Results of the annual risk and control assessment drive the development of TELUS' internal audit program, are presented to senior management and the Audit Committee of the Board of Directors and are used as an input into the Company's strategic planning.

In level two, TELUS conducts a quarterly risk assessment review with key internal stakeholders to capture dynamically changing business risks, monitor the mitigation of key risks and provide ongoing assurance to the Audit Committee.

In level three, TELUS conducts granular risk assessments for specific audit engagements and various risk management initiatives (e.g. environmental management system, safety audits, business continuity planning assessments, physical property risk evaluations, network and IT vulnerability assessments, proactive fraud and ethics risk assessments). The results of the annual, quarterly and more detailed engagement level risk assessments are evaluated, prioritized and updated throughout the year.

TELUS definition of business risk

At TELUS, business risk is defined as the degree of exposure associated with the achievement of key strategic, financial, organizational and process objectives in relation to the effectiveness and efficiency of operations, the reliability of financial reporting, compliance with laws and regulations, and the safeguarding of assets within an ethical organizational culture.

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

10.1 Competition

Aggressive competition may adversely affect market shares, volumes and pricing in certain TELUS market segments

Many of TELUS' key competitors, having either built or acquired their own network facilities in Western Canada over the past several years, are now focusing their efforts on marketing and revenue generation. These efforts are particularly targeted at the small and medium-sized business market due to the size of this market, its concentrated geographic urban clustering and generally attractive margins. At the same time, competition remains very strong in the large enterprise market, where a small number of major customers can deliver a significant amount of revenue. In particular, vibrant competition in the residential high-speed Internet access (HSIA) and long distance (LD) markets continues. As a result, overall industry pricing remains very competitive, especially in business long distance and data and IP markets. Due to industry consolidation over the last few years, TELUS' major competitors have sound financial strength, brand recognition and, for many, national scope. They are likely to continue to pose a significant competitive challenge to TELUS and there is no assurance that TELUS' response to the competition will be properly timed or sufficient to maintain current financial performance.

Wireline voice and data

Competition is expected to remain intense, not only from traditional telephony and data and IP providers, but also from new entrants providing alternatives to traditional wireline local access and long distance through the use of voice over IP (VoIP) telephony.

TELUS expects local, long distance, and data and IP competitors – ranging from traditional facilities-based carriers to resellers, long distance dial-around and card providers – to continue to focus on both the business and residential markets. Various VoIP, customer premises equipment (CPE) and IP Centrex services have been available to the business market for several years now. In addition, an increasing number of new VoIP competitors, the cable-TV companies being most prominent, have begun combining residential local, long distance, HSIA and, in some cases, wireless services into one bundled or discounted monthly rate. Cable-TV operators now have the ability to offer the residential market a triple-play – local and long distance telephony, HSIA and video (cable and direct-to-home or DTH satellite) services. The cable-TV companies are also expected to increasingly target the small to medium-sized business market with their VoIP services. The result is that traditional and non-traditional competitors are now focused on providing the full range of telecommunications services across both the consumer and business markets, particularly in the major urban areas. Increased competition is causing traditional providers, such as TELUS, to experience accelerated declines in network access lines or NALs (for TELUS, NALs declined by 2.4% in 2005, compared to 1.3% in 2004). Accelerated NALs and attendant revenue declines, including long distance, can be expected as VoIP providers gain an increasing share of the local access market.

The industry transition from legacy voice infrastructure to IP telephony, and from legacy data platforms to multi-protocol label switching (MPLS) IP platforms and IP-based service delivery models, accelerated in 2005 and will continue to do so into 2006. Over the past few years, legacy data services in particular have been subject to increasing commoditization, aggressive price declines and the impact of regulatory decisions. Legacy data revenues and margins have declined and are expected to be only partially offset by increased demand and/or increased migration of customers to IP-based platforms, which is also subject to intense pricing pressure and lower margins.

As a result, TELUS' competitors now offer varying arrays of long distance, local and advanced data and IP services across both the residential and business markets. In the business market in particular, in addition to bundling price-discounted local access, wireless and advanced data and IP services, competitors are also bundling web-based and e-commerce services, and other information technology services and support. With this increasing bundling of traditional telecom services with IT services, TELUS increasingly faces competition from pure Internet and information technology hardware, software and business process/consulting related companies. There can be no assurance that TELUS will be able to continue to compete effectively in the future.

Wireline Internet access

While the HSIA market continues to exhibit growth, the market is maturing, given Canada's high penetration compared to many other countries. This is expected to result in reduced net additions for all industry competitors and pose a constraint on TELUS' ability to increase its share of total high-speed Internet subscribers in the market. As well, differentiation through various access speed options and value-added features may lead to lower pricing by all competitors as the growth of the HSIA market slows and bundling options become more prevalent. Residential dial-up Internet access competition and growth have also declined dramatically, due in large part to increased high-speed Internet access availability and lower priced service options. Losses of existing TELUS dial-up subscribers to competitor high-speed services have been mitigated by TELUS' efforts to transfer these customers to its own high-speed Internet services. 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 continues to face significant competition from cable-TV high-speed Internet services.

Wireless

Competition in the Canadian wireless market is expected to remain intense in 2006 in all regions of the country. TELUS is targeting more than 550,000 wireless net subscriber additions in 2006, and there can be no assurance that it will achieve its objective given the level of competition or the possibility of declining growth rates in the Canadian wireless industry.

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 further intensified in 2005, particularly in the prepaid and youth segments. TELUS' two national wireless competitors are marketing discount brands to attract new subscribers. In addition, other competitors, including several cable-TV operators, may offer wireless services regionally or nationally on a resale basis. This increase in new brands and offers 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, and lower the average revenue per subscriber. Aggressive advertising and innovative marketing approaches are expected to remain the norm. Certain competitors continue to offer subsidized (low or zero-cost) handsets, and/or lowered airtime and wireless data prices. Furthermore, Aliant Telecom Wireless launched an unlimited cellular long distance plan in 2005, a wireless industry first. In addition, certain carriers have launched competitive Push To Talk (PTT) products in 2005, competing directly with TELUS' Mike and new CDMA PTT services. (See *Section 10.2 Technology.*) TELUS' wireless high-speed EVDO network currently provides certain competitive advantages – such as speeds of 400 to 700 kilobits per second (six times faster than previous TELUS mobile data offerings) – over GSM carriers, which may diminish as Rogers builds out and launches its higher-speed UMTS HSDPA (universal mobile telecommunications system, high-speed downlink packet access) network. (See *Section 10.2 Technology.*) While TELUS intends to manage these risks by continuing to focus on differentiated value-added services and profitable subscriber growth, there can be no assurance that these efforts will be successful.

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, roaming/resale agreements among TELUS, Bell Mobility and affiliates, and Aliant Telecom Wireless, first operationalized in mid-2002, have 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 has allowed Bell Mobility to expand its Western Canadian footprint earlier and market services 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 increased the effective number of competitors to three (including TELUS) in these regions. Roaming/resale agreements have similarly allowed TELUS, 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' national digital wireless coverage and addressable market to 30.6 million. There can be no assurance that TELUS' marketing efforts will be as successful in the new markets going forward as in existing coverage areas.

The introduction of wireless number portability has been mandated for implementation by March 14, 2007 by TELUS and its major national competitors. (See *Section 10.3 Regulatory.*) This will remove a key barrier to customers switching from one carrier to another, and may increase the level of competition in the market. While TELUS has the smallest installed subscriber base and lowest churn rate of the major national carriers, which bodes well for the Company's competitive position, there can be no assurance that TELUS will be able to achieve the same level of success at maintaining or winning customers as its national competitors.

Wireless competition is also expected 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 future 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 wireless will be available on time, or that TELUS wireless will be able to charge incrementally for the services. (See *Section 10.2 Technology.*)

Fixed wireless

While the technology is generally in an early stage of development and the associated economic viability remains unproven, increased competition is expected from fixed wireless technologies offered by new or existing providers utilizing licensed and/or unlicensed spectrum to deliver higher-speed data and Internet services.

Inukshuk Internet Inc., owned jointly by Rogers Communications and BCE, has announced plans to build a high-speed fixed wireless network using licensed spectrum in the 2.5GHz band. In addition, certain non-traditional telecom players, such as municipalities, may contemplate building fixed wireless ventures in urban and suburban locations, as has been the case in the United States.

The build-out and availability of such networks may lead to the reduction of traffic on TELUS' existing wireless mobile networks and/or increase competition for TELUS' high-speed wireline Internet access service. There can be no assurance that new or existing services offered by TELUS will be competitive with such fixed wireless services, available on time, or that TELUS will be able to charge incrementally for the services.

10.2 Technology

Technology is a key enabler for TELUS and its customers, however, technology evolution brings risks and uncertainties. TELUS is vigorous in maintaining its short and long-term technology strategy to optimize TELUS' selection and timely use of technology while minimizing the associated costs, risks and uncertainties. The following identifies the main technology risks and uncertainties and how TELUS is proactively managing them.

Evolving wired broadband access technology standards may outpace projected access infrastructure investment lifetimes

The technology standards for broadband access over copper loops to customer premises are rapidly evolving. This evolution is enabling higher broadband access speeds and is fuelled by user appetite for faster connectivity, the threat of increasing competitor capabilities and offerings, and the desire of service providers like TELUS to offer new services that require greater bandwidth such as TV services. In general, the evolution to higher broadband access speeds is achieved by deploying fibre further out from the central office, thus shortening the copper loop portion of the access, and using faster modem technologies on the shortened copper loop.

In 2005, TELUS began deploying ADSL2+, a second generation of asynchronous digital subscriber line (ADSL) technology that enables transfers at up to 15 megabits per second (Mbps) to the customer premises, compared with up to six Mbps for ADSL. ADSL2+ technology is compatible with ADSL and takes advantage of TELUS' investments in extended reach access (ERA) copper/fibre access infrastructure improvement programs. Looking forward, the technology for ADSL2+ bonding (using multiple pairs to multiply the available bandwidth) and VDSL2 (which can provide up to 45 Mbps on very short copper loops) is anticipated to be available in the second half of 2006.

It is also anticipated that the first viable fibre to the home (FTTH) technology will emerge in the form of a standards-based gigabit passive optical network (GPON) and may be available for deployment by the end of 2006, enabling transfers at 80 Mbps to the home. FTTH is one of several competing proposed FTTx standards (where x stands for home, curb, pedestal, or neighbourhood) in development that TELUS is actively monitoring. Fibre to the curb (FTTC), with an Ethernet connection to the premises, which facilitates transfers of up to 100 Mbps, may be a more practical technology to deploy generally. TELUS will be trialing FTTx technologies in 2006.

These evolving standards, along with new techniques for quality of service (QoS) and network traffic engineering, all support the TELUS Future Friendly Home strategy to deliver IP-based Internet, voice and video services over a common broadband access system. However, these technologies are evolving faster than the traditional investment cycle for access infrastructure. The introduction of these new technologies and the pace of adoption could result in increased requirements for capital funding not currently envisaged or planned.

IP-based telephony as a replacement for legacy analog telephony is immature and cost savings are uncertain

TELUS continues to monitor the evolution of IP-based telephony technologies and service offerings and is developing and testing a consumer solution for IP-based telephony over broadband access that will meet TELUS' standards for quality features and reliability. This solution could provide additional telephone services over the same line as legacy analog telephone service or could replace the legacy analog telephone service. However, the actual state of technology developed to inter-work telephony, video and Internet access on the same broadband infrastructure is in its infancy and there are risks and uncertainties to be addressed such as ensuring all services can be delivered simultaneously to the home (and to different devices within the home) with uncompromised quality.

A long-term technology strategy is to move all services to IP to simplify the network, reduce costs and enable advanced future friendly services. Pursuing this strategy to its full extent would involve transitioning TELUS' standard telephone service offering to IP-based telephony and phasing out legacy analog-based telephone service. To this point, TELUS' broadband access infrastructure could be simplified if regular analog telephone lines were discontinued in favour of digital-only broadband access lines supporting all services including telephony, Internet and video. This would, for example, allow inexpensive high-bandwidth conventional Ethernet to be used as the broadband access technology. However, digital-only broadband access may not be feasible or economical in many areas for some time, particularly in rural and remote areas. TELUS needs to support both legacy and broadband voice systems for some time and, therefore, will incur costs to maintain both systems. There is a risk that investments in broadband voice may not be accompanied by decreased costs of maintaining legacy voice systems.

The convergence in a common IP-based application environment for telephony, Internet and video is complex

Traditionally the technology and systems associated with telephony, Internet and video were different from each other and provided little opportunity for common platforms for cost savings and little flexibility to integrate media and services. The convergence in a common IP-based application environment carried over a common IP-based network provides opportunity for cost savings and for the rapid development of more advanced services, which are more flexible and easier to use. Further, the global standards for drawing together classic wireline and wireless services into a combined architecture using IP multimedia subsystem (IMS) are being actively ratified. However, the transformation from individual traditional silo systems and architectures to a common environment is very complex.

For example, TELUS has launched TELUS TV, one of the world's first IPTV systems, using middleware designed for video delivery only. Middleware allows complex signaling communication between application software and system hardware in the network and in the set-top box in the home. As all services migrate to the IP-based infrastructure, technology roadmaps to converge the underlying infrastructure towards a single converged IP application and transport infrastructure are developmental in the short term due to lack of maturity of the technology, particularly IPTV middleware and delivery platforms.

This risk involves TELUS building more network-based service silos in the short term and then incurring the cost and time to migrate to the end solution of a converged network and application infrastructure. TELUS is proceeding in incremental stages to create "proof-of-concept" parallel systems to ensure the reliability and superiority of the new network prior to the removal of any part of the legacy platform.

Support systems will increasingly be critical to operational efficiency

TELUS currently has a very large number of interconnected operational support systems and business support systems and the complexity is increasing. This is typical of incumbent telecommunications providers that support a wide variety of legacy and emerging telephony, mobility, data and video services. The development and launch of a new service typically requires significant systems development and integration. The associated developmental and ongoing operational costs can be a significant factor in maintaining competitive position and profit margins. TELUS is proactive in evolving to next generation support systems, however, there is uncertainty with respect to the costs and effectiveness of the solutions and the evolution.

In line with industry best practice, TELUS' approach is to separate the business support systems from the operational support systems and underlying network technology. The aim is to decouple the introduction of new network technologies from the services sold to customers. This should allow TELUS to optimize its network costs while not impacting customer services, and to facilitate the introduction of new services by removing, where possible, any development dependency on the operational support systems.

The CDMA and iDEN technologies supporting TELUS' digital cellular/wireless services may become inferior

The wireless industry continues to expand the deployment of second (2G) and third generation (3G) technologies to deliver increased data speeds required for many new wireless, IP and data services. TELUS' evolution to deploying 3G technologies involves technology paths for both CDMA technology-based services and iDEN technology-based services.

TELUS continues to support and market 1X protocol 3G wireless services on its digital CDMA PCS and cellular networks. TELUS began enhancing its wireless network in 2005 with the next evolution of CDMA 3G technology, namely EVDO (or 1X evolution data optimized) launched in November 2005. EVDO provides average speeds of 400 to 700 Kbps, compared to 100 Kbps for 1X. While EVDO has enjoyed commercial success in North America (launched by Verizon Wireless in 2004) and in Asia, there can be no assurance that EVDO will continue to enjoy success and that TELUS will be able to successfully market EVDO services in Canada. While the Company believes that its CDMA network has a reasonable and cost-effective migration path to future evolutions of higher-speed technologies beyond EVDO, there can be no assurance that it will be successful and timely.

TELUS' Mike service uses the iDEN technology protocol and has operated 2.5G packet data capability and service offerings for more than three years. TELUS' Mike network is in part differentiated by its wide-area, high-capacity, high-performing digital Push To Talk (PTT) 2-way radio dispatch services, which are marketed as Direct Connect service. TELUS is the largest Canadian PTT operator. Both TELUS and Bell Mobility launched PTT services over CDMA in 2005, and PTT capabilities continue to advance for other carriers using different technologies. TELUS Mike maintains superiority in PTT services in terms of speed of set-up and conversational latency. In the future, there can be no assurance that TELUS' current market advantage of extensive product sales and marketing experience, large installed base of Mike iDEN users and work groups, and service superiority will be maintained.

TELUS' CDMA-based PTT service, launched early in 2005 and marketed as Instant Talk, like other CDMA-based services, may with technological advancements be competitive at some time with the iDEN technology utilized by the Mike network. There can be no assurance that successful deployment and marketing of CDMA PPT or other competitive technology will not reduce or eliminate the competitive differentiation of TELUS' Mike network. Work is ongoing to determine an optimal migration path for iDEN, but there can be no assurance on the availability of technology for migration, or a quantification of the associated costs.

In 2005, CDMA-operator Sprint and iDEN-operator Nextel merged 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.

Emerging wireless technologies represent both an opportunity and a competitive threat

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) 802.xx suite 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 a movement to VoIP services on wireless and promote revenue per user erosion. Further, this may also trigger an accelerated incremental investment in next generation voice infrastructures.

As well, in recent years TELUS and certain of its current and potential competitors have acquired through auction regional radio spectrum licences in the 3.5GHz and 2.3GHz frequency bands. This spectrum may be used for the deployment of wireless services utilizing WiMax (802.16) wireless technology. WiMax is an emerging technology standard that will allow high bandwidth services to be offered over much wider geographic areas than Wi-Fi. A WiMax enabled service could attempt to compete against wireline services. At this time, WiMax does not support mobile services, although a standard (802.16e) that supports it has recently been ratified by the IEEE. Currently neither TELUS nor any significant competitors have deployed a meaningful WiMax enabled wireless service offering. In the third quarter of 2005, Bell Canada and Rogers Communications announced that they would merge some of their wireless spectrum resources under Inukshuk, a holder of a near national 2.5GHz spectrum licence, and expressed the intent of investing $200 million over the next three years to develop and deploy WiMax enabled services across Canada. There can be no assurance that these emerging wireless technologies will represent a greater opportunity than threat for TELUS.

10.3 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 Canadian Radio-television and Telecommunications Commission (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. Local telecommunications services are regulated by the CRTC using a price cap mechanism. Major areas of regulatory review currently include the framework for forbearance from the regulation of residential and business local exchange services, the framework for forbearance from the regulation of high-speed intra-exchange digital services and the utilization of the funds in the incumbent local exchange carriers' (ILEC) deferral accounts.

In 2005, the federal government undertook a review of Canada's telecommunications policy and regulatory framework. The review panel, reporting to the Minister of Industry, was asked to provide recommendations by the end of 2005 on how to modernize Canada's telecommunications framework in order to benefit 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

Price cap regulation continues to apply to a basket of local services provided by ILECs. TELUS is subject to price cap regulation as an ILEC in Alberta, B.C. and Eastern Quebec. On May 30, 2002, the CRTC issued Decision 2002-34 and established a second four-year price cap period. This four-year price cap period was extended by one year to May 31, 2007 by the CRTC in Decision 2005-69. The CRTC incorporated a deferral account into the second price cap period to which an amount equivalent to the cumulative annual productivity adjustments for residential services in non-high cost serving areas is added. The productivity adjustments are determined using the gross domestic product productivity index (GDP-PI) less the productivity offset for the second price cap period of 3.5%.

In Decision 2005-69, the CRTC stated that it will be initiating a proceeding to review the existing price regulation regime in the first half of 2006. There can be no assurance that the price regulation regime for TELUS beginning in June 2007 will be as or more favourable for TELUS than the current regime.

On February 16, 2006, the CRTC issued a long-awaited decision on the use of funds in the deferral account, Telecom Decision CRTC 2006-9. In its decision, the CRTC determined that initiatives to expand broadband services to rural and remote communities and initiatives to improve accessibility to telecommunications services for individuals with disabilities are an appropriate use of funds for the ILEC deferral accounts. To the extent that the accumulated deferral account exceeds approved initiatives, the remaining balance will be distributed in the form of a one-time rebate to local non-high cost serving area residential customers. Finally, the CRTC indicated that prospectively no further amounts are to be added to the deferral account and are to be dealt with via prospective residential local rate reductions. Given the complexity of this decision and remaining outstanding issues, management is currently analyzing the decision to determine what overall impact it may have on TELUS.

Quality of service penalties

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. When the full impact of TELUS' work stoppage and the flooding that occurred in Southern Alberta in 2005 is understood and quantified, TELUS plans to apply to the CRTC for these events to be recognized as adverse events and for their impact to be removed from TELUS' quality of service results. Recognition of these adverse events by the CRTC would reduce the quality of service penalties paid by the Company in 2005. Nevertheless, TELUS has no assurance that these penalties will not affect earnings in the future.

Pricing safeguards

On April 29, 2005, the CRTC issued *Review of price floor safeguards for retail services and related issues*, Decision 2005-27 and modified selected pricing safeguards for retail tariff services. The CRTC maintained a cost-based imputation test to ensure services are not sold below cost, thereby providing an unfair competitive advantage. While the new pricing safeguards are somewhat more restrictive than the previous safeguards, the CRTC in Decision 2005-27 did not abandon the basic concept of an imputation test based on underlying costs. Decision 2005-27 did not approve the radical changes to the pricing safeguards put forward by the CRTC or proposals for guaranteed margins put forward by the competitors. However, there is no assurance that the new price floor safeguards will not hamper TELUS' ability to compete effectively in the future.

TELUS' broadcasting distribution undertakings

The CRTC has approved applications by TELUS to operate terrestrial broadcasting distribution undertakings to serve various communities in Alberta and British Columbia (August 2003) and Eastern Quebec (July 2005). In September 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. There can be no assurance that implementation costs or projected revenues and expenses for TELUS' television service will be as planned.

Voice over Internet protocol

On May 12, 2005, the CRTC issued *Regulatory framework for voice communication services using Internet protocol*, Decision 2005-28. The CRTC determined that local VoIP services are functionally equivalent to local exchange service and that the current regulatory framework governing local competition will apply to local VoIP service providers. The CRTC determined that ILECs may only provide VoIP services in their incumbent territories in accordance with approved tariffs. There can be no assurance that this CRTC decision will not significantly impact TELUS' future ability to compete.

On July 28, 2005, TELUS, Aliant Telecom Inc., Bell Canada, Saskatchewan Telecommunications and others petitioned the Governor in Council to intervene and eliminate the economic regulation of VoIP services. In addition, TELUS, Bell Canada and Saskatchewan Telecommunications have appealed Decision 2005-28 to the Federal Court to eliminate the application of the winback rule (a 12-month marketing restriction for customers lost to competitors) on VoIP services. There can be no assurance that these actions will be successful.

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' 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 that 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.

Implementation of wireless number portability (WNP) – Telecom Decision CRTC 2005-72

On December 20, 2005, the CRTC issued Decision 2005-72 and directed Bell Mobility, Rogers Wireless Inc. and the wireless division of TELUS to implement wireless number portability in British Columbia, Alberta, Ontario and Quebec where local exchange carrier-to-local exchange carrier (LEC-to-LEC) local number portability is currently in place by March 14, 2007. In other areas and for other wireless carriers, wireless number portability (where LEC-to-LEC local number portability is currently in place) for porting-out must be implemented by March 14, 2007 and for porting-in must be implemented by September 12, 2007. There is no assurance that TELUS and the other Canadian wireless carriers will be able to implement wireless number portability in the required timeframe without incurring significant additional costs and/or ongoing administration costs. Implementation of wireless number portability may result in increased migration of network access lines to wireless services, increased wireless subscriber monthly churn or additional customer retention costs for TELUS.

WNP when instituted in the U.S. in 2003 did not cause a large increase in churn as was initially anticipated. In addition, TELUS believes that WNP may open up an opportunity to more effectively market into the business/enterprise market in Central Canada where TELUS has a lower market share than our wireless competitors and lack of WNP is believed to have decreased its sales effectiveness. However, there can be no assurance that this will be the case.

Foreign ownership restrictions

TELUS and its subsidiaries are subject to the foreign ownership restrictions imposed by the Telecommunications Act, the Radiocommunication Act and the Broadcasting 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, Industry Canada or Heritage 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 and Broadcasting Act could be jeopardized and TELUS' business could be materially adversely affected.

10.4 Human resources

The outcome of outstanding collective bargaining at TELUS Québec may result in increased costs, reduced productivity or work disruptions

Two collective agreements in the TELUS Québec region are open for renewal negotiations in 2006. On December 31, 2005, the collective agreement expired between TELUS Québec and the Syndicat Québecois des employés de TELUS, covering approximately 993 office, clerical and technical employees. A second agreement, affecting approximately 523 professional and supervisory employees, between TELUS Québec and the Syndicat des agents de maîtrise de TELUS expires on March 31, 2006. There can be no assurance that the negotiated compensation expenses will be as planned, or that reduced productivity and work disruptions will not occur as a result of or following these negotiations.

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.

Compensation at TELUS is designed to support its high-performance culture and is both market-driven and performance-based. This includes medium and long-term performance incentives including variable incentive pay based on performance at an individual, business unit and organizational level; stock options, restricted stock units (RSUs) and the TELUS Employee Share Purchase Plan; as well as a benefits program, which allows the tailoring of personal benefits plans to suit individual needs. Long-term performance incentives for certain key personnel include primarily three-year vesting periods for options and RSUs. By striving to ensure TELUS' compensation remains competitive, TELUS is focusing on maintaining the ability to attract and retain key personnel.

10.5 Business integration and internal reorganizations

On November 24, 2005, TELUS Corporation announced the integration of the wireline and wireless segments of the business – formerly the TELUS Communications and TELUS Mobility segments – into a single operating structure. This integration incorporates TELUS' customer-facing business units, technology infrastructure, operations and shared services. There is no assurance that this integration will provide the benefits and efficiencies that are planned and/or that there will not be significant difficulties in combining the two structures, which could result in a negative impact on operating and financial results.

10.6 Process risks

TELUS systems and processes could negatively impact financial results and customer service – Billing/revenue assurance

TELUS continues to develop a new billing system for the wireline segment of our business, which includes re-engineering processes for order entry, pre-qualification, service fulfillment and assurance, customer care, 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 and resource constraints. TELUS plans to implement this project in phases beginning with the implementation of consumer accounts in Alberta, currently scheduled in 2006, and followed by implementation of consumer customer accounts in B.C. There can be no assurance that this undertaking will not negatively impact TELUS' customer service levels, competitive position and financial results. As well, significant time delays in implementing this system could negatively impact TELUS' competitive ability to quickly and effectively launch new products and services; achieve and maintain a competitive cost structure; and deliver better information and analytics to management.

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.

Cost and availability of services

The availability of various data, video and voice services in competitive local exchange carrier (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.

10.7 Financing and debt requirements

TELUS' business plans and growth could be negatively affected if existing financing is not sufficient to cover funding requirements

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 credit facility or through the issuance of debt or equity securities. 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 investment grade corporate credits such as TELUS.

In May 2005, TELUS entered into C$1.6 billion of new bank credit facilities, which will partially mitigate this risk. The new credit facilities consist of a C$800 million (or U.S. dollar equivalent) revolving three-year credit facility and a C$800 million (or U.S. dollar equivalent) five-year revolving credit facility.

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, 2005, TCI had received aggregate cash proceeds of $500 million. Under the program, TCI is required to maintain at least a BBB(low) credit rating by Dominion Bond Rating Service – currently A(low). In the event this rating is not maintained, the Company may be required to wind down the program prior to the June 2007 termination date of the agreement.

TELUS' financial policies include a target net debt to EBITDA ratio of 1.5 to 2.0 times (1.7 times as at December 31, 2005) and a target net debt to total capitalization ratio of approximately 45 to 50% (45.7% as at December 31, 2005). TELUS thereby seeks to achieve, over time, debt credit ratings in the range of BBB+ to A-, or equivalent. Three of the four credit rating agencies that rate TELUS now have ratings that are in line with this target. A reduction in TELUS 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.

On December 16, 2005, TELUS announced a new Normal Course Issuer Bid (NCIB) for 24 million shares. This follows the previous NCIB that expired on December 19, 2005 under which the Company purchased 21.8 million shares for $912.6 million. While anticipated cash flow is expected to be more than 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 or to complete share repurchases.

Quarterly, the TELUS Board reviews the dividend based on a number of factors including a target dividend payout ratio guideline of 45 to 55% of sustainable net earnings. This review prompted a 37.5% increase in the quarterly dividend payout rate from 20 cents to 27.5 cents effective with the dividend paid on January 1, 2006. At the January 1, 2006 level of dividend and shares outstanding, this would total approximately $387 million in dividends in 2006.

TELUS expects to generate material free cash flow in 2006, which would be available to, among other things, repurchase shares and pay dividends to shareholders. 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 repurchase a significant amount of shares, or pay dividends according to the target payout guideline.

10.8 Tax matters

Income tax amounts, including tax expense, may be materially different than 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 and potential changes to them and the timing of realizing such amounts can materially 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 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 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 it operates, which is also subject to change.

The review activities of the Canada Revenue Agency and other jurisdictions' tax authorities affect the ultimate determination of the actual amounts of income taxes receivable, income taxes payable, future income tax assets and future income tax liabilities. Therefore, there can be no assurance that income taxes will be payable as anticipated and/or the amount and timing of receipt or use of the tax-related assets will be as currently expected.

10.9 Health, safety and environment

Team member health, wellness and safety

Lost work time, resulting from the illness or injury of a TELUS team member, can negatively impact organizational productivity and employee benefit health care costs. To minimize absence in the workplace, TELUS supports a holistic and proactive approach to team member health by providing comprehensive wellness, disability, ergonomic and employee assistance programs.

TELUS has long-standing programs to provide training and orientation to team members, and contractors and suppliers who access TELUS facilities, in regards to TELUS' safe work practices and expectations. However, there can be no assurance that these practices will be effectively followed in all situations.

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 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.

Concerns about environmental issues, particularly related to contaminated property and the associated risk to human health or wildlife

To conduct its business operations, TELUS owns or leases a large number of properties. To enable reliable service, many TELUS sites house fuel systems for back-up power generation. In addition, several hazardous chemicals (e.g. battery acid, treated wood poles, fire suppression/retardant) are commonly used at many sites and within the telecommunications industry in general. As well, certain hazardous materials are found at selected locations (e.g. asbestos as insulation or fire retardant, beryllium in radio equipment). Based on the volume of fuel stored and the nature of some of the specific chemicals handled, there is a risk to the Company and its directors and officers posed by the potential for spills and releases of hazardous chemicals into the environment. A significant portion of this risk is associated with the clean-up of sites contaminated by historic TELUS practices or by previous owners. Although these are immaterial to TELUS' financial results, poorly executed environmental risk mitigation could have negative legal, brand or community relations impacts. Further detail on TELUS' environmental risks can be found in the TELUS corporate social responsibility report (telus.com/socialresponsibility). Although TELUS takes proactive measures to identify and mitigate environmental exposures and employs a robust environmental management system, there can be no assurance that specific environmental incidents will not impact TELUS operations in the future.

10.10 Litigation and legal matters

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.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan

Two statements of claim were filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, respectively, 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. The Company believes that it has good defences to the actions. As a term of the settlement reached between TELUS Communications Inc. and the Telecommunications Workers Union that resulted in a collective agreement effective November 20, 2005, the Telecommunications Workers Union has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the Telecommunications Workers Union's desire and recommendation that these proceedings be dismissed or discontinued. The Company has been advised by the Telecommunications Workers Union that the plaintiffs have not agreed to dismiss or discontinue these actions. Should the lawsuits continue because of the actions of the court, the plaintiffs or for any other reason, and their ultimate resolution differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Ontario Court of Appeal ruling in 2005

In June 2005, the Ontario Court of Appeal unanimously overturned a 2003 trial court decision and ruled that when TCI's predecessor BC TEL redeemed $125 million of Series AL Bonds in December 1997, it was in breach of a covenant contained in the deed of trust and mortgage under which the Bonds were issued. The Ontario Court of Appeal returned the case to the trial courts to determine damages and TELUS accrued an estimate of damages, which is included in financing costs for the second quarter of 2005. Should the assessed damages be significantly different than management's expectations, a material adjustment could be recorded in the Company's Consolidated statements of income. The Company sought leave to appeal to the Supreme Court of Canada, which was dismissed in January 2006. This ruling relates to a matter prior to the 1999 merger of BC TELECOM and TELUS Corporation (Alberta), and does not impact TELUS' current debt instruments.

Bill 198

On December 31, 2005, provisions announced by the Government of Ontario came into force, creating liability for misrepresentations by public companies in written disclosure and oral statements. These amendments also created liability for fraud and market manipulation.

The amendments create a right of action for damages against TELUS, its directors and certain of its officers in the event that TELUS or a person with actual, implied or apparent authority to act or speak on behalf of TELUS releases a document or makes a public oral statement that contains a misrepresentation or TELUS fails to make timely disclosure of a material change.

This new legislation permits action to be taken by any person or company that acquires or disposes of TELUS securities in the secondary market during the period of time that the misrepresentation remains uncorrected in the public or, in the case of an omission, until such time as the material change has been disclosed. It is not necessary for the person or company to establish that they relied on the misrepresentation in making the acquisition or disposition.

TELUS has conducted a review of its disclosure practices and procedures and the extent to which they are documented. As part of that review, TELUS consulted external advisors. This review indicated that TELUS has well-documented and fulsome processes in place, including a corporate disclosure policy that restricts spokespersons to specifically designated senior management, provides a protocol for dealing with analysts and oral presentations, and creates a disclosure committee to review and determine material facts and changes for disclosure. However, there can be no assurance that TELUS' processes will be followed by all team members at all times.

In December 2005, the Canadian Institute of Chartered Accountants recognized TELUS with the Award of Excellence for Best Corporate Governance Disclosure across all industry sectors. As well, in January 2006, IR Magazine Canada Awards 2006 recognized TELUS for having the best disclosure policy. The IR award was based on a survey of 250 Canadian investment professionals. TELUS' corporate disclosure policy is publicly available at telus.com/governance.

Legal and regulatory 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.

TELUS employs a designated compliance officer, whose role is to work across the enterprise to ensure that the business has the appropriate controls and measurements in place to facilitate legal and regulatory compliance, including compliance under privacy legislation. The compliance officer reports jointly to the Audit Committee of the Board of Directors, and to the Executive Vice-President of Corporate Affairs. This dual reporting status provides a direct line-of-sight reporting to the Audit Committee to address identified risks.

Notwithstanding these initiatives and processes, situations might occur where individuals do not adhere to TELUS policies, or where personal information of a TELUS customer or employee is inadvertently collected, used or disclosed in a manner that is not fully compliant with privacy legislation, thereby exposing TELUS to the possibility of damages, sanctions and fines, or negatively affecting financial or operating results. Although management cannot predict outcomes with certainty, management believes it has appropriate policies, processes and awareness in place for proper compliance.

10.11 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 ongoing exposure of natural disasters and intentional threats to TELUS' network, information technology (IT), physical assets and team members. Although TELUS has robust and ongoing business continuity planning processes, there can be no assurance that specific events will not impact TELUS operations and results.

Security

Electronic attack

Electronic attacks are the intentional acts of individuals or organized groups to gain unauthorized access to TELUS information or to prevent legitimate users from gaining access. These acts employ a number of methods ranging from social engineering – a non-technical kind of intrusion that relies heavily on human interaction and the tricking of people into breaking normal security procedures – to the use of sophisticated malicious software. TELUS, using a layered security approach, has implemented a number of proactive, reactive and containment processes and systems to safeguard its IT infrastructure, information repositories and information distribution. Information security policies and procedures are in place governing the duties of those responsible for information confidentiality and integrity. Intrusion detection systems, access controls and incident response procedures are in place to provide continuous monitoring of the TELUS IT infrastructure. Although TELUS has robust and ongoing IT and network security planning processes, there can be no assurance that specific events will not impact TELUS operations and results.

TELUS faces potential exposure and risk when sharing information with external business partners and these business partner systems are compromised. TELUS reviews this risk when entering into new agreements.

Vandalism

TELUS has a number of publicly situated physical assets ranging from public payphones to network and telephone switch centres that could be subjected to vandalism. Using such factors as the importance of the asset, the exposure risks and the potential costs incurred should the asset be damaged, TELUS has implemented an array of physical and electronic barriers, and controls and monitoring systems to protect its assets.

As an additional level of risk management, TELUS has a corporate security group that continually investigates and evaluates the risks and, in co-operation with law enforcement and other external agencies, adjusts its protection to meet changing risks. Although TELUS has thorough physical asset security planning processes, there can be no assurance that specific events will not impact TELUS operations and results.

10.12 Economic growth and fluctuations

Significant economic downturns or recessions may adversely impact TELUS

Canadian real gross domestic product (GDP) was recently estimated by the Conference Board of Canada to have grown at 2.8% during 2005. Consumer price index (CPI) inflation has been very volatile due to fluctuations in gasoline prices. However, there is little indication that this price pressure is spilling over into other prices as core inflation remains within the Bank of Canada core inflation target bands. The Canadian economy is currently operating at full capacity and continues to adjust to the significant appreciation of the Canadian dollar, higher commodity prices and increased competition, especially from newly industrialized economies such as China and India. The principal risk to Canadian economic growth may occur when the U.S. government and U.S. households begin to address their twin deficits in a meaningful way through significant reductions in fiscal spending and household consumption. The longer the U.S. delays in addressing the deficit issues, the greater the risk of an abrupt and disorderly adjustment, which would therefore negatively impact the demand for Canadian produced goods and services.

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 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.

TELUS, as it has expanded nationally in recent years and gained exposure to the more diversified manufacturing based economies in Ontario and Quebec, has become somewhat more immune to any regional economic weaknesses in B.C. and Alberta due to their different government policies or cyclical resource based economies.

Pension funding risks

Economic fluctuations could also adversely impact the funding and expense associated with the defined benefit pension plans that TELUS sponsors. In 2005 TELUS made cash contributions of $160 million to its pension plans (including $119 million to its defined benefit plans) and similar levels are expected in 2006. Defined benefit funding risks may occur if total pension liabilities exceed the total value of the respective trust funds. Unfunded differences may arise from lower than expected investment returns, reductions in the discount rate used to value pension liabilities, and actuarial loss experiences. TELUS seeks to mitigate this risk through the implementation of policies and procedures designed to control investment risk and ongoing monitoring of its funding position. There can be no assurance that TELUS pension expense and funding of its defined benefit pension plans will not need to increase in the future and thereby negatively impact earnings and liquidity.

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

A description, calculation and reconciliation of certain measures used by management

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, and as a valuation metric. 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 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)	2005	2004
Net income	700.3	565.8
Other expense (income)	18.4	8.7
Financing costs	623.1	613.3
Income taxes	322.0	255.1
Non-controlling interest	7.8	4.6
Operating income	1,671.6	1,447.5
Depreciation	1,342.6	1,307.8
Amortization of intangible assets	281.1	335.3
EBITDA	3,295.3	3,090.6

In addition to EBITDA, TELUS calculates EBITDA less capital expenditures as a simple proxy for cash flow in its two reportable segments, which is used for comparison to the reported results for other telecommunications companies, and is subject to the potential comparability issues of EBITDA described above. EBITDA less capital expenditures is calculated for TELUS as follows:

Years ended December 31

($ millions)	2005	2004
EBITDA	3,295.3	3,090.6
Capital expenditures (Capex)	(1,319.0)	(1,319.0)
EBITDA less capital expenditures	1,976.3	1,771.6

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 reconciles free cash flow with Cash provided by operating activities less Cash used by investing activities:

Years ended December 31 ($ millions)	2005	2004
Cash provided by operating activities	2,914.6	2,538.1
Cash (used) by investing activities	(1,355.2)	(1,299.5)
	1,559.4	1,238.6
Net employee defined benefit plans expense	(3.9)	(18.4)
Employer contributions to employee defined benefit plans	118.8	136.8
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other operating activities, net	5.3	(27.9)
Payment received from Verizon Communications Inc.	–	(33.3)
Reduction (increase) in securitized accounts receivable	(350.0)	150.0
Non-cash working capital changes except changes in taxes, interest and securitized accounts receivable, and other	99.7	(129.0)
Acquisition	29.4	12.2
Proceeds from the sale of property and other assets	(4.5)	(35.9)
Other investing activities	11.3	4.2
Free cash flow	1,465.5	1,297.3

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

Years ended December 31 ($ millions)	2005	2004
EBITDA	3,295.3	3,090.6
Restructuring and workforce reduction costs, net of cash payments	(13.6)	(70.3)
Share-based compensation	24.3	23.8
Cash interest paid	(638.3)	(632.9)
Cash interest received	47.3	27.3
Income taxes received (paid)	69.5	194.6
Capital expenditures (Capex)	(1,319.0)	(1,319.0)
Investment tax credits received (reported in current or prior EBITDA or Capex, and in Income taxes received (paid)), and other	–	(16.8)
Free cash flow	1,465.5	1,297.3

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, per month

Calculated as the number of subscriber units disconnected during a given period, divided by the average number of subscriber units on the network during the period, expressed as a rate per month. A prepaid subscriber is disconnected 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 subscriber 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

Net debt is a non-GAAP measure, whose nearest GAAP measure is the sum of Long-term debt and Current maturities of long-term debt, as reconciled below. Net debt is one component used to determine compliance with debt covenants (refer to the description of Net debt to EBITDA below).

At December 31 ($ millions)	2005	2004
Current maturities of long-term debt	5.0	4.3
Long-term debt	4,639.9	6,332.2
	4,644.9	6,336.5
Deferred hedging liability	1,158.1	1,037.7
Debt	5,803.0	7,374.2
Deduct Cash and temporary investments	(8.6)	(896.5)
Net debt	5,794.4	6,477.7

The deferred hedging liability in the table above relates to cross currency interest rate swaps that effectively convert principal repayments and interest obligations to Canadian dollar obligations in respect of the U.S. $1,166.5 million debenture maturing June 1, 2007 and the U.S. $1,925.0 million debenture maturing June 1, 2011. Management believes that Net debt is a useful measure because it incorporates the exchange rate impact of cross currency swaps put into place that fix the value of U.S. dollar-denominated debt, and because it represents the amount of long-term debt obligations that are not covered by available cash and temporary investments.

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 $53.9 million and $52.6 million, respectively, for the years ended December 31, 2005 and 2004.

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. TELUS' revised guideline range for Net debt to EBITDA is from 1.5:1 to 2.0:1.

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 the respective periods. Losses recorded on the redemption of long-term debt are included in net interest cost.

Interest coverage on long-term debt
Calculated on a 12-month trailing basis as Net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt. Interest expense on long-term debt in 2005 includes losses on redemption of long-term debt and an accrual for estimated costs to settle a lawsuit.

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' credit facilities.

Dividend payout ratio
Defined as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the 12-month trailing period. The target guideline for the annual dividend payout ratio on a prospective basis is 45 to 55% of sustainable net earnings.

Funded debt
In general terms, borrowed funds less cash on hand, as defined in the Company's bank agreements.

management's report

Management's responsibility for the financial statements

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.

Management's responsibility for the financial reporting process that produces the financial statements

Internal controls: 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 conducts 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. (During 2005, certain aspects of the risk assessment process were modified due to the labour disruption that occurred during the second half of the year.) 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. There were no changes in the Company's internal controls over financial reporting that occurred during the year ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company believes that its efforts will allow it to comply with Section 404 of the Sarbanes-Oxley Act for fiscal year 2006.

Disclosure controls and procedures: 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 as at the end of December 31, 2005. 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.

Certification: 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 role of the Board of Directors and its Audit Committee

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 creditworthiness, treasury plans and financial policy, and its whistleblower and accounting and ethics complaint procedures. The Audit 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; and 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 plans; 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 Audit Committee pre-approves all audit, audit-related and non-audit services provided to the Company by the external auditors and its affiliates. The Audit 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, 2005 and 2004 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, 2005 and 2004 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 14, 2006

consolidated statements of income

Years ended December 31 (millions except per share amounts)	2005	2004
Operating Revenues	$ 8,142.7	$ 7,581.2
Operating Expenses		
Operations	4,793.5	4,438.0
Restructuring and workforce reduction costs (Note 5)	53.9	52.6
Depreciation	1,342.6	1,307.8
Amortization of intangible assets	281.1	335.3
	6,471.1	6,133.7
Operating Income	1,671.6	1,447.5
Other expense, net	18.4	8.7
Financing costs (Note 6)	623.1	613.3
Income Before Income Taxes and Non-Controlling Interest	1,030.1	825.5
Income taxes (Note 7)	322.0	255.1
Non-controlling interests	7.8	4.6
Net Income	700.3	565.8
Preference and preferred share dividends	–	1.8
Common Share and Non-Voting Share Income	$ 700.3	$ 564.0
Income Per Common Share and Non-Voting Share (Note 8)		
– Basic	$ 1.96	$ 1.58
– Diluted	$ 1.94	$ 1.57
Dividends Declared Per Common Share and Non-Voting Share	$ 0.875	$ 0.65
Total Weighted Average Common Shares and Non-Voting Shares Outstanding		
– Basic	357.1	355.3
– Diluted	361.0	357.6

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

consolidated statements of retained earnings

Years ended December 31 (millions)	2005	2004
Balance at Beginning of Period	$ 1,008.1	$ 741.7
Transitional amount for share-based compensation arising from share options	–	(25.1)
Adjusted opening balance	1,008.1	716.6
Net income	700.3	565.8
	1,708.4	1,282.4
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	312.2	204.7
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	–	26.9
Purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 15(g))	541.1	38.6
Warrant proceeds used in determining intrinsic value of warrants in excess of amounts ultimately received (Note 15(c))	2.0	–
Purchase of share options not in excess of their fair value	3.4	–
Preference and preferred share dividends	–	1.8
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus	–	2.3
Balance at End of Period (Note 15)	$ 849.7	$ 1,008.1

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

consolidated balance sheets

As at December 31 (millions)	2005	2004
Assets		
Current Assets		
Cash and temporary investments, net	$ 8.6	$ 896.5
Accounts receivable (Notes 10, 17(b))	610.3	863.5
Income and other taxes receivable	103.7	132.5
Inventories	138.8	133.3
Prepaid expenses and other (Note 17(b))	154.7	183.4
Current portion of future income taxes	226.4	438.4
	1,242.5	2,647.6
Capital Assets, Net (Note 11)		
Property, plant, equipment and other	7,339.4	7,528.2
Intangible assets subject to amortization	637.5	737.0
Intangible assets with indefinite lives	2,964.6	2,955.8
	10,941.5	11,221.0
Other Assets		
Deferred charges (Note 17(b))	850.2	704.4
Future income taxes	–	99.8
Investments	31.2	38.4
Goodwill (Note 12)	3,156.9	3,126.8
	4,038.3	3,969.4
	$ 16,222.3	$ 17,838.0
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 17(b))	$ 1,393.7	$ 1,362.6
Restructuring and workforce reduction accounts payable and accrued liabilities (Note 5)	57.1	70.7
Advance billings and customer deposits (Note 17(b))	571.8	531.5
Current maturities of long-term debt (Note 14)	5.0	4.3
	2,027.6	1,969.1
Long-Term Debt (Note 14)	4,639.9	6,332.2
Other Long-Term Liabilities (Note 17(b))	1,635.3	1,506.1
Future Income Taxes	1,023.9	991.9
Non-Controlling Interests	25.6	13.1
Shareholders' Equity (Note 15)		
Convertible debentures conversion option	–	8.8
Common equity	6,870.0	7,016.8
	6,870.0	7,025.6
	$ 16,222.3	$ 17,838.0

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)	2005	2004
Operating Activities		
Net income	$ 700.3	$ 565.8
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,623.7	1,643.1
Future income taxes	340.0	380.9
Share-based compensation	24.3	23.8
Net employee defined benefit plans expense	3.9	18.4
Employer contributions to employee defined benefit plans	(118.8)	(136.8)
Restructuring and workforce reduction costs, net of cash payments (Note 5)	(13.6)	(70.3)
Payment received from Verizon Communications Inc. (Note 20)	–	33.3
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net	1.1	27.9
Net change in non-cash working capital (Note 17(c))	353.7	52.0
Cash provided by operating activities	2,914.6	2,538.1
Investing Activities		
Capital expenditures (Notes 11, 19)	(1,319.0)	(1,319.0)
Acquisition (Note 12)	(29.4)	(12.2)
Proceeds from the sale of property and other assets	4.5	35.9
Change in non-current materials and supplies, purchase of investments and other	(11.3)	(4.2)
Cash used by investing activities	(1,355.2)	(1,299.5)
Financing Activities		
Common Shares and Non-Voting Shares issued	219.4	148.8
Dividends to shareholders	(312.2)	(248.7)
Purchase of Common Shares and Non-Voting Shares for cancellation (Note 15(g))	(892.1)	(78.0)
Payment for redemption of preference and preferred shares	–	(72.8)
Long-term debt issued (Note 14)	147.4	39.8
Redemptions and repayment of long-term debt (Note 14)	(1,601.1)	(248.6)
Dividends paid by a subsidiary to non-controlling interest	(7.9)	–
Payment received from Verizon Communications Inc. (Note 20)	–	114.8
Other	(0.8)	(3.6)
Cash used by financing activities	(2,447.3)	(348.3)
Cash Position		
Increase (decrease) in cash and temporary investments, net	(887.9)	890.3
Cash and temporary investments, net, beginning of period	896.5	6.2
Cash and temporary investments, net, end of period	$ 8.6	$ 896.5
Supplemental Disclosure of Cash Flows		
Interest (paid) (Note 17(c))	$ (638.3)	$ (632.9)
Interest received	$ 47.3	$ 27.3
Income taxes (inclusive of Investment Tax Credits (Note 7)) received, net	$ 69.5	$ 194.6

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

notes to consolidated financial statements

December 31, 2005

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 Wireline segment's operations and all of the Wireless segment's operations, currently 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 the future income tax asset and future income tax liability;
- the accruals for payroll and other employee-related liabilities;
- the accruals for restructuring and workforce reduction costs;
- the accruals for Canadian Radio-television and Telecommunications Commission deferral account liabilities; 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 long distance, data (including data and information technology managed services) and wireless network) from access to, and usage of, the Company's telecommunication infrastructure. The majority of the balance of the Company's revenue (other and wireless equipment) arises from providing products and services 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 policies are applied to them.

Voice local, voice long distance, data and wireless 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 connection 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 (e.g. discounts and rebates), 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).

The CRTC has established a portable subsidy mechanism to subsidize Local Exchange Carriers, such as the Company, that provide residential service to high cost serving 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 wireless 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 (e.g. discounts and rebates), 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 five-year (2004 – 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 serving 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	2005	2004
Rate of inflation (as measured by the chain-weighted Gross Domestic Product Price Index)	3.2%	3.4%
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, as further discussed in Note 16(a) and quantified in 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) Cost of acquisition and advertising costs

Cost of acquiring customers, which include the total cost of hardware subsidies, commissions, advertising and promotion related to the initial customer acquisition, are expensed as incurred and are included in the Consolidated Statements of Income as a component of Operations expense. 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 reviewed at least annually and are adjusted as appropriate. The continuing program of asset life studies considers such items as timing of technological obsolescence, competitive pressures and future infrastructure utilization plans; such considerations could also indicate that carrying values of assets may not be recoverable. If the carrying values of assets were not considered recoverable, an impairment provision (measured at the amount by which the carrying values of the assets exceeds their fair values) would be recorded.

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
Wireless 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, 2005, was 6.4% (2004 – 6.5%). 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 lifespan 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 2005 and December 2004 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): Wireline and Wireless.

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, a combination of the discounted cash flow approach, the market comparable approach and analytical review of industry and Company-specific facts is used in determining the fair value of the Company's 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 as further discussed in 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, as set out in 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), as set out in Note 4 and further discussed in Note 14(b);
- notionally convert fixed interest rate debt to floating interest rate debt (semi-annual interest payments), as set out in Note 4 and further discussed in Note 14(b);
- fix the compensation cost arising from specific grants of restricted stock units, as set out in Note 4 and further discussed in Note 9(c);
- establish designated currency hedging relationships for U.S. Dollar denominated temporary investments, as set out in Note 4; and
- for certain U.S. Dollar denominated future purchase commitments, as set out in 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, as set out in Note 17(b), are recognized when all the hedged cash flows have occurred, as further discussed in 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 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 that result in uncertain tax positions. The Company only recognizes the income tax benefit of uncertain tax-related positions when it is more likely than not that the ultimate determination of the tax treatment of the positions will result in those benefits being realized. The Company accrues for interest charges on current tax liabilities that have not been funded.

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, as set out in 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. The amendments resulted 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, for share options granted after 2001, 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 after 2001, 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. Proceeds arising from the exercise of share options are credited to share capital.

In implementing the amended recommendations, the Company used the retroactive application without restatement method (also referred to as the modified-prospective transition method). Transitioning from the intrinsic value based method to the fair value based method of accounting for share options granted to employees resulted in the December 31, 2003, balances of Non-Voting Shares increasing by $0.4 million, contributed surplus increasing by $24.7 million and retained earnings decreasing by $25.1 million.

In respect of restricted stock units, as set out in Note 9(c), 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 (unless hedge accounting is applied, as set out in Note 1(h)). 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 in the Consolidated Statements of Income 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 in the Consolidated Statements of Income 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

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 Wireline 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 (generally, longer than twelve months), 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 wireless 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, 2005, real estate and vehicle operating lease expenses, which are net of the amortization of the deferred gain on the sale-leaseback of buildings, were $165.1 million (2004 – $165.8 million). The unamortized balances of the deferred gains on the sale-leaseback of buildings are set out in Note 17(b).

(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 Telecommunication Workers Pension Plan and the British Columbia 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) Earnings per share

Possibly commencing in the Company's 2006 fiscal year, proposed amendments to the recommendations of the Canadian Institute of Chartered Accountants (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 that have the possibility of equity settlement; 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. Restricted stock units are further described in Note 9(c). The restricted stock units issued by the Company that do not have the possibility of equity settlement will not be affected by these proposed amendments. The Company does not expect to be materially affected by the proposed amendments to the recommendations.

(b) Non-monetary transactions

Commencing with the Company's 2006 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.

(c) Comprehensive income

Commencing with the Company's 2007 fiscal year, the new recommendations of the CICA for accounting for comprehensive income (CICA Handbook Section 1530), for the recognition and measurement of financial instruments (CICA Handbook Section 3855) and for hedges (CICA Handbook Section 3865) will apply to the Company. In the Company's specific instance, the transitional rules for these sections require implementation at the beginning of a fiscal year; the Company will not be implementing these recommendations in its 2006 fiscal year. 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. Comprehensive income as prescribed by U.S. GAAP, and which is disclosed in Note 21(i), is largely aligned with comprehensive income as prescribed by Canadian GAAP. In the Company's specific instance, however, there is a difference in other comprehensive income in that U.S. GAAP includes the concept of minimum pension liabilities and Canadian GAAP does not.

(d) Business combinations

Commencing with the Company's 2007 fiscal year, the proposed amended recommendations of the CICA for accounting for business combinations will apply to the Company's business combinations, if any, with an acquisition date of January 1, 2007, or later. Whether the Company would be materially affected by the proposed amended recommendations would depend upon the specific facts of the business combinations, if any, occurring on or after January 1, 2007. Generally, the proposed recommendations will result in measuring business acquisitions at the fair value of the acquired entities and a prospectively applied shift from a parent company conceptual view of consolidation theory (which results in the parent company recording the book values attributable to non-controlling interests) to an entity conceptual view (which results in the parent company recording the fair values attributable to non-controlling interests).

(e) Convergence with International Reporting Standards

In early 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period. During 2006, the Accounting Standards Board is expected to develop and publish a detailed implementation plan with a transition period expected to be approximately five years. As this convergence initiative is very much in its infancy as of the date of these consolidated financial statements, it would be premature to currently assess the impact of the initiative, if any, on the Company.

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 customers. 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 revenues are from Wireline segment regulated services and subject to CRTC price regulation; none of the Company's Wireless segment revenues are currently subject to CRTC regulation.

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

- Residential wireline services in incumbent local exchange carrier regions
- Business wireline services in incumbent local exchange carrier regions
- Competitor services
- Public telephone services

Forborne services (not subject to rate regulation)

- Non-incumbent local exchange carrier services
- Long distance services
- Internet services
- International telecommunication services[(1)]
- Interexchange private line services
- Certain data services
- Cellular, enhanced specialized mobile radio digital (ESMR digital) and personal communications services digital (PCS digital)
- Other wireless services, including paging
- Sale of customer premises equipment (CPE)

(1) Forborne on routes where one or more competitors are offering or providing services at DS-3 or greater bandwidth.

(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. On December 16, 2005, the CRTC issued Decision 2005-69 that extended the current price cap regime, without changes, for a period of one year to May 31, 2007. The CRTC has indicated it will initiate a proceeding to review the existing price regulation regime in the first half of 2006. The Company will account for any necessary changes arising from this proceeding on a prospective basis.

Rate-setting methodology: Under the current price regulation framework, services are separated into seven service categories, or baskets. While the Company has a degree of flexibility to raise and lower rates in response to market pressures, prices within 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, and subsequent one-year extension period, 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, on average, by the annual inflation rate.

Specific details on price cap constraints are as follows:

Capped basket	Price cap constraint: Inflation	Inflation less 3.5% productivity offset	Deferral account[(1)]	Overriding maximum annual increase
Residential wireline services in incumbent local exchange carrier regions				
In non-high cost serving areas		X	X	5%[(2)]
In high cost serving areas		X		5%[(2)]
Business wireline services in incumbent local exchange carrier regions	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 serving 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 serving 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 serving 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 serving areas. The portable subsidy payments are paid based upon a total subsidy requirement calculated on a per line/per band subsidy rate, as further discussed in 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 2005 is 1.03% and the interim rate for 2006 has been similarly set at 1.03%. The Company's contributions to the central fund, $63.0 million for the year ended December 31, 2005 (2004 – $59.8 million), are accounted for as an operations expense and the portable subsidy receipts, $72.2 million for the year ended December 31, 2005 (2004 – $62.1 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, as further discussed in Note 1(p), accounts payable, restructuring and workforce reduction accounts payable, dividends payable, short-term obligations, long-term debt, interest rate swap agreements, restricted stock unit compensation cost hedges, as further discussed in Note 9(c), 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 specified grants 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 creditworthiness 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, as further discussed in Note 1(h) and set out in 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, 2005, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rates on U.S.$47.0 million of fiscal 2006 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the Wireless 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 creditworthy 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 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.

As at December 31		2005		2004	
(millions)	Hedging item maximum maturity date	Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Derivatives(2)(3) used to manage changes in compensation costs arising from restricted stock units (Note 9(c))	November 2008	$ 12.2	$ 19.5	$ 2.1	$ 6.3
Derivatives(2)(3) used to manage currency risks arising from U.S. dollar denominated temporary investments	–	$ –	$ –	$ 3.4	$ 3.4
Liabilities					
Long-term debt					
Principal(1) (Note 14)		$ 4,644.9	$ 5,371.6	$ 6,345.3	$ 7,342.3
Derivatives(2)(3) used to manage interest rate and currency risks associated with U.S. dollar denominated debt (Note 14(b))	June 2011	1,154.3	1,470.5	1,032.6	1,299.5
Derivatives(2)(4) used to manage interest rate risk associated with Canadian dollar denominated debt	–	–	–	–	1.3
		$ 5,799.2	$ 6,842.1	$ 7,377.9	$ 8,643.1
Derivatives(2)(3) used to manage currency risks arising from U.S. dollar denominated purchases					
– To which hedge accounting is applied	June 2006	$ –	$ 0.1	$ –	$ 2.6
– To which hedge accounting is not applied	March 2006	$ –	$ 0.4	$ –	$ 2.0

(1) The December 31, 2004, 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 $4,904.8 (2004 – $5,651.6).
(3) Designated as cash flow hedging items.
(4) Designated as fair value hedging items.

5 restructuring and workforce reduction costs

(a) Overview

Years ended December 31 (millions)	2005				2004		
	General programs initiated in 2005	Office closures and contracting out	Programs initiated prior to 2005	Total	Programs initiated in 2004	Operational Efficiency Program (2001–2003)	Total
Restructuring and workforce reduction costs							
Workforce reduction							
Voluntary	$ 0.6	$ 25.5	$ –	$ 26.1	$ –	$ –	$ –
Involuntary	24.2	–	0.9	25.1	49.7	–	49.7
Lease termination	1.5	–	–	1.5	–	–	–
Other	0.4	–	0.8	1.2	2.0	0.9	2.9
	26.7	25.5	1.7	53.9	51.7	0.9	52.6
Disbursements							
Workforce reduction							
Voluntary (Early Retirement Incentive Plan, Voluntary Departure Incentive Plan and other)	0.9	–	26.5	27.4	–	70.7	70.7
Involuntary and other	8.4	–	28.8	37.2	16.3	28.8	45.1
Lease termination	3.6	–	1.2	4.8	–	4.0	4.0
Other	0.4	–	0.8	1.2	1.8	1.3	3.1
	13.3	–	57.3	70.6	18.1	104.8	122.9
Expenses greater than (less than) disbursements	13.4	25.5	(55.6)	(16.7)	33.6	(103.9)	(70.3)
Other	3.1	–	–	3.1	–	–	–
Change in restructuring and workforce reduction accounts payable and accrued liabilities	16.5	25.5	(55.6)	(13.6)	33.6	(103.9)	(70.3)
Balance, beginning of period	–	–	70.7	70.7	–	141.0	141.0
Balance, end of period	$ 16.5	$ 25.5	$ 15.1	$ 57.1	$ 33.6	$ 37.1	$ 70.7

(b) Programs initiated prior to 2005

Programs initiated in 2004: In the first quarter of 2004, a departmental reorganization was initiated, primarily in the Wireline 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 Wireline 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.

As at December 31, 2005, no future expenses remain to be accrued or recorded under the programs initiated in 2004, but variances from estimates currently recorded may be recorded in subsequent periods.

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, 2005, no future expenses remain to be accrued or recorded under the Operational Efficiency Program (2001–2003), but variances from estimates currently recorded may be recorded in subsequent periods.

(c) Programs initiated in 2005

General: In 2005, the Company undertook a number of smaller initiatives, such as operational consolidation, rationalization and integrations. These initiatives are aimed to improve the Company's operating and capital productivity. As at December 31, 2005, no future expenses remain to be accrued or recorded under the smaller initiatives initiated, and substantially completed, in 2005, but variances from estimates currently recorded may be recorded in subsequent periods.

Office closures and contracting out: In connection with the collective agreement signed in the fourth quarter of 2005, as further discussed in Note 16(b), an accompanying letter of agreement set out the planned closure, on February 10, 2006, of a number of offices in British Columbia. This initiative is aimed to improve the Company's operating and capital productivity and is a component of the Company's competitive efficiency program. The approximately 250 bargaining unit employees affected by these office closures were offered the option of redeployment or participation in a voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan).

Similarly, an additional accompanying letter of agreement set out that the Company intends to contract out specific non-core functions over the term of the collective agreement. This initiative is aimed at allowing the Company to focus its resources on those core functions that differentiate the Company for its customers and is a component of the Company's competitive efficiency program. The approximately 250 bargaining unit employees currently affected by contracting out initiatives were offered the option of redeployment or participation in the voluntary departure program (either the Early Retirement Incentive Plan or the Voluntary Departure Incentive Plan).

As at December 31, 2005, no future expenses remain to be accrued or recorded under the letter of agreement setting out the planned closure of a number of offices in British Columbia, but variances from estimates currently recorded may be recorded in subsequent periods. Other costs, such as other employee departures and those associated with real estate, will be incurred and recorded subsequent to December 31, 2005.

As at December 31, 2005, no future expenses remain to be accrued or recorded under the letter of agreement setting out the contracting out of specific non-core functions, in respect of the approximately 250 bargaining unit employees currently affected, but variances from estimates currently recorded may be recorded in subsequent periods. Future costs will be incurred as the initiative continues.

Integration of Wireline and Wireless operations: On November 24, 2005, the Company announced the integration of its Wireline and Wireless operations, an initiative that will continue into future years and that is a component of the Company's competitive efficiency program. During the year ended December 31, 2005, $3.0 million of restructuring and workforce reduction costs were recorded in respect of this initiative and were included with general programs initiated in 2005.

(d) 2006

The Company's estimate of restructuring and workforce reduction costs in 2006, arising from its competitive efficiency program, which includes the office closures and contracting out and integration of wireline and wireless operations, does not currently exceed $100 million.

6 financing costs

Years ended December 31 (millions)	2005	2004
Interest on long-term debt	$ 635.5	$ 647.0
Interest on short-term obligations and other	8.2	8.5
Foreign exchange(1)	4.6	(3.1)
Loss on redemption of long-term debt(2)	33.5	–
	681.8	652.4
Interest income		
Interest on tax refunds	(25.2)	(26.2)
Other interest income	(33.5)	(12.9)
	(58.7)	(39.1)
	$ 623.1	$ 613.3

(1) For the year ended December 31, 2005, these amounts include losses (gains) of $(0.1) (2004 – $0.6), in respect of cash flow hedge ineffectiveness; no gains or losses were experienced arising from fair value hedge ineffectiveness.

(2) This amount includes a loss of $2.3, which arose from the associated settlement of financial instruments that were used to manage a portion of the interest rate risk associated with Canadian dollar denominated debt that was redeemed during the fourth quarter of 2005 (see Note 6 and Note 14(b)).

7 income taxes

Years ended December 31 (millions)	2005	2004
Current	$ (18.0)	$ (125.8)
Future	340.0	380.9
	$ 322.0	$ 255.1

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

Years ended December 31 ($ in millions)	2005		2004	
Basic blended federal and provincial tax at statutory income tax rates	$ 352.3	34.2%	$ 286.6	34.7%
Change in estimates of available deductible differences in prior years	(37.5)		(9.1)	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	(13.9)		(41.2)	
Share option compensation	4.9		6.6	
Revaluation of future income tax asset and liability for changes in statutory income tax rates	(5.1)		(12.9)	
Other	4.8		6.6	
	305.5	29.7%	236.6	28.7%
Large corporations tax	16.5		18.5	
Income tax expense per Consolidated Statements of Income	$ 322.0	31.3%	$ 255.1	30.9%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its future income tax asset and future income tax liability. 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 income tax asset (liability) are estimated as follows:

As at December 31 (millions)	2005	2004
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	$ (8.4)	$ (13.4)
Intangible assets with indefinite lives	(974.4)	(991.9)
Pension amounts	(171.4)	(132.8)
Losses available to be carried forward	164.0	424.9
Reserves not currently deductible	111.3	167.9
Other	81.4	91.6
	$ (797.5)	$ (453.7)
Presented on the Consolidated Balance Sheets as:		
Future income tax asset		
Current	$ 226.4	$ 438.4
Non-current	–	99.8
	226.4	538.2
Future income tax liability	(1,023.9)	(991.9)
Net future income tax asset (liability)	$ (797.5)	$ (453.7)

The Company expects to be able to substantially utilize its non-capital losses over the next two 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, 2005, the Company recorded Investment Tax Credits of $0.4 million (2004 – $0.6 million), all of which was recorded as a reduction of Operations expense.

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)	2005	2004
Net income	$ 700.3	$ 565.8
Deduct:		
Preference and preferred share dividends	–	1.8
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus	–	2.3
Diluted Common Share and Non-Voting Share income	$ 700.3	$ 561.7

Years ended December 31 (millions)	2005	2004
Basic total weighted average Common Shares and Non-Voting Shares outstanding	357.1	355.3
Effect of dilutive securities		
Exercise of share options	3.9	2.0
Exercise of warrants (see Note 15(c))	–	0.3
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	361.0	357.6

For the year ended December 31, 2005, certain outstanding share options, in the amount of 1.1 million (2004 – 7.9 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 for the year ended December 31, 2004, as they were antidilutive. The redemption of convertible debentures is further discussed in Note 14(d).

9 share-based compensation

(a) Details of share-based compensation expense

Reflected in the Consolidated Statements of Income as Operations expense are the following share-based compensation amounts:

Years ended December 31 (millions)	2005	2004
Share options	$ 14.2	$ 19.1
Restricted stock units	18.5	9.4
Employee share purchase plan	35.7	23.0
Amounts recognized as Operations expense in consolidated statements of income	68.4	51.5
Less – Income tax benefit arising from share-based compensation (see Note 7)	18.5	11.2
	$ 49.9	$ 40.3

(b) 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 only share options granted after 2001 are included, the compensation expense arising from share options is not likely to be representative of the effects on reported net income for future years. Share options typically vest over a three-year period (the requisite service period), but may vest over periods of up to five years. The vesting method of share options, which is determined at the date of grant, may be either cliff or graded.

The weighted average fair value of options granted, and the weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model (a closed-form option pricing model), are as follows:

Years ended December 31	2005	2004
Share option fair value (per share option)	$ 12.08	$ 7.76
Risk free interest rate	3.8%	3.9%
Expected lives(1) (years)	4.7	4.5
Expected volatility	38.9%	40.0%
Dividend yield	2.3%	2.5%

(1) The maximum contractual term of the share options granted in 2005 and 2004 was seven years.

The risk free interest rate used in determining the fair value of the share options is based on a Government of Canada yield curve that is current at the time of grant. The expected lives of the share options are based on historical share option exercise data of the Company. Similarly, expected volatility is based on historical volatility of the Company's Non-Voting Shares. The dividend yield is the annualized dividend current at the date of grant divided by the share option exercise price. Dividends are not paid on unexercised share options and are not subject to vesting.

Had weighted average assumptions for grants of share options that are reflected in the expense disclosures above been varied by 10% and 20% changes, the compensation cost arising from share options for the year ended December 31, 2005, would have varied as follows:

	Hypothetical change in assumptions(1)	
($ in millions)	10%	20%
Risk free interest rate	$ 0.2	$ 0.5
Expected lives (years)	$ 0.5	$ 1.0
Expected volatility	$ 1.2	$ 2.4
Dividend yield	$ 0.3	$ 0.6

(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% 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.

(c) Restricted stock units

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 restricted stock units vest over a period of 33 months. The vesting method, which is determined at the date of grant, may be either cliff or graded. The following table presents a summary of the activity related to the Company's restricted stock units.

Years ended December 31	2005			2004		
	Number of restricted stock units		Weighted average grant date fair value	Number of restricted stock units		Weighted average grant date fair value
	Non-vested	Vested		Non-vested	Vested	
Outstanding, beginning of period						
Non-vested	880,053	–	$ 23.36	237,857	–	$ 16.48
Vested	–	118,434	18.47	–	78,773	16.34
Issued						
Initial allocation	1,076,966	–	37.91	884,624	–	24.11
In lieu of dividends	33,421	–	43.30	27,479	–	25.02
Vested	(158,877)	158,877	19.67	(224,174)	224,174	16.48
Settled in cash	–	(214,874)	18.46	–	(184,513)	17.93
Forfeited and cancelled	(186,033)	–	32.08	(45,733)	–	24.12
Outstanding, end of period						
Non-vested	1,645,530	–	32.16	880,053	–	23.36
Vested	–	62,437	$ 26.43	–	118,434	$ 18.47

With respect to certain issuances of restricted stock units, the Company entered into cash-settled equity forward agreements that fix the cost to the Company, as set out in the following table:

	Number of restricted stock units	Cost fixed to the Company per restricted stock unit
Issued in first quarter of 2004; cliff vesting in the fourth quarter of 2006	652,550	$ 26.61
Issued in first quarter of 2005; cliff vesting in the fourth quarter of 2007	600,000	$ 40.91
Issued in fourth quarter of 2005; cliff vesting in the fourth quarter of 2008	160,000	$ 50.91

The following is a schedule of vesting of the Company's non-vested restricted stock units outstanding as at December 31, 2005:

Years ending December 31 (millions)	Number of restricted stock units
2006	724,978
2007	690,534
2008	230,018
	1,645,530

(d) 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 10% of their pay. The Company contributes 45%, for the employee population up to a certain job classification, for every dollar contributed by an employee, to a maximum of 6% of employee pay; for more highly compensated job classifications, the Company contributes 40%. Commencing July 25, 2005, and concluding November 19, 2005, the Company increased its contribution to 100% for all plan participants, other than the executive leadership team, up to 6% of participants' eligible pay. There are no vesting requirements and the Company records its contributions as a component of operating expenses.

Years ended December 31 ($ in millions)	2005		2004	
	Number of shares	Total	Number of shares	Total
Employee contributions	1,470,251	$ 61.9	2,218,645	$ 57.4
Company contributions	824,847	35.7	887,949	23.0
	2,295,098	$ 97.6	3,106,594	$ 80.4
Source of Common Shares purchased				
Market purchase	2,295,098	$ 97.6	871,304	$ 24.3
Treasury issuance	–	–	2,235,290	56.1
	2,295,098	$ 97.6	3,106,594	$ 80.4

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.

(e) Unrecognized, non-vested share-based compensation

As at December 31, 2005, compensation cost related to non-vested share-based compensation that has not yet been recognized is set out in the following table and is expected to be recognized over a weighted average period of 2.8 years (2004 – 1.6 years).

These disclosures are not likely to be representative of the effects on reported net income for future years for the following reasons:

- these amounts reflect an estimate of forfeitures;
- these amounts do not reflect any provision for future awards;
- these amounts do not reflect any provision changes in the intrinsic value for vested restricted stock units; and
- for non-vested restricted stock units, these amounts reflect intrinsic values as at the balance sheet dates.

As at December 31 (millions)	2005	2004
Share options	$ 27.1	$ 21.0
Restricted stock units(1)	31.8	13.1
	$ 58.9	$ 34.1

(1) The compensation cost that has not yet been recognized in respect of non-vested restricted stock units is calculated based upon the intrinsic value of the non-vested restricted stock units as at the balance sheet date, net of the impacts of associated cash-settled equity forward agreements.

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, 2005, the rating was A (low).

As at December 31 (millions)	2005	2004
Total managed portfolio	$ 1,129.3	$ 1,021.7
Securitized receivables	(599.2)	(181.3)
Retained interest in receivables sold	80.2	23.1
Receivables held	$ 610.3	$ 863.5

For the year ended December 31, 2005, the Company recognized losses of $3.9 million (2004 – $1.1 million) on the sale of receivables arising from the securitization.

Cash flows from the securitization are as follows:

Years ended December 31 (millions)	2005	2004
Cumulative proceeds from securitization, beginning of period	$ 150.0	$ 300.0
Proceeds from new securitizations	350.0	–
Securitization reduction payments	–	(150.0)
Cumulative proceeds from securitization, end of period	$ 500.0	$ 150.0
Proceeds from collections reinvested in revolving-period securitizations	$ 1,679.3	$ 1,745.6
Proceeds from collections pertaining to retained interest	$ 275.3	$ 313.6

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, as further discussed in Note 1(l), are as follows:

Years ended December 31	2005	2004
Expected credit losses as a percentage of accounts receivable sold	1.2%	1.4%
Weighted average life of the receivables sold (days)	39	39
Effective annual discount rate	3.6%	3.4%
Servicing	1.0%	1.0%

Generally, the sold trade receivables do not experience prepayments.

At December 31, 2005, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% changes in those assumptions are as follows:

($ in millions)	2005	Hypothetical change in assumptions(1) 10%	20%
Carrying amount/fair value of future cash flows	$ 80.2		
Expected credit losses as a percentage of accounts receivable sold		$ 0.7	$ 1.4
Weighted average life of the receivables sold (days)		$ –	$ 0.1
Effective annual discount rate		$ –	$ 0.1

(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% 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

As at December 31 (millions)	Cost	Accumulated depreciation and amortization	Net book value 2005	Net book value 2004
Property, plant, equipment and other				
Telecommunications assets	$ 17,583.7	$ 12,092.8	$ 5,490.9	$ 5,814.3
Assets leased to customers	529.6	466.2	63.4	106.5
Buildings and leasehold improvements	1,754.8	916.8	838.0	852.6
Office equipment and furniture	980.7	717.6	263.1	253.8
Assets under capital lease	18.5	6.1	12.4	11.7
Other	329.3	244.4	84.9	91.1
Land	46.7	–	46.7	46.8
Assets under construction	516.4	–	516.4	329.6
Materials and supplies	23.6	–	23.6	21.8
	21,783.3	14,443.9	7,339.4	7,528.2
Intangible assets subject to amortization				
Subscriber base	362.9	116.2	246.7	268.2
Software	1,207.1	884.4	322.7	388.4
Access to rights-of-way and other	119.3	51.2	68.1	80.4
	1,689.3	1,051.8	637.5	737.0
Intangible assets with indefinite lives				
Spectrum licences[1]	3,983.1	1,018.5	2,964.6	2,955.8
	$ 27,455.7	$ 16,514.2	$ 10,941.5	$ 11,221.0

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

The following table presents items included in capital expenditures.

Years ended December 31 (millions)	2005	2004
Additions of intangible assets		
– Subject to amortization	$ 191.8	$ 227.8
– With indefinite lives	8.8	1.2
	$ 200.6	$ 229.0

The following table presents items included in capital expenditures.

Years ended December 31 (millions)	2005	2004
Capitalized internal labour costs	$ 213.0	$ 255.3

(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, 2005, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2006	$ 211.8
2007	124.7
2008	44.8
2009	9.7
2010	8.0

(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, a combination of the discounted cash flow approach, the market-comparable approach and analytical review of industry and Company-specific facts is used in 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 2005 annual test, and the results of operations for 2005, the Company estimates that its annual cash flows would be sufficient to recover the 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 the carrying value of its 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 the carrying value of its intangible assets with indefinite lives and goodwill for the foreseeable future.

12 goodwill

Years ended December 31 (millions)	2005	2004
Balance, beginning of period	**$ 3,126.8**	$ 3,118.0
Goodwill arising from current period acquisitions	**24.5**	6.9
Goodwill arising from contingent consideration paid in respect of a prior year's acquisition	**7.9**	–
Foreign exchange on goodwill of self-sustaining foreign operations	**(2.3)**	1.3
Other	**–**	0.6
Balance, end of period	**$ 3,156.9**	$ 3,126.8

Ambergris Solutions Inc.: The goodwill addition in the year ended December 31, 2005, none of which is expected to be deductible for tax purposes, arose from the cash acquisition of an effective 52.5% economic interest in Ambergris Solutions Inc., a business process outsourcing company. The acquisition was effected in two steps: one on February 15, 2005, for an effective 49% economic interest and one on May 13, 2005, for an effective 3.5% economic interest. The initial effective 49% economic interest resulted in the Company controlling Ambergris Solutions Inc. as the Company controlled, but did not wholly-own, an intermediate holding company which, in turn, controlled, but did not wholly-own, Ambergris Solutions Inc. This investment was made with a view to enhancing the Company's competitiveness in contact centre offerings. The primary factor that contributed to a purchase price that resulted in the recognition of goodwill is the low degree of net tangible assets in the industry relative to the market value of established Asian operations. Effective February 15, 2005, Ambergris Solutions Inc.'s results are included in the Company's Consolidated Statements of Income and are included in the Company's Wireline segment.

Adcom Inc.: 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. The investment was made with a view to the ongoing advancement of the Company's national data and Internet protocol growth strategy. The primary factor that contributed to a purchase price that resulted in the recognition of goodwill is the low degree of net tangible assets relative to the earnings capacity of the acquired business. 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 Wireline segment.

Summarized balance sheet information: The following is a summarized balance sheet disclosing the fair values assigned to each major asset and liability class as at the dates of acquisition:

(millions)	Ambergris Solutions Inc.	Adcom Inc.
Assets		
Current Assets	$ 8.4	$ 5.9
Capital Assets, Net		
Property, plant, equipment and other	13.3	1.0
Intangible assets subject to amortization(1)	–	1.5
	13.3	2.5
Other Assets		
Future income taxes	–	2.9
Other	0.5	–
Goodwill	24.5	6.9
	25.0	9.8
	$ 46.7	$ 18.2
Liabilities		
Current Liabilities	$ 6.9	$ 5.6
Future Income Taxes	5.4	0.4
	12.3	6.0
Non-Controlling Interest	5.0	–
Purchase Price	29.4	12.2
	$ 46.7	$ 18.2

(1) Intangible assets subject to amortization will be amortized on a straight-line basis over four years.

Pro forma supplemental information: The following pro forma supplemental information represents certain results of operations as if the business acquisitions had been completed as at the beginning of the periods presented.

Years ended December 31 ($ in millions except per share amounts)	2005		2004	
	As reported	Pro forma(1)	As reported	Pro forma(2)
Operating revenues	**$ 8,142.7**	**$ 8,147.5**	$ 7,581.2	$ 7,630.3
Net income	**$ 700.3**	**$ 700.8**	$ 565.8	$ 569.1
Income per Common Share and Non-Voting Share				
– Basic	**$ 1.96**	**$ 1.96**	$ 1.58	$ 1.59
– Diluted	**$ 1.94**	**$ 1.94**	$ 1.57	$ 1.58

(1) Pro forma amounts for 2005 reflect Ambergris Solutions Inc.
(2) Pro forma amounts for 2004 reflect Ambergris Solutions Inc. and Adcom Inc. Adcom Inc. was purchased effective November 15, 2004, and its results have been included in the Company's Consolidated Statements of Income effective the same date.

13 short-term obligations

At December 31, 2005, the Company's available bilateral bank facilities totalled $74 million, unchanged from 2004, none of which was utilized in the form of an overdraft, also unchanged from 2004; $7.3 million (2004 – $7.2 million) was utilized as outstanding undrawn letters of credit.

14 long-term debt

(a) Details of long-term debt

($ in millions)			As at December 31	
Series	Rate of interest	Maturity	2005	2004
TELUS Corporation Notes – U.S.[2]	7.5%[1]	June 2007	$ 1,354.4	$ 1,398.6
U.S.[3]	8.0%[1]	June 2011	2,230.6	2,303.9
CA	7.5%[1]	June 2006	–	1,574.6
			3,585.0	5,277.1
TELUS Corporation Credit Facilities	5.00%	May 2008	142.0	–
TELUS Corporation Convertible Debentures	6.75%[1]	June 2010	–	141.6
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
B	8.80%[1]	September 2025	200.0	200.0
			799.0	799.0
TELUS Communications Inc. First Mortgage Bonds				
U	11.50%[1]	July 2010	30.0	30.0
TELUS Communications Inc. Medium Term Notes				
1	7.10%[1]	February 2007	70.0	70.0
Capital leases issued at varying rates of interest from 4.1% to 16.7% and maturing on various dates up to 2013			12.5	10.7
Other			6.4	8.1
Total debt			4,644.9	6,336.5
Less – current maturities			5.0	4.3
Long-Term Debt			$ 4,639.9	$ 6,332.2

(1) Interest is payable semi-annually.
(2) Principal face value of notes is U.S.$1,166.5 million (2004 – U.S.$1,166.5 million).
(3) Principal face value of notes is U.S.$1,925.0 million (2004 – U.S.$1,925.0 million).

(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.

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 (i) 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 (ii) 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 (2004 – 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% (2004 – 8.109%) and 8.493% (2004 – 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 (i) 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 (ii) 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 (iii) 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 counterparties due to its assessment of their creditworthiness (see Note 4).

As further discussed 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, 2005, comprised a deferred hedging liability of $1,154.3 million, as set out in Note 17(b) (2004 – $1,032.6 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 (2004 – $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.

2006 (Canadian Dollar) Notes: In May 2001, the Company issued $1.6 billion 7.50%, Series CA, 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 (i) the present value of the notes discounted at the Government of Canada yield plus 35 basis points, or (ii) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

During the third quarter of 2002, the Company repurchased 7.50%, Series CA, Notes with a face value of $22.0 million.

On October 17, 2005, the Company exercised its right to early redeem, on December 1, 2005, the remaining $1,578.0 million of 7.50%, Series CA, Notes outstanding. The loss on redemption, as set out in Note 6, was $33.5 million.

2006 Interest Rate Swap Agreements: In 2004 the Company entered into a series of interest rate swap agreements which resulted in the notional conversion of $500 million of the 7.50%, Series CA, 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 were highly rated financial institutions and the Company did not anticipate any non-performance. TELUS had not required collateral or other security from the counterparties due to its assessment of their creditworthiness. The swap agreements were terminated concurrent with the redemption of the 7.50%, Series CA, Notes.

(c) TELUS Corporation credit facilities

On May 4, 2005, TELUS Corporation entered into a new $1.6 billion bank credit facility with a syndicate of financial institutions. The new credit facilities consist of: (i) an $800 million (or U.S. Dollar equivalent) revolving credit facility expiring on May 7, 2008, to be used for general corporate purposes, and (ii) an $800 million (or U.S. Dollar equivalent) revolving credit facility expiring on May 4, 2010, to be used for general corporate purposes. These new facilities replaced the Company's existing committed credit facilities prior to the availability termination dates of such facilities.

TELUS Corporation's new 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, 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.

As at December 31, 2005 (millions)	Gross available	Drawn	Outstanding, undrawn letters of credit	Net available
Revolving credit facility expiring				
May 7, 2008	$ 800.0	$ 142.0	$ 100.6	$ 557.4
May 4, 2010	800.0	–	–	800.0
	$ 1,600.0	$ 142.0	$ 100.6	$ 1,357.4

(d) TELUS Corporation convertible debentures

The 6.75% convertible debentures were unsecured, subordinated obligations of the Company that were to mature on June 15, 2010, and were 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, was allowed if 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 was valued using the residual value approach and was presented as a component of shareholders' equity in Note 15(a). Commencing with the Company's 2004 fiscal year, the Company classified the convertible debentures as a liability on its balance sheet in response to 2003 amendments to the recommendations of the CICA for the presentation and disclosure of financial instruments (CICA Handbook Section 3860) specifically concerning the classification of obligations that an issuer can settle with its own equity instruments.

On May 9, 2005, the Company provided notice of redemption for its convertible debentures at par, plus accrued and unpaid interest, for redemption on June 16, 2005. Convertible debenture holders exercised conversion options resulting in $131.7 million of convertible debenture principal being converted into 3,316,047 Non-Voting Shares, as presented in Note 15(b). The conversion option in respect of $17.9 million of convertible debenture principal was not exercised and this principal amount was redeemed on June 16, 2005.

(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 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. 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 higher of par and the price calculated to provide the Government of Canada Yield plus 15 basis points.

Pursuant to an amalgamation on January 1, 2001, the 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 notes

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) 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]
2006	$ 5.0
2007	1,873.4
2008	147.5
2009	1.5
2010	81.7

(1) Where applicable, repayments reflect hedged foreign exchange rates.

15 shareholders' equity

(a) Details of shareholders' equity

As at December 31 ($ in millions except per share amounts)		2005	2004
Convertible debentures conversion option (Note 14(d))		$ –	$ 8.8
Preferred equity			
Authorized	Amount		
First Preferred Shares	1,000,000,000		
Second Preferred Shares	1,000,000,000		
Common equity			
Share capital			
Shares			
Authorized	Amount		
Common Shares	1,000,000,000		
Non-Voting Shares	1,000,000,000		
Issued			
Common Shares (b)		2,311.6	2,407.5
Non-Voting Shares (b)		3,556.7	3,426.7
		5,868.3	5,834.2
Other			
Options and warrants (c)		5.9	26.9
Accrual for shares issuable under channel stock incentive plan (d)		–	0.8
		5.9	27.7
Cumulative foreign currency translation adjustment		(7.3)	(2.2)
Retained earnings		849.7	1,008.1
Contributed surplus (e)		153.4	149.0
		6,870.0	7,016.8
Total Shareholders' Equity		$ 6,870.0	$ 7,025.6

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(b) Changes in Common Shares and Non-Voting Shares

Years ended December 31 ($ in millions)	2005		2004	
	Number of shares	Share capital	Number of shares	Share capital
Common Shares				
Beginning of period	192,748,738	$ 2,407.5	190,800,015	$ 2,349.1
Exercise of share options (f)	1,000,328	32.2	267,584	6.5
Purchase of shares for cancellation pursuant to normal course issuer bid (g)	(10,137,769)	(127.1)	(755,711)	(9.4)
Expiration of predecessor share exchange privilege (h)	(80,642)	(1.0)	–	–
Employees' purchase of shares (Note 9(d))	–	–	2,235,290	56.1
Dividends reinvested in shares	–	–	201,560	5.2
End of period	183,530,655	$ 2,311.6	192,748,738	$ 2,407.5
Non-Voting Shares				
Beginning of period	165,803,123	$ 3,426.7	161,042,369	$ 3,296.6
Transitional amount for share-based compensation arising from share options (Note 1(j))	–	–	–	0.4
Adjusted opening balance	165,803,123	3,426.7	161,042,369	3,297.0
Exercise of warrants (c)	561,732	20.8	190,989	7.1
Exercise of convertible debenture conversion option	3,316,047	132.9	–	–
Channel stock incentive plan (d)	12,225	0.4	46,075	1.1
Exercise of share options (f)	7,556,004	200.4	4,231,196	112.4
Purchase of shares for cancellation pursuant to normal course issuer bid (g)	(10,656,300)	(223.9)	(1,451,400)	(30.0)
Expiration of predecessor share exchange privilege (h)	(26,327)	(0.6)	–	–
Dividend Reinvestment and Share Purchase Plan (i)				
Dividends reinvested in shares	–	–	1,709,610	38.3
Optional cash payments	–	–	34,284	0.8
End of period	166,566,504	$ 3,556.7	165,803,123	$ 3,426.7

Amounts credited to the Common Share capital account upon exercise of share options is cash received. Amounts credited to the Non-Voting Share capital account are comprised as follows:

Years ended December 31 (millions)	2005	2004
Non-Voting Shares		
Cash received from share option exercises	$ 180.3	$ 77.7
Amounts credited to share capital arising from intrinsic value accounting applied to former Clearnet Communications Inc. options (c)	9.1	20.0
Share option expense reclassified from contributed surplus upon exercise of share options (e)	11.0	14.7
	$ 200.4	$ 112.4

(c) Options and warrants

Upon its acquisition of Clearnet Communications Inc. in 2000, the Company was required to record the intrinsic value of Clearnet Communications Inc. 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 as they 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 Communications Inc., effective January 18, 2001, TELUS Corporation exchanged the warrants held by former Clearnet Communications Inc. warrant holders. Each warrant entitled the holder to purchase a Non-Voting Share at a price of U.S.$10.00 per share until September 15, 2005.

(d) 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. During the first half of 2005, terms of the Plan were amended such that the Non-Voting Shares earned were no longer to be issued from Treasury and, as a result, as at December 31, 2005, Non-Voting Shares earned are no longer accrued as a component of Common Equity.

(e) Contributed surplus

The following table presents a summary of the activity related to the Company's contributed surplus for the years ended December 31.

Years ended December 31 (millions)	2005	2004
Balance, beginning of period	$ 149.0	$ 5.9
Transitional amount for share-based compensation arising from share options (Note 1(j))	–	24.7
Adjusted opening balance	149.0	30.6
Share option expense recognized in period (Note 9(a))	14.2	19.1
Share option expense reclassified to Non-Voting Share capital account upon exercise of share options	(11.0)	(14.7)
Unexercised, expired convertible debenture conversion option	1.2	–
Redemption premium on preference and preferred shares(1)	–	(0.8)
Payment received from Verizon Communications Inc. (Note 20)	–	114.8
Balance, end of period	$ 153.4	$ 149.0

(1) Pursuant to its right to redeem the TELUS Communications Inc. 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. Of the redemption premium of $3.1, $0.8 is chargeable against contributed surplus with the balance being charged to retained earnings.

(f) 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 currently granted under the plans may be exercised over specific periods not to exceed seven years from the time of grant; prior to 2003, share options were granted with exercise periods not to exceed ten years.

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	2005		2004	
	Number of share options	Weighted average share option price	Number of share options	Weighted average share option price
Outstanding, beginning of period	**21,914,760**	**$ 26.07**	25,773,832	$ 24.85
Granted	**1,916,575**	**38.85**	1,849,341	24.78
Exercised[1]	**(8,556,332)**	**24.84**	(4,498,780)	18.75
Forfeited	**(1,239,547)**	**29.22**	(1,078,652)	25.42
Expired and cancelled	**(140,855)**	**41.63**	(130,981)	24.76
Outstanding, end of period	**13,894,601**	**$ 28.14**	21,914,760	$ 26.07

(1) The total intrinsic value of share options exercised for the year ended December 31, 2005, was $128.5 million (2004 – $49.9 million).

The following is an option life and price stratification of the Company's share options outstanding as at December 31, 2005.

Options outstanding							Options exercisable	
Range of option prices						Total		
Low	$ 5.95	$ 9.08	$ 14.63	$ 21.99	$ 34.88	$ 5.95		
High	$ 8.43	$ 13.56	$ 19.92	$ 32.83	$ 46.75	$ 46.75	Number of shares	Weighted average price
Year of expiry and number of shares:								
2006	4,908	–	–	6,700	–	11,608	11,608	$ 18.02
2007	2,959	19,562	10,736	152,266	–	185,523	185,523	$ 27.76
2008	3,272	–	–	103,339	144,800	251,411	251,411	$ 39.57
2009	–	171,075	1,375,993	214,199	220,060	1,981,327	1,981,327	$ 19.48
2010	–	–	292,661	2,228,258	725,390	3,246,309	1,063,474	$ 33.70
2011	–	–	10,999	3,222,265	2,596,091	5,829,355	4,245,714	$ 30.75
2012	31,466	27,965	400,900	75,000	1,853,737	2,389,068	531,331	$ 16.53
	42,605	218,602	2,091,289	6,002,027	5,540,078	13,894,601	8,270,388	$ 27.70
Weighted average remaining contractual life (years)	5.3	3.9	4.5	5.1	5.4	5.1		
Weighted average price	$ 8.09	$ 12.84	$ 16.03	$ 24.81	$ 37.09	$ 28.14		
Aggregate intrinsic value[1] (millions)	$ 1.6	$ 7.4	$ 64.1	$ 131.8	$ 54.3	$ 259.2		
Options exercisable								
Number of shares	38,605	218,602	1,870,028	2,456,812	3,686,341	8,270,388		
Weighted average remaining contractual life (years)	5.2	3.9	4.6	5.1	4.8	4.8		
Weighted average price	$ 8.06	$ 12.84	$ 16.14	$ 25.44	$ 36.15	$ 27.70		
Aggregate intrinsic value[1] (millions)	$ 1.5	$ 7.4	$ 57.1	$ 52.7	$ 40.0	$ 158.7		

(1) The aggregate intrinsic value is calculated upon December 31, 2005, per share prices of $47.86 for Common Shares and $46.67 for Non-Voting Shares.

At December 31, 2005, 1.5 million (2004 – 3.0 million) Common Shares and 22.1 million (2004 – 26.4 million) Non-Voting Shares were reserved for issuance, from Treasury, under the share option plans.

(g) Purchase of shares for cancellation pursuant to normal course issuer bid

The Company purchased, for cancellation, Common Shares and Non-Voting Shares pursuant to two normal course issuer bids. The first program ran for a twelve-month period ending December 19, 2005, for up to 14.0 million Common Shares and 11.5 million Non-Voting Shares and the second runs for a twelve-month period ending December 19, 2006, for up to 12.0 million Common Shares and 12.0 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, 2005, 634,469 Common Shares (2004 – 120,000 Common Shares) and 607,700 Non-Voting Shares (2004 – 151,400 Non-Voting Shares) had been purchased and not yet cancelled.

Years ended December 31 ($ in millions)	Number of shares	Purchase price Paid	Purchase price Charged to share capital	Purchase price Charged to retained earnings
Common Shares purchased for cancellation				
Program commencing December 20, 2004				
During fiscal 2004 year	755,711	$ 27.3	$ 9.4	$ 17.9
During fiscal 2005 year	9,503,300	412.5	119.1	293.4
Program total	10,259,011	439.8	128.5	311.3
Program commencing December 20, 2005				
During fiscal 2005 year	634,469	29.7	8.0	21.7
Both programs – inception to date	10,893,480	$ 469.5	$ 136.5	$ 333.0
Both programs – during fiscal 2005 year	**10,137,769**	**$ 442.2**	**$ 127.1**	**$ 315.1**
Non-Voting Shares purchased for cancellation				
Program commencing December 20, 2004				
During fiscal 2004 year	1,451,400	$ 50.7	$ 30.0	$ 20.7
During fiscal 2005 year	10,048,600	422.1	211.0	211.1
Program total	11,500,000	472.8	241.0	231.8
Program commencing December 20, 2005				
During fiscal 2005 year	607,700	27.8	12.9	14.9
Both programs – inception to date	12,107,700	$ 500.6	$ 253.9	$ 246.7
Both programs – during fiscal 2005 year	**10,656,300**	**$ 449.9**	**$ 223.9**	**$ 226.0**
Common Shares and Non-Voting Shares purchased for cancellation				
Program commencing December 20, 2004				
During fiscal 2004 year	2,207,111	$ 78.0	$ 39.4	$ 38.6
During fiscal 2005 year	19,551,900	834.6	330.1	504.5
Program total	21,759,011	912.6	369.5	543.1
Program commencing December 20, 2005				
During fiscal 2005 year	1,242,169	57.5	20.9	36.6
Both programs – inception to date	23,001,180	$ 970.1	$ 390.4	$ 579.7
Both programs – during fiscal 2005 year	**20,794,069**	**$ 892.1**	**$ 351.0**	**$ 541.1**

(h) Expiration of predecessor share exchange privilege

As set out in the Joint Management Proxy Circular of December 8, 1998, holders of BC TELECOM Inc. Common Shares and holders of Alberta-based TELUS Corporation Common Shares had six years to exchange their shares for shares that have become what are now the Company's Common Shares and Non-Voting Shares; such period elapsed on January 31, 2005. The amounts corresponding with the unexchanged shares have been removed from the equity accounts.

(i) 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. During the year ended December 31, 2005, the Company did not offer 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.

In respect of Common Share and Non-Voting Share dividends declared during the year ended December 31, 2005, $5.7 million (2004 – $29.3 million) was to be reinvested in 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, $158.7 million as at December 31, 2005 (2004 – $128.7 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. Ultimately, this process results in the CRTC determining if, and when, the deferral account liability is settled.

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, the CRTC Decision 2005-6, as it relates to the Company's provision of Competitor Digital Network services, is not expected to affect the Company's revenues. To the extent that the CRTC Decision 2005-6 requires the Company to provide discounts on Competitor Digital Network services, both for current and prior periods, the Company draws down the deferral account by an offsetting amount. For the year ended December 31, 2005, the Company drew down the deferral account by $50.5 million in respect of discounts on Competitor Digital Network services.

(b) Labour negotiations

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 was the first round of collective bargaining since the merger of BC TELECOM and TELUS Alberta and the Company's aim was to replace the legacy collective agreements with a single collective agreement for the new bargaining unit.

On November 6, 2005, the Telecommunications Workers Union and the Company announced that they had reached a tentative agreement that included the terms of a five-year collective agreement that was to be submitted to the Telecommunications Workers Union members for ratification. The Telecommunications Workers Union Executive Council and Bargaining Committee had both recommended acceptance of the tentative agreement. On November 18, 2005, the Telecommunications Workers Union announced that its members voted to accept the tentative agreement that was announced on November 6, 2005; the members voted 67.3% in favour to accept the tentative agreement. The terms and conditions of the new collective agreement are effective from November 20, 2005, to November 19, 2010.

Incremental expenses during the year ended December 31, 2005, that arose from emergency operations procedures included management reassignments, paid overtime, third-party security and contractor costs, travel and accommodation. These incremental expenses exceeded cost savings, such as those arising from lower compensation expenses for employees who stayed off work and adjustments to accruals for payroll and other employee-related liabilities, by approximately $133 million.

(c) Contractual obligations

The Company's known contractual obligations at December 31, 2005, are as follows:

	Long-term debt maturities(1) (see Note 14(h))					
(millions)	All except capital leases	Capital leases	Other long-term liabilities(2) (see Note 17(b))	Operating leases (see Note 16(d))	Purchase obligations(3)	Total
2006	$ 1.8	$ 3.2	$ 17.9	$ 177.2	$ 380.1	$ 580.2
2007	1,869.9	3.5	28.4	155.7	160.1	2,217.6
2008	144.2	3.3	17.8	139.3	106.1	410.7
2009	0.7	0.8	17.1	126.7	44.9	190.2
2010	80.0	1.7	16.9	112.7	10.1	221.4
Thereafter	3,716.5	–	140.1	476.7	34.6	4,367.9
Total	$ 5,813.1	$ 12.5	$ 238.2	$ 1,188.3	$ 735.9	$ 7,988.0

(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 connection 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 2006 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 2006, 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 that is further discussed in Note 5, some of the leased building premises were sub-let. At December 31, 2005, the future minimum lease payments under capital leases and operating leases, and future receipts from real estate operating sub-leases, are as follows:

		Operating lease payments					
		Land and buildings					
(millions)	Capital lease payments	Rent	Occupancy costs	Gross	Vehicles and other equipment	Total	Operating lease receipts from sub-let land and buildings
2006	$ 3.4	$ 103.4	$ 59.9	$ 163.3	$ 13.9	$ 177.2	$ 1.0
2007	3.8	91.2	56.6	147.8	7.9	155.7	0.1
2008	3.6	80.0	55.1	135.1	4.2	139.3	0.1
2009	0.9	71.3	52.4	123.7	3.0	126.7	0.1
2010	1.9	62.1	49.0	111.1	1.6	112.7	0.1
Total future minimum lease payments	13.6						
Less imputed interest	1.1						
Capital lease liability	$ 12.5						

(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 that 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 third parties' financial obligations as part of a facility naming rights agreement. The guarantees, in total, run through to August 31, 2008, on a declining-balance basis and are of limited recourse.

As at December 31, 2005, 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, 2005, the Company has a liability of $0.5 million (2004 – $1.0 million) recorded in respect of these lease guarantees.

The following table quantifies the maximum undiscounted guarantee amounts as at December 31, 2005, without regard for the likelihood of having to make such payment.

(millions)	Performance guarantees(1)	Financial guarantees(1)	Total
2006	$ 3.6	$ 1.4	$ 5.0
2007	1.5	0.8	2.3
2008	1.0	0.3	1.3
2009	0.5	–	0.5

(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 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.

As at December 31, 2005, 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. The complaint was not resolved through conciliation and it was referred back to the Canadian Human Rights Commission in December 2004. The Canadian Human Rights Commission has since decided to resume its investigation of the complaint. 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. As a term of the settlement between TELUS Communications Inc. and the Telecommunications Workers Union that resulted in the collective agreement effective November 20, 2005, and subject to acceptance by the Canadian Human Rights Commission of the settlement and closure of its file on this complaint, the parties have agreed to settle this complaint without any admission of liability, on the basis that the Company will establish a pay equity fund of $10 million to be paid out during the term of the new collective agreement and the Telecommunications Workers Union will withdraw and discontinue this complaint. On December 21, 2005, the Telecommunications Workers Union withdrew and discontinued this complaint. On January 10, 2006, the Canadian Human Rights Commission advised the Company that its investigator had recommended no further proceedings in the complaint; however, the Company is awaiting the Canadian Human Rights Commission's decision in this regard. Should the Canadian Human Rights Commission refuse consent or the complaint continue for any other reason and its ultimate resolution 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: Two statements of claim were filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, respectively, 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 alleged 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. The Company believes that it has good defences to the actions. As a term of the settlement reached between TELUS Communications Inc. and the Telecommunications Workers Union that resulted in a collective agreement effective November 20, 2005, the Telecommunications Workers Union has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the Telecommunications Workers Union's desire and recommendation that these proceedings be dismissed or discontinued. The Company has been advised by the Telecommunications Workers Union that the plaintiffs have not agreed to dismiss or discontinue these actions. Should the lawsuits continue because of the actions of the court, the plaintiffs or for any other reason, and their ultimate resolution 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 will not proceed 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

(millions)	2005	2004
Operations expense[1]:		
Cost of sales and service		
Three months ended – March 31	$ 616.5	$ 584.8
– June 30	617.6	593.0
– September 30	689.7	612.2
– December 31	729.1	617.2
Years ended December 31	2,652.9	2,407.2
Selling, general and administrative		
Three months ended – March 31	492.6	481.8
– June 30	528.5	487.1
– September 30	531.8	500.6
– December 31	587.7	561.3
Years ended December 31	2,140.6	2,030.8
	$ 4,793.5	$ 4,438.0
Advertising expense – years ended December 31	$ 224.0	$ 165.0

(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

As at December 31 (millions)	2005	2004
Accounts receivable		
Customer accounts receivable	$ 451.1	$ 727.0
Accrued receivables – customer	113.2	114.1
Allowance for doubtful accounts	(57.2)	(69.3)
	507.1	771.8
Accrued receivables – other	94.3	81.7
Other	8.9	10.0
	$ 610.3	$ 863.5
Prepaid expense and other		
Prepaid expenses	$ 87.7	$ 101.4
Deferred customer activation and connection costs	66.4	76.2
Other	0.6	5.8
	$ 154.7	$ 183.4
Deferred charges		
Recognized transitional pension assets and pension plan contributions in excess of charges to income	$ 687.9	$ 556.7
Deferred customer activation and connection costs	104.4	94.4
Cost of issuing debt securities, less amortization	23.5	32.1
Other	34.4	21.2
	$ 850.2	$ 704.4

As at December 31 (millions)	2005	2004
Accounts payable and accrued liabilities		
Accrued liabilities	$ 508.6	$ 409.1
Payroll and other employee-related liabilities	388.7	535.4
Asset retirement obligations	4.1	3.1
	901.4	947.6
Trade accounts payable	394.4	313.0
Interest payable	54.8	65.0
Other	43.1	37.0
	$ 1,393.7	$ 1,362.6
Advance billings and customer deposits		
Advance billings	$ 322.4	$ 294.4
CRTC Decisions 2002-34 and 2002-43 deferral accounts (Note 16(a))	158.7	128.7
Deferred customer activation and connection fees	66.4	79.6
Customer deposits	24.3	28.8
	$ 571.8	$ 531.5
Other Long-Term Liabilities		
Deferred hedging liability	$ 1,154.3	$ 1,032.6
Pension and other post-retirement liabilities	189.1	172.8
Deferred customer activation and connection fees	104.4	94.4
Deferred gain on sale-leaseback of buildings	81.1	98.7
Asset retirement obligations	28.9	19.2
Other	77.5	88.4
	$ 1,635.3	$ 1,506.1

(c) Supplementary cash flow information

Years ended December 31 (millions)	2005	2004
Net change in non-cash working capital		
Accounts receivable	$ 262.7	$ (139.7)
Income and other taxes receivable	28.8	54.9
Inventories	(5.5)	(9.8)
Prepaid expenses and other	28.7	(19.2)
Accounts payable and accrued liabilities	(1.3)	79.3
Advance billings and customer deposits	40.3	86.5
	$ 353.7	$ 52.0
Interest (paid)		
Amounts (paid) in respect of interest expense	$ (607.4)	$ (632.9)
Amounts (paid) in respect of loss on redemption of long-term debt (Note 14(b))	(30.9)	–
	$ (638.3)	$ (632.9)

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 ceased accepting new participants on January 1, 2006, and 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 on 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 in 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 a life insurance plan. The healthcare plan for retired employees and the life insurance plans ceased accepting new participants effective January 1, 1997. In connection with the collective agreement signed in the fourth quarter of 2005, as further discussed in Note 16(b), the disability income plan will be provided by an external supplier effective January 1, 2006. The existing disability income plan will continue to provide payments to previously approved claimants and qualified eligible employees.

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)	2005	2004	2005	2004
Accrued benefit obligation:				
Balance at beginning of year	$ 5,366.7	$ 5,038.7	$ 61.1	$ 67.7
Current service cost	105.6	103.5	3.4	4.8
Interest cost	319.3	312.4	8.2	2.4
Benefits paid (b)	(255.5)	(242.0)	(5.3)	(5.3)
Actuarial loss (gain)	809.2	154.1	1.7	(8.5)
Balance at end of year (c)-(d)	6,345.3	5,366.7	69.1	61.1
Plan assets (f):				
Fair value at beginning of year	5,457.2	5,002.4	48.2	49.6
Annual return on plan assets	840.3	527.3	(0.3)	2.7
Employer contributions (g)	119.6	135.8	1.2	1.2
Employees' contributions	37.3	33.7	–	–
Benefits paid (b)	(255.5)	(242.0)	(5.3)	(5.3)
Fair value at end of year	6,198.9	5,457.2	43.8	48.2
Funded status – plan surplus (deficit)	(146.4)	90.5	(25.3)	(12.9)
Unamortized net actuarial loss (gain)	1,109.0	769.1	(17.1)	(23.6)
Unamortized past service costs	6.0	6.6	–	–
Unamortized transitional obligation (asset)	(278.1)	(322.8)	3.2	4.0
Accrued benefit asset (liability)	690.5	543.4	(39.2)	(32.5)
Valuation allowance	(152.5)	(127.0)	–	–
Accrued benefit asset (liability), net of valuation allowance	$ 538.0	$ 416.4	$ (39.2)	$ (32.5)

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, 2005. 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, 2005, of $6.0 million (2004 – $4.5 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:

As at December 31 (millions)	2005	2004
Pension benefit plans	$ 538.0	$ 416.4
Other benefit plans	(39.2)	(32.5)
	$ 498.8	$ 383.9
Presented on the Consolidated Balance Sheets as:		
Deferred charges (Note 17(b))	$ 687.9	$ 556.7
Other long-term liabilities (Note 17(b))	(189.1)	(172.8)
	$ 498.8	$ 383.9

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)		2005				2004
	Incurred in period	Matching adjustments[1]	Recognized in period	Incurred in period	Matching adjustments[1]	Recognized in period
Pension benefit plans						
Current service cost	$ 68.3	$ –	$ 68.3	$ 70.4	$ –	$ 70.4
Interest cost	319.3	–	319.3	312.4	–	312.4
Return on plan assets	(840.3)	448.0	(392.3)	(527.3)	154.2	(373.1)
Past service costs	–	0.6	0.6	–	0.7	0.7
Actuarial loss (gain)	809.2	(789.1)	20.1	154.1	(129.5)	24.6
Valuation allowance provided against accrued benefit asset	–	25.5	25.5	–	25.4	25.4
Amortization of transitional asset	–	(44.7)	(44.7)	–	(44.8)	(44.8)
	$ 356.5	$ (359.7)	$ (3.2)	$ 9.6	$ 6.0	$ 15.6

(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)		2005				2004
	Incurred in period	Matching adjustments[1]	Recognized in period	Incurred in period	Matching adjustments[1]	Recognized in period
Other benefit plans						
Current service cost	$ 3.4	$ –	$ 3.4	$ 4.8	$ –	$ 4.8
Interest cost	8.2	–	8.2	2.4	–	2.4
Return on plan assets	0.3	(2.8)	(2.5)	(2.7)	0.1	(2.6)
Actuarial loss (gain)	1.7	(3.7)	(2.0)	(8.5)	7.1	(1.4)
Amortization of transitional obligation	–	0.8	0.8	–	0.8	0.8
	$ 13.6	$ (5.7)	$ 7.9	$ (4.0)	$ 8.0	$ 4.0

(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
2006	$ 265.4	$ 5.4
2007	275.9	5.6
2008	287.7	5.8
2009	302.9	6.0
2010	318.2	6.0
2011–2015	1,840.1	32.1

(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:

As at December 31 (millions)		2005				2004
	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	$ 3,562.7	$ 3,805.0	$ 242.3	$ 2,977.5	$ 3,356.9	$ 379.4
Pension plans that have accrued benefit obligations in excess of plan assets						
Funded	2,611.4	2,393.9	(217.5)	2,230.2	2,100.3	(129.9)
Unfunded	171.2	–	(171.2)	159.0	–	(159.0)
	2,782.6	2,393.9	(388.7)	2,389.2	2,100.3	(288.9)
(see (a))	$ 6,345.3	$ 6,198.9	$ (146.4)	$ 5,366.7	$ 5,457.2	$ 90.5

At December 31, 2005 and 2004, undrawn Letters of Credit, further discussed in Note 14(c), secured certain of the unfunded defined benefit pension plans.

(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:

As at December 31 (millions)	2005			2004		
	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	$ 35.0	$ 43.8	$ 8.8	$ 33.9	$ 48.2	$ 14.3
Unfunded other benefit plans that have accrued benefit obligations in excess of plan assets	34.1	–	(34.1)	27.2	–	(27.2)
(see (a))	$ 69.1	$ 43.8	$ (25.3)	$ 61.1	$ 48.2	$ (12.9)

(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:

As at December 31 (millions)	2005			2004		
	Accumulated benefit obligation	Plan assets	Difference	Accumulated benefit obligation	Plan assets	Difference
Pension plans that have plan assets in excess of accumulated benefit obligations	$ 4,188.5	$ 4,695.5	$ 507.0	$ 3,582.1	$ 4,126.5	$ 544.4
Pension plans that have accumulated benefit obligations in excess of plan assets						
Funded	1,561.3	1,503.4	(57.9)	1,357.5	1,330.7	(26.8)
Unfunded	160.1	–	(160.1)	148.4	–	(148.4)
	1,721.4	1,503.4	(218.0)	1,505.9	1,330.7	(175.2)
	$ 5,909.9	$ 6,198.9	$ 289.0	$ 5,088.0	$ 5,457.2	$ 369.2

(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 investment 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 the designated governing fiduciary. 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	
	2006	2005	2004	2006	2005	2004
Equity securities	58-64%	62%	64%	–	–	–
Debt securities	32-38%	34%	33%	–	–	–
Real estate	4-6%	4%	3%	–	–	–
Other	0-2%	–	–	100%	100%	100%
		100%	100%		100%	100%

At December 31, 2005, shares of TELUS Corporation 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 2006 employer contributions to the Company's defined benefit plans are approximately $114 million and $1 million for defined benefit pension plans and other defined benefit plans, respectively. These estimates are based upon the mid-year 2005 annual funding reports that were prepared by actuaries using December 31, 2004, 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 2006.

(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	
	2005	2004	2005	2004
Discount rate used to determine:				
Net benefit costs for the year ended December 31	6.00%	6.25%	5.34%	5.55%
Accrued benefit obligation as at December 31	5.00%	6.00%	4.83%	5.30%
Expected long-term rate of return(1) on plan assets used to determine:				
Net benefit costs for the year ended December 31	7.25%	7.50%	5.50%	5.50%
Accrued benefit obligation as at December 31	7.25%	7.25%	5.50%	5.50%
Rate of future increases in compensation used to determine:				
Net benefit costs for the year ended December 31	3.00%	3.50%	–	–
Accrued benefit obligation as at December 31	3.00%	3.00%	–	–

(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.

2005 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	$ 223.1	$ 17.2	$ 1.5	$ 0.1
Expected long-term rate of return on plan assets		$ 13.5		$ 0.1
Rate of future increases in compensation	$ 30.5	$ 6.4	$ –	$ –

(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% 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 for the defined benefit plan for retired employees were estimated to increase at an annual rate of 9.0% (2004 – 9.5%), decreasing to an annual growth rate of 5% (2004 – 5%) over an eight-year period.

(i) Defined contribution plans

The Company's total defined contribution pension plan costs recognized were as follows:

Years ended December 31 (millions)	2005	2004
Union pension plan and public service pension plan contributions	$ 26.3	$ 38.6
Other defined contribution pension plans	15.1	13.9
	$ 41.4	$ 52.5

19 segmented information

The Company's reportable segments, which are used to manage the business, are Wireline and Wireless. The Wireline segment includes voice local, voice long distance, data and other telecommunication services excluding wireless. The Wireless segment includes digital personal communications services, equipment sales 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. The following segmented information is regularly reported to the Company's chief operating decision maker.

Years ended December 31	Wireline		Wireless		Eliminations		Consolidated	
(millions)	2005	2004	2005	2004	2005	2004	2005	2004
Operating revenues								
External revenue	$ 4,847.2	$ 4,769.3	$ 3,295.5	$ 2,811.9	$ –	$ –	$ 8,142.7	$ 7,581.2
Intersegment revenue	90.4	96.6	23.5	21.5	(113.9)	(118.1)	–	–
	4,937.6	4,865.9	3,319.0	2,833.4	(113.9)	(118.1)	8,142.7	7,581.2
Operating expenses								
Operations expense	3,031.4	2,864.9	1,876.0	1,691.2	(113.9)	(118.1)	4,793.5	4,438.0
Restructuring and workforce reduction costs	53.9	52.6	–	–	–	–	53.9	52.6
	3,085.3	2,917.5	1,876.0	1,691.2	(113.9)	(118.1)	4,847.4	4,490.6
EBITDA(1)	$ 1,852.3	$ 1,948.4	$ 1,443.0	$ 1,142.2	$ –	$ –	$ 3,295.3	$ 3,090.6
CAPEX(2)	$ 914.2	$ 964.3	$ 404.8	$ 354.7	$ –	$ –	$ 1,319.0	$ 1,319.0
EBITDA less CAPEX	$ 938.1	$ 984.1	$ 1,038.2	$ 787.5	$ –	$ –	$ 1,976.3	$ 1,771.6

	2005	2004
EBITDA (from above)	$ 3,295.3	$ 3,090.6
Depreciation	1,342.6	1,307.8
Amortization	281.1	335.3
Operating income	1,671.6	1,447.5
Other expense, net	18.4	8.7
Financing costs	623.1	613.3
Income before income taxes and non-controlling interests	1,030.1	825.5
Income taxes	322.0	255.1
Non-controlling interests	7.8	4.6
Net income	$ 700.3	$ 565.8

(1) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a non-GAAP measure and 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.

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 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 2006 to 2008 have been reduced to three 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 had been acquired under the agreement and have been recorded as capital and other assets. These assets were 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 for the period 2001 to 2008 and the commitment remaining after December 31, 2005, was three U.S. dollars.

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.

Year ended December 31 (millions)	2004
Verizon agreement – Ongoing services and benefits expensed	$ 25.2
Sales to Verizon (Verizon customers' usage of TELUS' telecommunication infrastructure and other)	$ 52.4
Purchases from Verizon (TELUS customers' usage of Verizon's telecommunication infrastructure and other)	$ 33.2

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)	2005	2004
Net income in accordance with Canadian GAAP	$ 700.3	$ 565.8
Adjustments:		
Operating expenses		
Operations (b)	(2.7)	2.2
Depreciation (c)	–	6.5
Amortization of intangible assets (d)	(81.8)	(81.8)
Financing costs (f)	5.5	8.4
Accounting for derivatives (g)	4.1	(4.4)
Taxes on the above adjustments (h)	36.1	32.1
Net income in accordance with U.S. GAAP	661.5	528.8
Other comprehensive income (loss) (i)		
Foreign currency translation adjustment	(5.1)	0.5
Change in unrealized fair value of derivatives designated as cash flow hedges	(79.5)	(47.5)
Change in minimum pension liability	(41.8)	(15.5)
	(126.4)	(62.5)
Comprehensive income in accordance with U.S. GAAP	$ 535.1	$ 466.3
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share		
– Basic	$ 1.85	$ 1.48
– Diluted	$ 1.83	$ 1.46

The following is an analysis of retained earnings (deficit) reflecting the application of U.S. GAAP:

Years ended December 31 (millions)	2005	2004
Retained Earnings under Canadian GAAP	$ 849.7	$ 983.0
Adjustments:		
Purchase versus Pooling Accounting	(1,489.8)	(1,606.5)
Amortization of additional goodwill on Clearnet purchase	(7.9)	(7.9)
Share-based compensation	58.4	44.2
Accounting for derivatives	(0.3)	(3.0)
	(1,439.6)	(1,573.2)
Retained Earnings under U.S. GAAP	$ (589.9)	$ (590.2)
Schedule of Retained Earnings under U.S. GAAP		
Balance at beginning of period	$ (590.2)	$ (844.7)
Net income in accordance with U.S. GAAP	661.5	528.8
	71.3	(315.9)
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	312.2	204.7
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	–	26.9
Purchase of Common Shares and Non-Voting Shares in excess of stated capital	343.6	38.6
Warrant proceeds used in determining intrinsic value of warrants in excess of amounts ultimately received (Note 15(c))	2.0	–
Purchase of share options not in excess of their fair value	3.4	–
Preference and preferred share dividends	–	1.8
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus	–	2.3
Balance at end of period	$ (589.9)	$ (590.2)

The following is an analysis of major balance sheet categories reflecting the application of U.S. GAAP:

As at December 31 (millions)	2005	2004
Current Assets	$ 1,242.5	$ 2,647.6
Capital Assets		
Property, plant, equipment and other	7,339.4	7,528.2
Intangible assets subject to amortization	2,295.2	2,476.5
Intangible assets with indefinite lives	2,964.6	2,955.8
Goodwill	3,575.5	3,545.4
Deferred Income Taxes	–	218.8
Other Assets	736.3	658.5
	$ 18,153.5	$ 20,030.8
Current Liabilities	$ 2,027.5	$ 1,969.1
Long-Term Debt	4,639.9	6,341.1
Other Long-Term Liabilities	2,024.9	1,763.8
Deferred Income Taxes	1,410.8	1,593.7
Non-Controlling Interest	25.6	13.1
Shareholders' Equity	8,024.8	8,350.0
	$ 18,153.5	$ 20,030.8

The following is a reconciliation of shareholders' equity incorporating the differences between Canadian and U.S. GAAP:

As at December 31 (millions)	2005	2004
Shareholders' Equity under Canadian GAAP	$ 6,870.0	$ 7,025.6
Adjustments:		
Purchase versus Pooling Accounting (a), (c)–(f)	1,399.9	1,458.9
Additional goodwill on Clearnet purchase (e)	123.5	123.5
Convertible debentures (including conversion option) (f)	–	(8.0)
Accounting for derivatives (g)	(0.3)	(3.0)
Accumulated other comprehensive income (loss) (i), excluding cumulative foreign currency translation adjustment	(368.3)	(247.0)
Shareholders' Equity under U.S. GAAP	$ 8,024.8	$ 8,350.0
Composition of Shareholders' Equity under U.S. GAAP		
Common equity		
Common Shares	$ 4,136.4	$ 4,341.0
Non-Voting Shares	4,728.1	4,700.8
Options and warrants (Note 15(c))	5.9	26.9
Accrual for shares issuable under channel stock incentive plan	–	0.8
Retained earnings (deficit)	(589.9)	(590.2)
Accumulated other comprehensive income (loss) (i)	(375.6)	(249.2)
Contributed surplus	119.9	119.9
	$ 8,024.8	$ 8,350.0

(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)	2005	2004
Future employee benefits	$ (16.9)	$ (16.9)
Share-based compensation	14.2	19.1
	$ (2.7)	$ 2.2

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. The Canadian GAAP disclosures for share-based compensation awards are set out in Note 9(b). 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 2005 and 2004, and the weighted average assumptions used in estimating the fair values, are set out in Note 9(b). Such impact, using the fair values set out in Note 9(b), would approximate the pro forma amounts in the following table.

Years ended December 31 (millions except per share amounts)	2005	2004
Net income in accordance with U.S. GAAP		
As reported	$ 661.5	$ 528.8
Deduct: Share-based compensation arising from share options determined under fair value based method for all awards	(14.2)	(22.0)
Pro forma	$ 647.3	$ 506.8
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share		
Basic		
As reported (using intrinsic value method)	$ 1.85	$ 1.48
Pro forma (using fair value method)	$ 1.81	$ 1.42
Diluted		
As reported (using intrinsic value method)	$ 1.83	$ 1.46
Pro forma (using fair value method)	$ 1.79	$ 1.40

Effective January 1, 2006, U.S. GAAP requires the adoption of the fair value method of accounting for share-based compensation, as further discussed in (j). On a prospective basis, commencing January 1, 2006, this will result in there no longer being a difference between Canadian GAAP and U.S. GAAP share-based compensation expense recognized in the results of operations. As share options granted subsequent to 1994 and prior to 2002 are captured by U.S. GAAP, but are not captured by Canadian GAAP, differences in common equity accounts arising from these awards will continue.

(c) Operating expenses – Depreciation

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.

(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:

As at December 31 (millions)	Cost	Accumulated amortization	Net book value 2005	Net book value 2004
Intangible assets subject to amortization				
Subscribers – wireline	$ 1,950.0	$ 295.8	$ 1,654.2	$ 1,692.6
Subscribers – wireless	250.0	246.5	3.5	46.9
	2,200.0	542.3	1,657.7	1,739.5
Intangible assets with indefinite lives				
Spectrum licences(1)	1,833.3	1,833.3	–	–
	$ 4,033.3	$ 2,375.6	$ 1,657.7	$ 1,739.5

(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, 2005, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2006	$ 253.7
2007	163.1
2008	83.2
2009	48.1
2010	46.4

(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, as further discussed in Note 1(f).

(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 from TELUS' interest expense based on underlying cost (book value). As of December 31, 2005, the amortization of this difference had been completed.

Convertible debentures: Under Canadian GAAP, the conversion option embedded in the convertible debentures was presented separately as a component of shareholders' equity. Under U.S. GAAP, the embedded conversion option was not subject to bifurcation and was thus presented as a liability along with the balance of the convertible debentures. The principal accretion occurring under Canadian GAAP was not required under U.S. GAAP and the adjustment was 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)	2005	2004
Current	$ (18.0)	$ (125.8)
Deferred	303.9	348.8
	285.9	223.0
Investment Tax Credits	(0.4)	(0.6)
	$ 285.5	$ 222.4

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)	2005		2004	
Basic blended federal and provincial tax at statutory income tax rates	$ 326.7	34.2%	$ 262.0	34.7%
Change in estimates of available deductible differences in prior years	(37.5)		(9.1)	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	(13.9)		(41.2)	
Revaluation of deferred tax assets and liabilities for changes in statutory income tax rates	(10.8)		(14.0)	
Investment Tax Credits	(0.3)		(0.4)	
Other	4.8		6.6	
	269.0	28.3%	203.9	27.0%
Large corporations tax	16.5		18.5	
U.S. GAAP income tax expense (recovery)	$ 285.5	30.0%	$ 222.4	29.5%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its deferred income tax asset and deferred income tax liability. 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 income tax asset (liability) are estimated as follows:

As at December 31 (millions)	2005	2004
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	$ (578.0)	$ (615.2)
Intangible assets with indefinite lives	(974.4)	(991.9)
Pension amounts	(93.0)	(80.7)
Losses available to be carried forward	164.0	424.9
Reserves not currently deductible	111.3	167.9
Other	185.7	158.5
	$ (1,184.4)	$ (936.5)
Deferred income tax asset		
Current	$ 226.4	$ 438.4
Non-current	–	218.8
	226.4	657.2
Deferred income tax liability	(1,410.8)	(1,593.7)
Deferred income tax asset (liability)	$ (1,184.4)	$ (936.5)

(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 no requirement to disclose comprehensive income under Canadian GAAP prior to fiscal periods beginning on or after January 1, 2007.

Years ended December 31 (millions)	2005				2004			
	Cumulative foreign currency translation adjustment	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total	Cumulative foreign currency translation adjustment	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total
Amount arising	$ (5.1)	$ (119.1)	$ (62.1)	$ (186.3)	$ 0.5	$ (72.9)	$ (23.6)	$ (96.0)
Income tax expense (recovery)	–	(39.6)	(20.3)	(59.9)	–	(25.4)	(8.1)	(33.5)
Net	(5.1)	(79.5)	(41.8)	(126.4)	0.5	(47.5)	(15.5)	(62.5)
Accumulated other comprehensive income (loss), beginning of period	(2.2)	(121.1)	(125.9)	(249.2)	(2.7)	(73.6)	(110.4)	(186.7)
Accumulated other comprehensive income (loss), end of period	$ (7.3)	$ (200.6)	$ (167.7)	$ (375.6)	$ (2.2)	$ (121.1)	$ (125.9)	$ (249.2)

(j) Recently issued accounting standards not yet implemented

Equity-based compensation: Under U.S. GAAP, effective for its 2006 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 Statement of Financial Accounting Standards 123(R), Share-Based Payment. The Company has selected the modified prospective transition method. The modified prospective transition method results in no share option expense being recognized in the U.S. GAAP reconciliation disclosures, other than on a pro forma basis as set out in (b), in fiscal years prior to 2006. The share option expense that is recognized in fiscal years subsequent to 2005 is in respect of share options granted after 1994 and vesting in fiscal periods subsequent to 2005.

To reflect the fair value of options granted subsequent to 1994, and vesting prior to 2006, certain components of common equity in the December 31, 2005, U.S. GAAP reconciliation disclosures would have been restated as follows (had restatement occurred):

December 31, 2005 (millions)	As currently reported	Cumulative transition adjustment for share-based compensation arising from share options	As will be reported
Common equity			
Common Shares	$ 4,136.4	$ 7.4	$ 4,143.8
Non-Voting Shares	4,728.1	76.4	4,804.5
Options and warrants	5.9	–	5.9
Retained earnings (deficit)	(589.9)	(195.6)	(785.5)
Accumulated other comprehensive income (loss)	(375.6)	–	(375.6)
Contributed surplus	119.9	111.8	231.7
	$ 8,024.8	$ –	$ 8,024.8

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.

glossary

The following definitions are also available on our website at **telus.com/glossary**.

1X: Technology standard for 3G (third generation) high-speed wireless Internet service at speeds of 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.

3G (third generation): Describes next generation wireless technology that offers 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 the 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.

ADSL2+: The next generation of ADSL technology. ADSL2+ offers higher speeds and is backwards compatible with ADSL. ADSL2+ doubles the downstream bandwidth, increasing the downstream data rate to as much as 25 Mbps.

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 telecommunications 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.

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.

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.

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 acquisition of a customer during a given period. As defined, COA excludes costs of retaining existing customers.

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 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.

deferral account: A component of the current price cap regulation regime. A holding account where an amount equivalent to the cumulative annual productivity adjustments for residential services in non-high cost (rural) serving areas is added. The productivity adjustments are determined using the gross domestic product productivity index (GDP-PI) less the productivity offset for the second price cap period of 3.5%.

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): A specialized mobile radio network that incorporates frequency reuse and digital technology to increase its capacity and to provide service over a very large coverage area. 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.

EVDO (evolution data optimize): Part of the CDMA2000 family of standards, it is wireless radio broadband protocol that delivers download data rates of up to 2.4 Mbps. It is suitable for high bandwidth download applications such as enterprise VPN computing, MP3 transfers and video streaming. EVDO is often abbreviated as EV-DO or 1XEvDO and is commonly referred to as DO.

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.

GPS (global positioning system): A radio navigation system that allows users to determine and communicate their exact location, from anywhere in the world.

GSM (global system for mobile communication): A second generation digital PCS mobile phone standard used in many parts of the world.

hosting: The business of housing, serving and maintaining files for one or more websites. Using a hosting service allows many companies to share the cost of a high-speed 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.

IP (Internet protocol): A packet-based protocol for delivering data across networks.

IP-based network (also known as next generation 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. The IP-based network enables a variety of IP-based customer devices and advanced applications to communicate over a single common network.

IP-One®: The registered brand name for TELUS' IP telephony service, which utilizes IP technology to send voice calls and associated data and video streams over integrated networks. TELUS IP-One® service provides a full suite of advanced IP applications that integrate voice mail, e-mail, data and video through a web portal interface.

IPTV (Internet protocol television): TV service that uses a two-way digital broadcast signal that is sent through a switched telephone or cable network by way of broadband connection.

IS-95 (Interim Standard 95): A version of CDMA specified by the Telecommunications Industry Association (TIA) that is used by TELUS 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 consumers and/or businesses.

LAN (local area network): A way of connecting several computers, typically in the same room or building, so they can share files and devices such as printers and copiers.

LNP (local number portability): The ability of telephone customers to retain their local phone numbers if they switch to another local telephone service provider.

local loop: The transmission path between the telecommunications network and a customer's terminal equipment.

m-commerce (mobile commerce): 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.

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.

MVNO (mobile virtual network operator): A mobile service operator without licensed spectrum or network that leases wireless capacity from other carriers.

glossary

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 at the level appropriate for that traffic type or service.

non-ILEC (non-incumbent local exchange carrier): The telecommunications operations of TELUS outside 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.

PTT (Push To Talk): A two-way communication service that works like a "walkie-talkie" using a button switch. A normal cell phone call is full-duplex, meaning both parties can hear each other at the same time. PTT is a half-duplex, meaning communication can only travel in one direction at any given moment.

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.

price cap: A regulation, set by the CRTC in Canada, that sets the maximum price telephone companies can charge for a designated group of services. The set price changes over time, based on inflation and targets for improvements in productivity.

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.

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 a number of 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 with other LANs over great distances.

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.

WiMax: A standards-based wireless technology that provides high-throughput broadband connections over long distances. WiMax can be used for last mile broadband connections, Hotspots, cellular backhall and high-speed enterprise connectivity.

Wireless Web/Internet access: Technology that provides access to the Internet through a 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.

WLNP (wireless local number portability): A service that allows wireless consumers to change service providers within a given location while retaining the same phone number.

investor information

Stock exchanges and TELUS trading symbols

Toronto Stock Exchange (TSX)

common shares	T
non-voting shares	T.NV to May 12, 2006
	T.A May 13, 2006 onward

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)
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 federal foreign ownership restrictions were removed, non-voting shares may convert on a one-for-one basis to common shares.

Ownership at December 31, 2005

Total outstanding shares	**350,097,159**		
Common share ownership		% of class	% of total
TELUS Employee Share Plan	6,693,428	3.6%	1.9%
Widely held	176,837,227	96.4%	50.5%
Total outstanding	**183,530,655**	**100.0%**	
Non-voting share ownership			
Widely held	166,566,504	100.0%	47.6%
Total outstanding	**166,566,504**	**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.

2006 expected dividend[1] and earnings dates

	Ex-dividend dates[2]	Dividend record dates	Dividend payment dates	Earnings release dates
Quarter 1	March 8	March 10	April 1	May 3
Quarter 2	June 7	June 9	July 1	August 4
Quarter 3	September 6	September 8	October 1	November 3
Quarter 4	December 7	December 11	January 1, 2007	February 16, 2007

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 November 2005, TELUS announced a 37.5 per cent or 7.5 cent increase to its quarterly dividend, bringing it to 27.5 cents per share.

The increase is consistent with the forward-looking dividend payout ratio guideline, set in 2004, of 45 to 55 per cent of sustainable net earnings. The guidance provides investors with greater clarity and is a framework to assess the potential for future dividend increases.

Registered shareholders[1]

	2005	2004
TELUS common	**34,960**	39,521
TELUS non-voting	**33,050**	37,274

1 The Canadian Depository for Securities (CDS) represents one registration and holds securities for many institutions. At the end of 2005, it was estimated that TELUS had more than 100,000 non-registered shareholders combined in the two classes of stock.

investor information

Normal Course Issuer Bid

On December 16, 2005, TELUS implemented a second Normal Course Issuer Bid to repurchase up to 12 million of its outstanding common shares and up to 12 million of its outstanding non-voting shares for up to a 12-month period. As of December 31, 2005, TELUS had repurchased 634,000 common and 608,000 non-voting shares for $58 million under the program. The previous Normal Course Issuer Bid that expired on December 19, 2005 for the purchase of up to 25.5 million shares resulted in 10.3 million common and 11.5 million non-voting shares being purchased for $913 million or 85 per cent of the total authorized amount.

TELUS believes that such purchases are in the best interest of TELUS shareholders and constitute an attractive investment opportunity and desirable use of TELUS' funds that should enhance the value of the remaining shares.

Share prices and volumes

Toronto Stock Exchange

Common shares (T)

(C$ except volume)	Year 2005	Q4	Q3	Q2	Q1 2005	Year 2004	Q4	Q3	Q2	Q1 2004
High	49.99	48.95	49.99	45.08	40.00	37.40	37.40	27.35	25.30	28.52
Low	35.13	43.67	41.75	36.61	35.13	20.81	26.30	20.81	21.26	23.03
Close	47.86	47.86	48.51	43.06	38.89	36.22	36.22	26.20	21.81	23.30
Volume (millions)	179.1	44.5	38.2	43.9	52.5	198.1	71.8	35.9	38.2	52.2
Dividend paid (per share)	0.875	0.275	0.20	0.20	0.20	0.60	0.15	0.15	0.15	0.15

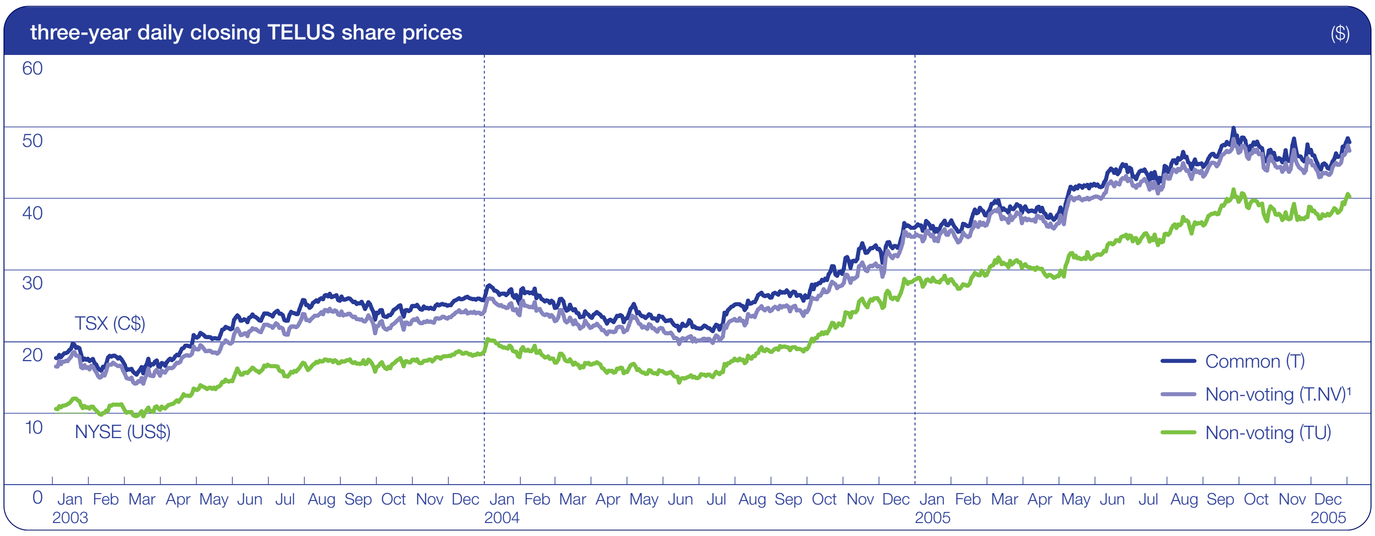
Non-voting shares (T.NV)[1]

(C$ except volume)	Year 2005	Q4	Q3	Q2	Q1 2005	Year 2004	Q4	Q3	Q2	Q1 2004
High	48.84	47.63	48.84	43.38	38.96	36.10	36.10	25.26	23.60	26.79
Low	33.65	42.51	40.45	35.40	33.65	19.21	24.05	19.21	19.45	21.55
Close	46.67	46.67	47.35	41.79	37.23	34.74	34.74	24.50	20.14	21.99
Volume (millions)	137.6	35.5	26.3	32.9	42.9	150.8	69.5	17.0	32.8	31.5
Dividend paid (per share)	0.875	0.275	0.20	0.20	0.20	0.60	0.15	0.15	0.15	0.15

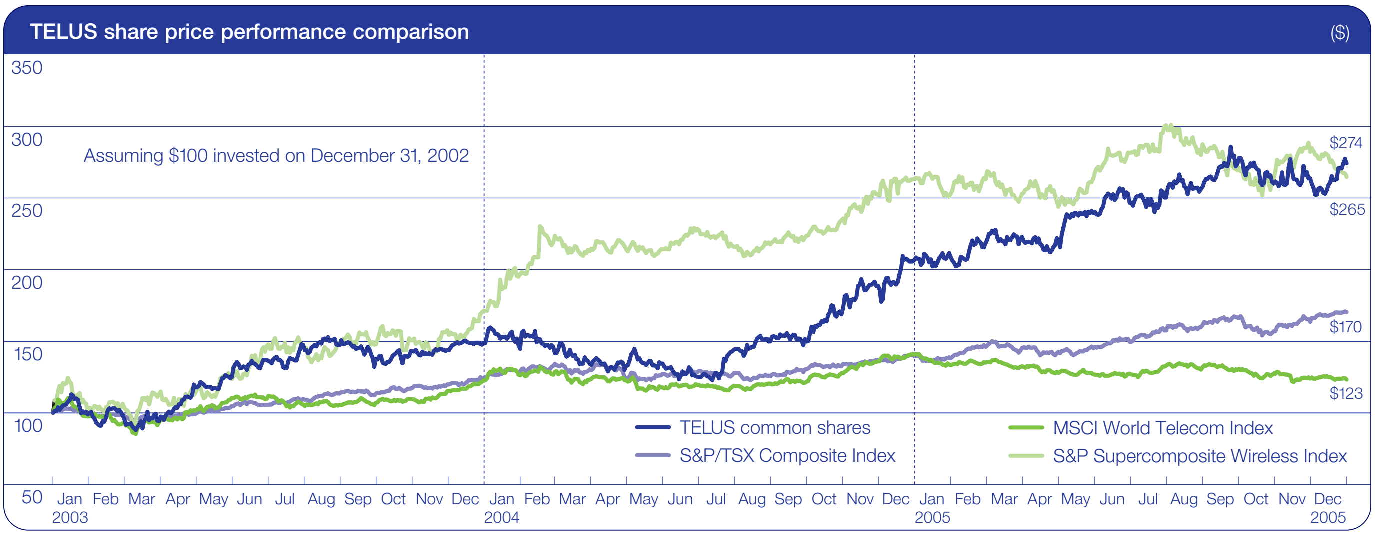
New York Stock Exchange

Non-voting shares (TU)

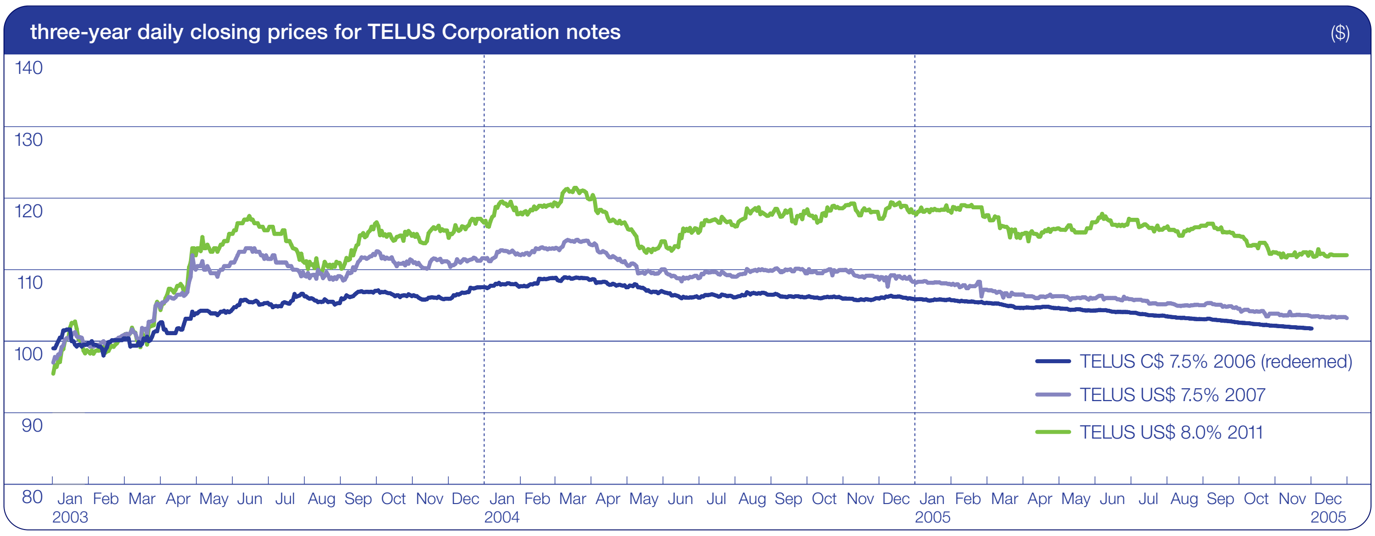
(US$ except volume)	Year 2005	Q4	Q3	Q2	Q1 2005	Year 2004	Q4	Q3	Q2	Q1 2004
High	41.46	40.90	41.46	35.20	32.30	29.43	29.43	19.63	17.30	20.76
Low	27.15	36.33	33.27	28.47	27.15	14.22	19.18	14.61	14.22	16.25
Close	40.26	40.26	40.74	34.01	30.81	28.90	28.90	19.23	15.03	16.79
Volume (millions)	22.0	6.6	5.1	6.1	4.2	12.8	9.4	0.9	1.0	1.5
Dividend paid (per share)	0.74	0.24	0.17	0.16	0.16	0.45	0.12	0.11	0.11	0.11



1 The trading symbol T.NV is being changed by the Toronto Stock Exchange back to T.A effective May 13, 2006.



Notes and debentures



TELUS Corporation notes

	Rate	Amount	Maturing
U.S.	7.5%	$1.4 billion	June 2007
U.S.	8.0%	$2.3 billion	June 2011

On December 1, 2005, $1.58 billion of Canadian 7.50% Series CA, Notes maturing in June 2006 were redeemed early. The redemption price per $1,000 of principal amount for these Notes was $1,018.13 plus accrued and unpaid interest.

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.

Credit rating summary

As of December 31, 2005	Dominion Bond Rating Service (DBRS)[1]	Standard & Poor's Rating Services (S&P)[1]	Moody's Investors Service[1]	Fitch Ratings[1]
TELUS Corporation				
Notes	BBB(high)	BBB+	Baa2	BBB+
TELUS Communications Inc.				
Debentures	A(low)	BBB+	–	BBB+
Medium-term notes	A(low)	BBB+	–	BBB+
First mortgage bonds	A(low)	A–	–	–

1 Outlook or trend "stable."

During 2005, all four bond rating services increased their ratings by one notch and set the outlook or trend to "stable."

INVESTOR INFORMATION

Investor relations activities

2005 conferences and meetings

- Total of 14 conference presentations, six in Canada and eight in the United States, most of which were webcast for easy access for shareholders
- Five conference calls with webcast – four quarterly earnings calls and one 2006 targets call
- Annual general meeting with webcast
- Meetings with 228 investors – 79 in Canada, 128 in the United States and 21 in Europe.

2005 key investment events

- Received upgrades from all four bond rating agencies
  - Moody's upgraded TELUS Corporation to Baa2 from Baa3, with a stable outlook
  - Standard & Poor's and Fitch Ratings upgraded TELUS Corporation and TELUS Communications Inc. (TCI) to BBB+ from BBB, with a stable outlook
  - Dominion Bond Rating Service upgraded TELUS Corporation and TCI to BBB (high) and A (low) from BBB and BBB (high), respectively, with stable trends
- TELUS continued to purchase shares under its Normal Course Issuer Bids
  - 21.8 million shares (10.3 common and 11.5 non-voting) were purchased under the original bid for a total outlay of $913 million representing 85 per cent of the total authorized program amount
  - A new share repurchase program for up to 24 million shares took effect on December 20, 2005 and 1.2 million shares were purchased for $58 million by the end of 2005
- On June 16, TELUS redeemed its 6.75% Convertible Unsecured Subordinated Debentures due June 15, 2010 at par plus accrued interest. Prior to the June redemption, approximately 88 per cent of holders elected to convert to 3.3 million TELUS non-voting shares. The total cash outlay for the remaining debentures not converted was $18 million
- On December 1, TELUS redeemed early its $1.578 billion 7.50%, Series CA, Notes due June 1, 2006
- On November 18, the members of the Telecommunications Workers Union (TWU) ratified a new five-year collective agreement, which extends to 2010
- On November 24, TELUS announced the integration of the wireless and wireline segments of its business – TELUS Mobility and TELUS Communications – into a single operating structure and appointed a smaller executive leadership team of 10 (previously 13). A catalyst for this integration was the resignation in October of George Cope, President and Chief Executive Officer of TELUS Mobility
- On December 16, 2005, TELUS issued a news release and held a conference call to publicly announce its financial and operating targets for 2006.

Analyst coverage

As of February 2006, 17 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

e-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, reducing 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 plant a tree on your behalf.

To enrol, visit eTree.ca/telus and you will receive all annual report and proxy materials electronically. You will be notified by e-mail with a link to the website where documents are available.

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.

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.

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, you ceased to have any claim against TELUS or any entitlement relating to those shares. If you have questions regarding unexchanged share certificates, please contact Computershare.

The following is an example of the 1999 merger 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 ■ 25 TELUS non-voting shares
100 TELUS common shares	1 for 0.7773	■ 58 TELUS common shares plus a 0.2975 fractional payout[2] ■ 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 of 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. Contact National Bank Trust 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 for 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 general meeting of shareholders

On Wednesday, May 3, 2006, the annual general meeting will be held at 11:00 a.m. (Pacific Time) at the Orpheum Theatre, 601 Smithe Street, Vancouver, British Columbia. Enter using the Smithe Street entrance, which is on the corner of Smithe Street and Seymour Street.

A live Internet webcast, complete with video and audio, will be available to shareholders around 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

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 for 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) 982-0171 (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
website	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

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

phone	1-800-667-4871 (toll-free within North America) or (780) 493-7345 (outside North America)
fax	(604) 434-6764
e-mail	ir@telus.com
website	telus.com/investors

TELUS executive office

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Canada V6B 3K9
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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.

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- glossary
- FAQ
- investor contacts
- media
- corporate governance

Our easy-to-use website 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 website 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 – simply visit telus.com/investors and click on "e-mail alerts" to sign up.

Useful quick links on telus.com

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TELUS

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TELUS is committed to working in an environmentally responsible manner.
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