TELUS

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2017 ANNUAL REPORT

Management's discussion and analysis

Caution regarding forward-looking statements

This document contains forward-looking statements about expected events and the financial and operating performance of TELUS Corporation. The terms *TELUS*, *the Company*, *we*, *us* and *our* refer to TELUS Corporation and, where the context of the narrative permits or requires, its subsidiaries.

Forward-looking statements include any statements that do not refer to historical facts. They include, but are not limited to, statements relating to our objectives and our strategies to achieve those objectives, our targets, outlook, updates, and our multi-year dividend growth program. Forward-looking statements are typically identified by the words *assumption*, *goal*, *guidance*, *objective*, *outlook*, *strategy*, *target* and other similar expressions, or future or conditional verbs such as *aim*, *anticipate*, *believe*, *could*, *expect*, *intend*, *may*, *plan*, *predict*, *seek*, *should*, *strive* and *will*.

By their nature, forward-looking statements are subject to inherent risks and uncertainties and are based on assumptions, including assumptions about future economic conditions and courses of action. These assumptions may ultimately prove to have been inaccurate and, as a result, our actual results or events may differ materially from expectations expressed in or implied by the forward-looking statements. Our general outlook and assumptions for 2018 are presented in *Section 9 General trends, outlook and assumptions* in this Management's discussion and analysis (MD&A).

Risks and uncertainties that could cause actual performance or events to differ materially from the forward-looking statements made herein and in other TELUS filings include, but are not limited to, the following:

- Competition including: our ability to continue to retain customers through an enhanced customer service experience, including through the deployment and operation of evolving wireless and wireline networks; the ability of industry competitors to successfully launch their respective platforms and to combine a mix of residential local voice over Internet protocol (VoIP), long distance, high-speed Internet access (HSIA) and, in some cases, wireless services under one bundled and/or discounted monthly rate, along with their existing broadcast or satellite-based TV services; the success of new products, new services and supporting systems, such as Internet of Things (IoT) services for Internet-connected devices; continued intense rivalry across all services among wireless and wireline telecommunications companies, cable-TV providers, other communications companies and over-the-top (OTT) services, which, among other things, places pressures on current and future average revenue per subscriber unit per month (ARPU), cost of acquisition, cost of retention and churn rate for all services, as do customer usage patterns, flat-rate pricing trends for voice and data, inclusive rate plans for voice and data and availability of Wi-Fi networks for data; mergers and acquisitions of industry competitors; pressures on high-speed Internet and TV ARPU and churn rate resulting from market conditions, government actions and customer usage patterns; residential and business network access line (NAL) losses; subscriber additions and retention volumes, and associated costs for wireless, TV and high-speed Internet services; and our ability to obtain and offer content on a timely basis across multiple devices on wireless and TV platforms at a reasonable cost.
- Technological substitution including: reduced utilization and increased commoditization of traditional wireline voice local and long distance services from impacts of OTT applications and wireless substitution, a declining overall market for paid TV services, including as a result of content piracy and signal theft and as a result of a rise in OTT direct to consumer video offerings and virtual multichannel video programming distribution platforms; the increasing number of households that have only wireless and/or Internet-based telephone services; potential wireless ARPU declines as a result of, among other factors, substitution to messaging and OTT applications; substitution to increasingly available Wi-Fi services; and disruptive technologies such as OTT IP services, including Network as a Service in the business market, that may displace or re-rate our existing data services.
- Technology including: subscriber demand for data that may challenge wireless networks and spectrum capacity levels in the future and may be accompanied by increases in delivery cost; our reliance on information technology and our need to streamline our legacy systems; technology options, evolution paths and roll-out plans for video distribution platforms and telecommunications networks (including broadband initiatives, such as fibre to the premises (FTTP), wireless small-cell deployment, 5G wireless and availability of resources and ability to build out adequate broadband capacity); our reliance on wireless network access agreements, which have facilitated our deployment of wireless technologies; choice of suppliers and those suppliers' ability to maintain and service their product lines, which could affect the success of upgrades to, and evolution of, technology that we offer; supplier concentration and market power for network equipment, TELUS TV and wireless handsets; the performance of wireless technology; our expected long-term need to acquire additional spectrum capacity through future spectrum auctions and from third parties to address increasing demand for data; deployment and operation of new wireline broadband networks at a reasonable cost and availability and success of new products and services to be rolled out on such networks; network reliability and change management; self-learning tools and automation that may change the way we interact with customers; and uncertainties around our strategy to replace certain legacy wireline networks, systems and services to reduce operating costs.
- Capital expenditure levels and potential outlays for spectrum licences in spectrum auctions or from third parties, due to: our broadband initiatives, including connecting more homes and businesses directly to fibre; our ongoing deployment of newer wireless technologies, including wireless small cells to improve coverage and capacity and prepare for a more efficient and timely evolution to 5G wireless services; utilizing acquired spectrum; investments in network resiliency and reliability; subscriber demand for data; evolving systems and business processes; implementing efficiency initiatives; supporting large complex deals; and future wireless spectrum auctions held by Innovation, Science and Economic Development Canada (ISED). Our capital expenditure levels could be impacted if we do not achieve our targeted operational and financial results.
- Regulatory decisions and developments including: the potential of government intervention to further increase wireless competition; the CRTC wireless wholesale services review, in which it was determined that the CRTC will regulate wholesale GSM-based domestic roaming rates and the setting of such rates charged to wireless service providers (WSPs); the Governor in Council's order to the CRTC to reconsider whether Wi-Fi networks should be considered a home network for WSPs seeking mandated roaming; future spectrum auctions and spectrum policy determinations, including the recently announced repurposing of 600 MHz spectrum (and including limitations on established wireless providers, proposed spectrum set-aside that favours certain carriers and other advantages provided to new and foreign participants, and the amount and cost of spectrum acquired); restrictions on the purchase, sale and transfer of spectrum licences; the impact of the CRTC's wireline wholesale services review, with a formal review of rates for wholesale FTTP access still to be commenced for TELUS; disputes with certain municipalities regarding rights-of-way

bylaws; and other potential threats to unitary federal regulatory authority over telecommunications, including provincial wireless legislation; the potential impacts of the CRTC's decision to require pro-rated refunds when customers terminate their services; the CRTC's proposed phase-out of the local service subsidy regime and corresponding establishment of a broadband funding regime to support the enhancement of high-speed Internet services focusing on underserved areas in Canada; the impact of the review of the Minister of Canadian Heritage's new Creative Canada policy framework announced on September 28, 2017; the CRTC's consultation and report on distribution models of the future; vertical integration in the broadcasting industry resulting in competitors owning broadcast content services, and timely and effective enforcement of related regulatory safeguards; the review of the *Copyright Act* scheduled to begin in early 2018; the federal government's stated intention to review the *Broadcasting Act* and *Telecommunications Act* as announced in the March 22, 2017 federal budget; TELUS' applications for renewal of its broadcasting distribution licences; the North American Free Trade Agreement renegotiation; and restrictions on non-Canadian ownership and control of TELUS Common Shares and the ongoing monitoring and compliance with such restrictions.

- Human resource matters including: recruitment, retention and appropriate training in a highly competitive industry, and the level of employee engagement.
- Operational performance and business combination risks including: our reliance on legacy systems and ability to implement and support new products and services and business operations in a timely manner; our ability to implement effective change management for system replacements and upgrades, process redesigns and business integrations (such as our ability to successfully integrate acquisitions, complete divestitures or establish partnerships in a timely manner, and realize expected strategic benefits, including those following compliance with any regulatory orders); the implementation of complex large enterprise deals that may be adversely impacted by available resources, system limitations and degree of co-operation from other service providers; our ability to successfully manage operations in foreign jurisdictions; information security and privacy breaches, including data loss or theft of data; intentional threats to our infrastructure and business operations; and real estate joint venture re-development risks.
- Business continuity events including: our ability to maintain customer service and operate our networks in the event of human error or human-caused threats, such as cyberattacks and equipment failures that could cause various degrees of network outages; supply chain disruptions; natural disaster threats; epidemics; pandemics; political instability in certain international locations; and the completeness and effectiveness of business continuity and disaster recovery plans and responses.
- Ability to successfully implement cost reduction initiatives and realize planned savings, net of restructuring and other costs, without losing customer service focus or negatively affecting business operations. Examples of these initiatives are: our operating efficiency and effectiveness program to drive improvements in financial results, including the future benefits of the immediately vesting transformative compensation initiative; business integrations; business product simplification; business process outsourcing; offshoring and reorganizations, including any full-time equivalent (FTE) employee reduction programs; procurement initiatives; and real estate rationalization. Additional revenue and cost efficiency and effectiveness initiatives will continue to be assessed and implemented.
- Financing and debt requirements including: our ability to carry out financing activities, and our ability to maintain investment grade credit ratings in the range of BBB+ or the equivalent.
- Ability to sustain our dividend growth program through 2019. This program may be affected by factors such as the competitive environment, economic performance in Canada, our earnings and free cash flow, our levels of capital expenditures and spectrum licence purchases, acquisitions, the management of our capital structure, and regulatory decisions and developments. Quarterly dividend decisions are subject to assessment and determination by our Board of Directors (Board) based on the Company's financial position and outlook. Shares may be purchased under our normal course issuer bid (NCIB) when and if we consider it opportunistic, based on the Company's financial position and outlook, and the market price of TELUS shares. There can be no assurance that our dividend growth program or any NCIB will be maintained, not changed and/or completed through 2019.
- Taxation matters including: interpretation of complex domestic and foreign tax laws by the tax authorities that may differ from our interpretations; the timing of income and deductions, such as tax depreciation and operating expenses; changes in tax laws, including tax rates; tax expenses being materially different than anticipated, including the taxability of income and deductibility of tax attributes; elimination of income tax deferrals through the use of different tax year-ends for operating partnerships and corporate partners; and tax authorities adopting more aggressive auditing practices, for example, tax reassessments or adverse court decisions impacting the tax payable by us.
- Litigation and legal matters including: our ability to successfully respond to investigations and regulatory proceedings; our ability to defend against existing and potential claims and lawsuits, including intellectual property infringement claims and class actions based on consumer claims, data, privacy or security breaches and secondary market liability; and the complexity of legal compliance in domestic and foreign jurisdictions, including compliance with anti-bribery and foreign corrupt practices laws.
- Health, safety and the environment including: lost employee work time resulting from illness or injury, public concerns related to radio frequency emissions, environmental issues affecting our business including climate change, waste and waste recycling, risks relating to fuel systems on our properties, and changing government and public expectations regarding environmental matters and our responses.
- Economic growth and fluctuations including: the state of the economy in Canada, which may be influenced by economic and other developments outside of Canada, including potential outcomes of yet unknown policies and actions of foreign governments; future interest rates; inflation; unemployment levels; effects of fluctuating oil prices; effects of low business spending (such as reducing investments and cost structure); pension investment returns, funding and discount rates; and Canadian dollar: U.S. dollar exchange rates.

These risks are described in additional detail in *Section 9 General trends, outlook and assumptions* and *Section 10 Risks and risk management* in this MD&A. Those descriptions are incorporated by reference in this cautionary statement but are not intended to be a complete list of the risks that could affect the Company.

Many of these factors are beyond our control or our current expectations or knowledge. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also have a material adverse effect on our financial position, financial performance, cash flows, business or reputation. Except as otherwise indicated in this document, the forward-looking statements made herein do not reflect the potential impact of any non-recurring or special items or any mergers, acquisitions, dispositions or other business combinations or transactions that may be announced or that may occur after the date of this document.

Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements in this document describe our expectations and are based on our assumptions as at the date of this document and are subject to change after this date. Except as required by law, we disclaim any intention or obligation to update or revise any forward-looking statements.

This cautionary statement qualifies all of the forward-looking statements in this MD&A.

1 Introduction

The forward-looking statements in this section, including estimates regarding economic growth, are qualified by the Caution regarding forward-looking statements at the beginning of this Management's discussion and analysis (MD&A).

1.1 Preparation of the MD&A

The following sections are a discussion of our consolidated financial position and financial performance for the year ended December 31, 2017, and should be read together with our December 31, 2017, audited Consolidated financial statements (Consolidated financial statements). The generally accepted accounting principles (GAAP) we use are the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our Consolidated financial statements comply with IFRS-IASB and Canadian GAAP. Our use of the term IFRS in this MD&A is a reference to these standards. In our discussion, we also use certain non-GAAP financial measures to evaluate our performance, monitor compliance with debt covenants and manage our capital structure. These measures are defined, qualified and reconciled with their nearest GAAP measures in *Section 11.1*. All currency amounts are in Canadian dollars, unless otherwise specified.

Additional information relating to the Company, including our annual information form and other filings with securities commissions or similar regulatory authorities in Canada, is available on SEDAR (sedar.com). Our filings with the Securities and Exchange Commission in the United States, including Form 40-F, are available on EDGAR (sec.gov).

Our disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, so that appropriate decisions can be made regarding public disclosure. This MD&A and the Consolidated financial statements were reviewed by our Audit Committee and approved by our Board of Directors (Board) for issuance on February 8, 2018.

1.2 The environment in which we operate

The success of our business and the challenges we face can best be understood with reference to the environment in which we operate, including broader economic factors that affect our customers and us, and our competitive industry. Our estimates regarding our environment also form an important part of the assumptions on which our targets are based.

2017 Canadian telecom industry revenues

Est. $62 billion

TELUS 2017 revenues

$13.3 billion

TELUS subscriber connections

13.1 million

TELUS employees

53,630

Economic growth

We estimate that the rate of economic growth in Canada in 2018 will be 2.2% (3.1% in 2017), both of which are based on a composite of estimates from Canadian banks and other sources. For our incumbent local exchange carrier (ILEC) provinces in Western Canada, we estimate that economic growth will be 2.5% in 2018 in British Columbia (B.C.) (3.4% in 2017), and 2.4% in Alberta (3.9% in 2017). The Bank of Canada's January 2018 Monetary Policy Report estimated economic growth in Canada will be 2.2% in 2018 (3.0% in 2017). The extent to which these economic growth estimates affect us and the timing of their impact will depend upon the actual experience of specific sectors of the Canadian economy.

In respect of the national unemployment rate, Statistics Canada's Labour Force Survey reported a rate of 5.7% for December 2017 (6.9% reported for December 2016). The unemployment rate for B.C. was 4.6% for December 2017 (5.8% for December 2016), while the unemployment rate for Alberta was 6.9% for December 2017 (8.5% for December 2016).

Canadian telecommunications industry growth

We estimate that industry revenues (including TV revenue and excluding media revenue) grew by approximately 3% in 2017 (2% in 2016). We estimate that the Canadian wireless industry grew in 2017 by approximately 1.3 million new subscribers and experienced approximately 7% network revenue growth. Key drivers included immigration and population growth; the trend toward multiple devices, including tablets; the expanding functionality of data and related applications; and mobile adoption by both younger and older generations. The wireline market was impacted by the state of the economy in 2017, including Alberta, which experienced an economic contraction in 2016, while declines in higher-margin legacy voice services were ongoing, partially attributable to technological substitution. (See *Section 9 General trends, outlook and assumptions*, *Section 10.2 Competition*, and *Section 10.11 Economic growth and fluctuations*.)

1.3 Highlights of 2017

Long-term debt issue

On March 6, 2017, we issued US$500 million of senior unsecured notes with a 10.5-year maturity at 3.70% and $325 million of senior unsecured notes with a 31-year maturity at 4.70%. The proceeds were used to fund the repayment, on maturity, of $700 million of the principal amount outstanding on TELUS' Series CD Notes due March 2017, to repay a portion of outstanding commercial paper and for general corporate purposes.

Agreement with BCE Inc. regarding Manitoba Telecom Services Inc.

On April 1, 2017, we acquired certain assets of Manitoba Telecom Services Inc. (MTS) from BCE Inc. These assets included postpaid wireless subscribers, certain network assets and rights to 15 retail locations in Manitoba. Pursuant to this acquisition, in the second quarter of 2017, we commenced the migration of postpaid wireless subscribers to TELUS. The final price of the transactions with BCE Inc. will vary depending upon the actual number of qualifying postpaid wireless subscribers acquired; such final determination will happen by March 31, 2018. We currently estimate we will migrate 74,000 postpaid subscribers by that date.

Kroll Computer Systems Inc.

In May 2017, we acquired Kroll Computer Systems Inc. The primary reason for the acquisition was to enhance our geographic reach and the quality of our product offering as a national pharmacy management services provider. The total purchase price was approximately $250 million, of which $100 million was paid by issuing approximately two million TELUS Common Shares.

Voxpro Limited

On August 31, 2017, through our TELUS International (Cda) Inc. subsidiary, we acquired 55% of Voxpro Limited (Voxpro), a business process outsourcing and contact centre services company with facilities in Ireland, the U.S. and Romania, for cash consideration of $58 million. The investment was made with a view to expanding further into supporting customers who provide Internet-related services and products, bolstering sales capabilities in our chosen markets, and acquiring multi-site redundancy in support of other facilities. We concurrently provided a written put option to, and have a purchased call option from, the remaining selling shareholders under which they could put, or we could call, the remaining 45% of the shares commencing in 2021. If either of these options are exercised, total consideration is estimated to be approximately $141 million.

Xavient Information Systems

On October 30, 2017, through our TELUS International (Cda) Inc. subsidiary, we entered into an agreement to acquire 65% of Xavient Information Systems, a group of information technology consulting and software services companies with facilities in the U.S. and in India, for consideration of approximately $144 million (US$115 million) in cash and approximately $19 million (US$15 million) in TELUS International (Cda) Inc. common shares. The transaction closed on February 6, 2018. We concurrently provided a written put option to the remaining selling shareholders under which they could put the remaining 35% interest on or before December 31, 2020. The written put option sets out that the share pricing methodology will be dependent upon earnings. If this option is exercised, total consideration would be in the range of $310 million (US$250 million). Concurrent with our acquisition of the initial 65% interest, the non-controlling shareholders provided us with a purchased call option, which substantially mirrored the written put option. The investment was made with a view to enhancing our ability to provide complex and higher-value information technology services, improve our related sales and solutioning capabilities and acquire multi-site redundancy in support of other facilities.

Changes to the Board of Directors

In May 2017, we welcomed Kathy Kinloch and Claude Mongeau to our Board of Directors. Kathy has served as the President of the British Columbia Institute of Technology (BCIT) since January 2014. From 2010 to 2013, she was President of Vancouver Community College, and from 2007 to 2010, she served as Dean of Health Sciences at BCIT. Claude served as President and Chief Executive Officer of Canadian National Railway Company from 2010 to 2016. He also served as Executive Vice-President and Chief Financial Officer from 2000 to 2009, and Senior Vice-President and Chief Financial Officer from 1999 to 2000.

Micheline Bouchard, an independent director who had served as a TELUS director since 2004, retired from our Board in May 2017.

In November 2017, Marc Parent joined our Board. Marc serves as President and Chief Executive Officer of CAE Inc. (CAE), a position he has held since 2009. He has also served at CAE as Executive Vice-President and Chief Operating Officer from 2008 to 2009; Group President, Simulation Products and Military Training & Services from 2006 to 2008; and Group President, Simulation Products from 2005 to 2006. CAE is a global leader in training for the civil aviation, defence and security, and healthcare markets.

Consolidated highlights

Years ended December 31 ($ millions, except footnotes and unless noted otherwise)	2017	2016	Change
Consolidated statements of income			
Operating revenues	**13,304**	12,799	3.9%
Operating income	**2,605**	2,182	19.4%
Income before income taxes	**2,032**	1,662	22.3%
Net income	**1,479**	1,236	19.7%
Net income attributable to Common Shares	**1,460**	1,223	19.4%
Earnings per share (EPS) ($)			
Basic EPS	**2.46**	2.06	19.4%
Adjusted basic EPS[1]	**2.63**	2.58	1.9%
Diluted EPS	**2.46**	2.06	19.4%
Dividends declared per Common Share ($)	**1.97**	1.84	7.1%
Basic weighted-average Common Shares outstanding (millions)	**593**	592	0.1%
Consolidated statements of cash flows			
Cash provided by operating activities	**3,947**	3,219	22.6%
Cash used by investing activities	**(3,643)**	(2,923)	(24.6)%
Capital expenditures (excluding spectrum licences)	**(3,094)**	(2,968)	(4.2)%
Cash used by financing activities	**(227)**	(87)	n/m
Other highlights			
Subscriber connections[2] (thousands)	**13,050**	12,673	3.0%
EBITDA (earnings before interest, income taxes, depreciation and amortization)[1]	**4,774**	4,229	12.9%
Restructuring and other costs[1,3]	**139**	479	(71.0)%
EBITDA – excluding restructuring and other costs	**4,913**	4,708	4.4%
Adjusted EBITDA[4]	**4,891**	4,667	4.8%
Adjusted EBITDA margin[5] (%)	**36.8**	36.6	0.2 pts.
Free cash flow[1]	**966**	141	n/m
Net debt to EBITDA – excluding restructuring and other costs[1] (times)	**2.73**	2.69	0.04

Notations used in MD&A: n/m – not meaningful; pts. – percentage points.

1 Non-GAAP and other financial measures. See *Section 11.1*.

2 The sum of active wireless subscribers, residential network access lines (NALs), high-speed Internet access subscribers and TELUS TV subscribers, measured at the end of the respective periods based on information in billing and other systems. In relation to an acquisition and a divestiture that were both undertaken during the first quarter of 2017, January 1, 2017, residential NALs, high-speed Internet and TELUS TV subscriber balances were increased by a net 1,000, 6,000 and 5,000, respectively, and are not included in subscriber connection net additions metrics in *Section 5.4*. Effective April 1, 2017, postpaid subscribers, total subscribers and associated operating statistics (gross additions, net additions, average revenue per subscriber unit per month (ARPU) and churn) have been adjusted to include an estimated migration of 85,000 MTS subscribers in the opening subscriber balances. Subsequent to this, on October 1, 2017, total subscribers and associated operating statistics have been adjusted to reduce estimated migrations of MTS subscribers down by 11,000 to 74,000 (impacts are described later in this section). Cumulative subscriber connections also include an April 1, 2017, adjustment to remove approximately 19,000 prepaid and 25,000 postpaid subscriptions from the respective subscriber bases, primarily due to our national CDMA network shutdown.

3 In the fourth quarter of 2016, we recorded an expense of $305 million in respect of immediately vesting transformative compensation (transformative compensation) as part of other costs.

4 Adjusted EBITDA for all periods excludes the following: restructuring and other costs, and net gains and equity income related to real estate joint venture developments. Adjusted EBITDA for 2017 excludes the MTS net recovery (as defined later in this section). Adjusted EBITDA for 2016 excludes a $15 million gain in the second quarter of 2016 from the exchange of wireless spectrum licences (see *Section 11.1* regarding Adjusted EBITDA and for restructuring and other costs amounts).

5 Adjusted EBITDA margin is Adjusted EBITDA divided by Operating revenues, where the calculation of the Operating revenues excludes the net gains and equity income related to real estate joint venture developments, the gain from exchange of wireless spectrum licences in the second quarter of 2016, and the MTS net recovery (as defined later in this section).

Operating highlights

- Consolidated operating revenues increased by $505 million in 2017:

  Service revenues increased by $478 million in 2017, mainly due to growth in wireless network revenue and wireline data services revenue, partly offset by the ongoing decline in legacy wireline voice revenue.

  Equipment revenues were relatively flat in 2017.

  Other operating income increased by $28 million in 2017, primarily due to higher net gains in the current period than in the comparable period. In the fourth quarter of 2017, we recorded a pre-tax recovery of contingent consideration paid of $26 million to reflect the revised estimate of qualifying MTS subscribers acquired (MTS contingent consideration recovery) of 74,000, down 11,000 from our original assumption. In addition to this item, a change in Other operating income includes recognition of a gain on sale of a security consulting business in the fourth quarter of 2017. The remaining are other net gains, offset by lower government assistance, the non-recurrence of 2016 wireless spectrum gains and lower gains from the real estate joint venture.

  For additional details on operating revenues, see *Section 5.4 Wireless segment* and *Section 5.5 Wireline segment*.

- During 2017, our total subscriber connections increased by 377,000, reflecting a 5.7% increase in wireless postpaid subscribers, a 5.3% increase in high-speed Internet subscribers and a 3.7% increase in TELUS TV subscribers, partly offset by a 9.9% decline in wireless prepaid subscribers and a 5.5% decline in wireline residential NALs.

  Our postpaid wireless subscriber net additions were 379,000 in 2017, up 136,000 from 2016, due to an increase in market growth, the success of promotions, our marketing efforts focused on higher-value postpaid and smartphone loading, and in the fourth quarter, our successful response to aggressive holiday offers. Our monthly postpaid subscriber churn rate was 0.90% in 2017, as compared to 0.95% in 2016. (See *Section 5.4 Wireless segment* for additional details.)

  Net additions of high-speed Internet subscribers were 81,000 in 2017, up 13,000 from 2016. The increase was due to continued customer demand for our high-speed broadband services, including fibre to the premises, as well as the success of our innovative product offerings. Net additions of TELUS TV subscribers were 35,000 in 2017, down 19,000 from 2016. This reflects lower gross additions and higher satellite-TV subscriber losses due to a declining overall market for paid TV services resulting from the effects of heightened competitive intensity, including from over-the-top (OTT) services, and a high rate of market penetration. These pressures were partly offset by the continued focus on connecting more homes and businesses directly to fibre (as we approach nearly 50% of our targeted coverage footprint), expanding and enhancing our addressable high-speed Internet and Optik TV footprint, and bundling these services together. This contributed to combined Internet and TV subscriber growth of 127,000 or 4.7% in the year. (See *Section 5.5 Wireline* segment for additional details.)

- Operating income increased by $423 million in 2017, reflecting wireless network revenue growth driven by higher ARPU and a larger customer base, in addition to growth in data service margins, partly offset by increased depreciation arising from our fibre investment capital expenditures. Excluding the effects of the $305 million transformative compensation expense recorded in the fourth quarter of 2016, Operating income increased by $118 million for the full year or 4.7%.

  EBITDA includes restructuring and other costs, net gains and equity income related to real estate joint venture developments, a gain from the exchange of wireless spectrum licences recorded in the second quarter of 2016, and the MTS contingent consideration recovery net of post-closing adjustments (MTS net recovery). EBITDA increased by $545 million or 12.9% in the full year of 2017. The increase reflects: (i) growth in wireless network revenues and increased wireline data revenues, partially offset by increased costs associated with higher wireless gross loading and retention volumes; and (ii) lower restructuring and other costs which included the 2016 transformative compensation expense, partly offset by costs associated with the migration and servicing of subscribers acquired from MTS.

  Adjusted EBITDA excludes restructuring and other costs, net gains and equity income related to real estate joint venture developments, a gain from the exchange of wireless spectrum licences recorded in the second quarter of 2016, and the MTS net recovery. Adjusted EBITDA increased by $224 million or 4.8% for the full year of 2017. (See *Section 5.4 Wireless segment* and *Section 5.5 Wireline segment* for additional details.)
- Income before income taxes increased by $370 million in 2017, reflecting higher Operating income as noted above, partly offset by an increase in Financing costs. The increase in Financing costs resulted from lower capitalized long-term debt interest costs for spectrum licences that are now being deployed and higher average long-term debt outstanding. (See *Financing costs* in *Section 5.3*.)
- Income taxes increased by $127 million in 2017, primarily due to an increase in income before income taxes and revaluation of the deferred tax liability for the increase in the B.C. income tax rate that was substantively enacted in the fourth quarter of 2017.
- Net income attributable to Common Shares increased by $237 million in 2017. This increase was driven by higher Operating income partly offset by associated Income taxes. Adjusted Net income excludes the effects of restructuring and other costs, net gains and equity income related to real estate joint venture developments, income tax-related adjustments, a non-recurring gain from the exchange of wireless spectrum licences recorded in the second quarter of 2016 and the MTS net recovery. Adjusted Net income increased by $32 million or 2.1% for the full year of 2017.

Analysis of Net income

Years ended December 31 ($ millions)	**2017**	2016	Change
Net income attributable to Common Shares	**1,460**	1,223	237
Add back (deduct):			
Gain on the exchange of wireless spectrum licences, after income taxes	**–**	(13)	13
Net gains and equity income from real estate joint venture developments, after income taxes	**(1)**	(16)	15
Restructuring and other costs, after income taxes	**102**	351	(249)
Unfavourable (favourable) income tax-related adjustments	**21**	(17)	38
MTS net recovery	**(22)**	–	(22)
Adjusted Net income	**1,560**	1,528	32

- Basic EPS increased by $0.40 or 19.4% in 2017. Adjusted basic EPS excludes the effects of restructuring and other costs, net gains and equity income related to real estate joint venture developments, income tax-related adjustments, a non-recurring gain from the exchange of wireless spectrum licences recorded in the second quarter of 2016 and the MTS net recovery. Adjusted basic EPS increased by $0.05 or 1.9% for the full year of 2017.

Analysis of basic EPS

Years ended December 31 ($)	**2017**	2016	Change
Basic EPS	**2.46**	2.06	0.40
Add back (deduct):			
Gain on the exchange of wireless spectrum licences, after income taxes, per share	**–**	(0.02)	0.02
Net gains and equity income from real estate joint venture developments, after income taxes, per share	**–**	(0.03)	0.03
Restructuring and other costs, after income taxes, per share	**0.18**	0.60	(0.42)
Unfavourable (favourable) income tax-related adjustments, per share	**0.03**	(0.03)	0.06
MTS net recovery, per share	**(0.04)**	–	(0.04)
Adjusted basic EPS	**2.63**	2.58	0.05

- Dividends declared per Common Share totalled $1.97 in 2017, up 7.1% from 2016. On February 7, 2018, the Board declared a first quarter dividend of $0.5050 per share on the issued and outstanding Common Shares, payable on April 2, 2018, to shareholders of record at the close of business on March 9, 2018. The first quarter dividend increased by $0.025 per share or 5.2% from the $0.48 per share dividend declared one year earlier, consistent with our multi-year dividend growth program described in *Section 4.3 Liquidity and capital resources*.

Liquidity and capital resource highlights

- Net debt to EBITDA – excluding restructuring and other costs was 2.73 times at December 31, 2017, up from 2.69 times at December 31, 2016, as the increase in net debt exceeded the growth in EBITDA – excluding restructuring and other costs. (See *Section 4.3 Liquidity and capital resources* and *Section 7.5 Liquidity and capital resource measures*.)
- Cash provided by operating activities increased by $728 million in 2017 due to lower income taxes paid, which reflected the reorganization of our legal structure that impacted the timing of cash income tax payments.
- Cash used by investing activities increased by $720 million or 24.6% in 2017, attributed to higher cash payments for multiple business acquisitions and higher capital expenditures. Acquisitions increased by $474 million as we made cash payments for multiple business acquisitions, including MTS, Kroll Computer Systems Inc. and Voxpro Limited, as described under *Highlights of 2017*. Capital expenditures increased by $126 million in 2017 due to continuing investments in our broadband infrastructure, including connecting more homes and businesses directly to our fibre-optic network. These investments support our high-speed Internet and TELUS TV subscriber growth, as well as our customers' demand for faster Internet speeds, and extend the reach and functionality of our business and healthcare solutions. (See *Section 7.3 Cash used by investing activities*.)
- Cash used by financing activities increased by $140 million in 2017 largely due to the 2016 issuance of shares of TELUS International (Cda) Inc. to Baring Private Equity Asia through which it acquired a 35% non-controlling interest in TELUS International (Cda) Inc., with no comparable activity in 2017. (See *Section 7.4 Cash used by financing activities*.)
- Free cash flow increased by $825 million in 2017, resulting from higher EBITDA – excluding restructuring and other costs and lower income taxes paid. (See calculation in *Section 11.1 Non-GAAP and other financial measures*.)

1.4 Performance scorecard (key performance measures)

In 2017, we achieved three of four revised consolidated targets, missing only the target for capital expenditures, after normalizing basic EPS for the B.C. corporate income tax rate change. Our original targets were announced on February 9, 2017. On May 11, 2017, we announced revised targets to account for the acquisition of MTS' postpaid wireless subscribers, certain network assets and dealer locations.

We achieved our revised consolidated revenue target primarily due to growth in wireless network revenue resulting from growth in blended ARPU and a growing wireless subscriber base. Additionally, we experienced increased wireline data service revenue from increases in Internet and enhanced data service, growth in business process outsourcing revenues, inclusive of acquisitions, TELUS Health revenue and TELUS TV revenue, partly offset by the ongoing decline in legacy wireline voice revenue.

We met our revised target for consolidated EBITDA – excluding restructuring and other costs. This was achieved largely from increased wireless network revenue, in addition to growth in data service margins.

Our revised basic EPS target growth was based on 2016 basic EPS of $2.44, which was adjusted to exclude the transformative compensation expense of $0.38. Our 2017 basic EPS was $2.46. However, our 2017 basic EPS included the effect of an increase in the B.C. corporate income tax rate of $0.05 recorded in the fourth quarter of 2017, when the income tax rate increase became substantively enacted. The target for 2017 basic EPS did not account for this change. Excluding this impact, our basic EPS of $2.51 met the target range.

Our capital expenditures in 2017 exceeded both our original target and revised guidance, as we continued to focus on investments in broadband infrastructure, including connecting more homes and businesses directly to our fibre-optic network. These investments also support our small-cell technology strategy to improve coverage and prepare for a more efficient and timely evolution to 5G.

Our capital structure financial policies and report on financing and capital structure management plans are described in *Section 4.3*.

The following scorecard compares TELUS' performance to our original or revised 2017 targets. For information related to our 2018 targets, see *Section 9 General trends, outlook and assumptions*.

SCORECARD	2017 PERFORMANCE		
Consolidated	Original or revised targets[3] and growth	**Actual results and growth**	Result
Revenues	$13.180 to $13.310 billion[3a] 3.0 to 4.0%	**$13.304 billion** **3.9%**	✓
EBITDA – excluding restructuring and other costs[1]	$4.875 to $5.040 billion[3b] 3.5 to 7.0%	**$4.913 billion** **4.4%**	✓
Basic EPS[2]	$2.49 to $2.66[3c] 2.0 to 9.0%	**$2.51[4]** **2.9%[4]**	✓
Capital expenditures (excluding spectrum licences)	Approx. $3.0 billion[3d]	**$3.094 billion**	×

1 See description in *Section 11.1 Non-GAAP and other financial measures*.
2 The original and revised targets for basic EPS growth were based on 2016 basic EPS of $2.44, which was adjusted to exclude the transformative compensation expense of 38 cents.
3 Reflects the 2017 revised targets that were announced on May 11, 2017, to account for the acquisition of Manitoba Telecom Services' postpaid wireless subscribers, certain network assets and dealer locations. The 2017 original targets were set on February 9, 2017.
3a The original target for Consolidated revenues was $13.120 to $13.250 billion, or an increase of 2.5 to 3.5%.
3b The original target for Consolidated EBITDA – excluding restructuring and other costs was $4.850 to $4.995 billion, or an increase of 3.0 to 6.0%.
3c The original target for basic EPS was $2.49 to $2.64, or an increase of 2.0 to 8.0%.
3d The original target for Capital expenditures was $2.9 billion.
4 Our 2017 basic EPS included the effect of an increase in the B.C. corporate income tax rate of $0.05, which was not reflected in the original target. Excluding this impact, our basic EPS of $2.51 met the target range.

✓ Met target
× Missed target

We made the following key assumptions when we announced the 2017 targets in February 2017.

ASSUMPTIONS FOR 2017 TARGETS AND RESULTS

- Our economic assumptions are based on a composite of estimates from Canadian banks and other sources. Our original assumptions for 2017 were: (i) higher economic growth in Canada of 1.8%, up from an estimated 1.2% in 2016; (ii) for our ILEC provinces in Western Canada, economic growth in B.C. of 2.3%, down from an estimated 2.9% in 2016, and economic growth in Alberta in the range of 1.0 to 2.0%, compared to estimated contraction of 2.4% in 2016.

  In our MD&A for the first quarter of 2017, we revised our 2017 economic growth assumptions to 2.2% for Canada, and 2.4% for Alberta. In our MD&A for the third quarter of 2017, we further revised our 2017 economic growth assumptions to 3.0% for Canada, 3.2% for B.C. and 3.5% for Alberta. We estimate that economic growth for 2017 was 3.1% for Canada, 3.4% for B.C., and 3.9% for Alberta.
- Our original assumption for income taxes included income taxes calculated at applicable statutory rate of 26.4 to 26.9% and cash income tax payments between $300 million to $360 million. In our MD&A for the third quarter of 2017, we revised our assumption for cash income tax payments downward to a range of $170 million to $230 million, due to a reorganization to simplify our legal structure to realize efficiencies and streamline processes, which also impacted the timing of cash income tax payments. Our actual results were at a statutory income tax rate of 26.6% and cash income tax payments were $191 million.
- Our assumption for restructuring and other costs was approximately $125 million. Our actual 2017 amount for restructuring and other costs was $139 million as we incurred higher non-labour restructuring and other costs associated with the migration and servicing of subscribers from MTS.
- Our assumption was for continuing weakness in the average Canadian dollar: U.S. dollar exchange rate, which was US$0.755 in 2016. The average Canadian dollar: U.S. dollar exchange rate strengthened to US$0.77 during 2017 and closed at US$0.80 on December 31, 2017.

Confirmed:

- No material adverse regulatory rulings or government actions.
- Continued intense wireless and wireline competition in both consumer and business markets.
- An increase in wireless industry penetration of the Canadian market.
- Ongoing subscriber adoption of, and upgrades to, data-intensive smartphones, as customers want more mobile connectivity to the Internet.
- Wireless revenue growth resulting from growth in both postpaid subscriber loadings and blended ARPU.
- Continued growth in wireline data revenue, resulting from an increase in high-speed Internet and TELUS TV subscribers, speed upgrades and expanding broadband infrastructure, as well as business outsourcing and healthcare solutions.
- Continued focus on our customers first initiatives and maintaining our customers' likelihood-to-recommend scores.
- Pension plans: Defined benefit pension plan expense of approximately $83 million recorded in Employee benefits expense and approximately $5 million recorded in employee defined benefit plans net interest in Financing costs; a 3.80% rate for discounting the obligation (2016 – 3.80%) and a 4.00% rate for current service costs employee defined benefit pension plan accounting purposes (2016 – 4.00%); and defined benefit pension plan funding of approximately $65 million. Actual results were: $82 million recorded in Employee benefits expense, $5 million recorded in employee defined benefit plans net interest, a rate of 3.40% for discounting the obligation, a 4.00% rate for current service costs employee defined benefit pension plan accounting purposes, and defined benefit pension plan funding of $66 million.
- Increased investments in broadband infrastructure, including upgrades and expansions of our fibre-optic network and 4G LTE capacity, as well as investments in network and systems resiliency and reliability.

2 Core business and strategy

2.1 Core business

We provide a wide range of telecommunications products and services. Wireless products and services include network revenue (data and voice) and equipment sales arising from mobile technologies. Wireline products and services include data revenues (which include revenues from Internet protocol; television; hosting, managed information technology and cloud-based services; business process outsourcing; certain healthcare solutions; and home security), voice revenues and other telecommunications services revenues. We earn the majority of our revenue from access to, and the usage of, our telecommunications infrastructure, and from providing services and products that facilitate access to, and usage of, our infrastructure.

2.2 Strategic imperatives

Since 2000, we have maintained a proven national growth strategy. Our strategic intent is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move.

We also developed six strategic imperatives in 2000 that remain relevant for future growth, despite changing regulatory, technological and competitive environments. We believe that a consistent focus on these imperatives guides our actions and contributes to the achievement of our financial goals. To advance these long-term strategic imperatives and address near-term opportunities and challenges, we also set new corporate priorities each year, as further described in *Section 3*. Our six strategic imperatives are listed below, together with a discussion of the 2017 activities and initiatives that relate to each of them.