

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

The Company maintains a system of internal control which 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 which require employees to maintain the highest ethical standards.

The external auditors of the Company, Arthur Andersen LLP, have been appointed by the shareholders to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with generally accepted accounting principles. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the external auditors to review internal controls, audit results and accounting principles and practices. The committee's terms of reference are available, on request, to shareholders.



Robert 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 of December 31, 2000 and 1999 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated 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 the 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Companies Act, we report that, in our opinion, except for the change in the method of accounting for employee future benefits as described in Note 3 to these financial statements, these principles have been applied on a consistent basis.



Arthur Andersen, LLP  
Chartered Accountants  
Vancouver, B.C.  
February 2, 2001

Three Months Ended (millions)	2000					1999				
	Mar 31	Jun 30	Sep 30	Dec 31	Total	Mar 31	Jun 30	Sep 30	Dec 31	Total
Operating revenues	\$ 1,477.8	\$ 1,528.9	\$ 1,626.3	\$ 1,800.2	\$ 6,433.2	\$ 1,430.2	\$ 1,454.8	\$ 1,460.3	\$ 1,527.0	\$ 5,872.3
Operations expense	872.7	904.3	979.6	1,211.8	3,968.4	863.3	882.4	870.1	929.1	3,544.9
EBITDA	605.1	624.6	646.7	588.4	2,464.8	566.9	572.4	590.2	597.9	2,327.4
Depreciation and amortization	271.7	276.6	282.9	332.1	1,163.3	261.2	263.0	264.5	265.9	1,054.6
Amortization of acquired intangible assets	-	-	-	24.6	24.6	-	-	-	-	-
Operating Income	333.4	348.0	363.8	231.7	1,276.9	305.7	309.4	325.7	332.0	1,272.8
Other income	2.9	7.8	9.1	10.3	30.1	2.3	3.5	5.7	28.7	40.2
Financing costs	45.0	58.1	71.4	142.4	316.9	46.6	45.2	50.3	46.6	188.7
Restructuring costs	-	-	-	-	-	466.3	-	-	-	466.3
Income (Loss) before Income Taxes, Non-Controlling Interest and Goodwill Amortization	291.3	297.7	301.5	99.6	990.1	(204.9)	267.7	281.1	314.1	658.0
Income taxes	127.8	127.9	131.0	109.4	496.1	(77.8)	130.3	134.3	110.1	296.9
Income (Loss) before Non-Controlling Interest and Goodwill Amortization	163.5	169.8	170.5	(9.8)	494.0	(127.1)	137.4	146.8	204.0	361.1
Non-controlling interest	0.5	2.4	3.0	2.8	8.7	0.4	1.1	0.4	2.0	3.9
Net Income (Loss) before Goodwill Amortization	163.0	167.4	167.5	(12.6)	485.3	(127.5)	136.3	146.4	202.0	357.2
Goodwill amortization	0.6	2.4	6.5	14.8	24.3	2.1	2.0	2.1	1.3	7.5
Net Income (Loss)	162.4	165.0	161.0	(27.4)	461.0	(129.6)	134.3	144.3	200.7	349.7
Preference and preferred share dividends	0.9	0.9	0.9	0.8	3.5	1.1	0.7	0.8	0.9	3.5
Interest on convertible debentures	-	-	-	1.5	1.5	-	-	-	-	-
Common Share Income (Loss)	\$161.5	\$164.1	\$160.1	\$(29.7)	\$456.0	\$(130.7)	\$133.6	\$143.5	\$199.8	\$346.2
Earnings (Loss) per Common Share (\$)	0.68	0.69	0.68	(0.11)	1.85	(0.55)	0.56	0.61	0.84	1.46
Cash earnings per common share <sup>1</sup>	0.70	0.71	0.71	0.24	2.31	0.57	0.57	0.62	0.85	2.61
EPS before restructuring costs and goodwill charges	0.69	0.70	0.70	(0.05)	1.94	0.57	0.57	0.62	0.85	2.61
Average Common Shares Outstanding (millions)	236.8	236.9	237.0	276.9	247.0	236.6	236.6	236.6	236.6	236.6

1 Cash EPS: Common share income before amortization of acquired intangible assets, restructuring costs net of tax, revaluation of future tax assets, and goodwill amortization, on a per share basis

	TELUS Consolidated			TELUS and BC TELECOM Combined			
(\$ millions)	2000	1999	1998	1997	1996	1995	1994
<b>INCOME STATEMENT</b>							
Local service revenue	\$ 3,494.4	\$ 3,195.0	\$ 3,160.2	\$ 2,746.3	\$ 2,278.0	\$ 1,852.2	\$ 1,450.6
Long distance service revenue	1,662.7	1,609.1	1,720.1	1,805.9	1,534.4	1,557.7	1,641.6
Other revenue	1,276.1	1,068.2	953.6	923.0	728.1	675.2	579.5
Total operating revenues	6,433.2	5,872.3	5,833.9	5,475.2	4,540.5	4,085.1	3,671.7
Operations expense	3,968.4	3,544.9	3,515.2	3,245.5	2,566.3	2,332.0	2,064.4
EBITDA	2,464.8	2,327.4	2,318.7	2,229.7	1,974.2	1,753.1	1,607.3
Depreciation and amortization	1,163.3	1,054.6	1,015.0	1,103.0	911.2	834.4	733.0
Amortization of acquired intangible assets	24.6	n/a	n/a	n/a	n/a	n/a	n/a
Operating income	1,276.9	1,272.8	1,303.7	1,126.7	1,063.0	918.7	874.3
Other income	30.1	40.2	56.9	0.4	3.7	34.4	11.8
Financing costs	316.9	188.7	232.1	236.2	278.0	289.1	231.1
Restructuring costs	-	466.3	-	-	-	-	-
Income before income taxes, non-controlling interest, extraordinary loss and goodwill amortization	990.1	658.0	1,128.5	884.0	764.2	643.4	655.1
Income taxes	496.1	296.9	519.5	442.2	245.3	217.7	209.8
Income before non-controlling interest, extraordinary loss and goodwill amortization	494.0	361.1	602.1	441.8	518.9	425.7	445.3
Non-controlling interest	8.7	3.9	4.6	4.0	3.4	3.2	2.4
Extraordinary loss <sup>1</sup>	-	-	530.6	285.2	-	-	-
Gain (loss) from discontinued operations	-	-	-	130.9	(35.0)	12.1	(6.7)
Income before goodwill amortization	485.3	357.2	73.8	290.4	505.0	455.1	436.2
Goodwill amortization	24.3	7.5	6.9	6.9	24.5	20.5	-
Net income	461.0	349.7	66.9	283.5	480.5	434.6	436.2
Preference and preferred share dividends and interest on convertible debentures	5.0	3.5	3.5	3.5	3.5	3.5	3.5
Common share income	\$ 456.0	\$ 346.2	\$ 63.4	\$ 280.0	\$ 477.0	\$ 431.1	\$ 432.7
Cash earnings <sup>2</sup>	\$ 571.2	\$ 618.7	\$ 600.9	\$ 572.1	\$ 501.5	\$ 451.6	\$ 432.7
<b>BALANCE SHEET</b>							
Property, plant and equipment, at cost	\$ 21,782.5	\$ 14,415.5	\$ 13,778.1	\$ 13,316.0	\$ 12,945.8	\$ 12,269.9	\$ 10,887.7
Accumulated depreciation	10,300.6	8,537.2	7,950.5	6,702.0	5,642.5	5,077.1	4,281.7
Total assets	16,415.0	7,797.1	7,860.5	8,761.9	9,167.7	9,160.0	7,939.5
Total capitalization	14,354.0	6,448.8	6,743.2	7,476.5	7,587.3	7,569.5	6,520.1
Long-term debt	3,047.3	1,555.5	1,608.7	2,280.6	2,953.1	3,175.4	2,441.4
Total shareholders' equity	6,418.4	4,307.7	4,343.0	4,650.7	4,251.5	3,954.3	3,698.4
<b>FINANCIAL</b>							
Average shares outstanding (millions)	247.0	236.6	237.0	236.6	234.2	229.2	225.3
Year-end shares outstanding (millions)	287.1	236.7	236.6	237.2	233.9	231.3	226.3
Cash earnings per common share <sup>3</sup>	\$ 2.31	\$ 2.61	\$ 2.54	\$ 2.42	\$ 2.14	\$ 1.97	\$ 1.92
Total earnings per common share	\$ 1.85	\$ 1.46	\$ 0.27	\$ 1.18	\$ 2.04	\$ 1.88	\$ 1.92
Dividends declared per common share	\$ 1.40	\$ 1.40	\$ 1.29	\$ 1.27	\$ 1.25	\$ 1.23	\$ 1.21
Cash flow per common share	\$ 7.31	\$ 7.34	\$ 6.89	\$ 6.88	\$ 6.35	\$ 5.70	\$ 5.05
Book value per common share	\$ 21.60	\$ 17.91	\$ 18.03	\$ 19.36	\$ 17.86	\$ 16.95	\$ 16.11
Return on common equity, operations	9.6%	14.2%	14.0%	9.9%	11.8%	11.5%	12.3%
EBITDA interest coverage	10.9	12.3	11.1	9.4	7.1	6.1	7.0
Cash flow from operations before changes in working capital (millions)	\$ 1,804.6	\$ 1,735.5	\$ 1,634.1	\$ 1,626.4	\$ 1,486.8	\$ 1,307.1	\$ 1,138.8
Net debt to total capitalization	55.1%	32.2%	33.0%	35.6%	41.0%	45.1%	42.8%
Capital expenditures (millions)	\$ 1,441.3	\$ 1,199.2	\$ 1,093.2	\$ 1,130.7	\$ 1,076.0	\$ 1,060.7	\$ 1,048.1
<b>OTHER</b>							
Employees	26,770	21,601	22,499	21,802	22,352	23,511	21,384
Total salary expense (millions)	\$ 1,402.2	\$ 1,350.7	\$ 1,405.5	\$ 1,253.9	n/a	n/a	n/a

NOTES:

1 Prior to the BC TELECOM and TELUS merger in 1999, non-cash extraordinary losses were individually recorded by each company (TELUS in 1997, and BC TELECOM in 1998). These extraordinary losses were the result of the change from Regulatory Accounting Principles (RAP) to Generally Accepted Accounting Principles (GAAP).

2 Cash earnings: Common share income before amortization of acquired intangible assets, restructuring costs net of tax, revaluation of future tax assets, goodwill amortization, and extraordinary losses.

3 Cash EPS: Cash earnings on a per common share basis.

	TELUS Consolidated			TELUS and BC TELECOM Combined			
	2000	1999	1998	1997	1996	1995	1994
<b>COMMUNICATIONS (excluding QuébecTel)</b>							
Subscriber access lines in service (000s)	4,641	4,551	4,495	4,367	4,198	4,042	3,498
Long distance switched conversation minutes (millions)	7,413	7,011	5,333	4,577	n/a	n/a	n/a
Average revenue per LD minute	\$ 0.124	\$ 0.141	\$ 0.204	n/a	n/a	n/a	n/a
Long distance market share – West <sup>4</sup>	71%	71%	70%	n/a	n/a	n/a	n/a
Local market share – West <sup>4</sup>	98%	98%	99%	n/a	n/a	n/a	n/a
<b>ADVANCED COMMUNICATIONS (excluding QuébecTel)</b>							
Dial-up Internet subscribers (000s)	324.5	287.7	212.1	122.9	60.6	5.3	n/a
High-speed Internet subscribers (000s)	81.1	25.7	4.3	n/a	n/a	n/a	n/a
<b>OTHER (QuébecTel)</b>							
Subscriber access lines in service (000s)	303	n/a	n/a	n/a	n/a	n/a	n/a
Long distance switched conversation minutes (millions)	257	n/a	n/a	n/a	n/a	n/a	n/a
Average revenue per LD minute	\$ 0.115	n/a	n/a	n/a	n/a	n/a	n/a
Long distance market share	85%	n/a	n/a	n/a	n/a	n/a	n/a
Local market share	100%	n/a	n/a	n/a	n/a	n/a	n/a
Dial-up Internet subscribers (000s)	88.7	n/a	n/a	n/a	n/a	n/a	n/a
High-speed Internet subscribers (000s)	2.5	n/a	n/a	n/a	n/a	n/a	n/a
<b>TELUS MOBILITY (West)<sup>5</sup></b>							
Gross activations (000s)	387	306	279	287	269	219	122
Net additions (000s)	151	136	140	188	173	199	n/a
Wireless subscribers (000s) <sup>6</sup>	1,236	1,099	963	823	635	462	263
Penetration rate	18.4%	16.9%	15.1%	13.1%	10.6%	8.0%	5.6%
Wireless market share	56%	58%	62%	64%	64%	63%	59%
Digital population coverage (millions)	5.1	4.8	3.2	3.2	–	–	–
Total population coverage (millions)	6.7	6.5	6.4	6.3	6.0	5.8	4.7
Average monthly revenue per subscriber	\$ 57	\$ 60	\$ 70	\$ 76	\$ 81	\$ 84	\$ 90
Average minutes per subscriber per month	244	218	219	200	199	178	168
Marketing cost of acquisition, per gross addition	\$ 401	\$ 360	\$ 412	\$ 338	\$ 319	\$ 320	n/a
Monthly deactivations (churn rate) <sup>6</sup>	1.7%	1.4%	1.3%	1.2%	1.6%	1.6%	1.4%
Paging subscribers (000s)	193	205	196	167	135	116	93
<b>TELUS MOBILITY (National) – Pro forma<sup>7</sup></b>							
Gross activations (000s)	924	668	n/a	n/a	n/a	n/a	n/a
Net additions (000s)	474	396	n/a	n/a	n/a	n/a	n/a
Wireless subscribers (000s) <sup>8</sup>	2,156	1,695	n/a	n/a	n/a	n/a	n/a
Penetration rate	9.1%	7.4%	n/a	n/a	n/a	n/a	n/a
Wireless market share	24.5%	24.6%	n/a	n/a	n/a	n/a	n/a
Digital population coverage (millions)	22.6	21.3	n/a	n/a	n/a	n/a	n/a
Total population coverage (millions)	23.7	22.8	n/a	n/a	n/a	n/a	n/a
Average monthly revenue per subscriber <sup>8</sup>	\$ 59	\$ 61	n/a	n/a	n/a	n/a	n/a
Average minutes per subscriber per month	271	238	n/a	n/a	n/a	n/a	n/a
Marketing cost of acquisition, per gross addition <sup>8</sup>	\$ 537	\$ 502	n/a	n/a	n/a	n/a	n/a
Monthly deactivations (churn rate) <sup>8</sup>	2.0%	1.6%	n/a	n/a	n/a	n/a	n/a
Paging subscribers (000s)	217	228	n/a	n/a	n/a	n/a	n/a

## NOTES:

4 West includes British Columbia and Alberta.

5 TELUS Mobility (West) excludes Clearnet's networks in Alberta and British Columbia.

6 Subscriber and churn results for 2000 have been adjusted to reflect definitional alignment between TELUS Mobility (pre-acquisitions), Clearnet and QuébecTel. This includes a decrease of approximately 13,100 to the December 31, 2000 postpaid subscriber total.

7 Data includes TELUS Mobility, Clearnet and QuébecTel Mobilité pro forma on a consolidated basis.

8 Subscriber, churn, average monthly revenue per subscriber and marketing cost of acquisition per gross addition for 1999 and 2000 have been adjusted to reflect definitional alignment between TELUS Mobility (pre-acquisitions), Clearnet and QuébecTel. This includes a decrease of approximately 13,100 to the December 31, 2000 postpaid subscriber total. Marketing cost of acquisition as adjusted includes costs for client renewals and migrations from analogue to digital.

## consolidated statement of income

Years Ended December 31 (millions)	2000	1999
<b>OPERATING REVENUES</b>		
Local service	\$ 3,494.4	\$ 3,195.0
Long distance service	1,662.7	1,609.1
Other (Note 5)	1,276.1	1,068.2
	<b>6,433.2</b>	5,872.3
<b>OPERATING EXPENSES</b>		
Operations	3,968.4	3,544.9
Depreciation and amortization	1,163.3	1,054.6
Amortization of acquired intangible assets	24.6	–
	<b>5,156.3</b>	4,599.5
<b>OPERATING INCOME</b>	<b>1,276.9</b>	1,272.8
Other income	30.1	40.2
Financing costs (Note 6)	316.9	188.7
Restructuring costs (Note 1(b))	–	466.3
<b>INCOME BEFORE INCOME TAXES, NON-CONTROLLING INTEREST AND GOODWILL AMORTIZATION</b>	<b>990.1</b>	658.0
Income taxes (Note 7)	496.1	296.9
<b>INCOME BEFORE NON-CONTROLLING INTEREST AND GOODWILL AMORTIZATION</b>	<b>494.0</b>	361.1
Non-controlling interest	8.7	3.9
<b>INCOME BEFORE GOODWILL AMORTIZATION</b>	<b>485.3</b>	357.2
Goodwill amortization	24.3	7.5
<b>NET INCOME</b>	<b>461.0</b>	349.7
Preference and preferred share dividends	3.5	3.5
Interest on convertible debentures	1.5	–
<b>COMMON SHARE INCOME</b>	<b>\$ 456.0</b>	\$ 346.2
<b>EARNINGS PER COMMON SHARE (\$)</b>		
Income before acquired intangible assets amortization, restructuring costs, revaluation of future tax assets and goodwill amortization	2.31	2.61
Income before restructuring costs and goodwill amortization	1.94	2.61
Common share income	1.85	1.46
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<b>247.0</b>	236.6

## consolidated statement of retained earnings

Years Ended December 31 (millions)	2000	1999
<b>BALANCE AT BEGINNING OF YEAR</b>	<b>\$ 1,457.5</b>	\$ 1,495.9
Net income	461.0	349.7
	<b>1,918.5</b>	1,845.6
Less – Preference and preferred share dividends	3.5	3.5
– Interest on convertible debentures	1.5	–
– Premium paid on repurchase of shares and share options	0.6	1.3
– Merger costs	–	51.9
– Common share dividends	349.5	331.4
<b>BALANCE AT END OF YEAR</b>	<b>\$ 1,563.4</b>	\$ 1,457.5

The accompanying notes are an integral part of these financial statements

As At December 31 (millions)	2000	1999
<b>ASSETS</b>		
Current Assets		
Cash and temporary investments	\$ 100.2	\$ -
Accounts receivable (Note 8)	1,008.5	663.6
Income taxes receivable	3.0	69.0
Inventories	151.7	56.3
Current portion of future income taxes	251.2	266.0
Current portion of sinking fund assets (Note 9)	-	105.4
Prepaid expenses and other	234.2	72.0
	<b>1,748.8</b>	1,232.3
Capital assets, net (Note 10)	<b>11,531.0</b>	5,878.3
Other Assets		
Deferred charges (Note 11)	216.7	117.1
Future income taxes	1,024.4	420.8
Investments	17.9	4.7
Leases receivable	80.5	66.3
Goodwill (Note 2(f))	1,794.5	64.8
Other	1.2	12.8
	<b>3,135.2</b>	686.5
	<b>\$ 16,415.0</b>	\$ 7,797.1
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Bank indebtedness	\$ -	\$ 32.3
Accounts payable and accrued liabilities	1,326.0	915.8
Dividends payable	100.9	83.6
Advance billings and customer deposits	209.3	175.6
Short-term obligations (Note 12)	5,033.3	573.2
	<b>6,669.5</b>	1,780.5
Long-term debt (Note 13)	<b>3,047.3</b>	1,555.5
Other long-term liabilities	<b>205.5</b>	141.0
Non-controlling interest	<b>74.3</b>	12.4
Shareholders' equity (Note 14)		
Common equity	<b>6,199.1</b>	4,238.0
Convertible debentures	<b>149.6</b>	-
Preference and preferred shares	<b>69.7</b>	69.7
	<b>6,418.4</b>	4,307.7
	<b>\$ 16,415.0</b>	\$ 7,797.1

Commitments (Note 15)

The accompanying notes are an integral part of these financial statements

Approved by the Directors:

Director:   
Harold P. Milavsky

Director:   
Brian A. Canfield

Years Ended December 31 (millions)	2000	1999
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 461.0	\$ 349.7
Items not affecting cash:		
Depreciation and amortization	1,187.9	1,054.6
Goodwill amortization	24.3	7.5
Future income taxes (Note 7)	152.0	(10.1)
Non-cash restructuring related write-offs	–	79.9
Gain on disposal of property and investments (Note 16)	–	(36.9)
Sinking fund earnings	(4.1)	(12.6)
Other, net	(16.5)	(26.1)
Operating cash flow	1,804.6	1,406.0
Provision for future cash restructuring costs	–	329.5
Operating cash flow adjusted for restructuring costs	1,804.6	1,735.5
Net change in non-cash working capital	(169.5)	(90.4)
Cash provided by operating activities	1,635.1	1,645.1
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(1,441.3)	(1,199.2)
Acquisition of Clearnet Communications Inc., net of cash acquired	(1,857.4)	–
Other acquisitions, net of cash acquired	(606.6)	–
Proceeds from the sale of property and investments (Note 16)	96.9	40.2
Merger costs	–	(51.9)
Other	(22.7)	12.6
Cash used by investing activities	(3,831.1)	(1,198.3)
<b>FINANCING ACTIVITIES</b>		
Common shares issued	14.4	3.5
Repurchase of common shares	–	(1.8)
Dividends to shareholders	(353.0)	(334.9)
Long-term debt issued	234.9	44.2
Redemptions of long-term debt	(1,764.8)	(258.4)
Sinking fund withdrawal	109.5	32.7
Change in short-term obligations	4,112.4	(47.7)
Other	(24.9)	1.9
Cash provided (used) by financing activities	2,328.5	(560.5)
<b>CASH POSITION</b>		
Increase (decrease) in cash	132.5	(113.7)
Cash and temporary investments (bank indebtedness), beginning of year	(32.3)	81.4
Cash and temporary investments (bank indebtedness), end of year	\$ 100.2	\$ (32.3)
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest paid	\$ 234.5	\$ 204.7
Income taxes paid	\$ 291.0	\$ 341.6

The accompanying notes are an integral part of these financial statements

December 31, 2000

**1. ACCOUNTING ENTITY**

**(a) Name Change**

Effective January 1, 2000, BCT.TELUS Communications Inc. and TELUS Corporation changed their names to TELUS Corporation (TELUS) and TELUS Holdings Inc., respectively.

**(b) Business Combination**

On January 31, 1999, the operations of BC TELECOM Inc. (BC TELECOM) and TELUS Corporation (TELUS Holdings Inc.) were merged to form BCT.TELUS Communications Inc. (TELUS). The merged Company is engaged in providing communications services and solutions for consumers and businesses.

The nature of the business combination was such that neither of the combining companies could be identified as the acquirer for accounting purposes. Therefore, the business combination has been accounted for using the pooling of interests method of accounting whereby the consolidated financial statements reflect the combined carrying values of the assets, liabilities and shareholders' equity, and the combined operating results of BC TELECOM and TELUS for all periods presented.

Under the terms of the merger, shares of BC TELECOM were exchanged on a one-for-one basis and shares of TELUS were exchanged on a one for .7773 basis for shares in BCT.TELUS Communications Inc. Subsequent to the exchange, the former shareholders of BC TELECOM held 52.5% and the former shareholders of TELUS held 47.5% of the 177,427,492 outstanding voting common shares of the combined company. On February 1, 1999, the closing market price of the BCT.TELUS Communications Inc. voting common shares was \$42.50.

A summary of the book values of the assets and liabilities at the date of the merger is as follows:

<i>(millions)</i>	BC TELECOM	TELUS
<b>Assets</b>		
Current assets	\$ 476.3	\$ 497.5
Property, plant and equipment, net	3,156.9	2,713.8
Other assets	388.4	604.5
	4,021.6	3,815.8
<b>Less</b>		
Current liabilities	1,017.8	861.6
Long-term debt	883.7	558.5
Other liabilities	77.0	10.4
Non-controlling interest	9.7	-
<b>Net assets</b>	<b>\$ 2,033.4</b>	<b>\$ 2,385.3</b>

A charge of \$466.3 million was recorded in the first quarter of 1999 for the expected costs in 1999 and 2000 to complete merger-related restructuring activities. More than half of this charge is for management termination costs and the costs of voluntary early retirement programs. The business restructuring also included the rationalization of real estate, the impairment of assets in two start-up businesses that were reassessed in relation to national growth plans and consulting costs from merger integration activities.

Third-party costs to effect the merger arrangement were charged to retained earnings in the first quarter of 1999. These costs totaled \$51.9 million and included financial advisor fees, regulatory filing fees, legal and accounting fees, and printing and mailing costs.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in conformity with prevailing practices in the Canadian telecommunications industry.

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

The term "Company" is 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 ones are TELUS Communications Inc., TELUS Communications (B.C.) Inc., Clearnet Communications Inc., TELUS Mobility Cellular Inc., ISM Information Systems Management (B.C.) Corporation, TELUS Services Inc., Telecom Leasing Canada (TLC) Limited, and QuébecTel Inc. (70%).

### *(b) Inventories*

Inventories are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis.

### *(c) Capital Assets*

Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and applicable overhead costs. In addition, where construction projects exceed \$20 million and are of a sufficiently long duration, an amount is capitalized for the cost of funds used to finance construction. This amount is included in the Consolidated Statement of Income as an offset against financing costs. The rate for calculating the capitalized financing costs is based on the Company's one-year cost of borrowing. In 2000, \$8.6 million of financing costs was capitalized (\$1.6 million – 1999).

When property, plant and equipment is sold by the Company, the historical cost less accumulated depreciation is netted against the sale proceeds and the difference is included in the Consolidated Statement of Income.

### *(d) Depreciation and Amortization*

Assets are depreciated on a straight-line basis over their estimated useful life as determined by a continuing program of engineering studies. The composite depreciation rate for the year ended December 31, 2000, was 6.7% (7.8% – 1999).

Acquired intangible assets are amortized on a straight-line basis over their estimated lives. The spectrum licenses and wireline subscriber bases are amortized over 40 years and wireless subscriber bases are amortized over 7–10 years.

### *(e) Deferred Charges*

Deferred charges include deferred pension costs, more fully described in Note 17, deferred costs of issuing debt and deferred start-up costs. The deferred start-up costs are amounts relating to information services contracts that will be matched with related revenues. Discounts on long-term debt are amortized to interest expense on a straight-line basis over the remaining lives of the related liabilities. Where interest coupons and residuals are held as separate investments in sinking funds, discounts are amortized over the period to maturity or call date so as to produce a constant rate of return on the investments.

### *(f) Goodwill*

Goodwill represents the excess of the cost of acquired businesses over the fair value attributed to the net identifiable assets. Goodwill is being amortized on a straight-line basis over 10 to 20 years. Management estimates the value of goodwill to be not less than the unamortized balance at December 31, 2000.

**(g) Income Taxes**

The Company and its subsidiaries follow 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.

Future income taxes at December 31, 2000, consist mainly of tax reserves not available for current deduction and undepreciated capital cost in excess of net book value of capital assets arising from the difference between the Company's depreciation rates and those prescribed for income tax purposes and losses available to be carried forward.

**(h) Leases**

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

Where the Company is the lessor, the majority of capital leases are through its subsidiary, Telecom Leasing Canada (TLC) Limited, which acts as a financing intermediary. The long-term leases receivable represent the present value of future lease payments receivable due beyond one year. Finance income derived from these financing leases is recorded so as to produce a constant rate of return over the terms of the leases.

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

Revenue from operating leases of equipment is recognized when service is rendered to customers. The leased equipment is depreciated in accordance with the Company's depreciation policy.

**(i) Other Long-Term Liabilities**

Included in Other Long-Term Liabilities are contributions from the Government of Alberta under the Individual Line Service program, which are recognized as income on a straight-line basis over the estimated useful life of the related assets. The amount to be recognized as income within one year is included with Advance Billings and Customer Deposits in the Consolidated Balance Sheet. Additional other long-term liabilities are comprised of pension and benefits obligations, building lease liability and New Media and Broadcast Fund.

**(j) Employee Benefit Plans**

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies:

- 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.

**(k) 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 equivalent 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 statement of income. Gains or losses arising from translation of non-current monetary liabilities are deferred and amortized over the remaining lives of the related liabilities.

**(l) Financial Instruments**

The Company's financial instruments consist of cash and temporary investments, accounts receivable, income taxes receivable, leases receivable, bank indebtedness, accounts payable and accrued liabilities, dividends payable, short-term obligations, long-term debt and convertible debentures.

The carrying value of cash and temporary investments, bank indebtedness, accounts receivable, leases receivable, accounts payable and accrued liabilities, dividends payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Company's long-term debt and convertible debentures are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. As of December 31, 2000, the estimated fair value of long-term debt exceeded the carrying value by approximately \$206.6 million (\$249 million – 1999).

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

The Company uses various financial instruments that are not reflected on the balance sheet to reduce or eliminate exposure to interest rate and currency risks, and as part of structured financing. These instruments are accounted for on the same basis as the underlying exposure being hedged. At December 31, 2000, the total notional amount of derivative financial instruments outstanding was \$3,968.3 million (\$442.4 million – 1999). The majority of these instruments, which were newly added during the year 2000, pertained to TELUS' acquisition financing and the instruments in place to cover the interest and currency risks of the acquired companies. The fair market value of these instruments at December 31, 2000, is less than their carrying value by approximately \$66.7 million (exceeded by \$1 million – 1999). 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.

The Company is exposed to credit risk with respect to its short-term deposits and sinking fund assets. Credit risk 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.

The Company is exposed to credit risk with respect to its accounts and leases receivable. However, this 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.

### 3. CHANGE IN ACCOUNTING POLICY

On January 1, 2000, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) dealing with accounting for employee future benefits (CICA Handbook Section 3461). The accounting change was applied on a prospective basis and the impact of the change was a reduction in operating expenses of approximately \$58 million for the year ended December 31, 2000.

### 4. BUSINESS ACQUISITIONS

During the year, the Company made the following acquisitions:

- Effective October 19, 2000, the Company acquired 100% of the outstanding shares of Clearnet Communications Inc., a telecommunications company providing wireless communications services, for \$4,133.0 million including acquisition costs. The purchase consideration comprised of \$2,179.0 million cash and \$1,954.0 million issued and accrued TELUS non-voting shares. The transaction has been accounted for using the purchase method resulting in the creation of \$1,612.0 million of goodwill on the consolidated balance sheet, which is being amortized over a period of 20 years. Effective October 20, 2000 onwards, Clearnet's results are included in the Company's consolidated statement of income. At the purchase date, the following net assets were acquired:

<i>(millions)</i>	
Total identifiable assets	\$ 5,975.8
Total liabilities	3,454.8

- On August 17, 2000, the Company acquired all of the remaining 25% externally held shares of ISM Information Systems Management (B.C.) Corporation, an information technology company, for \$12.9 million cash including acquisition costs. The transaction has been accounted for using the purchase method, resulting in the creation of \$9.7 million of goodwill on the consolidated balance sheet which is being amortized over a period of 10 years. Effective August 17, 2000 onwards, 100% of ISM-BC's results are included in the Company's consolidated statement of income. At the purchase date, the following net assets were acquired:

(millions)

Total identifiable assets	\$ 30.6
Total liabilities	27.4

- On June 1, 2000, the Company acquired 70% of the outstanding shares of QuébecTel Group, a telecommunications company, for \$584.4 million cash including acquisition costs. The transaction has been accounted for using the purchase method, resulting in the creation of \$173.4 million of goodwill on the consolidated balance sheet, which is being amortized over a period of 20 years. Effective June 1, 2000 onwards, QuébecTel's results are included in the Company's consolidated statement of income. At the purchase date, the following net assets were acquired:

(millions)

Total identifiable assets	\$ 806.0
Total liabilities	327.9
Non-controlling interest	67.1

## 5. OTHER REVENUES

(millions)

	2000	1999
Service and equipment sales	<b>\$ 469.6</b>	\$ 405.1
Directory advertising and sales	<b>323.9</b>	292.2
Information services	<b>154.8</b>	167.7
Rental	<b>79.7</b>	92.7
Other	<b>248.1</b>	110.5
	<b>\$ 1,276.1</b>	\$ 1,068.2

## 6. FINANCING COSTS

(millions)

	2000	1999
Interest on long-term debt	<b>\$ 199.7</b>	\$ 169.2
Interest on short-term obligations and other	<b>113.3</b>	30.5
Foreign exchange loss (gain)	<b>12.5</b>	(9.4)
	<b>325.5</b>	190.3
Allowance for funds used during construction	<b>(8.6)</b>	(1.6)
	<b>\$ 316.9</b>	\$ 188.7

**7. INCOME TAXES**

<i>(millions)</i>	<b>2000</b>	1999
Current	<b>\$ 344.1</b>	\$ 307.0
Future	<b>152.0</b>	(10.1)
	<b>\$ 496.1</b>	\$ 296.9

A reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	<b>2000</b>	1999
Basic federal and provincial statutory income tax rate	<b>45.2%</b>	45.5%
Revaluation of future tax assets for decreases in statutory rate	<b>6.7</b>	-
Non-deductible portion of amortization of acquired assets	<b>1.0</b>	-
Non-taxable portion of gain on disposal of assets	<b>(0.1)</b>	(0.6)
Future tax assets not previously recognized	<b>(4.4)</b>	-
Other	<b>0.8</b>	(1.1)
	<b>49.2</b>	43.8
Large corporations tax	<b>0.9</b>	1.3
Effective rate per Consolidated Statement of Income	<b>50.1%</b>	45.1%

**8. ACCOUNTS RECEIVABLE**

<i>(millions)</i>	<b>2000</b>	1999
Trade receivables	<b>\$ 788.3</b>	\$ 544.7
Current portion of leases receivable	<b>64.5</b>	55.1
Other	<b>155.7</b>	63.8
	<b>\$ 1,008.5</b>	\$ 663.6

Under an agreement dated November 20, 1997, TELUS Communications (B.C.) Inc. (formerly BC TEL) sold, with minimal recourse, accounts receivable for aggregate cash proceeds of \$150 million. Pursuant to the agreement, the purchaser will use the proceeds of collection to purchase further receivables. This agreement, which expires in November 2002, is extendable upon the Company's request.

**9. SINKING FUND ASSETS**

Sinking fund assets relate to the Company's note payable and consist of the following:

<i>(millions)</i>	<b>2000</b>	1999
Debentures, at amortized cost		
Government of Canada, direct and guaranteed	<b>\$ -</b>	\$ 38.3
Alberta Government Telephones Commission	<b>-</b>	67.1
	<b>-</b>	105.4
Less: current portion	<b>-</b>	105.4
	<b>\$ -</b>	\$ -

Proceeds of the sinking fund were withdrawn in May 2000 for early redemption of the TELUS Communications Inc. 11.80% Notes Payable otherwise due May 2003. At December 31, 1999, assets in the sinking fund had an approximate market value of \$107 million and these assets had a weighted average effective interest rate of 9.3% for that year.

## 10. CAPITAL ASSETS, NET

<i>(millions)</i>	Cost	Accumulated Depreciation and Amortization	Net Book Value	
			2000	1999
Telecommunications assets	\$ 13,887.6	\$ 8,293.2	<b>\$ 5,594.4</b>	\$ 4,132.9
Assets leased to customers	416.3	303.4	<b>112.9</b>	51.1
Buildings	1,224.5	649.4	<b>575.1</b>	560.5
Office equipment & furniture	637.4	403.7	<b>233.7</b>	155.6
Assets under capital lease	77.5	40.3	<b>37.2</b>	25.4
Intangible assets:				
Subscriber base	284.1	5.9	<b>278.2</b>	–
Spectrum licenses	3,565.2	18.7	<b>3,546.5</b>	–
Other	861.5	536.9	<b>324.6</b>	382.6
	20,954.1	10,251.5	<b>10,702.6</b>	5,308.1
Land	85.3	–	<b>85.3</b>	82.8
Plant under construction	679.9	–	<b>679.9</b>	443.6
Materials and supplies	63.2	–	<b>63.2</b>	43.8
	<b>\$ 21,782.5</b>	<b>\$ 10,251.5</b>	<b>\$ 11,531.0</b>	<b>\$ 5,878.3</b>

## 11. DEFERRED CHARGES

<i>(millions)</i>	2000	1999
Pension plan contributions in excess of charges to income	<b>\$ 168.2</b>	\$ 81.2
Cost of issuing debt securities, less amortization	<b>24.0</b>	11.2
Other	<b>24.5</b>	24.7
	<b>\$ 216.7</b>	\$ 117.1

## 12. SHORT-TERM OBLIGATIONS

Amounts due for redemption within one year are as follows:

<i>(millions)</i>	2000	1999
Notes payable under commercial paper programs	<b>\$ 904.0</b>	\$ 246.5
Bank borrowings	<b>3,913.7</b>	–
Current maturities of long-term debt	<b>215.6</b>	326.7
	<b>\$ 5,033.3</b>	\$ 573.2

Notes payable under commercial paper programs are unsecured. At December 31, 1999, \$380.0 million of commercial paper notes was classified as long-term debt on the basis of the availability of a \$380.0 million long-term credit facility agreement. In addition, the Company had in place committed operating lines of credit of \$311.0 million. This long-term credit facility was replaced in the year 2000 by new bank credit facilities and all commercial paper notes outstanding at December 31, 2000, are classified as part of Short-Term Obligations. At December 31, 2000, outstanding notes payable under these programs range in maturity from 3 to 197 days and carry a weighted average interest rate of 5.86%.

Other short-term borrowings include debt incurred by TELUS Corporation under new bank credit facilities, with total aggregate availability of up to \$6.25 billion. These 364-day facilities, newly established in the year 2000 and with the acquisition of Clearnet, replaced the majority of TELUS' existing bank credit facilities. Credit is available in two tranches, for the following purposes: to finance the acquisition of Clearnet, to refinance existing and acquired indebtedness and for

general corporate purposes (Tranche A, known as the 364-Day Non-Revolving Bridge Facility, with \$5 billion in available credit); and to refinance existing and acquired indebtedness for general corporate purposes other than repayment of Tranche A (Tranche B, known as the 364-Day Revolving Line of Credit with \$1.25 billion in available credit).

Upon the acquisition of Clearnet, net proceeds from the bank credit facilities were applied to the retirement of outstanding bank debt, the purchase of Clearnet shares, related Clearnet acquisition costs and the retirement of certain outstanding debt owed by Clearnet such as the 14.75% Senior Discount Notes due December 15, 2005, the Lucent Credit Facilities and the Mike Credit Facility. Interest rates on outstanding bank debt are based upon the public ratings from the U.S. credit rating agencies of Standard & Poor's and Moody's. Bank debt can take one or more of the following forms: prime rate loans in Canadian dollars; Bankers' Acceptances in Canadian dollars; U.S. Base Rate Loans in U.S. dollars; London Interbank Offered Rate Loans (LIBOR) in U.S. dollars; and Standby Letters of Credit in Canadian dollars or U.S. dollars only (Tranche B only). Other key terms and conditions for these facilities include compliance to financial covenants, mandatory prepayment under certain conditions and voluntary prepayments/cancellations. Additionally, the shares of TELUS' major operating subsidiaries have been pledged as security for this bank credit facility.

At December 31, 2000, the QuébecTel Group had lines of credit available at the banks' prime rates of interest maturing between February 1 and August 31, 2001, which covered the amount of \$95.0 million authorized by its Board of Directors. Used bank credit totaled \$67.2 million at December 31, 2000. The average interest rate on short-term borrowings for the QuébecTel Group was 7.2% in 2000.

### 13. LONG-TERM DEBT

#### (a) Details of Long-Term Debt

<i>(millions)</i>	<i>Series</i>	<i>Rate</i>	<i>Maturity</i>	<b>2000</b>	1999
TELUS Communications (B.C.) Inc. First Mortgage Bonds					
	AN	10.5%	June 2000	<b>\$ —</b>	\$ 115.0
TELUS Communications (B.C.) Inc. Debentures					
	1	12.0%	May 2010	<b>50.0</b>	50.0
	2	11.90%	November 2015	<b>125.0</b>	125.0
	3	10.65%	June 2021	<b>175.0</b>	175.0
	4	9.15%	April 2002	<b>1.0</b>	1.0
	5	9.65%	April 2022	<b>249.0</b>	249.0
				<b>600.0</b>	600.0
TELUS Communications (B.C.) Inc. Medium-Term Note Debentures issued at varying rates of interest up to 8.00% and maturing on various dates up to 2009					
				<b>395.0</b>	195.0
TELUS Communications Inc. Debentures					
	A	9.50%	August 2004	<b>200.0</b>	200.0
	B	8.80%	September 2025	<b>200.0</b>	200.0
				<b>400.0</b>	400.0
TELUS Communications Inc. Notes Payable					
		11.80%	May 2003	<b>—</b>	150.0
QuébecTel Group First Mortgage Bonds					
	T	10.80%	March 2003	<b>30.0</b>	—
	U	11.50%	July 2010	<b>30.0</b>	—
				<b>60.0</b>	—
QuébecTel Group Medium-Term Notes					
	1	7.10%	February 2007	<b>70.0</b>	—

<i>(millions)</i>	<i>Series</i>	<i>Rate</i>	<i>Maturity</i>	<b>2000</b>	1999
Clearnet Communications Inc. Redeemable Senior Discount Notes					
	2007 Notes	11.75%	August 2007	<b>550.2</b>	–
	2008 Notes	10.40%	May 2008	<b>461.4</b>	–
	Feb. 2009 Notes	10.75%	February 2009	<b>149.4</b>	–
	May 2009 Notes	10.125%	May 2009	<b>545.0</b>	–
				<b>1,706.0</b>	–
Commercial paper reclassified under a long-term credit facility agreement (Note 12)				–	380.0
Capital leases (Note 15d) issued at varying rates of interest up to 11.75% and maturing on various dates up to 2004				<b>26.9</b>	27.4
Other				<b>5.0</b>	14.8
Total debt				<b>3,262.9</b>	1,882.2
Less: current maturities				<b>215.6</b>	326.7
Long-term Debt				<b>\$ 3,047.3</b>	\$ 1,555.5

**(b) TELUS Medium-Term Note Programs**

Under the terms of the medium-term note prospectus for TELUS Corporation, TELUS Communications (B.C.) Inc. and TELUS Communications Inc., a total of \$2,400.0 million in medium-term notes may be issued prior to September 9, 2001. The notes will have maturities, interest rates and other features determined at the time of issue. During June 2000 TELUS Communications (B.C.) Inc. issued \$200 million (nil – 1999) notes.

**(c) TELUS Communications (B.C.) Inc. First Mortgage Bonds**

TELUS Communications (B.C.) Inc.'s property is subject to liens under the Deed of Trust and Mortgage dated March 1, 1946, under which the first mortgage bonds were issued. The Deed of Trust and Mortgage requires either an annual sinking fund payment of 1% of the original principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1.5% of the principal. In 1999, a sinking fund payment was made in respect of the Series AN First Mortgage Bonds.

**(d) TELUS Communications (B.C.) Inc. Debentures**

Debentures are issued under the Trust Indenture dated May 31, 1990, and are not secured by any mortgage, pledge or other charge. While the Trust Indenture is in effect, further issues of first mortgage bonds are not permitted. New issues of unsecured debt are subject to restrictions as to debt ratio and interest coverage as defined in the Trust Indenture.

The outstanding debentures may not be redeemed prior to maturity.

The Series 4 Debentures were exchangeable, at the holder's option, effective on April 8 of any year during the four-year period from 1996 to 1999, for an equal principal amount of Series 5 Debentures. In 1999, \$20.3 million of the Series 4 Debentures were exchanged for Series 5 Debentures.

**(e) TELUS Communications Inc. Debentures**

The outstanding Series A Debentures and Series B Debentures are issued under the TELUS Communications Inc. Trust Indenture dated August 24, 1994, and a supplemental trust indenture dated September 22, 1995, relating to Series B Debentures only. These debentures are not secured by any mortgage, pledge or other charge. During 1995 the Company terminated an interest rate swap contract relating to the Series A Debentures and realized a gain on early termination in the amount of \$16.8 million which is being amortized and credited to interest expense over the remaining term of the Series A Debentures. The amortization of the gain resulted in an effective rate of interest on Series A Debentures in 2000 of 8.79% (8.79% – 1999).

**(f) TELUS Communications Inc. Notes Payable**

The note outstanding at December 31, 1999, was secured by sinking fund assets of the Company. In accordance with note terms, this note requires annual sinking fund contributions of 1% of the principal amount outstanding until one year prior to maturity. The note had an early redemption provision at the Company's option on May 31, 2000, or on any May 31 or November 30 thereafter prior to maturity. The Company redeemed the note in May 2000.

**(g) QuébecTel Group First Mortgage Bonds**

The first mortgage bonds of all series are secured equally and rateably by an immovable hypothec and by a movable hypothec charging specifically certain immovable and movable property of the subsidiary Québec-Téléphone, such as land, buildings, equipment, apparatus, telephone lines, rights-of-way and similar rights as well as by an hypothec on all of the movable and the immovable property, present and future of Québec-Téléphone.

**(h) QuébecTel Group Medium-Term Note Program**

The medium-term notes were issued under a trust indenture dated September 1, 1994, as amended and complemented 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.

**(i) Clearnet Communications Inc. Redeemable Senior Discount Notes**

The notes are senior, unsecured obligations of Clearnet and rank equally in right of payment with all existing and future unsecured, unsubordinated obligations of Clearnet and are senior in right of payment to all existing and future subordinated indebtedness of Clearnet, but will be effectively subordinated to all existing and future obligations of Clearnet's subsidiaries.

The indentures governing the notes contain certain covenants which, among other things, place limitations on the ability of Clearnet and certain of its subsidiaries to: incur additional indebtedness; pay dividends or make any distribution on its capital stock or make certain other restricted payments; make investments; issue guarantees; enter into transactions with certain shareholders and affiliates; issue shares of subsidiaries; restrict the ability of subsidiaries to pay dividends; enter into liens; enter into sale-leaseback transactions; sell certain assets; or consolidate, merge, amalgamate or sell all or substantially all of its property and assets.

Upon a change of control as defined for the notes which did not occur upon the acquisition by TELUS of Clearnet on October 20, 2000, each holder of notes has the right to require Clearnet to repurchase such holder's notes at 101% of the accreted value plus accrued and unpaid interest to the date of redemption.

*2007 Senior Discount Notes:* In August 1997, Clearnet issued \$566.0 million Senior Discount Notes with a combined initial value of \$319.7 million and a total value of \$566.0 million upon maturity. The 2007 Notes are redeemable at the option of Clearnet, at any time, in whole or in part, at the redemption price of 105.875%, 102.938% and 100% of the principal amount on or after August 13, 2002, 2003 and 2004, respectively, plus accrued and unpaid interest. The book value of these notes was increased by \$79.7 million as a result of a fair market value adjustment at the date of acquisition on October 19, 2000.

*2008 Senior Discount Notes:* In May 1998, Clearnet issued \$500.0 million Senior Discount Notes with a combined initial value of \$300.6 million and a total value of \$500.0 million upon maturity. The 2008 Notes are redeemable at the option of Clearnet, at any time, in whole or in part, at the redemption price of 105.2%, 102.6% and 100% of the principal amount on or after May 15, 2003, 2004 and 2005, respectively, plus accrued and unpaid interest. The book value of these notes was increased by \$68.8 million as a result of a fair market value adjustment at the date of acquisition on October 19, 2000.

*February 2009 Senior Discount Notes:* In February 1999, Clearnet issued \$169.0 million Senior Discount Notes with a combined initial value of \$100.1 million and a total value of \$169.0 million upon maturity. The February 2009 Notes are redeemable at the option of Clearnet, at any time, in whole or in part, at the redemption price of 105.375%, 102.688% and 100% of the principal amount on or after February 15, 2004, 2005 and 2006, respectively, plus accrued and unpaid interest. The book value of these notes was increased by \$28.1 million as a result of a fair market value adjustment at the date of acquisition on October 19, 2000.

*May 2009 Senior Discount Notes:* In April 1999, Clearnet issued \$420.0 million U.S. Senior Discount Notes with a combined initial value of U.S. \$256.0 million and a total value of U.S. \$420.0 million upon maturity. The May 2009 Notes are redeemable at the option of Clearnet, at any time, in whole or in part, at the redemption price of 105.063%, 102.531% and 100% of the principal amount on or after May 1, 2004, 2005 and 2006, respectively, plus accrued and unpaid interest. The book value of these notes was increased by \$98.6 million as a result of a fair market value adjustment at the date of acquisition on October 19, 2000.

*May 2009 Cross-Currency Interest Swaps:* With respect to the May 2009 Notes and during April 1999, Clearnet entered into cross-currency interest rate swap agreements which effectively convert principal repayments and interest obligations to Canadian dollar requirements with an effective fixed rate of approximately 9.9%. The obligations under the swap agreements are secured by charges over all of the assets of Clearnet's wholly-owned subsidiary, Clearnet Inc., and certain collateral provided by Clearnet. The counterparties of the swap agreements are highly rated financial institutions and Clearnet does not anticipate any non-performance. Clearnet has not required collateral or other security from the counterparties due to its assessment of their creditworthiness.

**(j) Long-Term Debt Maturities**

Anticipated requirements to meet long-term debt repayments, excluding capital lease maturities, during each of the next five years from December 31, 2000, are as follows:

(millions)

2001	\$ 202.6
2002	601.7
2003	756.8
2004	1,026.2
2005	0.3

**14. SHAREHOLDERS' EQUITY**
**(a) Details of Shareholders' Equity**

		2000	1999
<i>(millions)</i>			
Common equity			
	Voting shares	<b>\$ 2,091.2</b>	\$ 2,080.0
	Non-voting shares	<b>2,537.1</b>	693.1
	Retained earnings	<b>1,563.4</b>	1,457.5
	Contributed surplus	<b>7.4</b>	7.4
		<b>6,199.1</b>	4,238.0
TELUS Communications (B.C.) Inc. Preference and Preferred, Cumulative			
No. of Shares	Par Value	Redemption Premium	
8,090	\$6.00	Preference \$ 100 10.0%	<b>.8</b> .8
53,000	\$4.375	Preferred \$ 100 4.0%	<b>5.3</b> 5.3
47,500	\$4.50	Preferred \$ 100 4.0%	<b>4.8</b> 4.8
71,250	\$4.75	Preferred \$ 100 5.0%	<b>7.1</b> 7.1
71,250	\$4.75	Preferred ('56) \$ 100 4.0%	<b>7.1</b> 7.1
114,700	\$5.15	Preferred \$ 100 5.0%	<b>11.5</b> 11.5
96,400	\$5.75	Preferred \$ 100 4.0%	<b>9.6</b> 9.6
42,750	\$6.00	Preferred \$ 100 5.0%	<b>4.3</b> 4.3
768,400	\$1.21	Preferred \$ 25 4.0%	<b>19.2</b> 19.2
		<b>69.7</b>	69.7
Convertible debentures (g)		<b>149.6</b>	-
Total Equity		<b>\$ 6,418.4</b>	\$ 4,307.7

**(b) Authorized Capital**

TELUS Corporation is authorized to issue an unlimited number of common voting shares, common non-voting shares, first preferred shares and second preferred shares. At December 31, 2000, there were no first or second preferred shares issued.

**(c) Changes in Common Shares**

	2000		1999	
	Number of Shares	Amount (millions)	Number of Shares	Amount (millions)
Common Voting Shares				
Beginning of Year	<b>177,521,890</b>	<b>\$ 2,080.0</b>	177,433,909	\$ 2,077.6
Exercise of stock options	<b>494,848</b>	<b>11.2</b>	111,963	2.6
Other	<b>(58)</b>	<b>-</b>	(23,982)	(0.2)
End of Year	<b>178,016,680</b>	<b>\$ 2,091.2</b>	177,521,890	\$ 2,080.0
Common Non-Voting Shares				
Beginning of Year	<b>59,156,447</b>	<b>\$ 693.1</b>	59,144,636	\$ 692.5
Exercise of stock options	<b>178,525</b>	<b>4.5</b>	37,309	0.9
Shares issued on acquisition of Clearnet	<b>49,717,741</b>	<b>1,839.5</b>	-	-
Other	<b>-</b>	<b>-</b>	(25,498)	(0.3)
End of Year	<b>109,052,713</b>	<b>\$ 2,537.1</b>	59,156,447	\$ 693.1

**(d) Stock Option Plans**

The Company has a total of 12,189,538 options granted and 7,670,515 options outstanding under all share option plans at December 31, 2000, as follows:

**TELUS Corporation Stock Option and Compensation Plan:**

TELUS Corporation has a stock option plan under which directors, officers and key employees receive options to purchase common voting shares at a price equal to the fair market value of the shares at the date of granting. Options granted pursuant to the plan may be exercised over specific periods not to exceed 10 years from the date granted.

Year Options Granted	Options Granted	Options Outstanding	Average Exercise Price
<b>2000</b>	<b>3,086,631</b>	<b>2,896,452</b>	<b>\$ 35.29</b>
1999	781,430	565,265	35.72

**TELUS Share Option Plan for Former Clearnet Option Holders:**

Under the terms of the arrangement to acquire Clearnet, effective October 20, 2000, TELUS Corporation exchanged the options held by former Clearnet option holders. At the date of acquisition, the fair market value of TELUS non-voting shares was \$37.00 per share. Options granted in the plan may be exercised over a specified period not to exceed 10 years from the original date granted.

Year Options Granted	Options Granted	Options Outstanding	Average Exercise Price
<b>2000</b>	<b>2,132,509</b>	<b>2,127,509</b>	<b>\$ 16.03</b>

**BC TELECOM Stock Option Plans (BCTSOP):**

Under the terms of the BCTSOP introduced in 1995, BC TELECOM granted officers and key employees options in tandem share appreciation rights and retention options at fixed exercise prices. Effective December 8, 1998, the plan was modified to replace share appreciation rights with a stock option repurchase plan. Options granted in the plan may be exercised over specific periods not to exceed 10 years from the date granted. Options granted prior to 1999 can be exercised in a ratio of 75% voting and 25% non-voting for common shares in TELUS Corporation.

Year Options Granted	Options Granted	Options Outstanding	Average Exercise Price
1999	3,700	3,700	\$ 36.78
1998	339,600	293,900	46.72
1997	435,800	324,731	31.05
1996	427,200	212,901	25.26
1995	213,300	73,900	24.20

**BC TELECOM Long-Term Incentive Share Option Plan:**

BC TELECOM had stock option plans under which officers and key employees received common share purchase options at a price equal to the fair market value of the shares at the date of granting. Options granted in the plan may be exercised over specific periods not to exceed 10 years from the date granted. These options can be exercised in a ratio of 75% voting and 25% non-voting for common shares in TELUS Corporation.

Year Options Granted	Options Granted	Options Outstanding	Average Exercise Price
1995	395,300	105,634	\$ 24.25
1994	293,756	55,325	25.08
1993	444,300	67,100	19.25
1992	263,725	31,300	22.13
1991	270,600	3,000	20.00

**TELUS Holdings Inc. Stock Option Plans:**

TELUS Holdings Inc. had stock option plans under which directors, officers and key employees received common share purchase options at a price equal to the fair market value of the shares at the date of granting. Options granted under the plans may be exercised over specific periods not to exceed seven years from the date of granting. These options can be exercised in a ratio of 75% voting and 25% non-voting for common shares in TELUS Corporation.

Year Options Granted	Options Granted	Options Outstanding	Average Exercise Price
1998	540,930	398,007	\$ 42.39
1997	670,330	273,122	25.97
1996	717,300	190,140	21.33
1995	379,600	34,305	21.14
1994	387,000	14,224	20.78
1993	406,527	0	16.57

At December 31, 2000, 9,143,984 shares remained reserved for issuance under the option plans.

**(e) Employee Share Purchase Plan**

The Company has an employee share purchase plan under which eligible employees can purchase common shares through regular payroll deductions by contributing between 1% and 6% of pay. The Company contributes two dollars for every five dollars contributed by an employee. The Company records its contributions as a component of operating expenses. During 2000, the Company contributed \$19.9 million (\$19.2 million – 1999) to this plan. All common shares issued to employees under the plan during the year were purchased on the market at normal trading prices. Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market.

**(f) Dividend Reinvestment and Share Purchase Plan**

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible shareholders may acquire additional common shares through the reinvestment of dividends and optional cash payments. Shares purchased through optional cash payments are subject to a minimum investment of \$100 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.

**(g) Convertible Debentures**

The 6.75% convertible debentures are convertible at the holders' option into Class A non-voting shares of the Company. The holders' conversion option is valued using the residual value approach.

## 15. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) The Company estimates expenditures for capital asset purchases to be \$2,400 million in 2001. Substantial purchase commitments have been made in connection with these capital assets as at December 31, 2000.
- (b) The Company has entered into a 10-year agreement with Verizon Communications with respect to the use of Verizon's software, related technology and services. The current contractual obligation for 2001 is U.S.\$50 million.
- (c) The Company has entered into an agreement with Bell Canada in the amount of \$27 million in the year 2001 for services related to network support activities.
- (d) The Company occupies leased premises in various centers and has land, buildings and equipment under operating leases.

At December 31, 2000, the future minimum lease payments under capital leases and operating leases were:

<i>(millions)</i>	Capital Leases	Operating Leases
2001	\$ 13.6	\$ 115.8
2002	11.0	90.4
2003	4.1	66.1
2004	0.6	56.7
2005	-	44.7
Total future minimum lease payments	29.3	
Less: imputed interest	2.4	
Capital lease liability	\$ 26.9	

- (e) A number of claims and lawsuits seeking unspecified 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 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.

## 16. SALE OF PROPERTY AND INVESTMENTS

During 2000, the Company disposed of certain selected, non-strategic property and investments including the B.C. headquarters building under the terms of a sale-leaseback transaction. The pre-tax gain of \$50.8 million, on total proceeds of \$96.9 million, has been deferred and will be amortized over the 15-year term of the lease.

During 1999, the Company disposed of some selected, non-strategic property and investments, including its investments in MediaLinx and Pacific Place Cable, for total proceeds of \$40.2 million resulting in a pre-tax gain of \$36.9 million.

## 17. EMPLOYEE BENEFITS

The Company has a number of defined benefits and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees.

The total expense for the Company's defined contribution pension plans is \$61.0 million in 2000.

Information concerning the Company's defined benefit plans, in aggregate, is as follows:

<i>(millions)</i>	Pension Benefit Plans <b>2000</b>	Other Benefit Plans <b>2000</b>
Accrued benefit obligation		
Balance at beginning of year	<b>\$ 3,772.4</b>	<b>\$ 59.1</b>
Current service cost	<b>100.6</b>	<b>18.1</b>
Interest cost	<b>262.5</b>	<b>4.9</b>
Benefits paid	<b>(176.5)</b>	<b>(5.8)</b>
Actuarial loss (gains)	<b>96.8</b>	<b>(21.3)</b>
Plan amendments	<b>2.1</b>	<b>-</b>
Balance at end of year	<b>4,057.9</b>	<b>55.0</b>
Plan assets		
Fair value at beginning of year	<b>\$ 4,325.2</b>	<b>\$ 34.2</b>
Annual return on plan assets	<b>602.3</b>	<b>5.7</b>
Employer contributions	<b>42.1</b>	<b>8.7</b>
Employees' contributions	<b>38.8</b>	<b>-</b>
Benefits paid	<b>(176.5)</b>	<b>(5.8)</b>
Fair value at end of year	<b>4,831.9</b>	<b>42.8</b>
Funded status – plan surplus (deficit)	<b>774.0</b>	<b>(12.2)</b>
Unamortized net actuarial loss (gain)	<b>(171.7)</b>	<b>(24.0)</b>
Unamortized past service costs	<b>0.2</b>	<b>-</b>
Unamortized transitional obligation (asset)	<b>(521.5)</b>	<b>7.2</b>
Accrued benefit asset (liability)	<b>\$ 81.0</b>	<b>\$ (29.0)</b>

Included in the above accrued benefit obligations at year-end are the following amounts in respect of plans that are not funded:

<i>(millions)</i>	Pension Benefit Plans <b>2000</b>	Other Benefit Plans <b>2000</b>
Accrued benefit obligation	<b>\$ 121.4</b>	<b>\$ 18.3</b>

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted average assumptions as of December 31):

	Pension Benefit Plans <b>2000</b>	Other Benefit Plans <b>2000</b>
Discount rate	<b>6.98%</b>	<b>7.00%</b>
Expected long-term rate of return on plan assets	<b>7.94%</b>	<b>8.00%</b>
Rate of compensation increase	<b>4.25%</b>	<b>4.25%</b>

The Company's net benefit plan expense is as follows:

<i>(millions)</i>	Pension Benefit Plans 2000	Other Benefit Plans 2000
Current service cost	<b>\$ 61.8</b>	<b>\$ 18.1</b>
Interest cost	<b>262.5</b>	<b>4.9</b>
Expected return on plan assets	<b>(339.1)</b>	<b>(2.9)</b>
Amortization of past service costs	<b>1.9</b>	<b>–</b>
Amortization of transitional obligation (asset)	<b>(20.0)</b>	<b>0.8</b>
	<b>\$ (32.9)</b>	<b>\$ 20.9</b>

## 18. SEGMENTED INFORMATION

The Company's reportable segments, which are used to manage the business, are:

- **TELUS Communications** – local access, long distance, and other voice services;
- **Advanced Communications** – digital services, services on dedicated or specialized facilities, Internet, Ubiquity network (fibre) and ISM-BC;
- **Mobility** – cellular and paging services; and
- **Other** – national operations (including local access, long distance and other voice services provided by the QuébecTel Group), directory and advertising services.

Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, and the distribution channels used.

The accounting policies used for segmented reporting are the same as described in the Summary of Significant Accounting Policies, Note 2.

<i>(millions)</i>	Communications		Mobility		Advanced Communications		Other		Eliminations		Totals	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
External revenue	<b>\$3,753.7</b>	\$3,795.0	<b>\$1,257.0</b>	\$ 960.3	<b>\$ 882.0</b>	\$ 802.7	<b>\$ 540.5</b>	\$ 314.3	<b>\$ –</b>	\$ –	<b>\$6,433.2</b>	\$5,872.3
Inter-segment revenue	<b>278.2</b>	279.5	<b>16.1</b>	14.2	<b>195.3</b>	181.1	<b>13.5</b>	9.0	<b>(503.1)</b>	(483.8)	–	–
Total operating revenue	<b>4,031.9</b>	4,074.5	<b>1,273.1</b>	974.5	<b>1,077.3</b>	983.8	<b>554.0</b>	323.3	<b>(503.1)</b>	(483.8)	<b>6,433.2</b>	5,872.3
Operations expenses	<b>2,178.5</b>	2,364.6	<b>965.7</b>	594.8	<b>876.8</b>	844.7	<b>450.5</b>	224.3	<b>(503.1)</b>	(483.5)	<b>3,968.4</b>	3,544.9
EBITDA	<b>\$1,853.4</b>	\$1,709.9	<b>\$ 307.4</b>	\$ 379.7	<b>\$ 200.5</b>	\$ 139.1	<b>\$ 103.5</b>	\$ 99.0	<b>\$ –</b>	\$ (0.3)	<b>\$2,464.8</b>	\$2,327.4
Capital additions	<b>\$ 627.3</b>	\$ 660.0	<b>\$ 222.9</b>	\$ 165.2	<b>\$ 236.1</b>	\$ 146.8	<b>\$ 355.0</b>	\$227.2	<b>\$ –</b>	\$ –	<b>\$1,441.3</b>	\$1,199.2

## 19. RELATED PARTY TRANSACTIONS

Transactions with related parties included purchases and sales of telecommunications technology, equipment and supplies, directory advertising commissions and payments for services rendered under cost-sharing agreements. During the year, the Company purchased goods and services from related parties amounting to \$157.0 million (\$139.9 million in 1999). Sales to related parties amounted to \$20.4 million (\$7.2 million – 1999). These transactions were conducted in the normal course of business at prices established and agreed to by both parties.

**20. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. 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:

<i>(millions)</i>	<b>2000</b>	1999
Net income in accordance with Canadian GAAP	<b>\$ 461.0</b>	\$ 349.7
Adjustments, net of tax:		
Net income of acquired company prior to acquisition (a)	–	(15.3)
TELUS portion of the restructuring charge (b)	–	144.6
Decrease in depreciation expense (c)	<b>19.3</b>	17.7
Decrease in interest expense (d)	<b>23.3</b>	14.2
Amortization of intangible assets (e)	<b>(64.6)</b>	(59.2)
Goodwill amortization (f)	<b>(20.2)</b>	(11.6)
Change in accounting policy (g)	–	(30.8)
Asset impairment – decrease in depreciation (h)	<b>40.0</b>	40.0
Change in future employee benefits (i)	<b>(9.1)</b>	–
Amortization of additional goodwill – Clearnet purchase (j)	<b>(1.4)</b>	–
Interest on convertible debentures (k)	<b>(1.5)</b>	–
Foreign exchange	<b>(0.9)</b>	–
Revaluation of future income tax assets (n)	<b>66.3</b>	–
Net income in accordance with U.S. GAAP	<b>\$ 512.2</b>	\$ 449.3
Earnings per share under U.S. GAAP (basic and diluted):		
Before extraordinary items	<b>\$ 2.07</b>	\$ 1.88
Extraordinary items	–	–
After extraordinary items	<b>\$ 2.07</b>	\$ 1.88

The following is a restatement of major balance sheet categories to reflect the application of U.S. GAAP:

<i>(millions)</i>	<b>2000</b>	1999
Current assets	<b>\$ 1,654.5</b>	\$ 1,246.3
Capital assets	<b>15,019.4</b>	9,373.4
Goodwill	<b>2,239.8</b>	400.2
Deferred income taxes	<b>1,212.7</b>	603.5
Other assets	<b>660.8</b>	332.4
	<b>\$ 20,787.2</b>	\$ 11,955.8
Current liabilities	<b>\$ 6,669.5</b>	\$ 1,794.5
Long-term debt	<b>3,262.9</b>	1,664.7
Other long-term liabilities	<b>346.9</b>	141.0
Deferred income taxes	<b>1,749.9</b>	1,804.9
Non-controlling interest	<b>74.3</b>	12.4
Shareholders' equity	<b>8,683.7</b>	6,538.3
	<b>\$ 20,787.2</b>	\$ 11,955.8

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

<i>(millions)</i>	<b>2000</b>	1999
Shareholders' Equity under Canadian GAAP	<b>\$ 6,418.4</b>	\$ 4,307.7
Adjustments:		
Purchase versus Pooling Accounting (a) – (f)	<b>2,331.6</b>	2,382.8
Revaluation of future income tax assets (n)	<b>66.3</b>	–
Reclassification of convertible debt from equity to debt (k)	<b>(149.6)</b>	–
Clearnet related U.S. GAAP adjustments (l)	<b>(0.9)</b>	–
Additional goodwill on Clearnet purchase (j)	<b>130.1</b>	–
Asset Impairment (h)	<b>(112.2)</b>	(152.2)
Shareholders' Equity under U.S. GAAP	<b>\$ 8,683.7</b>	\$ 6,538.3

The following is a restatement of cash flows to reflect the application of U.S. GAAP:

<i>(millions)</i>	<b>2000</b>	1999
Operating Activities		
Net income	<b>\$ 512.2</b>	\$ 449.3
Depreciation and amortization	<b>1,245.3</b>	1,036.0
Deferred income taxes	<b>91.4</b>	94.6
Non-cash restructuring related write-offs	–	7.4
Gain on disposal of property and investments	–	(36.9)
Sinking fund earnings	<b>(4.1)</b>	(11.6)
Other, net	<b>(40.2)</b>	(21.6)
Operating cash flow	<b>1,804.6</b>	1,517.2
Provision for future cash restructuring costs	–	147.8
Changes in working capital	<b>(75.2)</b>	(44.4)
Cash from operations	<b>1,729.4</b>	1,620.6
Less: dividends to shareholders	<b>(353.0)</b>	(334.9)
	<b>1,376.4</b>	1,285.7
Investing Activities		
Purchase of TELUS	–	(110.7)
Capital expenditures, net	<b>(1,441.3)</b>	(1,161.7)
Purchase of Clearnet Communications Inc., net of cash acquired	<b>(1,857.4)</b>	–
Other acquisitions, net of cash acquired	<b>(606.6)</b>	–
Proceeds from the sale of property and investments	<b>96.9</b>	40.2
Change in investments and other assets	<b>(22.7)</b>	12.6
	<b>(3,831.1)</b>	(1,219.6)
Financing Activities		
Common shares issued	<b>14.4</b>	3.5
Long-term debt issued	<b>234.9</b>	39.8
Sinking fund withdrawal	<b>109.5</b>	32.7
Increase (decrease) in short-term notes payable	<b>4,112.4</b>	(43.3)
Redemptions of long-term debt	<b>(1,764.8)</b>	(258.4)
Other	<b>(119.2)</b>	1.4
	<b>2,587.2</b>	(224.3)
Increase (decrease) in cash	<b>132.5</b>	(158.2)
Cash and temporary investments (bank indebtedness), beginning of year	<b>(32.3)</b>	125.9
Cash and temporary investments (bank indebtedness), end of year	<b>\$ 100.2</b>	\$ (32.3)

**(a) Merger of BC TELECOM and TELUS**

The business combination between BC TELECOM and TELUS Corporation (now TELUS Holdings Inc.) described in note 1(b) 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 (TELUS Holdings Inc.) resulted in the 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. The acquisition was effected by issuing 112.3 million shares in TELUS Corporation (formerly "BCT.TELUS Corporation") and 1.5 million options to replace TELUS (TELUS Holdings Inc.) options outstanding.

The acquisition is summarized as follows:

(millions)

Net assets acquired	
Net working capital (including bank indebtedness acquired of \$57.5 million)	\$ (644.6)
Property and equipment	2,531.4
Intangible assets	4,033.3
Goodwill	403.1
Deferred income tax asset	587.8
Other assets	284.8
Long-term debt	(667.7)
Deferred income tax liability	(1,855.3)
Other liabilities	(10.4)
	\$ 4,662.4
Financed by	
Issuance of shares and replacement options	\$ 4,609.2
Repurchase of partial shares	1.3
Transaction costs	51.9
	\$ 4,662.4

The results of TELUS prior to the merger date of January 31, 1999, would not be included in the results of the Company under U.S. GAAP. Therefore, \$15.3 million for the month ended January 31, 1999, has been deducted from the net income under Canadian GAAP.

**(b) Restructuring Charge**

A charge of \$466.3 million was recorded in 1999 for the expected costs to complete merger-related restructuring activities. Under U.S. GAAP, costs incurred to:

- exit an activity of an acquired company,
- involuntarily terminate employees of an acquired company, or
- relocate employees of an acquired company

are recognized as liabilities assumed in a purchase business combination. Therefore, qualifying merger related restructuring costs (after tax) of \$144.6 million associated with TELUS have been recorded as liabilities assumed at the time of purchase.

**(c) Depreciation**

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).

**(d) Interest**

Under the purchase method, TELUS' long-term debt on acquisition has been recorded at its fair value rather than at its underlying cost (book value) to TELUS. Therefore, interest expense calculated on the debt based on fair values at the date of acquisition under U.S. GAAP will be different than TELUS' interest expense based on underlying cost (book values).

**(e) Intangible Assets**

As TELUS' intangible assets on acquisition have been recorded at their fair value, amortization of such assets needs to be included under U.S. GAAP. Amortization is calculated using the straight-line method at the following rates:

	Assigned Fair Value on Acquisition	Useful Life
Subscribers – wireline	\$ 1,950.0 million	40 years
Spectrum licenses	\$ 1,833.3 million	40 years
Subscribers – wireless	\$ 250.0 million	10 years

**(f) Goodwill**

Under the purchase method of accounting, TELUS' assets and liabilities at acquisition have been recorded at their fair values with the excess purchase price being allocated to goodwill. The goodwill on the acquisition of TELUS is being amortized on a straight-line basis over its estimated life of 20 years.

**(g) Change in Accounting Policy**

Under Canadian GAAP, changes in accounting policies are applied retroactively. Under U.S. GAAP the cumulative effect of changing to a new accounting principle on the amount of retained earnings at the beginning of the period in which the change is made is included in net income of the period of the change.

**(h) Asset Impairment**

In assessing capital asset impairment under Canadian GAAP, estimated future net cash flows are not discounted in computing the net recoverable amount. Under U.S. GAAP, the determination on whether or not the assets are impaired is made on a discounted basis. Upon determining that asset impairment existed, the Company estimated fair value using discounted cash flows. Under U.S. GAAP, the charge taken would be \$232.2 million higher and would not be considered an extraordinary item.

As a result, under U.S. GAAP the capital assets have a book value which is \$232.2 million lower than the value under Canadian GAAP. Therefore, under U.S. GAAP the annual depreciation expense, after tax, would be \$40 million lower.

**(i) 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.

**(j) 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 shares issued to effect an acquisition are measured at 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 which is being amortized on a straight-line basis over 20 years.

**(k) Convertible Debentures**

Under Canadian GAAP, financial instruments such as the Convertible Debentures (the "Debentures") are classified as debt or equity according to their substance rather than their legal form. Accordingly, due to the substance of the transaction the Debentures have been classified as equity and the corresponding interest expense and the amortization of issue costs has been charged to the retained earnings rather than to the Statement of Income. Pursuant to U.S. GAAP, the Debentures would be included in long-term debt. The corresponding interest expense on the Debentures and the amortization of issue costs are charged to the Statement of Income.

**(l) Foreign Exchange**

U.S. GAAP requires that gains and losses on foreign exchange resulting from the translation of long-term debt be charged to income when incurred. Canadian GAAP requires that such foreign exchange gains or losses are amortized over the remaining life of the long-term debt.

**(m) Revenue Recognition**

Effective January 1, 2000, the Company adopted the recommendations of "Staff Accounting Bulletin No. 101," Revenue Recognition in Financial Statements ("SAB 101"). Under these recommendations, the Company will defer the recognition of revenue from the sale of certain assets and recognize it into income over the estimated average expected life of the customer. The Company will also defer the recognition of the related cost of those assets, in an amount not exceeding the amount of revenue being deferred, and recognize it into income over the expected life of the customer. As a result, \$141.4 million in equipment sales, rental and service revenue and \$141.4 million of related cost of sales were deferred as at December 31, 2000.

**(n) Revaluation of Future Income Tax Assets**

Canadian GAAP requires recognition of the effects of a change in tax laws or rates when the change is "substantively enacted." Thus, recognition may precede actual enactment by a period of several months. U.S. GAAP (FAS 109) requires recognition upon actual enactment, which is the date that the U.S. President signs the tax law.

**Additional Disclosures Required under U.S. GAAP****Stock-Based Compensation**

SFAS 123, "Accounting for Stock-Based Compensation," establishes financial accounting and reporting standards for stock-based employee compensation plans. As permitted by this statement, the Company has elected to continue to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in APB Opinion 25. Since all options were granted with exercise prices equal to the market price at the date of grant, no compensation cost has been charged to operations.

Under U.S. GAAP, a company which does not adopt the fair value method described in SFAS 123 must disclose the cost of stock compensation awards, at their fair value, at the date the award is granted. The fair value of the Company's options was estimated using the Black-Scholes model with assumptions of a 10-year expected term, volatility ranging from 20% to 28%, interest rates ranging from 5.5% to 5.6% and an expected dividend yield ranging from 3.3% to 4.1%. Had compensation cost for the employee stock option plan been determined based upon fair value at the date of award, the Company's net income and earnings per share would have been reduced by approximately \$9.6 million and \$1.3 million or \$0.04 and \$0.01 per share in the years 2000 and 1999 respectively.

**Comprehensive Income**

SFAS 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.

There are no material differences between Canadian and U.S. GAAP which would have an impact on the consolidated statements of comprehensive income except as outlined in the tables above.

### *Recently Issued Accounting Standards Not Yet Implemented*

Under Staff Accounting Bulletin 74, the Company is required to disclose certain information related to new accounting standards which have not yet been adopted due to delayed effective dates.

SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," originally effective for fiscal 2000, has been deferred and will now be effective for fiscal 2001. It requires that all derivatives be recognized as either assets or liabilities and measured at fair value. The criteria for determining whether all or a portion of a derivative may be designated as a hedge have changed. Derivatives which are fair value hedges, together with the financial instrument being hedged, will be marked to market with adjustments reflected in income. Derivatives which are cash flow hedges will be marked to market with adjustments reflected in comprehensive income. The adoption of this Statement in 2000 would have resulted in \$30.3 million being recognized as an expense in other comprehensive income and a loss of \$1.0 million being recognized in the income statement.

### **21. PRIOR YEAR PRESENTATION**

The 1999 amounts have been reclassified, where applicable, to conform with the 2000 presentation.

### **22. SUBSEQUENT EVENTS**

- (a) On January 30, 2001, the Company sold certain administrative buildings as part of a sale leaseback arrangement. The proceeds on sale were \$108.4 million, resulting in a deferred gain on sale of \$17.3 million.
- (b) On February 1, 2001, the Company became the successful bidder during the public auction of additional PCS Spectrum licenses in certain regions of Canada. The amount to be paid in 2001 for these assets will be \$355.9 million.

# management discussion and analysis

(dollar amounts in Canadian dollars unless otherwise indicated)

The following is a discussion of the consolidated financial condition and results of operations of TELUS Corporation (TELUS or the Company) for the years ended December 31, 2000, and 1999, and of certain factors the Company believes are likely to affect its prospective financial condition. This discussion contains forward-looking information that is qualified by reference to, and should be read in conjunction with, the Company's discussion regarding forward-looking statements. See "Forward-Looking Statements." The following should also be read in conjunction with the Consolidated Financial Statements of TELUS and notes thereto (Financial Statements) appearing on pages 61 through 87. The 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 20 to the Financial Statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS.

## CORPORATE BACKGROUND

TELUS Corporation was created in February 1999 from the merger of BC TELECOM and TELUS. These long-established, regional, full-service telecommunications companies provided service to 7.0 million people (23% of Canada's population) in the two western provinces of British Columbia (B.C.) and Alberta. In 1999, TELUS announced plans to begin providing telecommunications service in other areas of Canada. These national plans were greatly accelerated during 2000 in Québec and nationally with the purchase of 70% of QuébecTel, a regional full-service operator, and the acquisition of Clearnet, a fast-growing national digital wireless operator.

TELUS' business segments for the year 2000 were:

- TELUS Communications, which provided local, long distance, and other services principally in B.C. and Alberta
- TELUS Mobility, which provided digital PCS and ESMR, analogue cellular and paging services in B.C. and Alberta and national services through wireless resale (since March 2000), through QuébecTel Mobilité in Eastern Québec (since June 2000), and across the country through Clearnet (since October 20, 2000)
- TELUS Advanced Communications, which provided data, Internet, and information management services primarily in B.C. and Alberta
- "Other," which included TELUS Advertising Services' directory publishing in B.C., Alberta, and parts of Ontario and the U.S.; and QuébecTel communications, data, Internet, directory publishing and other services

## OVERVIEW

(\$ millions except per share amounts)	2000	1999	Change	%
Operating revenues	<b>6,433.2</b>	5,872.3	560.9	9.6
EBITDA <sup>1</sup>	<b>2,464.8</b>	2,327.4	137.4	5.9
Cash earnings <sup>2</sup>	<b>571.2</b>	618.7	(47.5)	-7.7
Common share income	<b>456.0</b>	346.2	109.8	31.7
Earnings per share (EPS)				
– cash earnings <sup>3</sup>	<b>\$2.31</b>	\$2.61	\$(0.30)	-11.5
– common share income	<b>\$1.85</b>	\$1.46	\$0.39	26.7
Cash flow <sup>4</sup>	<b>1,804.6</b>	1,735.5	69.1	4.0
Cash flow per share	<b>7.31</b>	7.34	(0.03)	-0.4
Capital expenditures	<b>1,441.3</b>	1,199.2	242.1	20.2

1 Earnings before interest, taxes, depreciation and amortization.

2 Cash Earnings: Common share income before amortization of acquired intangible assets, restructuring costs net of tax, revaluation of future tax assets, and goodwill amortization.

3 Cash EPS: Cash Earnings on a per share basis.

4 Operating cash flow adjusted for restructuring costs.

The major financial events and trends for 2000 were:

1. Revenue growth of 18% in the fourth quarter and 10% for the year through acquisitions as well as organic growth.
2. Developing a national telecommunications presence with the acquisitions of Clearnet and QuébecTel.
  - Acquired Clearnet Communications on October 20 for \$4.1 billion with approximately equal parts cash and TELUS non-voting shares, and at closing, with fair market value adjustments, recognized \$6.0 billion of identifiable assets and assumed total Clearnet liabilities of \$3.45 billion under Canadian GAAP (see Note 4). For the period of just over two months, this increased TELUS revenues by \$125 million, while reducing EBITDA by \$27 million. On a pro forma basis, TELUS led the Canadian wireless industry with the highest increase in revenues for 12 months (\$346 million), and highest total revenues for 12 months (\$1,710 million).

- Acquired 70% of QuébecTel for \$584 million effective June 1. For seven months, this provided TELUS with over \$224 million of new revenue and a positive contribution to EBITDA of over \$78 million.
  - Acquisitions caused an increase in revenue and EBITDA growth, while decreasing cash and basic earnings per share due to higher interest costs and 49.7 million new non-voting shares issued, as well as decreasing basic EPS due to higher amortization charges.
  - As a result of these acquisitions, debt levels increased to \$8.1 billion from \$2.1 billion at the start of the year.
- Achievement of \$130 million of additional TELUS/ BC TELECOM merger-related synergies in 2000 for a cumulative total of \$199 million over two years.
  - Maintained strong local and long distance market shares and more than tripled our high-speed Internet base in the West.
  - Maintained a 4% growth in cash flow despite an increase in financing costs. Cash flow per share decreased by three cents due to an increase in the average number of shares outstanding.

## RESULTS OF OPERATIONS

### REVENUE ANALYSIS

#### OPERATING REVENUES (EXTERNAL) BY SEGMENT

(\$ millions)	2000	1999	Change	%
TELUS Communications	3,753.7	3,795.0	(41.3)	-1.1
TELUS Mobility	1,257.0	960.3	296.7	30.9
TELUS Advanced Communications	882.0	802.7	79.3	9.9
Other	540.5	314.3	226.2	72.0
Operating Revenues	6,433.2	5,872.3	560.9	9.6

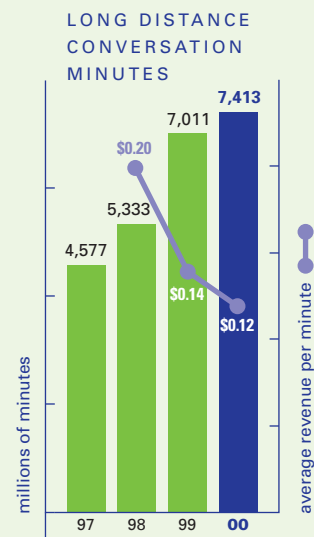
#### KEY OPERATING INDICATORS

	2000	1999	Change	%
Network access lines (000s) <sup>1</sup>	4,944	4,551	393	8.6
Conversation minutes (millions) <sup>1</sup>	7,670	7,011	659	9.4
Wireless subscribers (000s)	2,156	1,099	1,057	96.2
Dial-up Internet subscribers (000s) <sup>1</sup>	413	288	125	43.6
High-speed Internet subscribers (000s) <sup>1</sup>	84	26	58	225.1

<sup>1</sup> QuébecTel indicators included: 303,000 access lines, 257 million minutes, 89,000 dial-up Internet subscribers and 2,500 high-speed Internet subscribers. (TELUS includes 100% of QuébecTel subscribers, but owns a 70% economic interest in QuébecTel.)

### TELUS Communications Revenue

TELUS Communications local revenue increased by \$35.5 million, due mainly to growth in enhanced residential and business services (residential call management services such as call display, personal voice mail, and call waiting and business services such as Centrex™). A 2% growth in access lines also contributed to increased revenues. This was partly offset by lower portable subsidy revenues resulting from changes to contribution methodology. Local market share in the West was unchanged from one year ago at 98%.

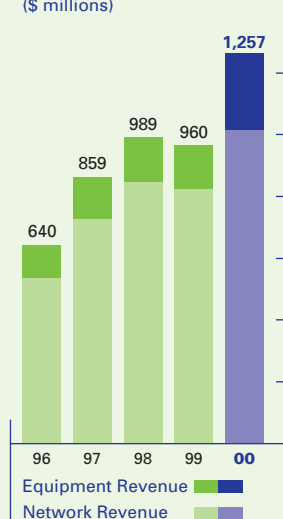


Long distance revenue decreased \$70.0 million because of reduced domestic and international prices, partially offset by strong volume growth. Long distance market share (based on minutes) was estimated at 71% at year-end – unchanged from one year ago. Other revenue decreased by \$6.8 million due primarily to lower rental revenues from consumers.

### TELUS Mobility Revenue

Local and long distance revenues increased by \$186.3 million to \$986.0 million. The acquisition of Clearnet and QuébecTel, and start-up of cellular resale operations in 2000, contributed \$126.0 million of this growth. As a result, nearly 920,000 subscribers were added outside of TELUS' traditional operating territory of Alberta and B.C. Meanwhile, revenues from B.C. and Alberta (excluding Clearnet networks) increased by \$60.3 million due to the 12.5% increase in wireless subscribers in the region.

**TELUS MOBILITY REVENUE**  
(\$ millions)



Other revenue increased by \$110.5 million. Revenue from the sales of wireless telephones and accessories increased by \$76.9 million to \$217.2 million primarily from higher margin digital handsets. Sales volume had increased by 31%. Other revenues (mainly equipment sales) from Clearnet and QuébecTel Mobilité added \$35.5 million. Partially offsetting this were lower paging rental and sales revenues. Consistent with TELUS Mobility's migration strategy, we experienced a net loss of 12,000 paging subscribers in the West this year, closing the year at 193,000, as digital wireless services have proven attractive to paging subscribers and competitors have offered lower paging prices. TELUS' total paging subscribers increased due to the inclusion of over 25,000 QuébecTel paging subscribers.

**Advanced Communications Revenue**

Advanced Communications local revenues increased by \$17.2 million due mainly to higher access volumes for digital switched private line and interexchange services (\$18.9 million), partly offset by lower outsourcing service management revenues for data communications. Long distance revenue increased by \$36.3 million. This was due mainly to increased revenues from Internetworking (high-speed connectivity between local area networks) and providing connectivity to the Internet.

Other revenue increased by \$25.7 million. Consumer Internet access revenues contributed \$28.1 million largely because of the 55,000 increase in ADSL subscribers and the 37,000 increase in dial-up subscribers since 1999. Revenues from Web portal and e-business increased by \$5.5 million, while data network product and video

conferencing equipment sales increased by \$4.4 million. Partly offsetting these increases were \$12.8 million lower information services revenues due mainly to a decline in application development and maintenance revenue and completion of a \$3.0 million contract in Korea in 1999.

**Other Segment Revenue**

Other segment revenues increased mainly due to the inclusion of QuébecTel results for seven months (excluding QuébecTel Mobilité). QuébecTel held 100% local market share and an 85% long distance market share at year-end. Advertising Services revenues increased by \$30.4 million due to a combination of factors including greater sales (in B.C., Alberta, Ontario and the U.S.), higher rates in certain markets, increased Web development services and Web advertising services, and product development for AltaVista (a national Web portal and search engine).

**EXPENSE ANALYSIS**

**OPERATIONS EXPENSE BY SEGMENT**

(\$ millions)	2000	1999	Change	%
TELUS Communications	<b>2,178.5</b>	2,364.6	(186.1)	-7.9
TELUS Mobility	<b>965.7</b>	594.8	370.9	62.4
TELUS Advanced Communications	<b>876.8</b>	844.7	32.1	3.8
Other	<b>450.5</b>	224.3	226.2	100.8
Eliminations	<b>(503.1)</b>	(483.5)	(19.6)	-4.1
Operations expense	<b>3,968.4</b>	3,544.9	423.5	11.9
Employees	<b>26,770</b>	21,601	5,169	23.9

Expenses increased due to inclusion of QuébecTel results since June 2000, Clearnet results since October 20, 2000, and increased national start-up and expansion costs incurred outside of Québec. Revenue growth-related cost increases in TELUS Mobility's western operations and Advanced Communications were more than offset by lower TELUS Communications and corporate expenses. TELUS/BC TELECOM merger-related synergies, included primarily in TELUS Communications and corporate functions, increased by \$130 million for a cumulative total of \$199 million since the beginning of 1999. The changes by business segment follow.

**TELUS Communications Expenses**

TELUS Communications expenses decreased due to continued focus on synergy attainment and cost controls that provided savings of \$103.5 million. Other savings included \$44.5 million in reduced payments to Stentor for information technology and \$38.0 million reduced settlement expenses due primarily to lower rates on traffic delivered to other carriers.

### TELUS Mobility Expenses

TELUS Mobility expenses increased by \$370.9 million. Entering the national resale market in March 2000 combined with the acquisition of QuébecTel and Clearnet added \$221.8 million in expenses. Expenses in western operations increased by \$149.1 million due to higher commissions to dealers related to the increase in digital subscribers (\$72.3 million), a related increase in cost-of-goods-sold for wireless handsets and accessories (\$57.4 million) caused by higher gross subscriber additions and higher marketing costs of acquisition per gross subscriber addition due to the increased sale of higher cost digital handsets, and higher general support costs arising from a higher subscriber base. New market initiatives helped increase the number of digital subscribers to 31% of the western subscriber base (excluding the former Clearnet networks) at year-end (13% at the end of 1999).

### Advanced Communications Expenses

Advanced Communications expenses increased to support growth in data and Internet services; partly offset by lower expenses in ISM-BC, TELUS' information management outsourcing company.

### Other Expenses

Other segment expenses increased due to the inclusion of QuébecTel financial results (excluding QuébecTel Mobilité) for seven months, and other national start-up costs due to the opening of facilities in late 1999, the hiring and training of sales force personnel and increased directory-publishing activity. These increases were partly offset by a \$58 million reduction in operating expenses recorded in 2000 for an accounting policy change made on a prospective basis, dealing with future employee benefits (Note 3).

The 4.1% increase in intercorporate expense eliminations was due mainly to the provision of additional information systems services by Advanced Communications to other segments.

### EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA BY SEGMENT (\$ millions)	2000	1999	Change	%
TELUS Communications	1,853.4	1,709.9	143.5	8.4
TELUS Mobility	307.4	379.7	(72.3)	-19.0
TELUS Advanced Communications	200.5	139.1	61.4	44.1
Other and eliminations	103.5	98.7	4.8	4.9
<b>EBITDA</b>	<b>2,464.8</b>	<b>2,327.4</b>	<b>137.4</b>	<b>5.9</b>

Growth in EBITDA was driven primarily from:

- improved margins in TELUS Communications due to continued focus on cost containment and achievement of merger-related synergies
- 10% revenue growth at Advanced Communications combined with only a 4% increase in costs

partially offset by:

- lower margins in TELUS Mobility due to accelerated migration of analogue subscribers to digital services and inclusion of Clearnet's wireless operations for just over two months
- lower margins in the Other segment due to increased national expansion costs

EBITDA MARGIN* BY SEGMENT	2000	1999	Change
TELUS Communications	46.0%	42.0%	4.0%
TELUS Mobility	24.1%	39.0%	-14.9%
TELUS Advanced Communications	18.6%	14.1%	4.5%
Other	18.7%	30.7%	-12.0%
<b>TELUS Consolidated</b>	<b>38.3%</b>	<b>39.6%</b>	<b>-1.3%</b>

\* EBITDA divided by total revenue

### Depreciation and amortization (and amortization of acquired intangibles) increased by \$133.3 million

The increase was due mainly to QuébecTel depreciation (\$39.4 million for seven months) and Clearnet depreciation (\$47.6 million since October 20). Amortization of intangible assets relating to acquired subscribers and wireless spectrum added \$24.6 million. The remaining increase resulted from standardization of depreciation guidelines (part of merger integration activities) and growing capital assets in Advanced Communications. Amortization of goodwill has been disclosed separately on the Income Statement before the Net Income line.

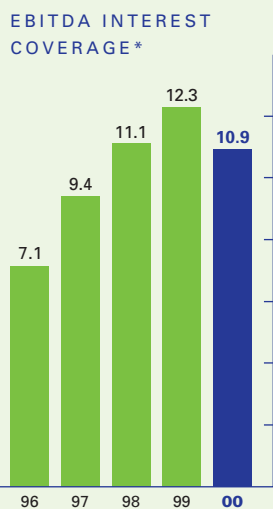
### Other income, net – decreased by \$10.1 million

Other income of \$30.1 million includes gains and losses on disposal of properties and investments, as well as recurring interest income and charitable donations. Net gains on disposal of properties and investments were \$8.2 million in 2000 for the sale of two buildings and an aircraft; while in 1999, net gains of \$36.9 million were recorded for the sale of real estate properties and investments. One other building was sold in 2000 under a leaseback arrangement – therefore, no gain or loss was recorded. Sinking fund income decreased by \$8.5 million, as the sinking fund asset and related debt were both retired in May 2000. These decreases were partly offset

by higher interest income due to higher average cash and investment balances.

**Financing costs increased by \$128.2 million**

Financing costs increased mainly because of an increase in debt balances due to the purchase of QuébecTel, the purchase of Clearnet and \$12.5 million net foreign exchange losses in 2000 compared with \$9.4 million net foreign exchange gains in 1999. The foreign exchange losses were attributable to the effects of valuation of U.S. dollar debt and a comparatively lower Canadian dollar. Financing costs included \$56.5 million of non-cash accreted interest expense related to Clearnet long term debt from October 20 onward.



\* EBITDA divided by net interest (interest on long-term and short-term debt, net of interest income, excluding accreted interest expense)

**Restructuring costs in 1999**

A charge of \$466.3 million was recorded in the first quarter last year for the expected costs in 1999 and 2000 to complete TELUS/BC TELECOM merger-related restructuring activities. More than half of this charge was planned termination costs for management and the costs of various voluntary early retirement programs. The business restructuring also included the rationalization of real estate, the impairment of assets in two start-up businesses that were reassessed in relation to TELUS' national growth plans, national branding expenses and consulting and salary costs from merger integration activities.

**Income taxes increased by \$199.2 million**

The increase in taxes was caused by an increase in income and a \$66.3 million non-cash expense related to the

revaluation of future income tax assets. The accounting treatment for future income tax assets was consistent with CICA 3465 and an Emerging Issues Committee abstract relating to accounting for substantively enacted tax changes, specifically lower future income tax rates. This had the effect of reducing the value of the future income tax assets recorded on the balance sheet and increasing the tax expense on the income statement. The average effective tax rate prior to the revaluation of the future income tax asset was approximately 43% this year (45% in 1999).

**Non-controlling interest increased by \$4.8 million**

The increase in non-controlling interest resulted mainly from the 30% interest in QuébecTel owned by Verizon. This was partly offset by reduced non-controlling interest for ISM-BC since August 2000 due to the purchase of the remaining 25% by TELUS.

**Amortization of goodwill increased by \$16.8 million**

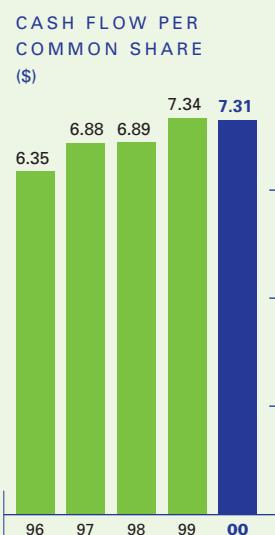
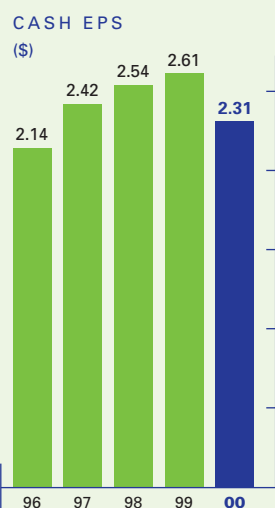
The increase was primarily amortization of goodwill from the purchase of QuébecTel (\$5.1 million) and Clearnet (\$15.3 million), the purchase of independent directory publishing operations in 1999 and 2000 and the purchase of the remaining 25% interest in ISM-BC. This was offset by a \$6.9 million reduction in goodwill amortization related to the reclassification of some goodwill to the future income tax asset at the beginning of the year.

**Preference and preferred dividends (unchanged) and interest on convertible debentures (\$1.5 million)**

Preferred dividends were unchanged from the previous year. The interest on convertible debentures in Clearnet, recorded net of related taxes, represents the expense for the October 20 to December 31 period. Because these debentures are convertible into common non-voting shares, they are classified as equity on the balance sheet, and the related interest is classified as a charge against retained earnings.

**Common share income and earnings per share (EPS)**

The increase in financing costs, net of taxes, combined with the future tax asset write-down in 2000, were significantly lower than the 1999 restructuring charge – providing a significant increase in income in 2000. EPS on common share income increased by 39 cents even though the average shares outstanding increased by over 10 million due to the new shares issued for the purchase of Clearnet.



Cash EPS, normalized to exclude amortization of goodwill and acquired intangible assets, revaluation of future tax assets, and the 1999 restructuring charge, decreased by 30 cents. The decrease was primarily due to increased financing costs.

## LIQUIDITY AND CAPITAL RESOURCES

### CASH AND TEMPORARY INVESTMENTS (BANK INDEBTEDNESS)

(\$ millions)	2000	1999	Change	%
	<b>100.2</b>	(32.3)	132.5	-

Cash balances available at the end of 2000 were used to reduce debt in January 2001.

### OPERATING ACTIVITIES

(\$ millions)	2000	1999	Change	%
Cash provided by operating activities adjusted for restructuring costs	<b>1,804.6</b>	1,735.5	69.1	4.0
Net change in non-cash working capital	<b>(169.5)</b>	(90.4)	(79.1)	-87.5
Cash provided by operating activities	<b>1,635.1</b>	1,645.1	(10.0)	-0.6

Cash provided by operating activities, adjusted to exclude the impact of restructuring charges, improved in 2000. This was due to higher EBITDA partially offset by higher financing costs and current income taxes. The change in non-cash working capital in 2000 was largely a result of increases in accounts receivable, accounts payable, inventories and prepaid expenses and other caused by the acquisitions of Clearnet and QuébecTel.

### INVESTING ACTIVITIES

(\$ millions)	2000	1999	Change	%
Cash used by investing activities	<b>3,831.1</b>	1,198.3	2,632.8	219.7

Cash used by investing activities increased substantially in 2000 due to the acquisition of Clearnet (\$1.86 billion net of cash acquired), QuébecTel (\$584 million net of cash acquired) and capital expenditures increases of \$242 million.

### CAPITAL EXPENDITURES BY SEGMENT

(\$ millions)	2000	1999	Change	%
TELUS Communications	<b>627.3</b>	660.0	(32.7)	-5.0
TELUS Mobility	<b>222.9</b>	165.2	57.7	34.9
Advanced Communications	<b>236.1</b>	146.8	89.3	60.8
Other	<b>355.0</b>	227.2	127.8	56.3
Capital Expenditures	<b>1,441.3</b>	1,199.2	242.1	20.2

TELUS Communications capital expenditures decreased from 1999 due to lower license fees for certain third-party services and the completion of several projects in 1999 including billing systems integration, readiness for local number portability and local competition. This was partly offset by the purchase of billing integration software assets and building renovations in 2000.

TELUS Mobility capital expenditures were higher due to \$55.4 million of capital expenditures by Clearnet from October 20, and \$4.2 million at QuébecTel Mobilité since June 1. Slightly offsetting this was lower spending in western operations due to harmonization of capital investment plans with Clearnet. On a pro forma basis including 12 months results from Clearnet and

QuébecTel Mobilité, TELUS Mobility's capital expenditures were \$533.7 million in 2000 as compared to \$545.9 million in 1999.

Capital spending in Advanced Communications increased to support more rapid rollout of ADSL high-speed Internet services and TELUS.net, interactive commerce initiatives, internetworking services and the acquisition of the assets of a data services company.

Other capital expenditure increases included \$111.0 million that was directed to expansion of TELUS' national network (inter-city transport, access, real estate), and seven months of QuébecTel Communications capital expenditures (\$32.9 million).

**FINANCING ACTIVITIES**

(\$ millions)	2000	1999	Change	%
Cash provided (used) by financing activities	<b>2,328.5</b>	(560.5)	2,889.0	-

In May 2000, TELUS Communications Inc. redeemed \$150 million of notes and financed the redemption with a \$110 million withdrawal of sinking fund assets and the balance with cash from operations.

In June 2000, TELUS Communications (B.C.) Inc. issued \$200 million of extendible medium-term notes with an initial maturity of 2003. Other than this single transaction, no additional medium-term notes were issued from the Company's \$2.4 billion authorized program (\$1.0 billion at TELUS Corporation and \$700 million at each of TELUS Communications Inc. and TELUS Communications [B.C.] Inc.). Additional cash needs throughout the year for operating and general corporate purposes including the acquisition of QuébecTel in June were provided by issues from the aggregate \$1.5 billion authorized commercial paper programs which were fully backed by committed bank lines of credit.

In October 2000, a \$7.7 billion senior secured bank credit facility was placed between TELUS Corporation and a number of Canadian, U.S. and offshore banks to finance the Clearnet acquisition and provide ongoing liquidity lines. This facility consisted of three components: (1) a \$5.0 billion tranche established as a 364-day bridge facility had approximately \$4.0 billion drawn down as at December 31, 2000; (2) a \$1.25 billion 364-day revolving line of credit provided a liquid reserve for general corporate purposes; and (3) a \$1.45 billion single purpose tranche established to provide funds to the Company in the event that an offer to purchase certain Clearnet notes was triggered upon the change of control of Clearnet. This latter tranche did not have to be used and was cancelled by the Company in December 2000, leaving \$6.25 billion of the facility remaining.

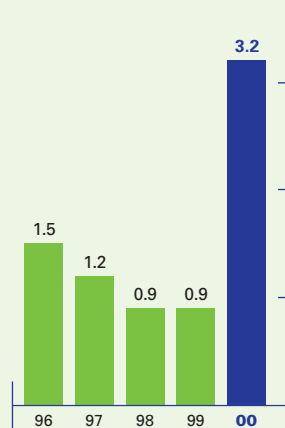
As part of the Clearnet acquisition, TELUS assumed \$2.6 billion book value of Clearnet debt. In December, Clearnet long-term debt with a face value of \$1.3 billion was redeemed for \$1.4 billion cash including prepayment premiums of \$99.8 million. These repayments were comprised of \$484 million for Senior Discount notes scheduled to mature in 2005, \$658 million for a secured vendor financing facility and \$295 million for a secured bank financing facility.

Subsequent to year-end, TELUS completed the compulsory acquisition of remaining Clearnet Class A non-voting shares outstanding. In addition, TELUS successfully completed exchange offers for 98.7% of the outstanding Clearnet 6.75% Convertible Debentures, and 99.6% of the outstanding Clearnet Warrants. These were exchanged for TELUS Corporation 6.75% Convertible Debentures and TELUS Warrants. TELUS completed compulsory acquisition procedures to acquire the balance of Clearnet 6.75% Convertible Debentures and Warrants in February, 2001.

**Credit Facilities**

TELUS credit facilities at December 31, 2000, consist of a \$6.25 billion Senior Bank Credit Facility, comprised of a \$5.0 billion bridge facility with a 364-day term (\$4.0 billion drawn and \$1.0 billion available) and a \$1.25 billion 364-day revolving facility (undrawn) that matures on October 19, 2001; and other bank facilities with an aggregate commitment of approximately \$200 million.

NET DEBT TO EBITDA



#### LIQUIDITY AND CAPITAL RESOURCE RATIOS

	2000	1999	Change
Net debt to total capitalization (%)	55.1	32.2	22.9
Net debt to EBITDA	3.2	0.9	2.3
EBITDA interest coverage	10.9	12.3	(1.4)

With the acquisitions of QuébecTel and Clearnet, TELUS' net debt to total capitalization ratio and net debt to EBITDA ratio both significantly increased. EBITDA interest coverage decreased due to higher net interest expense from acquisition related debt levels.

#### CREDIT RATINGS

	S&P/CBRS	DBRS	Moody's
<b>TELUS Corporation</b>			
Senior Bank Debt	BBB+	–	Baa2
Debentures	BBB+	BBB (high)	–
Medium-term Notes	BBB+	BBB (high)	–
Commercial Paper	A-1 (low)	R-2 (high)	–
<b>TELUS Communications Inc. (TCI)</b>			
Debentures	BBB+	A (low)	–
Medium-term Notes	BBB+	A (low)	–
Commercial Paper	A-1 (low)	R-1 (low)	–
Preferred Shares	–	Pfd-2 (high)	–
<b>Clearnet Communications Inc.</b>			
Senior Unsecured Debt	BBB+	BB (high)p*	Ba1
<b>Québec-Téléphone</b>			
First Mortgage Bonds	AA–	AA (low)	–
Debentures	A	A (low)	–
Medium-term Notes	A	A (low)	–
Commercial Paper	A-1	R-1 (low)	–

p\* indicates the rating is based on publicly available information

At year-end 2000, the former TELUS Communications Inc. and TELUS Communications (B.C.) Inc. were amalgamated with TELUS Mobility Cellular Inc. into a new entity now known as TELUS Communications Inc. (TCI).

Early in 2000, CBRS/DBRS ratings for TELUS Corporation long-term debt (debentures and medium-term notes) were "A" and "A" respectively while commercial paper ratings were A-1 and R-1(middle) respectively. The CBRS/DBRS ratings for TCI commercial paper were A-1 and R-1(middle). TCI debentures and medium-term notes were rated A(high) and preferred shares as P-2(high) by CBRS while DBRS had also rated TCI debentures and medium-term notes as A(high) and TCI preferred shares as pfd-2(high).

The credit ratings of TELUS Corporation and TCI came under review with the acquisition of Clearnet. DBRS downgraded TELUS Corporation's commercial paper and long-term debt to R-2(high) and BBB(high) and TCI's commercial paper and long-term debt to A(low) and R-1(low), all with stable trends. CBRS assigned a BBB+ rating to the corporate rating and A-1(low) to the commercial paper of TELUS Corporation. All of the ratings for TCI were placed on CBRS' Credit Watch List with Negative Implications pending a full review. CBRS was subsequently acquired by Standard and Poor's and are in the process of harmonizing credit ratings. The ratings table above reflects assigned ratings to date with other assignments pending as the harmonization process proceeds to completion.

#### FORWARD-LOOKING STATEMENTS

This document contains statements about expected future events and financial and operating results of TELUS Corporation that are forward-looking and subject to risks and uncertainties. Accordingly, TELUS' actual results, performance, or achievement could differ materially from those expressed or implied by such statements and such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. These statements do not reflect the potential impact of any future acquisitions, mergers or divestitures. In addition to the factors discussed herein, among the other factors that could cause actual results to differ materially are the following: general business and economic conditions in Canada and the Company's service territories in Canada; outcome of debt refinancing terms including timing, amount and cost; competition in local and long distance services, wireless services, data and Internet services and within the Canadian telecommunications industry generally; corporate restructurings and successful integration of wireless operations; adverse regulatory action including CRTC contribution decisions and appeals; outcome of collective agreement negotiations; technological change; taxation; and other risk factors listed from time to time in the Company's reports filed under applicable Canadian securities laws including the Annual Information Form. TELUS disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## 2001 FINANCING PLAN

TELUS has a significant financing program to accomplish in 2001. The primary focus is to refinance the \$6.25 billion bridge bank facility arranged in October 2000, and to finance net new cash requirements for 2001 totalling approximately \$1 billion, including the \$403 million annual cost of dividends and \$356 million cost of licenses acquired by TELUS in the spectrum auction conducted by Industry Canada early in 2001. The Company may also consider refinancing, during the year, the \$1.7 billion of Senior Discount notes outstanding at Clearnet.

TELUS plans to meet these financing needs primarily through bond issues in Canada and the United States, and by arranging a new core bank facility. Dispositions of assets and sales of certain businesses currently carried on by TELUS may also be a significant source of funds. In addition to real estate sales, the Company has announced that it may sell the directory advertising business and is pursuing the sale of its leasing business. Successful outcomes of these sales could realize proceeds of approximately \$1 billion. Leasing, securitization transactions, and quasi-equity transactions will also be considered to meet part of the overall financing requirements. Equity issuances, especially in connection with acquisition activity, could form a part of the financing activities.

The size of TELUS' financing requirements means that a major portion of the funding will need to be raised in United States capital markets. TELUS expects to maintain its current position of fully hedging its foreign exchange exposure. Floating rate exposure at the end of 2000 was approximately \$2.8 billion, representing 35% of total debt. The Company plans to reduce this exposure significantly during 2001, primarily through issuance of longer term fixed rate debt, and in part by hedging floating rate exposure using derivatives. As a result of the size of borrowings under the bridge facility, 62% of debt outstanding matures in 2001. The Company plans to spread maturities of new debt issuance over a range of years to manage future refinancing risk.

TELUS believes that its internally generated cash flow combined with its ability to access external capital provide sufficient resources to finance its cash requirements during 2001. The capital markets currently appear receptive to financings by TELUS, but there is no assurance that there will be continued availability of the financing we require or, if available, that the terms will be attractive to the Company.

TELUS has an objective to preserve ongoing access to capital markets at a reasonable cost by maintaining its

investment grade credit ratings. This will be facilitated by implementing the financing plan in the manner set out above, and by striving over the longer term to move the debt to total capital ratio toward 50%.

## REPORTING BACK ON 2000 KEY ISSUES

The following nine key issues for 2000 were highlighted in last year's TELUS annual report. In the letter to shareholders we also stated that we intended to achieve an average total shareholder return of 15% or more per year for the next five years. In 2000, shareholders enjoyed a 22% total return (price gain of 18% and dividend yield of 4%).

### *Appointment of a new President and CEO of TELUS and a new President of TELUS Mobility*

Darren Entwistle was announced as the new President and CEO of TELUS in early June and assumed his duties in July. He made an immediate positive impression on employees and shareholders alike with his launch into a 100-day planning and strategy process, and the bold acquisition of Clearnet Communications.

John Maduri was appointed President of TELUS Mobility in May, coming to TELUS with a strong background including 14 years of senior financial and operating experience in the wireless industry. Subsequent to the Clearnet acquisition in October, George Cope, the well-regarded CEO of Clearnet, assumed leadership for the combined TELUS Mobility. John has become President of the new Business Solutions unit.

### *Minimize effectiveness of competitors in our western markets*

As shown below, TELUS was successful in minimizing losses to competitors in the West.

Market Share (%)	2000 estimate	2000 actual
Local	94 – 95	98
Long Distance	69 – 70	71
Wireless	54 – 55	56

Local market share losses were minimal due to the pull back of a competitor in the residential market and the success we achieved with the bundling of residential services – adding 480,000 in the year – and an approach to the business market that uses competitive bids and contracts. Competitors in the local, long distance, wireless and high-speed Internet markets were still very active. An example of the new competitive reality was the Province of Alberta awarding a contract to a Bell Intrigna consortium to build a high-speed broadband network to government buildings in

400 communities over the next 10 years. We consider that this was more of a publicity setback than a financial loss given our focus on targeting communities where we see good financial returns. While Bell affiliates move into Western Canada, TELUS is expanding nationally to compete in areas covering 77% of the Canadian population. While we recognize that western cable-TV companies have been effective in attracting high-speed Internet customers in 2000, we are pleased to see our share steadily rising.

*Ramp-up of national sales beginning in the second quarter and extension of service to up to 20 more cities*

At the start of the year, we planned to generate up to \$45 to \$50 million of revenues from telecom, cellular resale and directory advertising outside the West, which we achieved. In addition, we jumpstarted our entry into the Québec market by two years with the \$584 million purchase of 70% of QuébecTel in June. This added \$225 million of revenue in the last seven months of 2000. At the end of the year, we were offering service in 16 cities in Ontario, Québec and Manitoba.

National growth plans accelerated with the purchase of Clearnet Communications, which added a fast-growing national wireless revenue base that generated \$125 million in the last two months and 12 days of the year. Their annual revenue growth rate in 2000 was 53%.

*Access to digital/PCS spectrum outside Western Canada would allow the Company to compete more economically on our own facilities, rather than by wireless resale. Industry Canada expected to auction 40 MHz of PCS in the fall of 2000*

The purchase of Clearnet added approximately 45 MHz of spectrum in most major urban areas of Canada and provided TELUS more spectrum in such areas, including 55 MHz in the West, than any other North American telecommunications company. This provides an ongoing advantage, such as higher capacity, lower growth-related capital expenditures in the future, the ability to offer our customers increased functionality, richer service offerings and better quality of service. Most importantly, we vaulted from a regional player to an immediate position of national leadership. The transaction immediately transformed TELUS Mobility from a regional player pursuing a high-risk national start-up strategy to a full functioning national operator that leads the entire Canadian wireless industry in terms of total revenue, revenue growth, average revenue per subscriber, and wireless spectrum position.

The Industry Canada auction for PCS spectrum was delayed into early 2001. However, the strategic imperative of having to be a successful bidder for at least two of the

four 10 MHz licenses auctioned in each region, and the resulting uncertainty related to the likelihood and cost of obtaining such required spectrum through the auction was eliminated for TELUS because of the Clearnet transaction. The auction was conducted in January, 2001, and TELUS successfully acquired 10 MHz of spectrum in five licensed areas covering a population of 17.4 million (1996 statistics), including the key urban markets around Toronto, Montréal and Ottawa. The additional spectrum was acquired at an attractive price, particularly when compared to what U.S. and other international wireless operators paid in spectrum auctions held recently outside of Canada. Through the auction, the up to four-player competitive environment was substantially maintained in the Canadian wireless industry.

*Investors valuing TELUS' segmented wireline, data, wireless and national assets more highly*

This particular goal is hard to measure given the volatility of the stock market and the complexity of share valuation. Including the impact of dividend re-investment, TELUS' voting shares returned 22% and closed at \$41.55 at year-end 2000, while the non-voting shares returned 17% and closed at \$39.25. We believe that apparent specific valuation discounts improved during 2000, and included increased certainty of leadership, greater understanding and support for the strategic plan of TELUS, securing a national wireless position and significantly reduced spectrum auction risk. This share price performance occurred despite share and earnings dilution from the two major acquisitions made by TELUS as well as a record decline in global telecommunications stocks – down 41% in 2000 – as measured by MSCI Global Telecom Index. After rising for several years, wireless and data/IP valuations fell significantly in North America during 2000; however, the share prices of regional full service telecommunication companies in Canada rose strongly in 2000.

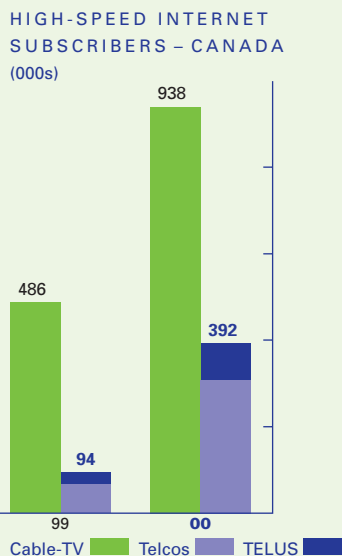
*Successfully complete the integration of B.C. and Alberta operations without negatively impacting customer service due to rapid change in processes or labour unrest – while achieving \$160 to \$180 million of cost efficiencies*

This objective was achieved under a variety of measures. Market share losses were minimal, customer satisfaction measures improved and financial saving targets were exceeded as we achieved an estimated \$199 million of accumulated savings over the last two years. There was one short illegal walkout involving 1,000 employees in August in customer service, but labour relations were otherwise generally satisfactory.

*Capture an increasing share of the fast-growing high-speed Internet access services, Web portal and content business and e-commerce applications*

TELUS achieved its goal of more than tripling its high-speed Internet base on ADSL technology by reaching 81,000 subscribers in the West. TELUS and other telcos are closing the gap on the cable-TV companies in the share of high-speed Internet subscribers.

TELUS Web portals were launched during the year in Alberta (Alberta.com) and Toronto (MyTO.com) using our unique local content and partnership approach. As a result, monthly page views and unique visits more than doubled to 49 million and 1.7 million respectively, putting our Web sites into the top three among Canadian-owned sites. Several new e-commerce initiatives were launched including Internet-based fax services, EPOST business mail and an ASP alliance with HP Canada. As a result, basic, enhanced and managed data and Internet revenues in 2000 increased by 10% overall and in the Internet segment revenue was 52% higher.



Source: Credit Suisse First Boston

*Capture a larger share of the fast-growing wireless prepaid segment, increase TELUS Mobility's digital subscriber/wireless customer base and introduce new wireless data and Internet services as a basis for creating future revenue growth at TELUS Mobility*

TELUS Mobility significantly increased its prepaid base in the West during the year through increased marketing. Clearnet launched a digital prepaid service, Pay & Talk, in

August and by year-end the combined TELUS Mobility had 192,700 prepaid subscribers. Pay & Talk was also notable in being the first prepaid service which was Web/Internet ready. TELUS Mobility also launched wireless Internet services during the year branded i-Web™, Surf™ and Surf-A-Lot™. Through partnerships with numerous infrastructure and content providers, customers are offered a wide variety of services such as news and information, stock quotes, directories, games, and banking and financial transaction services. Wireless Internet services were made available on prepaid offerings that appeal to the youth market, which also tends to more readily adopt new wireless and data services.

In July, TELUS Mobility committed to an accelerated digital network build in the West and a program to migrate higher value customers onto the latest digital handsets. Including the subscribers of Clearnet and QuébecTel Mobilité at the end of 2000, digital subscribers comprised 57% of total wireless subscribers.

*Achieve the financial earnings targets as outlined*

The TELUS 1999 annual report outlined targeted ranges for earnings per share, revenue growth, merger cost savings, EBITDA, operating cash flow growth, and capital spending. Certain measures were adjusted in July and October because of the purchase of QuébecTel and Clearnet. While they negatively impacted earnings, cash flow and increased capital expenditures, these transactions were important for the enhancement of future revenue and earnings growth potential. It is notable that, excluding the impact of the Clearnet and QuébecTel acquisitions, TELUS would have met or exceeded stated 2000 original guidance.

	Original Guidance	Adjusted Guidance	Actual
Earnings per share	\$2.47 to \$2.57	\$1.85 to \$1.95	\$2.12*
Cash EPS <sup>1</sup>	-	\$2.05 to \$2.15	\$2.31
Revenue growth	2 to 3%	8 to 9%	9.6%
EBITDA growth	4 to 6%	4 to 6%	5.9%
Operating Cash Flow	Approx. 10%	-	4.0%
Merger Cost Savings <sup>2</sup>	\$160 to \$180 mil.	Same	\$199 mil.
Capital Expenditures	\$1.3 bil.	\$1.5 bil.	\$1.44 bil.

<sup>1</sup> Earnings per share before amortization of intangible assets, restructuring costs net of tax, revaluation of future tax assets, and goodwill amortization.

<sup>2</sup> Cumulative savings for 1999 and 2000.

\* normalized for non-cash future tax asset revaluation of 27 cents.

## OUTLOOK 2001

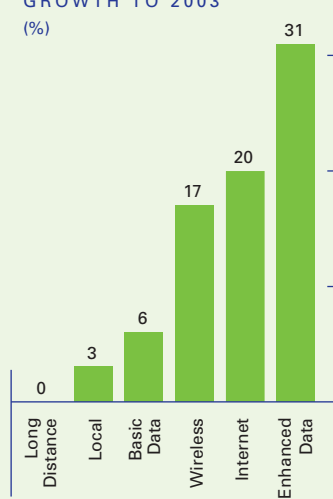
### Telecommunications Industry

The Canadian telecommunications industry in 2000 continued on the path of increasing competition, consolidation and technological convergence. These events have been driven by a move towards deregulation and globalization in the industry for a decade. However, Canada has foreign ownership restrictions of 33 $\frac{1}{3}$ % on voting shares. This serves to restrict access to capital to a degree and reduces demand for voting shares for certain communications companies, including TELUS. The federal government, in the context of domestic and international policy considerations, is examining this issue, which could result in a change within the next few years.

The Canadian telecom industry in 2000 generated revenue of about \$32 billion (according to Company estimates) of which Bell Canada and its affiliated regional telcos controlled more than half. The acquisitions of Clearnet and QuébecTel added more than \$800 million of annual revenue to TELUS. As a result, TELUS controlled about \$7 billion of revenue in 2000 or 22% of the industry – up from 20% a year ago. There are more than a dozen other companies competing for the remainder.

The 2000 revenue growth in the Canadian telecom market was about 11%. Growth rates varied widely among the types of service, with data, Internet, and wireless leading the way while long distance has become priced as a commodity. TELUS has clearly stated that it will more tightly focus on the high-growth markets of enhanced data and wireless nationally and to ensure we participate in high-speed Internet growth in the West.

3 YEAR ESTIMATED CANADIAN  
TELECOM REVENUE ANNUAL  
GROWTH TO 2003  
(%)



Source: Company estimates, industry analyst reports

Industry experts point to several important catalysts for future growth and change in telecommunications. These include moving through the upward acceleration or inflection point in the ratio of population using wireless, the convergence of data/IP, voice and wireless services, and the explosive growth in IP data transmission.

In 2000, Canada passed the inflection point where one-quarter of the population are wireless subscribers. Experience in other countries suggests that Canada with its 28% wireless penetration of total population ratio – a gain of 6% in 2000 – is moving into a period of accelerated wireless growth. This growth is being spurred by an array of new products, applications and marketing approaches with wireless Internet at the forefront.

The convergence of communication applications provides new service opportunities from new applications like IP over wireless, but also from the complexity of telecommunications technology and services where a full service company can bundle services and offer one-stop solutions.

Industry commentators point to IP/data growth of 100% or more a year that will soon position IP as the dominant form of traffic on long-haul networks driving high growth but also lower prices. Network scale and utilization will emerge as important determinants of cost competitiveness. With the current difficulties for new entrants in raising capital and the need for incumbent telcos to restructure to meet these changes, we may see more consolidation and a continued reduction in players in North America.

Moving into 2001, there are a number of economic and capital market factors that may accelerate consolidation and actually reduce the aggressiveness of certain competitors. The softening of the economy and the severe decline in values of most IP-based companies has severely constrained their access to capital and, in some cases, growth. Many new entrants are conserving cash and laying-off employees. This is clearly an opportunity for well-capitalized companies, with continuing access to sources of funding, that intend to grow through acquisition. On the other hand, an economic slowdown may affect volume growth going forward for all communication companies.

**Key Priorities and Targets for 2001**

TELUS is intent on delivering on six strategic imperatives as outlined in the President and CEO's letter on pages 6 to 9. Furthermore, the Company is focused on delivering on six key priorities related to People, Customer Satisfaction, Mobility, Data/IP, Growth and Financial Position – outlined on pages 11 to 12. A key financial priority is to refinance a significant portion of our short-term bank facilities with mid to long-term maturities. See 2001 Financing Plan on page 50.

In addition, there are a number of potential issues and potential developments in 2001 that investors should be aware of that are covered in the 2001 Targets, 2001 Financing Plan, and Risks and Uncertainties sections on pages 14, 50 and 55 to 60, respectively.

**Financial Targets and Issues**

TELUS is focused on achieving solid growth in revenue and EBITDA in 2001 facilitated by increased capital spending and aggressive customer growth targets. The following objectives were publicly announced on February 14, 2001. These projections are subject to the forward-looking statements on page 49 and certain forecast sensitivities discussed below.

	2001	2000
Revenue	<b>17–19% increase</b>	\$6.43 billion
EBITDA	<b>11–13% increase</b>	\$2.46 billion
Cash Earnings <sup>1</sup>	<b>\$270 to \$290 million</b>	\$571 million
Cash EPS <sup>2</sup>	<b>\$0.93 to \$1.00</b>	\$2.31
Capital expenditures	<b>\$2.0 to \$2.2 billion plus \$356 million for wireless spectrum</b>	\$1.44 billion
Proceeds from Divestitures	<b>\$900 million to \$1 billion</b>	\$97 million

<sup>1</sup> Common share income before amortization of acquired intangible assets, restructuring and refinancing costs net of tax, revaluation of future tax assets, and goodwill amortization.

<sup>2</sup> Cash EPS: Cash Earnings on a per share basis.

The revenue increase target range is generated approximately equally from organic growth and from the full-year inclusion of Clearnet and QuébecTel results. Contributing to the revenue growth is the targeted increase of approximately 500,000 net additional wireless subscribers (a 23% increase), and 95,000 new high-speed Internet subscribers (more than double). In addition, the newly formed Global Trading & Partner Solutions, which targets the wholesale market, is expected to increase revenues.

*Double digit EBITDA growth reflects the strength and continued cost control of the western wireline business offset in part by the start-up costs in new national growth initiatives, including the negative EBITDA position of newly acquired Clearnet*

A key sensitivity to the EBITDA target is the expectation that the CRTC decision on 2001 contribution charge methodology will not be overturned or modified. If overturned, it could have a negative EBITDA impact of approximately \$90 million.

TELUS management considers Cash EPS to be more representative of economic value creation for its shareholders because of its lack of distortion by many non-cash or non-recurring charges. Accordingly, the 2001 financial targets focus on Cash EPS rather than conventional EPS.

Cash EPS will be lower in 2001 due primarily to full year impact of financing costs from the Clearnet and QuébecTel acquisitions and a higher number of shares outstanding arising from the Clearnet acquisition.

Not included in these EPS numbers are planned first quarter 2001 one-time restructuring and refinancing charges estimated to be between \$275 to \$325 million pre-tax related to the corporate re-organizations as well as the Clearnet and QuébecTel acquisitions completed in 2000.

Capital expenditures are focused on generating long-term growth, principally in the wireless and data areas. The largest increase is at TELUS Mobility, caused by inclusion of a full year's expenditures and the extension of our digital coverage footprint in all regions of Canada, which entails new cell sites and switches plus the acquisition of additional spectrum in 2001. Other examples of new capital investments are high-speed ADSL Internet deployment, next generation integrated network platforms and Web-hosting sites. Offsetting this will be lower expenditures on the largely completed national fibre network and the traditional local and long distance voice network.

## RISKS AND UNCERTAINTIES

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

### *Competition*

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

Over the next several years, it is expected that competition will remain intense. Competitors will primarily focus on the local access, data and e-business services in the business market and high-speed Internet and wireless services across both consumer and business markets. This is due to the higher growth and attractive margin potential in these areas. Long distance is experiencing flat to negative revenue growth and voice local access has low growth. However, competitors are intent on winning market share in the slower-growth large business local voice market, as they see incumbent carriers such as TELUS as having unsustainably high regional market shares.

#### *Voice and Data*

TELUS expects local access competition activity to increase in 2001 with the main focus on the business market. All competitors offer a varying array of long distance, local and advanced data/IP services. TELUS' major business market competitors are increasingly bundling long distance with price discounted local access and advanced data/IP centric Web and e-commerce type services. Many TELUS competitors have built extensive local fibre-optic facilities throughout Western Canada over the last several years and in some cases have consolidated to become stronger. These competitors are increasingly focusing on marketing and revenue generation in the small and medium business market due to its more attractive margins. Some of these competitors are subsidiaries or affiliates of companies with extensive financial strength and resources.

Competition is also likely to intensify in the large business market. TELUS was formerly a member of Stentor, an alliance of the major regional Canadian telecommunications companies established to facilitate the provision of long distance and data services which cross provincial and national boundaries, and to facilitate planning and coordination of the provision of national services. In 1998, the former Stentor members agreed to unwind existing arrangements and replace them with a new set of commercial agreements. These agreements contemplate an

orderly wind down to the former Stentor services as the members develop their own systems and replacement products and services. It is expected that most of the former Stentor systems will be replaced by 2002. As the evolution to independent systems proceed, competition is likely to intensify for large business clients between TELUS and the former Stentor members.

A second tier of new competitors has recently entered the business market. Most do not yet own any extensive local or long haul fibre-optic facilities and their operations are still largely based in Eastern Canada. However, they are expanding in varying degrees to Alberta and British Columbia. In addition, many are well capitalized and expanding their operations and marketing infrastructures, lowering prices and slowly gaining market share.

TELUS has been actively building local and cross-Canada fibre-optic facilities into Eastern Canada. However, there can be no assurance that TELUS will be successful in its efforts to expand its market share in Eastern Canada or that pricing will remain at reasonable levels.

#### *Wireless*

Cellular competition is likely to intensify in 2001. TELUS and certain of its competitors provisionally won additional digital wireless spectrum in February 2001 in Industry Canada's spectrum auction. One of TELUS' major competitors in Eastern Canada is expected to become a facilities based digital wireless competitor in Western Canada by building its own network and operational capability using spectrum acquired through the auction.

With four major players including TELUS in the Canadian wireless marketplace, new pricing, aggressive advertising and innovative marketing approaches are the norm. Certain competitors have lowered prices in the past and may continue to do so, which could lower average revenue received per customer.

Wireless competition is also coming from new digital wireless technologies that deliver higher-speed data/Internet services over current and next generation wireless devices. Such availability may also lead to increased re-subsidization costs related to the migration of existing subscribers to newer Web browser capable handsets. There can be no assurance that new services offered by TELUS will be available on time, be as versatile or as popular as those of its competitors, and that TELUS will be able to charge incrementally for the services. (See "Technological Change.")

*Wireline Internet Access*

While residential dial-up Internet access competition and growth is moderate, the battle for residential high-speed wireline Internet access remains intense. Cable-TV companies continued to aggressively gain high-speed customers in 2000, but encountered serious system problems in the second half of the year and early in 2001. Telecommunications companies began to close the market share gap by extending their high-speed coverage and accelerated subscriber sign ups, which is likely to continue in 2001. However, TELUS has been constrained in its provisioning ability to satisfy demand for high-speed Internet service. Also, telecommunications companies cannot offer high-speed service to all of their service territory due to the distance and condition of the lines extending from central offices out to customer locations. As a result, TELUS risks losing market share to cable-TV companies.

*Voice over Internet Protocol (VoIP)*

A new developing service that may start to negatively impact TELUS' local and long distance business over the next few years is Internet telephony, called VoIP. Although, VoIP has been a technology in progress for several years, in December 2000 it became available nationwide for the first time through a provider offering unlimited North American long distance and 56 kbps Internet access starting at a monthly rate of \$19.95. In addition, new cable-TV modems are expected to allow cable-TV companies to begin offering VoIP over their networks in the next few years. Although TELUS is working on similar technology there can be no assurance that it will be developed successfully or that the adoption of VoIP services in the market will not erode the existing market share of TELUS or adversely affect future revenue and profitability.

*Economic Fluctuations**Economic Fluctuations may adversely impact TELUS*

In recent months there have been increasing indications that North American economic growth is slowing. For example, there have been employee layoffs in certain sectors of the Canadian economy such as the auto sector and supply of telecommunication infrastructure. Monetary authorities have moved to lower interest rates in early 2001 to stimulate the economy and federal and provincial tax rates are expected to be reduced in 2001, but the effect of these moves, if successful, can take several quarters to stimulate the economy. As a result, residential and business telecommunications customers may delay new service purchases, reduce volumes of use and/or discontinue use of services.

*Financing and Debt Requirements**The large increase in short-term debt in 2000 at TELUS increases the risk that business plans, growth and dividends could be negatively affected, if new financing is not obtained or sales are not completed*

The purchase of Clearnet and QuébecTel in 2000 caused an almost four-fold increase in net debt at TELUS to \$8.0 billion. This was accomplished with a \$6.25 billion bank syndication based on obtaining investment grade debt ratings in both Canada and the U.S. The debt outstanding at the 2000 year-end included \$5.1 billion due within one year and \$545 million denominated in U.S. dollars, which is fully hedged against foreign exchange fluctuations. TELUS requires a major refinancing in 2001 to lengthen and vary the maturity of its debt, if possible, to reduce exposure to short-term interest rate movements and maintain a fully hedged position against foreign exchange fluctuation risk. This "Financing Plan" is detailed on page 50.

TELUS has announced its intention to sell approximately \$1 billion of non-core or mature assets to help fund growth and reduce debt levels. In late 2000 and early 2001, TELUS sold three office towers and other real estate for total proceeds of \$205 million, announced an intention to divest the directory advertising business and is exploring the sale of its leasing subsidiary.

There can be no assurance that financial market conditions and debt ratings will remain stable or that TELUS will be successful in executing its financing plan, or that it will be able to do so at rates, terms and conditions that are reasonable. There can be no assurance that it will be able to sell additional assets or do so at reasonable

prices. Accordingly, there can be no assurance that TELUS can fully complete its \$2.0 to \$2.2 billion capital program in 2001, make additional acquisitions, or maintain current dividend levels.

#### **Dividend**

##### ***Current dividend levels may be inconsistent with the growth strategy of TELUS***

The debt of TELUS is currently rated investment grade and TELUS plans to maintain this status. The business plan of TELUS contemplates increased capital expenditures in the growth areas of wireless, data and IP as well as to expand on a national basis. However, the extent of any future growth in operating cash flow may be constrained, among other reasons, by the flexibility of TELUS to fund attractive growth opportunities given the non-tax deductible nature and amount of current dividends relative to the objective of maintaining an investment grade credit rating. Also, future revenue and cash flow growth targets may not be achieved, reducing the financial flexibility to maintain the current dividend level. The dividend payout on shares of high growth acquisition targets (such as Clearnet in 2000) is likely significantly less than that of TELUS and may be zero. Accordingly, a continued acquisition program involving share consideration may be inconsistent with maintaining current dividend levels. TELUS reviews its dividend policy quarterly and while there is no current plan to change the dividend payout, there can be no assurance that a future change will not be implemented, and it is difficult to predict what effect this may have on the price of TELUS shares.

#### **Human Resources**

##### ***The shortage of skilled employees is a challenge for all communications companies and TELUS is in the midst of negotiations with its union***

##### ***Shortage of telecommunications talent in the industry***

The ability to attract and retain talented employees is critical to the success of TELUS in meeting customer needs. People have never been as important to this organization as they are today given the increased focus on wireless, data and IP services. This, coupled with low unemployment rates, an aging workforce with increasing retirements and an imbalance between supply and demand of talent in the telecommunications market, creates a challenge for TELUS and its competitors. If TELUS does not attract and retain talented employees, it may adversely

affect TELUS' growth objective and limit TELUS' ability to deploy new technology. (See "Organizational restructuring and TELUS Mobility and Clearnet integration.")

##### ***New Contract Bargaining with the Telecommunications Workers Union (TWU)***

In 2000, TELUS' application to the Canada Industrial Relations Board (CIRB) resulted in a new consolidated bargaining unit. There are five collective agreements covering over 17,000 employees in Alberta and British Columbia. At the end of 2000, these agreements expired and negotiations for a single new collective agreement commenced in November 2000. Bargaining sessions are continuing.

TELUS is committed to achieving a collective agreement that is fair to employees while maintaining customer focus and being sufficiently flexible to enable TELUS to operate in a highly competitive market. TELUS recently received a decision from CIRB that declined to specify a geographical limitation of the new bargaining unit to Alberta and British Columbia. TELUS is currently reviewing this decision to determine the potential impacts. There can be no assurance that compensation expense will be as planned, or that reduced productivity and work disruptions will not occur.

##### ***Organizational restructuring and TELUS Mobility and Clearnet integration***

##### ***Restructuring and integration activities introduce potential for temporary customer service degradation***

TELUS began a company-wide major organizational restructuring in the fourth quarter of 2000 that extended into 2001. In addition, certain systems and processes of the Clearnet organization continue to be integrated with those of both the western TELUS Mobility organization and QuébecTel Mobilité organization to create a cohesive national TELUS Mobility unit. These initiatives may distract the organization and negatively impact customer service levels, TELUS' competitive position and financial results.

##### ***Clearnet integration benefits may not be realized***

There can be no assurance that the future operating expense, capital expenditure and tax savings expected by management and investors in connection with the Clearnet acquisition, will materialize as planned.

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

The pace and the scope of technological advancements in the communications industry are expected to continue to accelerate in the foreseeable future. Two of the universal characteristics of technological advancements are lower unit costs and increasing flexibility. This creates opportunities for new and existing competitors to offer price reductions and service differentiation to gain market share. TELUS' future success will be dependent upon its ability to anticipate, invest in and implement new technologies with the levels of service and prices that its customers require. TELUS may be required to make more capital expenditures than are currently expected if a technology's performance falls short of expectations and TELUS' earnings may also be affected if technological advances shorten the useful life of some of its assets.

*The digital protocols utilized by TELUS may become technologically inferior which could adversely affect TELUS*

The wireless industry is in the process of adopting second (2.5G) and third generation (3G) technologies that are expected to deliver increased data speeds required to deliver many new wireless IP and data services. Various operators are announcing capital cost plans to permit existing wireless protocols to migrate to 2.5G in 2001 and 3G subsequently over the next two to three years. While we believe TELUS Mobility's CDMA protocol has a reasonable and cost effective migration path to 2.5G and 3G, there can be no assurance that it will be successful and timely. TELUS will continue to assess this issue during the year. In addition, the TELUS Mike service uses an iDEN technology protocol which already has packet capability and service offerings in contrast to competitive protocols; however, it has not yet been fully determined how it will migrate to 3G.

*Regulatory**Regulatory developments could have an adverse impact on TELUS' operating procedures, costs and revenues*

TELUS' telecommunications services are regulated under federal legislation through the CRTC. The CRTC has taken steps to forbear from regulating prices for certain services such as long distance and some data services and does not regulate the pricing of wireless services. Major areas of regulatory review currently include the contribution payment regime, price cap regulation of local telephone rates and access issues with cities and building owners.

The outcome of the regulatory proceedings and court appeals discussed below and other regulatory developments could have an impact on TELUS' operating procedures, costs and revenues. There can be no assurance that these regulatory outcomes will not be materially adverse to TELUS.

*Contribution payment calculation modified by CRTC*

The CRTC requires TELUS and other regional telephone companies to provide basic residential services at below-cost rates in high cost serving areas (e.g., rural areas). In a recent decision, effective January 1, 2001, the CRTC expanded the application of contribution charges that provided for a partial subsidy to high cost serving areas beyond long distance services. The new contribution charges are being assessed as a percentage of eligible revenues on wireline and wireless local and long distance, voice and data services. For the first time, the CRTC decision requires subsidy payments of 4.5% of eligible revenues in 2001 replacing a per-minute mechanism that only collected contribution on the long distance market segment. This is an interim rate for 2001 and the only exceptions are retail ISP and paging revenues. For the wireless operators, contribution payments are to increase substantially in 2001 with payments in 2002 and beyond still to be decided upon.

The CRTC also determined that contribution charges will now be pooled nationally rather than regionally and that an adjustment is to be made to account for 2001 contribution charges that will apply to price capped services. As a result, TELUS will retain revenues in 2001 that otherwise would have been reduced under price cap regulation. This decision is under appeal to the CRTC by Bell Canada and, if overturned or modified, the result could be adverse to TELUS revenues and earnings in 2001.

In 2002, the calculation of the contribution subsidy will also change as a result of the CRTC decision. The CRTC has adversely modified the basis upon which the required subsidy to fund service to high cost areas is calculated by excluding certain costs that can be recovered through the contribution regime. TELUS is uncertain of the impact and can give no assurance that TELUS' earnings will not be adversely affected.

#### *Price cap regulation reviewed by the CRTC in 2001*

Price cap regulation was introduced in 1998 and will continue until the end of 2001. The CRTC is beginning its review of the regulatory regime to be in place in 2002 and beyond. The first stage of the review was undertaken in 2000 when the CRTC asked for public comments on what should be included in the price caps review. TELUS will seek to modify the price cap regime to achieve greater pricing flexibility for regulated services. A new or modified regulatory regime is scheduled to come into effect on January 1, 2002. Until the details of the new or modified regulatory regime are known, TELUS is uncertain of the impact and can give no assurance that TELUS' earnings will not be adversely affected.

#### *Terms of access*

TELUS is participating in a CRTC proceeding to establish terms of access to tenants in multi-unit dwellings such as apartment buildings and office complexes. Building owners are currently demanding substantial fees for such access in much the same way as municipalities are demanding fees for access to rights-of-way. A CRTC decision on this issue is expected in 2001. A January 2001 decision by the CRTC on municipal rights of way fees was favourable to telecommunications and cable-TV companies, generally restricting payments to costs of construction and the municipalities' lost revenues, but rejecting annual fees. It is expected that the decision will be appealed by certain cities. If annual fees are charged, the earnings of TELUS could be materially affected.

#### *Radiocommunication License Review*

In 2001, the federal licenses to members of the TELUS group of companies to provide PCS and cellular service in Canada are up for five-year regular review. License renewal conditions include substantially honouring commitments made and meeting certain performance levels specified in the original application to Industry Canada for such licenses. These include 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, among others. While TELUS believes that it is substantially in compliance with its license conditions, there can be no assurance that it will be found to comply with all license conditions or if found not to be compliant, that a waiver will be granted or, that the costs that will be required to be incurred to achieve compliance will not be significant. In addition, although TELUS believes that its licenses should be renewed for another five years, it cannot be certain of the terms or time period for such renewals.

#### *Health and Safety*

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

#### *Radio Frequency Emission Concerns*

Contrary to the body of current science, some recent studies have asserted that radio frequency emissions from cellular telephone handsets may be linked to certain medical conditions such as cancer. However, other studies investigating the effect of such emissions performed to date for wireless telephone equipment manufacturers and independent government and other agencies have found no public health risk. TELUS believes that the handsets sold by TELUS comply with all applicable Canadian and U.S. government safety standards.

Future health studies, government regulation or public concerns could have an adverse effect on the business and prospects for TELUS' wireless business. For example, public concerns could reduce customer growth and usage or increase costs as a result of the need to modify handsets and from product liability lawsuits.

*Safe Driving*

TELUS promotes safe driving and recommends that driving safely should be each wireless customer's first responsibility. Recently, the Insurance Corporation of British Columbia and the University of Montréal released studies showing some increase in distraction levels for drivers using cell phones while driving. TELUS strongly believes that current laws already adequately address careless and negligent driving and that laws that are specific to mobile phones are unnecessary and counterproductive. There can be no assurance that laws against utilization of mobile phones while driving will not be passed and that, if passed, such laws will not have a negative effect on customer growth rates, usage levels and wireless revenues.

*Strategic Partners*

*TELUS' interests may conflict with those of our strategic partners*

While strategic alliance partners such as Verizon and Genuity are expected to assist TELUS in executing its growth strategy in Canada, their interests may not always align with those of TELUS. This could potentially affect the speed and outcome of strategic decisions.

*Sales of substantial amounts of our stock by our strategic partners may cause our stock price to decline*

Some of our strategic partners may decide to sell all or part of their share positions. For example, Motorola and Nextel are permitted to sell their combined 21.4 million non-voting shares, an 8.2% economic interest beginning in October 2001. Verizon could sell all or part of its 41.1 million voting and non-voting shares, a 21% economic interest. Sales of substantial amounts of TELUS stock, or the perception that these sales could occur, could adversely affect the market price of TELUS shares.