

# 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 twelve-month periods ended December 31, 2001 and 2000, 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 on page 32. The following should also be read in conjunction with the accompanying Audited Consolidated Financial Statements of TELUS and notes thereto (pages 55 through 83). 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 23 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 from the 1999 merger of BC TELECOM and TELUS – two Western Canadian Incumbent Local Exchange Carriers (ILECs) – and the acquisition in 2000 of both the Eastern Quebec ILEC QuébecTel and the national digital wireless company Clearnet Communications Inc. (Clearnet). BC TELECOM and TELUS were long-established, regional full-service telecommunications companies. The new TELUS currently provides service to 7.2 million people (23% of Canada's population) in the two Western provinces of British Columbia (B.C.) and Alberta. At the time of the 1999 merger, TELUS announced its plans to provide telecommunications services in other parts of Canada. Later, ILECs from other provinces announced and proceeded with their own plans to expand into B.C. and Alberta.

From 1999 through 2001, TELUS constructed a national fibre-optic network supplemented by fibre rings in major centres in Central Canada. In 2000, TELUS began offering business voice, data, and other services outside its Western base principally in the province of Ontario, and wireless resale services in the provinces of Ontario, Manitoba and Saskatchewan. The purchase of QuébecTel (now TELUS

Québec) in June 2000 allowed TELUS to accelerate its market entry into the province of Quebec. With the acquisition of Clearnet in October 2000, and the subsequent integration of mobility services, TELUS became the leading Canadian wireless service provider in terms of revenue and licensed spectrum.

Early in 2001, TELUS won bids on additional wireless spectrum in major population areas in the Industry Canada PCS spectrum auction. During the year, TELUS also sold its Directory Advertising business, exited the equipment leasing business, continued the sale of other non-core assets, and acquired several smaller data/IP, hosting and application development companies and assets.

TELUS' reportable business segments for the year 2001 were:

- TELUS Communications, which provided voice local, voice long distance, data, Internet, managed information, and other services across Canada
- TELUS Mobility, which provided digital PCS, iDEN (branded Mike) and wireless Internet services nationally.

## OVERVIEW OF 2001 RESULTS RELATIVE TO GUIDANCE

	2001 Results	2000 Annual Report Targets for 2001	Met	Revised Guidance for 2001	Met
Consolidated revenues	<b>\$7.2 billion or 18% increase on continuing operations</b>	17 to 19% increase on total operations	n.a.	\$7.1 to \$7.3 billion <sup>1</sup>	✓
EBITDA	<b>\$2.53 billion or 9% increase on continuing operations</b>	11 to 13% increase or more than \$2.7 billion on total operations	n.a.	\$2.5 to \$2.6 billion <sup>1</sup> approx. \$2.5 billion <sup>2</sup>	✓ ✓
Segmented EBITDA					
• TELUS Communications	<b>\$2.17 billion from continuing operations</b>	\$2.4 to \$2.45 billion from total operations	n.a.	approx. \$2.15 billion from continuing operations <sup>2</sup>	✓
• TELUS Mobility	<b>\$356 million</b>	approximately \$330 million	✓	approx. \$340 million <sup>2</sup>	✓
Core Earnings	<b>\$254 million from continuing operations</b>	\$270 to \$290 million from total operations	n.a.	approx. \$180 to \$200 million <sup>1</sup>	✓
Core EPS (continuing operations)	<b>\$0.86</b>	\$0.93 to \$1.00 from total operations	n.a.	\$0.62 to \$0.69 <sup>1</sup> approx. \$0.75 <sup>2</sup> approx. \$0.85 <sup>3</sup>	✓ ✓ ✓
Capital expenditures	<b>\$2.2 billion plus \$356 million for wireless spectrum</b>	\$2.0 to \$2.2 billion plus \$356 million for wireless spectrum	✓	approx. \$2.2 billion plus \$356 million for wireless spectrum <sup>2</sup>	✓
Proceeds from divestitures	<b>\$1.185 billion</b>	\$900 million to \$1 billion	✓	no change	✓
Net wireless subscriber additions	<b>417.5 K</b>	approx. 500 K	✗	475 to 500 K <sup>2</sup> 400 to 440 K <sup>3</sup>	✗ ✓
Net high-speed Internet subscriber additions	<b>131.2 K</b>	95 K	✓	120 to 140 K <sup>2</sup>	✓

1 – Original 2001 guidance adjusted for Discontinued operations

2 – Issued with second quarter results

3 – Issued with third quarter results

TELUS met all, but one, of its original operational objectives and financial guidance for 2001 that were published in the 2000 Annual Report (subsequently adjusted for Discontinued operations), as well as all of the operational and financial guidance issued with the third quarter results. The expectation for net wireless subscriber additions was revised to reflect TELUS Mobility's continuing pursuit of a national strategy focused on strong revenue and EBITDA growth. The 9% growth in Consolidated EBITDA compares favourably with the growth rates observed for recent years, which were 5% in 2000, 0% in 1999 and 4% in 1998 for a three-year compound annual growth rate of 3% on continuing operations. TELUS revised its expectation upward for high-speed Internet subscriber net additions as the Company accelerated its capital investment for high-speed Internet capacity. The expectation for Core EPS was revised upward twice to reflect financing and other gains. Guidance for capital expenditures was achieved at the high end of the range with slightly more spending on the Communications Segment and slightly less on the Mobility Segment than projected in the 2000 Annual Report.

Other major financial events and trends for 2001 were:

1. Reduced earnings due to increased depreciation, amortization and financing costs as the Company invested for future growth through capital expenditures and acquisitions.
2. Successful completion of the 2001 Financing Plan, including:
  - Refinancing of the \$6.25 billion bridge bank facility arranged in October 2000.
  - Completion of an offer to repay \$1.75 billion Clearnet Senior Discount Notes which had coupon rates ranging from 10.125% to 11.75%.
3. Reduction in the quarterly dividend in the fourth quarter from 35 cents to 15 cents to fund future growth.
4. More than 40% of 2001 capital expenditures were directed toward national expansion.
5. Divestiture of two businesses and acquisition of several businesses and the remaining 30% of TELUS Québec, as described below.

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During 2001, TELUS sold its directory advertising business, exited the equipment leasing business and completed a number of additional acquisitions. The sale of the directory business was completed on July 31, 2001 and a \$546.3 million net gain on disposition was recorded. On September 30, 2001, TELUS exited the equipment leasing business and subsequently recorded \$3.9 million net gain on disposition. These gains on disposition, together with the pre-disposition operating results of the directory advertising business and the equipment leasing business, are included in Discontinued operations on the Consolidated Statements of Income.

These 2001 transactions, combined with the sale of administrative buildings, provided pre-tax cash proceeds of almost \$1.2 billion, exceeding the Company's 2001 divestiture target of \$900 million to \$1 billion. During the year, TELUS also made several acquisitions focusing on data/IP, hosting and application development. These purchases included Columbus Group Communications Inc., Williams Communications Canada Inc., Arqana Technologies Inc., Daedalian eSolutions Inc., the remaining 30% of TELUS Québec, and PSINet's Canadian assets – for total cash consideration of approximately \$345 million and 6.5 million shares of TELUS non-voting stock. The net cash inflow from divestitures with the application of related tax shelters exceeded cash outflows for acquisitions by approximately \$840 million.

### RESULTS OF OPERATIONS

(\$ millions except per share amounts)	2001	2000	Change	%
Twelve Months ended December 31				
Operating revenues	<b>7,202.6</b>	6,106.4	1,096.2	18.0
EBITDA <sup>1</sup>	<b>2,529.6</b>	2,314.3	215.3	9.3
Core earnings <sup>2,3</sup>	<b>254.0</b>	495.6	(241.6)	(48.7)
Common voting share and non-voting share income (loss)	<b>443.0</b>	456.0	(13.0)	(2.9)
Earnings Per Share (EPS)				
Core earnings, continuing ops	<b>0.86</b>	2.01	(1.15)	(57.2)
Basic (Common voting share and non-voting share income)	<b>1.51</b>	1.85	(0.34)	(18.4)
Cash flow <sup>4</sup>	<b>1,401.6</b>	1,670.8	(269.2)	(16.1)
Cash flow per share	<b>4.76</b>	6.76	(2.00)	(29.6)
Capital expenditures				
– wireless spectrum	<b>355.9</b>	n.a.	n.a.	n.a.
– general <sup>5</sup>	<b>2,249.4</b>	1,441.3	808.1	56.1

1 – Earnings Before Interest, Taxes, Depreciation and Amortization, where earnings excludes Restructuring costs

2 – Common voting share and non-voting share income before discontinued operations, amortization of acquired intangible assets net of tax, restructuring and non-recurring refinancing costs net of tax, revaluation of future income tax assets and liabilities, and goodwill amortization

3 – See reconciliation of Core earnings with Common voting share and non-voting share income and Core EPS with EPS on page 45

4 – Operating cash flow adjusted for restructuring costs

5 – Excluding a \$76 million non-monetary purchase of fibre assets in 2001

The discussion below is presented on a segmented basis for external revenues and total operations expenses. See the Segmented Disclosure in the Audited TELUS Consolidated Financial Statements (see Note 21).

### Operating revenues – TELUS Communications

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>5,272.0</b>	4,849.4	422.6	8.7

The increase in revenues in the twelve-month period ending December 31, 2001 reflects the inclusion of the cumulative subscriber base and related revenues from the acquisition of QuébecTel in June 2000. The following revenue analysis is presented on a pro forma basis (information has been normalized to include QuébecTel wireline operations for the first 5 months of 2000, prior to its acquisition by TELUS).

### Operating revenues (pro forma) – TELUS Communications

(\$ millions)	2001	2000	Change	%
Twelve Months ended December 31				
Voice local	<b>2,547.7</b>	2,473.6	74.1	3.0
Voice long distance	<b>1,094.6</b>	1,164.9	(70.3)	(6.0)
Data	<b>1,138.4</b>	960.0	178.4	18.6
Other	<b>491.3</b>	387.2	104.1	26.9
Total operating revenues	<b>5,272.0</b>	4,985.7	286.3	5.7

Voice local revenues, which were comprised of local enhanced services and local access revenues, increased by \$74.1 million. Local enhanced services revenues (call management services such as call display, personal voice mail and call waiting) increased by \$48.5 million due to higher sales of calling features combined with increased prices. The growth in total access lines, combined with growth in Centrex features, increased access revenues by \$25.8 million. Rate increases contributed \$40.7 million, while portable subsidy revenues and other local services increased by \$2.0 million. This was partly offset by a \$42.9 million reclassification of the local portion of Megalink\* revenues to data, on a go-forward basis in 2001.

Business network access lines increased by 19,000 or 1.1% in 2001 as the gain in business access lines from non-ILEC territories exceeded losses to competitors in ILEC territories.

Residential lines grew by 4,000 or 0.1% in 2001. The growth in residential access lines was flat mainly because of rapid growth in households with high-speed Internet (with TELUS and with competitors) and the related removal of additional access lines that previously may have been dedicated to dial-up Internet. Losses of ILEC residential lines to competitors have been minimal. Overall local market share remained unchanged at an estimated 98% at the end of 2001 and 2000.

Voice long distance revenues decreased by \$70.3 million, despite increasing revenue-based market share estimated at 79% at December 31, 2001 (77% one year earlier). The decline was due to lower revenues from domestic traffic and substitution to alternative technologies including Internet and wireless, partially offset by higher international inbound rates for international minutes. As a result of capping of monthly minutes in certain consumer long distance plans at

the end of May, the Company decreased the rate of erosion in long distance revenues in the second half of the year.

Data revenues increased by \$178.4 million. Enhanced data and Internet revenues increased by \$89.3 million due mainly to significant year-over-year growth in both high-speed and dial-up Internet subscribers, and an increase in managed business services such as internetworking (LAN/WAN connectivity), Internet connectivity and hosting services. Net additions in TELUS Velocity high-speed Internet subscribers were 131,200 for the year and 57,600 in the fourth quarter. Dial-up Internet subscribers increased by 41,800 for the year largely due to acquired subscribers. Mainstream and other data revenues increased by \$89.1 million due to increased digital private line and data access services, increased packet switched service volumes, non-recurring information services revenues of \$18.0 million, and the reclassification of Megalink revenues from local voice – partly offset by lower data settlement revenues (\$23.0 million). The lower settlement revenue resulted from a decrease in the termination of other carriers' data traffic on TELUS' network as competitors shifted some of their traffic to their own networks. Excluding reclassified Megalink revenues and the \$18.0 million non-recurring revenues, year-over-year growth in data revenues was \$117.5 million or 12.2%.

Other revenues increased by \$104.1 million due mainly to increased voice customer premises equipment sales and rentals — particularly in Central Canada. The acquisition of Williams Communications (now operating as TELUS National Systems) effective May 31, 2001 was primarily responsible for this growth.

Of the total year-over-year revenue growth discussed above, approximately \$229 million was attributable to expansion in non-ILEC areas, primarily in Central Canada. Total non-ILEC revenues were approximately \$313 million in 2001.

#### Key operating indicators – TELUS Communications

(000s)	2001	2000	Change	%
Twelve Months ended December 31				
Network access lines	4,967	4,944	23	0.5
Total Internet subscribers	669.9	496.8	173.1	34.8
Dial-up Internet net additions (pro forma) <sup>1</sup>	41.8	58.8	(17.0)	(28.9)
High-speed Internet net additions (pro forma) <sup>2</sup>	131.2	57.1	74.1	129.8

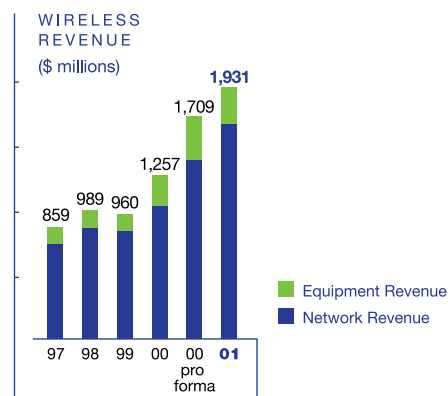
1 – Included approximately 34,000 dial-up subscribers from PSINet and CADVision in 2001 and a reduction of approximately 12,100 dial-up subscribers to remove internal and inactive accounts in 2001

2 – Included approximately 2,600 high-speed Internet subscribers from PSINet and CADVision in 2001

#### Operating revenues – TELUS Mobility

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	1,930.6	1,257.0	673.6	53.6

The increase in revenues reflected the inclusion of the cumulative subscriber bases and related revenues from the acquisitions of Clearnet and QuébecTel Mobilité. The following revenue analysis is presented on a pro forma basis (information has been normalized to include Clearnet operations prior to October 20, 2000 and QuébecTel Mobilité operations for the first 5 months of 2000).



#### Operating revenues (pro forma) – TELUS Mobility

(\$ millions)	2001	2000	Change	%
Twelve Months ended December 31				
Network	1,644.9	1,396.0	248.9	17.8
Equipment	285.7	312.8	(27.1)	(8.7)
Total operating revenues	1,930.6	1,708.8	221.8	13.0

TELUS Mobility Network revenue is generated from monthly billings for access fees, incremental airtime charges, prepaid time consumed or expired and fees for value-added services. Network revenue increased by \$248.9 million when compared to one year earlier. TELUS Mobility Network revenue grew with the expansion of its subscriber base by 19.3% to 2.6 million subscribers from 2.2 million one year ago. Net additions of 417,500 decreased from the comparable period last year despite increased gross additions. The decrease in net additions for the year reflected the impact of competitive handset pricing, more competitive service rate plans in the wireless market, an increased prepaid subscriber base, an increase in churn and a larger cumulative subscriber base.

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Blended postpaid and prepaid churn averaged 2.04% per month for the twelve months ended December 31, 2001 as compared to 1.98% for the same period one year earlier. The increase in churn was due to a higher prepaid mix and continued competitive pricing pressures.

Average revenue per subscriber unit per month (ARPU) was \$57 as compared to \$59 last year. The overall decline was primarily due to a higher mix of prepaid clients, more competitive rate plans, special promotions and retention offers.

Equipment sales, rental and service revenues were \$285.7 million compared with \$312.8 million for the same period last year. The overall decrease was principally due to sales of lower-priced handsets.

### Key operating indicators – TELUS Mobility (pro forma)

(000s for subscribers and additions)	2001	2000	Change	%
Twelve Months ended December 31				
Net subscriber additions	417.5	474.1	(56.6)	(11.9)
Subscribers end of period <sup>1</sup>	2,577.7	2,160.2	417.5	19.3
Churn, per month (%)	2.04	1.98	0.06	3.0
Cost of Acquisition (COA) per gross addition (\$)	502	537	(35)	(6.5)
ARPU (\$)	57	59	(2)	(3.4)
Digital POPs covered (millions)	24.2	22.6	1.6	7.1

1 – Cumulative subscribers for the year 2000 have been adjusted to include 4,100 Cellular Digital Packet Data (CDPD) subscribers previously not reported

### Operations expense – TELUS Communications

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	3,185.7	2,912.4	273.3	9.4

The increase in expenses included the impact of the acquisition of QuébecTel. The following expense analysis is presented on a pro forma basis (information has been normalized to include QuébecTel wireline operations for the first 5 months of 2000, prior to its acquisition by TELUS).

### Operations expense (pro forma) – TELUS Communications

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	3,185.7	3,013.1	172.6	5.7

Operations expenses increased by \$172.6 million in 2001. Expenses for non-ILEC operations increased by approximately \$279 million to \$458 million, while expenses for ILEC operations decreased by \$106.4 million.

ILEC operations expense changes were due to the following factors:

- Expenses for 2001 acquisitions (ILEC component) were \$28.6 million. Bad debt expense increased by \$24.8 million due to the economic slowdown and bankruptcies of wholesale customers. Lease expenses, net of amortization of deferred gains, increased by \$36.8 million due to the sale of buildings under leaseback arrangements. Consumer Internet cost of sales increased by \$15.9 million to \$30.0 million due to the increased subscriber additions.

- Offsetting these increases in part were lower revenue tax payments resulting from the CRTC decision to change from a per minute mechanism in 2000 to a revenue tax mechanism beginning in 2001 (\$121.5 million), lower advertising and promotions expense (\$24.0 million), and an \$8.0 million recovery of municipal tax payments by TELUS Québec. Other general expense reductions, including operational efficiency improvements, were \$59.0 million.

### Operations expense – TELUS Mobility

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	1,592.2	965.7	626.5	64.9

The significant increase in expenses reflected the acquisitions of Clearnet and QuébecTel Mobilité as well as a change in calculation methodology as regulated by the CRTC for contribution revenue taxes, which was applied commencing in 2001. The effect of this change was \$60.1 million. The following expense analysis is presented on a pro forma basis (information has been normalized to include Clearnet operations prior to October 20, 2000 and QuébecTel Mobilité operations for the first 5 months of 2000).

### Operations expense (pro forma) – TELUS Mobility

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	1,592.2	1,551.8	40.4	2.6

Operations expense increased by \$40.4 million or 2.6% mainly due to the unfavourable impact of contribution revenue taxes. Operating expenses before the contribution expense declined by \$19.7 million as compared with the same period one year earlier. This was due to improved economies of scale, merger efficiencies and strong cost control despite the increase in the subscriber base and network revenues of 19.3% and 17.8%, respectively.

Expenses with respect to equipment sales have decreased in 2001 from \$443.5 million to \$394.0 million. Lower digital handset unit costs were the principal contributing factor to these favourable trends. These costs included any subsidy portion and were included in the marketing cost of acquisition (COA).

Marketing expenses increased \$18.7 million due to increased dealer compensation and marketing credits associated with retention, offset partially by reduced advertising spending.

Marketing COA per gross subscriber addition (including retention and rebranding costs) was \$502 as compared to \$537 for last year. COA for 2001 included both rebranding costs of \$12.2 million reflected in the restructuring charge and retention and migration costs of \$55.3 million. In addition, there were also \$3.3 million of retention costs offset against network revenue. COA was \$489 excluding the rebranding and \$433 excluding rebranding, retention and migration costs. This compares to \$537 and \$478 respectively in 2000. The improvement was attributed to reduced handset subsidies as well as lower advertising and promotion spending.

Network service expenses increased \$85.4 million. Network service expenses consist of site-related expenses, transmission costs, spectrum licence fees, contribution charges, and other direct costs related to Network operations. Contributing to the increased expenses were the contribution revenue taxes effective in 2001 of \$60.1 million. Also, network service expenses increased due to the growth in the number of cell sites in service and expanded geographic coverage of TELUS Mobility's digital networks. Total digital population coverage as of December 2001 was approximately 24.2 million as compared to 22.6 million one year earlier.

General and Administrative (G&A) expenses were \$458.9 million compared with \$473.1 million in the same period in 2000. G&A expenses consisted of employee, facilities, bad debt and various other general and operating expenses. These expenses decreased as a result of improved efficiencies of the new integrated Mobility operations.

#### Earnings<sup>1</sup> Before Interest, Taxes, Depreciation and Amortization (EBITDA) by segment

(\$ millions)	2001	2000 Pro forma	2000 Actual	Pro forma Increase	Pro forma %
Twelve Months ended December 31					
TELUS Communications	2,173.8	2,044.5	2,006.9	129.3	6.3
TELUS Mobility	355.8	173.4	307.4	182.4	105.2
TELUS Consolidated	2,529.6	2,217.9	2,314.3	311.7	14.1

1 – excluding Restructuring costs

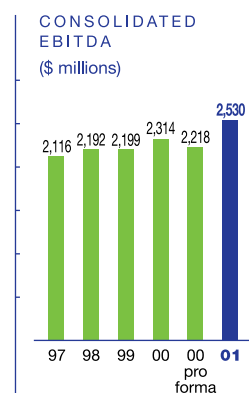
On a pro forma basis, TELUS Communications EBITDA improved when compared to last year due to increased data/IP, other revenues associated with acquisitions, and operational efficiencies in ILEC operations, partly offset by higher expenses driven by expansion in our Central Canadian non-ILEC operations.

On a pro forma basis, TELUS Mobility EBITDA showed sustained growth, increasing \$182.4 million over the same period one year earlier, principally due to increased Network revenue and improved operating efficiencies.

#### EBITDA margin<sup>1</sup> by segment (%)

Twelve Months ended December 31	2001	2000 Pro forma	2000 Actual
TELUS Communications	40.6	40.4	40.8
TELUS Mobility	18.3	10.1	24.1
TELUS Consolidated	35.1	33.1	37.9

1 – EBITDA divided by total revenue



#### Depreciation and amortization

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31				
Depreciation and amortization	1,383.3	1,157.4	225.9	19.5
Amortization of acquired intangible assets	110.9	24.6	86.3	350.8

The majority of the increase in depreciation and amortization was due to inclusion of additional depreciation from the former Clearnet and QuébecTel (\$249.4 million). Other depreciation and amortization decreased by \$86.6 million due to service life adjustments based on engineering studies for network assets and the sale of buildings, offset by \$63.1 million higher depreciation expense primarily from the growth in data network capital assets and administrative software.

The amortization expense recorded for acquired subscriber and wireless spectrum intangible assets was based on the purchase price allocation to identifiable assets of Clearnet and QuébecTel. Spectrum licences and wireline subscriber bases were amortized over 40 years and wireless subscriber bases were amortized over 7 to 10 years. The amortization expense for spectrum licences was \$89.6 million in 2001.

#### Restructuring costs

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	198.4	0.0	198.4	—

A restructuring charge of \$198.4 million was recorded in the first quarter for the expected costs in 2001 and 2002 to complete merger-related restructuring activities in TELUS Mobility and reorganization costs for TELUS Communications.

#### Other income (expenses)

(\$ millions)	2001	2000	Change	%
Twelve Months ended December 31	17.0	(8.7)	25.7	—

Other income increased due mainly to a pre-tax gain of \$24.5 million recorded for the sale of a fibre asset (see Note 19).

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### Financing costs

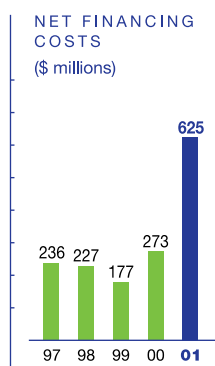
(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>624.5</b>	273.3	351.2	128.5

Financing costs, net of interest income and capitalized interest, increased mainly due to the acquisitions of Clearnet and QuébecTel and the subsequent replacement of short-term floating rate debt with higher cost long-term fixed rate debt (see table below for a numerical summary of changes). Financing costs for Clearnet operations (before a refinancing gain in 2001 and non-cash interest accretion on long-term debt), combined with financing costs for TELUS Québec operations, were estimated to have increased by \$173 million. Non-cash interest accretion on long-term debt was \$12.7 million higher in 2001. Other net increases in financing costs of \$231.4 million were primarily due to higher debt levels from acquisitions and increased capital investments.

Offsetting the increases described above was a \$65.9 million gain resulting from the redemption of Clearnet Senior Discount Notes that was recognized in the second and third quarters of 2001. This gain was comprised of two parts: a \$41.2 million foreign exchange gain related to unwinding hedges on the Clearnet US\$-denominated notes; and a \$24.7 million gain recognized on all Clearnet notes redeemed due to the actual redemption price paid being less than the book value of such debt.

### Financing cost changes, year-over-year

(\$ millions)	Change
Estimated financing for former Clearnet and TELUS Québec operations	173.0
Non-cash interest accretion on Clearnet Senior Discount Notes	12.7
Gain on redemption of Clearnet Senior Discount Notes	(65.9)
Other, mainly financing of acquisitions and increased capital investments	231.4
Total change	351.2



### Refinancing charge from debt restructuring

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>96.5</b>	0.0	96.5	—

Due to the negotiation of new senior unsecured credit facilities in March 2001, a non-cash refinancing charge of \$96.5 million was recorded to expense fees related to interim bridge financing for the acquisition of Clearnet, which were paid and deferred in 2000.

### Income taxes

(\$ millions)	2001	2000	Decrease	%
Twelve Months ended December 31	<b>93.4</b>	431.9	(338.5)	(78.4)

Lower income before income taxes resulted in lower income tax expense of approximately \$298.0 million. The income tax expense was further reduced for two reasons:

- lower corporate income tax rates that reduced the income tax expense by \$31.0 million, and
- the net effects of adjustments to future income tax assets and liabilities resulting from prospective changes in income tax rates.

### Non-controlling interest

(\$ millions)	2001	2000	Decrease	%
Twelve Months ended December 31	<b>3.6</b>	8.7	(5.1)	(58.6)

The non-controlling interest in 2001 represented Verizon's 30% interest in TELUS Québec's earnings until June 30. TELUS purchased the remaining interest in TELUS Québec from Verizon at the end of June 2001. Non-controlling interest in 2000 represented a former co-owner's 25% interest in ISM-BC's earnings until August 2000, and Verizon's 30% interest in TELUS Québec from June to December 2000.

### Goodwill amortization

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>174.8</b>	23.4	151.4	647.0

Goodwill amortization increased mainly due to the acquisition of Clearnet (\$133.4 million). The remaining increase was mainly due to the acquisition of TELUS Québec (70% in June 2000; the remaining 30% in June 2001), purchases of the Columbus Group, Williams Communications Canada and Daedalian eSolutions in the second quarter 2001, and the purchase of the remaining 25% interest in ISM-BC in August 2000.

With the new CICA Handbook Section 3062 – Goodwill and Other Intangible Assets coming into effect for fiscal years beginning January 1, 2002, goodwill will no longer be systematically amortized, but will be periodically tested for impairment (see Note 3(a)). Under Section 3062 transitional accounting rules, goodwill resulting from business combinations made after June 30, 2001 was not amortized. This included goodwill arising from the acquisition of Arqana and PSINet.

### Discontinued operations

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>592.3</b>	74.7	517.6	692.9

On July 31, 2001, TELUS closed the sale of TELUS Advertising Services B.C., Alberta, and Ontario directory businesses and TELUS Québec directory business to Verizon's Dominion Information Services for total pre-tax proceeds of \$810 million. TELUS was able to apply non-capital losses to offset cash taxes on the gain. TELUS also exited the equipment leasing business effective September 30, 2001, and entered into a long-term agreement with GE Capital Vendor Financial Services to become the preferred provider of future equipment financing for TELUS customers. TELUS received pre-tax proceeds of \$147 million in connection with this transaction in October.

Discontinued operations reflected a \$550.2 million combined gain, net of income taxes, for the two discontinued businesses, as well as the operations of the directory business for seven months and the operations of the equipment leasing business for nine months (see Note 8). At this time, TELUS continues to pursue the sale of its U.S. directory operations.

### Preferred dividends

(\$ millions)	2001	2000	Change	%
Twelve Months ended December 31	<b>3.5</b>	3.5	0.0	—

There were no changes to the quarterly preferred dividend.

### Interest on convertible debentures

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>7.0</b>	1.5	5.5	366.7

Early in 2001, TELUS completed an exchange offer for the outstanding Clearnet 6.75% Convertible Debentures, exchanging them into TELUS Corporation 6.75% Convertible Debentures. The interest on the TELUS and Clearnet convertible debentures was recorded net of related taxes. These debentures are convertible into non-voting shares and are classified as equity on the balance sheet, and therefore, related interest is recorded as a charge to retained earnings. The \$1.5 million net expense recorded in 2000 represented the net interest payments made by Clearnet after its acquisition by TELUS.

### Common voting share and non-voting share income and Earnings per share

Common voting share and non-voting share income decreased by \$13.0 million when compared with last year due to the increase in financing costs associated with acquisitions and related amortizations of goodwill and intangible assets. These were partly offset by recognition of the \$550.2 million gain and other income from the sale of two businesses and increased EBITDA.

Common voting share and non-voting share income per share decreased by 34 cents in 2001 due to the same impacts noted above, as well as the impact of diluting earnings over a larger average number of outstanding shares (294.2 million in 2001 versus 247.0 million in 2000).

Core earnings and Core EPS were defined to help provide a measure of earnings from core and continuing operations that were unaffected by restructuring costs, non-cash amortizations related to acquisitions, and non-cash future tax asset revaluations due to changes in corporate income tax rates. The following tables reconcile Core earnings with Common voting share and non-voting share income, and Core EPS with EPS.

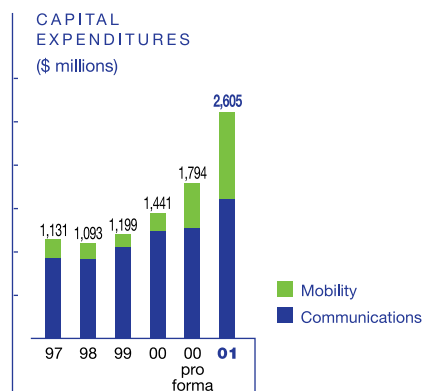
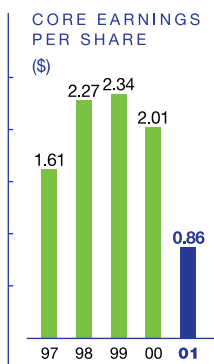
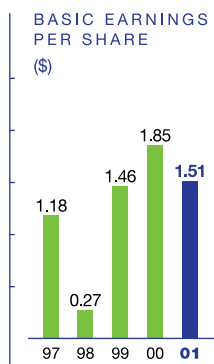
Core earnings per share decreased when compared with last year due to increased financing costs associated with the Clearnet and QuébecTel purchases, and the impact of diluting earnings over a larger average number of shares outstanding, partly offset by increased EBITDA.

### Reconciliation of core earnings with common voting share and non-voting share income

(\$ millions)	2001	2000
Common voting share and non-voting share income	<b>443.0</b>	456.0
Deduct Discontinued operations	<b>592.3</b>	74.7
	<b>(149.3)</b>	381.3
Add Amortization of acquired intangible assets	<b>110.9</b>	24.6
Goodwill amortization	<b>174.8</b>	23.4
Tax related to intangible assets	<b>(48.0)</b>	—
Non-recurring refinancing and restructuring charges net of tax	<b>167.4</b>	—
Revaluation of future income tax assets and liabilities	<b>(1.8)</b>	66.3
Core Earnings	<b>254.0</b>	495.6

### Reconciliation of core EPS and EPS

(\$)	2001	2000
EPS	<b>1.51</b>	1.85
Adjustments for:		
Discontinued operations	<b>(2.02)</b>	(0.30)
Amortization of acquired intangible assets	<b>0.38</b>	0.10
Goodwill amortization	<b>0.59</b>	0.09
Tax related to intangible assets	<b>(0.16)</b>	—
Non-recurring refinancing and restructuring charges net of tax	<b>0.57</b>	—
Revaluation of future income tax assets and liabilities	<b>(0.01)</b>	0.27
Core EPS	<b>0.86</b>	2.01



## LIQUIDITY AND CAPITAL RESOURCES

### Cash provided by operating activities

(\$ millions)	2001	2000	Decrease	%
Twelve Months ended December 31	<b>1,398.6</b>	1,617.8	(219.2)	(13.5)

Cash provided by operating activities decreased in 2001 when compared with last year due mainly to increased financing costs (\$351.2 million), a decrease in cash provided by discontinued operations (\$132.6 million) and partly offset by higher EBITDA from continuing operations of \$215.3 million, lower current income taxes of \$37.4 million and other cash flow increases of \$11.9 million.

### Cash used by investing activities

(\$ millions)	2001	2000	Decrease	%
Twelve Months ended December 31	<b>1,821.3</b>	3,831.1	(2,009.8)	(52.5)

Cash used by investing activities significantly decreased in 2001 when compared with one year ago. This was due to the lower cash requirement for acquisitions (\$2,088.6 million), combined with \$939.6 million proceeds from the divestiture of the directory and equipment leasing businesses and \$131.5 million increased proceeds from the sale of property, partly offset by increased capital expenditures.

### Capital expenditures by segment

Twelve Months ended December 31	2001	2000	Increase	%
(\$ millions)				
TELUS Communications	<b>1,605.8</b>	1,218.4	387.4	31.8
TELUS Mobility	<b>643.6</b>	222.9	420.7	188.7
Capital expenditures	<b>2,249.4</b>	1,441.3	808.1	56.1
TELUS Mobility – wireless spectrum	<b>355.9</b>	0.0	355.9	n.a.
Total Capital Expenditures	<b>2,605.3</b>	1,441.3	1,164.0	80.8

### Communications capital expenditures

Capital expenditures increased due to accelerated spending in high-speed Internet capacity and data services (\$197.0 million), the purchase of software licences and trademark licences from Verizon (\$199.3 million), and higher spending for non-ILEC expansion (\$40.9 million). Expenditures for other ILEC growth and modernization projects decreased by \$49.8 million. In addition, a fibre asset was purchased from a third party for non-cash consideration of \$76.0 million. As this was a non-cash purchase, it is not reflected in Capital expenditures on the Consolidated Statements of Cash Flows.

### Mobility pro forma capital expenditures, excluding wireless spectrum

(\$ millions)	2001	2000	Increase	%
Twelve Months ended December 31	<b>643.6</b>	533.7	109.9	20.6

On a pro forma basis, before the payment for spectrum, Mobility capital expenditures increased primarily for the expansion of digital cellular coverage, digitization of the analog network and implementation of the 1XRTT data network. This is the first phase of 3G technology, which offers high-speed packet data mobile wireless Internet access and multimedia communications.

### Cash provided by financing activities

(\$ millions)	2001	2000	Decrease	%
Twelve Months ended December 31	<b>339.6</b>	2,345.8	(2,006.2)	(85.5)

Early in 2001, TELUS completed the compulsory acquisition of remaining Clearnet Class A Non-Voting shares outstanding. TELUS also successfully completed exchange offers for the outstanding Clearnet 6.75% Convertible Debentures, and the outstanding Clearnet Warrants. These were exchanged for TELUS Corporation 6.75% Convertible Debentures and TELUS Warrants respectively.

A number of significant debt refinancing activities were completed in Q2 2001. On May 30, TELUS closed offerings for Canadian and U.S. dollar unsecured notes for proceeds of \$6.7 billion, and bank credit facilities with total availability of \$2.5 billion. Gross proceeds of the

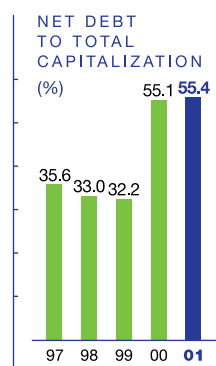
Canadian dollar 7.5% Notes due June 1, 2006 were \$1.6 billion. Gross proceeds of the U.S. dollar 7.5% Notes due June 1, 2007 and U.S. dollar 8.0% Notes due June 1, 2011 were U.S. \$1.3 billion and U.S. \$2.0 billion respectively. To reduce foreign exchange risk, the U.S. liabilities have been fully hedged into Canadian dollars. On the Consolidated Balance Sheets, the value of U.S. dollar-denominated Notes has been translated into Canadian dollars, and a related cross-currency foreign exchange hedge asset has been recorded in Deferred charges (see Note 12). As a result of increasing the size of the Notes offering due to demand, the new bank credit facility committed by the Toronto-Dominion Bank and syndicated to a group of financial institutions in the amount of \$2.5 billion was \$2.0 billion less than originally announced in March 2001.

On June 12, TELUS and its wholly owned subsidiary Clearnet completed an offer to repay all of the outstanding Senior Discount Notes of Clearnet. Total consideration was approximately \$1.74 billion for the 99.92% of the Notes that were tendered. Notes that were not tendered will remain outstanding, but will be subject to the modified terms of Supplemental Indentures applicable to each series. These Notes had coupon rates ranging from 10.125% to 11.75%.

In the third quarter 2001, TELUS retired the remaining hedges on Clearnet U.S. dollar discounted Notes. Short-term obligations were reduced by \$949.6 million primarily through the use of proceeds from the divestitures.

As a result of these financing activities in 2001, \$7.2 billion of long-term debt was issued, \$1.9 billion of long-term debt was redeemed, and short-term debt obligations were reduced by \$4.7 billion. At year-end, the average term to maturity was about 7.6 years, compared with 3.0 years at the end of 2000.

Common share capital increased in 2001 due to the issue of shares from Treasury under employee share purchase plans, exercised options and warrants, and additional shares purchased by Verizon. Dividends paid per common voting share and non-voting share were unchanged at \$1.40. However, in October 2001, TELUS announced a reduction in dividend payments to 15 cents per quarter or 60 cents annually effective for the January 1, 2002 dividend. Total cash dividend payments to shareholders decreased by \$10.5 million due mainly to the significant number of shareholders participating in the dividend reinvestment plan (about 40% of TELUS' outstanding shares at the July and October payment dates), partially offset by the increase in number of shares outstanding for the purchase of Clearnet and the additional 30% of TELUS Québec, as well as exercised options. The \$46.1 million year-over-year change in other financing activities was due primarily to the \$65.9 million gain related to redemption of Clearnet U.S. dollar denominated Notes and unwinding related hedges.



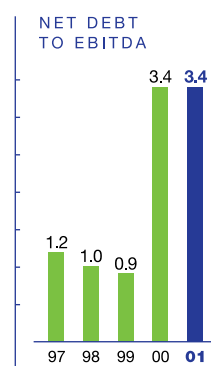
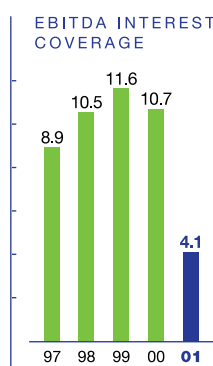
#### Liquidity and capital resource ratios

Year-over-year comparison	2001	2000
Net debt <sup>1</sup> to total capitalization (%)	55.4	55.1
Net debt <sup>1</sup> to EBITDA	3.4	3.4
EBITDA interest coverage <sup>2</sup>	4.1	10.7

<sup>1</sup> – Current obligations plus Long-term debt net of Cash and temporary investments and the cross-currency foreign exchange hedge related to U.S. dollar-denominated notes

<sup>2</sup> – EBITDA divided by Net financing cost before accreted interest and gain on redemption of debt

The Net debt to total capitalization ratio increased marginally from one year ago due to \$702.2 million increase in net debt compared with a \$494.2 million increase in equity (including non-controlling interest in 2000). The EBITDA interest coverage ratio decreased when compared with one year ago due to the increase in debt, partially offset by an increase in EBITDA. The EBITDA interest coverage ratio for 2000 reflected only 2.4 months of financing and negative EBITDA impacts of the purchase of Clearnet.



#### Credit Facilities

In May 2001, TELUS successfully raised \$9.2 billion in unsecured debt through three notes offerings and two syndicated credit facilities. The proceeds of these financing activities were used to refinance existing debt, to support commercial paper programs, and for general corporate purposes. The pricing, terms and conditions of these new credit

## management discussion and analysis

facilities were generally more favourable than those of the previous secured credit facilities.

TELUS credit facilities at the end of December 2001, consisted of a \$1.5 billion (or the U.S. dollar equivalent) three-year revolving credit facility (\$485 million drawn along with \$17 million in letters of credit as at December 31, 2001), a \$1.0 billion (or the U.S. dollar equivalent) 364-day extendible revolving credit facility converting to a one-year non-revolving credit facility currently backing up \$35 million in Commercial Paper issuances, and approximately \$215 million in other bank facilities and outstanding letters of credit.

### Floating Rate / Fixed Rate Debt Balance

As at December 31, 2001, the Company's fixed rate debt comprised 93.0% of its total indebtedness compared with 38.6% one year earlier.

TELUS has an objective to preserve access to capital markets at a reasonable cost by maintaining its investment grade credit ratings.

### Credit Ratings

	S&P	DBRS	Moody's
TELUS Corporation			
Senior Bank Debt	BBB+	BBB(high)	Baa2
Debentures and Notes	BBB+	BBB(high)	Baa2
Medium-term Notes	BBB+	BBB(high)	—
Commercial Paper	A-1(low)	R-2(high)	—
TELUS Communications Inc. (TCI)			
Debentures	BBB+	BBB(high)	—
Medium-term Notes	BBB+	BBB(high)	—
Commercial Paper	A-1(low)	R-2(high)	—
Preferred Shares	P-2(low)	Pfd-3(high)	—
TELUS Communications (Québec) Inc. (TCQI)			
First Mortgage Bonds	A -	BBB(high)	—
Debentures	BBB+	BBB(high)	—
Medium-term Notes	BBB+	BBB(high)	—
Commercial Paper	A-1(low)	R-2(high)	—

In May 2001, Standard & Poor's (S&P), Dominion Bond Rating Service (DBRS), and Moody's assigned ratings of BBB+, BBB(high), and Baa2, respectively, to TELUS Corporation's senior unsecured Note offerings. S&P and Moody's also rated TELUS Corporation's new bank credit facility at BBB+ and Baa2, respectively. S&P's ratings for TELUS Communications (Québec) Inc. were assigned in January 2001.

On June 4, 2001, DBRS placed all TELUS Communications Inc. ("TCI" – a wholly owned subsidiary of TELUS Corporation) ratings "Under Review with Negative Implications." This review was completed July 9, 2001 with DBRS downgrading the Senior Debenture and Medium-Term Note ratings of TCI to BBB(high) from A(low), the Commercial Paper rating to R-2(high) from R-1(low), and the preferred share rating from Pfd-2(low) to Pfd-3(high) – all Stable. On July 12, 2001, DBRS also downgraded TCQI First Mortgage Bonds, Unsecured Debentures and Medium-Term Notes from A(low) to BBB(high) Stable, and its Commercial Paper from R-1(low) to R-2(high) Stable, to

harmonize these ratings with those of TELUS Corporation and TCI on the announcement that TELUS had acquired the remaining 30% interest in TELUS Québec from Verizon. S&P has confirmed its BBB+ credit rating for TCI's long-term debt and its A-1(low) Canadian scale credit rating for TCI's commercial paper.

On August 9, 2001, DBRS confirmed its R-2(high) rating for TELUS Corporation Commercial Paper and its BBB(high) rating for TELUS Medium-Term Notes and Notes. On September 25, 2001, S&P announced that TELUS' divestiture of the equipment leasing business had no effect on S&P's ratings of the Company.

## OUTLOOK 2002

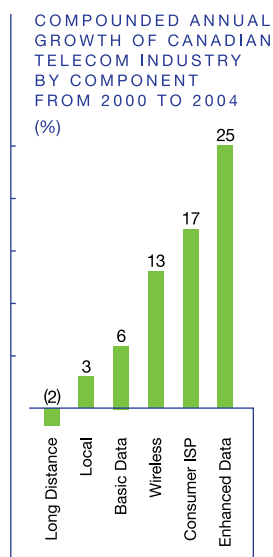
### Telecommunications industry

The Canadian telecommunications industry witnessed a tumultuous year in 2001 characterized by consolidation and slightly slower overall growth. While the demand for services continued to grow, particularly in the data and IP space, restrictive capital markets and ensuing liquidity concerns resulted in consolidation as new entrant operators scaled back expansion plans, filed for bankruptcy protection or exited the industry.

Telecommunications companies face increased scrutiny over the state of their balance sheets and investors have become more focused on cash flow. Well capitalized companies, such as TELUS, face fewer competitors and have the opportunity to acquire businesses, or their assets, at reasonable prices. However, concerns over the ability to sustain growth in a slowing economy have negatively impacted equity valuations industry-wide, limiting access to equity markets. This has resulted in greater pressure to control capital expenditures and reduce operating costs across the industry.

The Canadian telecom industry in 2001 generated revenue of approximately \$33 billion, of which Bell Canada and its affiliated regional telcos controlled more than half. As a result of strong revenue growth during the year, from both organic growth and acquisitions, TELUS generated about \$7.2 billion of revenue in 2001, accounting for approximately 22% of industry revenues.

The 2001 revenue growth in the Canadian telecom market was approximately 7%, slightly less than the approximate 10% growth in 2000. Growth rates varied widely among the types of service with enhanced data, Internet and wireless leading the way while long distance remains priced as a commodity. TELUS has clearly articulated its strategic intent to focus on the high-growth markets of enhanced data and wireless nationally, and high-speed Internet growth primarily in our ILEC service areas, in order to drive future revenue growth.



Source: TELUS estimates and industry analyst reports

Going into 2002, investor focus continues to be on balance sheet liquidity and cash flow alongside cost control. Industry experts generally continue to forecast increasing demand for data, IP and wireless services, but warn that a continued weak macroeconomic environment could result in a slower rate of growth than previously anticipated.

The convergence of communication applications provides new service opportunities from new data, IP and wireless applications such as managed Web hosting and wireless Internet service offerings. In addition, the complexity of telecommunications technology and services provides competitive advantage to companies that can bundle services and offer full-service, one-stop solutions. Restrictive access to capital markets means that new entrants and poorly capitalized companies continue to lay off employees and cut back capital spending to conserve cash. These factors, in concert with difficulties in raising capital, are expected to provide continued impetus to consolidation among North American telecommunications companies in 2002.

### KEY PRIORITIES AND TARGETS FOR 2002

TELUS is intent on continuing to deliver on the six strategic imperatives outlined in mid-2000. See pages 10 to 25.

#### Financial Targets and Issues

TELUS expects 2002 financial results to be significantly impacted by the exogenous impact of the regulatory decisions on contribution. TELUS has submitted a review and variance appeal to the CRTC with a decision pending. In addition, the CRTC is expected to deliver decisions on the price cap regime and mandated resale discounts for non-ILECs. See pages 52 to 54 for a discussion of regulatory issues. For planning and guidance purposes, we have assumed the status quo, or a neutral impact, from these upcoming decisions.

See Risks and Uncertainties for details on these and other factors that could cause actual future financial and operating results to differ from those currently expected.

The following objectives were publicly announced on December 18, 2001.

	2002 Target	2001	Change
Revenues	<b>\$7.5 to \$7.6 billion</b>	\$7.2 billion	4% to 6%
EBITDA	<b>\$2.475 to \$2.525 billion</b>	\$2.530 billion	(2)% to 0%
Earnings Per Share <sup>1</sup>	<b>15 to 20 cents</b>	\$1.51 <sup>2</sup>	\$(1.36) to (1.31) <sup>2</sup>
Capital Expenditures	<b>\$2.1 to \$2.2 billion</b>	\$2.6 billion <sup>3</sup>	(15)% to (19)% <sup>2</sup>
Wireless Subscriber Net Additions	<b>425,000 to 450,000</b>	417,500	2% to 8%
High-speed Internet Subscriber Net Additions	<b>200,000 or more</b>	131,200	52% or more

1 – Assumed that amortization of intangible assets with indefinite life such as wireless spectrum would cease effective January 1, 2002 under CICA Handbook Section 3062

2 – 2001 Earnings Per Share included \$2.02 from Discontinued operations

3 – 2001 Capital Expenditures included \$356 million for the acquisition of additional wireless spectrum

TELUS is focused on achieving solid underlying growth in revenue and EBITDA in 2002 facilitated by targeted capital investment and aggressive customer growth targets. Excluding the impact of the regulatory decision on contribution, targeted underlying revenue growth would be 10 to 11%, and underlying EBITDA growth would be between 7 and 9%.

For TELUS Communications, we are targeting revenue of between \$5.4 to \$5.45 billion in 2002, as compared to \$5.27 billion in 2001, which implies growth of 2 to 3%. This growth is being negatively impacted by an estimated \$390 million reduction in local contribution revenues. EBITDA is targeted to be \$2.025 to \$2.055 billion in 2002 (after negative impact of \$270 million contribution) as compared to \$2.17 billion for 2001, which implies a decrease of 5 to 7%. Excluding the negative impact of the contribution decision, the underlying EBITDA growth would have been 6 to 7%. Included in these targets are the emerging non-incumbent results in Ontario and Quebec, where we have targeted revenues to double to approximately \$650 million and negative EBITDA of approximately \$125 million, an approximate 21% improvement.

At TELUS Mobility, TELUS' wireless reporting segment, we are targeting revenue of between \$2.1 to \$2.15 billion in 2002, as compared to \$1.93 billion in 2001, which implies growth of 9 to 11%. TELUS Mobility is targeting EBITDA of \$450 to \$470 million for 2002 as compared to \$356 million for 2001, which implies growth of 26 to 32%. This includes an approximate \$40 million favourable change in local contribution for 2002.

Consolidated capital expenditures are targeted at between \$2.1 to \$2.2 billion and are focused on generating long-term growth, principally in the wireless and data areas. This represents a significant decrease from \$2.6 billion in 2001, which included \$356 million for purchasing wireless spectrum. Capital expenditure targets by business segment are as follows:

## Capital Expenditures

	2002	2001
Consolidated <sup>1</sup>	<b>\$2.1 to \$2.2 billion</b>	\$2.6 billion
TELUS Communications	<b>\$1.55 to \$1.65 billion</b>	\$1.6 billion
TELUS Mobility <sup>1</sup>	<b>\$560 million</b>	\$1 billion

<sup>1</sup> – Included \$356 million for the acquisition of additional wireless spectrum in 2001

TELUS Communications intends to increase capital investments into provisioning of high-speed Internet deployment and Central Canadian facilities expansion, while significantly reduced expenditures are planned for the national fibre and IP network given its completion in 2002 as well as capital payments to Verizon. TELUS Mobility expects to make capital investments of \$560 million in 2002 to continue the expansion of advanced digital networks, increase capacity, and implement Extended and Enhanced Roaming/Resale Agreements in Central and Eastern Canada. This represents a 44% decrease as compared to \$1 billion of capital investments in 2001.

## 2002 FINANCING PLAN

The primary focus of the 2002 financing plan is to finance net new cash requirements of approximately \$520 million. This estimated financing requirement includes capital expenditures of \$2.1 to \$2.2 billion, interest of \$700 to \$725 million, cash taxes of \$50 million and cash dividends of \$110 million.

TELUS plans to meet this financing requirement primarily by utilizing its existing bank credit facilities. Dispositions of assets and sales of certain businesses currently carried on by TELUS may also provide an additional source of funds. Leasing, securitization transactions and quasi-equity transactions such as convertible debt and preferred shares will also be considered to meet part of the overall financing requirement and to provide further available liquidity to the Company. Equity issuances, especially in connection with acquisition activity, could form a part of the financing activities.

TELUS expects to maintain its current position of fully hedging its foreign exchange exposure. At the end of 2001, approximately 93% of TELUS' total debt was borrowed on a fixed-rate basis. Short-term obligations totalled \$229.9 million at December 31, 2001 and the weighted average term to maturity of total debt was 7.6 years.

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 2002.

TELUS has an objective to preserve access to capital markets at a reasonable cost by maintaining its investment grade credit ratings.

## 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*

Competition is expected to remain intense. Competitors are primarily focusing on local access, data and e.business services in the business market and high-speed Internet and wireless services across both the consumer and business markets as these services offer the highest growth potential. Long distance is experiencing flat to negative revenue growth and voice local access has low growth. However, competitors remain intent on winning market share in the business local and long distance voice market.

### Wireline voice and data

TELUS expects local access competition activity in 2002 to mainly focus on the business market. TELUS' competitors offer varying arrays 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, Web-based and e-commerce services. TELUS' competitors, having built extensive local fibre-optic facilities throughout Western Canada over the last several years, are increasingly focusing on marketing and revenue generation, particularly in the small and medium-sized business market due to the size of this market and attractive margins. Some of these competitors may have extensive financial strength and resources.

Competition is likely to continue to increase 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 that 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. Although these agreements contemplate an orderly wind-down over the next few years, as the former members develop their own systems and replacement products and services, competition in the large business clients' market will intensify.

TELUS has been actively building and acquiring local and cross-Canada fibre-optic facilities and Internet Data Centres in Central and Western Canada. TELUS is also building up a sales organization and introducing business-oriented data and IP products and services. However, there can be no assurance that TELUS will be successful in its efforts to expand its market share in Central Canada or that pricing will remain at reasonable levels as competition in Central Canada intensifies.

### Wireless

Competition in the Canadian wireless market is expected to remain intense in 2002 and is expected to increase in Western Canada. TELUS Mobility is targeting increased subscriber additions in 2002 and there is no assurance that it will achieve its objective given the level of competition in the wireless industry. In the fall of 2001, Bell Mobility entered Western Canada and is in the process of building its own network and operational capabilities using spectrum acquired through the Industry Canada PCS

spectrum auction completed in February 2001. In addition, the announcement of the Enhanced and Extended Roaming/Resale Agreements between TELUS Mobility, Bell Mobility and Aliant Telecom Wireless on October 17, 2001 will allow Bell Mobility to offer wireless services throughout Alberta and B.C. much sooner and more cost-effectively than if it had to wait to fully build-out its own duplicated networks. These agreements are expected to open up new markets containing approximately seven million people for TELUS Mobility in Central and Atlantic Canada. There is no assurance that TELUS Mobility's future marketing efforts will be as successful in the new markets as in existing coverage areas.

With up to four players, including TELUS, operating in each region in the Canadian wireless marketplace, competitive rivalry is intense. Aggressive advertising and innovative marketing approaches are expected to continue to be customary. Certain competitors have offered subsidized low or "zero" cost handsets and have lowered airtime prices in the past and may continue to do so which could increase churn rates, cause marketing cost of acquisition expenses to remain high, and lower average revenue 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 3G 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, or that TELUS will be able to charge incrementally for the services. (See "Technological Advances.")

#### *Wireline Internet access*

While residential dial-up Internet access competition and growth has subsided, TELUS faces significant competition from high-speed Internet services of cable TV companies. In 2001, cable TV companies continued to aggressively gain the majority of high-speed customers in B.C. and Alberta. TELUS began to close the market share gap, particularly in the last half of 2001, by extending high-speed coverage, increasing marketing and accelerating subscriber net additions, a trend which is expected to continue in 2002. In 2001, TELUS took steps to address constraints in its provisioning ability in order to satisfy demand for high-speed Internet service, and this will continue to be a key focus in 2002. It is possible that TELUS could experience future high rates of churn or subscriber deactivations unless a high quality of service is maintained. There is no assurance that TELUS will not continue to experience internal constraints in its ability to satisfy demand for high-speed Internet service, nor is there assurance that TELUS will be able to achieve its high-speed Internet subscriber growth targets. Current ADSL modem technology does not permit telecommunications companies to readily offer high-speed service to all of their service territories due to distance limitations and the condition of the lines extending from central offices to customer locations. Although extended-reach ADSL modems are now coming to market, there is no guarantee these limitations can be fully eliminated.

#### *Voice over Internet Protocol (VoIP)*

A developing service that could negatively impact TELUS' local and long distance business over the next few years continues to be Internet telephony, also referred to as VoIP. This technology has been in progress for several years and in addition, next generation cable TV modems will allow cable TV companies to begin offering VoIP over their cable networks. Although cable TV companies in Canada have announced delays in offering VoIP service, there is no guarantee that their plans will not change. TELUS launched its own VoIP initiative on October 25, 2001, however, there can be no assurance of the level of adoption for VoIP services in the market or that the provision of such service by TELUS would not cannibalize existing revenues. If significant VoIP competition develops, it could erode TELUS' existing market share of traditional local and long distance services and adversely affect future revenues and profit.

#### *Economic Fluctuations*

##### *Economic fluctuations may adversely impact TELUS and result in high bad debt expense*

In the past year, North America has experienced an economic slowdown. Monetary authorities lowered interest rates in 2001 to stimulate the economy and federal and provincial tax rates have also been reduced, but the effect of these moves, if successful, can take several quarters to stimulate the economy. During the economic slowdown, residential and business telecommunications customers may delay new service purchases, reduce volumes of use and/or discontinue use of services. In 2001, TELUS experienced significantly higher bad debt expense primarily related to economic difficulties experienced by competitive local exchange carrier (CLEC) customers, as well as, to a lesser extent, other residential and business customers.

#### *Financing and Debt Requirements*

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

In 2001, TELUS raised proceeds of \$6.7 billion from an offering of three tranches of mid- to long-term investment grade unsecured notes. TELUS also established a new bank facility for \$2.5 billion with a syndicate of major financial institutions. Proceeds of the financings were partially used to refinance a \$6.25 billion short-term bridge bank facility and to complete a tender offer to repurchase \$1.74 billion of high yield Senior Discount Notes of Clearnet Communications.

TELUS plans to finance its future capital requirements primarily with the unutilized portion of the new bank facility. Continued access to the full amount of this facility is dependent upon receiving requested extensions of the \$1 billion 364-day portion of the facility and upon continued compliance with governing covenants. There can be no assurance that availability under such facility will be sufficient or, if additional financing is required, that it will be available on terms acceptable to TELUS.

Consistent with its financial policy, TELUS intends to reduce its future debt leverage. This intention could constrain the Company's ability to invest in its operations for future growth. There is no

assurance TELUS will significantly reduce its debt leverage on a timely basis, if at all.

### **Dividend**

#### *Current dividend levels may not be maintained*

In October 2001, TELUS reduced the quarterly dividend on its common voting shares and non-voting shares from 35 cents to 15 cents, effective January 1, 2002, to align the dividend level with its growth strategy and current business profile. While there is no current plan to change the dividend payout, TELUS reviews its dividend policy quarterly and 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**

#### *Outcome of outstanding labour relations issues may increase costs and reduce productivity*

Negotiations are not concluded with the Telecommunications Workers Union (TWU) for new collective agreements covering approximately 15,800 employees in TELUS Communications Inc. and 1,200 employees in TELUS Mobility working in B.C. and Alberta. Existing agreements expired in December 2000. Collective bargaining with the TWU is ongoing.

TELUS received a decision from the Canada Industrial Relations Board (CIRB) in February 2001 that declined to limit the bargaining units represented by the TWU to B.C. and Alberta. TELUS is appealing this decision and a ruling is expected in mid-2002.

The TWU made an application to the CIRB in May 2001 to extend the existing bargaining unit in B.C. and Alberta to include non-unionized former Clearnet employees and unionized employees in the QuébecTel Mobilité operations. The TWU also challenges the Company's position that wireless employees in B.C. and Alberta are, for the purposes of labour relations, employed by TELE-MOBILE COMPANY (carrying on business as TELUS Mobility). In TELUS' view, by operation of law, these employees form a separate bargaining unit from TELUS Communications Inc. and collective bargaining and other matters should be conducted between TELE-MOBILE COMPANY and the TWU. Both these issues are the subject of proceedings not yet scheduled to be heard before the CIRB.

There can be no assurance for TELUS Communications Inc. or TELE-MOBILE COMPANY that the negotiated compensation expense will be as planned, or that reduced productivity and work disruptions will not occur as a result of the negotiations or CIRB decisions.

### **Integration of acquisitions**

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

Certain systems and processes of the former Clearnet and QuébecTel Mobilité organizations continue to be integrated with those of the Western TELUS Mobility organization. In addition, TELUS must integrate the smaller acquisitions made in 2001 and any future acquisitions. Integration activities, including integrating accounting policies, employee transfers,

information systems, and establishing control over distant operations, may distract the organization and negatively impact customer service levels, TELUS' competitive position and financial results.

There can be no assurance that the future operating expense, capital expenditure and tax savings and new revenues expected by management and investors in connection with these acquisitions will materialize as planned in 2002.

### **Technological Advances**

#### *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 in part 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 certain of its existing assets.

#### *The digital protocols and technologies utilized by TELUS Mobility 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. TELUS Mobility's Mike service uses the iDEN technology protocol and has had operational 2.5G packet data capability and service offerings for over a year. TELUS Mobility also plans to implement initial 1XRTT protocol 3G services on its digital CDMA PCS and cellular networks during 2002. While we believe TELUS Mobility's CDMA protocol has a reasonable and cost-effective migration path to future evolutions of higher speed 3G, there can be no assurance that it will be successful and timely. In addition, work is ongoing to determine an optimal migration path for iDEN to 3G but there can be no assurance that the selected path will be successful or that the operating expenses and capital expenditures will be economical.

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

### **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 reviews, 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. The difference between the costs of providing these services and the rates charged for them is made up through higher prices from some services, such as optional local services, and through a "contribution" payment from other TELUS services and services of other telecommunications providers. Effective January 1, 2001, the CRTC changed the method used to collect contribution payments from a per minute charge on long distance services to a percentage of revenue charge on all telecommunications service providers, including wireline, wireless, data and other services. Internet, paging and terminal equipment revenues are exempt from the revenue charge. The revenue charge in 2001 was 4.5% of eligible revenues. The CRTC also changed the way in which contribution was pooled for subsequent distribution from separate company-specific contribution pools to one national contribution pool. This change resulted in a net positive revenue impact for TELUS in 2001.

In 2002, the percentage of revenue collection method and the national pooling of contribution payments will continue, but the method of calculating the amount of contribution to be received by companies providing residential basic service in high-cost areas has changed. The CRTC decision modified the basis upon which the required subsidy to fund service to high-cost areas is calculated. Rather than allowing the recovery of Company-specific costs, the CRTC reduced the costs that can be recovered through the contribution regime. As a result, the amount of contribution to be collected has been significantly reduced and the percentage of revenue charge applied to all telecommunications service providers has been reduced to 1.4% on an interim basis. The result is an estimated year-over-year reduction in EBITDA of \$230 million for TELUS in 2002. The 1.4% interim revenue charge and the costs upon which it is based are currently being reviewed in a number of CRTC proceedings and could be retroactively adjusted back to January 1, 2002. TELUS is uncertain of the outcome of these proceedings and can give no assurance that TELUS' earnings will not be adversely affected.

#### *Price cap regulation decision in 2002*

Price cap regulation was introduced in 1998. This regime was a facilities-based regulatory model that encouraged competitors to invest in facilities and did not provide discounts for use of incumbent facilities. In March 2001, the CRTC began its scheduled public review of the regulatory regime for 2002 and beyond. A decision is expected late in the first quarter or early in the second quarter of 2002. TELUS and other incumbent

telecommunications companies are seeking to modify the price cap regime to achieve greater pricing flexibility for regulated services. Certain CLECs are requesting certain benefits including use of incumbent facilities at a larger discount. Some parties also requested that the CRTC impose penalties on the incumbent companies for failure to meet CRTC-established quality of service indicators. 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 materially 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. An interim decision was issued by the CRTC in September 2001 whereby local exchange carriers, such as TELUS, would "own" in-building wires in existing buildings. As for new buildings, the building proprietors would "own" the in-building wires. A further decision on this matter is expected in 2002. There can be no assurance that the outcome of this decision will not be materially adverse for TELUS.

A January 2001 decision by the CRTC on the payment of fees for access to municipal rights of way was favourable to telecommunications and cable TV companies, generally restricting payments to the municipalities' costs of construction and their lost revenues, but rejecting annual fees. However, this decision was appealed to the Federal Court of Appeal by certain cities in February 2001. A decision from the Court is expected in 2002. If annual fees are charged, the earnings of TELUS would be affected.

#### *Radiocommunication licence regulated by Industry Canada*

All wireless communications depend on the use of radio transmissions and therefore require access to radio spectrum. Under the Radiocommunication Act, Industry Canada regulates and controls the allocation of spectrum to users and licenses radio channels within various frequency bands to service providers and private users. Voice and data wireless communications via cellular, SMR, ESMR and PCS systems, among others, require such licences. In March 2001, TELUS' PCS and cellular licences were renewed for a five-year period under the same terms and conditions, such as: meeting certain performance levels, obligations regarding coverage and build-out, spending at least 2% of certain PCS and cellular revenues on research and development, annual reporting and resale to competitors. While TELUS believes that it is substantially in compliance with its licence conditions, there can be no assurance that it will be found to comply with all licence conditions, or if found not to be compliant that a waiver will be granted, or that the costs to be incurred to achieve compliance will not be significant.

#### *Foreign ownership restrictions*

TELUS and its subsidiaries are subject to the foreign ownership restrictions imposed by the Telecommunications Act and the Radiocommunication Act. Although TELUS believes that TELUS and its subsidiaries have at all times been in compliance with the relevant legislation, there can be no assurance that a future CRTC or Industry

Canada determination or events beyond TELUS' control will not result in TELUS ceasing to comply with the relevant legislation. In addition, Industry Canada has not completed its review of TELUS Mobility's eligibility to hold the 24-38 GHz and additional PCS spectrum licences provisionally awarded to it. TELUS is responding to certain foreign ownership related issues raised by Industry Canada, and believes that TELUS Mobility has complied with all eligibility requirements. TELUS notes that Industry Canada renewed its PCS licences in March 2001, but there can be no assurance of a favourable Industry Canada determination with respect to the pending applications. Should any of the foregoing occur, the ability of TELUS' subsidiaries to operate as Canadian carriers under the Telecommunications Act or to maintain, renew or secure licences under the Radiocommunication Act could be jeopardized and TELUS' business could be materially adversely affected if TELUS becomes subject to proceedings before the CRTC or Industry Canada with respect to compliance with the relevant legislation. TELUS could be materially adversely affected, even if TELUS were ultimately successful in such a proceeding.

### *Value of Intangibles*

#### *Possible impairment of intangibles may cause material change to future financial statements*

In 2001, the Canadian Institute of Chartered Accountants adopted a new Handbook Section 3062, "Goodwill and Other Intangible Assets." This section establishes new accounting and reporting standards in respect of goodwill and intangible assets and will have effect commencing with the Company's 2002 fiscal year. Under this new standard goodwill is no longer subject to amortization over its estimated useful life. Rather, goodwill will be subjected to at least an annual assessment for impairment by applying a fair-value-based test at the reporting unit level. Similarly, intangible assets, to the extent they have been determined to have an indefinite life, will also no longer be subject to amortization but will be subject to a similar impairment test. The Company is presently in the process of implementing this new standard and there can be no assurance that application of this standard will not result in a material impairment charge in the Company's future financial statements.

### *Process Risks*

#### *Billing/Revenue assurance*

TELUS has acquired several companies with a variety of billing systems. The number of different billing systems at TELUS presents the risk that the systems are not sufficiently integrated, causing billing errors in customer accounts and incorrect and inaccurate information being shared. Given the volume and variety of transactions from these billing systems, there is a potential impact on our revenues, which may adversely affect the earnings of TELUS.

#### *Efficiency*

It is very important for TELUS to continue reducing costs in order to remain cost competitive. If TELUS is unable to reduce costs for any reason, we may not achieve cost competitiveness and the profitability required to be attractive to investors. Further, with the local price cap formula regime that

has been in place for the last four years, there has been a decrease in certain local prices by a 4.5% productivity factor less inflation. If a similar price cap formula is continued by the CRTC in 2002 (see "Price cap regulation decision in 2002"), it will be important to have successful efficiency programs in order to avoid an adverse impact on earnings.

### *Health and Safety*

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

##### *Radio Frequency Emission Concerns*

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. In 2001, the Insurance Corporation of B.C. and the University of Montreal released studies showing an increase in distraction levels for drivers using cell phones while driving. TELUS 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 and operating decisions.

#### *Sales of substantial amounts of TELUS shares by our strategic partners may cause our share price to decline*

Some of our strategic partners may decide to sell all or part of their share positions. For example, Motorola is permitted to sell its 9.7 million non-voting shares, a 3.2% economic interest. Verizon could sell part of its 71.6 million common voting and non-voting shares, a 23.7% economic interest. Sales of substantial amounts of TELUS shares, or the perception that these sales may occur, could adversely affect the market price of TELUS shares.