

frequently asked questions

Q Why did TELUS' share price decline in 2001?

A Given the complexity of stock markets, and the many factors that influence stock prices on a daily basis, it is difficult to say with precision why the TELUS share price declined but several factors stand out.

Stock markets generally faced a volatile year in 2001, ending the year with significant overall losses. The Toronto Stock Exchange 300 Index was down 14%, while the Dow Jones Industrial Index was down 7%. Stock prices were impacted by a variety of concerns including a softening global economy, September 11th terrorist attacks on the U.S. and the ongoing war on terrorism.

The telecom sector specifically experienced considerable difficulty. More discriminating capital markets reduced the funding available to early-stage, capital intensive firms with unproven business plans. Many new entrant telecom firms, which lacked balance sheet strength and liquidity, sought bankruptcy protection or went out of business. Against this background, telecommunications companies in general have faced intense scrutiny over their balance sheets and liquidity, as well as generally declining equity valuations. Share prices of telecom firms as indicated by the NASDAQ Telecom Index declined 49% in 2001.

The share price of TELUS declined significantly in 2001, particularly post-April, despite TELUS being a healthy incumbent phone company that attained good operating results in 2001 against our targets, while significantly improving our balance sheet with a landmark refinancing program and maintaining an investment grade credit rating.

In addition to negative market and sector trends, the share price of TELUS was impacted by two notable factors which deserve some comment. The first is the April 2001 announcement by the CRTC of adverse regulatory decisions on contribution to be implemented in 2002 (see page 53). These regulatory decisions are currently estimated to reduce underlying revenue growth of 10 to 11%, to 4 to 6%. The estimated impact on consolidated EBITDA is to reduce underlying EBITDA growth of 7 to 9% to zero growth in 2002. So the anticipated 2002 regulatory impact likely was a significant firm-specific cause of a declining TELUS share price. In addition, the uncertainty regarding the potential reduction of the TELUS quarterly dividend was widely commented on in analyst reports and the media beginning in April on the release of our Annual Report. This was also likely a factor affecting TELUS share price in the market up to October.

Q Why did TELUS reduce its dividend by 57% starting in 2002? Was the decision due to financial difficulty?

A The October 2001 decision to reduce the dividend of TELUS from 35 cents to 15 cents per quarter is consistent with the Company's current business profile and focused growth strategy. The reduction of our dividend reflects our view that the best allocation of capital for TELUS is to increase the proportion of internally generated funds reinvested into our growth operations. The decision was made from a position of financial strength as TELUS experienced good operating results in 2001, has strong liquidity and maintains a healthy investment grade credit rating.

The dividend reduction, in combination with the enhancement of the dividend reinvestment plan, reduces the outflow of cash from approximately \$400 million annually to \$100 million. So the reduced dividend enables TELUS to reinvest a greater proportion of cash flow from our traditional telecom (ILEC) operations into our fast-growing national data, IP and wireless businesses while maintaining a strong balance sheet.

The possibility of a dividend reduction was disclosed in last year's annual report and became widely expected by investors. The announcement of the dividend change provided desired clarity on the issue while the dividend yield remained attractive relative to industry norms. As a result, TELUS shares traded up on the announcement on October 25 of the reduction, in contrast to the typical result for firms who reduce a dividend for reasons of business failure and financial difficulty.

Q Does TELUS foresee the ability to reduce its level of future capital expenditures?

A Yes, capital expenditures in 2002 are planned to be about \$2.1 to \$2.2 billion which is a decrease of more than 15% from 2001. This reduction is due to reduced wireless investment as well as a non-recurring \$356 million purchase of wireless spectrum in 2001. We also expect to continue to experience a declining level of capital expenditures in subsequent years for reasons explained below.

A significant portion of capital expenditures in the years 2001 and 2002 are related to investment in non-ILEC expansion in Ontario and Quebec as well as in high-speed ADSL Internet service in incumbent regions. These growth related investments masked the fact that capital expenditures in our traditional incumbent wireline business actually decreased in 2001. As we near the end of our initial ADSL and non-ILEC network expansion build-outs, it is expected that capital expenditures related to these initiatives will significantly reduce and become more success based in relation to future capacity requirements to satisfy demand.

In 2001 we extended and enhanced our roaming and resale agreements with Bell Mobility and its affiliates, and Aliant Telecom Wireless. To be implemented in mid-2002, these new arrangements are expected to allow TELUS to extend its digital CDMA wireless coverage and addressable market to areas of Canada containing over seven million people without incurring significant capital outlays. As a result, we expect to avoid wireless capital expenditures of approximately \$800 million over the next several years that otherwise would result from building out network coverage to these regions.

Q Over the past two years TELUS acquired numerous companies. Does TELUS expect to continue to make acquisitions in 2002 and if so, why?

A Consistent with our strategic imperatives, TELUS has made a number of acquisitions to support our strategic focus on national expansion in the high-growth areas of data, IP and wireless. The largest of these included Clearnet Communications and QuébecTel. The acquisition of Clearnet transformed TELUS into a fast-growing national wireless provider, while the acquisition of QuébecTel provided TELUS a bridgehead into the attractive Quebec market. The successful future implementation of our strategy is not dependent on additional large-sized acquisitions.

Tighter capital markets faced by smaller, often new entrant, companies in 2001 presented well-capitalized companies like TELUS a tremendous opportunity to expand through acquisitions. In 2001, TELUS seized this opportunity to enhance our competitive position in the data and IP space by completing a series of smaller acquisitions such as Arqana Technologies Inc., Daedalian eSolutions Inc. and PSINet Canada. These data-related acquisitions have complemented organic, ground-up, greenfield investments, such as the construction of our national fibre backbone and local fibre loops in major Central Canadian cities. The result has been to significantly accelerate the progress of our market entry in Central Canada by developing scale

and differentiated capability in the data/IP space, as well as adding valuable new customer relationships and more than 1,100 new, skilled employees in 2001. For instance, the acquisition of PSINet helped TELUS become the Canadian leader in managed Web hosting.

In 2002, we may continue to selectively exploit smaller acquisition opportunities that may arise to the extent they fill remaining capability gaps and are consistent with our data and IP focused national expansion strategy.

Q How strong is the financial position of TELUS?

A TELUS has an investment grade credit rating and significant liquidity. In June 2001, TELUS completed a landmark \$9.2 billion financing that included a new \$2.5 billion bank credit facility and \$6.7 billion of fixed rate 7.5% and 8% Notes with maturities ranging between 5, 6 and 10 years. This new funding refinanced existing floating rate demand bank indebtedness as well as expensive high yield notes assumed as a result of the Clearnet acquisition in late 2000. As a result of this May refinancing, TELUS has significantly improved its average term to maturity and reduced its exposure to interest rate risk. At the end of 2001, the average term to maturity was 7.6 years as compared to only 3.0 years at the end of 2000. This significantly extended average term to maturity and high proportion of fixed rate debt provides TELUS with vastly enhanced financial stability.

TELUS believes that a capital structure where net debt to total capitalization is approximately 50% represents the most efficient use of capital. This is a long-term guideline and actual leverage does vary from this in the short term. TELUS' current 55.4% debt to capital ratio is largely a short-term result of the Clearnet and QuébecTel acquisitions and implementation of the Company's national expansion program to ensure high rates of long-term growth.

TELUS maintains strong liquidity with undrawn bank credit facilities of more than \$2.0 billion versus projected cash requirements in 2002 of approximately \$500 million, not including the impact of funds from any potential asset sales. Furthermore, TELUS expects to be free cash flow positive (cash from operating less investing activities) by no later than 2004 and is committed to containing debt at levels consistent with our objective of maintaining our existing investment grade ratings and de-leveraging in line with our target capital structure.

Q As a growth company, TELUS has talked about generating annual revenue and EBITDA growth in excess of 10% over the next three years. Why, then, is the company expecting 4 to 6% revenue growth and flat EBITDA growth in 2002?

A TELUS' revenue and EBITDA are expected to be significantly impacted by the effect of the CRTC regulatory decisions on contribution in 2002 (see page 53). This development, which was arguably outside of the company's control, is estimated to negatively impact 2002 revenues by approximately \$390 million and 2002 EBITDA by approximately \$230 million unless our current appeal is successful.

If one normalizes or excludes the impact of the contribution decision, TELUS' revenue target for 2002 would represent 10 to 11% growth while our 2002 EBITDA target would represent 7 to 9% growth. Excluding the negative impact of the contribution decision, on a three-year basis, TELUS expects underlying revenue and EBITDA to grow at a CAGR of more than 10% per annum from 2001 to 2004.

Q What progress has TELUS made providing enhanced data and IP service offerings?

A In 2001, TELUS made tremendous progress in strengthening our data and IP service offerings and capabilities. Many new services were added to our portfolio.

New network services based on Ethernet, Frame Relay and Private Line, including cross-border offerings, were introduced during the year. Private Network Gateway services, introduced in 2001, allow TELUS customers to establish secure extranets and communities of interest with their business partners to benefit from the growing IP-based business to business (B2B) market. Other new network services introduced include Business Internet Access over ADSL in Central Canada, Digital Dial Backup to improve customer options for increased business continuity assurance, and a next generation IP-based Point of Sale service.

TELUS opened two new world-class *Intelligent* Internet Data Centres (IDCs) in Toronto and Calgary during the year, making TELUS the Canadian leader in managed Web hosting. These IDCs provide security, reliability and performance for outsourced Internet infrastructure, and allow TELUS to offer an unsurpassed array of alternatives for Canadian customers seeking a trusted hosting service provider. Services range from managed hosting to co-location, plus industry-leading shared Web and e.mail hosting services. Value-added hosting services introduced in 2001 included media streaming, local and global load balancing, enterprise storage, and intrusion detection services. Our data centres have proven to be key in attracting customers to other IP and data network and application-related services offered by TELUS.

In 2001, TELUS introduced the first of its expanding portfolio of innovative hosted IP-based Application Service Provider (ASP) services. These industry-leading offerings allow customers to enjoy all the functionality and productivity of software applications without having to deal with the complexity of procuring, implementing and operating the software and infrastructure themselves. ASP services launched included hosted Microsoft Exchange, Unified Communications, and TELUS Central provided jointly with Web services company Jamcracker – an integrated Web service platform. Other applications introduced in 2001 include online backup, Web conferencing, expense management, sales force automation and professional services automation.

TELUS also joined forces with Microsoft to deliver TELUS Voice over Internet Service (VoIP), included as part of the Windows Messenger service in Windows XP launched in October. This innovative service enables Canadians to make voice calls over the Internet – from any personal computer running Windows XP to virtually any phone number. It is representative of the leading-edge range of communications opportunities in the converging worlds of computing, telephony and wireless.

As evidence to the increasing strength and capability of TELUS as a leading data and IP service provider, TELUS was ranked the number one Canadian Internet Backbone Network by independent UK-based firm NetConfigs in 2001. TELUS will build on the success of 2001 as we bolster our leading data and IP position with even more innovative services, capabilities and satisfied customers.

Q Why did TELUS add so many high-speed Internet subscribers in 2001, and why do you expect to add even more in 2002?

A The Internet is a key strategic focus for TELUS. Investments in high-speed Internet technology of over \$200 million in 2001 allowed us to significantly improve our high-speed Internet infrastructure and provisioning capability in order to meet growing demand for high-speed Internet. As a result, we added over 131,000 new high-speed Internet subscribers, a 130% increase compared to the 55,400 added in 2000, exceeding our beginning-of-year target of 95,000 net additions for 2001 by 38%.

Investments made in 2001 resulted in numerous accomplishments:

- TELUS increased the number of port builds by 300% to reach 270,000 ports at the end of 2001 (customers are connected to ADSL equipment through these ports). This enabled us to expand our high-speed Internet service areas from 180 to over 250, and significantly reduced the waiting list for service.
- We implemented new internal IT systems that allow us to create high-speed Internet orders, and assign and activate these orders much more quickly and efficiently. In the key fourth-quarter period, for the first time we matched the cable competitors in share of sales.

In 2002, we are targeting the addition of 200,000 or more new high-speed Internet subscribers. This is an aggressive goal which we believe is achievable due to growing demand and the new enhanced services associated with it (i.e. video-on-demand, VoIP, downloadable movies) and through our continued investments in high-speed Internet technology. Some examples include:

- The introduction of TELUS Velocity® Install Wizard, designed by broadband software specialists BroadJump, to automate the set-up and installation of high-speed Internet. This simplifies and shortens the installation process.
- We are testing Extended Reach ADSL (ERA) technology allowing TELUS to extend high-speed Internet service to customers located more than four kilometres away from a TELUS switch or central office. Previously, high-speed Internet service was most effective only up to four kilometres away. ERA gives TELUS the potential to deliver service to thousands more customers in Alberta and B.C.

Our continuing focus on capital investment in high-speed Internet places TELUS in a strong position to benefit from the growing demand for high-speed Internet service.

Q What can TELUS Mobility's wireless clients expect in terms of Wireless Web services going forward?

A We will continue to expand our rich variety of browser-based Wireless Web services in 2002. TELUS Mobility provides Wireless Web and data services, via its digital PCS and Mike networks, to business and consumer clients across Canada. Our roster of online content partners grew to more than 100 in 2001 – including e.mail, news and financial services, online shopping and games, as well as e.mail and server-based Wireless Web services for business clients.

In 2001, TELUS Mobility became the first company in Canada to implement a Pay Per Use (PPU) billing system for the wireless Web, a value-based approach that bills clients for the specific services they want and use the most. Because PPU allows TELUS Mobility to provide a dependable revenue stream to content partners for their very best online content, we will be able to offer numerous new and unique premium Wireless Web services in 2002. For example, premium games services are popular with our clients, and TELUS Mobility is expanding these offerings and promotional efforts in 2002.

Growth in wireless e.mail and messaging will also be a focus in 2002. TELUS Mobility is preparing new Short Message Service (SMS) text messaging, including inter-carrier message capability, and Instant Messaging services. In keeping with TELUS Mobility's focus on providing "cool" and exclusive phones, clients can also look forward to a variety of new Web-ready digital PCS and Mike handsets with larger colour screens, enhanced user interfaces and other Web-enabling features.

The overlay of high-speed Third Generation (3G) wireless on TELUS Mobility's national network is nearing completion in preparation for commercial 3G launch in the first half of 2002. This is based on the CDMA2000 1XRTT standard, which is the evolution of the leading North American wireless technology standard, CDMA (code division multiple access). The capital-efficient 1XRTT platform offers not only high-speed packet data and Web access services, but also greatly increases network voice capacity and extends battery life on clients' digital phones. TELUS Mobility is preparing both business and consumer service offerings built around 3G wireless modem cards supplied by partner Sierra Wireless.