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## Dear Shareholder

2001 marked a year of tremendous achievements for TELUS and excellent progress against our growth strategy. Whilst we are proud of our successes, we are disappointed that they remain to be reflected in the performance of our share price. Unfortunately, our progress has been masked by exogenous impacts such as significant adverse contribution and rebanding decisions by the regulator, a soft economy, tight capital markets and a rationalization in the telecommunications sector. Moreover, TELUS is sensitive to investor concerns with respect to earnings dilution and the impact on cash flow owing to significant investments from expanding our wireless and wireline businesses nationally.

TELUS responds to these concerns by reinforcing the efficacy of our strategy, the considerable progress we have made in its execution and that we have more than sufficient liquidity to see it through to conclusion. We anticipated and planned for the financial implications to our balance sheet of expanding into Ontario and Quebec. So what do I see as the catalysts for share price growth? For starters: an improving economy and increased confidence in the capital markets; a conclusion to the shakeout in the telecommunications sector that sees strong companies like TELUS prosper whilst weaker entities fall by the wayside; and finally, continued traction from TELUS in driving top line revenue growth from data, IP and wireless solutions, and of course, translating this revenue growth into increased operating profits and free cash flow.

I am confident we have the right strategy, a talented team that delivers and with continued excellence in execution, our achievements and operating results will be reflected in our share price in due course. I thought it would be helpful if I set out below our major achievements for 2001 and the challenges for TELUS going forward.

## Delivering a winning strategy and track record against targets

Despite the turbulent year for financial markets and the telecommunications industry, TELUS continued to exploit its strong market position to execute our focused growth strategy. Our achievements are transforming TELUS into the high-performance, value-creating organization we envisage.

members of the TELUS team

### creating innovative solutions



**JOHN MADURI**  
*Executive Vice-President and President,  
Business Solutions*

**DAN DELALOYE**  
*Executive Vice-President and President,  
Consumer Solutions*

**ROY OSING**  
*Executive Vice-President,  
Enterprise Marketing and Chief Marketing Officer*

# are

TELUS' strategy remains as relevant today as it was when first introduced 18 months ago and it will continue to guide TELUS in 2002 as we execute against our objectives from a position of financial and operating strength. Our strategic intent is to *unleash the power of the Internet to deliver the best solutions to Canadians at home, in their workplace and on the move*. We are realizing this intent by leveraging the convergence of data, Internet Protocol (IP), voice and wireless communications to the benefit of our customers and our shareholders.

TELUS believes that what gets measured gets done and in 2001 we continued to demonstrate this philosophy in action by achieving our public targets. This marks the second consecutive year since the inception of our growth strategy that we met or exceeded our public guidance.

Last year TELUS achieved all of its financial targets, delivering revenue of \$7.2 billion (up 18 per cent), operating earnings (EBITDA) of \$2.5 billion (up nine per cent) and core earnings that were 31 per cent higher than originally targeted.

A full set of targets for 2002 is outlined on pages ii and 3. I encourage you to refer to these targets to monitor our progress.

## A strong team executing against our six strategic imperatives

Our successes of 2001, and our aggressive plans this year, are driven by six strategic imperatives developed in 2000 to align and focus our efforts. These imperatives are outlined in more detail later in this annual report.

### **1. We are providing integrated solutions that anticipate and meet the evolving needs of our customers and exploit highly fragmented competition in the marketplace.**

TELUS is making the move from products to solutions and key to this is implementing an organization structure that enables the realization of our strategy. We began the year with a new structure designed to bring TELUS closer to customers, with six customer-facing business units supported by teams providing business capability and enablement. Our new customer-facing organization develops and delivers needs-based solutions, driving greater differentiation through market segmentation, targeting and enhanced customer intimacy.

building financial strength

**ROBERT MCFARLANE**  
Executive Vice-President and Chief Financial Officer



extending leadership in wireless

**GEORGE COPE**  
President and Chief Executive Officer,  
TELUS Mobility



## 2. We are building national capabilities across data, IP, voice and wireless by leveraging our ILEC platform.

TELUS is leveraging skills, resources and customer relationships in Western Canada and Quebec to strategic advantage in entering the business market in Central Canada. Our incumbent wireline operations boast combined local and long distance market shares of 98 and 79 per cent respectively. The stable, free cash flow generated by these operations is fuelling our national growth initiatives.

In March, we activated our 8,900-kilometre national fibre IP backbone network and signed agreements to carry the data and Internet traffic of WorldCom Canada, Cable & Wireless plc and Genuity. The trans-Canada network connects cities from Vancouver to Quebec City, extends into the United States via four major points of presence, and is fully integrated with TELUS metropolitan networks in B.C. and Alberta and those being built in Toronto, Ottawa, Montreal and Quebec City. In the process, we leapt past all Canadian Internet network competitors to be top-ranked in network connectivity. This ranking is important because it determines our cost base in carrying Internet traffic and our margin in selling transit services to other Internet Service Providers (ISPs).

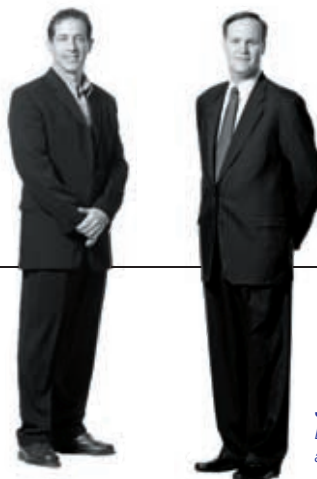
Last year we also completed and connected three state-of-the-art Internet Data Centres (IDCs) to our national IP backbone network. Our entry into the competitive business markets of Ontario and Quebec gained meaningful traction, ending the fourth quarter generating annualized revenue of more than \$800 million. Through these and other efforts in 2001, TELUS is advancing towards its goal of being the premier advanced data and IP solutions to business customers across Canada.

## 3. We are partnering, acquiring and divesting to accelerate the implementation of our strategy and to focus our resources on our core business.

Six strategic acquisitions last year, brought us closer to our goal of becoming Canada's powerhouse in data and e.business solutions. Through these acquisitions we gained important advantages, including:

- Strengthening our competitive advantage with the addition of 1,100 new employees who bring valuable data and IP skills to Team TELUS
- Securing high-quality relationships with thousands of new customers in our chosen markets
- Increasing our operational capability in Central Canada, complementing our plans for national expansion

We are quickly realizing the potential behind these investments with half of the \$500 million of annualized fourth quarter revenue from our non-incumbent operations in Ontario and Quebec being generated from our acquisitions. Much of this success can be attributed to an excellent post-acquisition process that focuses on immediately engaging new employees as members of the TELUS team in the implementation of our strategy.



### partnering, acquiring and divesting

**MARK SCHNARR**  
*Executive Vice-President,  
TELUS Ventures*

**JIM PETERS**  
*Executive Vice-President, Corporate Development  
and General Counsel*

Our relationship with Verizon is important to achieving our strategy. The complexion of Verizon's business and the strategy it is implementing is very similar to our own, so we have a common foundation for cooperation. We formalized our partnership with Verizon Communications with the signing of a Software and Related Technology and Services Agreement. As Verizon's long distance business grows rapidly following FCC regulatory relief and as Voice over IP (VoIP) becomes more pervasive, this international traffic terminated by TELUS will make an even greater contribution to our profitability.

We are pursuing other partnerships that complement our core skills and provide innovative solutions for customers. One of many examples was TELUS' VoIP service being included with the new Microsoft Windows\* XP operating system launch in Canada.

**4. We are focusing relentlessly on data, IP, voice and wireless growth with the objective of building scale and differentiation by integrating services into compelling solutions for our customers.**

Our strategy targets the high-growth areas of enhanced data solutions for business customers, high-speed Internet services and applications for consumers, and a host of wireless services for businesses and consumers across Canada.

Positioning TELUS to be the leader in data hosting in Canada, we opened two world-class *Intelligent* IDCs in Toronto and Calgary. TELUS' IDCs deliver the fastest transmission speeds available and provide a full suite of sophisticated Internet hosting services, integrated e.business applications and the highest standards available in security and performance.

High-speed ADSL was a priority for TELUS in 2001. We had some major process and provisioning challenges to meet the tremendous demand, but we faced them head-on and made significant headway. Network provisioning improvements were matched with strong marketing, an instantly recognizable advertising icon, the cheetah, and mass marketing. We enjoyed a strong fourth quarter, adding 58,000 TELUS Velocity ADSL Internet subscribers and for the full year added a remarkable 131,000 new subscribers, exceeding our public target by 38 per cent.

Our wireless business was equally productive, strengthening our leading competitive position. TELUS Mobility continues to lead the Canadian wireless industry in total revenue – \$1.9 billion in 2001 – generating 22 per cent more revenue per subscriber than our closest competitor. Over the course of 2001, we successfully integrated the operations of TELUS Mobility with Clearnet and QuébecTel Mobilité into one powerful market force while doubling annual operating earnings to \$356 million. Integration synergies of \$230 million were realized during the year from capital savings and reduced operating expenses.

Last October, we secured an innovative network sharing agreement with Bell Mobility and Aliant Telecom Wireless that extended and enhanced our existing wireless roaming and resale agreements. TELUS will benefit from reduced capital



**JOSEPH GRECH**  
*Executive Vice-President and President,  
Global Trading & Partner Solutions*

**JOHN CHANG**  
*Executive Vice-President and  
President, Client Solutions*

**HUGUES ST-PIERRE**  
*President and Chief Executive Officer,  
TELUS Québec*

connecting in Central Canada

expenditures of approximately \$500 million and is now positioned to begin marketing digital PCS services to more than seven million potential new clients in 2002. Going forward, we are nearing completion of a capital efficient Third Generation (3G) national network, which will allow us to offer high-speed Wireless Web services.

**5. We are going to market as one team, under a common brand, executing a single strategy.**

We made significant progress in establishing a powerful and integrated national presence in 2001. The TELUS brand was introduced coast to coast with the successful rebranding of Clearnet to TELUS Mobility. We strengthened our position in Quebec, acquiring the remaining 30 per cent of QuébecTel and rebranding to TELUS Québec through the 'Allo.' advertising campaign. A poll of Quebec City and Montreal organizations indicated an outstanding 55 per cent awareness of the TELUS name in Quebec after only eight months following the rebranding.

At year-end, *Marketing Magazine* named TELUS one of the "Top Ten Marketers that Mattered" for 2001. This national honour recognizes TELUS' innovation, executional clout, leadership and influence in the market.

**6. We are investing in internal capabilities – most particularly our people. We support and encourage personal growth and development as a fundamental right of every member of Team TELUS.**

In support of our growth strategy, we are creating a high-performance culture for competitive advantage. Our starting point was the creation of four clear value statements that align and focus the efforts of our team members. At TELUS:

- We embrace change and initiate opportunity
- We believe in spirited teamwork
- We have a passion for growth
- We have the courage to innovate

In support of performance, we ensure achievements are recognized and rewarded through Team Machine – our innovative, online recognition and reward program that recently gained best-in-class distinction by the North American-wide National Association of Employee Recognition.



Acknowledging the significant impact each and every employee contributes to our collective success, we provide a minimum of 100 stock options annually to all members of the TELUS team. While universal employee option programs are relatively rare, we believe those whose efforts create shareholder value should share in that reward.

Our internal investments are winning external acclaim. In 2001, TELUS was named the 10th best employer in Canada by *The Globe and Mail Report on Business*. This recognition validates our progress in building a performance culture and helps retain and attract the calibre of talent essential to our continued success in a complex and highly competitive industry.



**investing in internal capabilities**

**PAUL MIRABELLE**  
*Executive Vice-President,  
Business Transformation*

**JUDY SHUTTLEWORTH**  
*Executive Vice-President,  
Human Resources*

**BARRY BAPTIE**  
*Executive Vice-President,  
Technology & Operations*

## Pursuing growth from a position of financial strength

Creating superior, long-term share value through growth investments would not be possible without support from the capital markets. This support was clearly evident in the over-subscribed, landmark \$9.2 billion financings completed in May 2001, facilitated by our healthy investment credit ratings. These corporate financings were the largest in Canadian history and the notes are trading at a premium to the issue price indicating our improved credit profile since May.

We also strengthened our balance sheet when we exceeded our public target for non-core asset divestitures by 25 per cent, raising almost \$1.2 billion. We began to access the considerable tax shelter provided by the Clearnet acquisition and subsequent operations that allowed the \$718 million of gains on divestments to be sheltered from tax. This realized \$331 million of cash tax savings in 2001 and leaves another \$450 to \$500 million of value to be realized in future years. Indeed, TELUS realized in 2001 a cash inflow of \$840 million net of its divesture and acquisition activities.

Through enhancements to our dividend reinvestment plan, which attracted 45 per cent participation, and a prudent reduction to the dividend, we reduced our future annual dividend related cash outflow from about \$400 million to \$100 million. The decision was not arrived at easily, but we felt it was the right one for the Company and our shareholders for the long term. The change is consistent with our strategy, helping TELUS to continue investing in attractive growth opportunities without increasing leverage.

## Expecting continued excellence in execution in 2002 and beyond

We leave 2001 with demonstrable progress against a clear agenda and a tight set of priorities. Our strategic imperatives are moving us to the leadership position that will yield future success. We are establishing a strong national platform and are demonstrating leadership in data, IP and wireless. We have established a solid financial position and are relentlessly executing against our measurable public targets.

The dynamic environment within which TELUS operates presents opportunities along with challenges. In these times of intense change, the ability to anticipate and adapt is a competitive differentiator. We are building this capability by leveraging technology, embedding change management skills and developing a learning environment. TELUS is now positioned to exploit the opportunities and challenges we face. To this end, a priority this year is our program to increase operating and capital efficiency. Not only will this make us a more competitive and successful organization in the marketplace, but it will also strengthen our balance sheet and fuel our growth agenda.

Our TELUS team is fully engaged with our strategy and high-performance values. Simply put, we are building the capabilities and executing against the objectives that yield sustainable success and long-term share value creation.

## Thank you for your continued support.

Cheers,



**DARREN ENTWISTLE**  
member of the TELUS team  
February 13, 2002

