

evolving our business
delivering on our strategy



2002 annual report • corporate review

corporate profile

TELUS Corporation is the largest telecommunications company in Western Canada and the second largest in the country. The company provides a full range of telecommunications products and services including data, Internet protocol (IP), voice and TELUS Mobility wireless services, connecting Canadians to the world. Our strategy is to unleash the power of the Internet to deliver the best solutions to Canadians at home, in the workplace and on the move.

In 2002, we generated \$7 billion in revenues and continued delivering on our strategy by:

- successfully maintaining a solid market position in Western Canada and expanding our high-speed Internet customer base
- further strengthening our presence across Canada including continued strong performance at TELUS Mobility, our national wireless powerhouse
- sustaining sound financial strength through capital and operational efficiencies.

a fresh new look

At TELUS, we are continually looking for new and innovative ways to bring you information that is future friendly and meets the varied needs of our investors, customers and employees. For the 2002 annual report, we have adopted a new approach with the delivery of two separate booklets.

Our Corporate Review provides a general overview of our financial and operating highlights and includes our letter to investors discussing key accomplishments, goals and challenges. It is produced in a larger format, with a clean and distinct design that makes the information easy to find and read. Our Financial Review provides detailed and full disclosure such as the management discussion and analysis, the financial statements, and the notes to the financial statements. It has been produced in a traditional format to be effective as a working and reference document.

You can view this annual report online anytime at telus.com/agm. While you're there, click on "feedback" and give us your comments and suggestions for improvements.

forward-looking statements summary

This report contains statements about expected future events and financial and operating results of TELUS that are forward-looking and subject to risks and uncertainties. Accordingly, these statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Factors that could cause actual results to differ materially include general business and economic conditions, competition, technological advances, regulatory action and taxation, as well as other risk factors that are identified in this report and from time to time in other continuous disclosure documents filed under applicable Canadian and U.S. securities laws. For the complete Forward-Looking Statements, see the inside front cover of the accompanying Financial Review.

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inside

financial and operating highlights	2
TELUS at a glance	4
why invest in TELUS	8
2003 targets	9
letter to investors	10
delivering on our strategy	
TELUS Communications	18
TELUS Mobility	20
community investment	22
questions and answers	24
national infrastructure map	29
investor information	30

for detailed financial information, refer to the 2002 annual report – financial review

highlights

financial and operating highlights

TELUS achieved its 2002 operating earnings (EBITDA) target of approximately \$2.5 billion despite operating in a weak telecom industry and incurring significant negative regulatory impacts. Free cash flow improved by \$1.3 billion due to a significant reduction in capital expenditures, cash taxes and dividends. TELUS also strengthened its balance sheet by repurchasing \$410 million of debt, for a cash outlay of \$318 million, funded by an equity offering of \$337 million. Net income decreased due to recognition of significant gains of \$592 million from discontinued operations in 2001 and increased workforce reduction costs in 2002, offset by strong wireless operating earnings and significant cost structure improvements. High-speed Internet and wireless subscribers showed excellent growth.

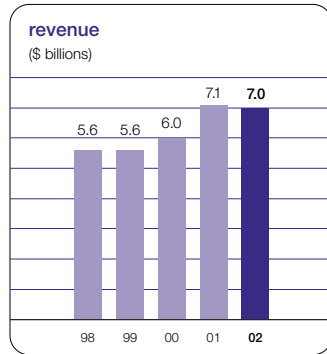
(\$ millions except per share amounts)	2002	2001	% change
Operations			
Operating revenues	\$ 7,007	\$ 7,081	(1.0)
EBITDA ¹	2,519	2,530	(0.4)
Operating income	378	837	(54.8)
Net income (loss)	(229)	454	(150.5)
Earnings (loss) per share (EPS)	(0.75)	1.51	(149.7)
Operating cash flow ²	1,242	1,369	(9.3)
Capital expenditures – general	1,693	2,249	(24.7)
Financial position			
Total assets	\$18,220	\$19,266	(5.4)
Net debt ³	8,390	8,713	(3.7)
Net debt to EBITDA ratio	3.3	3.4	(2.9)
Free cash flow ⁴	(26)	(1,354)	(98.1)
Shareholders' equity	6,433	6,985	(7.9)
Market capitalization of equity ⁵	5,830	7,196	(19.0)
Other information (as at December 31)			
Network access lines (000s)	4,911	4,967	(1.1)
Wireless subscribers (000s)	2,996	2,578	16.2
Total Internet subscribers (000s)	802	670	19.7
High-speed Internet subscribers (000s)	410	215	90.9
<ol style="list-style-type: none"> 1 Earnings Before Interest, Taxes, Depreciation and Amortization where earnings excludes Restructuring and workforce reduction costs. 2 Operating cash flow before Restructuring and workforce reduction costs. 3 Current obligations plus Long-term debt net of Cash and temporary investments and the cross-currency foreign exchange hedge related to U.S. dollar Notes. 4 EBITDA less capital expenditures, cash dividends, cash interest and cash taxes. 5 Market capitalization based on year-end closing share prices and shares outstanding. 			

high-speed Internet subscribers
↑91%

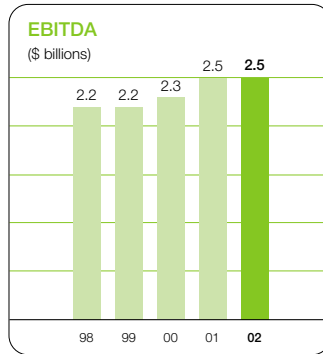
wireless subscribers
↑16%

capital expenditures
↓25%

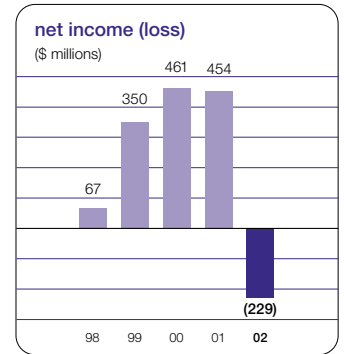
net debt
↓4%



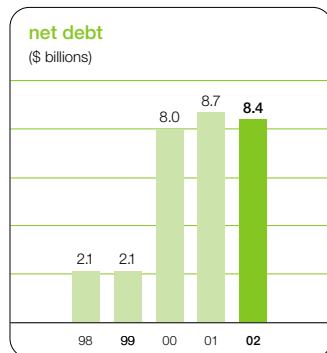
Revenues remained flat in 2002 due to increased wireless and data revenue being offset by negative regulatory impacts.



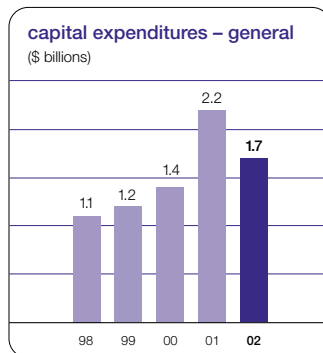
EBITDA in 2002 was flat as wireless growth of 50% was offset by the wireline business, largely due to negative regulatory impacts.



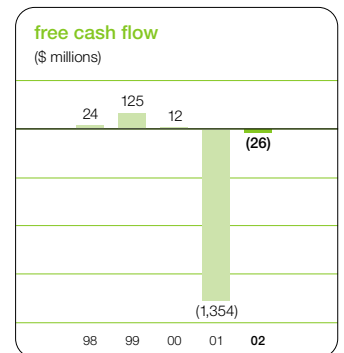
Net income decreased in 2002, when compared with 2001, due primarily to the recognition of \$592 million significant gains from discontinued operations in 2001 and Restructuring and workforce reduction costs of \$570 million in 2002.



Debt was reduced by \$454 million primarily due to a debt repurchase.



Capital expenditures declined as national wireline, high-speed Internet and wireless growth projects were largely completed.



Free cash flow improved by \$1.3 billion due to reduced capital expenditures, cash taxes and dividends.

TELUS at a glance

TELUS Communications

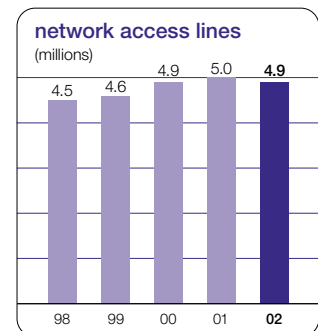
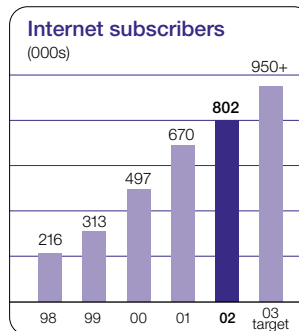
profile

- a full-service incumbent local exchange carrier (ILEC) in Western Canada and Eastern Quebec offering local, long distance, data, Internet and other services to consumers and businesses
- provides data, IP and voice solutions to business customers across Canada
- non-ILEC operations, which are in Central Canada, focus on the small and medium business market and selectively on large corporate businesses
- provides 4.9 million network access lines across Canada
- with 800,000 Internet subscribers, we are the second largest Internet service provider (ISP) in Western Canada and third largest in Canada
- serves 410,000 high-speed Internet subscribers
- ILEC local and long distance market shares of 97% and 78%, respectively

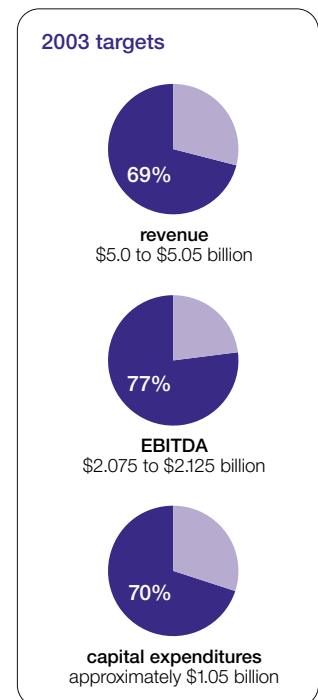
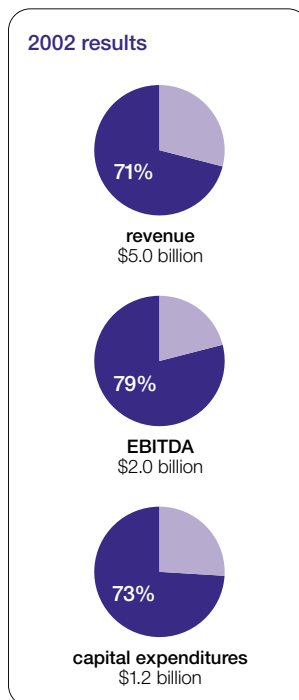
examples of products and services

data – private line, switched services, Internet services (dial-up and TELUS Velocity® high-speed Internet service), network rental, network management (local and wide area networks) and Web hosting

voice – basic local and long distance phone service, enhanced call management services such as Call Display, sale and rental of telephone equipment, and network rental to other service providers



share of TELUS consolidated



in 2002, we delivered...

- on our Operational Efficiency Program (OEP), which entailed a variety of initiatives to improve productivity such as a 5,200 reduction in employees, consolidation of customer contact centres and various operational/administrative functions, and closure of 33 retail stores throughout Alberta and B.C.
- first major incumbent telecommunications company in North America to begin transforming its network to IP-based technology that will bring a variety of next generation capabilities and services to customers
- 195,000 high-speed Internet subscriber net additions, surpassing our cable-TV competitor with the majority of net additions
- numerous long-term data and IP contracts worth more than \$110 million with companies such as BTI Canada, Alcatel, Inter.net, EDS Canada/Government of Ontario and City of Montreal
- five-year, \$100 million contract with YAK Communications (Canada) to provide wholesale long distance service for domestic, cross-border and international traffic
- gold certification from Cisco Systems reinforcing TELUS' commitment to customers to have a fully supported strategic business network

in 2003, we are delivering...

- further lowering of costs and increased effectiveness through the OEP
- continued strong market share in existing incumbent territory through integrated consumer solutions, managed solutions, hosting and IP applications
- a commitment to reach a balanced collective labour agreement with the Telecommunications Workers Union (TWU) that reflects the competitive dynamics of the telecom industry
- improved sales and services using new state-of-the-art call centre campuses
- increased Internet service market share and revenue by expanding coverage, increasing usage and reducing churn
- further expansion in Ontario and Quebec, focusing on the small and medium business market for data services with selective targeting of corporate and government clients
- continued leveraging of our strategic relationship with Verizon Communications, the largest U.S. provider of wireline communications



TELUS Mobility

profile

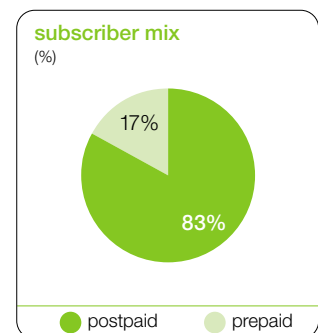
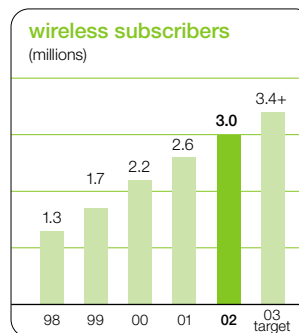
- a leading national facilities-based wireless provider with 3 million customers and 31 million licensed POPs (population)
- the leading Canadian wireless provider in terms of average revenue per subscriber unit (ARPU), operating cash flow and spectrum position
- offers national digital wireless voice, data and Internet services to businesses and consumers across Canada
- nationwide digital PCS (CDMA) network with national next generation 1X capability
- Mike™, the only iDEN network in Canada, featuring differentiated push-to-talk Direct Connect capability

examples of products and services

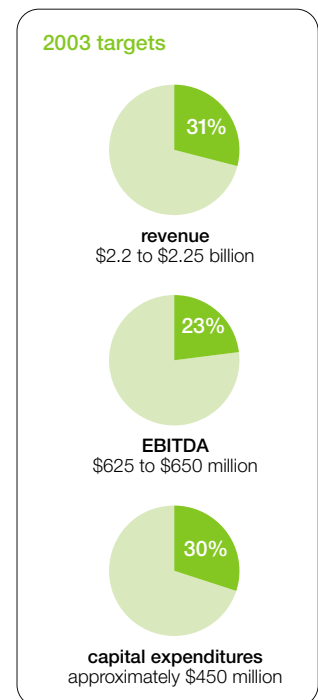
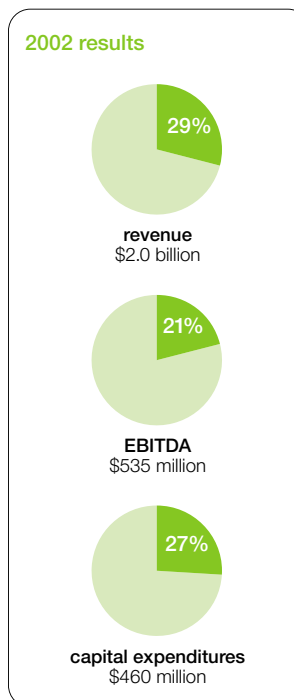
wireless services – Mike and PCS (postpaid and Pay & Talk™ prepaid)

Internet services – Wireless Web, text messaging, downloads

wireless packet data network offerings – next generation 1X, Mike



share of TELUS consolidated



in 2002, we delivered...

- the successful national integration of TELUS' wireless operations in Alberta and B.C. with Clearnet Communications and QuébecTel Mobilité
- ongoing network buildouts and the implementation of roaming agreements that significantly broadened our network and distribution reach across Central and Eastern Canada
- an increase in digital wireless coverage to more than 27 million POPs, or close to 90% of the Canadian population
- a new next generation 1X wireless data network across Canada, offering fast and convenient Internet access to more than 22 million Canadians, or approximately 70% of the population
- a reduced churn rate of 1.80% in 2002 from 2.04% in 2001 through improved network coverage and quality, customer service and retention efforts
- the benefits of our strategic relationship with Verizon Wireless by becoming its preferred wireless roaming partner in Canada
- improved profitability and churn as the first Canadian wireless carrier to implement per-minute, rather than per-second, airtime billing for new customers
- Canadian cross-carrier text messaging services
- external recognition of our leadership position by ranking first in Canada and second in North America in an independent survey of 20 North American wireless operators across an array of key financial and operating indicators



in 2003, we are delivering...

- continual focus on profitable subscriber growth – premium network revenue growth and leading EBITDA growth with continued world-class operating performance
- leading churn management, with a rate of 1.8% or less, by providing high customer care service levels and focusing on customer retention
- new wireless data and m-commerce products and services by leveraging our 1X and Mike iDEN networks
- margin improvement through continued cost management and scale efficiencies
- broadened service in Ontario, Quebec and Atlantic Canada by capitalizing on network roaming agreements with Bell Mobility and Aliant Telecom Wireless
- new inter-carrier text messaging services with major U.S. wireless carriers
- continued leveraging of our strategic relationship with Verizon Wireless, including expanding North American roaming and the ongoing sharing of information and best practices


why invest in TELUS

we are delivering a **clear, focused and disciplined** telecommunications growth **strategy** in Canada

we are driving marked **improvements in capital intensity and free cash flow** through capital investment discipline

we have a **solid management track record** of achieving our public financial and operating targets

our incumbent wireline business provides **robust cash generation** with significant margin expansion through **operational efficiencies**



invest in a **focused, pure play telecom operating company with solid potential for growth and investment upside, strong free cash flow generation and future leverage reduction**

we are the **leading national wireless provider** in Canada, delivering strong profitable growth

we have a **strong, stable financial position** with significant liquidity and expect **improving debt ratios** in 2003

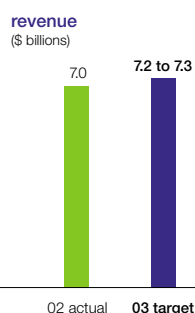
we are successfully evolving into a **leading national full-service wireline provider** with improving cash flow in Central Canada

we are targeting **significant increases** in **EBITDA and EPS**

2003 targets

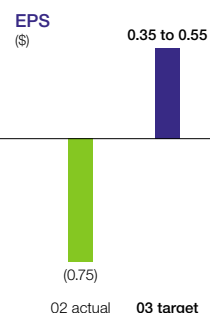
Generate revenue of \$7.2 to \$7.3 billion

Increase of 3 to 4% from 2002 driven by wireless, data and national non-ILEC operations partially offset by negative impact of regulatory price cap decisions¹



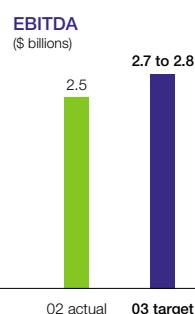
Achieve earnings per share (EPS) of \$0.35 to \$0.55

Increase of \$1.10 to \$1.30 from (\$0.75) in 2002 due to significant margin expansion and lower workforce reduction expenses



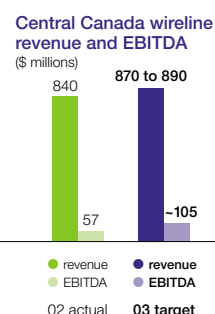
Deliver EBITDA of \$2.7 to \$2.8 billion

Significant increase in operating earnings of \$200 to \$300 million, or 7 to 11%, driven by Mobility growth, the Operational Efficiency Program, and improved scale and profitability in non-ILEC operations, and partially offset by negative impact of regulatory price cap decisions²



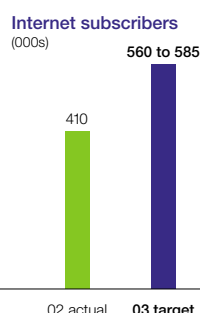
Realize Central Canadian EBITDA of \$105 million

Revenue growth of 4 to 6% and operating earnings improvement of 84%



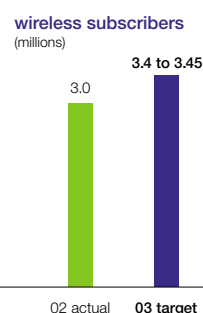
Attract 150,000 to 175,000 new high-speed Internet subscribers

Increase of 37 to 43% on the TELUS Velocity high-speed Internet subscriber base to more than 560,000



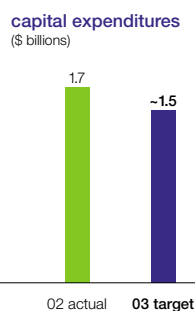
Add 400,000 to 450,000 new TELUS Mobility wireless subscribers

Increase of 13 to 15% to bring wireless subscriber base to more than 3.4 million based on expected 12% wireless industry growth



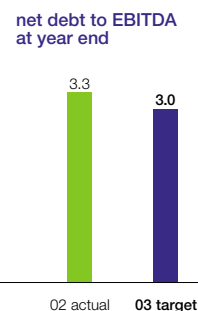
Invest \$1.5 billion for long-term growth

Decrease of \$200 million, or 12%, from 2002 due to reduced investments in ADSL coverage expansion and lower Central Canada non-ILEC expenditures, as well as reduced expenditures on technology and software from Verizon Communications



Decrease net debt to EBITDA ratio to 3.0 in December 2003

Given expectations for increased EBITDA, free cash flow and consequent debt reduction we expect a significant drop in our leverage in 2003 and beyond



1 Revenue in 2003 is expected to be negatively impacted by the regulatory price cap decisions by approximately \$75 million. If excluded, underlying revenue growth would be 4 to 5%.

2 EBITDA in 2003 is expected to be negatively impacted by the regulatory price cap decisions by approximately \$80 million. If excluded, underlying EBITDA growth would be 11 to 15%.

fellow investors



I am pleased to report that TELUS delivered solid results in 2002 as we continue to successfully deliver on our strategy, which has been remarkably resilient in the face of what has surely been the most difficult period in the modern history of telecommunications.

With weak demand in certain communications sectors, accounting scandals, shaken investor confidence and declining valuations, it was a tough year for telecom investors, including our equity and debt holders. Encouragingly, we saw a dramatic recovery in our share and bond valuations in the second half of 2002. From July lows, TELUS shares tripled and our bonds roughly doubled in value to again trade around par.

As you will see in this report, 2002 was a story of successful execution and organizational transformation in the face of considerable challenges. It starts with our strategic intent: **to unleash the power of the Internet to deliver the best solutions to Canadians at home, in their workplace and on the move.** The significant progress we have made in delivering on this vision reflects the hard work and perseverance of the TELUS team.

In this letter, I outline our accomplishments in 2002, provide a sense of how far we have come since we established our strategy almost three years ago, and outline our challenges, priorities and outlook for 2003.

2002 highlights: Improving our efficiency, increasing cash flow and gaining in the marketplace

Through a combination of accelerated execution on our Operational Efficiency Program (OEP) at TELUS Communications and strong performance at TELUS Mobility, we overcame negative regulatory impacts to achieve our key public targets in respect of operating earnings (EBITDA), earnings per share (before restructuring) and capital expenditures. Particularly noteworthy is that we hit the high end of our original EBITDA guidance – a rare occurrence in 2002 among telecom companies globally. We did not achieve



Darren Entwistle
Member of the TELUS Team

the wireline revenue growth we had hoped for due to a number of factors, including softness in the enterprise data market and, frankly, a consuming focus on achieving operational efficiency.

Operational efficiency improvements exceed targets

The OEP was TELUS' top priority for 2002; our focus was sharpened by the challenging environment and a desire to accelerate our return to generating positive cash flow. We exceeded plan both in terms of scale and timing as, by the end of 2002, we reduced our staff by 5,200 positions. This was 80 per cent of the way to our 2003 goal of 6,500 positions and is being accomplished without resorting to layoffs of union employees. We achieved cost savings of \$150 million in 2002 and project \$450 million in 2003 and \$550 million in 2004 and forward.

Capital expenditure declines as national expansion and Internet rollout near completion

Our capital expenditures declined by \$500 million in 2002. This reduction reflects that the major investments in our core business, which we require to underpin future growth, are now nearing completion. Projects include national wireless and data network facilities and Western Canadian high-speed ADSL Internet coverage expansion. This facilitates a tapered capital investment profile going forward, which strengthens our free cash flow position.

Cash flow improves and debt level is reduced

TELUS generated a dramatic improvement in free cash flow in 2002. This was driven by margin expansion at TELUS Mobility, increases in operational efficiency and reduced capital expenditures, cash taxes and dividends. With a significant \$1.3 billion improvement, we came very close to cash flow break even and we generated positive free cash flow in the second half of 2002.

In addition, TELUS turned a difficult market situation in the summer to a "win-win" outcome for our debt and equity investors. We executed a \$318 million equity-funded debt buyback in August and September. By buying back debt at an average 21 per cent discount and issuing a carefully controlled amount of equity, we strengthened the balance sheet and helped reduce our net debt to EBITDA ratio from 3.6 times in June to 3.3 by the end of 2002. The value of both our debt and shares increased strongly following the announcement of this transaction.

TELUS Communications overcomes regulatory impacts, improves cash flow

At TELUS Communications, negative impacts from regulatory decisions were partially offset by OEP savings, a favourable settlement with the federal tax agency on past investment tax credits and reduced losses in Central Canadian non-incumbent operations. From a cash flow standpoint, measured simply as EBITDA less capital expenditures, we improved by \$180 million to total \$746 million for 2002.

It starts with our strategic intent: to unleash the power of the Internet to deliver the best solutions to Canadians at home, in their workplace and on the move.

Despite the challenges, we executed well in our key growth area of high-speed Internet and almost doubled our base to 410,000. This is closing the market share gap in Western Canada versus the competition and contributed to our 16 per cent growth in data revenue.

The focus in 2002 was to transform our wire-line cost structure and productivity more in line with our peers and to enable us to compete more effectively in the future. With such a large staff reduction, the TELUS team experienced considerable strain, and I am pleased to report that our employee team rose to the occasion and maintained customer service levels as we implemented the OEP.

TELUS Mobility exceeds expectations and improves cash flow

TELUS Mobility did an exceptional job of driving our wireless performance in 2002. The integration of our Western Canada wireless operations with Clearnet and QuébecTel Mobilité has transformed us into a Canadian wireless powerhouse. As we successfully completed post-acquisition integration tasks such as five billing system conversions, we were able to focus fully on delivering best-in-class operating execution. We are clearly proving to investors that a disciplined approach to profitable subscriber growth is the correct wireless strategy.

The efficacy of our strategy was demonstrated by the 50 per cent increase in EBITDA to \$535 million for the year. In addition, reduced capital expenditures resulted in a \$719 million increase in cash flow to \$75 million in 2002. TELUS Mobility performance was substantially ahead of our original targets for the year.

TELUS Mobility's operational achievements in 2002 also included winning 33 per cent of the industry additions in a largely four-player market and maintaining a 20 per cent premium to our major competitors in respect of average revenue per customer (ARPU). Our focus on customer retention resulted in North American industry leading churn rates in the second half of the year.

In summary...

This was a watershed year for TELUS. We were sorely tested, but we weathered the storms of a competitive market, negative regulatory and bond rating agency decisions and shaken investor confidence. We persevered to deliver results that compare favourably to any of our peers on a global scale. We continued our journey to transform TELUS into a high performance organization.

We are in the strong position we are in today largely due to our employees and, because of their performance, I am optimistic for the future. I wish to thank all TELUS team members for their ability to embrace change and initiate opportunity, their spirited teamwork, their passion for growth, and their courage to innovate.

Special thanks from the entire TELUS team to all of our customers across Canada for choosing TELUS as your service provider. We recognize that you are the final arbiter of our success and we promise to work together to make the future friendly for you.

Addressing investor confidence

TELUS was also proactive in 2002 to address investor concerns about the industry and TELUS specifically. We increased our level of disclosure

including publicizing the goals of the OEP earlier than planned, publicly filing our bank credit facility agreement, providing new cash flow forecasts and giving a preliminary 2003 forecast five months early.

Despite TELUS being recognized for many years as a leader for the quality and comprehensiveness of our financial disclosure, we understand that maintaining open, accurate and timely disclosure is critical to building trust with the financial community. In addition, we have reviewed all our corporate governance practices and upgraded them to in many cases exceed regulatory requirements – please see page one of the Financial Review booklet and the information circular for a more detailed description.

Our journey so far: Strong progress with respect to TELUS' six strategic imperatives

To provide a full picture of how TELUS has been delivering on our strategy and transforming the company, below is a review of our performance against our six strategic imperatives that have consistently guided our actions since we embarked on our journey in 2000. Since then, we have invested the entirety of our capital expenditures into our core business in the Canadian telecom market, which is somewhat different than our peer group. With all the industry turmoil of the past three years, TELUS is one of the few telcos worldwide that has the same strategy today as in 2000.

Provide integrated solutions that anticipate and meet the evolving needs of our customers.



	TELUS beginning of 2000	TELUS today
	Product centric organizational structure where customers often had to deal with several divisions within TELUS to meet their needs.	Customer-facing business unit organization designed to deliver integrated solutions to distinct customer groups.
	Basic consumer bundles of local, long distance or call management services total 330,000.	Consumer wireline bundles, many enhanced with high-speed Internet services, now total over one million. These customers are offered special promotions including wireless voice and data services and handsets.
	Limited wireless data capabilities.	Launch of national 1X wireless network provides fast and convenient mobile access to the Internet.
	Wireless and wireline sales distribution efforts largely separate.	Joint selling and distribution efforts include select TELUS Mobility stores marketing wireline solutions.

TELUS has appreciable momentum to move forward to deliver on the overarching corporate priorities and financial and operating targets we have set publicly for 2003.

Build national capabilities across data, IP, voice and wireless.




TELUS beginning of 2000	TELUS today
Regional network and infrastructure with no national fibre optic network, relying on a Stentor/MCI long distance platform for intelligent voice services.	Built and lit 10,000 km national fibre optic network with new TELUS advanced intelligent voice services platform for 1-800 and calling card services.
Regional wireless player that reached seven million Canadians with a high proportion of analog coverage.	Leading national wireless company reaching more than 27 million Canadians with close to 90 per cent digital PCS coverage.
Circuit-based switching network with distinct and dedicated infrastructure for carriage of data, voice and video services.	Packet-based routing and Internet capability launched with Next Generation Network, which will eventually eliminate separate networks for voice, data and video. By simplifying our network in this manner, we will reduce costs and improve functionality and service to customers.
Virtually no presence in Central Canada generating \$4 million in revenue. Coverage capabilities limited to: <ul style="list-style-type: none"> • Three cities in Ontario and Quebec • Two co-locations with Bell Canada • Five customer points of presence. 	Central Canada wireline revenues of \$840 million and EBITDA of \$57 million in 2002. Capabilities now include: <ul style="list-style-type: none"> • Business service offered in 29 cities (including Toronto, Ottawa, Montreal and Quebec City) • 82 co-locations with Bell Canada • 157 customer points of presence.

Partner, acquire and divest to accelerate the implementation of our strategy and focus our resources on core business.




TELUS beginning of 2000	TELUS today
Regional wireline and wireless operations restricted to Alberta and B.C.	Acquisitions of QuébecTel, Clearnet and six data businesses give TELUS national infrastructure, quality customer base in Ontario and Quebec, increased scale and enhanced capabilities.
Reliance on costly third-party wireless agreements for national and international coverage.	Roaming agreement with Bell Mobility and Aliant Telecom Wireless enhances digital coverage and reduces future capital expenditures. Verizon Wireless roaming agreement increases revenues and operating profits.
Significant resources tied to non-core real estate, leasing operations and directories businesses.	Successful divestiture program raised \$1.3 billion to reduce debt and help fund expansion activities.


Focus relentlessly on data, IP and wireless growth.

	TELUS beginning of 2000	TELUS today
	Almost 60 per cent of revenues from wireline voice services including 19 per cent in declining long distance business.	Half of revenues derived from growth areas of wireless and data. Voice service is now 46 per cent of revenue base, with only 15 per cent exposed to long distance market.
	1.1 million wireless subscribers generating \$820 million in service revenues.	Three million subscribers generating \$1.9 billion in service revenue.
	Minor, regional player in data/Internet business.	A leading provider of Internet hosting services in Canada with four state-of-the-art Internet data centres.
	Small base of 26,000 high-speed Internet subscribers and one-tenth market share.	410,000 TELUS Velocity high-speed Internet subscribers and rising market share at 35 per cent.

Go to market as one team, under a common brand, executing a single strategy.

	TELUS beginning of 2000	TELUS today
	Fragmented approach to marketing and advertising within organization, with different identities and brands promoted across various divisions of TELUS.	National and unified "future friendly" brand and marketing approach. "TELUS" was recently given a "star rating" in global survey by ABC Namebank, based on analysis of marketing power, image, ownership and trustworthiness.
	Low brand awareness in major urban markets in Ontario and Quebec.	Average brand awareness almost triples to 87 per cent in major urban markets in Ontario and Quebec.

Invest in internal capabilities to build a high performance culture and efficient operation.

	TELUS beginning of 2000	TELUS today
	Fragmented culture and values.	One team, unified under a common set of values.
	Processes not always automated or environmentally friendly.	Web-enabled workforce conducting business online including training, travel bookings, procurement and employee benefits and payroll.
	Higher costs and lower productivity in relation to our peers.	OEP delivering cost savings and efficiencies.
	Performance management tools were manual and non-mandatory.	Array of mandated customized career and personal development online tools.

TELUS challenges and priorities for 2003

As we look out to 2003 and beyond we continue to see a somewhat fragile telecom industry and investor confidence. TELUS must continue to respond to the capital market imperatives of generating free cash flow and reducing our current debt levels and ratios. We must carefully address and balance the needs of both our equity and debt holders. Finally, we need to resolve the complex collective agreement bargaining process that has been unresolved for the last two years.

TELUS has appreciable momentum to move forward to deliver on the following overarching corporate priorities and financial and operating targets we have set publicly for 2003.

1 Continuing to deliver on our efficiency improvement objectives. This effort is a hallmark of a disciplined organization. We are dedicated to driving a further \$300 million in cost reductions in 2003, while turning to a number of programs to improve customer service, rationalize our uneconomic products and eliminate bureaucracy.

2 Driving improved levels of customer service. A planned outcome for 2003 of the ongoing OEP is to improve our customer service levels. With much of the staff and facility location reductions behind us, we are turning

to focus on improving systems and processes, increasing training and putting more decision making into the hands of the employees dealing directly with customers.

3 Enhancing our leadership position in the North American wireless industry. EBITDA at TELUS Mobility is targeted to increase 17 to 21 per cent in 2003, and cash flow, as measured by EBITDA less capital expenditures, is set to increase to \$175 to \$200 million from \$75 million the year before.

4 Strengthen our financial position. We are positioned to achieve another top priority, which is to strengthen our credit ratings. We have three investment grade credit ratings and we intend to make it four going forward as we increase our EBITDA, cash flow and reduce debt. While we do not control the timing of the rating agencies' reviews, we do control the excellence of our execution in delivering on our financial targets. We are projecting a significant drop in our leverage going forward consistent with our public target of 3.0 by end of 2003, further declining to less than 2.7 times by the end of 2004.

5 Improving the operating and economic fundamentals of our business expansion into Ontario and Quebec. In 2003, we are more intent on profitable growth as we drive to improve EBITDA by \$47 million and to achieve a break-

TELUS has been delivering on our strategy and transforming the company. Our six strategic imperatives have consistently guided our actions since we embarked on our journey in 2000.

even EBITDA by 2004. We expect that cost containment and increasing our percentage of business carried on our facilities will help drive significant improvements.

6 Achieving a settlement with our unionized employees. TELUS is committed to having a collective agreement that considers the competitive marketplace, balances the needs of all employees and provides the flexibility to meet the evolving needs of our customers. We have moved into an extended conciliation process that should take the parties into the autumn before there is a risk of job action. I am committed to resolving this issue in 2003, and in a manner that is beneficial to all parties involved – our employees, customers and shareholders.

The future is friendly

In closing, I want to highlight for investors the key 2003 outlook considerations that bode well for ongoing improvements in the valuation of TELUS.

With respect to EBITDA growth, TELUS is targeting an increase in operating earnings of between \$200 to \$300 million or seven to 11 per cent. This projected growth in EBITDA, coupled with a reduction of \$200 million in our planned capital expenditures in 2003, drives increasing cash flow. We are expecting that free cash flow will improve to a range of between \$500 to \$600 million in 2003, as compared to negative \$26 million in 2002. Also important is the significant targeted increase in EPS this year of between \$1.10 to \$1.30 to a range of 35 to 55 cents. These performance goals place TELUS at the forefront of North American telecommunication companies.

I am also optimistic going forward that we will have improved stability in regulation based on the implementation in mid-2002 of a second four-year price cap period and reaffirmation of the facilities-based regulatory regime. This compares favourably to the current situation in the U.S.

Finally, I wish to point to TELUS' track record of balancing the interests of both equity and debt holders and delivering against the expectations we set with the capital markets. Since we initiated our growth strategy in 2000, we have established a good track record of meeting our financial and operating targets, despite the difficult economic environment in which we operate. We have achieved 14 out of 16 financial targets over the last three years. If you fold in the operating targets, we have a batting average of .750 – a solid accomplishment considering what our industry has gone through during this period. I cite these statistics as an indication of the seriousness with which we view our public goals and as an indication of our ability to meet the expectations we have set with the market in terms of our financial and operational goals for 2003.

TELUS is continuing focus on delivering operational excellence and efficiency, which positions us to continue building on the valuation momentum we enjoyed in the second half of 2002. Given the current outlook, I am confident that TELUS will continue to build value for both equity and debt holders in the years ahead.

My sincere appreciation also goes out to all our investors who support us as we continue to transform TELUS and deliver on our strategy. I am confident we will look back at 2002 as a watershed year for creating a more investor friendly future.

Cheers,



DARREN ENTWISTLE
Member of the TELUS Team
February 12, 2003

TELUS Communications

delivering on
our strategy with...

...high-speed Internet

We are continuing our relentless effort to be a leader in the Internet market.

In 2002, we had a breakout year, increasing our TELUS Velocity high-speed Internet service subscriber base by 91 per cent.

We surpassed our cable-TV competitor in net additions with 195,000 and narrowed the gap in overall market share. Strong momentum was achieved through attractive mass market offers and campaigns,

improving ADSL systems and processes, and extending the coverage area.

To increase our ADSL reach, we largely completed an aggressive \$250 million roll-out plan in 2002 that resulted in coverage of 83 per cent of the top 38 communities in the West. We expanded our reach in 2002 by launching approximately 300 new Extended Reach ADSL (ERA) sites.

Many small and medium business customers have moved online and rely more than ever on technology-based solutions. To meet their needs, we launched a new suite of business Internet access products across Canada. As well, we realized our goal of business Internet market leadership in Western Canada through an aggressive multiphase campaign promoting our Velocity and business Internet services.

...integrated solutions

To continue providing customers with friendly and integrated solutions, we expanded our bundle offerings in 2002. For consumers in the West, we launched Internet Select and Internet Complete bundles. We also introduced the Signature bundle, which combines residential local, personal call management services and Internet service for long distance customers at one low monthly price.

As well, we launched Velocity Enhanced Internet service, which provides additional Internet capabilities and includes the Freedom® Internet Security bundle. Sales of new and existing consumer bundles exceeded one million, further strengthening our position as a total solutions provider.

TELUS Québec expanded its COMM portfolio with two new bundles (COMMactive and COMMaccessible), tailored to specific market segments. By the end of 2002, 22 per cent of TELUS Québec customers subscribed to one of the available COMM plans, which include personal call management services, high-speed and dial-up Internet service options, and long distance.

For business customers, we enhanced our integrated solutions with the Managed Services portfolio. With these IT-related services, TELUS manages a company's computer and network infrastructure, freeing customers to focus on their core business. We also introduced the Anytime, Anywhere integrated solution set, which offers comprehensive IT and network solutions customized to large business needs and provides connectivity for remote locations and highly mobile workforces. As well, jointly with TELUS Mobility, we offered customers integrated solutions involving managed applications and wireless data.

In Quebec, we launched the SiteBuilder Plus plan, providing e-mail, domain name services, e.store and toll-free long distance to small and medium businesses.



...online capabilities

We transformed TELUS into a competitive e.business in 2002. Our Web site, telus.com, was redesigned to offer easier online navigation, enhanced information and simplified online ordering and account management. Now, 20 per cent of customer interactions take place online. Internet technologies also transformed our internal processes.

Our company Intranet connects employees in real-time and allows them to manage their own services and training online while reducing paper. The Web is now the company standard for booking travel, reporting expenses, receiving payroll information and learning opportunities.

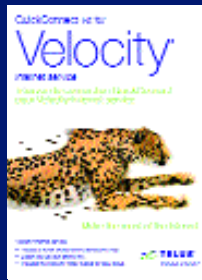
...operational efficiencies

In 2002, considerable progress was made enhancing the competitiveness and improving the cost base of our operations. As part of the Operational Efficiency Program, a large number of retail stores and customer contact centres in B.C. and Alberta were either closed or consolidated by the end of December.

Efforts to increase efficiency and enhance customer service will continue in 2003. A strong focus will be the ongoing work to streamline and improve end-to-end business processes and systems across the company. For example, in October, our first new call centre campus opened in Burnaby, B.C., marking the first step in creating larger and more effective contact centres in urban areas.

...a strong national reach

Efforts to advance our coast-to-coast network infrastructure continued through 2002. In June, we integrated the TELUS Québec Internet backbone into TELUS' national Internet backbone, thereby



...cool solutions

TELUS Velocity

Install Wizard:

A new and improved version makes installing TELUS Velocity a breeze. Improve-

ments are based on customer and employee feedback, resulting in an easier and friendlier program. By the end of 2002, approximately 90 per cent of new subscribers used this cost-effective method.

Freedom® Internet Security

Services, by TELUS: Three new Internet security solutions – Freedom® Personal Firewall, Freedom® Antivirus and Freedom® Parental Control – help customers capitalize on the Internet while defending against online security and privacy threats.

TELUS Managed Workplace™:

With this solution for business customers, TELUS manages, monitors and maintains key portions of a company's IT infrastructure, enabling customers to focus on core business.

Digital photo processing online:

This service lets customers share, store and enhance their photos on the Web. Photos are uploaded to the Web where customers can edit images, order professional prints and gifts, create albums and slideshows, and share photos online.

TELUS Stores: As the next step in the broadband evolution, our TELUS Stores now take customers through a simulated home environment. This innovative approach demonstrates the power of Velocity Internet for delivery of wireless home networking, wireless stereos, video games and other applications.

improving routing, connectivity and reliability for all our Internet users.

Also in June, we launched the Next Generation Network (NGN) project, which will eventually support increased volumes of data transmissions and new applications like voice over IP (VoIP). The NGN will bring a variety of next generation capabilities and services to both residential and business customers, and will eventually eliminate the need for separate networks for voice, data and video services.

We successfully migrated our business long distance and toll-free (such as 1-800)

customers, and all calling card customers, to our new national long distance enhanced services platform. We now own and operate Canada's most advanced long distance platform with unmatched services.

Last year, despite tremendous challenges, we evolved our business to become significantly more efficient, a leader in high-speed Internet and a recognized national player. We are well positioned to continue delivering on our strategy.

TELUS Mobility

delivering on
our strategy with...

...strong national leadership

TELUS Mobility emerged as a national wireless powerhouse in 2002, leading the Canadian industry with strong operating and financial results. During the year,

we gained 418,000 new subscribers and generated average monthly revenue per subscriber unit of \$55, which remained 20 per cent higher than our major competitors.

Throughout the year, we made significant improvements in reducing our churn rate by providing high customer care service levels and focusing on customer retention. At the end of 2002, our quarterly churn rate was 1.68 per cent, placing us at the forefront of the North American industry.

During 2002, we completed our integration efforts, effectively aligning our brand, systems and processes. Marking our first two years as the new TELUS Mobility, we successfully achieved our goal of making integration seamless to our millions of wireless customers across Canada. TELUS' Western Canada

wireless operations, Clearnet Communications and QuébecTel Mobilité now form a cohesive, united and strong national wireless company – and the only one offering two distinct digital wireless networks: PCS and Mike.

...expanded national coverage

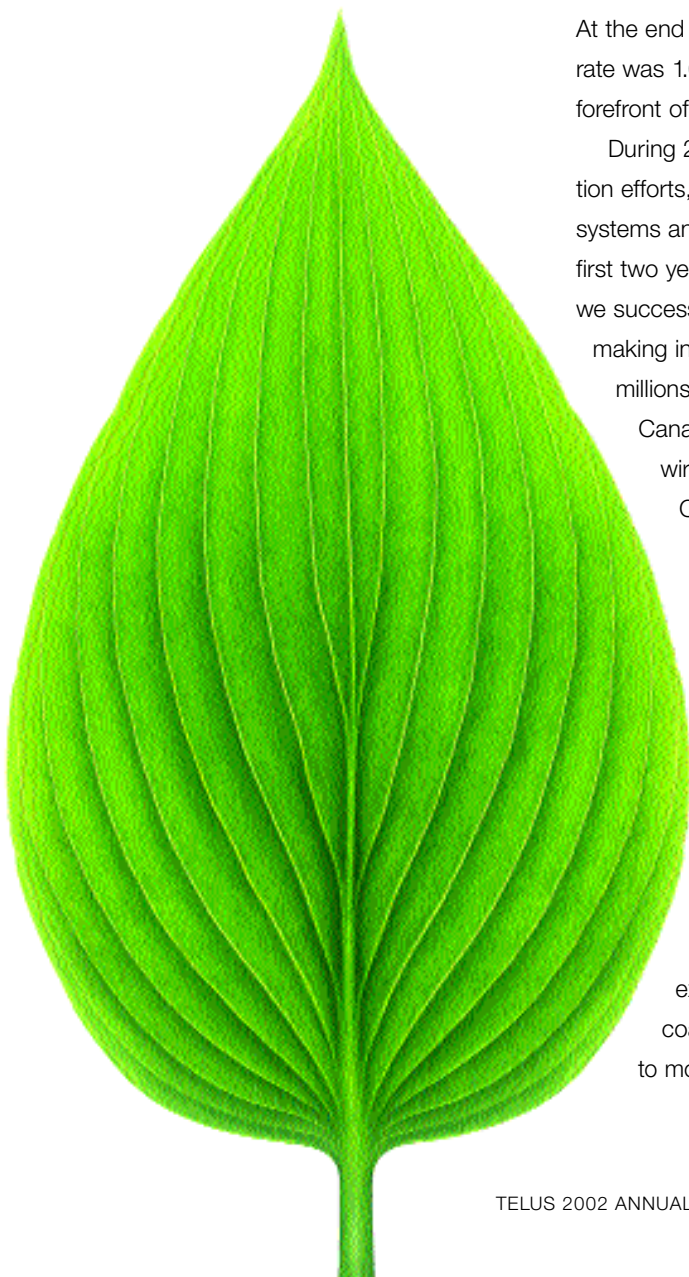
TELUS Mobility completed an aggressive digital network expansion in 2002, increasing coast-to-coast PCS coverage to more than 27 million Canadians or

close to 90 per cent of the population. Our expanded digital network provides customers with improved call quality and security, as well as access to services such as next generation 1X wireless data, 2-way text messaging and Wireless Web access.

The expansion was achieved through a combination of network buildouts and implementation of the wireless roaming/resale agreements signed in October 2001 with Bell Mobility in Ontario and Quebec, and Aliant Telecom Wireless in Atlantic Canada. Implementation of these agreements allowed us to increase our digital PCS network coverage to an additional six million POPs, supported by several hundred new retail and corporate distribution points across Central and Eastern Canada.

...new 1X technology

We launched Canada's first national 1X wireless network in June, introducing the next generation of wireless to major cities across the country. The network was later expanded to include areas covered by our existing digital network in Western Canada and, through our roaming/resale agreements, to many other areas across Central and Eastern Canada. At the end of 2002, our 1X network was available to more than 22 million Canadians, or approximately 70 per cent of the population.



1X offers customers fast and convenient mobile access to the Internet, at speeds equal to or better than wireline dial-up technology. In addition to providing advanced packet data services, 1X service also offers significant network voice capacity improvement. We intend to continue to expand our national 1X network and our roster of mobile packet data services.

...ever-increasing text messaging

In April, Canada's major wireless carriers launched North America's first inter-carrier mobile text messaging capability, giving wireless users across Canada the ability to send real-time text messages to each other.

The popularity of text messaging, also known as SMS (short messaging service), is growing exponentially around the world. In December alone, Canadians sent more than 21 million messages, a monthly increase of 110 per cent since the introduction of inter-carrier service eight months earlier. Worldwide, some 16 billion text messages are sent each month.

In 2003, text messaging growth will continue with the implementation of a new inter-carrier messaging agreement across North America. The new agreement enables customers of major wireless carriers in Canada and the U.S. to send and receive text messages, regardless of their service provider.

With all the accomplishments in 2002, we truly evolved our business and became a leader in Canada's wireless industry. Now, with the strength of our team, superior operational performance and increasing profitability, we are continuing to deliver on our strategy.

...cool solutions

Cool phones: Our "cool phones that do more™" let customers do more than make voice calls. Increasingly, customers are using their wireless phones as primary knowledge tools – to send and receive text messages, set schedules, surf the Web, read the news and play games.

Mike: The only all-in-one iDEN network in Canada, Mike is a wireless power tool offering business users digital PCS phone, Direct Connect™ 2-way radio, paging, and Wireless Web and 2-way text messaging services. In 2002, TELUS Mobility developed new Mike packet data solutions for vertical industries, including a mobile resource-management solution that ensures dependable vehicle tracking and on-time delivery by trucking, distribution and construction companies.

Velocity Wireless™: Our core 1X product, Velocity Wireless, lets customers connect their personal digital assistants (PDAs) or laptop computers to the Internet and corporate Intranets via our 1X network. The included 1X AirCard allows for both fast and easy online connections and digital voice calls.

Feature Pack cards: These new cards offer airtime and popular features such as voicemail, 2-way text messaging and wireless games in a prepaid card format. They give both postpaid and prepaid customers the chance to try the latest TELUS Mobility features before making them a regular part of their service plans.

Downloadable images and ringtones: We launched a new lineup of downloadable images and ringtones in November, enabling customers to personalize their phones with more than a thousand images and ringtones, including exclusive content from brand-name providers such as Warner Bros.

Java technology-enabled wireless phone: In July, we introduced the first full-colour Java technology-enabled wireless phone in North America, with plans for more in 2003. With its fast mobile software downloads, Java technology opens the door to a range of new mobile computing and business productivity functions.



community investment

delivering on our strategy with...

Imagine  A Caring Company



...investment in our communities

We have an unwavering commitment to actively support the communities where our customers, investors and employees live and work. Through strong investment and involvement, our goal is to enhance the quality of people's lives in the communities we serve and help create a better future for everyone.

In 2002, we contributed \$10 million of financial and in-kind assistance to education, health, arts and charitable organizations across Canada. TELUS continues its proud history as an Imagine Caring Company, which donates at least one per cent of our pre-tax profits to charitable organizations.

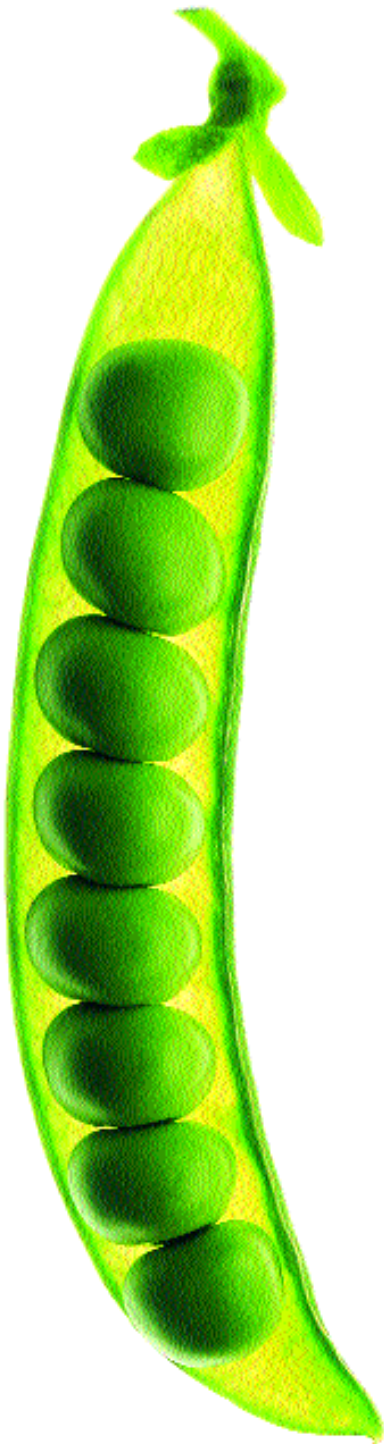
To continue delivering on our strategy, our community investment efforts are closely aligned with our strategic intent to unleash the power of the Internet. In 2002, approximately 80 per cent of our community investment programs were directly linked to data, IP and wireless programs. A prime example is our involvement with the bid for the 2010 Winter Olympic and Paralympic Games. TELUS is a Premier Founding Supporter of

Canada's bid to host the 2010 Winter Olympic and Paralympic Games in Vancouver and Whistler. Our involvement reinforces our commitment to the community while showcasing our technical expertise to the world.

In 2002, the TELUS Community Connections Employee Charitable Giving campaign raised more than \$2.3 million. With TELUS matching every pledge, dollar for dollar, a total of nearly \$4.7 million will be donated to approximately 2,400 charities across Canada in 2003.

We also recognize the outstanding volunteer efforts of our TELUS team through the Volunteer Involvement Fund, which translates employee and retiree volunteer hours into charitable dollars. In 2002, TELUS donated \$320,000 to charities on behalf of the 1,600 TELUS employees and retirees who each volunteered more than 60 hours. In fact, in total, TELUS employees and retirees donated more than 44,000 days of volunteering to community service.

Recently, TELUS was named one of Canada's top 10 corporate donors by National Post Business Magazine.



...responsibility and sustainability

For the second year in a row, TELUS has been ranked among the best as a leader in terms of corporate sustainability. In September, TELUS was once again named to the Dow Jones Sustainability Index list, a worldwide ranking of companies that are recognized as economic, environmental and social leaders. Of the 310 companies listed, we are one of 17 Canadian companies and the only North American telecommunications company.

Corporate sustainability measures a company's business approach in creating long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments. The ranking reflects the growing importance for companies to actively demonstrate superior performance in these areas.

For more information about our community involvement, view our annual Corporate Social Responsibility report online at telus.com.

delivering to our customers

As we deliver on our strategy, we are bringing complete and integrated solutions to our customers at home, in the workplace and on the move. More than ever, the solutions we provide are driven by the needs of our customers, and help connect people to each other and the world.

Frequently, our customers describe how future friendly solutions from TELUS have enhanced their life and

work. In fact, the power of the solutions we provide rings more clearly from our customers.

Read what TELUS Communications business customers have to say:

telus.com/testimonials

Read what TELUS Mobility customers have to say:

telusmobility.com/testimonials

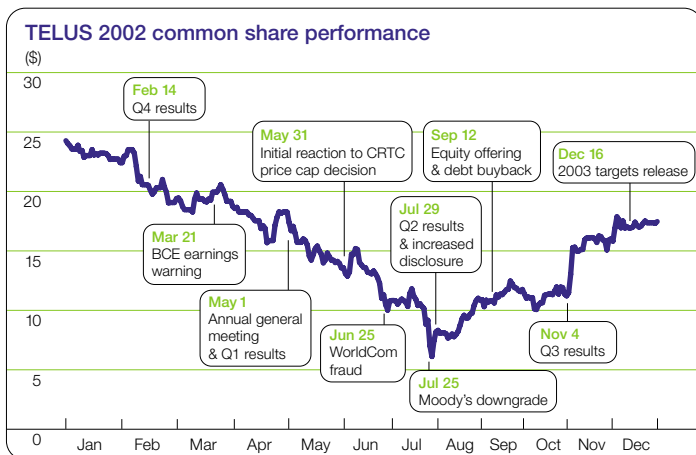
questions & answers



Q Why did TELUS' share price decline in 2002 and why did it fluctuate so widely?

A It was a tough year for all equity markets and in particular for shares of telecommunications companies given the fallout from such large collapses as WorldCom and Teleglobe.

In 2002, TELUS' common shares declined 28%, while the Canadian Standard & Poor's/Toronto Stock Exchange (S&P/TSX) and the U.S. S&P 500 composite indices were down 12% and 23% respectively. Comparing TELUS to its peers, the Dow Jones Total Market Telecom Index, a basket of North American telecom stocks, declined 36% and the S&P Wireless sub-index was down 58%. The latter is relevant since a sizeable proportion of TELUS' revenue and value is derived from wireless, as compared to most other incumbent telecom companies.



TELUS' share price performance can be most easily explained by dividing 2002 into two time periods.

During the first half of the year, investors were focused on the general economic slowdown, accounting scandals in the U.S., and weak global telecom industry including multiple bankruptcies and restructurings. TELUS-specific investor concerns related to lower-than-expected financial results in the first quarter, adverse regulatory decisions, the materiality and execution risk associated

with the Operational Efficiency Program (OEP), the level of capital spending and TELUS' debt level.

This first time period culminated with credit rating downgrades highlighted by Moody's Investors Service's late July announcement that it was lowering TELUS' credit rating to one level below investment grade. The expectation, timing and extent of the Moody's downgrade created an almost irrational amount of uncertainty and fear ahead of TELUS' second quarter results and severe weakness in both our stock and bond prices.

In the second time period, TELUS' second and third quarter results evidenced our strong wireless earnings growth; considerable progress in wireline on reducing costs and improving margins through the OEP; and improving outlook for reduced cash needs in our Central Canadian non-ILEC (non-incumbent local exchange carrier) operations. To help restore investor confidence, we took action in July to make our bank agreements public and to disclose, five months early, our top level projections for 2003 including our projected benefits of the OEP. In August and September we purchased and redeemed \$410 million of debt at an average 21% discount, ultimately funded by a \$337 million equity issue. These transactions were positively received by both debt and equity investors.

During the second half of the year, TELUS was free cash flow positive, which gave investors confidence in our public forecasts to be significantly free cash flow positive in 2003 and beyond.

We were notable among our peers for achieving the 2002 EBITDA target, despite the economic softness. This strong execution and our solid 2002 results showed that TELUS' debt, while temporarily higher than desired, is manageable and we continue to have a well-developed plan to reduce debt and de-leverage our balance sheet.

TELUS' 2003 financial targets, announced in December, indicate expectations for improving profitability, reduced capital expenditures, increased cash flow, debt de-leveraging and a significant increase in earnings per share.

As investor confidence in TELUS and its future prospects was restored from the July low point, the price of TELUS common shares tripled to \$17.45 by the end of the year.

Darren Entwistle
President and Chief Executive Officer

Q TELUS' debt is currently rated below investment grade by Moody's Investors Service. What is TELUS doing to improve its financial position to re-establish an investment grade credit rating?

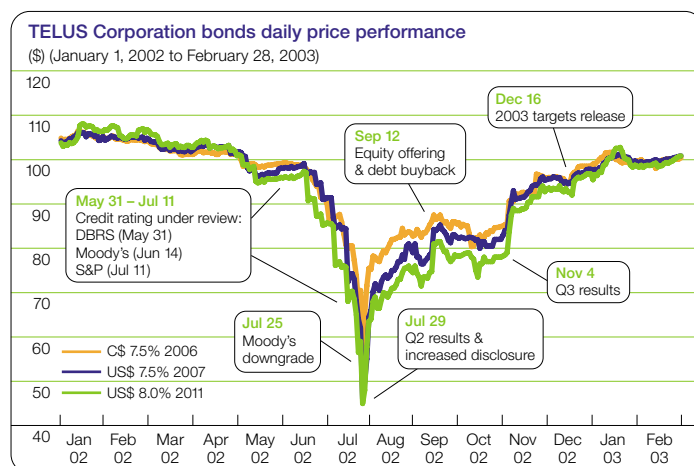
A Three other agencies – S&P, Dominion Bond Rating Service and Fitch Ratings – retained their investment grade credit ratings on TELUS in mid-2002. However, in July, Moody's downgraded the rating of TELUS' debt to one rating level below investment grade with a negative outlook, an unusual two notches below the recently revised ratings of the other agencies. Moody's cited concerns that TELUS' free cash flow to repay debt will be modest in relation to its debt level. TELUS considered the Moody's downgrade to be unwarranted and not consistent with our business fundamentals or financial position and outlook.

In the last two years, we have taken deliberate steps to improve our credit profile in the face of adverse regulatory impacts. In 2001, we divested \$1.2 billion of non-core assets; proactively reduced our dividend on the back of strong financial performance; increased dividend reinvestment plan participation and began issuing treasury shares; reorganized our legal structure to successfully realize significant cash tax savings; and refinanced, at reduced rates, the high yield Clearnet debt we acquired.

In 2002, we expanded our accounts receivable securitization program to free up \$325 million of capital on the balance sheet. We disclosed that our business plan entails an explicit and achievable objective of reducing debt leverage, as represented by our net debt to EBITDA ratio, to 3.0 by the end of 2003. In the fall, TELUS successfully completed a \$337 million equity issue and concurrent debt buyback as we repurchased \$410 million of debt for a cash outlay of \$318 million. This benefited all security holders and was an important step to demonstrate our resolve in the face of considerable market irrationality.

We also had strong underlying operational execution in 2002. The combined effect of significantly reduced capital expenditures, strong EBITDA growth from the Mobility segment, as well as accelerated progress from the OEP and improved non-ILEC profitability in the Communications segment, more than offset considerable negative regulatory impacts and led to the generation of positive free cash flow in the second half of 2002. This positive trend is expected to continue and result in the generation of significant positive cash flow for all of 2003.

As a result of the foregoing, we have accelerated our previous plans to become free cash flow positive by more than a year. Reflecting our confidence in the benefit of future free cash flow further strengthening our balance sheet, in December 2002, we set a public goal to lower the ratio of net debt to EBITDA to less than 2.7 by December 2004 and reiterated our long-term objective of a 50% ratio of net debt to total capital.



TELUS' actions in 2002 and public targets for 2003 reflect our commitment and ability to ensure a strong financial position. The timing of when the various rating agencies decide to reassess our ratings is not within our control. However, it is interesting to note that the debt market as shown above has drawn its own conclusions on the improved outlook for TELUS bonds.

Robert G. McFarlane
Executive Vice-President and Chief Financial Officer

Q What are the issues for TELUS in concluding a labour agreement with the unionized portion of its workforce? Would the financial impact of a work stoppage be significant and when might this happen?

A TELUS is committed to reaching a balanced settlement in 2003. We are striving to achieve an agreement with 11,300 of our unionized workforce in our wireline operations in Western Canada that considers the current economic climate and competitive marketplace, balances the needs of all employees, and provides the flexibility to meet customer needs and increase our capacity for teamwork. TELUS also takes this unresolved situation seriously given its potential impact on customer service, the communities we serve and employee morale, if a work stoppage occurs.

Given the complexity and lack of progress of negotiations since the contracts expired in December 2000, TELUS Communications applied in November 2002 for federal conciliation. Two conciliators were appointed to work with TELUS and the Telecommunications Workers Union (TWU). Given the current conciliation schedule and if the parties fail to successfully conclude a settlement by the end of the formal period of conciliation, the earliest a potential work disruption could legally occur would be in the third quarter of 2003.

While a work stoppage is difficult for all parties involved, we have planned extensively for this contingency. In late January 2003, TELUS and the TWU successfully negotiated a Maintenance of Activities agreement as required by federal legislation. This agreement ensures the continuation of services to 911 emergency, police, fire, ambulance, hospitals and coast guard, with provisions to cover other potential emergency services necessary to prevent serious danger to the health or safety of the public, in the event of a work stoppage.

For investors, a work disruption is estimated to have a positive impact on free cash flow due to substantially reduced capital expenditures and a minor impact on our earnings. Higher costs such as training of management, overtime and security would be offset by reduced wages.

Judy Shuttleworth
Executive Vice-President, Human Resources

Q With the large reduction of employees in 2002 and 2003, what is TELUS doing to ensure customer service levels are not negatively impacted?

A As a company with a long and proud history of serving the residents of Alberta and British Columbia, and now Canadians across the country, TELUS understands the provision of exceptional customer service is fundamental to the competitive environment.

Since 1998, TELUS has improved its overall performance against the CRTC's Quality of Service indicators. The yearly average results show that approximately 80% of our indicators are now better than or equal to those of 1998.

Beginning in 2001, TELUS implemented the OEP, which is dedicated to improving TELUS' productivity while maintaining or improving service in the longer term. While much media and investor attention has focused on staff reductions and office closures, the program is actually focused on improving the effectiveness and efficiency of all of our operations. Our goal is to improve customer service by eliminating bureaucracy, improving systems and processes, and putting more decision-making power in the hands of employees who deal directly with our customers.

As a result, we are consolidating our customer contact centres and creating a more centralized call centre campus model designed to make better use of technology, enhance management techniques and increase training opportunities for our employees. In our field services operation, we are taking steps to improve service delivery through better management of work orders, starting from the moment of initial customer contact, through the provisioning pipeline and ultimately to the delivery of products and services at the customer's premises. Additionally, we are consolidating our dispatch centres to improve the co-ordination of work to our field forces, as well as fine-tuning computerized dispatch systems that will enable our technicians to complete more orders on a daily basis.

Inevitably, there will be bumps in the road as we work through this large-scale efficiency transformation. However, TELUS is confident that the end result will be reduced bureaucracy, improved productivity, more empowered employees and noticeably improved customer service.

Rob Cruickshank
Executive Vice-President, Business Transformation

Q How does TELUS Mobility plan to maintain its high performance in 2003 and beyond?

A We intend to continue our relentless focus on profitable subscriber growth, and our 2003 public targets reflect this commitment. Strong network service revenue growth is expected to be driven by an expanding subscriber base and our industry-leading revenue per subscriber unit (ARPU). TELUS Mobility's premium ARPU is the result of numerous factors including pricing discipline; a wide selection of exclusive phones; our business-focused Mike product with its differentiated 2-way Direct Connect capability; state-of-the-art Wireless Web products and services; improved and expanded coverage of our digital networks; and the differentiated youth-focus of our Pay & Talk prepaid product. We aim to maintain roughly the current 20% ARPU premium to our major competitors.

In addition to sustained focus in these areas, we continue to explore new revenue opportunities. This includes a focus on Wireless Web initiatives. TELUS Mobility intends to expand its 1X Data Alliance Program, which brings together data application partners, value-added resellers (VARs) and system integrators, and hardware providers to offer turnkey mobile computing solutions to corporate and enterprise customers. By constructing true end-to-end solutions, TELUS Mobility has already won significant 1X orders with major financial and government customers.

Other new services for 2003 include new content and applications such as ringtone, image and game downloads and multimedia messaging services (MMS), which will allow customers to send and receive messages that contain formatted text, graphics, photographs, or audio and video clips.

TELUS Mobility is targeting 400,000 to 450,000 net additions in 2003 with a goal of attracting premium subscribers through the combination of our unique value proposition and our expanded national coverage and distribution. However, TELUS will maintain its strategy of prioritizing profitable growth over market share.

TELUS Mobility led the Canadian wireless industry in incremental EBITDA growth in 2002 and is targeting 2003 EBITDA of \$625 to \$650 million, an increase of 17 to 21%. This is to be accomplished through increasing scale efficiencies derived from a fast-growing subscriber base coupled with continued strict focus on expense control and decreased capital expenditures. Notably, our 2003 targets imply a significant increase in cash flow (EBITDA less capex) to \$175 to \$200 million.

Improving customer churn is a key value creation tool in the wireless industry because of the high cost of acquiring new subscribers. TELUS Mobility's focus on customer retention in 2002 allowed us to exit the second half of the year with the lowest quarterly churn rates reported by any major North American wireless company. In 2003, we intend to continue efforts aimed at managing churn with continued improvements in customer care service levels and network quality and coverage.

The continued implementation of the digital roaming/resale agreements allows TELUS Mobility to avoid hundreds of millions of dollars in capital expenditures in coming years. We are targeting 2003 capital expenditures of \$450 million, which implies an improvement in capital efficiency to 20% of total revenues, a significant improvement over 23% in 2002 and 55% in 2001.

George A. Cope

President and Chief Executive Officer, TELUS Mobility

Q The regulatory decision on price caps in June 2002 limits increases and reduces local wireline phone rates until 2006. What is TELUS doing to offset this and grow revenues and earnings going forward?

A Price cap regulation does limit the ability to increase local wireline prices above inflation on about 7% of total TELUS revenue, and provides for mandated price reductions for certain regulated services affecting approximately 21% of total revenue. Moreover, the decision also reduces access rates TELUS can charge competitive service providers for the use of our network. In total, we estimate this decision will cause an approximate \$80 million incremental decline in EBITDA for 2003 and a further \$20 to \$30 million annual decline thereafter (depending on the level of inflation).

It should be noted that TELUS may recover certain revenues by not passing through regulated local price decreases due to a new deferral account mechanism set up by the CRTC. For example, capital expenditures that improve customer service may offset the need to reduce certain prices in future years. This will be subject to future CRTC processes and approvals.

Fortunately, TELUS has strategically focused its investments on the provision of services nationally in the growth areas of data, IP and wireless, thereby allowing for less reliance on our traditional unregulated long distance (about 15% of revenue) and local voice services.

Our success in data and IP comes from both the business and consumer markets. On the consumer data side, our ADSL coverage expansion in incumbent regions (B.C. and Alberta) has allowed us to outpace our cable-TV competitors in high-speed Internet net additions in 2002, as we almost doubled our high-speed subscriber base. We are currently targeting 150,000 to 175,000 high-speed net additions in 2003, an increase of 37 to 43% to the base.

In the business market, we have been actively building our national network and expanding our data and IP capabilities in our non-ILEC operations in Ontario and Quebec. This represents a large growth opportunity for TELUS as the market population is approximately three times that of Alberta and B.C. As a competitive service provider, we incidentally benefit from lower access rates to incumbent networks as a result of the 2002 price cap decision. Although we are targeting a conservative non-ILEC revenue increase of 9% to \$575 million in 2003, we are focused on profitability growth as we expect to reduce negative EBITDA by 44% with a goal of moving to at least breakeven in 2004.

On a national scale, consolidated data revenues increased by 16% in 2002 with organic data revenue growth of 10% when acquisitions, international and regulatory impacts are excluded.

Although TELUS Communications is targeting only flat to 1% overall revenue growth, our Operational Efficiency Program should generate substantial cost savings to allow a healthy 5 to 8% EBITDA growth. Also, TELUS Mobility is targeting revenue growth of 10 to 12% in 2003 from the ongoing expansion of our wireless subscriber base and even stronger EBITDA growth of 17 to 21%.

Therefore, despite the regulation of local price increases, TELUS has opportunities for consolidated revenue growth in the range of 3 to 4%, as we have publicly targeted for 2003. More importantly, for value creation and overall profitability, TELUS expects to be able to drive significant earnings at the EBITDA and EPS levels. EBITDA is expected to increase by \$200 to \$300 million. This 7 to 11% growth puts TELUS at the forefront of North American telecommunications companies and will enable an increase to earnings per share, which we expect to grow by \$1.10 to \$1.30, to the \$0.35 to \$0.55 range in 2003.

Chris Carty
Executive Vice-President, Corporate Strategy and
Chief Marketing Officer

Q What is the funding status of TELUS' defined benefit pension plans? Are the plans underfunded as a result of weak capital markets in recent years and how does this impact TELUS' reported results?

A TELUS has a number of defined benefit pension plans that cover most of its Communications segment employees and some Mobility segment employees.

In aggregate, the pension obligation for the defined benefit plans is supported by assets of over \$4.5 billion at year-end 2002. The funding ratio (assets to accrued pension obligation) of 98% reflects a small deficit of \$79 million at year-end 2002 caused by unfavourable pension fund investment returns in recent years.

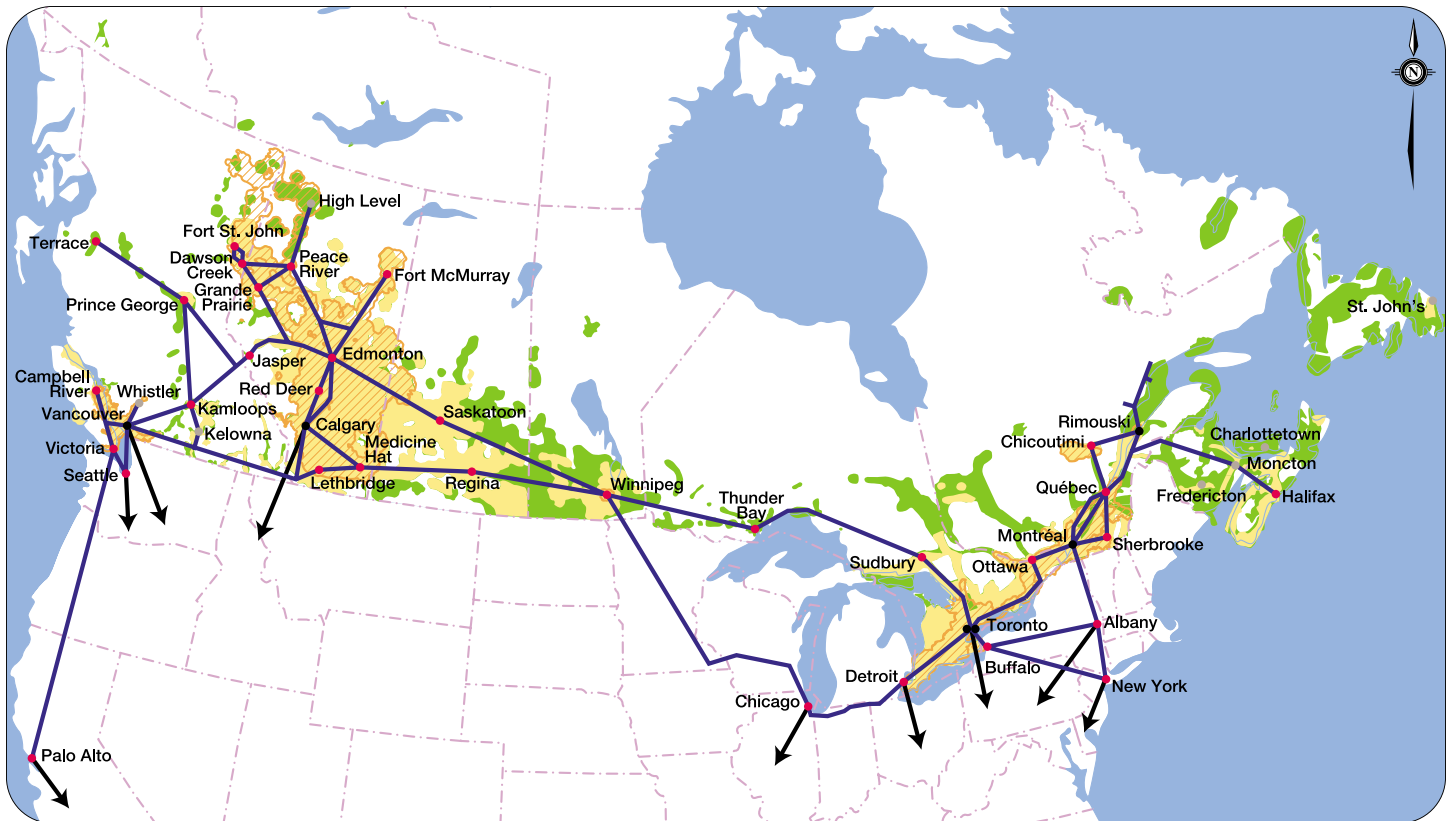
TELUS' pension fund investment returns during 2002 were approximately negative 3%. Although negative, this return exceeded the median return of negative 5.3% for Canadian pension plans. The returns of TELUS' pension plans have ranked in the first quartile among Canadian pension plans both in 2002 and as measured over the last four years.








The calculation of the defined benefit pension plans obligations and expenses involves independent actuarial estimations of members' liabilities at the time of retirement and accounting assumptions with respect to long-term investment returns. TELUS' long-term rate of return accounting assumption of 7.77% for 2002 has been reduced to 7.48% for 2003 while the discount rate of 6.75% remains unchanged. TELUS' pension plans continue to have what we believe are relatively conservative assumptions for long-term rate of return, discount rates and compensation inflation.

Given that recent returns have been below the long-term rate of return assumption, the resulting net actuarial losses in excess of 10% of the fair market value of plan assets are being amortized over the average remaining service lives of the active employees in accordance with generally accepted accounting principles (GAAP). Largely as a result of this amortization, TELUS estimates an increased consolidated pension expense of approximately \$65 million in 2003 to total \$103 million (including an estimated \$44 million for defined contribution plans). This increase is non-cash in nature, does not require a corresponding increase in the funding of the defined benefit plans, and is reflected in TELUS' 2003 EBITDA target of \$2.7 to \$2.8 billion.

Robert G. McFarlane
Executive Vice-President and Chief Financial Officer

TELUS' national infrastructure



	Digital PCS (including roaming)		Switching Centres/Fibre and Internet Backbone points of presence
	Digital Mike		Intelligent Internet Data Centres/Switching Centres/Fibre and Internet Backbone points of presence
	Analog (including roaming)		
	IP backbone and fibre network		
	Interconnection with Canadian, U.S. and global carriers including Verizon, Sprint and Cable and Wireless		

* Coverage areas are approximate as of January 2003. Actual coverage may vary and is subject to change.

IP backbone and fibre network Wireless coverage

Key to the integrated services provided by TELUS are its networks and wireless coverage. TELUS' IP backbone and fibre network carry data, IP and voice traffic between major urban centres in Canada and to the U.S. With this network, TELUS transmits large volumes of data, enabling customers and users of both the public Internet and private corporate data networks to benefit from world-class communications technologies. TELUS Mobility offers extensive coast-to-coast digital wireless coverage to more than 27 million Canadians or close to 90 per cent of the population.

investor information

Stock exchanges and TELUS trading symbols

Toronto Stock Exchange:

common shares	T
non-voting shares	T.A

New York Stock Exchange:

non-voting shares	TU
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Transfer agent and registrar Computershare Trust Company of Canada

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or (514) 982-7270 (outside
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Alberta (403) 530-4200

Ontario (416) 507-7400

Quebec (514) 788-8050

Dividend reinvestment and share purchase plan

Take advantage of automatic dividend
reinvestment at a discount and acquire
additional shares without fees. For more
information visit telus.com/drisp or
contact Computershare.

Annual and special general meeting of shareholders

Wednesday, April 30, 2003

10:00 a.m. (Mountain Time)

TELUS Convention Centre, North Building

136 – 8th Avenue SE, Calgary, Alberta

Auditors

Deloitte & Touche LLP

Whistle blower hotline

As part of our ethics policy, our whistle
blower hotline allows employees and others
to anonymously raise accounting, internal
controls and ethical issues or complaints.
The hotline is 1-866-515-6333.

Ce rapport annuel est disponible en
français en ligne à telus.com/agm auprès
de l'agent des transferts ou de TELUS –
Relations avec les investisseurs.

investor information

(continued)

2003 expected earnings and dividend¹ dates

	Ex-dividend date ²	Dividend record dates	Dividend payment dates	Earnings release dates
Quarter 1	March 7	March 11	April 1	April 30
Quarter 2	June 6	June 10	July 1	July 25
Quarter 3	September 8	September 10	October 1	October 31
Quarter 4	December 9	December 11	January 1, 2004	February 2004

1 Dividends are subject to Board of Directors' approval.

2 Shares purchased on this date forward will not be entitled to the dividend payable on the corresponding dividend payment date.

Electronic delivery of shareholder documents

Registered shareholders

It's easy. All you need is access to the Internet and an electronic mail (e-mail) account. To enrol, access our Web site and follow the instructions found at telus.com/electronicdelivery or contact Computershare. The benefits include:

- convenient and timely access to important company documents
- environmentally friendly
- reduction in costs

Beneficial shareholders

For shareholders who hold their shares with an investment dealer or financial institution, access investordeliverycanada.com or contact your investment advisor to enrol for these convenient services.



for more detailed investor information, refer to
the 2002 annual report – financial review



telus.com



TELUS Corporation, 555 Robson Street, Vancouver, British Columbia, Canada V6B 3K9

evolving our business
delivering on our strategy



2002 annual report • financial review

forward-looking statements

This document and the management's discussion and analysis contain statements about expected future events and financial and operating results that are forward-looking and subject to risks and uncertainties. TELUS' actual results, performance or achievement could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations and may not reflect the potential impact of any future acquisitions, mergers or divestitures. Factors that could cause actual results to differ materially include but are not limited to: general business and economic conditions in TELUS' service territories across Canada and future demand for services; competition in wireline and wireless services, including voice, data and Internet services and within the Canadian telecommunications industry generally; re-emergence from receivership of newly restructured competitors; levels of capital expenditures; success of operational and capital efficiency programs including maintenance of customer service levels; success of integrating acquisitions; network upgrades, billing system conversions, and reliance on legacy systems; implementation of new customer

relationship management software; realization of tax savings; the impact of credit rating changes; availability and cost of capital including renewal of credit facilities; financial condition and credit risk of customers affecting collectibility of receivables; ability to maintain an accounts receivable securitization program; adverse regulatory action; attraction and retention of key personnel; collective labour agreement negotiations and the outcome of conciliation efforts; future costs of retirement and pension obligations and returns on invested pension assets; technological advances; the final outcome of pending or future litigation; the effect of environment, health and safety concerns and other risk factors described in Risks and Uncertainties on pages 28 to 34, and listed from time to time in TELUS' reports, TELUS' comprehensive public disclosure documents, including the Annual Information Form, and in other filings with securities commissions in Canada and the U.S.

The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

enhancing corporate reporting and governance

TELUS is firmly committed to full and fair financial disclosure and best practices in corporate governance for our security holders. We are recognized as a leader for the quality and comprehensiveness of our financial reporting and have a long history of good governance practices. TELUS also strives to maintain accounting policies that are appropriate and reasonably conservative.

At a time when expectations for high quality reporting have never been greater, TELUS has taken action. In addition to fulfilling the updated corporate governance requirements set by Canadian and U.S. securities regulators, we have adopted a number of mandated initiatives ahead of their effective dates and implemented a number of voluntary initiatives that enhance our corporate reporting beyond what is required.

In past years, TELUS has proactively responded to investor needs, implementing long-standing best practices in a number of disclosure and corporate governance areas.

In the area of disclosure, for example, the Company has an annual Investor Forum, Web casts its quarterly investor calls, and

establishes an array of measurable performance targets for each upcoming year, which we subsequently publicly report our progress against and revise guidance on as may be necessary.

Examples of TELUS' corporate governance best practices include: CEO and chairman separation; large majority of unrelated directors on the Board; in-camera meetings of the Board and its committees; Board committees consist entirely of non-management directors, and a majority of each committee is comprised of "unrelated" directors as defined under the Toronto Stock Exchange guidelines; maintaining an internal audit department, which reports jointly to the Audit Committee and the CFO and annually conducts a comprehensive risk assessment and risk-based audit; and Audit Committee meetings held at least quarterly. Audit Committee meetings also include regular agenda items where the external and internal auditors each meet without management being present.

In addition to these existing practices, we have also instituted the following recent enhancements. For more details, refer to the 2003 Information Circular.

Enhancements to TELUS' financial reporting and corporate governance		
	Required ¹	Voluntary
CEO and CFO certification of financial statements and of management's discussion and analysis (MD&A) • Based on enhanced formalized internal due diligence and investigation process	✓	
Disclosure controls and procedures • Comprehensive checklists developed and cascaded to senior managers and others in key areas of responsibility and disclosure positions	✓	
MD&A enhancements • Reported off balance sheet arrangements and contractual liabilities	✓	
TELUS ethics policy updated and publicly disclosed • All employees complete mandatory online interactive course		✓
Instituted whistle blower ethics hotline • Anonymous reporting of ethics, accounting and internal control issues or complaints		✓
Improvements to risk management process • Conducted more extensive risk assessment surveys and assignment of mitigation responsibilities		✓
Audit Committee comprised of "financial experts" ²		✓
External auditor independence and pre-approval by Audit Committee of non-audit and audit services		✓
Public disclosure of our bank credit facility agreement		✓

¹ As required by the Canadian Institute of Chartered Accountants, the Ontario Securities Commission, the Toronto Stock Exchange, the U.S. Securities and Exchange Commission, the U.S. Sarbanes-Oxley Act, and/or the New York Stock Exchange, as of February 12, 2003.

² The TELUS Board believes that all current Audit Committee members are "financially literate" and have "accounting or related financial experience", as defined under the proposed Toronto Stock Exchange Guidelines, and are "audit committee financial experts" as defined under the Sarbanes-Oxley Act and final Securities and Exchange Commission rules.

annual consolidated financials

TELUS Consolidated					
Income statement (millions)	2002	2001	2000	1999	1998
Operating revenues ¹	\$ 7,006.7	\$ 7,080.5	\$ 5,998.4	\$ 5,588.9	\$ 5,560.1
Operations expense ¹	4,488.1	4,550.9	3,684.1	3,390.0	3,367.8
EBITDA	2,518.6	2,529.6	2,314.3	2,198.9	2,192.3
Depreciation and amortization	1,570.3	1,494.2	1,182.0	1,049.6	1,010.1
Restructuring and workforce reduction costs	569.9	198.4	–	466.3	–
Operating income from continuing operations	378.4	837.0	1,132.3	683.0	1,182.2
Other expense (income), net	40.8	(17.0)	8.7	(32.7)	(57.0)
Financing costs	604.1	624.5	273.3	177.3	226.6
Refinancing charge from debt restructuring	–	96.5	–	–	–
Income (loss) from continuing operations before income taxes, non-controlling interest and goodwill amortization	(266.5)	133.0	850.3	538.4	1,012.6
Income taxes (recovery)	(42.5)	93.4	431.9	242.1	466.4
Income (loss) from continuing operations before non-controlling interest and goodwill amortization	(224.0)	39.6	418.4	296.3	546.2
Non-controlling interest	3.1	3.6	8.7	3.9	4.6
Extraordinary loss ²	–	–	–	–	530.6
Goodwill amortization	–	174.8	23.4	7.5	6.9
Income (loss) from continuing operations	(227.1)	(138.8)	386.3	284.9	4.1
Income (loss) from discontinued operations	(1.9)	592.3	74.7	64.9	62.9
Net income (loss)	(229.0)	453.5	461.0	349.8	67.0
Preference and preferred share dividends and interest on convertible debentures	10.3	10.5	5.0	3.5	3.5
Common share and non-voting share income (loss)	\$ (239.3)	\$ 443.0	\$ 456.0	\$ 346.3	\$ 63.5

TELUS Consolidated					
Balance sheet (millions)	2002	2001	2000	1999	1998
Capital assets, at cost	\$25,037.3	\$23,888.4	\$21,782.5	\$14,415.5	\$13,778.1
Accumulated depreciation and amortization	13,062.8	11,128.6	10,251.5	8,537.2	7,950.5
Total assets	18,219.8	19,265.6	18,046.5	7,797.1	7,860.5
Net debt ³	8,390.3	8,712.6	7,980.4	2,055.6	2,139.1
Total capitalization ⁴	14,834.1	15,705.3	14,473.1	6,375.7	6,491.7
Long-term debt	8,197.4	8,651.4	3,047.3	1,555.5	1,608.7
Total shareholders' equity	6,432.6	6,984.7	6,418.4	4,307.7	4,343.0

1 In 2002, the Company adopted FASB EITF 01-9. The application of this standard resulted in costs specific to Mobility, which were previously recorded as Operations expense, being reclassified to offset operating revenues. The amounts of the reclassification in 2001 and 2000 were \$122.1 million and \$108.0 million, respectively.

2 Prior to the BC TELECOM and TELUS merger in 1999, non-cash extraordinary losses were individually recorded by each company (TELUS in 1997 and BC TELECOM in 1998). These extraordinary losses were the result of a change from regulatory accounting principles (RAP) to generally accepted accounting principles (GAAP).

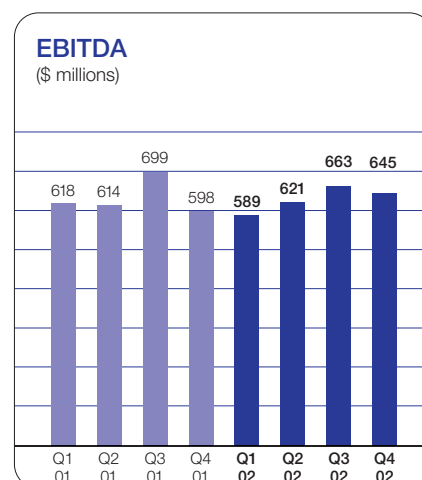
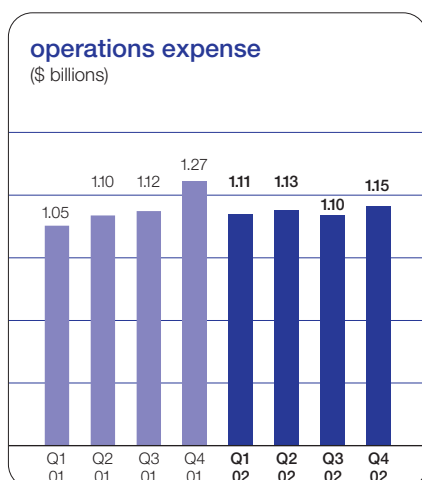
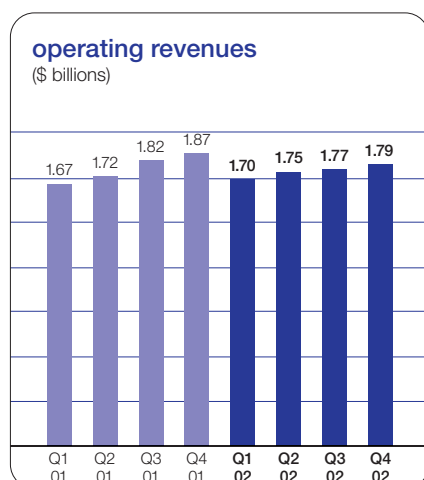
3 Long-term debt plus current obligations and cheques outstanding less Cash and temporary investments and cross-currency foreign exchange hedge asset related to U.S. dollar Notes. Net debt also includes a notional amount associated with accounts receivable securitization.

4 Net debt plus Non-controlling interest plus Total shareholders' equity.

quarterly consolidated financials

TELUS Consolidated								
Income statement (millions)	Q4 2002	Q3 2002	Q2 2002	Q1 2002	Q4 2001	Q3 2001	Q2 2001	Q1 2001
Operating revenues ¹	\$1,794.4	\$1,766.3	\$1,748.0	\$1,698.0	\$1,868.0	\$1,823.2	\$1,717.7	\$1,671.6
Operations expense ¹	1,149.2	1,103.2	1,127.0	1,108.7	1,269.7	1,123.9	1,103.4	1,053.9
EBITDA	645.2	663.1	621.0	589.3	598.3	699.3	614.3	617.7
Depreciation and amortization	409.9	400.8	385.2	374.4	394.4	375.5	358.1	366.2
Restructuring and workforce reduction costs	241.0	313.3	3.1	12.5	–	–	–	198.4
Operating income (loss) from continuing operations	(5.7)	(51.0)	232.7	202.4	203.9	323.8	256.2	53.1
Other expense (income), net	24.3	5.6	5.7	5.2	2.6	(0.6)	(21.6)	2.6
Financing costs	150.1	98.6	174.0	181.4	180.4	175.2	114.2	154.7
Refinancing charge from debt restructuring	–	–	–	–	–	–	–	96.5
Income (loss) from continuing operations before income taxes, non-controlling interest and goodwill amortization	(180.1)	(155.2)	53.0	15.8	20.9	149.2	163.6	(200.7)
Income taxes (recovery)	(41.6)	(50.5)	33.1	16.5	19.4	79.0	77.8	(82.8)
Income (loss) from continuing operations before non-controlling interest and goodwill amortization	(138.5)	(104.7)	19.9	(0.7)	1.5	70.2	85.8	(117.9)
Non-controlling interest	0.7	0.6	1.3	0.5	–	–	1.6	2.0
Goodwill amortization	–	–	–	–	45.1	46.2	43.0	40.5
Income (loss) from continuing operations	(139.2)	(105.3)	18.6	(1.2)	(43.6)	24.0	41.2	(160.4)
Income (loss) from discontinued operations	–	(2.1)	(0.2)	0.4	(3.1)	556.7	18.7	20.0
Net income (loss)	(139.2)	(107.4)	18.4	(0.8)	(46.7)	580.7	59.9	(140.4)
Preference and preferred share dividends and interest on convertible debentures	2.6	2.6	2.6	2.5	3.2	2.2	2.6	2.5
Common share and non-voting share income (loss)	\$ (141.8)	\$ (110.0)	\$ 15.8	\$ (3.3)	\$ (49.9)	\$ 578.5	\$ 57.3	\$ (142.9)

¹ In 2002, the Company adopted FASB EITF 01-9. The application of this standard for 2001 resulted in costs specific to Mobility, which were previously recorded as Operations expenses being reclassified to offset operating revenues.



annual operating statistics

Consolidated	2002	2001	2000	1999	1998
Shares outstanding¹					
Basic weighted average shares outstanding (millions)	317.9	294.2	247.0	236.6	237.0
Year-end shares outstanding (millions)	345.7	302.2	287.1	236.7	236.6
Per share¹					
Basic earnings per share	\$ (0.75)	\$ 1.51	\$ 1.85	\$ 1.46	\$ 0.27
Dividends declared per share	\$ 0.60	\$ 1.20	\$ 1.40	\$ 1.40	\$ 1.29
Performance indicators					
Net income (loss) (millions)	\$ (229.0)	\$ 453.5	\$ 461.0	\$ 349.8	\$ 67.0
Return on common equity ²	(3.8%)	6.9%	9.6%	14.2%	14.0%
EBITDA interest coverage ratio ³	3.7	4.1	10.7	11.6	10.5
Free cash flow (millions) ⁴	\$ (25.9)	\$ (1,353.9)	\$ 11.8	\$ 125.1	\$ 23.8
Net debt to EBITDA ratio	3.3	3.4	3.4	0.9	1.0
Net debt to total capitalization	56.6%	55.5%	55.1%	32.2%	33.0%
Capital expenditures (millions) ⁵	\$ 1,697.9	\$ 2,605.3	\$ 1,441.3	\$ 1,199.2	\$ 1,093.2
Other					
Total employees, continuing operations	25,752	30,701	29,122	–	–
Regular employees, continuing operations	23,618	27,765	26,188	21,248	22,165
Total salary expense (millions)	\$ 1,544.2	\$ 1,730.0	\$ 1,376.2	\$ 1,330.3	\$ 1,387.4

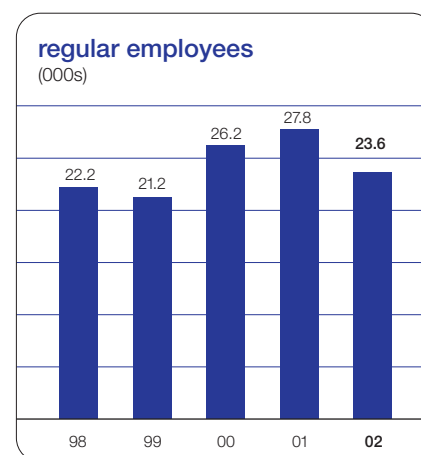
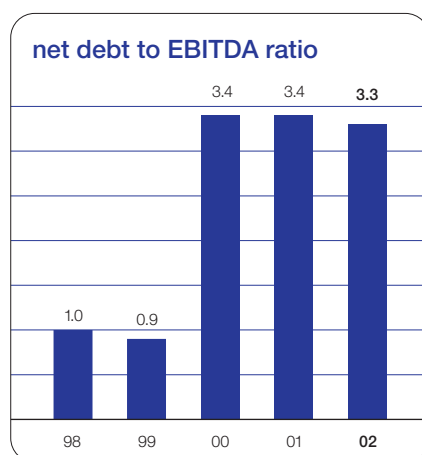
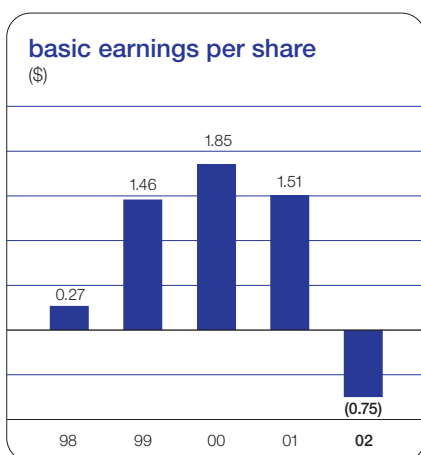
1 Common shares and non-voting shares.

2 Return on equity is calculated as common share and non-voting share income over the average quarterly equity for the 12-month period.

3 EBITDA excluding Restructuring and workforce reduction costs divided by financing costs before non-cash accreted interest and gains on redemption of debt, calculated on a 12-month trailing basis.

4 Free cash flow is calculated as EBITDA (excluding Restructuring and workforce reduction costs) less capital expenditures, interest, cash taxes and dividends.

5 Excluding \$76 million non-monetary purchase of fibre assets in Q2 of 2001.



quarterly operating statistics

Consolidated	Q4 2002	Q3 2002	Q2 2002	Q1 2002	Q4 2001	Q3 2001	Q2 2001	Q1 2001
Shares outstanding¹								
Basic weighted average shares outstanding (millions)	345.2	315.3	306.6	304.0	301.8	297.4	289.2	288.0
Period-end shares outstanding (millions)	345.7	343.5	307.3	304.6	302.2	298.4	290.0	288.5
Per share¹								
Basic earnings per share	\$ (0.41)	\$ (0.35)	\$ 0.05	\$ (0.01)	\$ (0.16)	\$ 1.94	\$ 0.20	\$ (0.50)
Dividends declared per share	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.15	\$ 0.35	\$ 0.35	\$ 0.35
Performance indicators								
Net income (loss) (millions)	\$ (139.2)	\$ (107.4)	\$ 18.4	\$ (0.8)	\$ (46.7)	\$ 580.7	\$ 59.9	\$ (140.4)
Return on common equity ²	(3.8%)	(2.3%)	8.6%	9.3%	6.9%	8.3%	(1.6%)	4.0%
EBITDA interest coverage ratio ³	3.7	3.4	3.5	3.6	4.1	4.8	6.1	8.0
Free cash flow (millions) ⁴	\$ (104.4)	\$ 239.3	\$ (261.8)	\$ 101.0	\$ (510.1)	\$ (21.3)	\$ (296.8)	\$ (525.7)
Net debt to EBITDA ratio ⁵	3.3	3.4	3.6	3.5	3.4	3.3	3.8	3.7
Net debt to total capitalization	56.6%	55.8%	58.7%	58.0%	55.4%	54.1%	58.4%	57.7%
Capital expenditures (millions) ⁶	\$ 416.2	\$ 327.2	\$ 548.6	\$ 405.9	\$ 591.6	\$ 587.1	\$ 607.7	\$ 818.9
Other								
Total employees, continuing operations	25,752	28,259	30,083	30,489	30,701	30,556	30,587	29,472
Regular employees, continuing operations	23,618	26,318	27,714	27,841	27,765	27,547	27,308	26,653
Total salary expense (millions)	\$ 366.2	\$ 372.4	\$ 403.2	\$ 402.4	\$ 467.4	\$ 439.6	\$ 426.0	\$ 397.0

1 Common shares and non-voting shares.

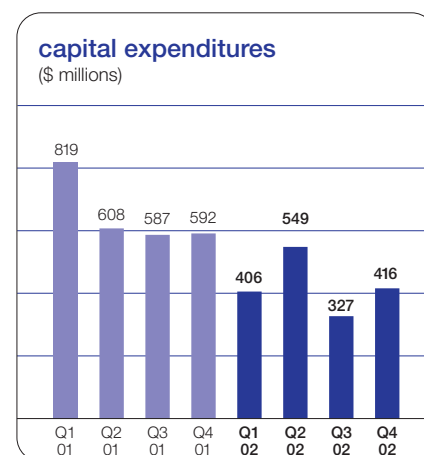
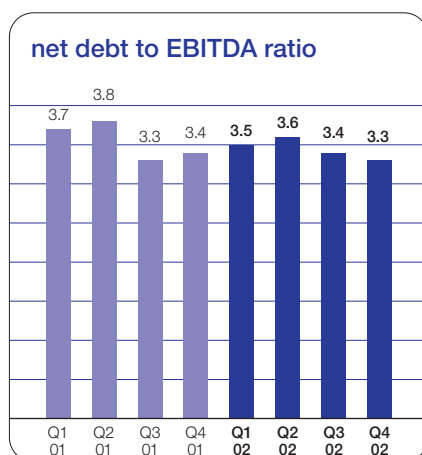
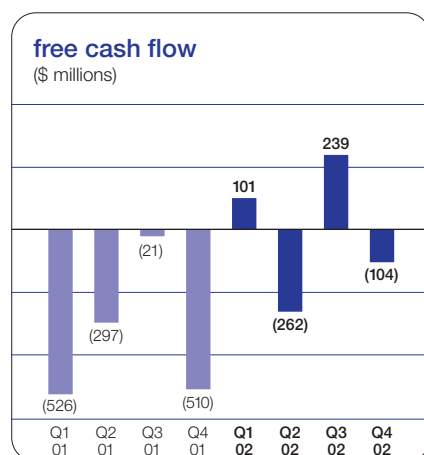
2 Return on common equity has been calculated using a 12-month trailing income over the average quarterly common equity for the 12-month period.

3 EBITDA interest coverage is calculated on a 12-month trailing basis.

4 Free cash flow is calculated as EBITDA (excluding Restructuring and workforce reduction costs) less capital expenditures, interest, cash taxes and dividends.

5 Net debt to EBITDA is calculated using a 12-month trailing EBITDA.

6 Excluding \$76 million non-monetary purchase of fibre assets in Q2 of 2001.



annual segmented statistics

	2002	2001	2000	1999
Communications segment¹				
Operating revenues (millions)	\$ 5,084.6	\$ 5,359.5	\$ 4,919.3	\$ 4,700.4
Operations expense (millions)	\$ 3,100.8	\$ 3,185.7	\$ 2,912.4	\$ 2,881.2
EBITDA (millions) ²	\$ 1,983.8	\$ 2,173.8	\$ 2,006.9	\$ 1,819.2
Capital expenditures (millions)	\$ 1,238.2	\$ 1,605.8	\$ 1,218.4	\$ 1,034.0
EBITDA ² less capital expenditures (millions)	\$ 745.6	\$ 568.0	\$ 788.5	\$ 785.2
Network access lines in service (000s)	4,911	4,967	4,944	4,551
Long distance market share, revenue based	78.0%	78.7%	77.2%	–
Local market share, subscriber based	96.9%	97.5%	97.9%	98.0%
Net additions dial-up Internet subscribers (000s) ³	(63.4)	41.8	125.5	75.6
Dial-up Internet subscribers (000s) ³	391.7	455.1	413.2	287.7
Net additions high-speed Internet subscribers (000s) ⁴	195.2	131.2	57.9	21.0
High-speed Internet subscribers (000s) ⁴	410.0	214.8	83.6	25.7
Total employees, continuing operations	20,332	25,545	24,165	–
Regular employees, continuing operations	18,677	23,247	21,810	20,391
Mobility segment (pro forma for 2000 and 1999)				
Operating revenues (millions) ⁵	\$ 2,034.9	\$ 1,825.9	\$ 1,617.2	\$ 1,377.7
Operations expense (millions) ⁵	\$ 1,500.1	\$ 1,470.1	\$ 1,443.8	\$ 1,179.7
EBITDA (millions) ²	\$ 534.8	\$ 355.8	\$ 173.4	\$ 198.0
EBITDA ² , excluding cost of acquisition (COA) (millions)	\$ 1,016.4	\$ 837.7	\$ 669.2	\$ 533.6
Capital expenditures (millions)	\$ 459.7	\$ 999.5	\$ 533.7	\$ 545.9
EBITDA ² less capital expenditures (millions)	\$ 75.1	\$ (643.7)	\$ (360.3)	\$ (347.9)
Net additions (000s)	417.8	417.5	474.1	395.6
Gross additions (000s)	1,017	985	924	668
Wireless subscribers (000s)	2,995.5	2,577.7	2,160.2	1,686.1
Penetration rate ⁶	10.9%	10.5%	9.1%	7.4%
Wireless market share, subscriber based	25.0%	24.1%	24.5%	25.0%
Average monthly revenue per subscriber unit (ARPU) ⁷	\$ 55	\$ 57	\$ 59	\$ 61
Average minutes per subscriber per month (MOU)	290	270	271	238
COA per gross addition ⁷	\$ 497	\$ 502	\$ 537	\$ 502
Monthly deactivations (churn rate) ⁷	1.8%	2.0%	2.0%	1.6%
Digital population coverage (millions) ⁸	27.4	24.2	22.6	21.3
Total population coverage (millions) ⁸	27.5	24.6	23.7	22.8
Total employees, continuing operations	5,420	5,156	4,957	–
Regular employees, continuing operations	4,941	4,518	4,378	3,744

1 Data for 1999 does not include QuébecTel wireline results.

2 Excludes Restructuring and workforce reduction costs.

3 Includes approximately 34,000 dial-up subscribers from PSINet and CADVision and a reduction of approximately 12,100 dial-up subscribers to remove internal and inactive accounts in Q4 2001.

4 Includes approximately 2,600 high-speed Internet subscribers from PSINet and CADVision in Q4 2001.

5 In 2002, the Company adopted FASB EITF 01-9. The application of this standard resulted in costs specific to Mobility, which were previously recorded as Operations expense, being reclassified to offset operating revenues. The amounts of the reclassification in 2002, 2001 and 2000 were \$139.5 million, \$122.1 million and \$108.0 million, respectively.

6 Subscribers divided by population coverage.

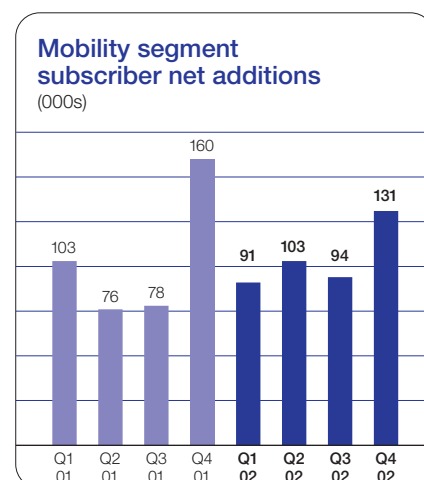
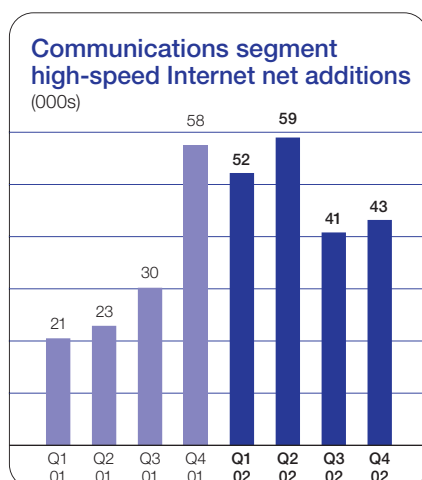
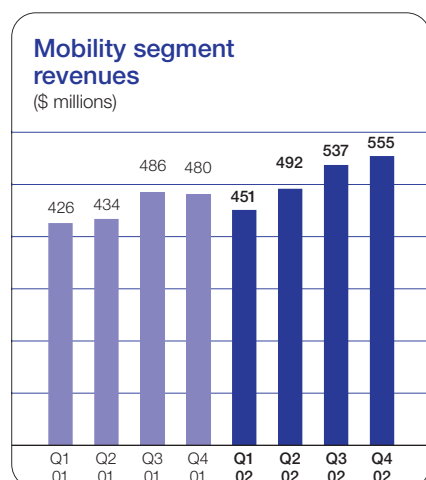
7 Subscribers, churn, average monthly revenue per subscriber and marketing cost of acquisition per gross addition for 1999 and 2000 have been adjusted to reflect definitional alignment between TELUS Mobility (pre-acquisitions), Clearnet and QuébecTel Mobilité. This includes a decrease of approximately 13,100 to the December 31, 2000 postpaid subscriber total partly offset by an increase of 4,100 to reflect inclusion of Cellular Digital Packet Data (CDPD) subscribers not previously counted. Marketing cost of acquisition as adjusted includes rebranding, retention and migration costs.

8 Includes expanded coverage due to roaming/resale agreements signed with Bell Mobility and Aliant Telecom Wireless of 6.0 million PCS POPs.

quarterly segmented statistics

	Q4 2002	Q3 2002	Q2 2002	Q1 2002	Q4 2001	Q3 2001	Q2 2001	Q1 2001
Communications segment								
Operating revenues (millions)	\$1,267.0	\$1,258.3	\$1,286.5	\$1,272.8	\$1,415.9	\$1,367.6	\$1,304.4	\$1,271.6
Operations expense (millions)	\$ 750.4	\$ 760.0	\$ 784.3	\$ 806.1	\$ 872.7	\$ 786.3	\$ 796.3	\$ 730.4
EBITDA (millions)	\$ 516.6	\$ 498.3	\$ 502.2	\$ 466.7	\$ 543.2	\$ 581.3	\$ 508.1	\$ 541.2
Capital expenditures (millions)	\$ 291.0	\$ 230.2	\$ 407.9	\$ 309.1	\$ 386.8	\$ 403.3	\$ 454.2	\$ 361.5
EBITDA less capital expenditures (millions)	\$ 225.6	\$ 268.1	\$ 94.3	\$ 157.6	\$ 156.4	\$ 178.0	\$ 53.9	\$ 179.7
Network access lines in service (000s)	4,911	4,921	4,914	4,946	4,967	4,973	4,957	4,951
Long distance market share, revenue based	78.0%	78.5%	78.3%	78.9%	78.7%	79.4%	78.7%	78.3%
Local market share, subscriber based	96.9%	97.0%	97.2%	97.4%	97.5%	97.6%	97.0%	97.9%
Net additions dial-up Internet subscribers (000s) ¹	(24.4)	(15.4)	(8.7)	(14.8)	6.4	8.3	4.9	22.2
Dial-up Internet subscribers (000s) ¹	391.7	416.2	431.6	440.3	455.1	448.7	440.4	435.5
Net additions high-speed Internet subscribers (000s) ²	43.2	40.8	59.0	52.2	57.6	30.2	22.9	20.5
High-speed Internet subscribers (000s) ²	410.0	366.8	326.1	267.0	214.8	157.2	127.0	104.1
Total employees, continuing operations	20,332	22,862	24,625	25,155	25,545	25,571	25,628	24,577
Regular employees, continuing operations	18,677	21,250	22,626	23,010	23,247	23,090	22,829	22,170
Mobility segment								
Operating revenues (millions)	\$ 554.5	\$ 537.4	\$ 491.8	\$ 451.2	\$ 480.4	\$ 485.6	\$ 433.9	\$ 426.0
Operations expense (millions)	\$ 425.9	\$ 372.6	\$ 373.0	\$ 328.6	\$ 425.3	\$ 367.6	\$ 327.7	\$ 349.5
EBITDA (millions)	\$ 128.6	\$ 164.8	\$ 118.8	\$ 122.6	\$ 55.1	\$ 118.0	\$ 106.2	\$ 76.5
EBITDA, excluding COA (millions)	\$ 278.9	\$ 274.7	\$ 247.1	\$ 215.7	\$ 214.4	\$ 228.9	\$ 205.6	\$ 188.8
Capital expenditures (millions)	\$ 125.2	\$ 97.0	\$ 140.7	\$ 96.8	\$ 204.8	\$ 183.8	\$ 153.5	\$ 457.4
EBITDA less capital expenditures (millions)	\$ 3.4	\$ 67.8	\$ (21.9)	\$ 25.8	\$ (149.7)	\$ (65.8)	\$ (47.3)	\$ (380.9)
Net additions (000s)	131.0	93.7	102.6	90.5	160.4	78.2	76.4	102.5
Gross additions (000s)	278	237	263	239	315	232	214	224
Wireless subscribers (000s)	2,995.5	2,864.5	2,770.8	2,668.2	2,577.7	2,417.5	2,339.1	2,262.7
Penetration rate	10.9%	10.8%	10.7%	10.6%	10.5%	9.9%	9.8%	9.5%
Wireless market share, subscriber based	25.0%	25.0%	24.7%	24.3%	24.1%	24.2%	24.5%	24.8%
Average monthly revenue per subscriber unit (ARPU) ³	\$ 56	\$ 58	\$ 55	\$ 52	\$ 56	\$ 60	\$ 56	\$ 57
Average minutes per subscriber per month (MOU)	302	297	299	250	276	272	265	265
COA per gross addition ³	\$ 543	\$ 467	\$ 490	\$ 480	\$ 509	\$ 482	\$ 478	\$ 535
Monthly deactivations (churn rate) ³	1.7%	1.7%	2.0%	1.9%	2.1%	2.2%	2.0%	1.9%
Digital population coverage (millions) ⁴	27.4	26.6	25.9	24.8	24.2	23.9	22.7	22.8
Total population coverage (millions) ⁴	27.5	26.9	26.2	25.1	24.6	24.3	23.9	23.8
Total employees, continuing operations	5,420	5,397	5,458	5,334	5,156	4,985	4,959	4,895
Regular employees, continuing operations	4,941	4,950	4,970	4,831	4,518	4,457	4,479	4,483

- Includes approximately 34,000 dial-up subscribers from PSINet and CADVision and a reduction of approximately 12,100 dial-up subscribers to remove internal and inactive accounts in Q4 2001.
- Includes approximately 2,600 high-speed Internet subscribers from PSINet and CADVision in Q4 2001.
- Subscribers, churn, average monthly revenue per subscriber unit and marketing cost of acquisition per gross addition for 1999 and 2000 have been adjusted to reflect definitional alignment between TELUS Mobility (pre-acquisitions), Clearnet and QuébecTel Mobilité. This includes a decrease of approximately 13,100 to the December 31, 2000 postpaid subscriber total partly offset by an increase of 4,100 to reflect inclusion of cellular digital packet data (CDPD) subscribers not previously counted. Marketing cost of acquisition as adjusted includes rebranding, retention and migration costs.
- Includes expanded coverage due to roaming/resale agreements signed with Bell Mobility and Aliant Telecom Wireless.



certifications

I, Darren Entwistle, President and Chief Executive Officer of TELUS Corporation, and I, Robert G. McFarlane, Executive Vice-President and Chief Financial Officer of TELUS Corporation, each certify that:

1. I have reviewed the management's discussion and analysis and the consolidated financial statements of TELUS Corporation (the "registrant") contained in this report;
2. Based on my knowledge, the management's discussion and analysis and the consolidated financial statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the management's discussion and analysis and the consolidated financial statements;
3. Based on my knowledge, the financial information included in the management's discussion and analysis and the consolidated financial statements, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented therein;
4. We are responsible for establishing and maintaining disclosure controls and procedures (as defined by the rules of the U.S. Securities and Exchange Commission) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the management's discussion and analysis and the consolidated financial statements contained in this report are being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of the management's discussion and analysis and the consolidated financial statements contained in this report ("Evaluation Date"); and
 - (c) presented in this report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. We have disclosed, based on our most recent evaluation, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (and persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. We have indicated in this report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

February 12, 2003



Darren Entwistle
President and
Chief Executive Officer



Robert G. McFarlane
Executive Vice-President and
Chief Financial Officer

management's discussion and analysis

The following is a discussion of the consolidated financial condition and results of operations of TELUS Corporation (TELUS or the Company) for the years ended December 31, 2002 and 2001. This discussion contains forward-looking information that is qualified by reference to, and should be read in conjunction with, the Company's discussion regarding forward-looking statements (see forward-looking statements on the inside front cover). The following should also be read in conjunction with the accompanying audited Consolidated Financial Statements of TELUS and notes thereto. The Consolidated 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 25 to the Consolidated 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 (now TELUS Québec) and the national digital wireless company Clearnet Communications Inc. (Clearnet). BC TELECOM and the former TELUS were long-established, regional full-service telecommunications companies. At the time of the 1999 merger, TELUS announced its plans to provide telecommunications services in other parts of Canada. From 1999 through 2001, TELUS constructed a national fibre-optic network, subsequently 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 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 a leading Canadian wireless service provider.

Early in 2001, TELUS acquired additional wireless spectrum in major population areas in the Industry Canada PCS spectrum auction. During 2001, TELUS sold non-core assets including its Directory Advertising business and real estate, and exited the equipment leasing business. The Company also acquired six smaller data/IP, hosting and application development companies and assets largely focused on Central Canada.

For 2002, TELUS continued to deliver on its strategy consistent with its six strategic imperatives, which were established in mid-2000. Certain examples of what TELUS delivered in 2002 are:

1. Providing integrated solutions:
 - For consumers, TELUS launched Internet Select and Internet Complete bundles, and introduced the Signature bundle, which combines residential local, personal call management services and Internet service for long distance customers at one low monthly price. The Company also launched Velocity Enhanced Internet service, which provides additional Internet capabilities and includes the Freedom® Internet Security bundle.
 - For business customers, new integrated solutions were introduced with the Managed Services portfolio, in which TELUS manages a customer's computer and network infrastructure, freeing customers to focus on their core business. For large business customers, the Company offered the Anytime, Anywhere integrated solution set, which offers comprehensive IT and customized network solutions, and provides connectivity for remote locations and highly mobile workforces.
2. Building national capabilities:
 - Implemented a new advanced intelligent national long distance and card service platform.
 - Integrated TELUS Quebec's Internet backbone with TELUS' national Internet backbone, thereby improving routing, connectivity and reliability for all TELUS Internet users.

management's discussion and analysis

- Redesigned **telus.com** to offer easier online navigation, enhanced information and simplified online ordering and account management.
 - Completed national integration of TELUS' wireless operations in Alberta and B.C. with Clearnet Communications and QuébecTel Mobilité.
3. Partnering, acquiring and divesting:
- Continued leveraging of TELUS' strategic relationship with Verizon Communications and Verizon Wireless.
 - Became the preferred wireless roaming partner in Canada for Verizon Wireless.
4. Focusing relentlessly on data, IP and wireless growth:
- Invested approximately \$250 million in ADSL infrastructure and systems and increased ADSL coverage to 83% of the top 38 communities in B.C. and Alberta.
 - Began transforming wireline networks to IP-based technology that should bring a variety of next generation capabilities and services to customers.
 - Expanded PCS coverage in Central and Eastern Canada by six million POPs with implementation of digital roaming/resale agreements with Bell Mobility and Aliant Telecom Wireless.
 - Increased total digital wireless coverage to 27.4 million POPs or close to 90% of the Canadian population.
 - Delivered new next generation 1X wireless data network across Canada, offering fast and convenient wireless Internet access to more than 22 million Canadians (70% of the population).
5. Going to market as one team:
- Continued to strengthen consistent branding in wireline and wireless, leveraging the combination of TELUS' strong, widely recognized name with its popular nature-based advertising and marketing.

6. Investing in internal capabilities:

- Completed several billing system integrations and conversions at TELUS Mobility and TELUS Communications.
- Combined and consolidated 24 customer contact centres and a number of operational and administrative functions.
- Employed Internet technologies to transform internal processes. The Company Intranet connects employees in real-time and allows them to manage their own services online while reducing paper. The Web is now the Company standard for booking travel, reporting expenses and receiving payroll advice.
- Established a Web-based learning management system offering employees a single point of access to courses and career development tools. The preferred channel for training is now e.learning, which provides employees with anywhere/anytime access.

The Company's principal subsidiaries are TELUS Communications Inc. (including TELE-MOBILE COMPANY partnership), TELUS Québec Inc. (including TELUS Communications Québec Inc.) and TELUS Services Inc. (including TELUS Enterprise Solutions Partnership). Management's discussion and analysis is on a segmented basis, which encompasses all legal entities.

TELUS' reportable business segments for the years 2002 and 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.

Developments in 2002

Change in external auditor in 2002

Effective for the second quarter of 2002, as a result of the partners and staff of the Canadian operations of Arthur Andersen LLP joining Deloitte & Touche LLP, Deloitte & Touche LLP was appointed as the external auditor of TELUS.

Accounting policy changes in 2002

The 2002 financial results reflect the adoption of two recent accounting pronouncements.

Earlier in 2002, the Company adopted the provisions of Financial Accounting Standards Board (FASB) EITF 01-9 regarding the accounting for consideration given by a vendor to a customer. The application of this standard by TELUS results in costs specific to the Mobility and Internet operations, which were previously recorded as operations expenses,

being reclassified to offset revenues. Comparative revenues and operations expense for the year ended December 31, 2001 for Mobility operations were reduced by \$122.1 million, restated on a consistent basis with 2002 results (which were reduced by \$139.5 million) – with no change to reported 2001 earnings or other key operating metrics such as marketing cost of acquisition (COA). See Note 2(b) to the Consolidated Financial Statements for more information.

In addition, effective January 1, 2002, the Company has adopted the changes in accounting policy as required by the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3062 – Goodwill and Other Intangible Assets. As a result, the Company no longer amortizes goodwill or intangible assets with indefinite lives. In the year ended December 31, 2001, the pre-tax amortization expense associated with these items was \$264.4 million.

Under Section 3062, rather than being systematically amortized, the value of intangible assets with indefinite lives and goodwill are periodically tested for impairment. In the first quarter of 2002, the Company assessed its intangible assets with indefinite lives, which are its wireless spectrum licences, and determined it necessary to record a transitional impairment amount of \$595.2 million (\$910 million before tax) as a charge to retained earnings. The Company also completed its test for transitional impairment for goodwill and determined there was no transitional goodwill impairment amount. See Note 2(a) to the Consolidated Financial Statements for additional details. The Company's annual review of impairment for intangible assets with indefinite lives and for goodwill will be complete as of December each year. No impairment was recorded as a result of this review in December 2002.

Regulatory changes in 2002

Contribution decisions

Commencing January 1, 2002, operating revenues, EBITDA¹ and earnings per share (EPS) were impacted by changes to the contribution revenues received and contribution expenses paid as a result of the following: Canadian Radio-television and Telecommunications Commission (CRTC) Decision 2000-745 on Changes to the Contribution Regime, and Decision 2001-238 on Restructured Bands. The impact of these decisions was a decrease in consolidated EBITDA of \$211 million for 2002, when compared with 2001.

In 2001, TELUS Communications Inc. (TCI) filed with the CRTC a 'review and vary' request relating to the costing assumptions prescribed to be used in calculating portable subsidy requirements, relating to CRTC Decisions 2000-745 and 2001-238. Under these decisions, the costs the Company can recover through the contribution regime were reduced. On October 25, 2002, the CRTC released Decision 2002-67, denying the 'review and vary' request. However, the CRTC noted it would consider portfolio expenses in upcoming proceedings. Other than the impacts described in the paragraph above, no additional financial impacts are expected. The Company believes that Decision 2002-67 made two critical policy errors: first, that the costs TELUS and other ILECs are required to use to calculate subsidies for residential primary exchange service and for unbundled loops are not actual company-specific costs that take into account different geography and population density in Western Canada; and second, that the costs are too low for TELUS and appear to be too low for certain other ILECs as well.

On January 22, 2003, TCI filed a petition to the Governor in Council of the Government of Canada requesting a variance of Decision 2002-67. TCI has asked the Governor in Council to vary the decision to require that the CRTC employ company-specific costs for residential primary exchange service and unbundled loops filed by the ILECs in January 2001.

Price cap decisions

On May 30, 2002 and July 31, 2002, the CRTC announced its decisions on the Regulatory Framework for the Second Price Cap Period for ILECs, or CRTC Decision 2002-34 and CRTC Decision 2002-43, which established the framework for regulation of ILECs, including TELUS. These decisions cover a four-year period beginning June 2002 for TCI and beginning August 2002 for TELUS Communications Québec Inc. (TCQI). The impact of these decisions was a decrease in consolidated EBITDA of \$57 million for 2002, when compared with 2001.

The positive aspects of the CRTC decision were that it confirms TELUS' preferred regulatory model of facilities-based competition, did not introduce the significantly larger discounts of up to 70% for use of incumbent facilities sought by competitors and allows TELUS to benefit as it becomes more efficient. On the negative side, the CRTC has extended the regulation of local prices and service levels, reduced the ability of companies to raise prices, introduced more complexity and caused additional negative impact to TELUS' earnings.

TELUS anticipates that the financial impact of the CRTC price cap decision is an incremental annual negative EBITDA impact of approximately \$80 million in 2003. This is in part due to the CRTC allowing a reduction of between 15 to 20% on the fees paid by competitive local exchange carriers (CLECs) for access to the TELUS network.

In an effort to foster competition for residential basic service in non-high cost service areas (non-HCSAs), the concept of a deferral account mechanism was introduced by the CRTC as a conservative accounting alternative to mandating price reductions. The deferral account arises from the CRTC requiring the Company to defer the income statement recognition of a portion of the monies received in respect of residential basic services provided to non-HCSAs. The revenue deferral is based on the rate of inflation (as measured by a chain-weighted GDPPI index), less a productivity offset of 3.5%, and an "exogenous factor" that is associated with allowed recoveries in previous price cap regimes that have now expired. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as service improvement programs (SIPs) in qualifying non-HCSAs, rate reductions (including those provided to competitors as required in Decision 2002-34 and Decision 2002-43) and/or rebates to customers. To the extent that a balance remains in the deferral account, interest is required to be accrued at the Company's short-term cost of borrowing. The Company's use of the deferral account is a conservative treatment for the recognition of revenues related to monies received in respect of residential services provided to non-HCSAs.

¹ Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is defined as Operating revenues less Operations expense and, as defined, excludes Restructuring and workforce reduction costs.

management's discussion and analysis

Subsequent to Decision 2002-34, AT&T Canada Inc. petitioned the Federal Cabinet to increase competitor discounts from those provided for in the Decision – this matter is still before Cabinet. In addition, CallNet Enterprises Inc. filed for a 'review and vary' in respect of the follow-up process as set by the CRTC in Decision 2002-34 to examine the services that are included and qualify for Competitor Digital Network Access (CDNA) discounts. On August 9, 2002, the CRTC issued Public Notice 2002-4 to determine the scope of CDNA services, which among other issues, will address CallNet's application. This proceeding is expected to conclude some time in 2003. The CRTC continues to consider making new services available to competitors at reduced rates.

Status of labour negotiations

TCI and the Telecommunications Workers Union (TWU) are currently negotiating a new collective agreement to replace the multiple legacy agreements from the predecessors BC TEL and the Alberta-based TELUS. In the fourth quarter of 2002, TCI's application to the federal Minister of Labour for conciliation was granted and two federal conciliators were appointed.

In January 2003, TCI and the TWU mutually agreed to extend the conciliation timeline. During the first phase of the extension, the conciliators are conducting a global review with both parties of

all outstanding issues. The timeframe for this phase is at the discretion of the conciliators. Once the global review has been completed, the conciliators will create an action plan for the second phase of conciliation. At this point, both parties will enter a conciliation period of 60 days under the supervision of the conciliators. The second phase of conciliation can be extended by the mutual agreement of both parties. If the outstanding issues are not resolved at the conclusion of the 60-day period, a 21-day cooling-off period will follow before any legal work disruption can take place. The Union must provide 72-hour strike notice before it can legally strike at the conclusion of the cooling-off period. Phase one conciliation meetings began on January 27, 2003, with additional meeting dates scheduled through to August 2003. These scheduled dates are agreed to between TCI and the TWU and are expected to either be part of the global review or fall under the 60-day conciliation period. Given these timeframes, it is currently expected that this process will not conclude until the third quarter of 2003.

On January 27, 2003, TCI and the TWU signed a Maintenance of Activities agreement as required by federal legislation. This agreement ensures the continuation of services to 911 emergency, police, fire, ambulance, hospitals and coast guard, with provisions to cover other potential emergency services necessary to prevent immediate and serious danger to the health or safety of the public, in the event of a work stoppage.

Performance to 2002 targets and guidance

TELUS revised its guidance quarterly in 2002 as new information became available. Original targets and guidance revisions are summarized in the table below with footnotes explaining the changes.

	2002 results	2001 annual report targets for 2002	Met	Revised guidance for 2002	Met
Consolidated					
Revenues	\$7.01 billion	\$7.5 to \$7.6 billion See note 1	X	\$7.35 to \$7.45 billion ¹ Approx. \$7.0 billion ²	X ✓
EBITDA ⁵	\$2.52 billion	\$2.475 to \$2.525 billion	✓	Approx. \$2.5 billion ⁴	✓
Earnings (loss) per share	(75) cents	15 to 20 cents See note 2	X	(90) to (95) cents ² Approx. (80) cents ³ Approx. (75) cents ⁴	✓ ✓ ✓
EPS excluding restructuring	43 cents	See note 2	-	15 to 20 cents ² Approx. 35 cents ³ Approx. 42 cents ⁴	✓ ✓ ✓
Capital expenditures	\$1.70 billion	\$2.1 to \$2.2 billion	✓	\$1.8 to \$2.0 billion ¹ Approx. \$1.8 billion ² Less than \$1.8 billion ³ Approx. \$1.7 billion ⁴	✓ ✓ ✓ ✓
Communications segment					
Revenue (external)	\$4.99 billion	\$5.4 to \$5.45 billion	X	Approx. \$5.0 billion ²	✓
Central Canadian wireline revenue	\$840 million	\$945 million	X	Approx. \$800 million ²	✓
Non-ILEC revenue (included in Central Canadian wireline revenue)	\$527 million	\$650 million	X	Approx. \$525 million ²	✓
EBITDA	\$1.98 billion	\$2.025 to \$2.055 billion	X	Approx. \$2.0 billion ²	~
Non-ILEC EBITDA	\$(107) million	\$(125) million	✓	Approx. \$(110) million ⁴	✓
Capital expenditures	\$1.24 billion	\$1.55 to \$1.65 billion	✓	\$1.3 to \$1.5 billion ¹ Approx. \$1.3 billion ² Approx. \$1.24 billion ⁴	✓ ✓ ✓
High-speed Internet net additions	195,200	200,000 or more	X	Approx. 200,000 ⁴	~
Mobility segment					
Revenue (external)	\$2.02 billion	\$2.1 to \$2.15 billion See note 1	✓	\$1.95 to \$2.0 billion ¹ Approx. \$2.0 billion ²	✓ ✓
EBITDA	\$535 million	\$450 to \$470 million	✓	\$470 to \$490 million ¹ Approx. \$490 million ² Approx. \$510 million ⁴	✓ ✓ ✓
Capital expenditures	\$460 million	\$560 million	✓	Approx. \$500 million ¹ Approx. \$460 million ⁴	✓ ✓
Wireless subscriber net additions	417,800	425,000 to 450,000	X	Approx. 425,000 ⁴	~
Revisions were made to the original guidance for expected 2002 results in each quarter, as follows:					
1 Guidance for Consolidated revenues and Mobility revenues was amended with the announcement of first quarter results to reflect implementation of an accounting classification change in order to comply with EITF 01-9, as on page 10. In addition, the guidance for capital expenditures was amended to reflect a reduction in planned discretionary spending, while guidance for Mobility EBITDA was changed to include a retroactive recovery associated with the favourable clarification of tax legislation by the Ontario Provincial Sales Tax Authority.					
2 Guidance issued with second quarter results reflected the impacts of new regulatory decisions, lower than expected revenue growth in Central Canadian operations, the receipt of investment tax credits, the expected impacts of the announced OEP (including expected savings and the workforce restructuring charge), and further reductions in discretionary capital spending. EPS guidance issued in the 2001 annual report did not include Restructuring and workforce reduction costs. With the announcement of the OEP, revised EPS guidance was provided for both basic EPS and EPS before Restructuring and workforce reduction costs. Excluding Restructuring and workforce reduction costs, EPS was 43 cents and exceeded the annual guidance for 2002.					
3 Guidance issued with the third quarter results was updated to reflect an improved annual outlook including increased expected OEP savings, the impact of the workforce restructuring costs expected to be recorded in 2002, the after-tax gain on third quarter debt repurchases, and the impacts of the third quarter public equity issue.					
4 Final guidance for 2002 was issued on the December 16, 2002 conference call that announced 2003 financial and operational targets. The guidance for 2002 was revised to reflect further reductions in capital expenditures in both segments, improving margins in the Mobility segment and the Communications segment's non-incumbent operations.					
5 Excluding Restructuring and workforce reduction costs.					

management's discussion and analysis

Results of operations

Highlights

Years ended December 31 (\$ in millions except per share amounts)	2002	2001	Change	%
Operating revenues normalized for regulatory impacts ¹	7,437.2	7,080.5	356.7	5.0
Operating revenues	7,006.7	7,080.5	(73.8)	(1.0)
EBITDA ² normalized for regulatory impacts ¹	2,786.4	2,529.6	256.8	10.2
EBITDA ²	2,518.6	2,529.6	(11.0)	(0.4)
Restructuring and workforce reduction costs	569.9	198.4	371.5	187.2
Income (loss) from continuing operations	(227.1)	(138.8)	(88.3)	(63.6)
Discontinued operations	(1.9)	592.3	(594.2)	(100.3)
Net income (loss)	(229.0)	453.5	(682.5)	(150.5)
Common share and non-voting share income (loss)	(239.3)	443.0	(682.3)	(154.0)
Earnings (loss) per share	(0.75)	1.51	(2.26)	(149.7)
EPS before Restructuring and workforce reduction costs ³	0.43	1.90	(1.47)	(77.4)
Capital expenditures				
– wireless spectrum	4.6	355.9	(351.3)	(98.7)
– general	1,693.3	2,249.4	(556.1)	(24.7)

1 Regulatory impacts as described in section "Regulatory changes in 2002".

2 Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is defined as Operating revenues less Operations expense and, as defined, excludes Restructuring and workforce reduction costs.

The Company has issued guidance on and reports EBITDA because it is a key measure used by management to evaluate performance of business units and it is utilized in measuring compliance with debt covenants. The Company also believes EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt. The Company believes EBITDA assists investors in comparing a company's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost; and without regard to Restructuring and workforce reduction costs, which are transitional in nature. EBITDA is not a calculation based on Canadian or U.S. GAAP and should not be considered an alternative to Net income in measuring the Company's performance or used as an exclusive measure of cash flow because it does not consider the impact of working capital growth, capital expenditures, debt principal reductions and other sources and uses of cash which are disclosed in the Consolidated Statements of Cash Flows. Investors should carefully consider the specific items included in TELUS' computation of EBITDA. While EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors should be cautioned that EBITDA as reported by TELUS may not be comparable in all instances to EBITDA as reported by other companies.

3 EPS before Restructuring and workforce reduction costs is calculated as EPS plus the after-tax workforce restructuring costs on a per share basis. After-tax restructuring and workforce reduction costs were approximately \$376 million for 2002, compared with approximately \$113.5 million for 2001.

Consolidated operating revenues and consolidated EBITDA decreased for the year ended December 31, 2002, when compared with 2001.

These results included negative impacts of recent regulatory decisions totalling \$430.5 million for revenues and \$267.8 million for EBITDA. After normalizing for regulatory impacts, TELUS operating revenues improved by 5.0% for the year and EBITDA improved by 10.2% for the year, when compared with 2001, due to improvement in TELUS Mobility Network revenues and operating efficiencies, reduced Communications segment expenses and the receipt of investment tax credits (ITCs). TELUS Communications made significant cost structure improvements throughout 2002, including a reduction of approximately 5,200 positions since December 31, 2001, the closure of 33 TELUS retail stores, and the closure or consolidation of 24 customer contact centres.

Net income and EPS decreased in 2002, when compared with 2001, due primarily to the recognition of significant gains included in the \$592.3 million income from Discontinued operations in 2001 (\$2.02 per share). Income in 2002 was also negatively impacted by Restructuring and workforce reduction costs of approximately \$376 million (\$1.18 per share), compared with approximately \$113.5 million (39 cents per share) in 2001. Also reducing 2002 results were negative regulatory decision impacts of approximately \$162 million after tax (51 cents per share), partly offset by the required cessation of amortization of goodwill and intangible assets with indefinite lives of approximately \$225 million after tax (77 cents per share), and improved EBITDA before regulatory decision impacts of approximately \$155 million after tax (49 cents per share).

The discussion below is presented on a segmented basis for external revenues, total operations expenses, EBITDA and capital expenditures. See the segmented disclosure in the TELUS Consolidated Financial Statements, Note 23. All other disclosure is on a consolidated basis.

Operating revenues – TELUS Communications

Years ended December 31 (\$ in millions)	2002	2001	Change	%
Voice local (net of 2002 price cap of \$30.7 million)	2,106.5	2,083.6	22.9	1.1
Voice contribution	89.4	464.0	(374.6)	(80.7)
Voice long distance (net of 2002 price cap of \$2.8 million)	1,016.0	1,094.6	(78.6)	(7.2)
Data (net of 2002 price cap of \$21.5 million)	1,366.6	1,176.6	190.0	16.1
Other (net of 2002 price cap of \$0.9 million)	410.8	453.2	(42.4)	(9.4)
External operating revenue	4,989.3	5,272.0	(282.7)	(5.4)
Intersegment revenue	95.3	87.5	7.8	8.9
Total operating revenue	5,084.6	5,359.5	(274.9)	(5.1)

Voice local revenue is generated from monthly access charges and enhanced services. Local access revenue decreased by \$71 million in 2002, due primarily to CRTC price cap decision impacts noted in the table above and approximately 56,000 fewer access lines than one year ago, partly offset by price increases implemented in 2001 and growth in non-ILEC business. More than offsetting the decline in local access revenues was increased local enhanced services revenue of \$30.0 million. Excluding the negative price cap impacts, voice local revenue increased by \$53.6 million or 2.6% in 2002 as compared to 2001.

Network access lines decreased by approximately 32,000 consumer lines and 24,000 business lines between December 31, 2001 and December 31, 2002. ILEC consumer lines in Western Canada and Quebec decreased due to removal of second lines as a result of the significant increase in high-speed Internet subscribers, technological substitution including migration to wireless services, and losses to competitors. Consumer second lines were approximately 6.5% of total consumer access lines as at December 31, 2002. ILEC business line losses resulting from technological substitution to more efficient Integrated Services Digital Network (ISDN) services and from economic factors were 42,000. Partly offsetting this was a net 18,000 line competitive gain due to growth in Central Canada non-ILEC business lines exceeding ILEC business line losses. The combined ILEC business and local consumer market share was estimated to be 97% at December 31, 2002 (98% at December 31, 2001).

Voice contribution revenue decreased for the year ended December 31, 2002, when compared with the same period one year ago. The change in contribution revenue resulted principally from CRTC Decisions 2000-745 on Changes to the Contribution Regime and 2001-238 on Restructured Bands, which reduced the revenues that TELUS received to subsidize high-cost rural service areas in 2002. Under these decisions, there was also a much smaller decrease in contribution expense (or revenue tax) impacting both the Communications and Mobility segments in 2002 (see discussion under Operations expense).

Voice long distance revenue decreased for the year ended December 31, 2002, when compared with the same period one year ago. Wholesale settlement revenues decreased by \$39.1 million due to lower inbound minutes from domestic carriers and migration of competitors' minutes to their own networks, as well as lower rates on international traffic. Substitution to alternative technologies such as e-mail, Internet and wireless, and lower business long distance rates contributed to long distance revenue and minute erosion. In addition, there was a short-term increase in 2001 to consumer long distance revenues due to capping of minutes in unlimited plans in June 2001 that was not repeated in 2002 due to changes in consumer calling patterns. To a lesser extent, long distance revenues were reduced by price cap impacts. These declines were partially offset by implementation of a \$1.25 monthly long distance plan administration fee and a two-cent per-minute rate increase in consumer calling plans effective February 2002.

Data revenues include enhanced/IP data services (such as Internet access, hosting and applications, LAN/WAN, gateway service, internetworking and remote access) and other data services (managed information technology (IT) services and legacy data services such as private line, switched data services, data local access, data settlements and data equipment sales). Wireless data revenues are included in Mobility segment Network revenues. Organic data revenue growth, which excludes revenues from 2001 acquisitions as well as the impacts of price caps and international data revenues, was 9.7%.

- Enhanced data/IP revenue increased by \$134.6 million in 2002 mainly due to the 90.9% annual growth in consumer high-speed Internet customer base, and increased internetworking and hosting revenues, partly offset by lower e-commerce (consistent with lower demand observed in the Canadian e-commerce marketplace) and lower content and portal revenues. During the fourth quarter of 2002, the Company completed a post-implementation review of Internet subscriber counts and net additions, following the implementation of a new billing system in the third quarter. It was determined that dial-up deactivations related to conversion of accounts to high-speed Internet were understated as a result of the billing system changes. Consequently, dial-up subscriber net deactivations of 63,400 included an adjustment of 21,100. High-speed Internet subscriber net additions of 195,200 were reduced by a 3,400 negative adjustment as a result of the post-implementation review. As a result of slower market growth and the subscriber adjustment, high-speed Internet net additions were slightly lower than the original guidance of 200,000 or more.
- Other data revenues increased by \$55.4 million in 2002. The increase included \$102.0 million due to higher volumes for digital private line, packet switched, videoconferencing and other services, as well as increased equipment sales. In addition, international IT managed services revenue increased by \$33.9 million, partly offset by a reduction of \$59.0 million in data settlements revenue and \$21.5 million negative price cap impacts.

management's discussion and analysis

The decrease in Other revenue for 2002 was due to lower voice equipment sales volumes as a result of reduced demand and increased focus on higher margin product portfolios, greater emphasis on data equipment sales as opposed to voice equipment sales, \$10.9 million lower late payment charges and, to a lesser extent, closure of retail stores, partly offset by the inclusion of five additional months of revenue from the former Williams Communications Canada Inc., which TELUS purchased on June 1, 2001.

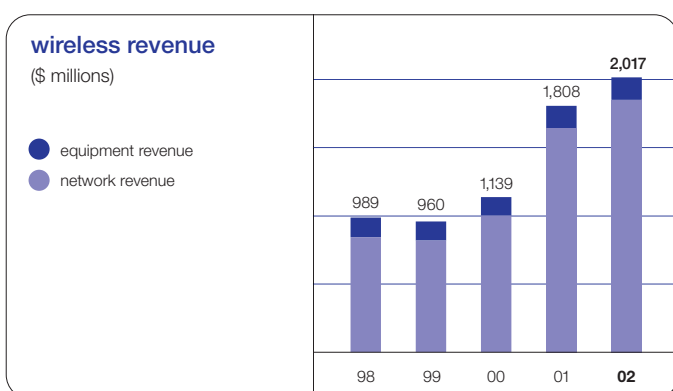
Included in the total revenues are non-ILEC revenues of \$527.3 million for 2002 compared with \$335.1 million in 2001. Minor adjustments have been made to 2001 non-ILEC revenues and operations expense to reflect current customer account classifications.

Intersegment revenues represent services provided by the Communications segment to the Mobility segment and are eliminated upon consolidation along with the associated expense from TELUS Mobility.

Key operating indicators – TELUS Communications

Years ended December 31 ('000s for subscribers and additions)	2002	2001	Change	%
Network access lines, end of period	4,911	4,967	(56)	(1.1)
Total Internet subscribers, end of period ¹	801.7	669.9	131.8	19.7
Dial-up	391.7	455.1	(63.4)	(13.9)
High-speed	410.0	214.8	195.2	90.9
Total Internet subscriber net additions ¹	131.8	173.0	(41.2)	(23.8)
Dial-up	(63.4)	41.8	(105.2)	(251.7)
High-speed	195.2	131.2	64.0	48.8

¹ Internet net additions and year-end subscriber counts for 2002 include reductions of approximately 21,100 dial-up subscribers and approximately 3,400 high-speed Internet subscribers as a result of a post-implementation review following billing system conversions.



Operating revenues – TELUS Mobility

Years ended December 31 (\$ in millions)	2002	2001	Change	%
Network revenue	1,852.7	1,645.0	207.7	12.6
Equipment revenue	164.7	163.5	1.2	0.7
External operating revenue	2,017.4	1,808.5	208.9	11.6
Intersegment revenue	17.5	17.4	0.1	0.6
Total operating revenue	2,034.9	1,825.9	209.0	11.4

TELUS Mobility Network revenue is generated from monthly billings for access fees, incremental airtime charges, prepaid time consumed or expired, wireless data and fees for value-added services. Network revenue increased notably by 12.6% in 2002 when compared with 2001. The Network revenue growth was a result of the continued expansion of TELUS Mobility's subscriber base by 16.2% to approximately 3.0 million subscribers from 2.6 million one year ago, while maintaining an industry leading average revenue per subscriber unit per month (ARPU).

TELUS Mobility continued to pursue a strategy focused on profitable revenue growth and subscriber retention, which resulted in steady ARPU and a substantially improved churn year-over-year. While ARPU was \$55 for 2002, compared with \$57 in 2001, the relative stability of ARPU in the fourth quarter (\$56 in both 2002 and 2001) was in contrast with historical trends observed in the fourth quarter (typically an approximate 3% rate of decrease). This was a significant achievement considering 2002 trends of greater in-bucket usage, postpaid/prepaid mix changes, retention offers aimed at reducing postpaid churn, and overall competitive market pressures. In-bucket usage refers to plans that offer free minutes (at a fixed fee) for periods of time, including free evenings and weekends and after-school calling. The slight decline in ARPU was attributed to increased usage and to TELUS Mobility's pricing discipline. Average minutes of use (MOU) per subscriber per month were 290 in 2002 compared with 270 in 2001. As of December 31, 2002, postpaid subscribers accounted for 83.1% of the total cumulative subscriber base as compared to 84.9% one year earlier. Net postpaid additions of 301,600 represented 72.2% of all net additions, an 80,100 or 36.2% increase, as compared to 221,500 or a 53.1% increase in 2001. Total net subscriber additions were 417,800 as compared to 417,500 in 2001. TELUS Mobility's strong subscriber growth in the first three quarters of 2002 provided the flexibility to exercise pricing discipline despite significant promotional activity by competitors for the fourth quarter. Net additions for 2002 were similar to those for the prior year and reflect a notable increase in market share given declining industry net additions as compared to the previous year.

The blended postpaid and prepaid churn rate averaged 1.8% per month for 2002 and represented an improvement from a 2.0% churn rate for the same period in 2001. Deactivations increased by 4.5% to 599,100 from 573,300 in 2001. The improved churn rate and industry leading ARPU are evidence of the continued focus and execution by TELUS Mobility on subscriber retention and profitable revenue generating

subscriber growth. The decline in the churn rate is attributed to improved network quality and coverage including the implementation of the roaming/resale agreements with Bell Mobility and Aliant Telecom Wireless, improved client service levels, client contracting as part of loyalty and retention programs, and the grandfathered per-second rate plans compared to new per-minute billing plans.

Equipment sales, rental and service revenue for 2002 was \$164.7 million compared with \$163.5 million for the same period in 2001. The increase in equipment revenue was principally due to a 26,100 (2.6%) increase in gross subscriber activations to 1,016,900 in 2002 from 990,800 in 2001.

Intersegment revenues represent services provided by the Mobility segment to the Communications segment and are eliminated upon consolidation along with the associated expense in TELUS Communications.

Key operating indicators – TELUS Mobility

Years ended December 31 (000s for subscribers and additions)	2002	2001	Change	%
Net subscriber additions – postpaid	301.6	221.5	80.1	36.2
Net subscriber additions – prepaid	116.2	196.0	(79.8)	(40.7)
Net subscriber additions – total	417.8	417.5	0.3	0.1
Subscribers – postpaid	2,490.6	2,189.0	301.6	13.8
Subscribers – prepaid	504.9	388.7	116.2	29.9
Subscribers – total	2,995.5	2,577.7	417.8	16.2
Churn, per month (%)	1.8	2.0	(0.2)	–
COA per gross subscriber addition ¹ (\$)	497	502	(5)	(1.0)
COA per gross subscriber addition excluding retention and migration ¹ (\$)	425	446	(21)	(4.7)
ARPU (\$)	55	57	(2)	(3.5)
Total POPs ² covered (millions)	25.3	24.6	0.7	2.8
Digital POPs covered (millions)	25.2	24.2	1.0	4.1
Digital POPs covered including roaming/resale ³	27.4	–	–	–
EBITDA excluding COA (\$ millions)	1,016.4	837.7	178.7	21.3

1 For 2002, COA of \$497 and \$425 before retention and migration costs excluded the \$21.0 million favourable clarification of tax legislation by the Ontario Provincial Sales Tax authorities, representing a reversal of a cumulative COA liability. When including the \$21.0 million reduction, COA for 2002 would be \$476 and \$404 excluding retention and migration.

2 POPs is an abbreviation for Population. A POP refers to one person living in a population area, which in whole or substantial part is included in the coverage areas.

3 TELUS Mobility has not activated all digital roaming areas. TELUS PCS digital population coverage was 21.4 million, and 27.4 million including the roaming/resale agreement with Bell Mobility and Aliant Telecom Wireless. TELUS PCS and Mike digital population coverage was 25.2 million.

Operations expense – TELUS Communications

(\$ in millions)	2002	2001	Change	%
Years ended December 31	3,100.8	3,185.7	(84.9)	(2.7)

TELUS Communications operations expenses decreased in 2002 as a result of Operational Efficiency Program (OEP) cost reductions including lower salaries and benefits from approximately 5,200 net staff reductions since December 31, 2001, a lower contribution expense and the favourable impact of investment tax credits (ITCs) of \$50.5 million.

The ITCs were recognized as a result of a settlement with the Canada Customs and Revenue Agency (CCRA) for previous years' claims and were recorded as a reduction of operations expense as this is where the qualifying expenses were recorded originally. The OEP cost reductions and reduced contribution expenses were partly offset by non-ILEC expansion and 2001 acquisitions.

Non-ILEC expenses increased by \$153.8 million in the year ended December 31, 2002, when compared with the same period in 2001. The increase was mainly due to additional costs from companies acquired from June to October 2001, as well as increased facility costs and cost of sales associated with revenue growth that were partly offset by improved operational efficiencies including the movement of a greater proportion of traffic services on-net.

ILEC operations expense decreased by \$238.7 million in the year ended December 31, 2002, when compared with the same period in 2001. The most significant changes were OEP-related savings of approximately \$150 million (approximately \$107 million salary savings from reduced staff counts), as well as a decrease in contribution expense of \$123.4 million. The change to contribution expense resulted from the lowering of contribution rates from 4.5% of eligible revenues to a final rate of 1.3% of eligible revenues, as determined in CRTC contribution and rebanding decisions. Combined wholesale settlement, facilities and clearinghouse expenses decreased by \$16.6 million, while payments under the Software and Related Technology and Services Agreement with Verizon decreased by \$25.5 million. Equipment cost of sales decreased by \$37.6 million due to lower equipment sales. Operations expenses also decreased by \$50.5 million due to receipt of ITCs in 2002, while ILEC bad debt expense decreased by \$3.1 million.

The above decreases in ILEC operations expense were partially offset by the following expense increases. Along with lower salaries and benefits associated with the OEP described above and the significant reduction in the capital expenditure program, capitalized labour costs decreased by \$16.7 million. Capitalization rates for labour in 2002 and 2001 were approximately 14% in 2002 and 2001. Pension expenses increased by \$41.4 million, expenses related to international data managed service revenues increased by \$33.3 million, building lease payments increased by \$5.7 million due to the sale and leaseback of administrative buildings in 2001, and a one-time \$8.0 million property tax recovery was recorded in the first quarter of 2001, for which there is no equivalent recovery in 2002. Consumer Internet cost of sales increased by \$5.4 million year-to-date due to higher subscriber additions for the year. Other cost increases of approximately \$57.5 million were primarily the annualized impact of salary and employee-related expenses associated with 2001 acquisitions.

In 2003, pension expense is expected to increase by approximately \$65 million. The pension expense change in 2003 is not expected to result in a corresponding increase in cash contributions. The projected increase in the 2003 pension expense is non-cash in nature and is related to amortization of actuarial losses and a lower expected return on assets for defined benefits pension plans (reduced to 7.48% from 7.71%).

management's discussion and analysis

Operations expense – TELUS Mobility

(\$ in millions)	2002	2001	Change	%
Years ended December 31	1,500.1	1,470.1	30.0	2.0

TELUS Mobility operations expenses increased for the year ended December 31, 2002 when compared to the same period one year ago. Expenses included a \$21.0 million reduction resulting from a clarification of provincial sales tax (PST) legislation related to handset subsidies, which represented the reversal of a cumulative liability previously recorded in marketing cost of acquisition (COA). Normalized for this reduction in expenses, Operations expense increased by \$51.0 million or 3.5%. The increase was principally due to general and administrative expenses (G&A) for client services to support higher subscriber levels and, to a lesser extent, COA attributed to higher postpaid gross activations. However, significant productivity improvement is evident when G&A expense increase of 11.7% is compared with network revenue growth of 12.6% and annual subscriber growth of 16.2%.

Expenses related to equipment sales decreased by \$22.8 million or 5.8% when compared to one year earlier. The decrease was related to the \$21.0 million favourable clarification of PST legislation. Once normalized, equipment costs decreased by \$1.8 million or 0.5% due to favourable exchange rates and vendor pricing being partly offset with 26,100 higher gross subscriber additions. These costs are included in COA.

Network operating expenses consist of site-related expenses, transmission costs, spectrum licence fees, contribution revenue taxes and other direct costs related to network operations. Network operating expenses decreased by \$20.3 million or 5.2% to \$366.7 million in 2002 from \$387.0 million in 2001. These costs improved as a result of reduced contribution charges, \$18.6 million in 2002 as compared to \$60.1 million in 2001. When normalized for reduced contribution revenue taxes in 2002, network operating expenses increased by \$21.2 million or 5.5% as compared to 2001. The normalized increases were attributed to transmission and site-related expenses including costs in support of the roaming/resale agreement with Bell Mobility and Aliant Telecom Wireless. Enhancements to both PCS and Mike digital networks across Canada helped to support the increased subscriber base and improve service levels. PCS digital population coverage increased by 6.0 million (Bell – 4.8 million and Aliant – 1.2 million) from 21.4 million before the roaming/resale agreements to 27.4 million including roaming/resale areas activated by the end of the fourth quarter. Total digital population coverage (Mike and PCS) as of December 31, 2002, was 25.2 million (27.4 million including all current digital roaming service areas) as compared to 24.2 million one year ago.

Marketing expenses excluding handset subsidies were \$249.4 million for 2002, as compared to \$230.2 million for 2001. The increase was principally the result of dealer compensation as a result of 37,100 higher postpaid gross subscriber additions. COA per gross subscriber addition was \$497 (excluding any benefit from the \$21.0 million PST ruling) as compared to \$502 in 2001. Excluding retention and migration costs, COA per gross subscriber addition was \$425 and \$446 for 2002 and

2001, respectively. Increased retention spending is consistent with TELUS Mobility's focus on reducing postpaid churn by contracting and offering incentives to the existing subscriber base.

G&A expenses consist of employee compensation and benefits, facilities, client services, bad debt and various other expenses. G&A expenses increased by 11.7% to \$512.8 million for 2002, compared to \$458.9 million in 2001. The increases were principally related to an increase in staffing levels in the areas of client operations, company-owned retail stores, expansion into new coverage territory, and channel distribution expansion to support subscriber growth and improve service levels. Employee costs increased due to growth of 5.1% in staffing levels to 5,420 employees from 5,156 at December 31, 2001. Client operations expense increased principally due to increases in bad debts and subscriber related expenses, such as billing and postage charges. Bad debts and other customer losses increased by \$22.6 million for 2002 as compared to 2001. This significant increase in bad debt and other customer losses was related to certain temporary impacts related to billing system conversions completed in 2002. By the fourth quarter, such expenses had begun to return to historical levels as bad debt and other customer losses declined by \$5.4 million or 36.2% as compared to the third quarter of 2002. TELUS Mobility expects bad debt related expenses to decline to more historical levels in 2003. TELUS Mobility completed its fifth and final major billing system conversion over the past 18 months with the completion of the Mike billing system conversion in early October 2002.

Earnings' Before Interest, Taxes, Depreciation and Amortization (EBITDA) by segment

Years ended December 31 (\$ in millions)	2002	2001	Change	%
TELUS Communications	1,983.8	2,173.8	(190.0)	(8.7)
TELUS Mobility	534.8	355.8	179.0	50.3
TELUS Consolidated	2,518.6	2,529.6	(11.0)	(0.4)

EBITDA' margin² by segment

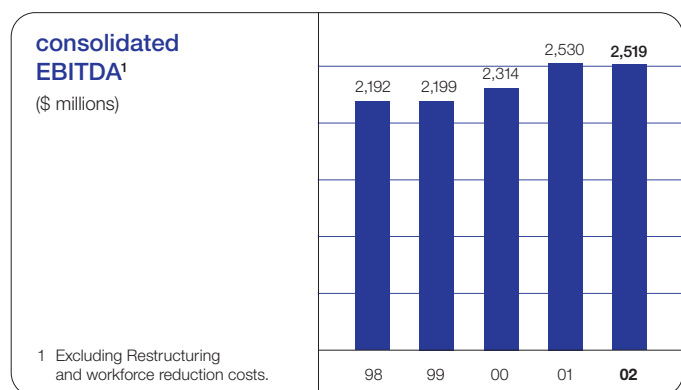
Years ended December 31	2002	2001	Change
TELUS Communications	39.0	40.6	(1.6)
TELUS Mobility	26.3	19.5	6.8
TELUS Consolidated	35.9	35.7	0.2

- 1 Excluding Restructuring and workforce reduction costs.
- 2 EBITDA divided by total revenue.

TELUS Communications EBITDA, excluding Restructuring and workforce reduction costs, decreased by \$190.0 million for 2002 when compared to 2001, primarily due to the negative impacts of the changes in contribution rates and the price cap decision. Normalized for these negative regulatory impacts, TELUS Communications EBITDA would have increased by \$119.3 million. The normalized improvement is attributable to operational efficiency savings, receipt of ITCs and increased data revenue, offset by decreases in other areas such as

long distance and voice equipment sales. Non-ILEC negative EBITDA of \$107.2 million for 2002 showed improvement from the negative \$145.6 million reported in 2001 due to higher margin revenue growth, cost efficiencies and improved economies of scale. Non-ILEC negative EBITDA decreased for five consecutive quarters.

TELUS Mobility continued to successfully execute its national strategy focused on profitable revenue growth. Incremental network revenue flowed through to EBITDA excluding COA at a rate of 86.0% in 2002, compared to 67.7% in 2001. Excluding the \$21.0 million favourable PST clarification and reduced regulatory contribution expense of \$41.5 million, full year 2002 EBITDA improved by \$116.5 million (32.7%) as compared to the same period in 2001. EBITDA margin as a percentage of network revenue (before the PST clarification) improved to 27.7% compared to 21.6% in 2001. The improvement in EBITDA margin was attributable to strong subscriber and revenue growth, economies of scale recognized through improved efficiencies resulting from the successful integration of TELUS Mobility's operations, and investments in information systems and technology, as well as lower contribution charges and the favourable PST clarification. For TELUS Mobility, EBITDA divided by network revenue was 28.9% in 2002 as compared to 21.6% in 2001. Excluding the \$21.0 million PST clarification, the margin for 2002 was 27.7%.



Depreciation and amortization

Years ended December 31 (\$ in millions)	2002	2001	Change	%
Depreciation	1,213.7	1,127.6	86.1	7.6
Amortization of intangible assets	356.6	366.6	(10.0)	(2.7)

Depreciation expense increased in 2002 primarily due to \$85.5 million higher expense related to the net growth in capital assets (predominantly in wireless and data network capital assets) and \$29.7 million related to the acquisition of PSINet. These increases were partially offset by \$29.1 million lower depreciation on network assets due to service life increases implemented in late 2001.

Commencing January 1, 2002, the Company no longer amortizes intangible assets with indefinite lives as a result of the required adoption of CICA policy discussed in Note 2(a) to the Consolidated Financial Statements. In 2001, the Company recorded amortization of \$89.6 million for intangible assets with indefinite lives. In 2002, amortization for administrative software assets and subscribers increased by \$79.6 million when compared with 2001.

Restructuring and workforce reduction costs

(\$ in millions)	2002	2001	Change	%
Years ended December 31	569.9	198.4	371.5	187.2

Restructuring and workforce reduction costs were recorded in 2001 and 2002 for the OEP. In 2001, the Company initiated a phased OEP aimed at improving operating and capital productivity and competitiveness. The first phase of the OEP was to complete merger-related restructuring activities in TELUS Mobility and the reorganization of TELUS Communications. In the first quarter of 2001, a restructuring charge of \$198.4 million was recorded. Approximately one-half of the 2001 charge was related to integration costs for TELUS Mobility including the write-down of redundant capital assets, handset reconfiguration costs and employee severance costs. The remaining charge was related to reorganization costs in TELUS Communications, including employee severance costs and capital asset impairment charges. In the first quarter of 2002, the Company recorded a \$12.5 million expense in respect of Restructuring and workforce reduction costs incurred in excess of the 2001 provision. By December 31, 2001, excluding the impacts of staff increases associated with acquisitions, there were approximately 800 net staff reductions as a result of the OEP.

The second phase of the OEP, which commenced at the beginning of 2002, continued to focus on reducing staff, but also entailed a comprehensive review of enterprise-wide processes to identify capital and operational efficiency opportunities. Consequently, on June 7, 2002, the Company initiated a program offering an Early Retirement Incentive Plan (ERIP) and Voluntary Departure Incentive Plan (VDIP) to 11,000 of more than 16,000 bargaining unit employees and on July 11, 2002, the Company announced details on OEP initiatives including: streamlining of business processes; reducing the TELUS product portfolio and processes that support them; optimizing the use of real estate, networks and other assets; improving customer order management; reducing the scope of corporate support functions; consolidating operational and administrative functions; and consolidating customer contact centres.

The third phase of the OEP commenced in the third quarter of 2002 and was focused on operationalizing the above noted initiatives. Twenty-four of the 43 customer contact centres targeted for consolidation were consolidated by December 31, 2002. All 33 of the TELUS stores targeted for closure were closed by December 31, 2002. Consolidation of administrative offices was largely completed by December 31, 2002. TELUS Communications reduced its staff count by 5,200 for the year ended December 31, 2002. Since the inception of the OEP in 2001 up to December 31, 2002, the Company has reduced its staff count by approximately 6,000, comprised of 4,200 bargaining unit positions and 1,800 management positions. TELUS currently expects approximately 1,300 additional net employee reductions to occur in 2003 as a result of the OEP. See Note 5 to the Consolidated Financial Statements.

The expense and liability for the ERIP and VDIP programs are recognized when the employee accepts the Company's formalized offer. The total Restructuring and workforce reduction expense of \$569.9 million for 2002 consisted of a phase one expense of \$12.5 million incurred

management's discussion and analysis

in 2002, which was in excess of the phase one 2001 provision, as well as a \$557.4 million provision in 2002 related to the second and third phases of the OEP. This 2002 provision included management, ERIP, VDIP and other operational efficiency pursuits. An additional restructuring amount of approximately \$20 million is expected to be recorded in 2003 in respect of the OEP for items that were not eligible to be recorded in 2002.

The EBITDA savings for the OEP was approximately \$150 million for the year ended December 31, 2002. The annual savings for 2003 are currently expected to be approximately \$450 million. Thereafter, annual recurring savings are currently estimated to be approximately \$550 million.

Other expense (income), net

(\$ in millions)	2002	2001	Change	%
Years ended December 31	40.8	(17.0)	57.8	–

Other expense (income) includes impairments in portfolio investments, gains and losses on disposal of property, charitable donations and accounts receivable securitization expense. In 2002, impairments totalling \$19.6 million were recorded for certain minority investments, while losses in equity investments increased by \$7.4 million from the same period in 2001. Accounts receivable securitization expense increased by \$2.6 million when compared with 2001, as a result of the establishment of a new, expanded program at the end of July 2002. See Note 2(d) and Note 11 to the Consolidated Financial Statements for further discussion. Other income in 2001 included a \$24.5 million gain from the sale of a fibre asset.

Financing costs

(\$ in millions)	2002	2001	Change	%
Years ended December 31	604.1	624.5	(20.4)	(3.3)

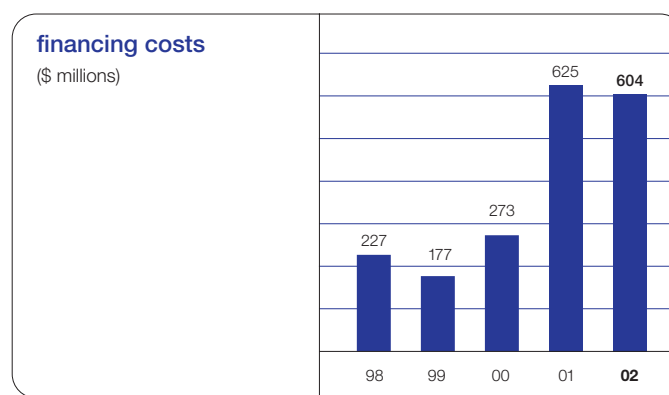
Financing costs for the year ended December 31, 2002 included pre-tax gains on debt redemption of \$82.7 million as well as recognition of interest income of \$24.0 million associated with the receipt of ITCs. The pre-tax gains on debt redemption arose from the repurchase of approximately \$410 million principal amount of notes and debentures of TELUS Corporation and TELUS Communications Inc. for a cash outlay of approximately \$318 million including commissions and net of cross-currency swap unwind proceeds. Refer to the discussion under Cash provided by financing activities for further details. Financing costs for the year ended December 31, 2001 included a \$65.9 million gain on redemption of Clearnet senior discount notes. See Note 6 to the Consolidated Financial Statements for the components of Financing costs.

Excluding gains on debt repurchase and redemption and interest income received on ITCs, financing costs for the year ended December 31, 2002 increased by \$20.4 million when compared to

the same period one year ago. Interest on long-term and short-term debt increased by \$9.3 million in 2002 due to a higher effective interest rate than in 2001, partly offset by a lower average debt balance.

The effective interest rate on the average debt outstanding was 7.9% for 2002 (7.8% for 2001), while the average debt outstanding during 2002 was \$8,818 million (\$8,916 million for 2001). Other changes to financing costs included a \$10.9 million decrease in interest income due to a lower volume of short-term investments.

The short-term obligation and long-term debt balance as at December 31, 2002 decreased by \$493 million to \$8,388 million from \$8,881 million at the end of 2001, while the average term to maturity has decreased to 6.6 years as at December 31, 2002 (7.6 years as at December 31, 2001).



Refinancing charge from debt restructuring

(\$ in millions)	2002	2001	Change	%
Years ended December 31	–	96.5	(96.5)	(100.0)

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

Income taxes

(\$ in millions)	2002	2001	Change	%
Years ended December 31	(42.5)	93.4	(135.9)	(145.5)

The recovery of income taxes in 2002, when compared with tax expense recorded in 2001, was primarily due to losses before taxes in 2002 compared with income before taxes in 2001. The income tax recovery in 2002 was reduced by large corporations tax (LCT) and future tax expense recorded for revaluation of future tax assets and liabilities for decreases in statutory tax rates. The tax expense in 2001 was increased by LCT and future income tax expense for the revaluation of future income tax assets and liabilities resulting from prospective changes in income tax rates. See Note 7 to the Consolidated Financial Statements.

Non-controlling interest

(\$ in millions)	2002	2001	Change	%
Years ended December 31	3.1	3.6	(0.5)	(13.9)

Non-controlling interest for the year ended December 31, 2002 primarily represents a partner's interest in TELUS International Inc. The decrease in non-controlling interest for the year ended December 31, 2002, when compared to the same period in 2001, was mainly due to TELUS' purchase of the remaining 30% of TELUS Québec from Verizon on June 30, 2001.

Goodwill amortization

(\$ in millions)	2002	2001	Change	%
Years ended December 31	-	174.8	(174.8)	(100.0)

Commencing January 1, 2002, the Company no longer amortizes goodwill. This is the result of the required adoption of new accounting rules in CICA Handbook Section 3062 as discussed in Note 2(a) to the Consolidated Financial Statements.

Discontinued operations

(\$ in millions)	2002	2001	Change	%
Years ended December 31	(1.9)	592.3	(594.2)	(100.3)

By the end of August 2002, TELUS completed the sale of its U.S. directory operations. Discontinued operations for the twelve-month period ended December 31, 2001 represented combined income from directory advertising and equipment leasing businesses prior to their effective divestiture dates and the respective gains recognized upon divestiture. The sale of TELUS Advertising Services' B.C., Alberta and Ontario directory business and TELUS Québec's directory business to Verizon's Dominion Information Services closed on July 31, 2001. TELUS exited the equipment leasing business on September 30, 2001. See Note 8 to the Consolidated Financial Statements.

Preferred dividends

(\$ in millions)	2002	2001	Change	%
Years ended December 31	3.5	3.5	-	-

There were no changes to the quarterly preferred dividend.

Interest on convertible debentures

(\$ in millions)	2002	2001	Change	%
Years ended December 31	6.8	7.0	(0.2)	(2.9)

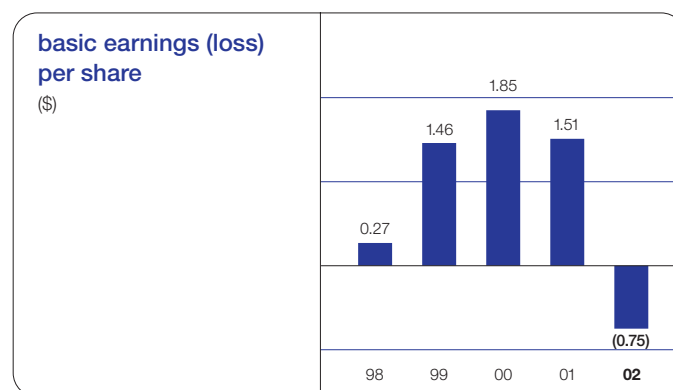
The interest on convertible debentures is presented net of related income taxes. As these debentures are convertible into non-voting shares and are classified as equity on the balance sheet, the related interest is recorded as a charge to retained earnings rather than an interest expense.

Common share and non-voting share income (loss)

(\$ in millions)	2002	2001	Change	%
Years ended December 31	(239.3)	443.0	(682.3)	(154.0)

The Common share and non-voting share income was reduced for the year ended December 31, 2002, when compared to the same period in 2001, primarily due to recognition in 2001 of \$592.3 million income in discontinued operations, and significantly increased Restructuring and workforce reduction costs in 2002 (an increase of approximately \$263 million after tax), partially offset by the elimination of amortization of intangible assets with indefinite lives and goodwill (approximately \$225 million after tax).

Basic earnings per share decreased by \$2.26 from 2001 due to these factors, partially offset by the impact of distributing the 2002 loss over a larger average number of shares outstanding. The increase in the average number of common shares and non-voting shares outstanding was primarily a result of the September 2002 equity public equity issue.



management's discussion and analysis

Liquidity and capital resources

Cash provided by operating activities

(\$ in millions)	2002	2001	Change	%
Years ended December 31	1,742.0	1,407.8	334.2	23.7

Cash provided by operating activities increased for the year ended December 31, 2002, when compared with the same period in 2001, due mainly to a \$294.5 million decrease in taxes paid (excluding ITCs, which are also part of EBITDA), a \$331.7 million decrease in investment in accounts receivable in 2002 compared with an \$85.9 million increase in accounts receivable in 2001, and \$30.6 million lower negative impacts in non-cash working capital from discontinued operations, partly offset by \$201.9 million higher workforce restructuring payments, \$52.5 million higher paid interest, and \$11.0 million lower consolidated EBITDA.

Cash provided (used) by investing activities

(\$ in millions)	2002	2001	Change	%
Years ended December 31	(1,691.1)	(1,821.3)	130.2	7.1

Net cash used by investing activities decreased in the year ended December 31, 2002 when compared to the same period one year earlier. The decrease was mainly due to lower capital expenditures and spectrum purchases in 2002 (described in more detail below), and lower other investing activity in 2002. Cash used for investing activities in 2001 was reduced by receipt of proceeds from the sale of non-core assets: \$939.6 million from the sale of the directory advertising business and exiting the equipment leasing business; and \$228.4 million proceeds from the sale of administrative buildings.

Capital expenditures by segment

Years ended December 31 (\$ in millions)	2002	2001	Change	%
TELUS Communications	1,238.2	1,605.8	(367.6)	(22.9)
TELUS Mobility	455.1	643.6	(188.5)	(29.3)
Capital expenditures – general	1,693.3	2,249.4	(556.1)	(24.7)
TELUS Mobility – wireless spectrum	4.6	355.9	(351.3)	(98.7)
Total capital expenditures	1,697.9	2,605.3	(907.4)	(34.8)
Capital expenditure intensity (%) ¹	24.2	36.8	(12.6)	–

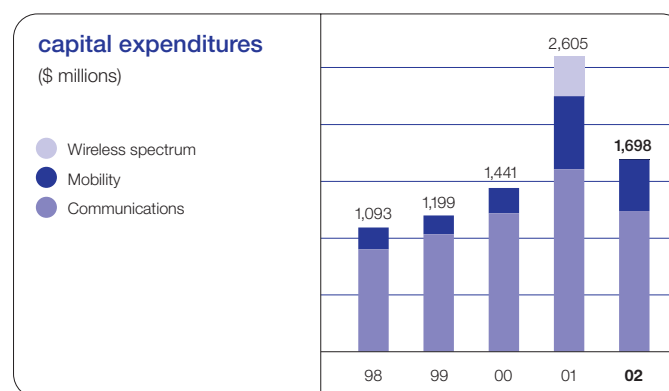
¹ Capital expenditures as a percentage of revenue.

TELUS Communications' capital expenditures decreased for the year ended December 31, 2002, when compared with the same period in 2001. Non-ILEC expenditures decreased by \$88.4 million to \$214.3 million, when compared with 2001, mainly due to the completion of the national optical carrier network and IP backbone in 2001 and expenditures on an *Intelligent* Internet Data Centre in Toronto in 2001. Expenditures for

ILEC sustainment decreased by \$279.2 million to \$1,023.9 million, when compared with 2001, mainly due to \$134.2 million lower payments for software licences and trademarks from Verizon, \$75.7 million lower expenditures on network infrastructure, \$60.6 million lower expenditures for replacing the national long distance and card service platform, and \$33.7 million lower expenditures for e.hosting. Expenditures for ADSL initiatives increased by \$4.8 million to \$250.9 million, while spending on all other initiatives increased by \$20.2 million including spending on OEP initiatives such as consolidation of contact centres. For the Communications segment, the ratio of capital expenditures to revenues decreased to 24.4% in 2002 compared to 30.0% in the same period in 2001. The ratio for ILEC operations was 22.5% in 2002 as compared to 25.8% in 2001, while the ratio for non-ILEC operations was 40.6% in 2002 as compared to 96.8% in 2001. Reduced capital expenditure intensity in the Communications segment improved cash flow (EBITDA less capital expenditures) by \$177.6 million to \$745.6 million for 2002, when compared to 2001.

In addition to capital expenditures detailed above, a fibre asset was purchased in June 2001 from a third party for non-monetary consideration of \$76.0 million. As this was a non-cash purchase, the amount is not reflected in Capital expenditures on the Consolidated Statements of Cash Flows.

TELUS Mobility capital expenditures were significantly reduced for the year ended December 31, 2002, when compared with 2001. TELUS Mobility continued the enhancement of digital cellular coverage, digitization of the analogue network, and implementation of the 1X CDMA (code division multiple access) data network. Excluding



the spectrum purchase, capital spending has declined significantly because of the implementation of the 1X digital network in 2001, digital conversion of analogue networks in 2001, and reduced coverage expansion costs in 2002 due to the recently operationalized roaming/resale agreements with Bell Mobility and Aliant Telecom Wireless.

Capital expenditure intensity for TELUS Mobility was 22.6% in 2002, as compared with 54.7% in 2001 due to both lower capital spending and growth in network revenues. As a result of continued EBITDA growth and reduced capital expenditure intensity and spectrum purchases, Mobility has improved cash flow (EBITDA less capital expenditures) to \$75.1 million in 2002, as compared with negative \$643.7 million in 2001.

The Company has significantly reduced its consolidated capital expenditure intensity to 24.2% in 2002 from 36.8% in 2001. Reduced capital expenditure intensity in 2002 is consistent with TELUS' objective to reduce annual consolidated capital expenditures to 20% of revenue, or less, in 2003 and thereafter. On a consolidated basis, as a result of lower capital intensity, cash flow (EBITDA less capital expenditures) improved by \$896.4 million in 2002.

Cash provided (used) by financing activities

(\$ in millions)	2002	2001	Change	%
Years ended December 31	(77.0)	330.4	(407.4)	(123.3)

Cash used by financing activities increased in the year ended December 31, 2002, when compared with the same period one year ago, principally due to \$341.2 million of net debt redemptions in 2002, compared with \$540.5 million of net debt issues in 2001, partly offset by common and non-voting shares issued in September 2002 and reduced dividends paid to shareholders.

In September 2002, a public issuance was completed of 34.25 million non-voting shares concurrently in Canada and the U.S. at a share price of \$9.85 (Canadian dollars) for aggregate gross proceeds of \$337.4 million. In addition, \$92.2 million of proceeds were received from common and non-voting shares issued from Treasury under the employee share purchase plan, from shares issued when Verizon exercised its pre-emptive rights, from share option plans and from the channel stock incentive plan (compared with \$103.1 million of proceeds issued in the same period in 2001 under the same plans). The net proceeds of \$322.9 million from the public share issuance were used to repurchase and repay debt, including bank debt incurred in the third quarter to repurchase notes of TELUS Corporation and notes and debentures of TELUS Communications Inc. and for general corporate purposes. The Company repurchased approximately \$410 million principal amount of such notes for a cash outlay of approximately \$318 million including commissions and net of cross-currency swap unwind proceeds. The repurchased notes had maturities in the following years and for the approximate face amounts shown: 2003 (\$49 million), 2004 (\$10 million), 2006 (\$22 million), 2007 (\$210 million) and 2011 (\$118 million). The debt was repurchased at an average discount of 21%, while equity dilution was limited to 10% from the September 2002 public share issuance.

In addition, dividends paid to shareholders decreased by \$189.6 million mainly due to the 57% reduction in the quarterly dividend rate. The reduction in dividend payments was partly offset by lower enrolment in the dividend reinvestment plan throughout the year (approximately 21% for the dividend paid in October, compared with approximately 44% one year earlier).

Liquidity and capital resource ratios

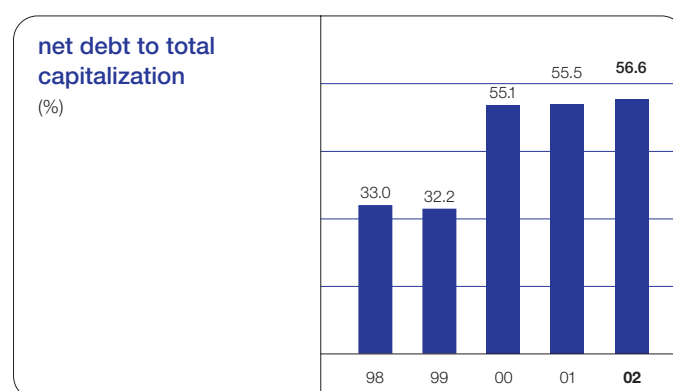
Years ended December 31	2002	2001	Change
Fixed rate debt as proportion of total indebtedness (%)	93.4	94.8	(1.4)
Net debt ¹ to total capitalization (%)	56.6	55.5	1.1
Net debt to EBITDA ²	3.3	3.4	(0.1)
Earnings coverage ³	0.6	2.0	(1.4)
EBITDA interest coverage ⁴	3.7	4.1	(0.4)

- 1 Long-term debt plus current obligations and cheques outstanding less Cash and temporary investments and cross-currency foreign exchange hedge asset (plus cross-currency foreign exchange hedge liability) related to U.S. dollar Notes. The cross-currency foreign exchange hedge asset as at December 31, 2002 was \$126.8 million (\$181.6 million as at December 31, 2001). Net debt as calculated herein, includes a notional amount related to accounts receivable securitization of approximately \$120.4 million at December 31, 2002 and \$30 million at December 31, 2001, which is required to be included in the numerator of the leverage ratio covenant calculation in TELUS' credit facilities. The impairment charge to retained earnings for intangible assets increased the December 31, 2002 net debt to total capitalization from 54.4% to 56.6%.
- 2 Net debt as at December 31, 2002 divided by 12-month trailing EBITDA, where EBITDA excludes Restructuring and workforce reduction costs.
- 3 Earnings coverage ratio is calculated on a 12-month trailing basis as Net income before interest expense on total debt and income tax expense divided by interest expense on total debt.
- 4 EBITDA excluding Restructuring and workforce reduction costs divided by financing costs before non-cash accreted interest and gains on redemption of debt, calculated on a 12-month trailing basis. Accreted interest was recorded until the second quarter of 2001.

As at December 31, 2002, 93.4% of the Company's total indebtedness was at fixed rates, limiting the impact of potential interest rate increases in the short term. A one per cent change in short-term interest rates would have an approximate \$5.5 million annual impact on interest expense based on a December 31, 2002 bank facility balance of \$655 million and \$107 million of floating-to-fixed rate swaps.

During the second half of 2002, total debt, after adjusting for the foreign exchange hedge, decreased by approximately \$824 million primarily as a result of debt repurchases of \$410 million principal amount and a reduction of \$414 million in the amount drawn under the Company's credit facilities.

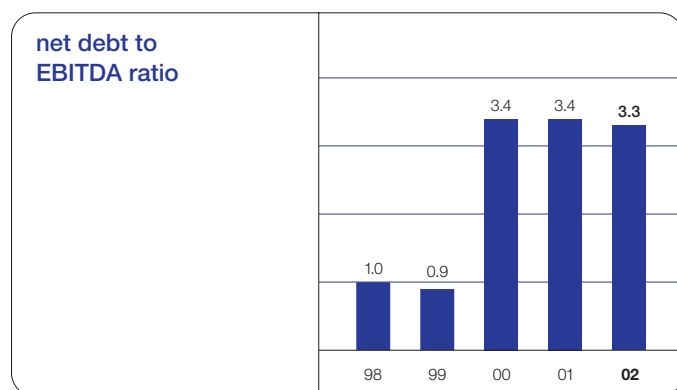
TELUS has established an objective for its net debt to EBITDA ratio of 3.0 by the end of 2003 and less than 2.7 by the end of 2004.



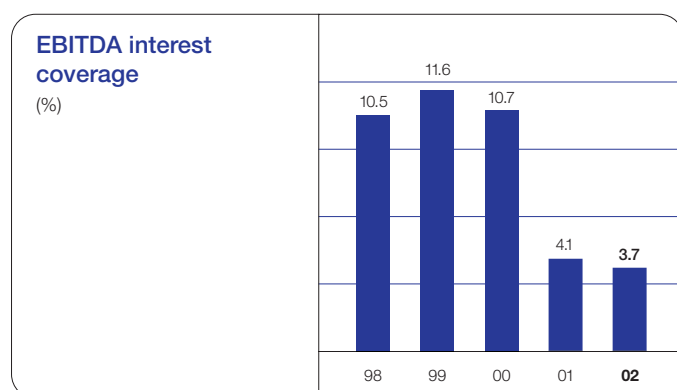
management's discussion and analysis

The net debt to total capitalization ratio as at December 31, 2002 increased, when compared to one year ago, mainly due to the non-cash reduction in equity associated with the impairment charge for intangible assets recorded earlier this year, net of the proceeds from an equity issue in the third quarter of 2002 and an increase in the notional amount related to sold accounts receivables added to the debt balance for debt covenant purposes. TELUS has a long-term objective of reducing its ratio of net debt to total capitalization to 50% (56.6% as at December 31, 2002).

The net debt to EBITDA ratio for the twelve-month period ended December 31, 2002 improved, when compared with the ratio for the twelve-month period ended December 31, 2001, mainly due to a reduction of more than \$430 million in short-term and long-term debt net of the cross-currency hedge amount, partly offset by a \$90 million increase in notional amount related to sold accounts receivable and an \$11 million decrease in the 12-month trailing EBITDA of \$2,519 million (\$2,530 million one year earlier).



The EBITDA interest coverage ratio for the 12 months ended December 31, 2002 decreased as compared to the same period one year earlier, due to 2002 financing costs fully reflecting 2001 investing activities and a lower EBITDA, partly offset by financing costs being reduced by interest income recorded in respect of the receipt of ITCs.



Credit facilities

TELUS credit facilities at the end of December 2002 consisted of a \$1.5 billion (or U.S. dollar equivalent) revolving credit facility expiring on May 30, 2004 (\$655 million drawn along with \$47 million in outstanding undrawn letters of credit), an undrawn \$800 million (or the U.S. dollar equivalent) 364-day revolving credit facility extendible at TELUS' option for any amount outstanding as at May 28, 2003 for one year on a non-revolving basis, and approximately \$74 million in other bank facilities (nil drawn and approximately \$5 million in outstanding undrawn letters of credit, at December 31, 2002). During the fourth quarter of 2002, the amount drawn on TELUS' \$1.5 billion revolving credit facility increased to \$655 million primarily due to cash payments related to the Company's OEP and the payment of semi-annual interest coupons on the Company's public notes. Outstanding undrawn letters of credit increased from \$47 million to approximately \$102 million after December 31, 2002.

At December 31, 2002, TELUS had unutilized available liquidity well in excess of \$1 billion. TELUS' credit facilities contain customary covenants including a requirement that TELUS not permit its consolidated Leverage ratio (Funded debt and Asset securitization amount to trailing 12-month EBITDA) to exceed 4.0:1 (approximately 3.3:1 as at December 31, 2002) and not permit its consolidated Coverage ratio (EBITDA to Interest expense and Asset securitization charges on a trailing 12-month basis) to be less than 2.5:1 (approximately 3.6:1 as at December 31, 2002) at the end of any financial quarter. There are certain differences in the calculation of the Leverage ratio and Coverage ratio under the credit agreement as compared with the calculation of Net debt to EBITDA and EBITDA interest coverage. Calculated to one decimal point, the Leverage ratio and Net debt to EBITDA were the same at December 31, 2002, while the Coverage ratio and EBITDA interest coverage ratio were 3.6:1 and 3.7:1, respectively. Continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.

Accounts receivable sale

On July 26, 2002, TELUS Communications Inc. (TCI), a wholly owned subsidiary of TELUS, signed an agreement with an arm's-length securitization trust under which TCI is able to sell an interest in certain of its receivables up to a maximum of \$650 million. TCI is required to maintain at least a BBB(low) credit rating by Dominion Bond Rating Service (DBRS) or the purchaser may require the sale program to be wound down.

During the third quarter of 2002, TCI terminated a prior securitization trust agreement dated November 20, 1997. Collection and final remittances in respect of the accounts receivable subject to the prior securitization transaction were completed by September 27, 2002.

On September 30, 2002, the new securitization agreement was amended in order to make available for purchase by the securitization trust, an interest in some of TCI's other trade receivables of a certain class that were of the type previously sold to the prior securitization trust. As at December 31, 2002, TCI had received aggregate cash proceeds of \$475 million under its new accounts receivable securitization program.

TELUS' credit facilities require that a portion of sold accounts receivable be added to debt for purposes of calculating the Leverage ratio covenant under the credit agreement. The amount of sold accounts receivable, which is added to debt for purposes of this ratio, is calculated on a monthly basis and is a function of the ongoing collection performance of the receivables pool. At December 31, 2002, this amount, defined as the Asset Securitization Amount, was approximately \$120.4 million.

Credit ratings

As of February 12, 2003, no new rating actions on TELUS' debt had been announced since July 2002. TELUS has an objective to preserve access to capital markets at a reasonable cost by maintaining investment grade credit ratings.

On July 8, 2002, DBRS confirmed its ratings at R-2(high) for TELUS Corporation, TELUS Communications (Québec) Inc. and TELUS Communications Inc. commercial paper, but changed the trend for all to negative. DBRS also downgraded the ratings for all other debt instruments and changed the trend to negative. On July 11, 2002, Standard & Poor's (S&P) lowered its ratings of TELUS' long-term credit and senior unsecured debt to BBB from BBB+ and lowered its Canadian scale commercial paper rating to A-2 from A-1(low). At the same time, S&P lowered its ratings for TELUS' wholly owned subsidiaries TELUS Communications (Québec) Inc. and TELUS Communications Inc. The outlook for all ratings was changed to negative. On July 23, 2002, Fitch Ratings initiated ratings of TELUS' and TELUS Communications Inc.'s long-term credit and senior unsecured debt at BBB with negative outlook. On July 25, 2002, Moody's Investors Service lowered its ratings of TELUS' long-term credit and senior unsecured debt to Ba1 (non-investment grade) from Baa2. The outlook for the Moody's rating is negative.

The Company plans to improve its credit ratings over time by increasing its cash flow and reducing debt through increased operating cash flow, driven in significant part by the announced OEP in the Communications segment, continued EBITDA growth in the Mobility segment, lower expected EBITDA losses in non-ILEC operations, declining capital expenditures, improved working capital, lower cash income taxes due to application of significant tax losses carried forward and discounted debt repurchases, as well as equity issuances including employee and dividend share issuances, among other factors. The Company's mid-term objective is to have BBB to A- ratings for its long-term credit and senior unsecured debt.

Credit rating summary

	S&P	DBRS	Moody's	Fitch
TELUS Corporation¹				
Senior bank debt	BBB	BBB	Ba1	BBB
Debentures and Notes	BBB	BBB	Ba1	BBB
Medium-term Notes	BBB	BBB	-	-
Commercial paper	A-2	R-2(high)	-	-
TELUS Communications Inc.¹				
Debentures	BBB	BBB	-	BBB
Medium-term Notes	BBB	BBB	-	BBB
Commercial paper	A-2	R-2(high)	-	-
Preferred shares	P-3(high)	Pfd-3	-	-
TELUS Communications (Québec) Inc.¹				
First mortgage bonds	BBB	BBB	-	-
Debentures	BBB	BBB	-	-
Medium-term Notes	BBB	BBB	-	-
Commercial paper	A-2	R-2(high)	-	-

¹ Outlook or trend negative.

Off-balance sheet arrangements and contractual liabilities

Financial instruments (Note 4 to the Consolidated Financial Statements)

TELUS uses various financial instruments, the fair values of which are not reflected on the balance sheet, to reduce or eliminate exposure to interest rate and currency risks. These instruments are accounted for on the same basis as the underlying exposure being hedged.

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments, short-term obligations and long-term debt. The Company has entered into interest rate swap arrangements that have the effect of fixing the interest rate on \$107 million of floating rate debt. Hedge accounting is not applied to these swap agreements.

The Company is exposed to currency risks arising from fluctuations in foreign exchange rates on its U.S. dollar long-term debt. Currency hedging relationships have been established for the related semi-annual interest payments and principal payments at maturity. The Company's foreign exchange risk management also includes the use of foreign currency forwards to fix the exchange rates on short-term foreign currency transactions and commitments. Hedge accounting is not applied to these foreign currency forwards.

Counterparties to the Company's interest rate swap agreements and foreign exchange hedges are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedges due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the nonperformance of its counterparties, the Company considers the risk of this remote; if all counterparties were not to perform, the pre-tax effect would be limited to the value of the deferred hedging asset.

management's discussion and analysis

Share-based compensation

Commencing January 1, 2002, the Company adopted the new recommendations of the CICA dealing with accounting for share-based compensation (CICA Handbook Section 3870). As required, the accounting change was applied prospectively. In 2002, the Company applied the intrinsic method for share-based compensation awards granted to employees. Accordingly, no compensation cost was recorded in the accounts for its share option plans. The Company intends to comply with the CICA's Accounting Standards Board's direction for the treatment of share-based compensation. Amendments to Section 3870 are expected to be finalized in mid-2003 and would

Outlook 2003

The Canadian telecommunications industry encountered challenging circumstances in 2002, as the industry slowdown experienced in 2001 continued. Operators within the industry were impacted by a number of factors, including continued pricing pressures, restrictive financial markets, regulatory decisions and a weaker economic outlook. As a result of competitive intensity and declining industry revenues in key markets, combined with the inability to access capital markets, several emerging operators were forced to restructure financially. Some of these operators have re-emerged or are re-emerging from creditor protection with recapitalized balance sheets and may compete more vigorously and/or face consolidation going forward.

In 2002, the Canadian telecom industry generated revenues of approximately \$33 billion, with Bell Canada and its affiliated regional telcos representing over 50% of the total revenue. TELUS revenues represented \$7 billion in 2002, amounting to about 21% of total revenues for the industry.

Revenue growth in the Canadian telecom market in 2002 was approximately 3%, less than the 7% growth experienced in 2001, and weakness was evident especially in the corporate business market. Wireline local voice experienced flat revenue growth, while long distance continued a decline that has been evident over the past few years. Enhanced data, Internet and wireless growth continued in 2002, but at a slower rate than previously anticipated, particularly in the last half of the year. It is estimated that wireless revenue growth in Canada was approximately 13% in 2002. The strongest growth areas remain wireless, data and IP, consistent with TELUS' strategic focus.

In May 2002, the CRTC announced a new price cap regime and reconfirmed the facilities-based competitive model that will govern for four years to June 2006. This regime regulates the ILECs with respect to pricing rules for tariffed retail services and services purchased from the ILECs by competitors. The stated goal of the CRTC is to support competition in the Canadian telecom industry. The regulatory decisions on contribution in 2001, and the price cap decisions in 2002, mark the end of material regulatory decisions expected from the CRTC until the next price cap review for 2006. As a result, three years of relative regulatory stability are expected going forward.

be effective commencing with the 2004 fiscal year. See Note 2(c) and Note 10 to the Consolidated Financial Statements.

Commitments and contingent liabilities

The Company has a number of commitments and contingent liabilities as disclosed in Note 19 to the Consolidated Financial Statements.

The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases. The Company is also currently engaged in labour contract negotiations through the federal conciliation process.

Capital markets in 2002 continued their pronounced scrutiny of company balance sheets, placing increased focus on current and expected cash flow and debt loads. The importance placed on more traditional financial metrics has made the containment of operating costs and capital expenditures more significant, with capital markets rewarding those companies that are able to demonstrate strong positive cash flows and de-leveraging prospects. Credit rating agencies have become more conservative with their reviews, resulting in most telecom companies facing negative outlooks and/or receiving ratings downgrades on outstanding debt. In 2002, TELUS continued its Operating Efficiency Program (OEP), an initiative to significantly enhance productivity. The Company also significantly reduced its capital expenditures in 2002. Financial markets have reacted favourably to TELUS' initiatives, and the improvement in cash flow that they entail.

In the current environment of slower revenue growth, industry players are generally more focused on profitable subscriber growth over mere market share or revenue expansion, and are emphasizing productivity. In addition, in this environment, strong and established players in the telecommunications market are beneficiaries of customers' flight to service quality and stability.

In 2003, telecom companies are expected to be generally more disciplined and to strive for profitable revenue growth and continued operating and capital cost containment. Growth prospects remain focused on enhanced data, Internet and wireless portfolios, with a continued decline in wireline local and long distance voice revenues. Due to the Company's strategic focus, its national operations and the capital investments it has made in the past several years, TELUS believes it is well positioned to take advantage of increased demand driven by IP-based solutions, such as wireless data services, broadband access, managed Web hosting, managed applications and entertainment. The wireless market in Canada is expected to continue its growth similar to what was experienced in 2002, which was an approximate 4% penetration gain (% of POPs) to 38%. There is the potential for consolidation within the industry from four to three national competitors. Trends seen in 2002 are expected to continue into 2003 including reduced churn rates, stabilization of ARPU, increased focus on network revenues and strong EBITDA growth despite relatively flat industry net additions.

Key priorities and targets for 2003

TELUS will continue to be guided by its six strategic imperatives established in mid-2000. For 2003, TELUS is focusing and moving forward on the following priorities:

1. *Continuing to deliver on our efficiency improvement objectives.* TELUS is dedicated to driving a further \$300 million in cost reductions in 2003, while turning to a number of programs to improve customer service, rationalize our products and eliminate bureaucracy.
2. *Improving customer service.* A planned outcome for 2003 of the on-going operational efficiency program is to focus on improving systems and processes, increasing training and putting more decision making into the hands of the employees dealing directly with customers.
3. *Enhancing our leadership position in the North American wireless industry.* Building on the momentum from 2002, TELUS Mobility is targeting to increase EBITDA by 17 to 21% in 2003, and cash flow, as measured by EBITDA less capital expenditures, is set to more than double to the \$175 to \$200 million range.
4. *Strengthen our financial position,* based on improved operating performance. TELUS is intent on strengthening its current credit ratings. The Company wants to improve the three investment grade ratings and increase the fourth to also be investment grade. This is expected to be accomplished through generation of significant future free cash flow, which is planned to be applied primarily to reducing debt. While TELUS does not control the timing of the rating agencies, the Company believes that delivering on our financial targets and improving our leverage ratios will ultimately have a positive impact.
5. *Improving the operating and economic fundamentals of TELUS' business expansion into Ontario and Quebec.* In 2003, the Company is prioritizing profitable growth as it drives to improve EBITDA and to achieve a breakeven position by 2004. This is expected to be enabled by cost containment including focus on increasing the percentage of business carried on TELUS network facilities ("on-net") and realizing certain post-acquisition integration synergies.
6. *Achieving a settlement with our unionized employees.* TELUS is committed to reaching a collective agreement that considers the competitive marketplace, balances the needs of all employees and provides the flexibility to meet the evolving needs of our customers.

Financial and operating targets and issues

The 2003 objectives in the table below were publicly announced on December 16, 2002. For projection purposes, the Company has reflected the expected negative impact of the 2002 price cap decision, but has not reflected any potential impact from any future regulatory decisions nor Federal Cabinet appeals. Review "Forward-looking statements" on the inside front cover and "Risks and uncertainties" on pages 28 to 34 for the various factors that could cause actual future financial and operating results to differ from those currently expected.

Key assumptions for 2003 operational and financial targets and projections:

- impacts of price cap decisions are approximately \$80 million;
- potential impacts from future regulatory decisions and Cabinet appeals are not considered;
- impact of a potential work stoppage is not incorporated;
- share-based compensation not expensed;

- restructuring and workforce reduction costs expected to be recorded in 2003 are estimated to be approximately \$20 million;
- no prospective significant acquisitions or divestitures are reflected;
- minimal cash income taxes due to utilization of tax losses carried forward;
- cash outflow in respect of workforce reductions to be similar to that recognized in 2002 (approximately \$280 million);
- reinvestment of 20% of dividend payments into treasury shares;
- maintenance of the accounts receivable securitization program;
- no new equity issues other than through employee share purchase plans, dividend reinvestment plans, exercised options and warrants and no exercise of Verizon's anti-dilutive rights;
- maintenance or improvement of credit ratings;
- a four-player wireless market;
- no change in foreign ownership rules; and
- assumed economic growth consistent with provincial and national growth estimates from the Conference Board of Canada. Annual growth forecasts include 3.8% for Canada, and provincial estimates of 3.2% for B.C., 4.5% for Alberta, 4.2% for Ontario and 3.8% for Quebec. Canadian inflation was assumed to be 2.2%.

There is no assurance that these assumptions or the 2003 financial and operating targets and projections will turn out to be accurate.

For 2003, TELUS expects earnings per share to improve significantly from the 75-cent loss in 2002. The improvement is planned to arise from an expected \$95 to \$170 million increase in Communications segment EBITDA and a \$90 to \$115 million increase in Mobility segment EBITDA.

The expectation of increasing 2003 EBITDA for the Communications segment is driven by operating efficiency savings and reduced losses in Central Canadian non-ILEC operations, partially offset by increased pension expenses of \$65 million and increased impact from a full year of regulated local price reductions. Non-ILEC revenues are estimated to grow by approximately 9% for 2003 and non-ILEC negative EBITDA is estimated to improve by approximately 44% for 2003. Communications 2003 capital expenditures are expected to be lower than in 2002 due to lower expenditure requirements for high-speed ADSL and non-ILEC infrastructure, as well as lower payments for software and trademark licences from Verizon. High-speed Internet net additions are expected to be strong in 2003, but reflect a slower rate of growth consistent with market expectations. Communications positive cash flow (EBITDA less capital expenditures) is expected to increase by \$285 to \$360 million in 2003.

For the Mobility segment, targeted 2003 revenue growth is 9 to 11% and targeted EBITDA growth is 17 to 21%. Both revenue and EBITDA are being driven by wireless subscriber growth expectations of 13 to 15% and continued margin expansion from improved scale efficiencies. TELUS Mobility 2003 capital expenditures are expected to be directed toward capacity improvements for subscriber growth, continued enhancement of digital cellular coverage and ongoing improvements to the high-speed 1X data networks. Mobility positive cash flow (EBITDA less capital expenditures) is expected to increase by \$100 to \$125 million in 2003.

On December 16, 2002 TELUS provided guidance that it was targeting free cash flow (EBITDA less capex, interest, cash taxes and cash dividends) of \$300 to \$600 million for 2003 compared with

management's discussion and analysis

negative \$26 million in 2002. As a result of an agreement reached with tax authorities in late February 2003 with respect to converting future tax assets into taxes receivable, the Company has increased the receivable to over \$300 million. TELUS now expects to realize up to \$200 million in cash receipts in 2003 and expects that cash taxes will be a recovery of approximately \$175 million, net of Large Corporations Tax. This is at the high end of the range previously provided. As a consequence, TELUS currently

expects 2003 free cash flow to be \$500 to \$600 million. Free cash flow as defined is before expected workforce restructuring cash costs of approximately \$280 million. See Risks and uncertainties section – Tax matters.

TELUS has a stated policy objective to reduce the ratio of net debt to EBITDA (see page 23) from 3.3 times at December 31, 2002 to 3.0 times at December 31, 2003 and to further reduce this ratio to less than 2.7 times at December 31, 2004.

	2003 target	2002	Change
Consolidated			
Revenues	\$7.2 to \$7.3 billion	\$7.0 billion	\$200 to \$300 million
EBITDA ¹	\$2.7 to \$2.8 billion	\$2.52 billion	\$180 to \$280 million
Earnings (loss) per share	35 to 55 cents	(75) cents	\$1.10 to \$1.30
Capital expenditures	Approx. \$1.5 billion	\$1.7 billion	\$(200) million
Free cash flow ²	\$500 to \$600 million	\$(26) million	\$526 to \$626 million
Net debt to EBITDA	3.0 times	3.3 times	(0.3) times
Communications segment			
Revenue (external)	\$5.0 to \$5.05 billion	\$4.99 billion	\$10 to \$60 million
Non-ILEC revenue	\$575 million	\$527 million	\$48 million
EBITDA ¹	\$2.075 to \$2.15 billion	\$1.98 billion	\$95 to \$170 million
Non-ILEC EBITDA	Approx. \$(60) million	\$(107) million	\$47 million
Capital expenditures	Approx. \$1.05 billion	\$1.24 billion	\$(190) million
High-speed Internet subscriber net additions	150,000 to 175,000	195,200	(45,200) to (20,200)
Mobility segment			
Revenue (external)	\$2.2 to \$2.25 billion	\$2.02 billion	\$180 to \$230 million
EBITDA ¹	\$625 to \$650 million	\$535 million	\$90 to \$115 million
Capital expenditures	Approx. \$450 million	\$460 million	\$(10) million
Wireless subscriber net additions	400,000 to 450,000	417,800	(17,800) to 32,200

1 Earnings Before Interest, Taxes, Depreciation and Amortization, excluding Restructuring and workforce reduction costs.

2 EBITDA less capital expenditures, cash interest, cash taxes and cash dividends.

2003 financing plan

TELUS' financing plan for 2003 is to use free cash flow generated by its business operations to repay or repurchase indebtedness including current maturities of long-term debt. Dispositions of assets and sales of certain businesses currently carried on by TELUS may also provide a source of funds. Leasing and incremental sales of accounts receivable will also be considered to provide further available liquidity to the Company and to meet any other financing requirements so Equity or quasi-equity issuances, especially in connection with any 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 2002, approximately 93% of TELUS' total debt was borrowed on a fixed-rate basis. Short-term obligations totalled \$190 million at December 31, 2002 and the weighted average term to maturity of total debt was 6.6 years. TELUS believes that its internally generated cash flow, combined with its ability to access external capital including its bank credit facilities, provides sufficient resources to finance its cash requirements during 2003 and to maintain appropriate available liquidity. The Company generally expects to maintain a minimum of \$1 billion in unutilized liquidity.

Risks and uncertainties

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

Competition

Increased competition, including that arising from the consolidation and successful recapitalization of smaller industry players, 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 negative revenue growth and voice local access is experiencing a decline in network access lines. 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 2003 to focus mainly 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. Certain of TELUS' competitors, having built extensive local fibre-optic facilities throughout Western Canada over the past 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, concentrated geographic urban clustering and consequent attractive margins. Some of these competitors have financial strength and resources and other financially weaker competitors may gain improved financial strength and competitive viability as a result of re-capitalization after restructurings.

Competition is likely to continue to remain strong 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 co-ordination 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. The former members, including TELUS, have largely developed their own systems and replacement products and services, and competition in the large business market has intensified accordingly.

During the past few years, TELUS has been active in building and acquiring local and cross-Canada fibre-optic facilities and Internet data centres (IDCs) in Central and Western Canada. TELUS is also continuing to build up a Central Canadian sales organization and an increasingly broader portfolio of business-oriented data and IP products and services. TELUS has been successful in increasing Central Canadian revenues to \$840 million in 2002 as compared to negligible revenues over two years ago. This growth has been accomplished through a combination of acquisition and internal growth. However, there can be no assurance that TELUS will continue to be successful in its efforts to expand its market share and profitability in Central Canada or that pricing will remain at reasonable levels as competition remains significant.

Wireless

Competition in the Canadian wireless market is expected to remain intense in 2003 and is expected to increase in Western Canada. TELUS Mobility is targeting 400,000 to 450,000 net subscriber additions in 2003 and there is no assurance that it will achieve its objective given the level of competition and recent trend toward declining growth rates in the Canadian wireless industry. Bell Mobility entered Western Canada in the fall of 2001 and has built its own network and operational capabilities, launching its own 1X data network in urban centres in Alberta and B.C. in the fall of 2002. In addition, the roaming/resale agreements between TELUS Mobility, Bell Mobility and affiliates, and Aliant Telecom Wireless first operationalized in mid-2002 allow Bell Mobility to expand its availability and range of wireless services to approximately 2.5 million incremental POPs throughout rural Alberta and B.C. much sooner and more cost effectively than if it had to wait to fully build out its own duplicative rural network coverage. As a result,

the entry of Bell West in such rural areas has increased the effective number of competitors to two in such regions. These agreements have similarly allowed TELUS Mobility, on a reciprocal basis, to expand its PCS network coverage and distribution in Central and Atlantic Canada by 6.0 million people, generally currently served by two other competitors, bringing TELUS Mobility's national digital coverage and addressable market to 27.4 million. There is no assurance that TELUS Mobility's marketing efforts will be as successful in the new markets as in existing coverage areas.

With up to four major players, including TELUS Mobility, currently 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 the norm. Certain competitors have offered subsidized low or "zero" cost handsets and have lowered airtime prices in the past and may continue to do so. This could increase churn rates, cause marketing cost of acquisition expenses to remain high, and lower average revenue per customer. While one competitor is currently attempting to restructure under the Companies Creditor Arrangement Act (CCAA), there is no assurance that such restructuring may not be successful. Accordingly, such competitor may enhance its future competitiveness as a result of such restructuring and recapitalization efforts or alternatively be acquired by an existing competitor. Accordingly, other competitors may have increased scale and/or improved financial strength resulting from re-capitalization or consolidation.

Wireless competition is also coming from new digital wireless technologies, which may be offered from both traditional and non-traditional sources, 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 advanced feature set handsets based on newer technologies. There can be no assurance that new services offered by TELUS Mobility will be available on time, or that TELUS Mobility will be able to charge incrementally for the services. (See "Technological advances")

Wireline Internet access

While residential dial-up Internet access competition and growth have subsided, TELUS expects to face significant competition from high-speed Internet services of cable-TV companies. However, in 2002 TELUS extended high-speed ADSL coverage, increased marketing and accelerated subscriber net additions, narrowing the market share gap, a trend which is expected to continue in 2003. In response, cable-TV companies have increased their marketing efforts to counter ADSL. With a Western Canadian industry high-speed Internet penetration rate already double that of the U.S., and continued economic uncertainty, industry growth for Internet service may decline more quickly than anticipated, resulting in reduced net additions for all industry competitors. TELUS could also experience high future rates of churn or subscriber deactivations if high quality of service and competitive pricing are not maintained.

In addition, 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. Extended-reach ADSL modems, now on the market, are expected to eliminate some of these limitations and allow TELUS to address a

management's discussion and analysis

broader geographical market, but there is no guarantee these limitations can be fully eliminated. As a result, there is no assurance that TELUS will be able to achieve its high-speed Internet subscriber growth targets.

Slower speed dial-up Internet access subscribers are declining due to competition and the attractiveness of high-speed Internet service. Losses to high-speed services of competitors are mitigated by our own efforts to transfer these customers to our own high-speed ADSL Internet service. There can be no assurance that the rate of loss of dial-up business or share retained by TELUS will be as expected.

Voice over Internet Protocol (VoIP)

Internet telephony, also referred to as VoIP, continues to be a developing service that could negatively impact TELUS' local and long distance business over the next few years. This technology has been in operation for several years and in addition, next generation cable-TV modems are expected to allow cable-TV companies, from a technological standpoint, to begin offering VoIP over their cable networks. But in addition to the next generation cable modems, cable companies also need to make considerable investments in back office functions and infrastructure in order to deliver voice service comparable to the quality offered by traditional service providers. As a result, in December 2002, TELUS' principal cable-TV competitor announced a delay of up to five years in offering VoIP service; however, there is no guarantee that their plans will not change. TELUS launched its own VoIP initiative in the fall of 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 profitability.

Economic fluctuations

Economic fluctuations may adversely impact TELUS

In 2002, North America's economy experienced lackluster performance. Interest rate cuts served to stimulate the economy, but the entire market was significantly impacted by the aftermath of the September 11, 2001 tragedy and a series of corporate accounting scandals which overshadowed investment market performance and eroded consumer confidence. During a period of slow economic growth, including that caused by global turmoil, residential and business telecommunications customers may delay new service purchases, reduce volumes of use and/or discontinue use of services. In 2002, bad debt expense increased, primarily as a result of temporary billing conversion issues, as well as economic difficulties experienced by certain businesses and consumers.

Economic fluctuations could adversely impact TELUS' profitability and free cash flow, realization of income tax losses carried forward, pension expenses, and/or require the Company to record impairments of the carrying value of its assets, including, but not limited to, its intangible assets with indefinite lives (which are its spectrum licences) and its goodwill. Impairments to the carrying value of assets would

result in a charge to earnings and a reduction in shareholders' equity, but impairments of capital assets, investments and goodwill would not affect the Company's EBITDA.

Financing and debt requirements

TELUS' business plans and growth could be negatively affected if existing financing is 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 may finance its future capital requirements with internally generated funds as well as, from time to time, with borrowings under the unutilized portion of its bank facility. In May 2002, the 364-day portion of the bank facility was renewed for \$800 million (a reduction of \$200 million from the original \$1 billion) on substantially the same terms. Continued availability of the \$800 million 364-day portion of the bank facility on a revolving basis is dependent on renewal of this portion of the facility on or prior to its maturity on May 28, 2003 on terms acceptable to TELUS. There can be no assurance that the 364-day portion of the bank facility will be renewed on terms acceptable to the Company. Failing such renewal, any amount drawn by TELUS on the 364-day portion of the facility which remains outstanding on May 28, 2003 will be available only for one year on a non-revolving basis. TELUS has not borrowed under and does not currently intend to borrow under the 364-day portion of the bank facility.

Disruptions in the capital markets increased bank capitalization regulations, reduced lending to the telecom sector, reduced the number of active Canadian chartered banks as a result of reduced activity or consolidation, and could reduce capital available for corporate credits such as TELUS. The \$1.5 billion, three-year revolving term portion of the bank facility matures on May 30, 2004. There can be no assurance that the bank facility will be renewed on terms and in an amount acceptable to the Company. In the absence of such renewal, the available liquidity of the Company may be negatively affected.

On July 26, 2002, TELUS entered into an agreement with an arm's-length securitization trust under which it is able to sell an interest in certain of its trade receivables up to a maximum of \$650 million. As at December 31, 2002, TELUS had received aggregate cash proceeds of \$475 million. Under the program, TELUS is required to maintain at least a BBB(low) credit rating by Dominion Bond Rating Service. In the event this rating is not maintained, the Company may be required to wind down the program. A change in credit rating could impact TELUS' cost of and access to capital. There can be no assurance that TELUS can maintain or improve current credit ratings.

Consistent with its financial policy, TELUS intends to reduce its future debt leverage and is targeting a debt to EBITDA ratio of 3.0 in December 2003 and less than 2.7 in December 2004. This intention

could constrain its 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.

Tax matters

Income tax assets may not be realized as expected

The operations of TELUS are complex and related tax interpretations, regulations and legislation are continually changing. The Company has significant income taxes receivable and future income tax assets, including tax loss carry forwards, of which the timing of the monetization or realization is uncertain. The timing of the collection of the income tax receivable is substantially out of the control of the Company and is dependent on expected assessments, reassessments and other processes by the Canada Customs and Revenue Agency (CCRA) and other provincial tax authorities. Therefore, there can be no assurance that taxes will be sheltered as anticipated and/or the amount and timing of receipt of these assets will be as currently expected.

Dividends

Current dividend levels may not be maintained

On January 1, 2002, TELUS reduced the quarterly dividend on its common shares and non-voting shares from 35 cents to 15 cents. This change aligned the dividend level with its growth strategy and current business profile. On July 25, 2002, TELUS announced that it had no intention of reducing the dividend further and that it is committed to the maintenance of the existing payout. 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

The outcome of outstanding labour relations issues may increase costs and reduce productivity

Collective agreement negotiations between TELUS and the TWU for a new collective agreement covering approximately 11,300 employees in B.C. and Alberta are ongoing. Existing agreements expired in December 2000. In the fourth quarter of 2002, TCI's application to the federal Minister of Labour for conciliation was granted and two federal conciliators were appointed. TCI and the TWU mutually agreed to extend the conciliators' appointment in January 2003 through a multi-phase process that may not conclude until the third quarter of 2003. There can be no assurance that the negotiated compensation expenses will be as planned, or that reduced productivity and work disruptions will not occur as a result of these negotiations.

The TWU made an application to the Canada Industrial Relations Board (CIRB) in September 2002 seeking reconsideration of earlier CIRB decisions (dated February 9, 2001 and November 19, 2001) in which the Board declined to issue orders sought by the TWU to impose the terms and conditions of the predecessor BC TEL-TWU collective agreement on unionized employees in Alberta and instead held that the terms and conditions of the predecessor Alberta collective agreements would continue to apply to unionized employees in Alberta pending negotiation

of a new collective agreement for the recently consolidated B.C. and Alberta bargaining units. In this application the TWU is again seeking an order that the B.C. TWU agreement should apply to all unionized employees in B.C. and Alberta. No decision with respect to this application has been rendered. There can be no assurances that compensation expense will be as planned, or that reduced productivity and work disruptions will not occur as a result of this pending reconsideration application.

In March 2001, the TWU also made an application to the CIRB to extend its existing TELUS bargaining unit in B.C. and Alberta to include TELE-MOBILE employees. In its application, the TWU is seeking to include non-unionized former Clearnet employees and unionized employees in the QuébecTel Mobilité operations. The TWU also challenged TELUS' position that unionized wireless employees in B.C. and Alberta are, for the purposes of labour relations, employees of TELE-MOBILE. In TELUS' view, by operation of law, TELE-MOBILE employees form a separate bargaining unit (or units) and collective bargaining in respect of unionized TELE-MOBILE employees should be conducted between TELE-MOBILE and the TWU. Both these issues are the subject of proceedings currently before the CIRB, which are anticipated to conclude by the third quarter of 2003. There can be no assurance that compensation expense will be as planned, or that reduced productivity and work disruptions will not occur as a result of these CIRB decisions.

Reliance on key personnel

The success of TELUS is largely dependent on the abilities and experience of its key employees. Competition for highly skilled and entrepreneurial management and other employees is intense in the communications industry. The vast majority of existing share options are currently trading at less than their respective exercise prices, inhibiting retention considerations. There can be no assurance that TELUS can retain its current key employees or attract and retain additional executive officers or key employees as needed. The loss of certain key employees, or a deterioration in employee morale resulting from organizational changes or cost reductions, including the Operational Efficiency Program, could have an adverse impact upon TELUS' growth, business and profitability.

Technology

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

The pace and scope of technological advancements in the communications industry are expected to continue to increase at a rapid rate. Three of the universal characteristics of technological advancements are lower unit costs, lower operating 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 depends in part upon its ability to anticipate, invest in and implement new technologies with the levels of service and prices that its customers expect. 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.

management's discussion and analysis

In 2002, TELUS began to convert its core circuit-based infrastructure to IP technology. This conversion to Next Generation Network (NGN) may allow TELUS to: (a) offer integrated services across voice, data and video applications to customers; (b) improve capital and operating efficiencies; and (c) deliver improved operating effectiveness in launching and supporting services. However, there is no assurance that the applications will be available or accepted by customers as planned, or that the efficiencies will materialize as expected.

Reliance on systems and information technology (IT) may cause service problems

TELUS, as a complex telecommunications company, is reliant on many legacy and new IT systems and applications such as billing systems, customer relationship management software, order entry and service systems, network systems and the associated complex computer equipment and software. Customer service and revenue generation could be negatively affected if the cost of IT solutions is uneconomic, legacy systems fail, projects to integrate systems and applications or introducing new systems and software are not effective, and third party suppliers fail or do not meet their performance or delivery obligations.

The digital protocols and technologies utilized by TELUS Mobility may become technologically inferior, which could adversely affect TELUS

The wireless industry is adopting second (2.5G) and third generation (3G) technologies that are expected to deliver increased data speeds required for 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 two years. TELUS Mobility implemented initial 1X 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. 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 operating expenses and capital expenditures will be economical.

Furthermore, there can be no assurance that the digital wireless technologies utilized by TELUS Mobility 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 foreign exchange rates and as a result, there may be an adverse impact on TELUS' future expenditures.

TELUS' Mike digital wireless iDEN network is in part differentiated by its wide-area, high-capacity digital push-to-talk two-way radio dispatch services, which are marketed as Mike Direct Connect, as well as its installed base of customer work groups. These services are currently not available from any of TELUS' major wireless competitors and if they were, the installed base of Mike work groups would still represent a significant market advantage. Development of CDMA based push-to-talk technology may become commercially available within the next few years. TELUS also operates a CDMA network and does not currently expect such CDMA push-to-talk services will be highly substitutable for those provided by the iDEN technology utilized by its Mike network.

However, there can be no assurance that CDMA or other cellular technologies may not develop similar dispatch service functionality, which if successfully deployed and marketed could reduce or eliminate the competitive differentiation of TELUS' Mike network.

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 services offered in competitive markets, 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 services made available to competitors at cost-based rates and a detailed review of the ILECs' incremental costing methodology.

The outcome of the regulatory reviews, proceedings and court or Federal Cabinet 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 materially impact 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 these services and the rates charged for them is made up through higher prices for some 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 CRTC also changed the way in which contribution is pooled for subsequent distribution from separate company-specific contribution pools to one national contribution pool. This change resulted in a net positive EBITDA impact for TELUS in 2001.

In 2002, the percentage of revenue collection method and the national pooling of contribution payments continued, but the method of calculating the amount of contribution to be received by companies providing residential basic service in high-cost areas changed. The CRTC decision modified the basis upon which the required subsidy to fund service to high-cost areas is calculated. Rather than allowing 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 was reduced to 1.3% of eligible revenues in 2002, down from 4.5% in 2001. In 2002, this resulted in a significant negative impact on TELUS' revenues and earnings and an estimated year-over-year reduction in EBITDA of \$211 million.

TELUS appealed these decisions in a 'review and vary' application to the CRTC in September 2001. In October 2002, the CRTC denied TELUS' 'review and vary' request relating to the costing assumptions used in calculating the subsidy requirements. However, the CRTC noted that it would consider non-service specific expenses related to groupings of services in upcoming proceedings.

In January 2003, TELUS filed a petition to the Federal Cabinet, requesting a variance of the CRTC's denial of its 'review and vary' application. The petition argues that the CRTC employs costs for regulatory purposes that do not reflect actual company-specific costs, contrary to the Telecommunications Act. The costs being used are below TELUS' actual costs, given the geography and population density in its operating territory in Western Canada. The Federal Cabinet can take up until October 2003 to deal with this petition.

TELUS foresees no additional impacts in 2003 from these contribution decisions absent a favourable Cabinet decision; however, complete assurance that TELUS' future earnings will not be further adversely affected cannot be given.

2002 price cap regulation decision

Price cap regulation and local competition were introduced in 1998. The CRTC adopted 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. TELUS and other incumbent telecommunications companies sought to modify the price cap regime to achieve greater pricing flexibility for regulated services. Certain CLECs requested additional benefits including the use of incumbent facilities at a large discount. Some parties also requested that the CRTC impose penalties on the incumbent companies for failure to meet CRTC-established quality of service indicators. On May 30, 2002 and July 31, 2002, the CRTC announced its decisions on the Regulatory Framework for the Second Price Cap Period for the ILECs, which established the framework for regulation of ILECs, including TELUS. These decisions cover a four-year period beginning June 2002 (for TELUS Communications Québec Inc., a four-year period beginning August 2002). The impact of these decisions was a decrease in consolidated EBITDA of \$57 million for the twelve-month period ended December 31, 2002, when compared to the same period one year earlier.

The CRTC price cap decisions confirmed TELUS' preferred regulatory model of facilities-based competition, did not introduce the significantly larger discounts of up to 70% for use of ILEC facilities sought by competitors, and allowed TELUS to benefit as it becomes more efficient over and above an annual 3.5% productivity factor on a subset of its services. However, the CRTC has extended the regulation of local prices and service levels, reduced the ability of companies to raise prices, introduced more complexity and caused a negative impact on TELUS earnings. The price cap decision initiated a number of implementation proceedings, some of which are expected to be concluded in 2003. TELUS anticipates an approximate \$80 million negative EBITDA impact for 2003. TELUS can give no assurance that earnings will not be further adversely affected as rules are reviewed, adjusted or changed. The price cap decision also established a penalty regime for ILECs that do not meet the quality of service standards approved by the CRTC.

TELUS expects to pay some penalties for the initial reporting period ending June 2003, but this amount is not expected to materially affect the Company's earnings in 2003. However, there can be no assurance that these penalties will not significantly affect earnings in the future.

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 2003. 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 reimburse the municipalities' direct costs caused by the construction of the communications facilities, but rejecting annual fees to occupy the land. However, this decision was appealed to the Federal Court of Appeal by certain cities in February 2001. A majority decision from the Court in December 2002 denied the appeal. A motion for leave to appeal this decision to the Supreme Court of Canada is scheduled to be filed by the municipalities in March 2003. If granted, the appeal would likely be heard late in 2004 or 2005. If annual fees are charged, the earnings of TELUS would be affected.

Radiocommunication licences 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. Effective April 2001, TELUS Mobility's PCS and cellular licences were renewed for a five-year period under the same terms and conditions, such as: meeting certain performance levels, meeting Canadian ownership requirements, 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,

management's discussion and analysis

TELUS believes that it has fully and satisfactorily addressed certain foreign ownership-related issues raised by Industry Canada in the course of its review of TELUS Mobility's eligibility to hold the 24-38 GHz and additional PCS spectrum licences provisionally awarded to it, and TELUS expects such licences to be awarded to TELUS Mobility. However, there can be no assurance until the licences are in fact issued.

TELUS believes that TELUS Mobility has complied with all eligibility requirements and notes that Industry Canada renewed its PCS licences in March 2001, but should a favourable determination not be made, 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.

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 unrecognized revenue leakage, billing errors in customer accounts and incorrect and inaccurate information being shared. In 2002, TELUS expanded the mandate of a formerly Mobility-specific Finance function to the Communications segment. This function focuses on revenue assurance and increasing billing efficiency. Given the volume and variety of transactions from these billing systems, there is a potential impact on TELUS revenues, which may adversely affect the earnings of TELUS.

Efficiency

To remain cost competitive and maintain profitability when prices are lowered by regulatory and/or competitor actions, it is important for TELUS to continue reducing costs. 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 since 1998 through the end of 2002, there was a decrease in certain local prices by a 4.5% productivity factor less inflation which, under the new regime, has changed to a 3.5% factor until 2006. It is expected that ongoing efficiency programs are necessary 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

There have been studies which have asserted that radio frequency emissions from wireless handsets may be linked to certain adverse health effects. However, there is substantial evidence, as determined and published in numerous scientific studies worldwide, supporting

the conclusion that there is no demonstrated public health risk associated with the use of wireless phones. TELUS believes that the handsets sold by TELUS Mobility comply with all applicable Canadian and U.S. government safety standards.

There can be no assurance that future health studies, government regulation or public concerns about the health effects of radio frequency emissions would not 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.

Responsible driving

TELUS promotes responsible driving and recommends that driving safely should be each wireless customer's first responsibility. The Insurance Corporation of B.C. and the University of Montreal have released studies showing an increase in distraction levels for drivers using wireless phones while driving (other activities, such as eating, smoking or tuning the radio, were also shown to increase driver distraction). In December 2002, Newfoundland and Labrador banned drivers' use of handheld wireless phones while still allowing the use of hands-free wireless kits. There can be no assurance that other provinces will not follow. TELUS believes that current laws already adequately address all forms of 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 wireless phones while driving will not be passed and that, if passed, such laws will not have a negative effect on subscriber growth rates, usage levels and wireless revenues.

Strategic partners

TELUS' interests may conflict with those of its strategic partners

While strategic alliance partners such as Verizon 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. Also, the insolvency of Genuity and the sale of its assets to Level 3 could potentially affect TELUS' provisioning of certain IP-based telecommunications services, especially into the United States, and the current arrangements between TELUS, Verizon and Genuity.

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

Some of TELUS' 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 2.8% economic interest. Verizon could sell a portion of its 73.4 million common and non-voting shares, a 21.2% economic interest, although it is not permitted to reduce its shareholding to less than 19.9% of all outstanding common and non-voting shares without the prior approval of a majority of the independent directors on the TELUS Board. Sales of substantial amounts of TELUS shares, or the perception that these sales may occur, could adversely affect the market price of TELUS shares.

management's report

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal controls that provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines that require employees to maintain the highest ethical standards, and has established mechanisms for the reporting to the audit committee of perceived accounting and ethics policy complaints. Annually the Company performs an extensive risk assessment process, which includes interviews with senior management and conducts a risk management survey distributed to a large sample of employees. Results of this process influence the development of the internal audit program. Key enterprise-wide risks are assigned to executive owners for the development and implementation of appropriate risk mitigation plans. The Company has recently instituted a Sarbanes-Oxley certification enablement process, which, among other things, cascades informative certifications from the key stakeholders within the financial reporting process, which are reviewed by the Chief Executive Officer and the Chief Financial Officer as part of their due diligence process.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of the management's discussion and analysis and the consolidated financial statements contained in this report. They have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the management's discussion and analysis and the consolidated financial statements contained in this report were being prepared.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to when they were evaluated, nor were there any significant deficiencies or material weaknesses in these controls requiring corrective actions.

The shareholders appointed Arthur Andersen LLP as the external auditors of the Company at its annual meeting on May 1, 2002. As a result of the partners and staff of the Canadian operations of Arthur Andersen LLP joining Deloitte & Touche LLP in June 2002, the Board of Directors appointed Deloitte & Touche LLP, as external auditors of the Company to fill the vacancy left when Arthur Andersen LLP ceased operations in Canada. Deloitte & Touche LLP has been appointed to express an opinion as to whether these consolidated financial statements present fairly the Company's consolidated financial position and operating results in accordance with Canadian GAAP. Their report follows.

The Board of Directors has reviewed and approved these consolidated financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee that is comprised of a majority of independent directors, which oversees the financial reporting process. The committee meets no less than quarterly with management (including the internal auditors) and the external auditors to review various matters. It receives quarterly reports on: internal audit program results and evaluation of internal control systems; risk management services including notable projects for the quarter, legal claims and environmental issues; disaster recovery plans and financial derivative exposure. The audit committee also reviews and approves methods of controlling corporate assets and information systems on a quarterly basis and reviews major accounting policies including alternatives and potential key management estimates or judgements. The committee's terms of reference are available, on request, to shareholders.



Robert G. McFarlane
Executive Vice-President
and Chief Financial Officer

auditors' report

To the Shareholders of TELUS Corporation

We have audited the consolidated balance sheet of TELUS Corporation as at December 31, 2002 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Companies Act, we report that, in our opinion, except for the changes in accounting policies described in Note 2, these principles have been applied on a consistent basis.

The consolidated financial statements of TELUS Corporation as at December 31, 2001, were audited by other auditors whose report dated February 4, 2002, expressed an unqualified opinion on those statements.



Deloitte & Touche LLP

Chartered Accountants

Vancouver, B.C.

January 31, 2003

consolidated statements of income

Years ended December 31 (millions)	2002	2001
Operating Revenues	\$ 7,006.7	\$ 7,080.5
Operating Expenses		
Operations	4,488.1	4,550.9
Depreciation	1,213.7	1,127.6
Amortization of intangible assets (Note 2(a))	356.6	366.6
Restructuring and workforce reduction costs (Note 5)	569.9	198.4
	6,628.3	6,243.5
Operating Income from Continuing Operations	378.4	837.0
Other expense (income), net	40.8	(17.0)
Financing costs (Note 6)	604.1	624.5
Refinancing charge from debt restructuring	–	96.5
Income (Loss) from Continuing Operations Before Income Taxes, Non-Controlling Interest and Goodwill Amortization	(266.5)	133.0
Income taxes (recovery) (Note 7)	(42.5)	93.4
Non-controlling interest	3.1	3.6
Goodwill amortization (Note 2(a))	–	174.8
Income (Loss) from Continuing Operations	(227.1)	(138.8)
Discontinued operations (Note 8)	(1.9)	592.3
Net Income (Loss)	(229.0)	453.5
Preference and preferred share dividends	3.5	3.5
Interest on convertible debentures, net of income taxes	6.8	7.0
Common Share and Non-Voting Share Income (Loss)	\$ (239.3)	\$ 443.0
Income (Loss) per Common Share and Non-Voting Share (\$) (Note 9)		
Basic – Continuing operations	(0.75)	(0.51)
– Discontinued operations	–	2.02
– Net income (loss) (Note 2(a))	(0.75)	1.51
Diluted – Continuing operations	(0.75)	(0.51)
– Discontinued operations	–	2.02
– Net income (loss) (Note 2(a))	(0.75)	1.51
Dividends Declared per Common Share and Non-Voting Share (\$)	0.60	1.20
Total Weighted Average Common Shares and Non-Voting Shares Outstanding (millions)		
Basic	317.9	294.2
Diluted	317.9	294.2

The accompanying notes are an integral part of these consolidated financial statements

consolidated statements of retained earnings

Years ended December 31 (millions)	2002	2001
Balance at Beginning of Year	\$ 1,654.8	\$ 1,563.4
Transitional impairment of intangible assets with indefinite lives (Note 2(a))	(595.2)	–
Adjusted opening balance	1,059.6	1,563.4
Net income (loss)	(229.0)	453.5
	830.6	2,016.9
Less: Common Share and Non-Voting Share dividends paid in cash	150.9	247.0
Common Share and Non-Voting Share dividends reinvested in shares issued from Treasury	39.0	104.6
Preference and preferred share dividends	3.5	3.5
Interest on convertible debentures, net of income taxes	6.8	7.0
Balance at End of Year (Note 18)	\$ 630.4	\$ 1,654.8

The accompanying notes are an integral part of these consolidated financial statements

consolidated balance sheets

As at December 31 (millions)

	2002	2001
Assets		
Current Assets		
Cash and temporary investments, net (Note 1(j))	\$ —	\$ 17.1
Accounts receivable (Notes 2(d), 11)	640.4	972.1
Income and other taxes receivable	134.0	7.1
Inventories	96.5	118.6
Current portion of future income taxes (Note 7)	138.8	147.0
Prepaid expenses and other	163.5	180.7
	1,173.2	1,442.6
Capital Assets, Net (Note 12)		
Property, plant, equipment and other	8,025.9	7,924.2
Intangible assets subject to amortization (Note 2(a))	998.5	980.1
Intangible assets with indefinite lives (Note 2(a))	2,950.1	3,855.5
	11,974.5	12,759.8
Other Assets		
Deferred charges (Note 13)	725.3	685.2
Future income taxes (Note 7)	1,170.3	996.9
Investments	48.1	56.4
Goodwill (Note 14)	3,124.6	3,320.9
Other	3.8	3.8
	5,072.1	5,063.2
	\$ 18,219.8	\$ 19,265.6
Liabilities and Shareholders' Equity		
Current Liabilities		
Cash and temporary investments, net (Note 1(j))	\$ 9.0	\$ —
Accounts payable and accrued liabilities	1,198.8	1,166.4
Restructuring and workforce reduction accounts payable and accrued liabilities (Note 5)	400.4	109.7
Dividends payable	52.2	45.5
Advance billings and customer deposits	330.3	310.8
Short-term obligations (Note 15)	190.3	229.9
	2,181.0	1,862.3
Long-Term Debt (Note 16)	8,197.4	8,651.4
Future Income Taxes (Note 7)	992.3	1,326.6
Other Long-Term Liabilities (Note 17)	405.3	432.6
Non-Controlling Interest	11.2	8.0
Shareholders' Equity (Note 18)		
Convertible debentures	148.5	147.4
Preference and preferred shares	69.7	69.7
Common equity	6,214.4	6,767.6
	6,432.6	6,984.7
	\$ 18,219.8	\$ 19,265.6

Commitments and Contingent Liabilities (Note 19)

The accompanying notes are an integral part of these consolidated financial statements

Approved by the Directors:

Director:



Iain J. Harris

Director:



Brian A. Canfield

consolidated statements of cash flows

Years ended December 31 (millions)	2002	2001
Operating Activities		
Income (loss) from continuing operations	\$ (227.1)	\$ (138.8)
Items not affecting cash:		
Depreciation and amortization	1,570.3	1,494.2
Goodwill amortization	–	174.8
Future income taxes	9.2	(167.1)
Gain on redemption of long-term debt	(82.7)	(65.9)
Asset write-off related to restructuring	0.3	30.5
Refinancing charge from debt restructuring	–	96.5
Net pension credits	(9.8)	(46.7)
Other, net	(17.8)	(8.2)
Operating cash flow before restructuring and workforce reduction costs	1,242.4	1,369.3
Restructuring and workforce reduction costs, net of cash payments (Note 5)	290.7	96.0
Operating cash flow	1,533.1	1,465.3
Net change in non-cash working capital from continuing operations (Note 20(a))	213.2	(22.6)
Operating cash flow and net change in non-cash working capital from discontinued operations (Note 20(b))	(4.3)	(34.9)
Cash provided by operating activities	1,742.0	1,407.8
Investing Activities		
Capital expenditures (Note 12)	(1,693.3)	(2,249.4)
Purchase of spectrum	(4.6)	(355.9)
Acquisitions, net of cash acquired (Note 3)	–	(375.4)
Proceeds from the sale of property	–	228.4
Proceeds from divestitures (Note 8)	8.2	939.6
Other	(1.4)	(8.6)
Cash provided (used) by investing activities	(1,691.1)	(1,821.3)
Financing Activities		
Common Shares and Non-Voting Shares issued	92.2	103.1
Public issuance of Non-Voting Shares (Note 18(j))	337.4	–
Cost of public issuance of Non-Voting Shares (Note 18(j))	(14.5)	–
Dividends to shareholders	(135.6)	(325.2)
Long-term debt issued (Note 16(b)-(c))	644.2	7,152.1
Redemptions and repayment of long-term debt (Notes 16(b), (d)-(e))	(901.0)	(1,878.3)
Change in short-term obligations	(84.4)	(4,733.3)
Interest on convertible debentures	(11.2)	(12.3)
Amortization of debt issue costs and other	(4.1)	24.3
Cash provided (used) by financing activities	(77.0)	330.4
Cash Position		
Increase (decrease) in cash and temporary investments, net	(26.1)	(83.1)
Cash and temporary investments, net, beginning of year	17.1	100.2
Cash and temporary investments, net, end of year	\$ (9.0)	\$ 17.1
Supplemental Disclosure		
Interest paid	\$ 675.8	\$ 623.3
Income taxes (inclusive of Investment Tax Credits (Note 7)) paid (received)	\$ (18.6)	\$ 329.7
The accompanying notes are an integral part of these consolidated financial statements		

notes to consolidated financial statements

December 31, 2002

TELUS Corporation is one of Canada's largest telecommunications companies, providing a full range of telecommunications products and services. The Company is the largest incumbent telecommunications service provider in Western Canada and provides data, Internet Protocol, voice and wireless services to Central and Eastern Canada.

1. Summary of Significant Accounting Policies

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

The term "Company" is used to mean TELUS Corporation and, where the context of the narrative permits or requires, its subsidiaries.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and all of the Company's subsidiaries, of which the principal ones are: TELUS Communications Inc. (including the TELE-MOBILE COMPANY partnership), TELUS Québec Inc. (including TELUS Communications (Québec) Inc.) and TELUS Services Inc. (including TELUS Enterprise Solutions Partnership).

(b) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Examples of significant estimates include: the key economic assumptions used to determine the fair value of residual cash flows arising from accounts receivable securitization; the allowance for doubtful accounts; the allowance for inventory obsolescence; the estimated useful lives of assets; the recoverability of intangible assets with indefinite lives; the recoverability of long-term investments; the recoverability of goodwill; the composition of future income tax assets and future income tax liabilities; the accruals for restructuring and workforce reduction costs; and certain actuarial and economic assumptions used in determining defined benefit pension costs, accrued pension benefit obligations and pension plan assets.

(c) Revenue Recognition

The Company earns the majority of its revenue (voice local, voice contribution, voice long distance, data and mobility network) from access to, and usage of, the Company's telecommunication infrastructure. The majority of the balance of the Company's revenue (other and mobility equipment) arises from providing products facilitating access to, and usage of, the Company's telecommunication infrastructure.

Voice Local, Voice Long Distance, Data and Mobility Network:

The Company recognizes revenues on the accrual basis and includes an estimate of revenues earned but unbilled. Wireline and wireless service revenues are recognized based upon usage of the Company's network and facilities and upon contract fees.

Advance billings are recorded when billing occurs prior to rendering the associated service; such advance billings are recognized as revenue in the period in which the services are provided. Similarly, upfront customer activation and installation fees, along with the corresponding direct costs not in excess of the revenues, are deferred and recognized over the average expected term of the customer relationship.

When the Company receives no identifiable, separable benefit for consideration given to a customer, the consideration is recorded as a reduction of revenue rather than as an expense as the Company considers this to result in a more appropriate presentation of transactions in the financial statements.

Voice Contribution: The Canadian Radio-television and Telecommunications Commission ("CRTC") has established a portable subsidy mechanism to subsidize Local Exchange Carriers, such as the Company, that provide residential service to high cost service areas ("HCSAs"). The CRTC has determined the per line/per band portable subsidy rate for all Local Exchange Carriers. The Company recognizes the portable subsidy on an accrual basis by applying the subsidy rate to the number of residential network access lines it has in HCSAs.

Other and Mobility Equipment: The Company recognizes product revenues, including wireless handsets sold to resellers and customer premises equipment, when the products are delivered and accepted by the end-user customers. When the Company receives no identifiable, separable benefit for consideration given to a customer, the consideration is recorded as a reduction of revenue rather than as an expense as the Company considers this to result in a more appropriate presentation of transactions in the financial statements.

Non-HCSA Deferral Account: On May 30, 2002, and on July 31, 2002, the CRTC issued Decision 2002-34 and Decision 2002-43, respectively, pronouncements that will affect the Company's wireline revenues for four-year periods beginning June 1, 2002, and August 1, 2002, respectively. In an effort to foster competition for residential basic service in non-high cost service areas ("non-HCSAs"), the concept of a deferral account mechanism was introduced by the CRTC, as an alternative to mandating price reductions.

The deferral account arises from the CRTC requiring the Company to defer the income statement recognition of a portion of the monies received in respect of residential basic services provided to non-HCSAs. The revenue deferral is based on the rate of inflation (as measured by a chain-weighted GDPPI index), less a productivity offset of 3.5%, and an "exogenous factor" that is associated with allowed recoveries in previous price cap regimes that have now expired. The Company may recognize the deferred amounts upon the undertaking of qualifying actions, such as Service Improvement Programs ("SIPs") in qualifying non-HCSAs, rate reductions (including those provided to competitors as required in Decision 2002-34 and Decision 2002-43) and/or rebates to customers. To the extent that a balance remains in the deferral account, interest is required to be accrued at the Company's short-term cost of borrowing.

The Company has adopted the liability method of accounting for the deferral account. This results in the Company recording a liability to the extent that activities it has undertaken, realized rate reductions for Competitor Services and other future qualifying events do not extinguish the balance of the deferral account. As at December 31, 2002, a liability of \$23 million has been recorded and is included with advance billings and customer deposits. Other than for the interest accrued on the balance of the deferral account, which would be included in financing costs, all income statement effects of the deferral account are recorded through operating revenues.

(d) Advertising Costs

Costs of advertising production, airtime and space are expensed as incurred.

(e) Research and Development

Research and development costs are expensed except in cases where development costs meet certain identifiable criteria for deferral. Deferred development costs are amortized over the life of the commercial production, or in the case of serviceable property, plant and equipment, are included in the appropriate property group and are depreciated over its estimated useful life. Research and development costs incurred during the year amounted to \$40 million (2001 – \$32 million) of which \$39 million (2001 – \$18 million) was capital in nature.

(f) Depreciation and Amortization

Assets are depreciated on a straight-line basis over their estimated useful life as determined by a continuing program of studies. The composite depreciation rate for the year ended December 31, 2002, was 6.6% (2001 – 6.6%). Depreciation includes amortization of assets under capital leases.

Intangible assets with finite lives ("intangible assets subject to amortization") are amortized on a straight-line basis over their estimated lives; estimated lives are annually reviewed. The wireline subscriber bases are amortized over 50 years and wireless subscriber bases are amortized over 7 years (see Note 2(a)). Software is amortized over 3 to 5 years and access to rights-of-way and other are amortized over 7 to 30 years.

Commencing January 1, 2002, rather than being systematically amortized, the carrying value of intangible assets with indefinite lives, and goodwill, are periodically tested for impairment. The frequency of the impairment test generally is the reciprocal of the stability of the relevant events and circumstances, but intangible assets with indefinite lives must, at a minimum, be tested annually; the Company has selected December as its annual test time. No impairment amount arose from the December 2002 annual test. The test is applied to each of the Company's two reporting units (the reporting units being identified in accordance with the criteria in the Canadian Institute of Chartered Accountants ("CICA") Handbook section for intangible assets and goodwill): Communications and Mobility. Consistent with current industry-specific valuation methods, the Company uses a discounted cash flow model as a part of determining the fair value of its spectrum licences.

The Company assesses its goodwill by applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units. Consistent with current industry-specific valuation methods, the Company uses a combination of the discounted cash flow and the market comparable approach in determining the fair value of its reporting units.

notes to consolidated financial statements

(g) Translation of Foreign Currencies

Trade transactions completed in foreign currencies are translated into Canadian dollars at the rates prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date with any resulting gain or loss being included in the Consolidated Statements of Income (see Note 6).

The Company applies hedge accounting to the financial instruments used to establish designated currency hedging relationships for its U.S. Dollar denominated long-term debt future cash outflows (semi-annual interest payments and principal payments at maturity) (see Note 4 and Note 16(b)). The purpose of hedge accounting, in respect of the Company's designated currency hedging relationships, is to ensure that counterbalancing gains and losses are recognized in the same periods.

In order to apply hedge accounting, a high correlation (which indicates effectiveness) is required in the offsetting changes in the values of the financial instruments (the "hedging items") used to establish the designated currency hedging relationships and of the U.S. Dollar denominated long-term debt (the "hedged items"). The Company assesses the anticipated effectiveness of designated hedging relationships at inception and for each reporting period thereafter. A designated hedging relationship is considered effective by the Company if the following critical terms match between the hedging item and the hedged item: the notional amount of the hedging item and the principal of the hedged item; maturity dates; payment dates, and interest rate index. Any ineffectiveness, such as from a difference between the notional amount of the hedging item and the principal of the hedged item, is reflected in the Consolidated Statements of Income as "Financing costs".

In the application of hedge accounting, an amount (the "hedge value") is recorded in respect of the fair value of the hedging items only to the extent that their value counterbalances the difference between the Canadian dollar equivalent of the value of the hedged items at the rate of exchange at the balance sheet date and the Canadian dollar equivalent of the value of the hedged items at the rate of exchange in the hedging items. Unrealized changes in the fair value of hedging items, net of the hedge value recorded (see Note 13), are recognized when all the hedged cash flows have occurred (see Note 6). If a previously effective designated hedging relationship becomes ineffective, all gains or losses relating to the hedging item are prospectively reflected in the Consolidated Statements of Income as "Financing costs".

(h) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized.

The Company's research and development activities may be eligible to earn Investment Tax Credits ("ITCs"). The Company's research and development activities and their eligibility to earn ITCs is a complex matter and, as a result, the threshold of more likely than not is normally only achieved after the relevant taxation authorities have made specific determinations. When it is more likely than not that the ITCs will be received, they are accounted for using the cost reduction method whereby such credits are deducted from the expenditures or assets to which they relate (see Note 7).

(i) Share-Based Compensation

The Company applies the intrinsic value based method of accounting for share-based compensation awards granted to employees. Accordingly, no compensation cost is recorded in the accounts for its share option plans. Canadian GAAP requires that a fair value be determined for share options at the date of grant and that such fair value is recognized in the financial statements. In respect of share options awarded to employees, it is permissible to use either the fair value based method or the intrinsic value based method; however, if the intrinsic value based method is used, pro forma disclosure is required so as to show what the effect would have been had the fair value based method been applied (see Note 10). Proceeds arising from the exercise of share options are credited to share capital.

(j) Cash and Temporary Investments, Net

Cash and temporary investments, which include investments in money market instruments that are purchased three months or less from maturity, are presented net of outstanding items including cheques written but not cleared by the bank as at the balance sheet date. Cash and temporary investments, net, are classified as a liability on the balance sheet when the amount of the cheques written but not cleared by the bank exceeds the amount of the cash and temporary investments.

(k) Sales of Receivables

Effective July 1, 2001, transfers of receivables in securitization transactions are recognized as sales when the Company is deemed to have surrendered control over the transferred receivables and consideration, other than for its beneficial interests in the transferred receivables, has been received. When the Company sells its receivables, it retains reserve accounts, which are retained interests in the securitized receivables, and servicing rights. When a transfer is considered a sale, the Company derecognizes all receivables sold, recognizes at fair value the assets received and the liabilities incurred and records the gain or loss on sale in "Other expense (income), net". Such gain or loss recognized on the sale of receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the receivables sold and the retained interests based upon their relative fair market value at the sale date. The Company estimates the fair value for its retained interests based on the present value of future expected cash flows using management's best estimates of the key assumptions – credit losses, the weighted average life of the receivables sold and discount rates commensurate with the risks involved.

For transfers of receivables occurring prior to July 1, 2001, the transactions were recognized as sales of receivables when the significant risks and rewards of ownership were transferred to the purchasers.

(l) Inventories

The Company's inventory consists primarily of wireless handsets, parts and accessories and communications equipment held for resale. Inventories of wireless handsets, parts and accessories are valued at the lower of cost and replacement cost, with cost being determined on an average cost basis. Inventories of communications equipment are valued at the lower of cost and net realizable value, with cost being determined on an average cost basis.

(m) Capital Assets

Property is recorded at historical cost and, with respect to self-constructed property, includes materials, direct labour and applicable overhead costs. In addition, where construction projects exceed \$20 million and are of a sufficiently long duration, an amount is capitalized for the cost of funds used to finance construction (see Note 6). The rate for calculating the capitalized financing costs is based on the Company's one-year cost of borrowing.

When property, plant and/or equipment are sold by the Company, the historical cost less accumulated depreciation is netted against the sale proceeds and the difference is included in the Consolidated Statements of Income as "Other expense (income), net".

(n) Leases

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

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

For the year ended December 31, 2002, real estate and vehicle operating lease expenses, which are net of the amortization of the deferred gain on the sale-leaseback of buildings (see Note 17 and Note 21), were \$151.2 million (2001 – \$135.7 million).

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

Prior to exiting the equipment leasing business conducted through its subsidiary (see Note 8), Telecom Leasing Canada (TLC) Limited, in 2001, the subsidiary acted as a financing intermediary in situations where TELUS was the lessor. The long-term leases receivable represented the present value of future lease payments receivable due beyond one year. Finance income derived from these financing leases was recorded so as to produce a constant rate of return over the terms of the leases.

(o) Investments

The Company accounts for its investments in affiliated companies over which it has significant influence using the equity basis of accounting whereby the investments are initially recorded at cost and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition, except for goodwill, is amortized over the estimated useful lives of the underlying assets to which it is attributed.

The Company accounts for its other investments using the cost basis of accounting whereby investments are initially recorded at cost and earnings from such investments are recognized only to the extent received or receivable.

Carrying values of equity and cost investments are reduced to estimated market values if there is other than a temporary decline in the value of the investment; such reduction recorded is included in the Consolidated Statements of Income as "Other expense (income), net".

(p) Other Long-Term Liabilities – Individual Line Service Program

Included in "Other Long-Term Liabilities" are past contributions from the Government of Alberta under the Individual Line Service program, which are recognized as revenue on a straight-line basis over the estimated useful life of the related assets (which is reached in 2003). The amount to be recognized as revenue within one year is included with "Advance billings and customer deposits" in the Consolidated Balance Sheets.

(q) Employee Defined Benefit Plans

The Company accrues its obligations under employee defined benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service period of active employees of the plan.

notes to consolidated financial statements

2. Change in Accounting Policies

(a) Intangible Assets and Goodwill

Commencing January 1, 2002, the new recommendations of the CICA for intangible assets and goodwill apply to the Company (CICA Handbook Section 3062) (see Note 1(f)).

The Company's intangible assets with indefinite lives, which are its spectrum licences, were tested for impairment as at January 1, 2002, and the impairment amount (the "transitional impairment amount") of \$595.2 million (\$910.0 million before tax) was considered to arise from a change in accounting policy and was charged directly to opening retained earnings.

Similarly, goodwill was also to be tested for impairment as at January 1, 2002. The Company completed this test in the first quarter of 2002 and determined there was no goodwill transitional impairment amount.

In accordance with the new requirements, net income (loss) for prior periods presented is to be adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill and intangible assets with indefinite lives; the corresponding per share amounts are also required to be adjusted.

Years ended December 31 (millions except per share amounts)	2002	2001
Net income (loss)		
As reported	\$ (229.0)	\$ 453.5
Add back: Goodwill amortization	-	174.8
Amortization of intangible assets with indefinite lives (a)	-	50.8
As adjusted	\$ (229.0)	\$ 679.1
Income (loss) per Common Share and Non-Voting Share – basic and diluted		
As reported	\$ (0.75)	\$ 1.51
Add back: Goodwill amortization	-	0.60
Amortization of intangible assets with indefinite lives (a)	-	0.17
As adjusted	\$ (0.75)	\$ 2.28

(a) Net of taxes of \$38.8 for the year ended December 31, 2001.

As required, TELUS reviewed the estimated useful lives associated with its intangible assets that are subject to amortization. Generally accepted accounting principles require that changes in estimates, such as the useful lives of assets, be applied prospectively. The Company's review resulted in the following changes, effected in the first quarter of 2002, to the estimated useful lives of intangible assets that are subject to amortization:

	Estimated useful lives	
	Current	Former
Subscribers – wireline	50 years	40 years
Subscribers – wireless	7 years	7 to 10 years

(b) Revenue Recognition – Consideration Given by a Vendor to a Customer

Commencing January 1, 2002, the Company adopted the provisions of the Financial Accounting Standards Board's Emerging Issues Task Force dealing with accounting for consideration given by a vendor to a customer (EITF 01-9), on a retroactive basis (see Note 1(c)).

The Company considers this accounting change, which is required for U.S. GAAP reporting purposes, to result in a more appropriate presentation of transactions in the financial statements. For the year ended December 31, 2002, the impact of the change was to reduce operating revenues and operating expenses, for Mobility operations (both in 2002 and 2001) and Internet operations (in 2002 only), by \$139.5 million (2001 – \$122.1 million). The adoption of EITF 01-9 did not have an effect on the Company's financial position, key operating measures or cash flows.

(c) Share-Based Compensation

Commencing January 1, 2002, the Company adopted the new recommendations of the CICA dealing with accounting for share-based compensation (CICA Handbook Section 3870) (see Note 1(i)). As required, the accounting change was applied prospectively.

The CICA's Accounting Standards Board has announced that it anticipates finalizing, in 2003, amendments to Section 3870 which would result in companies no longer being allowed to use the intrinsic value method of accounting for share-based compensation; the amendments would be effective commencing with 2004 fiscal years.

(d) Sales of Receivables

During the third quarter of 2002, the Company adopted the guidance of the CICA dealing with accounting for transfers of receivables (CICA Accounting Guideline AcG-12) (see Note 1(k)). As required, the accounting change was applied prospectively.

(e) Translation of Foreign Currencies

During the fourth quarter of 2001, the Company adopted the new recommendations of the CICA dealing with gains and losses arising from translation of non-current monetary assets and liabilities denominated in a foreign currency (CICA Handbook Section 1650) (see Note 1(g)). The accounting change was applied on a retroactive basis and resulted in no material change.

(f) Earnings Per Share

On January 1, 2001, the Company adopted the new recommendations of the CICA dealing with the calculation and reporting of earnings per share (CICA Handbook Section 3500) (see Note 9).

3. Business Acquisitions

On October 12, 2001, the Company acquired PSINet's Canadian operations. The transaction has been accounted for as an asset purchase except for the acquisition of shares in CADVision Development Corporation, which was accounted for by the purchase method. Effective October 12, 2001 onwards, PSINet's and CADVision's results are included in the Company's Consolidated Statements of Income.

On June 29, 2001, the Company acquired all of the remaining 30% externally held shares of TELUS Québec Inc., from Verizon Communications Inc., a significant shareholder. The transaction has been accounted for using the purchase method.

The Company acquired 100% of the outstanding shares of Arqana Technologies Inc., an information technology infrastructure services provider (July 4, 2001), Daedalian eSolutions Inc., an e.business solutions

company (June 21, 2001), Williams Communications Canada Inc., a national data network company (May 31, 2001), and Columbus Group Communications Inc., an Internet professional services company (April 4, 2001) for a total of \$106.1 million including acquisition costs. The total purchase consideration comprised of \$79.2 million cash and \$26.9 million of TELUS non-voting shares. The transactions have been accounted for using the purchase method. In addition to the recorded purchase price of these acquisitions, there is a total of \$0.5 million (2001 – \$10.7 million) of contingent consideration, which may be payable depending on revenues earned in the acquired companies and certain other criteria. Effective from the purchase dates onwards, the results of these acquisitions are included in the Company's Consolidated Statements of Income.

Year ended December 31, 2001 (millions)	PSINet	TELUS Québec Inc.	Other (a)	Total
Cash	\$ 139.9	\$ 124.9	\$ 110.6	\$ 375.4
Non-Voting Shares	–	160.1	26.9	187.0
Total purchase price, including acquisition costs	\$ 139.9	\$ 285.0	\$ 137.5	\$ 562.4
Total identifiable assets	\$ 138.0	\$ 282.6	\$ 91.5	\$ 512.1
Total liabilities	3.6	140.0	48.6	192.2
Net assets acquired	134.4	142.6	42.9	319.9
Goodwill created	5.5	142.4	94.6	242.5
	\$ 139.9	\$ 285.0	\$ 137.5	\$ 562.4

(a) Includes Arqana Technologies Inc., Daedalian eSolutions Inc., Williams Communications Canada Inc. and Columbus Group Inc.

notes to consolidated financial statements

4. Financial Instruments

The Company's financial instruments consist of cash and temporary investments, accounts receivable, leases receivable, bank indebtedness, accounts payable, restructuring and workforce reduction accounts payable, dividends payable, short-term obligations, long-term debt, interest rate swap agreements, foreign exchange hedges and convertible debentures.

The Company uses various financial instruments, the fair values of some which are not reflected on the balance sheets, to reduce or eliminate exposure to interest rate and currency risks. These instruments are accounted for on the same basis as the underlying exposure being hedged. The majority of these instruments, which were newly added during 2001, pertain to TELUS' U.S. Dollar borrowing. Use of these instruments is subject to a policy, which requires that no derivative transaction be effected for the purpose of establishing a speculative or a levered position, and sets criteria for the credit worthiness of the transaction counterparties.

Price risk – interest rate: The Company is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments, short-term obligations and long-term debt. The Company has entered into interest rate swap agreements that have the effect of fixing the interest rate on \$107 million of floating rate debt. Hedge accounting is not applied to these swap agreements.

Price risk – currency: The Company is exposed to currency risks arising from fluctuations in foreign exchange rates on its U.S. Dollar denominated long-term debt. Currency hedging relationships have been established for the related semi-annual interest payments and principal payments at maturity (see Note 1(g) and Note 16(b)).

The Company's foreign exchange risk management also includes the use of foreign currency forwards to fix the exchange rates on short-term foreign currency transactions and commitments. Hedge accounting is not applied to these foreign currency forwards.

Credit risk: The Company is exposed to credit risk with respect to its short-term deposits, accounts and leases receivable, interest rate swap agreements and foreign exchange hedges.

Credit risk associated with short-term deposits is minimized substantially by ensuring that these financial assets are placed with

governments, well-capitalized financial institutions and other credit-worthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts and leases receivable is minimized by the Company's large customer base, which covers all consumer and business sectors in Canada. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Counterparties to the Company's interest rate swap agreements and foreign exchange hedges are major financial institutions that have all been accorded investment grade ratings by a primary rating agency. The dollar amount of credit exposure under contracts with any one financial institution is limited and counterparties' credit ratings are monitored. The Company does not give or receive collateral on swap agreements and hedges due to its credit rating and those of its counterparties. While the Company is exposed to credit losses due to the nonperformance of its counterparties, the Company considers the risk of this remote; if all counterparties were not to perform, the pre-tax effect would be limited to the value of the deferred hedging asset (Note 13).

Fair value: The carrying value of cash and temporary investments, bank indebtedness, accounts receivable, leases receivable, accounts payable, restructuring and workforce reduction accounts payable, dividends payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments.

The fair values of the Company's long-term debt and convertible debentures are estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated similarly.

(millions)	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt	\$ 8,387.7	\$ 8,338.2	\$ 8,796.8	\$ 9,126.7
Convertible debentures	\$ 148.5	\$ 137.6	\$ 147.4	\$ 150.7
Derivative financial instruments used to manage exposure to interest rate and currency risks (a) (Note 13)	\$ 134.1	\$ 315.7	\$ 190.1	\$ (7.5)

(a) Notional amount outstanding \$4,925.7 (2001 – \$5,280.6).

5. Restructuring and Workforce Reduction Costs

Restructuring and workforce reduction costs were recorded in 2001 and 2002 for Operational Efficiency Program ("OEP") costs. In 2001, the Company initiated a phased OEP aimed at improving operating and capital productivity and competitiveness. The first phase of the OEP was to complete merger-related restructuring activities in TELUS Mobility and the reorganization for TELUS Communications. In the first quarter of 2001, a restructuring charge of \$198.4 million was recorded. Approximately one-half of the 2001 charge was related to integration costs for TELUS Mobility including the write-down of redundant capital assets, handset reconfiguration costs and employee severance costs. The remaining charge was related to reorganization costs in TELUS Communications, including employee severance costs and capital asset impairment charges. By December 31, 2001, excluding the impacts of staff increases associated with acquisitions, there were approximately 800 net staff reductions as a result of the OEP.

The second phase of the OEP, which commenced at the beginning of 2002, continued to focus on reducing staff, but also entailed a comprehensive review of enterprise-wide processes to identify capital and operational efficiency opportunities. Consequently, on June 7, 2002, the Company initiated a program offering an Early Retirement Incentive Plan ("ERIP") and a Voluntary Departure Incentive Plan ("VDIP") to 11,000 of the more than 16,000 bargaining unit employees and on July 11, 2002, the Company announced details on OEP initiatives including: streamlining of business processes; reducing the TELUS product portfolio and processes that support them; optimizing the use of real estate, networks and other assets; improving customer order management; reducing the scope of corporate support functions; consolidating operational and administrative functions; and consolidating customer contact centres.

The third phase of the OEP commenced in the third quarter of 2002 and was focused on operationalizing the above noted initiatives. Twenty-four of the 43 customer contact centres targeted for consolidation were consolidated by December 31, 2002. All 33 of the TELUS stores targeted for closure were closed by December 31, 2002. Consolidation of administrative offices was largely completed by December 31, 2002. TELUS reduced its staff count by approximately 5,200 for the year ended December 31, 2002. Since the inception of the OEP in 2001, up to December 31, 2002, the Company has reduced its staff count

by approximately 6,000, comprised of 4,200 bargaining unit positions and 1,800 management positions. TELUS currently expects approximately 1,300 additional net employee reductions as a result of the OEP to occur in 2003.

The expense and liability for the ERIP and VDIP programs are recognized when the employee accepts the Company's formalized offer. The total restructuring and workforce reduction expense of \$569.9 million for 2002 consisted of phase one expense of \$12.5 million incurred in 2002, which was in excess of the phase one 2001 provision, as well as a \$557.4 million provision in 2002 related to the second and third phases of the OEP. This 2002 provision included management and bargaining unit ERIP and VDIP employee acceptances and planned involuntary terminations, qualifying lease terminations and other operational efficiency pursuits. An additional restructuring amount of approximately \$20 million is expected to be recorded in 2003 in respect of the OEP for items that were not eligible to be recorded in 2002.

Years ended December 31 (millions)	2002	2001
Workforce reduction costs		
Voluntary (Early Retirement Incentive Plan, Voluntary Departure Incentive Plan and other) (a)	\$ 403.9	\$ 94.6
Involuntary and other (b)	153.5	73.3
	557.4	167.9
Lease termination charges	10.1	–
Asset write-off and other charges	2.4	30.5
Restructuring and workforce reduction costs	569.9	198.4
Less: Current payments	273.8	71.9
Asset write-off related to restructuring and other	–	30.5
Reclassified to other long-term liabilities (pension and other post-retirement benefit liabilities)	5.4	–
Restructuring and workforce reduction costs, net of cash payments	\$ 290.7	\$ 96.0

(a) Includes an amount of \$65.7 in respect of multi-employer pension plan expense that allowed qualifying employees the opportunity to retire with a normal pension earlier than they otherwise would have (see Note 22).

(b) Includes an amount of \$5.4 in respect of defined benefit pension plans that allowed qualifying employees the opportunity to retire with a normal pension earlier than they otherwise would have (see Note 22).

notes to consolidated financial statements

6. Financing Costs

Years ended December 31 (millions)	2002	2001
Interest on long-term debt	\$ 711.3	\$ 560.4
Interest on short-term obligations and other	3.6	145.2
Foreign exchange (gain) loss (a)	(1.5)	0.9
Gain on redemption of long-term debt (b)	(82.7)	(65.9)
	630.7	640.6
Capitalized interest during construction	(0.7)	(3.3)
Interest income	(25.9)	(12.8)
	\$ 604.1	\$ 624.5

(a) These amounts include losses of \$NIL (2001 – \$1.5) in respect of hedge ineffectiveness (see Note 1(g)).

(b) These amounts include gains of \$4.3 (2001 – \$41.2), which arose from the associated settlement of financial instruments which hedged U.S. dollar denominated long-term debt that was extinguished (see Note 16(b) and Note 16(h)).

7. Income Taxes

Years ended December 31 (millions)	2002	2001
Current	\$ (51.7)	\$ 260.5
Future	9.2	(167.1)
	\$ (42.5)	\$ 93.4

The Company's income tax expense (recovery) differs from that calculated by applying statutory rates for the following reasons:

Years ended December 31 (\$ in millions)	2002	2001
Basic blended federal and provincial tax at statutory income tax rates	\$ (105.0) 39.4%	\$ 52.7 39.6%
Non-taxable portion of gains	(16.4)	–
Revaluation of future tax assets and liabilities for decreases in statutory rates	31.3	14.9
Non-tax effected elements of net income before tax	10.0	0.2
Prior year rates applied to settlement of tax issues	2.4	–
Other	11.0	6.6
	(66.7) 25.0%	74.4 55.9%
Large corporations tax	24.2	19.0
Income tax expense (recovery) per Consolidated Statements of Income	\$ (42.5) 15.9%	\$ 93.4 70.2%

As referred to in Note 1(b), the Company must make significant estimates in respect of the composition of its future income tax assets and future income tax liabilities. The operations of the Company are complex, and related tax interpretations, regulations and legislation are continually changing. As a result, there are usually some tax matters in question. Temporary differences comprising the future tax assets (liabilities) are estimated as follows:

(millions)	2002	2001
Capital assets		
Property, plant, equipment, other and intangible assets subject to amortization	\$ 291.2	\$ 399.3
Intangible assets with indefinite lives	(992.3)	(1,326.6)
Reserves not currently deductible	145.7	28.7
Losses available to be carried forward	765.8	642.9
Other	106.4	73.0
	\$ 316.8	\$ (182.7)
Presented on the Consolidated Balance Sheets as:		
Future tax assets		
Current	\$ 138.8	\$ 147.0
Non-current	1,170.3	996.9
	1,309.1	1,143.9
Future tax liabilities	(992.3)	(1,326.6)
Net future tax assets (liabilities)	\$ 316.8	\$ (182.7)

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits (see Note 1(e) and Note 1(h)). During the year ended December 31, 2002, the Company recorded Investment Tax Credits of \$67.2 million (2001 – NIL) of which \$50.5 million (2001 – NIL) was recorded as a reduction of Operations Expense and the balance was recorded as a reduction of capital expenditures.

8. Discontinued Operations

Pursuant to two agreements, one effective August 14, 2002, and one effective August 31, 2002, the Company sold its U.S. directory business to two arm's-length parties, for total proceeds of approximately \$8 million and recognized a loss of \$2.2 million (before and after tax) on the sale.

On June 1, 2001, the Company entered into an agreement, that closed on July 31, 2001, to sell substantially all of TELUS Advertising Services directory business and TELUS Québec directory business to Dominion Information Services Inc., a wholly-owned subsidiary of a related party, Verizon Communications Inc., a significant shareholder, for total proceeds of \$810 million representing fair market value. In the third quarter of 2001, the Company recognized a gain of \$546.3 million (\$710.9 million before tax) on the sale.

Effective September 30, 2001, the Company exited the equipment leasing business by securitizing its equipment leasing portfolio to

an arm's-length trust through a concurrent lease agreement. The equipment-leasing portfolio will be financed, administered and serviced by a third party on behalf of the trust. As part of this transaction, the Company has entered into a long-term agreement whereby the third party will become the preferred provider of future equipment financing for TELUS customers. The gain and other income on the transaction was \$3.9 million (\$7.1 million before tax).

As a result of these transactions, the operating results of the affected directory and equipment leasing operations have been included in the Consolidated Statements of Income as "discontinued operations".

At December 31, 2002, and 2001, no material assets or liabilities of the discontinued operations remained. Income statement disclosures for discontinued operations are as follows:

Years ended December 31 (millions)	TELUS Advertising Services		Equipment Leasing		Total	
	2002	2001	2002	2001	2002	2001
Revenues	\$ 5.0	\$ 190.0	\$ –	\$ 9.4	\$ 5.0	\$ 199.4
Operating results to measurement date						
Income (loss) before income taxes	\$ 0.3	\$ 74.8	\$ –	\$ 3.4	\$ 0.3	\$ 78.2
Income taxes	–	34.5	–	1.6	–	36.1
Income (loss) from operations to measurement date	0.3	40.3	–	1.8	0.3	42.1
Gain (loss) and other						
Gross	(2.2)	710.9	–	7.1	(2.2)	718.0
Income tax	–	164.6	–	3.2	–	167.8
Net	(2.2)	546.3	–	3.9	(2.2)	550.2
Discontinued operations	\$ (1.9)	\$ 586.6	\$ –	\$ 5.7	\$ (1.9)	\$ 592.3

9. Per Share Amounts

Basic net income (loss) from continuing operations per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income (loss) from continuing operations by the total weighted average Common Shares and Non-Voting Shares outstanding during the period. Basic net income (loss) per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income (loss) by the total weighted average Common Shares and Non-Voting Shares outstanding during the period. Diluted income per Common Share and Non-Voting Share is calculated to give effect to share options and warrants and shares issuable on conversion of debentures. The convertible debentures had no dilutive effect in the periods presented. Per share amount calculations for discontinued operations employ the same number of Common Shares and Non-Voting Shares as used in the income (loss) from continuing operations calculations.

The following tables present the reconciliations of the numerators and denominators of the basic and diluted per share computations for income before discontinued operations.

Years ended December 31 (millions)	2002	2001
Income (loss) from continuing operations	\$ (227.1)	\$ (138.8)
Deduct:		
Preference and preferred share dividends	3.5	3.5
Interest on convertible debentures	6.8	7.0
Basic and diluted Common Share and Non-Voting Share income (loss) from continuing operations	\$ (237.4)	\$ (149.3)

Years ended December 31 (millions)	2002	2001
Basic total weighted average Common Shares and Non-Voting Shares outstanding	317.9	294.2
Effect of dilutive securities		
Exercise of share options and warrants (a)	–	–
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	317.9	294.2

(a) Share options, in the amount of 0.9 for the year ended December 31, 2001, were excluded from the calculations, as they were anti-dilutive.

notes to consolidated financial statements

10. Share-Based Compensation

The Company applies the intrinsic value based method of accounting for share-based compensation awards granted to employees. Accordingly, no compensation cost is recorded in the accounts for its share option plans. For share options granted after 2001, disclosure of the impact on earnings and earnings per share as if the fair value based method of accounting for the share-based compensation had been applied is required. Such impact, using a weighted average fair value of \$5.10 for options granted in 2002, would approximate the following pro forma amounts:

Year ended December 31 (millions except per share amounts)	2002
Compensation cost	\$ 6.9
Net income (loss)	
As reported	\$ (229.0)
Pro forma	\$ (235.9)
Net income (loss) per Common Share and Non-Voting Share	
Basic and diluted	
As reported	\$ (0.75)
Pro forma	\$ (0.77)

Due to the fact that only share options granted after 2001 are included, these pro forma disclosures are not likely to be representative of the effects on reported net income (loss) for future years.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes model with weighted average assumption for grants as follows:

Year ended December 31	2002
Risk free interest rate	4.9%
Expected lives (years)	6.2
Expected volatility	37%
Dividend rate	3.8%

Forfeitures of options are accounted for in the period of forfeiture.

11. Accounts Receivable

On July 26, 2002, TELUS Communications Inc. ("TCI"), a wholly-owned subsidiary of TELUS, entered into an agreement with an arm's-length securitization trust under which TCI is able to sell an interest in certain of its trade receivables up to a maximum of \$650 million. As a result of selling the interest in certain of the trade receivables on a fully-serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables. This "revolving-period" securitization agreement has an initial term ending July 18, 2007. TELUS Communications Inc. is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service or the securitization trust may require the sale program to be wound down prior to the end of the initial term.

On September 30, 2002, this securitization agreement was amended in order to make available for purchase by the securitization trust an interest in a certain class of TCI's trade receivables, which were previously of the type sold to a different arm's-length securitization trust under a prior securitization agreement dated November 20, 1997. During the third quarter of 2002, TCI delivered a notice of termination in respect of this prior securitization; collection and final remittances of the corresponding accounts receivable had been completed by September 27, 2002.

(millions)	2002	2001
Total managed portfolio	\$ 1,139.0	\$ 1,122.8
Securitized receivables	(595.4)	(158.2)
Retained interest in receivables sold (a)	96.8	7.5
Receivables held	\$ 640.4	\$ 972.1

(a) Includes receivables sold pre and post adoption of AcG-12 (see Note 2(d)).

The Company recognized a loss of \$3.7 million on the sale of receivables, arising from the 2002 securitization. The loss on sale of receivables is comprised of the discount on sale of receivables, the adjustment arising from the fair valuation of the Company's retained interest and servicing.

Cash flows from the 2002 securitization (see Note 2(d)) are as follows:

Year ended December 31 (millions)	2002
Proceeds from new securitizations	\$ 475.0
Proceeds from collections reinvested in revolving period securitizations	\$ 1,419.7
Proceeds from collections pertaining to retained interest	\$ 281.5

The key economic assumptions used to determine the loss on sale of receivables, the future cash flows and fair values attributed to the retained interest (see Note 2(d)) are as follows:

Year ended December 31	2002
Expected credit losses as a percentage of accounts receivable sold	2.4%
Weighted average life of the receivables sold (days)	39
Effective annual discount rate	4.2%
Servicing	1.0%

Generally, the sold trade receivables do not experience prepayments.

At December 31, 2002, key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10 per cent and 20 per cent changes in those assumptions are as follows:

(\$ in millions)	2002	Hypothetical change in assumptions (a)	
		10%	20%
Carrying amount/fair value of future cash flows	\$ 96.8		
Expected credit losses as a percentage of accounts receivable sold	1.8%	\$ 1.1	\$ 2.1
Weighted average life of the receivables sold (days)	39	\$ -	\$ 0.1
Effective annual discount rate	4.2%	\$ -	\$ 0.1

(a) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in an increased value, and unfavourable hypothetical changes in the assumptions result in a decreased value, of the retained interest in receivables sold. As the figures indicate, changes in fair value based on a 10 per cent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in change in another (for example, increases in market interest rates may result in increased credit losses), which might magnify or counteract the sensitivities.

12. Capital Assets, Net

(millions)	Cost	Accumulated Depreciation and Amortization	Net Book Value	
			2002	2001
Property, plant, equipment and other				
Telecommunications assets	\$ 15,902.4	\$ 9,649.5	\$ 6,252.9	\$ 6,009.2
Assets leased to customers	416.3	338.8	77.5	95.9
Buildings	1,514.9	678.9	836.0	779.6
Office equipment and furniture	841.9	561.1	280.8	261.2
Assets under capital lease	31.7	21.4	10.3	25.1
Other	383.6	239.6	144.0	127.8
Land	55.4	-	55.4	58.9
Plant under construction	341.6	-	341.6	512.9
Materials and supplies	27.4	-	27.4	53.6
	19,515.2	11,489.3	8,025.9	7,924.2
Intangible assets subject to amortization				
Subscriber base	362.9	51.3	311.6	333.8
Software	1,079.8	479.5	600.3	553.8
Access to rights-of-way and other	110.8	24.2	86.6	92.5
	1,553.5	555.0	998.5	980.1
Intangible assets with indefinite lives				
Spectrum licences (a)	3,968.6	1,018.5	2,950.1	3,855.5
	\$ 25,037.3	\$ 13,062.8	\$ 11,974.5	\$ 12,759.8

(a) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount (see Note 2(a)).

Included in capital expenditures for the year ended December 31, 2002, were additions of intangible assets subject to amortization of \$350.3 million (2001 - \$539.4 million).

notes to consolidated financial statements

13. Deferred Charges

(millions)	2002	2001
Recognized transitional pension assets and pension plan contributions in excess of charges to income	\$ 367.9	\$ 276.9
Cost of issuing debt securities, less amortization	53.4	68.7
Deferred hedging asset	134.1	190.1
Deferred customer activation and installation costs (Note 1(c))	100.3	122.5
Other	69.6	27.0
	\$ 725.3	\$ 685.2

14. Goodwill

For the year ended December 31, 2002, goodwill additions arising from acquisitions (see Note 3) were \$3.7 million (2001 – \$242.5 million). For the year ended December 31, 2002, goodwill reductions arising primarily from discontinued operations (see Note 8) were \$6.3 million (2001 – \$4.4 million).

During 2002, the Company updated its estimate of the net income tax benefits that were obtained in the course of acquiring Clearnet Communications Inc. on October 19, 2000. This has resulted in an increase to the future income tax asset of \$193.2 million, which has been recorded as a reduction of the unamortized balance of goodwill arising from the acquisition.

15. Short-Term Obligations

(millions)	2002	2001
Current maturities of long-term debt	\$ 190.3	\$ 145.4
Bank borrowings	–	49.5
Notes payable under commercial paper programs	–	35.0
	\$ 190.3	\$ 229.9

At December 31, 2002, the Company's available bilateral bank facilities totalled \$74 million, of which \$5 million was utilized in the form of outstanding undrawn letters of credit. Borrowings under bilateral bank facilities, at December 31, 2001, were comprised primarily of amounts borrowed by TELUS Communications (Québec) Inc. and carried a weighted average interest rate of 3.5%.

Notes payable under commercial paper programs are unsecured. Outstanding notes payable under these programs, at December 31, 2001, carried a weighted average interest rate of 4.44%.

16. Long-Term Debt

(a) Details of Long-Term Debt

(\$ in millions)

Series	Rate	Maturity	2002	2001
TELUS Corporation Notes (b)				
CA	7.5%	June 2006	\$ 1,569.7	\$ 1,589.1
U.S.	7.5%	June 2007	1,835.5	2,062.1
U.S.	8.0%	June 2011	3,026.6	3,171.1
			6,431.8	6,822.3
TELUS Corporation Bank Facilities (c)				
		May 2004	655.0	485.0
TELUS Communications Inc. Debentures (d)				
1	12.00%	May 2010	50.0	50.0
2	11.90%	November 2015	125.0	125.0
3	10.65%	June 2021	175.0	175.0
4	9.15%	April 2002	–	1.0
5	9.65%	April 2022	249.0	249.0
A	9.50%	August 2004	189.5	200.0
B	8.80%	September 2025	200.0	200.0
			988.5	1,000.0
TELUS Communications Inc. Medium Term Note Debentures (e)				
96-3	6.25%	February 2002	–	20.0
96-5	7.25%	April 2002	–	30.0
96-6	6.00%	January 2002	–	25.0
96-7	6.125%	January 2002	–	30.0
96-9	6.25%	August 2004	20.0	20.0
99-1	6.40%	June 2003	151.0	200.0
			171.0	325.0
TELUS Communications (Québec) Inc. First Mortgage Bonds (f)				
T	10.80%	March 2003	30.0	30.0
U	11.50%	July 2010	30.0	30.0
			60.0	60.0
TELUS Communications (Québec) Inc. Medium Term Notes (g)				
1	7.10%	February 2007	70.0	70.0
TELUS Communications Inc. Senior Discount Notes (h)				
			0.8	1.5
Capital leases issued at varying rates of interest from 5.33% to 19.6% and maturing on various dates up to 2006				
			10.1	24.8
Other				
			0.5	8.2
Total debt			8,387.7	8,796.8
Less – current maturities			190.3	145.4
Long-Term Debt			\$ 8,197.4	\$ 8,651.4

(b) TELUS Corporation Notes

The notes are senior, unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all existing and future unsecured, unsubordinated obligations of the Company and are senior in right of payment to all existing and future subordinated indebtedness of the Company, and are effectively subordinated to all existing and future obligations of, or guaranteed by, the Company's subsidiaries.

The indentures governing the notes contain certain covenants which, among other things, place limitations on the ability of TELUS and certain of its subsidiaries to: grant security in respect of indebtedness, enter into sale and lease-back transactions and incur new indebtedness.

2006 (Canadian Dollar) Notes: In May 2001, the Company issued \$1.6 billion Notes at a price of \$992.30 per \$1,000.00 of principal to the public. The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 nor more than 60 days' prior notice, at a redemption price equal to the greater of (a) the present value of the notes discounted at the Government of Canada yield plus 35 basis points, or (b) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

notes to consolidated financial statements

2007 and 2011 (U.S. Dollar) Notes: In May 2001, the Company issued U.S.\$1.3 billion 2007 Notes at a price of U.S.\$995.06 per U.S.\$1,000.00 of principal to the public and U.S.\$2.0 billion 2011 Notes at a price of U.S.\$994.78 per U.S.\$1,000.00 of principal to the public. The notes are redeemable at the option of the Company, in whole at any time, or in part from time to time, on not fewer than 30 nor more than 60 days' prior notice, at a redemption price equal to the greater of (a) the present value of the notes discounted at the Adjusted Treasury Rate plus 25 basis points in the case of the 2007 Notes and 30 basis points in the case of the 2011 Notes, or (b) 100% of the principal amount thereof. In addition, accrued and unpaid interest, if any, will be paid to the date fixed for redemption.

2007 and 2011 Cross Currency Interest Rate Swap Agreements: With respect to the 2007 and 2011 (U.S. Dollar) Notes, U.S.\$3.1 billion (2001 – U.S.\$3.3 billion) in aggregate, the Company entered into cross currency interest rate swap agreements which effectively convert the principal repayments and interest obligations to Canadian dollar obligations with effective fixed rates of 8.109% (2001 – 8.109%) and 8.493% (2001 – 8.494%), respectively. The counterparties of the swap agreements are highly rated financial institutions and the Company does not anticipate any non-performance. TELUS has not required collateral or other security from the counterparties due to its assessment of their creditworthiness (see Note 4).

As disclosed in Note 1(g), the Company translates items such as the U.S. Dollar notes into equivalent Canadian dollars at the rate of exchange in effect at the balance sheet date. The swap agreements, which at December 31, 2002, comprised a deferred hedging asset of \$134.1 million (2001 – \$190.1 million) (see Note 13), in addition to fixing the Company's effective interest rate, effectively fix the economic exchange rate of the U.S. Dollar notes at C\$1.5374:U.S.\$1.00 (2001 – C\$1.5376:U.S.\$1.00). The asset value of the swap agreements increases (decreases) when the balance sheet date exchange rate increases (decreases) the Canadian dollar equivalent of the U.S. Dollar notes.

Repurchases: During the third quarter of 2002, the Company repurchased 2006 (Canadian Dollar) Notes, 2007 and 2011 (U.S. Dollar) Notes, with face values of \$22.0 million, U.S.\$133.5 million and U.S.\$75.0 million, respectively. The gain on repurchasing these Notes and the gain on the corresponding amount of the 2007 and 2011 Cross Currency Interest Rate Swap Agreements terminated have been included as a component of financing costs (gain on redemption on long-term debt) (Note 6). Proceeds from the public issuance of Non-Voting Shares (Note 18(j)) in the third quarter of 2002 were, effectively, used to repurchase these Notes as well as TELUS Communications Inc. Debentures and TELUS Communications Inc. Medium Term Notes.

(c) TELUS Corporation Bank Facilities

TELUS Corporation's unsecured syndicated bank credit facilities at December 31, 2002, consisted of: i) a \$1.5 billion (or the U.S. Dollar equivalent) revolving credit facility expiring on May 30, 2004, used for general corporate purposes, and ii) a 364-day facility with \$800 million (or the U.S. Dollar equivalent) in available credit on a revolving basis until May 28, 2003, at which time it may be extended, given majority lender approval, for an additional 364-day revolving period or, if an extension is not granted, on a non-revolving basis for 364 days for any amounts outstanding at May 28, 2003. The 364-day facility may be used for general corporate purposes including the backstop of commercial paper issued by the Company or TELUS Communications Inc.

The \$1.5 billion and the 364-day facilities bear interest at prime rate, U.S. Dollar Base Rate, Bankers' Acceptance rate or LIBOR, plus applicable margins.

Given the revolving nature of the \$1.5 billion facility and the May 2004 maturity date, the \$655 million (2001 – \$485 million) drawn under this facility is classified as long-term debt. Outstanding undrawn letters of credit under the \$1.5 billion facility at December 31, 2002, totalled \$47.0 million and subsequent to year-end were increased to \$101.8 million. The 364-day facility was undrawn at year-end and there were no outstanding undrawn letters of credit.

(d) TELUS Communications Inc. Debentures

The outstanding Series 1 through 5 debentures were issued by BC TEL, a predecessor corporation of TELUS Communications Inc., under a Trust Indenture dated May 31, 1990 and are non-redeemable.

The outstanding Series A Debentures and Series B Debentures were issued by AGT Limited, a predecessor corporation of TELUS Communications Inc., under a Trust Indenture dated August 24, 1994 and a supplemental trust indenture dated September 22, 1995 relating to Series B Debentures only. They are redeemable at the option of the Company, in whole at any time or in part from time to time, on not less than 30 days' notice at the Government of Canada Yield plus 15 basis points. During 1995 the Company terminated an interest rate swap contract relating to the Series A Debentures and realized a gain on early termination in the amount of \$16.8 million which is being amortized and credited to interest expense over the remaining term of the Series A Debentures. The amortization of the gain resulted in an effective rate of interest on Series A Debentures in 2002 of 8.79% (2001 – 8.79%).

Pursuant to an amalgamation on January 1, 2001, all these Debentures became obligations of TELUS Communications Inc. The debentures are not secured by any mortgage, pledge or other charge and are governed by certain covenants including a negative pledge and a limitation on issues of additional debt subject to a debt to capitalization ratio and interest coverage test.

Repurchases: During the second half of 2002, the Company repurchased TELUS Communications Inc. Debentures, due August 2004, with a face value of \$10.5 million. The gain on repurchasing these Debentures has been included as a component of financing costs (gain on redemption on long-term debt) (Note 6). Proceeds from the public issuance of Non-Voting Shares (Note 18(j)) in the third quarter of 2002 were, effectively, used to repurchase some of these Debentures as well as TELUS Corporation Notes and TELUS Communications Inc. Medium Term Notes.

(e) TELUS Communications Inc. Medium Term Note Programs

At December 31, 2002, TELUS Communications Inc. had two series of extendible medium term notes outstanding. These unsecured notes were originally issued by BC TEL pursuant to a Trust Indenture dated May 31, 1990 and a supplement dated October 24, 1994. In June 2000, \$200 million of 6.4% notes were issued that mature in June 2003, extendible to 2030 at the option of the holder. If extended, the coupon rate increases to 7.25%. At December 31, 2002, the remaining series of medium term notes, totaling \$171 million, have maturities of \$151 million in 2003 and \$20 million in 2004. The \$20 million note, which currently has a maturity date of August 2004, is extendible at the option of TELUS Communications Inc. on a periodic basis through 2007.

Repurchases: During the third quarter of 2002, the Company repurchased TELUS Communications Inc. 6.4% Medium Term Notes with a face value of \$49.0 million. The gain on repurchasing these Notes has been included as a component of financing costs (gain on redemption on long-term debt) (Note 6). Proceeds from the public issuance of Non-Voting Shares (Note 18(j)) in the third quarter of 2002 were, effectively, used to repurchase these Notes as well as TELUS Corporation Notes and TELUS Communications Inc. Debentures.

(f) TELUS Communications (Québec) Inc. First Mortgage Bonds

The first mortgage bonds of all series are secured equally and rateably by an immovable hypothec and by a movable hypothec charging specifically certain immovable and movable property of the subsidiary TELUS Communications (Québec) Inc., such as land, buildings, equipment, apparatus, telephone lines, rights-of-way and similar rights as well as by an hypothec on all of the movable and the immovable property, present and future of TELUS Communications (Québec) Inc. The first mortgage bonds are not redeemable prior to maturity.

17. Other Long-Term Liabilities

(millions)	2002	2001
Deferred gain on sale-leaseback of buildings	\$ 111.1	\$ 121.4
Pension and other post-retirement liabilities	149.7	139.1
Deferred customer activation and installation fees (Note 1(c))	100.3	122.5
Other	44.2	49.6
	\$ 405.3	\$ 432.6

(g) TELUS Communications (Québec) Inc. Medium Term Note Program

The medium term notes were issued under a trust indenture dated September 1, 1994 as supplemented from time to time, and are unsecured and not redeemable prior to maturity. New issues of medium term notes are subject to restrictions as to debt ratio and interest coverage.

(h) TELUS Communications Inc. Senior Discount Notes

In June 2001, the indentures governing the notes were amended by supplemental indentures pursuant to an Offer to Repay and Consent Solicitation. The effect of the supplemental indentures was to remove the limitations on business activities previously imposed by restrictive covenants. The Offer to Repay resulted in the redemption of approximately 99.9% of the four series of Senior Discount Notes.

In April 1999, Clearnet (which was acquired by the Company in 2000) entered into cross currency interest rate swap agreements which effectively converted principal repayments and interest obligations to Canadian dollar requirements with an effective fixed rate of approximately 9.9%. During 2001, these swap agreements were terminated, the security was released and a gain of \$41.2 million was recognized (see Note 6).

During the third quarter of 2002, the 11.75% Senior Discount Notes, due 2007, were called for redemption and were redeemed. Pursuant to a corporate reorganization effected September 30, 2002, the outstanding Clearnet Inc. Senior Discount Notes, which mature in 2008 and 2009, became obligations of TELUS Communications Inc.

(i) Long-Term Maturities

Anticipated requirements to meet long-term debt repayments during each of the five years from December 31, 2002, are as follows:

(millions)	
2003	\$ 190.3
2004	867.0
2005	-
2006	1,578.0
2007	1,868.2

notes to consolidated financial statements

18. Common Equity

(a) Details of Shareholders' Equity

(\$ in millions except per share amounts)		2002	2001		
Convertible debentures (b)		\$ 148.5	\$ 147.4		
TELUS Communications Inc. Preference Shares and Preferred Shares					
Authorized	Amount				
Non-voting first preferred shares	Unlimited				
Issued					
Cumulative					
\$6.00	Preference	8,090	10.0%	0.8	0.8
\$4.375	Preferred	53,000	4.0%	5.3	5.3
\$4.50	Preferred	47,500	4.0%	4.8	4.8
\$4.75	Preferred	71,250	5.0%	7.1	7.1
\$4.75	Preferred (Series 1956)	71,250	4.0%	7.1	7.1
\$5.15	Preferred	114,700	5.0%	11.5	11.5
\$5.75	Preferred	96,400	4.0%	9.6	9.6
\$6.00	Preferred	42,750	5.0%	4.3	4.3
\$1.21	Preferred	768,400	4.0%	19.2	19.2
				69.7	69.7
Common equity					
Shares					
Authorized	Amount				
Common Shares	1,000,000,000				
Non-Voting Shares	1,000,000,000				
First Preferred Shares	1,000,000,000				
Second Preferred Shares	1,000,000,000				
Issued					
Common Shares (c)		2,275.1	2,186.4		
Non-Voting Shares (c)		3,243.2	2,861.4		
Options and warrants (d), (e)		56.8	57.6		
Accrual for shares issuable under channel stock incentive plan (f) and other		1.5	–		
Retained earnings		630.4	1,654.8		
Contributed surplus		7.4	7.4		
		6,214.4	6,767.6		
Total Shareholders' Equity		\$ 6,432.6	\$ 6,984.7		

(a) The Company has the right to redeem the Preference and Preferred shares upon giving three months' previous notice.

(b) Convertible Debentures

The 6.75% convertible debentures are unsecured, subordinated obligations of the Company which mature on June 15, 2010, and are convertible at the holders' option into Non-Voting Shares of the Company at a rate reflecting a share price of \$39.73. The convertible debentures are not redeemable prior to June 15, 2003. Redemption in the period from June 15, 2003 through June 15, 2005, is allowed provided that the average trading price of Non-Voting Shares for a defined period exceeds 125% of the conversion price.

The holders' conversion option is valued using the residual value approach. As the Company has the unrestricted ability to settle the interest, principal and redemption payments through the issuance of Non-Voting Shares, the convertible debentures have been classified as equity. Accordingly, the principal amount is included in Shareholders' Equity on the Consolidated Balance Sheets. Interest payments, net of income taxes, are classified as dividends and charged directly to retained earnings.

(c) Changes in Common Shares and Non-Voting Shares

Years ended December 31	2002		2001	
	Number of shares	Amount (millions)	Number of shares	Amount (millions)
Common Shares				
Beginning of period	181,386,310	\$ 2,186.4	178,016,680	\$ 2,091.2
Exercise of share options (d)	77,937	1.7	125,012	2.9
Exercise of pre-emptive rights (g)	596,993	13.3	597,023	18.6
Employees' purchase of shares (h)	4,806,260	68.1	2,391,569	66.8
Dividends reinvested in shares	404,494	5.6	256,026	6.9
End of period	187,271,994	\$ 2,275.1	181,386,310	\$ 2,186.4
Non-Voting Shares				
Beginning of period	120,840,391	\$ 2,861.4	109,052,713	\$ 2,537.1
Exercise of share options (d)	30,511	0.7	304,268	10.8
Exercise of warrants (e)	28,667	1.1	124,168	4.6
Channel stock incentive plan (f)	26,950	0.3	–	–
Exercise of pre-emptive rights (g)	–	–	26,378	0.8
Shares issued on acquisition of Clearnet	–	–	989,451	36.6
Other acquisitions and other (i)	(25,288)	(0.9)	6,512,898	187.1
Public issuance of shares (j)	34,250,000	327.8	–	–
Dividend Reinvestment and Share Purchase Plan (k)				
Dividends reinvested in shares	3,112,647	51.1	3,770,886	83.0
Optional cash payments	144,053	1.7	59,629	1.4
End of period	158,407,931	\$ 3,243.2	120,840,391	\$ 2,861.4

(d) Share Option Plans

The Company has a number of share option plans under which directors, officers and other employees receive options to purchase Common Shares and/or Non-Voting Shares at a price equal to the fair market value at the date of grant. Options granted under the plans

may be exercised over specific periods not to exceed 10 years from the date of grant. At December 31, 2002, 25,824,684 (2001 – 26,571,268) shares are reserved for issuance under the share option plans.

The following is a summary of activity related to the Company's share options plans for the years ended December 31, 2002, and 2001.

	2002		2001	
	Number of shares	Weighted average option price	Number of shares	Weighted average option price
Outstanding, beginning of period	19,668,368	\$ 29.11	7,670,515	\$ 28.50
Granted	7,000,720	17.19	12,820,759	29.20
Exercised	(108,448)	20.56	(429,280)	17.15
Forfeited	(1,827,553)	31.17	(337,707)	32.49
Expired	(43,227)	34.82	(55,919)	38.31
Outstanding, end of period	24,689,860	25.60	19,668,368	29.11

The following is an option price stratification of the Company's share options outstanding as at December 31, 2002.

Range of option prices	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life	Weighted average option price	Number of shares	Weighted average option price
\$ 4.43 – 5.95	122,647	5.9 years	\$ 5.92	122,647	\$ 5.92
6.81 – 10.01	439,459	4.2 years	7.95	347,359	7.82
10.51 – 15.37	1,219,627	6.7 years	13.05	1,003,087	13.03
15.98 – 23.31	6,053,294	7.9 years	16.51	381,370	20.84
24.00 – 35.90	14,373,989	8.1 years	28.79	4,300,058	29.13
36.78 – 47.79	2,480,844	6.8 years	39.61	1,187,327	40.61
	24,689,860			7,341,848	

notes to consolidated financial statements

(e) Warrants

Under the terms of the arrangement to acquire Clearnet, effective January 18, 2001, TELUS Corporation exchanged the warrants held by former Clearnet warrant holders. Each warrant entitles the holder to purchase a non-voting share at a price of U.S.\$10.00 per share until September 15, 2005. Proceeds arising from the exercise of the warrants are credited to share capital. At December 31, 2002, 779,434 (2001 – 779,434) warrants remained outstanding.

(f) Channel Stock Incentive Plan

The Company initiated the Plan to increase sales of various products and services by providing additional performance-based compensation in the form of Non-Voting Shares. The Company has reserved 273,050 (2001 – 300,000) shares for issuance under the Plan. As at December 31, 2002, shares earned, but not yet issued, are accrued as a component of Common Equity.

(g) Pre-Emptive Rights

Verizon Communications Inc., a significant shareholder, has the right to acquire, from Treasury, its pro rata share of any issue by the Company of Common Shares and Non-Voting Shares, other than by way of grant of share options.

(h) Employee Share Purchase Plan

The Company has an employee share purchase plan under which eligible employees can purchase Common Shares through regular payroll deductions by contributing between 1% and 6% of pay. The Company contributes two dollars for every five dollars contributed by an employee. The Company records its contributions as a component of operating expenses. During 2002, the Company contributed \$23.9 million (2001 – \$22.2 million) to this plan. Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior to February 2001, when the issuance of shares from Treasury commenced, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices.

(i) Other Acquisitions and Other

During 2001, the Company issued Non-Voting Shares as partial consideration for acquisitions made during the year. Some of these Non-Voting Shares, which were held in an escrow account, represented contingent consideration that met the requirements for recording as capital at the time of the acquisition. The excess of the amount of contingent consideration over the amount actually earned has been recorded as a reduction of Non-Voting Share capital.

(j) Public Issuance of Non-Voting Shares

In the third quarter of 2002, the Company sold 34,250,000 Non-Voting Shares by way of a public offering in Canada and the United States at a price of \$9.85 per share. Proceeds of \$337.4 million were reduced by costs of issue of \$14.5 million; less related future income taxes of \$4.9 million.

(k) Dividend Reinvestment and Share Purchase Plan

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible shareholders may acquire Non-Voting Shares through the reinvestment of dividends and additional optional cash payments. Excluding Non-Voting Shares purchased by way of additional optional cash payments, at the Company's discretion it may offer the Non-Voting Shares at up to a 5% discount from the market price. Shares purchased through optional cash payments are subject to a minimum investment of \$100 and a maximum investment of \$20,000 per calendar year. Under this Plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior to July 1, 2001, when the acquisition of shares from Treasury commenced, all Non-Voting Shares were acquired on the market at normal trading prices.

19. Commitments and Contingent Liabilities

(a) CRTC Decisions 2002-34 and 2002-43 Deferral Accounts

On May 30, 2002, and on July 31, 2002, the CRTC issued Decision 2002-34 and 2002-43, respectively, and introduced the concept of a deferral account (see Note 1(c)). The Company records a liability (\$23 million as of December 31, 2002) to the extent that activities it has undertaken, other qualifying events and realized rate reductions for Competitor Services do not extinguish it. Management is required to make estimates and assumptions in respect of the offsetting nature of these items. If the CRTC, upon its annual review of the Company's deferral account, disagrees with management's estimates and assumptions, the CRTC may adjust the deferral account balance and such adjustment may be material.

(b) Operational Efficiency Program Initiatives

As disclosed in Note 5, the Company estimates that an additional restructuring amount of approximately \$20 million is expected to be recorded in 2003 in respect of the OEP for items that were not eligible to be recorded in 2002.

(c) Capital Expenditure Commitments

The Company estimates expenditures for capital asset purchases to be \$1,500 million in 2003. Substantial purchase commitments have been made in connection with these capital assets as at December 31, 2002.

(d) Leases

The Company occupies leased premises in various centres and has land, buildings and equipment under operating leases. As a result of the consolidation of leased premises arising from the Operational Efficiency Program (see Note 5), some of the leased building premises were sub-let. At December 31, 2002, the future minimum lease payments under capital leases and operating leases (including occupancy costs where applicable), and future receipts from building operating sub-leases, were:

(millions)	Capital Leases	Operating Leases	
	Payments	Payments	Receipts
2003	\$ 8.9	\$ 157.7	\$ 2.6
2004	1.6	140.8	2.9
2005	–	121.4	1.0
2006	–	104.6	0.8
2007	–	96.4	–
Total future minimum lease payments	10.5		
Less imputed interest	0.4		
Capital lease liability	\$ 10.1		

(e) Verizon Communications Inc. Agreement

Effective 2001, the Company has entered into an agreement with Verizon Communications Inc., a significant shareholder, with respect to acquiring certain rights to Verizon's software, technology, services and other benefits, thereby replacing and amending a previous agreement between the Company and GTE Corporation. The agreement is renewable annually at the Company's sole option up to December 31, 2008, and it has been renewed for 2003. Assuming renewal through to 2008, the total commitment under the agreement is U.S.\$122 million for the period 2003 to 2008 and the current contractual obligation for 2003, none of which is capital in nature, is U.S.\$20 million (see Note 24).

(f) Labour Negotiations

In 2000, TELUS commenced collective bargaining with the Telecommunications Workers Union for a new collective agreement replacing the legacy agreements from BC TEL and Alberta-based TELUS. Following the Clearnet acquisition and subsequent transactions,

the Mobility business assumed responsibility for separate negotiations for its unionized operations in British Columbia and Alberta. This is the first round of collective bargaining since the merger of BC TELECOM and TELUS Alberta and the Company's aim is to replace the multiple legacy collective agreements with a single collective agreement for the new bargaining unit.

During the fourth quarter of 2002, the Company's application to the Federal Minister of Labour, as provided for under the Canada Labour Code, requesting the appointment of a federal conciliator was granted. The Company and the Union have mutually agreed to extend conciliation and this process can take a number of months. While the conciliation process is underway, a strike or lock out is prohibited by the Canada Labour Code. Should a new collective agreement not be reached, there is the risk of a labour disruption. As a labour disruption could occur in multiple forms, the operational and financial impacts of a labour disruption on the Company are not practicably determinable currently.

(g) Subsidiary Non-Controlling Shareholders Agreement

During 2002, the Company entered into an agreement with the non-controlling shareholders of a subsidiary that gives the non-controlling shareholders the right to sell their interests in the subsidiary to the Company, after November 15, 2007, using a predetermined formula to determine the price. The agreement also gives the Company the right to buy the non-controlling shareholders' interests in the subsidiary, after November 15, 2005, using a similar predetermined formula to determine the price. The exercise of either the non-controlling shareholders' put option or the Company's call option may result in a material expenditure by the Company.

(h) Claims and Lawsuits

A number of claims and lawsuits seeking unspecified damages and other relief are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Company's consolidated financial position.

20. Net Change in Non-Cash Working Capital

(a) Continuing Operations:

Years ended December 31 (millions)	2002	2001
Accounts receivable	\$ 331.7	\$ (85.9)
Income and other taxes receivable	(126.9)	(0.9)
Inventories	21.8	33.1
Prepaid expenses and other	11.1	14.5
Accounts payable and accrued liabilities	32.7	8.6
Advance billings and customer deposits	19.5	45.7
Employer contributions to employee defined benefit plans	(76.7)	(49.0)
Other	–	11.3
	\$ 213.2	\$ (22.6)

(b) Discontinued Operations:

Years ended December 31 (millions)	2002	2001
Operating cash flow	\$ (1.9)	\$ (129.7)
Accounts receivable and other	(4.1)	117.5
Accounts payable and accrued liabilities	1.7	(22.7)
	\$ (4.3)	\$ (34.9)

notes to consolidated financial statements

21. Sale of Property and Investments

During 2001, the Company sold a portion of a cross-Canada fibre asset installation, which TELUS had recently completed construction of. Concurrently, TELUS purchased fibre asset installations for use in its own network infrastructure in the U.S. and Eastern Canada from the same third party. The fair market value of the assets involved was \$73.5 million resulting in a gain on sale of \$24.5 million, which was included in the Consolidated Income Statements as "Other expense (income), net".

During 2001, the Company disposed of certain selected, non-strategic properties including various office buildings in Vancouver, Edmonton and Calgary under the terms of sale-leaseback transactions. The pre-tax gain of \$76.9 million, on total proceeds of \$228.4 million, has been deferred and will be amortized over the various terms of the leases.

22. Employee Benefits

The Company has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to most of its employees. Other benefit plans include healthcare costs related to TELUS Québec Inc.

Certain employees are covered by a union-sponsored multi-employer pension plan. Contributions are determined in accordance with provisions of negotiated labour contracts and are generally based on employee gross earnings.

At December 31, 2002, shares of TELUS Corporation, combined with shares of Verizon Communications Inc., a significant shareholder, accounted for less than 1% of the assets held in the pension and other benefit trusts administered by the Company.

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

(millions)	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	2002	2001
Accrued benefit obligation:				
Balance at beginning of year	\$ 4,400.5	\$ 4,057.9	\$ 61.3	\$ 55.0
Current service cost	114.2	105.0	4.5	4.0
Interest cost	296.2	281.8	7.5	5.7
Benefits paid	(195.7)	(194.2)	(4.8)	(4.8)
Early retirement benefits (a)	9.4	–	–	–
Impact of voluntary departure incentive program	(35.0)	–	–	–
Actuarial loss (gain)	(5.9)	143.7	(1.2)	1.4
Plan amendments	2.0	6.3	–	–
Balance at end of year	4,585.7	4,400.5	67.3	61.3
Plan assets:				
Fair value at beginning of year	4,739.0	4,834.3	45.7	42.8
Annual return on plan assets	(144.3)	12.4	3.4	3.2
Employer contributions	68.2	44.5	8.5	4.5
Employees' contributions	39.6	42.0	–	–
Benefits paid	(195.7)	(194.2)	(4.8)	(4.8)
Fair value at end of year	4,506.8	4,739.0	52.8	45.7
Funded status – plan surplus (deficit)	(78.9)	338.5	(14.5)	(15.6)
Unamortized net actuarial loss (gain)	806.7	330.8	(20.0)	(20.6)
Unamortized past service costs	7.9	6.3	–	–
Unamortized transitional obligation (asset)	(412.4)	(457.2)	5.6	6.4
Accrued benefit asset (liability)	323.3	218.4	(28.9)	(29.8)
Valuation allowance	(76.2)	(50.8)	–	–
Accrued benefit asset (liability), net of valuation allowance	\$ 247.1	\$ 167.6	\$ (28.9)	\$ (29.8)

(a) A component of the Company's Operational Efficiency Program (see Note 5) was early retirement incentives. The early retirement incentives allowed qualifying employees the opportunity to retire with a normal pension earlier than they otherwise would have.

The accrued benefit asset (liability), net of valuation allowance, is reflected in the Consolidated Balance Sheets as follows:

(millions)	2002	2001
Pension benefit plans	\$ 247.1	\$ 167.6
Other benefit plans	(28.9)	(29.8)
	\$ 218.2	\$ 137.8
Presented on the Consolidated Balance Sheets as:		
Deferred charges (Note 13)	\$ 367.9	\$ 276.9
Other long-term liabilities (Note 17)	(149.7)	(139.1)
	\$ 218.2	\$ 137.8

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

(millions)	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	2002	2001
Accrued benefit obligation	\$ 148.8	\$ 137.1	\$ 25.2	\$ 21.3

At December 31, 2002, undrawn Letters of Credit secured certain of the unfunded pension benefit plans (see Note 16(c)). At December 31, 2001, a Standby Letter of Credit Facility secured certain of the unfunded pension benefit plans.

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

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	2002	2001
Discount rate				
For the year ended December 31	6.75%	6.98%	6.75%	6.93%
As at December 31	6.75%	6.75%	5.65%	6.75%
Expected long-term rate of return on plan assets				
For the year ended December 31	7.77%	7.94%	7.75%	8.00%
As at December 31	7.48%	7.71%	7.50%	7.75%
Rate of future increases in compensation				
For the year ended December 31	4.25%	4.25%	—	—
As at December 31	3.80%	4.25%	—	—

2002 sensitivity of key assumptions

(millions)	Pension Benefit Plans		Other Benefit Plans	
	Change in obligation	Change in expense	Change in obligation	Change in expense
Impact of hypothetical 0.25% change (a) in:				
Discount rate	\$ 151.6	\$ 10.7	\$ 1.1	\$ 0.2
Expected long-term rate of return on plan assets		\$ 11.7		\$ 0.1
Rate of future increases in compensation	\$ 27.9	\$ 3.7	\$ —	\$ —

(a) These sensitivities are hypothetical and should be used with caution. Favourable hypothetical changes in the assumptions result in decreased amounts, and unfavourable hypothetical changes in the assumptions result in increased amounts, of the obligations and expenses. Changes in amounts based on a 0.25 per cent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. Also, in this table, the effect of a variation in a particular assumption on the change in obligation or change in expense is calculated without changing any other assumption; in reality, changes in one factor may result in change in another (for example, increases in discount rates may result in increased expectations about the long-term rate of return on plan assets), which might magnify or counteract the sensitivities.

The Company's health benefit costs for hospital rooms and medication were estimated to increase with an annual rate of 8% (2001 – 9%), decreasing to an annual growth rate of 5% (2001 – 5%); all other health

benefit costs were estimated to increase at an annual rate of 5% (2001 – 5%).

notes to consolidated financial statements

The Company's net defined benefit plan expense was as follows:

Years ended December 31 (millions)	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	2002	2001
Current service cost	\$ 73.9	\$ 63.0	\$ 4.5	\$ 4.0
Interest cost	296.2	281.8	7.5	5.7
Expected return on plan assets	(362.6)	(379.7)	(3.3)	(3.2)
Amortization of past service costs	–	0.2	–	–
Amortization of actuarial gain	(0.1)	(1.0)	(1.8)	(2.1)
Valuation allowance provided against accrued benefit asset	25.4	26.1	–	–
Amortization of transitional obligation (asset)	(44.8)	(44.7)	0.8	0.8
Net periodic expense (recovery)	(12.0)	(54.3)	7.7	5.2
Early retirement benefits (a)	5.4	–	–	–
	\$ (6.6)	\$ (54.3)	\$ 7.7	\$ 5.2

(a) A component of the Company's Operational Efficiency Program (see Note 5) was early retirement incentives. The early retirement incentives allowed qualifying employees the opportunity to retire with a normal pension earlier than they otherwise would have. The benefits expense has been included in the Consolidated Statements of Income as "Restructuring and workforce reduction costs".

The Company's total defined contribution pension plans expense was as follows:

Years ended December 31 (millions)	2002	2001
Multi-employer pension plan contributions		
Regular benefits (a)	\$ 50.2	\$ 53.6
Early retirement benefits (b)	65.7	–
	115.9	53.6
Other defined contribution pension plan	4.4	1.9
	\$ 120.3	\$ 55.5

(a) Regular benefits include other benefit plan amounts of \$NIL (2001 – \$3.7).

(b) A component of the Company's Operational Efficiency Program (see Note 5) was an early retirement program, the ERIP. The ERIP allowed qualifying employees the opportunity to retire with a normal pension earlier than they otherwise would have. The early retirement benefits expense has been included in the Consolidated Statements of Income as "Restructuring and workforce reduction costs".

23. Segmented Information

The Company's reportable segments, which are used to manage the business, are Communications and Mobility. Communications includes: voice local, voice long distance, data and other telecommunication services excluding wireless; Mobility includes: cellular and paging services. Segmentation is based on similarities in technology, the technical

expertise required to deliver the products and services, and the distribution channels used. The accounting policies used for segmented reporting are the same as described in Note 1. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties.

Years ended December 31 (millions)	Communications		2002	Mobility	2001	Eliminations		Consolidated	
	2002	2001				2002	2001	2002	2001
External revenue	\$ 4,989.3	\$ 5,272.0	\$ 2,017.4	\$ 1,808.5	\$ -	\$ -	\$ 7,006.7	\$ 7,080.5	
Inter-segment revenue	95.3	87.5	17.5	17.4	(112.8)	(104.9)	-	-	
Total operating revenue	5,084.6	5,359.5	2,034.9	1,825.9	(112.8)	(104.9)	7,006.7	7,080.5	
Operations expenses	3,100.8	3,185.7	1,500.1	1,470.1	(112.8)	(104.9)	4,488.1	4,550.9	
EBITDA (a)	\$ 1,983.8	\$ 2,173.8	\$ 534.8	\$ 355.8	\$ -	\$ -	\$ 2,518.6	\$ 2,529.6	
Capital expenditures	\$ 1,238.2	\$ 1,605.8	\$ 455.1	\$ 643.6	\$ -	\$ -	\$ 1,693.3	\$ 2,249.4	
Purchase of spectrum	-	-	4.6	355.9	-	-	4.6	355.9	
CAPEX (b)	\$ 1,238.2	\$ 1,605.8	\$ 459.7	\$ 999.5	\$ -	\$ -	\$ 1,697.9	\$ 2,605.3	
EBITDA less CAPEX	\$ 745.6	\$ 568.0	\$ 75.1	\$ (643.7)	\$ -	\$ -	\$ 820.7	\$ (75.7)	

(a) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is defined as operating revenues less operations expense and, as defined, excludes restructuring and workforce reduction costs. The Company has issued guidance on, and reports, EBITDA because it is a key measure used by management to evaluate performance of its business segments and is utilized in measuring compliance with debt covenants.

(b) Total capital expenditures ("CAPEX") are the sum of capital expenditures and purchases of spectrum.

24. Related Party Transactions

In 2001, the Company entered into an agreement with Verizon Communications Inc. ("Verizon"), a significant shareholder, with respect to acquiring certain rights to Verizon's software, technology, services and other benefits, thereby replacing and amending a previous agreement between the Company and GTE Corporation. The agreement is renewable annually at the Company's sole option up to December 31, 2008, and it has been renewed for 2003. As of December 31, 2002, \$312.1 million of specified software licences and a trade mark licence have been acquired and recorded as capital and other assets. These assets are valued at fair market value at the date of acquisition as determined by an arm's-length party's appraisal. Assuming renewal through to 2008, the total commitment under the new agreement is U.S.\$377 million for the period 2001 to 2008 and the commitment remaining after December 31, 2002 is U.S.\$122 million. In addition, in the normal course of operations and on market terms and conditions, ongoing services and other benefits have been received and expensed; the Company owed Verizon, on a net basis and including dividends payable, \$75.4 million at December 31, 2002 (2001 - \$90.5 million).

Years ended December 31 (millions)	2002	2001
Verizon agreement		
Specified software licences and trademark licence acquired and recorded as capital and other	\$ 112.8	\$ 199.3
Ongoing services and benefits expensed	\$ 43.9	\$ 68.5
Sales to Verizon (Verizon customers' usage of TELUS' telecommunication infrastructure and other)	\$ 40.2	\$ 32.2
Purchases from Verizon (TELUS customers' usage of Verizon's telecommunication infrastructure and other)	\$ 31.5	\$ 30.3

The Company purchased the former QuébecTel Group from Verizon, as further described in Note 4. In 2001, the Company sold substantially all of its directory businesses to a subsidiary of Verizon as further described in Note 8.

In common with, and on the same basis as, other shareholders of the Company, Verizon is eligible to participate in the Company's Dividend Reinvestment and Share Purchase Plan (see Note 18(k)). The following table presents a summarization of the Company's dividend transactions with Verizon, which are included elsewhere in these financial statements in similarly captioned line item amounts.

Years ended December 31 (millions)	2002	2001
Declared dividends attributable to Verizon's shareholdings		
- to be paid in cash	\$ 31.6	\$ 22.1
- to be reinvested in Treasury shares	12.3	57.3
	43.9	79.4
Cash payments	21.0	44.2
Reinvested in Treasury shares	22.6	46.6
	43.6	90.8
Change in dividends payable to Verizon	0.3	(11.4)
Dividends payable to Verizon, beginning of period	10.7	22.1
Dividends payable to Verizon, end of period	\$ 11.0	\$ 10.7

As disclosed in Note 18(g), Verizon has the right to acquire, from Treasury, its pro rata share of any issue by the Company of Common Shares and Non-Voting Shares, other than by way of grant of share options; during both 2002 and 2001 Verizon has exercised this right.

notes to consolidated financial statements

25. Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements have been prepared in accordance with Canadian GAAP. The principles adopted in these financial statements conform in all material respects to those generally accepted in the United States except as summarized below. Significant differences between Canadian GAAP and U.S. GAAP would have the following effect on reported net income of the Company:

Years ended December 31 (millions)	2002	2001
Net income (loss) from continuing operations in accordance with Canadian GAAP	\$ (227.1)	\$ (138.8)
Adjustments:		
Decrease in depreciation expense (b)	35.8	35.8
Decrease in interest expense (c)	9.6	37.4
Amortization of intangible assets (d)	(81.8)	(119.6)
Goodwill amortization (e)	–	(20.2)
Asset impairment – decrease in depreciation (f)	72.1	72.1
Change in future employee benefits (g)	(16.9)	(16.9)
Amortization of additional goodwill – Clearnet purchase (h)	–	(6.6)
Interest on convertible debentures (i)	(6.8)	(7.0)
Accounting for derivatives (j)	1.3	(1.6)
Taxes on the above adjustments	(8.6)	(6.0)
Revaluation of deferred income tax assets and liabilities (k)	–	337.5
Net income (loss) from continuing operations in accordance with U.S. GAAP (l)	(222.4)	166.1
Discontinued operations	(1.9)	592.3
Income (loss) before effect of change in accounting principle	(224.3)	758.4
Effect of change in accounting principles for intangible assets and goodwill (m)	(1,701.6)	–
Net income (loss) in accordance with U.S. GAAP	(1,925.9)	758.4
Other comprehensive income (loss) (j) (o)	40.9	(19.9)
Comprehensive income (loss) in accordance with U.S. GAAP	\$ (1,885.0)	\$ 738.5
Income (loss) per share under U.S. GAAP (basic and diluted):		
Continuing operations	\$ (0.72)	\$ 0.55
Discontinued operations	–	2.02
Before effect of change in accounting principles for intangible assets and goodwill	(0.72)	2.57
Effect of change in accounting principles for intangible assets and goodwill	(5.35)	–
Net income (loss)	\$ (6.07)	\$ 2.57

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

As at December 31 (millions)	2002	2001
Current assets	\$ 1,173.2	\$ 1,442.6
Capital assets		
Property, plant, equipment and other	7,926.0	7,716.3
Intangible assets subject to amortization	2,901.6	2,965.1
Intangible assets with indefinite lives (m)	2,950.1	5,555.1
Goodwill	3,543.2	3,739.5
Deferred income taxes	1,174.7	1,072.1
Other assets	979.9	798.0
	\$ 20,648.7	\$ 23,288.7
Current liabilities	\$ 2,181.0	\$ 1,862.4
Long-term debt	8,364.9	8,827.4
Other long-term liabilities	499.7	432.6
Deferred income taxes	1,655.1	2,614.3
Non-controlling interest	11.2	8.0
Shareholders' equity	7,936.8	9,544.0
	\$ 20,648.7	\$ 23,288.7

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

As at December 31 (millions)	2002	2001
Shareholders' Equity under Canadian GAAP	\$ 6,432.6	\$ 6,984.7
Adjustments:		
Purchase versus Pooling		
Accounting (a) – (e), (g), (m)	1,545.8	2,685.7
Asset impairment (f)	(36.2)	(79.9)
Additional goodwill on Clearnet purchase (h)	123.5	123.5
Reclassification of convertible debentures from equity to debt (i)	(148.5)	(147.4)
Accounting for derivatives (j)	(1.4)	(2.7)
Other comprehensive income (loss) (o)	21.0	(19.9)
Shareholders' Equity under U.S. GAAP	\$ 7,936.8	\$ 9,544.0

(a) Merger of BC TELECOM and TELUS

The business combination between BC TELECOM and TELUS Corporation (renamed TELUS Holdings Inc., which was wound up June 1, 2001) was accounted for using the pooling of interests method under Canadian GAAP. Under Canadian GAAP, the application of the pooling of interests method of accounting for the merger of BC TELECOM and TELUS Holdings Inc. resulted in a restatement of prior periods as if the two companies had always been combined. Under U.S. GAAP, the merger is accounted for using the purchase method. Use of the purchase method results in TELUS (TELUS Holdings Inc.) being acquired by BC TELECOM for \$4,662.4 million (including merger related costs of \$51.9 million) effective January 31, 1999.

(b) Depreciation

Under the purchase method, TELUS' capital assets on acquisition have been recorded at fair value rather than at their underlying cost (book values) to TELUS. Therefore, depreciation of such assets based on fair values at the date of acquisition under U.S. GAAP will be different than TELUS' depreciation based on underlying cost (book values).

(c) Interest

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

(d) Intangible Assets

As TELUS' intangible assets on acquisition have been recorded at their fair value, amortization of such assets, other than for those with indefinite lives, needs to be included under U.S. GAAP; consistent with prior years, amortization is calculated using the straight-line method. As required (see (m) and Note 2(a)), the Company reviewed the estimated useful lives associated with its intangible assets that are subject to amortization. Generally Accepted Accounting Principles require that changes in estimates, such as the useful lives of assets, be applied prospectively. The Company's review resulted in the following changes, effected in the first quarter of 2002, to the estimated useful lives:

	Assigned Fair Value on Acquisition	Estimated useful lives	
		Current	Former
Subscribers – wireline	\$ 1,950.0 million	50 years	40 years
Spectrum licences	\$ 1,833.3 million	Indefinite	40 years
Subscribers – wireless	\$ 250.0 million	7 years	10 years

(e) Goodwill

Under the purchase method of accounting, TELUS' assets and liabilities at acquisition have been recorded at their fair values with the excess purchase price being allocated to goodwill in the amount of \$403.1 million. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill will be periodically tested for impairment (see (m)).

(f) Asset Impairment

In the first quarter of 1998, BC TELECOM took an asset impairment charge. In assessing if a capital asset is impaired, estimated future net cash flows are not discounted in computing the net recoverable amount. Under Canadian GAAP, at the time the assessment took place, the impairment amount recorded was the excess of the carrying amount over the recoverable amount; under U.S. GAAP the impairment amount recorded was the excess of the carrying amount over the discounted estimated future net cash flows that were used to determine the net recoverable amount. Under U.S. GAAP the net of tax charge taken in 1998 would be \$232.2 million higher and would not be considered an extraordinary item. The annual depreciation expense would be approximately \$72 million lower subsequent to when the increased impairment charge was taken under U.S. GAAP.

(g) Future Employee Benefits

Under U.S. GAAP, TELUS' future employee benefit assets and obligations have been recorded at their fair values on acquisition. Accounting for future employee benefits under Canadian GAAP changed to become more consistent with U.S. GAAP effective January 1, 2000. Canadian GAAP provides that the transitional balances can be accounted for prospectively. Therefore, to conform to U.S. GAAP, the amortization of the transitional amount needs to be removed from the future employee benefit expense.

(h) Additional Goodwill on Clearnet purchase

Under U.S. GAAP, shares issued by the acquirer to affect an acquisition are measured at the date the acquisition was announced; however, under Canadian GAAP, at the time the transaction took place, shares issued to effect an acquisition were measured at the transaction date. This results in the purchase price under U.S. GAAP being \$131.4 million higher than under Canadian GAAP. The resulting difference is assigned to goodwill. Commencing January 1, 2002, rather than being systematically amortized, the carrying value of goodwill will be periodically tested for impairment (see Note 2(a)).

(i) Convertible Debentures

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

(j) Accounting for Derivatives

On January 1, 2001, the Company adopted the provisions of SFAS 133, "Accounting For Derivative Instruments and Hedging Activities." This standard requires all derivatives be recognized as either assets or liabilities and measured at fair value. This is different from the Canadian GAAP treatment for financial instruments. Under U.S. GAAP, derivatives, which are fair value hedges, together with the financial instrument being hedged, will be marked to market with adjustments reflected in income and derivatives, which are cash flow hedges, will be marked to market with adjustments reflected in comprehensive income. As a result of adopting the statement, the Company recorded an expense arising from the cumulative effect of the change in accounting principle.

(k) Revaluation of Deferred Income Tax Assets and Liabilities

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

notes to consolidated financial statements

(l) Gain on Redemption of Long-Term Debt

During the third quarter of 2002, the Company adopted SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections", in advance of mandatory adoption in the Company's 2003 fiscal year. Statement 145 results in the gain on redemption of long-term debt, in the Company's instance, no longer being reported as an extraordinary item and thus results in the elimination of the differing treatment between Canadian GAAP and U.S. GAAP. The comparative amounts have been restated, as required, in the adoption of this Statement.

(m) Intangible Asset Transitional Impairment Amount and Goodwill

Commencing January 1, 2002, in Canada and the United States, new Generally Accepted Accounting Principles for intangible assets with an indefinite life and goodwill apply to the Company (SFAS 142, "Goodwill and Other Intangible Assets") (see Note 2(a)). As one part of the transitional implementation, intangible assets with indefinite lives were tested for impairment as at January 1, 2002. Any such transitional impairment amount arising is considered to arise from a change in accounting policy and is charged to earnings, in the period the change is effected, after determining net income from operations. As a result of the differing accounting treatment afforded the merger of BC TELECOM and TELUS (see (a) and (d)), the recorded value of intangible assets with indefinite lives differs materially between Canadian and U.S. GAAP. The Company has assessed its intangible assets with indefinite lives and determined it necessary to record a transitional impairment amount of \$595.2 million (\$910.0 million before tax) for purposes of Canadian GAAP; a transitional impairment of \$1,701.6 million (\$2,609.7 million before tax) was required under U.S. GAAP. The transitional impairment amount, under both Canadian and U.S. GAAP, reduced the carrying values of the intangible assets with indefinite lives to the same amounts, thus eliminating the corresponding GAAP difference.

Similarly, goodwill is also to be tested for impairment as at January 1, 2002, by June 30, 2002, and any transitional impairment amount would also be considered to arise from a change in accounting policy and is charged to earnings, in the period the change is effected, after determining net income from operations. The Company completed this test in the first quarter of 2002. By applying the prescribed method of comparing the fair value of its reporting units to the carrying amounts of its reporting units, the Company has assessed its goodwill and determined that there was no goodwill transitional impairment amount. Consistent with current industry-specific valuation methods, the Company used a combination of the discounted cash flow model and the market comparable approach for determining the fair value of its reporting units.

In accordance with the new requirements, net income (loss) for prior periods presented is to be adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill and intangible assets with indefinite lives; the corresponding per share amounts are also required to be adjusted.

Years ended December 31 (millions except per share amounts)	2002	2001
Net income (loss) in accordance with U.S. GAAP		
As reported	\$ (1,925.9)	\$ 758.4
Add back: Goodwill amortization	–	201.6
Amortization of intangible assets with indefinite lives (a)	–	75.6
As adjusted	\$ (1,925.9)	\$ 1,035.6
Basic and diluted income (loss) per share under U.S. GAAP		
As reported	\$ (6.07)	\$ 2.57
Add back: Goodwill amortization	–	0.68
Amortization of intangible assets with indefinite lives (a)	–	0.26
As adjusted	\$ (6.07)	\$ 3.51

(a) Net of taxes of \$59.9 for the year ended December 31, 2001.

(n) Share-Based Compensation

Generally Accepted Accounting Principles require disclosure of the impact on earnings and earnings per share as if the fair value based method of accounting had been applied for share-based compensation. Under Canadian GAAP, this is required in respect of awards made after 2001; under U.S. GAAP, this is required in respect of awards made after 1994. The fair values of the Company's options granted in 2002, and the weighted average assumptions used in estimating the fair values, are set out in Note 10. The fair value of the Company's options granted in 2001 were estimated using the Black-Scholes model with weighted average assumptions of 10 year expected terms, volatility of 29%, interest rate of 5.9%, and an expected dividend yield of 2.8%. Such impact, using the weighted average fair value of \$9.69 would approximate the following pro forma amounts:

Years ended December 31 (millions except per share amounts)	2002	2001
Compensation cost	\$ 62.3	\$ 37.8
Net income (loss)		
As reported	\$ (1,925.9)	\$ 758.4
Pro forma	\$ (1,988.2)	\$ 720.6
Net income (loss) per Common Share and Non-Voting Share		
Basic and diluted		
As reported	\$ (6.07)	\$ 2.57
Pro forma	\$ (6.25)	\$ 2.44

26. Prior Period Presentation

The December 31, 2001, amounts have been reclassified, where applicable, to conform to the 2002 presentation.

(o) Additional Disclosures Required Under U.S. GAAP – Comprehensive Income

SFAS 130, "Reporting Comprehensive Income", requires that a statement of comprehensive income be displayed with the same prominence as other financial statements. Comprehensive income, which incorporates net income, includes all changes in equity during a period except those resulting from investments by and distributions to owners. There is no requirement to disclose comprehensive income under Canadian GAAP.

Years ended December 31 (millions)	2002	2001
Change in unrealized fair value of derivative cash flow hedges (j)	\$ 227.8	\$ (37.5)
Minimum pension liability	(156.5)	–
	71.3	(37.5)
Income tax expense (recovery)	30.4	(17.6)
Other comprehensive income (loss)	\$ 40.9	\$ (19.9)

The minimum pension liability arises from the unfunded accumulated pension benefit obligation. This differs from the accrued benefit asset (liability) disclosed in Note 22, which reflects the use of the projected benefit method (see Note 1(q)) and considers the unamortized net actuarial loss and valuation allowance.

executive leadership team

Visit telus.com/bios for additional biographical information.

Name	Position	Location
Darren Entwistle	President and Chief Executive Officer, TELUS Corporation	Vancouver, BC
Barry Baptie	Executive Vice-President, Technology & Operations	Burnaby, BC
Christopher Carty	Executive Vice-President, Corporate Strategy and Chief Marketing Officer	Vancouver, BC
George Cope	President and Chief Executive Officer, TELUS Mobility	Scarborough, ON
Rob Cruickshank	Executive Vice-President, Business Transformation	Vancouver, BC
Dan Delaloye	Executive Vice-President and President, Consumer Solutions	Edmonton, AB
Joseph Grech	Executive Vice-President and President, Partner Solutions	Vancouver, BC
John Maduri	Executive Vice-President and President, Business Solutions	Calgary, AB
Robert McFarlane	Executive Vice-President and Chief Financial Officer	Vancouver, BC
Jim Peters	Executive Vice-President, Corporate Affairs and Chief General Counsel	Ottawa, ON
Mark Schnarr	Executive Vice-President, Business Marketing and Ventures	Burnaby, BC
Judy Shuttleworth	Executive Vice-President, Human Resources	Vancouver, BC
Hugues St-Pierre	President and Chief Executive Officer, TELUS Québec	Rimouski, PQ

board of directors

This list below reflects the Board of Directors as of February 12, 2003. Refer to the Information Circular for the 2003 annual and special general meeting for the new and existing Board members nominated for election on April 30, 2003. Additional biographical information and any updates during the year may be found at telus.com/bios.

Name	Residence	Principal occupation	Director since
R. John Butler	Edmonton, AB	Counsel to Bryan & Company	1995
Brian A. Canfield	Point Roberts, WA	Chairman, TELUS Corporation	1993
Peter D. Charbonneau	Ottawa, ON	Partner, Skypoint Capital Co.	2001
G. N. (Mel) Cooper	Victoria, BC	Chairman and CEO, Seacoast Communications Group Inc.	1993
Darren Entwistle	Vancouver, BC	President and CEO, TELUS Corporation	2000
Alfred C. Giammarino	Wilton, CT	Senior Vice President and Chief Financial Officer, Information Services and International Verizon Communications Inc.	2002
Iain J. Harris	Vancouver, BC	Chairman, BC Gas Inc. and Chairman and CEO, Summit Holdings Ltd.	1997
John S. Lacey	Toronto, ON	Chairman, The Alderwoods Group	2000
Brian F. MacNeill	Calgary, AB	Chairman, Petro-Canada	2001
Lawrence A. Pentland	Toronto, ON	Vice President and General Manager, Americas International, Dell Computer Corporation	2001
Daniel C. Petri	Bedford, NY	Group President – International, Verizon Communications Inc.	2002
Ronald P. Triffo	Edmonton, AB	Chairman, Stantec Inc.	1995
Donald Woodley	Orangeville, ON	President, The Fifth Line Enterprise	1998

glossary

The following definitions are also available on our Web site at telus.com/glossary

1X: Technology standard for 3G (third generation) high-speed wireless Internet service at speeds up to 124 kbps. 1X was the first step in the CDMA2000 evolution after IS-95. 1X provides enhanced voice network capacity as well as high-speed packet data mobile wireless Internet access. 1X was previously known as 1XRTT.

3G (Third Generation): Describes next generation wireless technology that is expected to be CDMA-based and offer high-speed packet data mobile wireless Internet access and multimedia communications at minimum transmission rates of 144 kbps in mobile (outdoor) and 2 mbps in fixed (indoor) environments. Analog cellular is considered the First Generation of wireless, while digital is Second Generation.

ADSL (asymmetric digital subscriber line): A technology that allows existing copper telephone lines to carry voice, data and video images at very high speeds.

Analog: A transmission method employing a continuous (rather than pulsed or digital) electrical signal.

ARPU (average revenue per unit): Average revenue per unit, or wireless subscriber, expressed as a rate per month for a given measurement period.

ASP (application service provider): A company that offers individuals or enterprises access over the Internet to applications and related services that would otherwise have to be located in their own personal or enterprise computers.

ATM (asynchronous transfer mode): A high-speed switching technology that routes voice, data and video at high speeds over the same network.

Bandwidth: The difference between the top and bottom limiting frequencies of a continuous frequency band; or indicator of the information-carrying capacity of a channel. The greater the bandwidth, the greater the information-carrying capacity.

Bundle: A group of telecommunications services (i.e., Internet, wireless, long distance and calling features) that are sold together, often at a lower price than if purchased separately.

CDMA (code division multiple access): Technique that spreads a signal over a frequency band that is larger than the signal to enable the use of a common band by many users and to achieve signal security and privacy. See also IS-95 and CDMA2000.

CDMA2000: A third-generation wireless standard adopted by the International Telecommunications Union (ITU) which prescribes an evolutionary path to 3G for IS-95 based systems. The first step in the CDMA2000 evolution after IS-95 is called 1X. See also IS-95 and CDMA.

CDPD (cellular digital packet data): A specification for supporting wireless access to the Internet and other public packet-switched networks at speeds up to 19.2 kbps.

Cell site: Individual locations of network transmitter, receiver, antenna signalling and related base station equipment. Cell sites may be located on a transmission tower, building rooftop, or consist of an in-building system.

Cellular: The mobile radio-telephone service, licensed by Industry Canada in Canada and the FCC in the United States to utilize 50 MHz of spectrum in the 800 MHz band. There are two 25 MHz licences in each region of Canada.

Churn rate: The number of subscriber units disconnected divided by the average number of units on the network, expressed as a rate per month for a given measurement period.

CLEC (competitive local exchange carrier): A regulatory category arising from the Telecommunications Act for a company that competes with the already established local telephone business by providing its own network and switching.

CRTC (Canadian Radio-television and Telecommunications Commission): The federal regulator for radio and television broadcasters, and cable-TV and telecommunications companies in Canada.

Dial-up access: Connecting to another computer or network using a modem over a regular telephone line.

Digital: A transmission method employing a sequence of discrete, distinct pulses that represent the binary digits 0 and 1 to indicate specific information, in contrast to the continuous signal of analog. Digital networks provide improved clarity, capacity, features and privacy compared to analog systems.

EBITDA: Earnings before interest, taxes, depreciation and amortization.

e-commerce: Refers to the buying and selling of goods and services electronically, usually via the Internet. Wireless e-commerce generally refers to m-commerce. See m-commerce.

ESMR (enhanced specialized mobile radio): Specialized mobile radio networks that have incorporated frequency reuse and TDMA technology to increase their capacity and to provide service over very large coverage areas. An ESMR network is designed not only for the dispatch service associated with SMR, but also for mobile telephony and short messaging services as well as circuit-switched and packet data services. See also iDEN.

Ethernet: A common method of networking computers in a local area network. Ethernet will handle about 10 million bits per second and can be used with almost any kind of computer.

Fibre network: Transmits information by light pulses along hair-thin glass fibres. Cables of optical fibres can be made smaller and lighter than conventional cables using copper wires or coaxial cable, yet they can carry much more information, making them useful for transmitting large amounts of data between computers or many simultaneous telephone conversations.

Frame relay: A high-speed packet switching technology that has evolved to meet the LAN-to-LAN interconnection market. Frame relay is designed to provide high-speed packet transmission, very low network delay and efficient use of network bandwidth.

Free cash flow: Calculated by TELUS as EBITDA less cash payments, as found on Consolidated Statements of Cash Flows, for capital expenditures, dividends, interest and income taxes.

GAAP: Generally accepted accounting principles.

gbps (gigabits per second): Billions of bits per second, a measure of bandwidth on a digital data transmission medium such as optical fibre.

GHz: Gigahertz. See Hertz.

Goodwill: The excess of the cost of an acquired enterprise over the net of the amounts assigned to assets acquired and liabilities assumed. The amount recognized as goodwill includes intangible assets acquired in a business combination that do not meet the criteria for recognition as an asset apart from goodwill.

Hertz: The dimensional unit for measuring the frequency with which an electromagnetic signal cycles through the zero-value state between lowest and highest states. One hertz (Hz) equals one cycle per second. KHz (kilohertz) equals one thousand hertz. MHz (megahertz) equals one million hertz. GHz (gigahertz) equals one billion hertz.

Hosting: The business of housing, serving and maintaining files for one or more Web sites. Using a hosting service lets many companies share the cost of a fast Internet connection for serving files, as well as other Internet infrastructure and management costs. Also known as Web hosting.

iDEN (integrated digital enhanced network): An ESMR network technology developed by Motorola to utilize 800 MHz SMR channels for ESMR digital service. The digital signals offer greatly enhanced spectrum efficiency and system capacity.

ILEC (incumbent local exchange carrier): The established telecommunications company providing local telephone service.

Industry Canada: The Canadian Federal Department of Industry, on behalf of the Canadian Minister of Industry. Among other mandates, Industry Canada has responsibility for national telecom policy and for the regulation, management and allocation of radio spectrum in Canada and for establishing technical requirements for various wireless systems.

Internet: The global Web of networks that connects computers around the world, providing rapid access to information from multiple sources.

Internetworking: TELUS Internetworking provides LAN to LAN connection services allowing data transport and capacity distribution among customer locations and/or access to the TELUS Internet backbone.

IP (Internet Protocol): Standards adopted by the Internet community to help with specific tasks such as transferring files between computers and sending mail.

IS-95 (Interim Standard 95): A version of CDMA specified by the Telecommunications Industry Association (TIA) that is used by TELUS Mobility and other networks around the world. IS-95 is often referred to as cdmaOne. See also CDMA.

ISDN (integrated services digital network): Switched network providing end-to-end digital connection for simultaneous transmission of voice and/or data over multiple multiplexed communication channels and employing transmission that conforms to internationally defined standards.

ISP (Internet service provider): A company that provides Internet access service to residences and/or businesses.

IT (information technology): A term that encompasses all forms of technology used to create, store, exchange and use information in its various forms (data, voice conversations, still images, motion pictures, multimedia and other forms, including those not yet conceived).

ITCs (investment tax credits): A tax credit, which is an amount deducted directly from federal income tax otherwise payable, calculated as a fixed percentage of eligible expenditures on scientific research and experimental development.

Java: A general purpose programming language with a number of features that make the language well suited for use on the Web. Small Java applications are called Java applets and can be downloaded from a Web server to run on a computer or wireless phone by a Java-compatible Web browser.

kbps (kilobits per second): Thousands of bits per second, used to describe the speed of a network connection or telecommunications medium.

LAN (local area network): A way of connecting several computers, typically either in the same room or building, so they can share files and devices like printers and copiers.

Local loop: The transmission path between the telecommunications network and a customer's terminal equipment.

mbps (megabits per second): Millions of bits per second, used to describe the speed of a network connection or telecommunications medium.

m-commerce: Mobile commerce is the buying and selling of goods and services through wireless handheld devices such as cellular telephones and personal digital assistants.

MHz: Megahertz. See Hertz.

MMS (multimedia messaging service): Allows wireless customers to send and receive messages that contain much more than text including formatted text, graphics, photographs, and audio and video clips.

Multimedia: The combination of various forms of media (text, graphics, animation, audio, etc.) to communicate information. The term also refers to information products that include text, audio and visual content.

non-ILEC (non-incumbent local exchange carrier):

The telecommunication operations of TELUS that compete with the already established telecom company in Central Canada to provide local telephone service.

Paging: Wireless text messaging service.

PCS (personal communications services): Digital wireless voice, data and text messaging services. In Canada and the United States, PCS spectrum has been allocated for use by public systems at the 1.9 GHz frequency range.

Peering: The arrangement of traffic exchange between ISPs. Larger ISPs with their own backbone networks agree to allow traffic from other large ISPs in exchange for traffic on their backbones. They also exchange traffic with smaller ISPs so that they can reach regional end points.

Points of presence: An access point to the Internet that has a unique IP address. The number of points that an Internet Service Provider has is sometimes used as a measure of its size or growth rate.

POP: One person living in a population area that, in whole or in substantial part, is included in a network's coverage area.

Postpaid: A conventional method of payment for wireless service where a subscriber pays for a significant portion of services and usage in arrears, subsequent to consuming the services.

Prepaid: A method of payment for wireless service that allows a subscriber to prepay for a set amount of airtime in advance of actual usage. Generally, a subscriber's prepaid account is debited at the time of usage so that actual usage cannot exceed the prepaid amount until an additional prepayment is made.

Roaming: A service offered by wireless network operators that allows subscribers to use their mobile phones while in the service area of another operator; requires a roaming agreement between the operators.

SMS (short messaging service): A wireless messaging service that permits the transmission of a short text message from and/or to a digital mobile telephone (CDMA, including CDMA 1X and other CDMA-based implementations; TDMA; GSM; or ESMR) terminal.

Spectrum: The range of electromagnetic radio frequencies used in the transmission of sound, data and video. The potential capacity of a wireless network is in part a function of the amount of spectrum licensed to the carrier. TELUS Mobility has 55 MHz of licensed spectrum in most coverage areas.

Switch: The central computer system or systems in the wireless network responsible for mobility management, interconnection to the Public Switched Telephone Network and call detail accounting.

tbps (terabits per second): Trillions of bits per second, a measurement of data transmission speed used for measuring the amount of data that is transferred in a second between two telecommunication points or within network devices.

TDMA (time division multiple access): A digital wireless transmission methodology standard used in cellular telephone, ESMR, PCS and other wireless communications systems. iDEN and GSM are examples of TDMA systems.

VoIP (voice over Internet Protocol): The real-time transmission of voice signals over the Internet or IP network.

VPN (virtual private network): A private data network that makes use of a public telecommunication infrastructure, maintaining privacy through the use of a private secure network and security procedures.

WAN (wide area network): A data network extending a LAN (local area network) outside the building, over telecommunication lines or wirelessly, to link to other LANs over great distances.

WAP (wireless application protocol): An industry standard for the development of data applications and services over wireless communications networks. TELUS Mobility is a member of the WAP Forum, which is developing the open, global wireless protocol specification that works across differing wireless network technology types.

Web portal: An Internet gateway providing customers with access to online news and information, 24 hours a day, seven days a week.

Wireless Web/Internet access: Technology that provides access to the Internet through the wireless cellular network instead of the traditional wireline telephone network.

WLANs or Wireless LANs: A type of local area network that uses high-frequency radio waves rather than wires to communicate between nodes.

investor information

Stock exchanges and TELUS trading symbols

Toronto Stock Exchange:

common shares	T
non-voting shares	T.A

New York Stock Exchange:

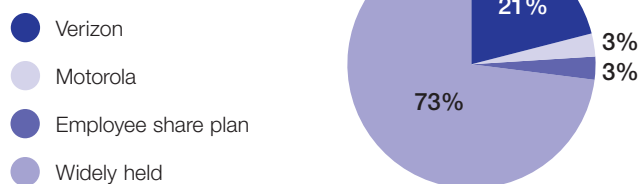
non-voting shares	TU
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Ownership at December 31, 2002

Total outstanding shares	345,679,925		
Common share ownership			
		% of class	% of total
Verizon	48,551,972	25.9%	14.0%
TELUS Employee Share Plan	10,335,667	5.5%	3.0%
Widely held	128,384,355	68.6%	37.1%
Total outstanding	187,271,994	100.0%	
Non-voting share ownership			
		% of class	% of total
Verizon	24,876,193	15.7%	7.2%
Motorola	9,679,873	6.1%	2.8%
Widely held	123,851,865	78.2%	35.9%
Total outstanding	158,407,931	100.0%	100.0%

combined share ownership

(December 31, 2002)



Reservation system – non-Canadian common shares

Under federal legislation, total non-Canadian ownership of common shares of Canadian telecommunication companies, including TELUS, is limited to 33⅓ per cent. A reservation system was implemented to control and monitor this level. This system requires non-Canadian purchasers of common shares to obtain a reservation number from our Transfer Agent, Computershare, by calling the Reservations Unit at 1-877-267-2236 (toll-free). The purchaser is notified within two hours if common shares are available for registration. There are no ownership restrictions on non-voting shares.

Share prices and volumes

Toronto Stock Exchange Common shares (T)

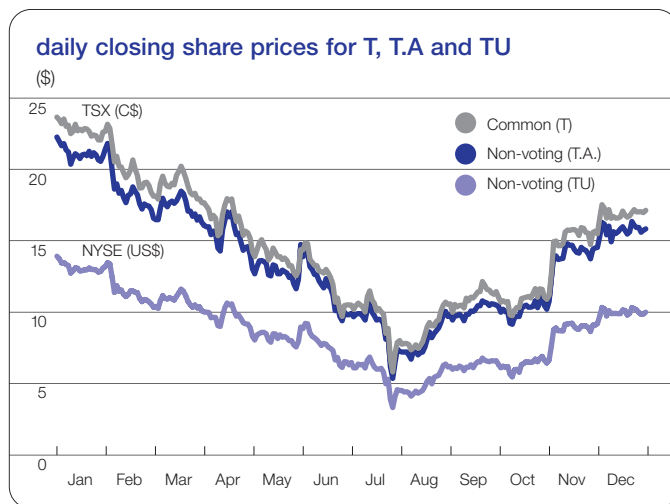
(All amounts in C\$ except volume)	2002					2001				
	Q1	Q2	Q3	Q4	Year 2002	Q1	Q2	Q3	Q4	Year 2001
High	24.51	18.65	12.45	17.94	24.51	43.15	36.45	34.20	26.60	43.15
Low	18.01	9.50	5.76	9.42	5.76	32.60	30.50	17.70	18.30	17.70
Close	18.26	10.81	11.74	17.45	17.45	34.35	34.20	18.90	24.25	24.25
Volume (millions)	31.1	50.5	63.6	48.3	193.5	39.8	26.7	31.6	35.6	133.7
Dividend paid (per share)	0.15	0.15	0.15	0.15	0.60	0.35	0.35	0.35	0.35	1.40

Non-voting shares (T.A)

(All amounts in C\$ except volume)	2002					2001				
	Q1	Q2	Q3	Q4	Year 2002	Q1	Q2	Q3	Q4	Year 2001
High	23.22	17.34	11.20	16.67	23.22	40.28	34.00	32.96	25.19	40.28
Low	16.45	8.70	5.56	8.85	5.56	30.50	28.60	16.85	17.10	16.85
Close	16.77	10.12	10.80	16.15	16.15	31.20	32.96	17.95	23.25	23.25
Volume (millions)	25.8	29.7	44.5	29.4	129.4	21.4	15.3	19.8	36.8	93.2
Dividend paid (per share)	0.15	0.15	0.15	0.15	0.60	0.35	0.35	0.35	0.35	1.40

New York Stock Exchange Non-voting shares (TU)

(All amounts in US\$ except volume)	2002					2001				
	Q1	Q2	Q3	Q4	Year 2002	Q1	Q2	Q3	Q4	Year 2001
High	14.60	10.95	7.30	10.70	14.60	26.80	21.95	21.79	16.46	26.80
Low	10.40	6.10	3.50	5.58	3.50	19.44	18.79	10.65	11.00	10.65
Close	10.60	6.80	6.89	10.30	10.30	20.17	21.00	11.30	14.45	14.45
Volume (millions)	1.2	2.6	1.3	1.2	6.3	1.6	1.3	1.6	2.2	6.7
Dividend paid (per share)	0.10	0.10	0.10	0.10	0.40	0.23	0.23	0.23	0.22	0.91



Registered shareholders¹

	2002	2001
TELUS common	43,466	43,531
TELUS non-voting	41,535	41,947

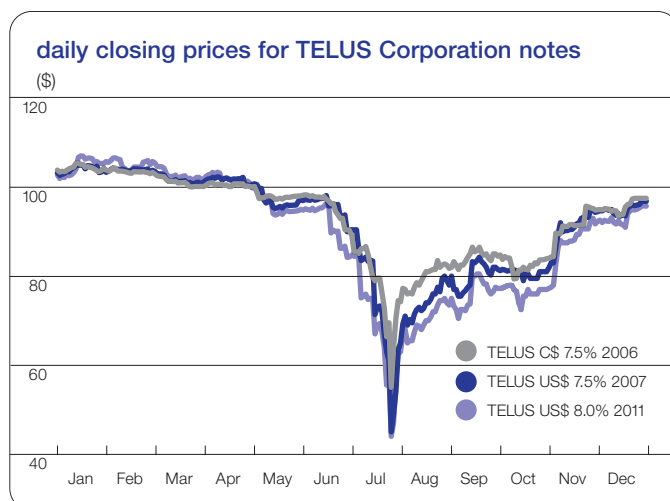
¹ The Canadian Depository for Securities (CDS) represents one registration and holds securities for many institutions. At the end of 2002, it was estimated that TELUS had more than 100,000 non-registered shareholders combined in the two classes of stock.

Valuation day prices

For capital gains purposes, valuation dates and prices are as follows:

(C\$)	Valuation date	Price	Price when exchanged into TELUS shares
BC TELECOM	December 22, 1971	6.375	6.375
BC TELECOM	February 22, 1994	25.250	25.250
Pre-merger TELUS	February 22, 1994	16.875	21.710

TELUS corporate notes



Notes and debentures

For details and a complete list of notes, debentures and other publicly traded debt of the company and the company's subsidiaries, refer to the Notes to Consolidated Financial Statements, Note 16.

Convertible debentures

TSX symbol: T.DB

For more details on TELUS' convertible debentures, see the Notes to Consolidated Financial Statements, Note 18(b).

2003 expected earnings and dividend¹ dates

	Ex-dividend dates ²	Dividend record dates	Dividend payment dates	Earnings release dates
Quarter 1	March 7	March 11	April 1	April 30
Quarter 2	June 6	June 10	July 1	July 25
Quarter 3	September 8	September 10	October 1	October 31
Quarter 4	December 9	December 11	January 1, 2004	February 2004

¹ Dividends are subject to Board of Directors' approval.
² Shares purchased on this date forward will not be entitled to the dividend payable on the corresponding dividend payment date.

Information for security holders outside of Canada

Cash dividends paid to shareholders resident in countries with which Canada has an income tax convention are usually subject to Canadian non-resident withholding tax of 15 per cent. If you have any questions, contact Computershare.

Dividend reinvestment and share purchase plan

Take advantage of automatic dividend reinvestment at a discount and acquire additional TELUS shares without fees.

Under the Dividend Reinvestment feature, eligible shareholders can have their dividends reinvested automatically into additional non-voting shares issued from Treasury, currently at a three per cent discount from the average market price.

Under the Share Purchase feature, eligible shareholders can, on a monthly basis, buy TELUS non-voting shares (maximum \$20,000 per calendar year and minimum \$100 per transaction) at 100 per cent of the average market price without brokerage commissions or service charges.

Information booklets and enrolment forms are available at telus.com/drisp or contact Computershare.

Electronic delivery of shareholder documents

Registered shareholders

It's easy. All you need is access to the Internet and an electronic mail (e-mail) account. To enrol, access our Web site and follow the instructions found at telus.com/electronicdelivery or contact Computershare. The benefits include:

- convenient and timely access to important company documents
- environmentally friendly
- reduction in costs

Beneficial shareholders

For shareholders who hold their shares with an investment dealer or financial institution, access investordeliverycanada.com or contact your investment advisor to enrol for these convenient services.

Mergers and acquisitions – shareholder impact

Visit telus.com/m&a for additional information on how your shareholdings have been affected by various merger and acquisition transactions.

BC TELECOM and TELUS Corporation merger

The common shares of BC TELECOM and pre-merger TELUS Corporation are no longer traded on the stock exchanges. If you still have a share certificate for either company, you must have it replaced for the new TELUS common and non-voting share certificates. Please contact Computershare for instructions. The exchange will occur as follows:

Example based on 100 shares:

Pre-merger holdings	Exchange ratio ¹	Post-merger holdings
100 BC TELECOM common shares	1 for 1	<ul style="list-style-type: none"> • 75 TELUS common shares • 25 TELUS non-voting shares
100 TELUS common shares	1 for 0.7773	<ul style="list-style-type: none"> • 58 TELUS common shares, plus a 0.2975 fractional payout • 19 TELUS non-voting shares plus a 0.4325 fractional payout

¹ 75 per cent common / 25 per cent non-voting split.

For registered shareholders, any fractional shares will be paid by cheque. Please note that these certificates cannot be publicly traded or sold, and must be exchanged by January 31, 2005.

QuébecTel

TELUS closed its offer to purchase all the outstanding shares of QuébecTel Group Inc. on June 1, 2000. If you still hold share certificates of QuébecTel, you must tender your shares to National Bank Trust (previously General Trust of Canada) for the payment of \$23.00 per share. You may contact them at 1-800-341-1419 or (514) 871-7171.

Clearnet

TELUS completed its offer to purchase all of the outstanding common shares of Clearnet Communications Inc. on January 12, 2001. If you still hold share certificates for Clearnet, you must tender your shares to Computershare to receive your consideration.

- If you did not tender your shares under either take-up date of October 20, 2000 or January 12, 2001, your share certificates were cancelled on January 12, 2001, pending the deposit of your certificates to Computershare. Since the remaining shares will be deposited from time to time, there is no pooling of preferences possible, hence each deposit will receive the original offer of 50 per cent cash and 50 per cent TELUS non-voting shares. Fractional payout \$38.1725; fair market value of TELUS non-voting shares on January 12, 2001, \$38.05
- Upon exchange of your Clearnet shares to TELUS non-voting shares, you will receive dividend payments retroactive to April 1, 2001
- Visit telus.com/m&a for details on previous take-up dates

Daedalian eSolutions

TELUS completed its offer to purchase all of the outstanding common shares of Daedalian eSolutions Inc. on June 21, 2001. If you still hold share certificates for Daedalian, you must tender your shares to Computershare to receive your consideration. To calculate the number of TELUS non-voting shares you would receive, use the exchange ratio of 0.005341; fractional payout \$31.83; fair market value of TELUS non-voting shares on June 22, 2001, \$30.35; fair market value on July 3, 2001, \$31.60.

Annual and special general meeting of shareholders

On Wednesday, April 30, 2003, the meeting will be held at 10:00 a.m. (Mountain Time) at the TELUS Convention Centre, North Building, 136 – 8th Avenue SE, Calgary, Alberta.

A live Internet Web cast, complete with video and audio, will be available to shareholders wherever they may be in the world. Shareholders unable to attend the meeting in person can vote by Internet, telephone or mail. Visit telus.com/agm for details.

If you need help with the following...

- participation in Dividend Reinvestment and Share Purchase Plan
- electronic delivery of shareholder documents
- dividend payments or direct deposit of dividends into your Canadian bank account
- change of address
- transfer of shares
- loss of share certificates
- consolidation of multiple mailings to one shareholder
- estate settlements
- exchange of share certificates to the new TELUS common and/or non-voting certificates due to a merger or acquisition

contact the transfer agent and registrar

Computershare Trust Company of Canada

Shareholder Services

100 University Avenue

Toronto, Ontario, Canada M5J 2Y1

phone 1-800-558-0046

(toll-free within North America) or

(514) 982-7270 (outside North America)

fax 1-888-453-0330 (toll-free within North America)

or (416) 263-9394 (outside North America)

e-mail telus@computershare.com

Web site computershare.com

Computershare also has offices in Vancouver, Calgary, Edmonton, Winnipeg, Montreal and Halifax.

If you need help with the following...

- additional financial or statistical information
- industry and company developments
- latest news releases or investor presentations
- merger information

contact TELUS Investor Relations

30, 10020 – 100th Street NW

Edmonton, Alberta, Canada T5J 0N5

phone 1-800-667-4871*

(toll-free within North America) or

(780) 493-7311 (outside North America)

fax (780) 493-7399

e-mail ir@telus.com

Web site telus.com

*fax-on-demand information available toll-free

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Ontario (416) 507-7400

Quebec (514) 788-8050

Auditors

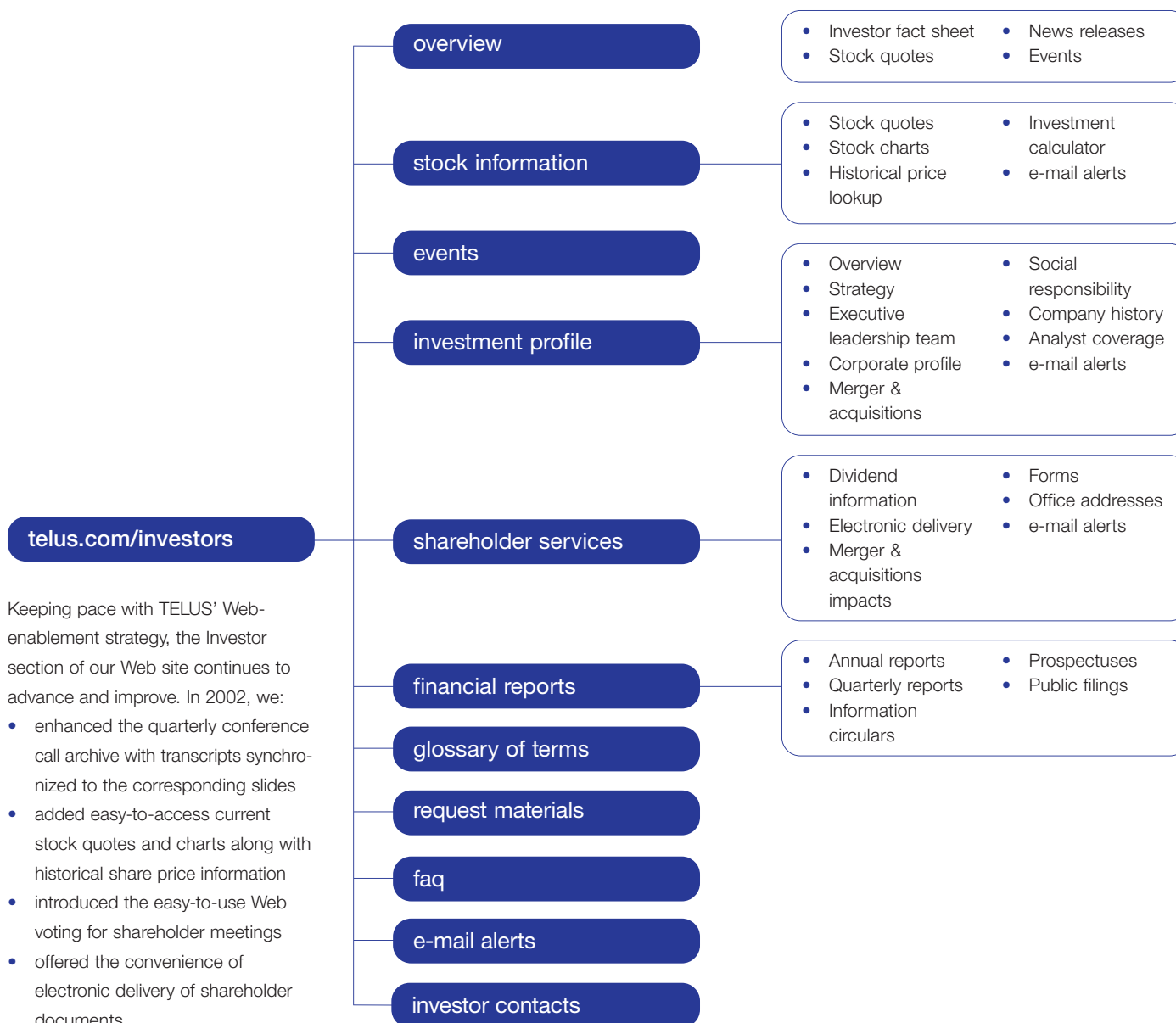
Deloitte & Touche LLP

Whistle blower hotline

As part of our ethics policy, our whistle blower hotline allows employees and others to anonymously raise accounting, internal controls and ethical issues or complaints. The hotline is 1-866-515-6333.

Ce rapport annuel est disponible en français en ligne à telus.com/agm auprès de l'agent des transferts ou de TELUS – Relations avec les investisseurs.

telus.com/investors



Keeping pace with TELUS' Web-enablement strategy, the Investor section of our Web site continues to advance and improve. In 2002, we:

- enhanced the quarterly conference call archive with transcripts synchronized to the corresponding slides
- added easy-to-access current stock quotes and charts along with historical share price information
- introduced the easy-to-use Web voting for shareholder meetings
- offered the convenience of electronic delivery of shareholder documents.

Continue to watch our Web site in 2003 for more interesting and useful additions.

Useful quick links on telus.com	
Link:	takes you to:
telus.com/drsp	Dividend Reinvestment and Share Purchase Plan details
telus.com/electronicdelivery	where to sign up for e.delivery of shareholder documents
telus.com/investorcall	the latest Web cast event launch page
telus.com/quarterly	the latest quarterly financial documents
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telus.com/glossary	glossary of terms



telus.com



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