

TELUS CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JUNE 30, 2004

consolidated statements of income

Periods ended June 30 (unaudited) (millions)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
OPERATING REVENUES	\$ 1,865.6	\$ 1,773.3	\$ 3,669.4	\$ 3,514.2
OPERATING EXPENSES				
Operations	1,080.1	1,053.5	2,146.7	2,123.6
Restructuring and workforce reduction costs (Note 4)	0.7	3.3	16.6	9.8
Depreciation	320.7	322.0	642.4	640.6
Amortization of intangible assets	86.9	88.1	175.6	180.6
	1,488.4	1,466.9	2,981.3	2,954.6
OPERATING INCOME	377.2	306.4	688.1	559.6
Other expense, net	2.0	6.6	3.2	12.2
Financing costs (Note 5)	156.9	172.0	301.9	336.3
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	218.3	127.8	383.0	211.1
Income taxes (Note 6)	44.9	53.8	107.5	46.9
Non-controlling interest	1.1	1.0	1.9	1.7
NET INCOME	172.3	73.0	273.6	162.5
Preference and preferred share dividends	0.8	0.8	1.7	1.7
COMMON SHARE AND NON-VOTING SHARE INCOME	\$ 171.5	\$ 72.2	\$ 271.9	\$ 160.8
INCOME PER COMMON SHARE AND NON-VOTING SHARE (\$) (Note 7)				
– Basic	0.48	0.21	0.76	0.46
– Diluted	0.48	0.21	0.76	0.46
DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE (\$)	0.15	0.15	0.30	0.30
TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING (millions)				
– Basic	354.3	348.6	353.7	347.7
– Diluted	360.1	350.8	356.0	349.4

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

consolidated statements of retained earnings

Periods ended June 30 (unaudited) (millions)	Six months	
	2004	2003
BALANCE AT BEGINNING OF YEAR	\$ 741.7	\$ 630.4
Transitional amount for share-based compensation arising from share options (Note 2(a))	(25.1)	—
Adjusted opening balance	716.6	630.4
Net income	273.6	162.5
	990.2	792.9
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	93.1	83.5
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	13.3	20.8
Preference and preferred share dividends	1.7	1.7
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 14(c))	2.3	—
BALANCE AT END OF PERIOD (Note 14)	\$ 879.8	\$ 686.9

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

consolidated balance sheets

(unaudited) (millions)	As at June 30, 2004	As at December 31, 2003 <small>(restated – Note 2(b))</small>
ASSETS		
Current Assets		
Cash and temporary investments, net	\$ 357.7	\$ 6.2
Accounts receivable (Notes 9, 16(b))	800.2	723.8
Income and other taxes receivable	94.9	187.4
Inventories	96.7	123.5
Prepaid expenses and other (Note 16(b))	262.0	172.4
Current portion of future income taxes	324.7	304.0
	1,936.2	1,517.3
Capital Assets, Net (Note 10)		
Property, plant, equipment and other	7,674.8	7,764.3
Intangible assets subject to amortization	762.9	844.7
Intangible assets with indefinite lives	2,954.6	2,954.6
	11,392.3	11,563.6
Other Assets		
Deferred charges (Note 11)	689.5	610.7
Future income taxes	411.7	626.0
Investments	41.9	41.9
Goodwill	3,117.7	3,118.0
	4,260.8	4,396.6
	\$ 17,589.3	\$ 17,477.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 16(b))	\$ 1,224.2	\$ 1,294.5
Restructuring and workforce reduction accounts payable and accrued liabilities (Note 4)	79.5	141.0
Dividends payable	54.0	53.5
Preference and preferred shares and accrual for redemption thereof (Note 14(c))	37.0	—
Advance billings and customer deposits (Note 16(b))	467.8	445.0
Current maturities of long-term debt (Note 12)	213.8	221.1
	2,076.3	2,155.1
Long-Term Debt (Note 12)	6,736.5	6,609.8
Other Long-Term Liabilities (Note 13)	1,076.3	1,173.7
Future Income Taxes	1,003.2	1,007.0
Non-Controlling Interest	10.5	10.7
Shareholders' Equity (Note 14)		
Convertible debentures conversion option	8.8	8.8
Preference and preferred shares (Note 14(c))	—	69.7
Common equity	6,677.7	6,442.7
	6,686.5	6,521.2
	\$ 17,589.3	\$ 17,477.5

Commitments and Contingent Liabilities (Note 15)

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

consolidated statements of cash flows

Periods ended June 30 (unaudited) (millions)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
OPERATING ACTIVITIES				
Net income	\$ 172.3	\$ 73.0	\$ 273.6	\$ 162.5
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	407.6	410.1	818.0	821.2
Future income taxes	98.7	59.3	190.5	253.2
Share-based compensation	5.9	—	10.6	—
Net employee defined benefit plans expense	4.9	13.2	9.8	26.3
Employer contributions to employee defined benefit plans	(57.9)	(18.0)	(86.5)	(36.0)
Restructuring and workforce reduction costs, net of cash payments (Note 4)	(9.0)	(44.3)	(61.5)	(191.7)
Other, net	11.5	28.0	17.6	34.9
Net change in non-cash working capital (Note 16(c))	(145.0)	(51.7)	(95.0)	(196.1)
Cash provided by operating activities	489.0	469.6	1,077.1	874.3
INVESTING ACTIVITIES				
Capital expenditures (Note 10)	(346.1)	(305.5)	(655.8)	(513.3)
Proceeds from the sale of property and other assets	4.3	19.0	16.4	38.3
Other	0.2	0.5	(0.8)	6.4
Cash used by investing activities	(341.6)	(286.0)	(640.2)	(468.6)
FINANCING ACTIVITIES				
Common Shares and Non-Voting Shares issued	16.8	21.0	43.8	41.1
Dividends to shareholders	(48.3)	(43.8)	(90.6)	(88.6)
Payment for redemption of preference and preferred shares (Note 14(c))	(35.8)	—	(35.8)	—
Long-term debt issued (Note 12)	10.5	291.9	37.8	309.4
Redemptions and repayment of long-term debt (Note 12)	(2.8)	(440.1)	(37.0)	(640.2)
Other	(3.6)	(3.4)	(3.6)	(1.8)
Cash used by financing activities	(63.2)	(174.4)	(85.4)	(380.1)
CASH POSITION				
Increase in cash and temporary investments, net	84.2	9.2	351.5	25.6
Cash and temporary investments, net, beginning of period	273.5	7.4	6.2	(9.0)
Cash and temporary investments, net, end of period	\$ 357.7	\$ 16.6	\$ 357.7	\$ 16.6
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS				
Interest paid	\$ 293.8	\$ 298.8	\$ 316.6	\$ 334.8
Interest received	\$ 7.0	\$ 0.3	\$ 21.2	\$ 1.3
Income taxes (inclusive of Investment Tax Credits (Note 6)) received (paid)	\$ 81.0	\$ (2.7)	\$ 185.6	\$ (3.3)

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

JUNE 30, 2004 (unaudited)

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. Interim Financial Statements

The notes presented in these interim consolidated financial statements include only significant events and transactions and are not fully inclusive of all matters normally disclosed in TELUS Corporation's annual audited financial statements. As a result, these interim consolidated financial statements should be read in conjunction with the TELUS Corporation audited consolidated financial statements for the year ended December 31, 2003. These interim consolidated financial statements follow the same accounting policies, other than as set out in Note 2 to these interim consolidated financial statements, and methods of their application as set out in the TELUS Corporation consolidated financial statements for the year ended December 31, 2003, including that certain of the comparative amounts have been reclassified to conform with the presentation adopted currently.

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

2. Accounting Policy Developments

(a) Share-Based Compensation

Commencing with the Company's 2004 fiscal year, the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") for accounting for share-based compensation (such amendments arising in 2003) (CICA Handbook Section 3870) apply to the Company. The amendments result in the Company no longer being able to use the intrinsic method of accounting for share options granted to employees for purposes of Canadian Generally Accepted Accounting Principles. The Company has selected the retroactive application without restatement method (also referred to as the modified-prospective transition method). The retroactive application without restatement method results in no share option expense being recognized in the Consolidated Statements of Income in fiscal years prior to 2004 (see Note 8(a)). The share option expense that is recognized in fiscal years subsequent to 2003 will be in respect of share options granted after 2001 and vesting in fiscal periods subsequent to 2003.

To reflect the fair value of options granted subsequent to 2001, and vesting prior to 2004, certain components of common equity in the December 31, 2003, Consolidated Balance Sheet balances would have been restated as follows (had restatement occurred):

(millions)	December 31, 2003, as previously reported	Cumulative transition adjustment for share- based compensation arising from share options	January 1, 2004
Common equity			
Common shares	\$ 2,349.1	\$ —	\$ 2,349.1
Non-voting shares	3,296.6	0.4	3,297.0
Options and warrants	51.5	—	51.5
Accrual for shares issuable under channel stock incentive plan	0.6	—	0.6
Cumulative foreign currency translation adjustment	(2.7)	—	(2.7)
Retained earnings	741.7	(25.1)	716.6
Contributed surplus	5.9	24.7	30.6
	\$ 6,442.7	\$ —	\$ 6,442.7

(b) Equity Settled Obligations

Commencing with the Company's 2004 fiscal year, the Company early adopted the amended recommendations of the CICA for the presentation and disclosures of financial instruments (CICA Handbook Section 3860) specifically concerning the classification of obligations that an issuer can settle with its own equity instruments (such amendments arising in 2003). The amendments result in the Company's convertible debentures being classified as a liability on the Consolidated Balance Sheets and the associated interest expense correspondingly being classified with financing costs on the Consolidated Statements of Income. The conversion option embedded in the convertible debentures continues to be presented as a component of shareholders' equity. As required, these amended recommendations have been applied retroactively.

notes to interim consolidated financial statements

To reflect the reclassification of the convertible debentures as a liability, certain items of the Consolidated Income Statement for the three-month and six-month periods ended June 30, 2003, have been restated as follows:

Periods ended June 30, 2003 (millions except per share amounts)	Three months			Six months		
	As previously reported	Adjustment to reflect convertible debentures as a liability	As currently reported	As previously reported	Adjustment to reflect convertible debentures as a liability	As currently reported
Operating revenues	\$1,773.3	\$ —	\$1,773.3	\$3,514.2	\$ —	\$3,514.2
Operating expenses	1,466.9	—	1,466.9	2,954.6	—	2,954.6
Operating income	306.4	—	306.4	559.6	—	559.6
Other expense, net	6.6	—	6.6	12.2	—	12.2
Financing costs	169.1	2.9	172.0	330.7	5.6	336.3
Income before income taxes and non-controlling interest	130.7	(2.9)	127.8	216.7	(5.6)	211.1
Income taxes (recovery)	54.9	(1.1)	53.8	49.0	(2.1)	46.9
Non-controlling interest	1.0	—	1.0	1.7	—	1.7
Net income	74.8	(1.8)	73.0	166.0	(3.5)	162.5
Preference and preferred share dividends	0.8	—	0.8	1.7	—	1.7
Interest on convertible debentures, net of income taxes	1.8	(1.8)	—	3.5	(3.5)	—
Common Share and Non-Voting Share income	\$ 72.2	\$ —	\$ 72.2	\$ 160.8	\$ —	\$ 160.8
Income per Common Share and Non-Voting Share						
- Basic	\$ 0.21	\$ —	\$ 0.21	\$ 0.46	\$ —	\$ 0.46
- Diluted	\$ 0.21	\$ —	\$ 0.21	\$ 0.46	\$ —	\$ 0.46

To reflect the reclassification of the convertible debentures as a liability, certain line items of the December 31, 2003, Consolidated Balance Sheet balances have been restated as follows:

(millions)	December 31, 2003, as previously reported	Adjustment to reflect convertible debentures as a liability	December 31, 2003, as currently reported
Accounts payable and accrued liabilities	\$ 1,294.1	\$ 0.4	\$ 1,294.5
Long-Term Debt	\$ 6,469.4	\$ 140.4	\$ 6,609.8
Shareholders' Equity			
Convertible debentures conversion option	\$ —	\$ 8.8	\$ 8.8
Convertible debentures	\$ 149.6	\$ (149.6)	\$ —

3. Financial Instruments

During the first half of 2004, the Company entered into two series of hedging relationships to which hedge accounting has been applied: one series of hedging relationships results in fixing the Company's compensation cost arising from a specific grant of restricted stock units (see Note 8(b)) and the other series of hedging relationships results in the notional conversion of \$500 million of the 2006 (Canadian Dollar) Notes from a fixed interest rate of 7.5% to a floating interest rate based upon the three-month Bankers' Acceptance Canadian Dollar Offered Rate plus a spread.

As at June 30, 2004, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rates on U.S.\$35 million of fiscal 2004 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the Mobility segment.

Fair value: The fair value of the Company's long-term debt, including the convertible debentures, is 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.

notes to interim consolidated financial statements

(millions)	As at June 30, 2004		As at December 31, 2003	
	Carrying amount	Fair value	Carrying amount (restated – Note 2(b))	Fair value
Long-term debt ⁽¹⁾ (Note 12)	\$ 6,959.1	\$ 7,934.7	\$ 6,839.7	\$ 7,840.2
Derivative financial instruments ⁽²⁾ used to manage interest rate and currency risks associated with U.S. dollar denominated debt (Note 13)	625.3	763.6	739.6	858.6
Derivative financial instruments ⁽²⁾ used to manage interest rate risk associated with Canadian dollar denominated debt	—	6.0	—	—
	\$ 7,584.4	\$ 8,704.3	\$ 7,579.3	\$ 8,698.8
Derivative financial instruments ⁽²⁾ used to manage currency risks arising from U.S. dollar denominated purchases	\$ —	\$ (0.5)	\$ —	\$ 0.1
Derivative financial instruments ⁽²⁾ used to manage changes in compensation costs arising from restricted stock units (Note 8(b))	\$ 0.3	\$ 2.8	\$ —	\$ —

(1) Carrying amount of long-term debt, for purposes of this table, includes the carrying amount of the convertible debenture conversion option.

(2) Notional amount of all derivative financial instruments outstanding is \$5,362.9 (December 31, 2003 – \$4,822.9).

4. Restructuring and Workforce Reduction Costs

(a) Overview

Three-month periods ended June 30
(millions)

	2004			2003
	2004 Initiatives (b)	Operational Efficiency Program (2001- 2003) (c)	Total	Operational Efficiency Program (2001- 2003) (c)
Restructuring and workforce reduction costs				
Workforce reduction				
Voluntary	\$ —	\$ —	\$ —	\$ —
Involuntary	0.2	—	0.2	—
Lease termination	—	—	—	—
Other	0.3	0.2	0.5	3.3
	0.5	0.2	0.7	3.3
Disbursements				
Workforce reduction				
Voluntary (Early Retirement Incentive Plan, Voluntary Departure Incentive Plan and other)	—	0.1	0.1	27.9
Involuntary and other	3.7	4.6	8.3	13.7
Lease termination	—	1.1	1.1	2.0
Other	—	0.2	0.2	4.0
	3.7	6.0	9.7	47.6
Expenses greater than (less than) disbursements	(3.2)	(5.8)	(9.0)	(44.3)
Restructuring and workforce reduction accounts payable and accrued liabilities, beginning of period	14.4	74.1	88.5	253.0
Restructuring and workforce reduction accounts payable and accrued liabilities, end of period	\$ 11.2	\$ 68.3	\$ 79.5	\$ 208.7

notes to interim consolidated financial statements

Six-month periods ended June 30
(millions)

	2004			2003	
	2004 Initiatives (b)	Operational Efficiency Program (2001- 2003) (c)	Total	Operational Efficiency Program (2001- 2003) (c)	
Restructuring and workforce reduction costs					
Workforce reduction					
Voluntary	\$ —	\$ —	\$ —	\$ —	—
Involuntary	15.9	—	15.9	—	—
Lease termination	—	—	—	—	3.4
Other	0.3	0.4	0.7	—	6.4
	16.2	0.4	16.6	—	9.8
Disbursements					
Workforce reduction					
Voluntary (Early Retirement Incentive Plan, Voluntary Departure Incentive Plan and other)	—	46.6	46.6	—	126.2
Involuntary and other	5.0	23.3	28.3	—	63.1
Lease termination	—	2.2	2.2	—	3.6
Other	—	1.0	1.0	—	8.6
	5.0	73.1	78.1	—	201.5
Expenses greater than (less than) disbursements	11.2	(72.7)	(61.5)	—	(191.7)
Restructuring and workforce reduction accounts payable and accrued liabilities, beginning of period	—	141.0	141.0	—	400.4
Restructuring and workforce reduction accounts payable and accrued liabilities, end of period	\$ 11.2	\$ 68.3	\$ 79.5	\$ —	\$ 208.7

(b) 2004 Initiatives

In the first quarter of 2004, a departmental reorganization was initiated, primarily in the Communications segment information technology resources area, consolidating from 15 locations to 2 primary locations. This reorganization, which has an estimated implementation cost in 2004 of \$30 million and is planned for completion in 2004, is expected to enable greater efficiencies of scale.

(c) Operational Efficiency Program (2001-2003)

In 2001, the Company initiated the phased Operational Efficiency Program aimed at improving the Company's operating and capital productivity and competitiveness. The first phase of the Operational Efficiency Program was to complete merger-related restructuring activities in TELUS Mobility and the reorganization for TELUS Communications. The second phase of the Operational Efficiency Program, 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. The third phase of the Operational Efficiency Program, which commenced in the third quarter of 2002, was focused on operationalizing the initiatives identified during the second phase review and included: 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.

As at June 30, 2004, no future costs remain to be recorded under the Operational Efficiency Program, but variances from estimates currently recorded may be recorded in subsequent periods.

5. Financing Costs

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
Interest on long-term debt	\$ 162.9	\$ 170.6	\$ 326.5	\$ 343.9
Interest on short-term obligations and other	4.6	3.4	6.4	4.4
Foreign exchange ⁽¹⁾	(0.1)	(1.2)	(0.7)	(0.8)
	167.4	172.8	332.2	347.5
Interest income, including interest on tax refunds	(10.5)	(0.8)	(30.3)	(11.2)
	\$ 156.9	\$ 172.0	\$ 301.9	\$ 336.3

(1) For the three-month and six-month periods ended June 30, 2004, these amounts include gains (losses) of \$(0.4) (2003 – \$0.3) and \$(0.7) (2003 – \$0.6), respectively, in respect of hedge ineffectiveness.

notes to interim consolidated financial statements

6. Income Taxes

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
Current	\$ (53.8)	\$ (5.5)	\$ (83.0)	\$ (206.3)
Future	98.7	59.3	190.5	253.2
	\$ 44.9	\$ 53.8	\$ 107.5	\$ 46.9

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

Three-month periods ended June 30 (\$ in millions)	2004		2003 (restated – Note 2(b))	
	Basic blended federal and provincial tax at statutory income tax rates	\$ 75.8	34.7%	\$ 47.3
Tax rate differential on settlement of prior year tax issue	(34.2)		(2.7)	
Share option compensation	1.5		—	
Other	(2.0)		4.2	
	41.1	18.8%	48.8	38.2%
Large corporations tax	3.8		5.0	
Income tax expense per Consolidated Statements of Income	\$ 44.9	20.6%	\$ 53.8	42.1%

Six-month periods ended June 30 (\$ in millions)	2004		2003 (restated – Note 2(b))	
	Basic blended federal and provincial tax at statutory income tax rates	\$ 132.9	34.7%	\$ 78.1
Tax rate differential on settlement of prior year tax issue	(35.8)		(49.7)	
Share option compensation	3.4		—	
Other	(2.1)		7.7	
	98.4	25.7%	36.1	17.1%
Large corporations tax	9.1		10.8	
Income tax expense per Consolidated Statements of Income	\$ 107.5	28.1%	\$ 46.9	22.2%

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits. During the three-month and six-month periods ended June 30, 2004, the Company recorded Investment Tax Credits of NIL (2003 – NIL) and \$0.5 million (2003 – \$1.2 million), respectively, of which NIL (2003 – NIL) and \$0.5 million (2003 – \$1.0 million), respectively, was recorded as a reduction of "Operations expense" and the balance was recorded as a reduction of capital expenditures.

7. Per Share Amounts

Basic income per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income 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 following tables present the reconciliations of the numerators and denominators of the basic and diluted per share computations.

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
Net income	\$ 172.3	\$ 73.0	\$ 273.6	\$ 162.5
Deduct:				
Preference and preferred share dividends	0.8	0.8	1.7	1.7
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 14(c))	—	—	2.3	—
Basic Common Share and Non-Voting Share income	171.5	72.2	269.6	160.8
Add: Interest charges applicable to convertible debentures, net of income tax effects	1.8	—	—	—
Diluted Common Share and Non-Voting Share income	\$ 173.3	\$ 72.2	\$ 269.6	\$ 160.8

notes to interim consolidated financial statements

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Basic total weighted average Common Shares and Non-Voting Shares outstanding	354.3	348.6	353.7	347.7
Effect of dilutive securities				
Exercise of share options and warrants	2.0	2.2	2.3	1.7
Exercise of convertible debentures conversion option	3.8	—	—	—
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	360.1	350.8	356.0	349.4

For the three-month and six-month periods ended June 30, 2004, certain outstanding share options, in the amount of 18.9 million (2003 – 16.2 million) and 18.6 million (2003 – 16.5 million), respectively, were not included in the computation of diluted income per Common Share and Non-Voting Share because the share options' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods. Convertible debentures, which were convertible into 3.8 million shares, were not included in the computation of diluted income per Common Share and Non-Voting Share, excepting the computation for the three-month period ended June 30, 2004, as they were antidilutive.

8. Share-Based Compensation

(a) Share Options

Effective January 1, 2004, for purposes of Canadian Generally Accepted Accounting Principles, the Company applies the fair value based method of accounting for share-based compensation awards granted to employees. As the Company has selected the retroactive application without restatement method (see Note 2(a)), it must disclose the impact on net income and net income per Common Share and Non-Voting Share as if the fair value based method of accounting for the share-based compensation had been applied in the comparative period.

Periods ended June 30 (millions except per share amounts)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
Net income				
As reported	\$ 172.3	\$ 73.0	\$ 273.6	\$ 162.5
Add: Share-based compensation arising from share options included in reported net income	4.4	—	9.8	—
Deduct: Share-based compensation arising from share options determined under the fair value based method for all awards	(4.4)	(4.9)	(9.8)	(9.0)
Pro forma	\$ 172.3	\$ 68.1	\$ 273.6	\$ 153.5
Net income per Common Share and Non-Voting Share				
Basic				
As reported (using fair value method)	\$ 0.48	N/A ⁽²⁾	\$ 0.76	N/A ⁽²⁾
As reported (using intrinsic value method)	N/A ⁽¹⁾⁽²⁾	\$ 0.21	N/A ⁽¹⁾⁽²⁾	\$ 0.46
Pro forma (using fair value method)	\$ 0.48	\$ 0.19	\$ 0.76	\$ 0.44
Diluted				
As reported (using fair value method)	\$ 0.48	N/A ⁽²⁾	\$ 0.76	N/A ⁽²⁾
As reported (using intrinsic value method)	N/A ⁽¹⁾⁽²⁾	\$ 0.21	N/A ⁽¹⁾⁽²⁾	\$ 0.46
Pro forma (using fair value method)	\$ 0.48	\$ 0.19	\$ 0.76	\$ 0.44

- (1) For the three-month and six-month periods ended June 30, 2004, the per share amount of share-based compensation arising from share options determined under the fair value based method for all awards per Common Share and Non-Voting Share would be \$0.01 basic and diluted and \$0.03 basic and diluted, respectively.
- (2) N/A – Net income per Common Share and Non-Voting Share have not been presented using the method indicated in the period indicated.

As only share options granted after 2001 are included, these disclosures are not likely to be representative of the effects on reported net income for future years. These disclosures reflect weighted average fair values of \$6.77 (2003 – \$5.44) and \$7.74 (2003 – \$4.31) for options granted in the three-month and six-month periods ended June 30, 2004, respectively. Share options typically vest over a three-year period and the vesting method of options, which is determined at the date of grant, may be either cliff or graded. The fair value of each option granted is estimated at the time of grant using the Black-Scholes model with weighted average assumptions for grants as follows:

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Periods ended June 30	Three months		Six months	
	2004	2003	2004	2003
Risk free interest rate	3.9%	4.7%	3.8%	5.0%
Expected lives (years)	4.5	4.5	4.5	4.5
Expected volatility	40.0%	40.0%	40.0%	40.0%
Dividend yield	2.7%	3.3%	2.4%	4.0%

(b) Other Share-Based Compensation

The Company uses restricted stock units as a form of incentive compensation. Each restricted stock unit is equal in value to one Non-Voting Share and the dividends that would have arisen thereon had it been an issued and outstanding Non-Voting Share are recorded as additional restricted stock units during the life of the restricted stock unit. The restricted stock units become payable as they vest over their lives (typically the vesting period is 33 months and the vesting method, which is determined at the date of grant, may be either cliff or graded). Reflected in the Consolidated Statements of Income as "Operations expense" for the three-month and six-month periods ended June 30, 2004, is compensation expense (recovery) arising from restricted stock units of \$1.5 million (2003 – \$(0.2 million)) and \$2.6 million (2003 – \$(0.2 million)), respectively.

The following table presents a summary of the activity related to the Company's restricted stock units for the three-month and six-month periods ended June 30, 2004.

Periods ended June 30, 2004	Three months		Six months	
	Number of restricted stock units	Weighted average price	Number of restricted stock units	Weighted average price
Outstanding, beginning of period	1,091,053		316,630	
Issued				
Initial allocation	11,350	\$ 21.80	851,449	\$ 24.09
In lieu of dividends	7,532	21.34	15,020	21.84
Exercised	—	—	(73,164)	24.26
Forfeited and cancelled	(19,227)	24.79	(19,227)	24.79
Outstanding, end of period	1,090,708		1,090,708	

With respect to restricted stock units issued in the first quarter of 2004, the Company entered into a cash-settled equity forward agreement that fixes the cost to the Company at \$26.61 per restricted stock unit in respect of 652,550 restricted stock units.

9. Accounts Receivable

On July 26, 2002, TELUS Communications Inc., a wholly-owned subsidiary of TELUS, entered into an agreement (the "2002 Securitization"), which was amended September 30, 2002, with an arm's-length securitization trust under which TELUS Communications Inc. 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; at June 30, 2004, the rating was BBB (high).

(millions)	As at June 30, 2004	As at December 31, 2003
Total managed portfolio	\$ 955.9	\$ 1,036.9
Securitized receivables	(182.6)	(369.5)
Retained interest in receivables sold	26.9	56.4
Receivables held	\$ 800.2	\$ 723.8

For the three-month and six-month periods ended June 30, 2004, the Company recognized losses of \$0.4 million (2003 – \$1.8 million) and \$0.2 million (2003 – \$3.0 million), respectively, on the sale of receivables arising from the 2002 Securitization.

notes to interim consolidated financial statements

Cash flows from the 2002 Securitization are as follows:

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Cumulative proceeds from securitization, beginning of period	\$ 150.0	\$ 454.0	\$ 300.0	\$ 475.0
Proceeds from new securitizations	—	31.0	—	34.0
Securitization reduction payments	—	—	(150.0)	(24.0)
Cumulative proceeds from securitization, end of period	\$ 150.0	\$ 485.0	\$ 150.0	\$ 485.0
Proceeds from collections reinvested in revolving period securitizations	\$ 372.5	\$ 981.3	\$ 1,055.0	\$ 1,999.7
Proceeds from collections pertaining to retained interest	\$ 68.2	\$ 209.9	\$ 200.5	\$ 416.4

10. Capital Assets

(a) Capital Assets, Net

(millions)	Cost	Accumulated Depreciation and Amortization	Net Book Value	
			As at June 30, 2004	As at December 31, 2003
Property, plant, equipment and other				
Telecommunications assets	\$ 16,916.9	\$ 11,021.3	\$ 5,895.6	\$ 6,002.4
Assets leased to customers	415.4	361.9	53.5	60.0
Buildings	1,621.8	783.1	838.7	832.0
Office equipment and furniture	912.0	660.7	251.3	265.0
Assets under capital lease	17.7	7.0	10.7	14.2
Other	332.1	233.2	98.9	113.8
Land	47.7	—	47.7	49.0
Plant under construction	454.0	—	454.0	405.0
Materials and supplies	24.4	—	24.4	22.9
	20,742.0	13,067.2	7,674.8	7,764.3
Intangible assets subject to amortization				
Subscriber base	362.9	84.0	278.9	289.7
Software	1,054.2	652.7	401.5	473.7
Access to rights-of-way and other	121.0	38.5	82.5	81.3
	1,538.1	775.2	762.9	844.7
Intangible assets with indefinite lives				
Spectrum licences ⁽¹⁾	3,973.1	1,018.5	2,954.6	2,954.6
	\$ 26,253.2	\$ 14,860.9	\$ 11,392.3	\$ 11,563.6

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

Included in capital expenditures for the three-month and six-month periods ended June 30, 2004, were additions of intangible assets subject to amortization of \$56.1 million (2003 – \$24.3 million) and \$89.0 million (2003 – \$44.2 million), respectively.

(b) Intangible Assets Subject to Amortization

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at June 30, 2004, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2004 (balance of year)	\$ 153.9
2005	210.4
2006	101.9
2007	34.1
2008	14.9

notes to interim consolidated financial statements

11. Deferred Charges

(millions)	As at June 30, 2004	As at December 31, 2003
Recognized transitional pension assets and pension plan contributions in excess of charges to income	\$ 509.7	\$ 426.8
Cost of issuing debt securities, less amortization	37.5	39.2
Deferred customer activation and installation costs ⁽¹⁾	85.8	80.8
Other	56.5	63.9
	\$ 689.5	\$ 610.7

(1) Upfront customer activation fees, along with the corresponding direct costs not in excess of revenues, are deferred and recognized over the average expected term of the customer relationship.

12. Long-Term Debt

(a) Details of Long-Term Debt

(\$ in millions)			As at June 30, 2004	As at December 31, 2003
<i>Series</i>	<i>Rate</i>	<i>Maturity</i>		
(restated – Note 2(b))				
TELUS Corporation Notes				
CA	7.5% ⁽¹⁾	June 2006	\$ 1,573.3	\$ 1,572.1
U.S.	7.5% ⁽¹⁾	June 2007	1,551.6	1,507.4
U.S.	8.0% ⁽¹⁾	June 2011	2,557.0	2,484.4
			5,681.9	5,563.9
TELUS Corporation Convertible Debentures	6.75% ⁽¹⁾	June 2010	141.0	140.4
TELUS Corporation Credit Facilities	—% ⁽²⁾	May 2008	—	7.0
TELUS Communications Inc. Debentures				
1	12.00% ⁽¹⁾	May 2010	50.0	50.0
2	11.90% ⁽¹⁾	November 2015	125.0	125.0
3	10.65% ⁽¹⁾	June 2021	175.0	175.0
5	9.65% ⁽¹⁾	April 2022	249.0	249.0
A	9.50% ⁽¹⁾	August 2004	189.5	189.5
B	8.80% ⁽¹⁾	September 2025	200.0	200.0
			988.5	988.5
TELUS Communications Inc. Medium Term Note Debentures				
96-9	6.375% ⁽¹⁾	August 2004	20.0	20.0
99-1	7.25% ⁽¹⁾	June 2030	0.1	0.1
			20.1	20.1
TELUS Communications Inc. Senior Discount Notes			—	0.4
TELUS Communications (Québec) Inc. First Mortgage Bonds ⁽³⁾				
U	11.50% ⁽¹⁾	July 2010	30.0	30.0
TELUS Communications (Québec) Inc. Medium Term Notes ⁽³⁾				
1	7.10% ⁽¹⁾	February 2007	70.0	70.0
Capital leases issued at varying rates of interest from 5.1% to 17.25% and maturing on various dates up to 2008			9.6	10.3
Other			9.2	0.3
Total debt			6,950.3	6,830.9
Less – current maturities			213.8	221.1
Long-Term Debt			\$ 6,736.5	\$ 6,609.8

(1) Interest is payable semi-annually.

(2) Weighted average rate as at June 30, 2004 (December 31, 2003 – 4.325%).

(3) Pursuant to a July 1, 2004, internal transaction between two wholly-owned subsidiaries, these debts became obligations of TELUS Communications Inc. on July 1, 2004.

(b) TELUS Corporation Credit Facilities

TELUS Corporation's syndicated bank credit facilities at June 30, 2004, consist of: i) an \$800 million (or U.S. Dollar equivalent) revolving credit facility expiring on May 7, 2008, used for general corporate purposes, and ii) an \$800 million (or U.S. Dollar equivalent) 364-day revolving credit facility which is extendible at the Company's option on a non-revolving basis for any amounts outstanding on May 6, 2005, for one year on a non-revolving basis. These new facilities replaced the Company's existing committed credit facilities prior to the availability termination dates of such facilities.

TELUS Corporation's credit facilities are unsecured and bear interest at prime rate, U.S. Dollar Base Rate, a bankers' acceptance rate or London interbank offered rate ("LIBOR") (all such terms as used or defined in the credit facilities), plus applicable margins. The credit facilities contain customary representations and warranties and covenants including two financial quarter end financial ratio tests. The financial ratio tests are that the Company may not permit its long-term debt to operating cash flow ratio to exceed 4.0:1 and may not permit its operating cash flow to interest expense ratio to be less than 2.0:1, each as defined under the credit facilities.

Continued access to TELUS Corporation's credit facilities is not contingent on the maintenance by TELUS Corporation of a specific credit rating.

Additionally, at June 30, 2004, the Company has accepted a fully underwritten commitment for a \$500 million (or U.S. Dollar equivalent) unsecured bank credit facility for general corporate purposes. This 364-day credit facility, upon documentation, would be available until the earlier of October 31, 2005, and 364 days after the completion date of the Company's offers to purchase Microcell Telecommunications Inc., should in fact this event occur (see Note 15(c)). The facility bears interest at prime rate, U.S. Dollar Base Rate, Bankers' Acceptance rate or London interbank offered rate ("LIBOR"), plus applicable margins. The facility also contains customary covenants.

(c) Long-Term Debt Maturities

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

(millions)	Total ⁽¹⁾
2004 (balance of year)	\$ 212.5
2005	3.4
2006	1,586.1
2007	1,870.0
2008	2.4

(1) Where applicable, repayments reflect hedged foreign exchange rates

13. Other Long-Term Liabilities

(millions)	As at June 30, 2004	As at December 31, 2003
Deferred gain on sale-leaseback of buildings	\$ 103.9	\$ 109.1
Pension and other post-retirement liabilities	167.4	161.3
Deferred hedging liability	625.3	739.6
Deferred customer activation and installation fees ⁽¹⁾	85.8	80.8
Other	93.9	82.9
	\$ 1,076.3	\$ 1,173.7

(1) Upfront customer activation fees, along with the corresponding direct costs not in excess of revenues, are deferred and recognized over the average expected term of the customer relationship.

14. Shareholders' Equity

(a) Details of Shareholders' Equity

(\$ in millions except per share amounts)				As at June 30, 2004	As at December 31, 2003
				(restated – Note 2(b))	
Convertible debentures conversion option (b)				\$ 8.8	\$ 8.8
TELUS Communications Inc. Preference Shares and Preferred Shares (c)					
Authorized		Amount			
Non-voting first preferred shares		Unlimited			
Issued				Redemption Premium	
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
Less: Reclassification to current liabilities				69.7	—
				—	69.7
Preferred equity					
Authorized		Amount			
First Preferred Shares		1,000,000,000			
Second Preferred Shares		1,000,000,000			
Common equity					
Shares					
Authorized		Amount			
Common Shares		1,000,000,000			
Non-Voting Shares		1,000,000,000			
Issued					
Common Shares (d)				2,385.1	2,349.1
Non-Voting Shares (d)				3,333.5	3,296.6
Options and warrants (e)				41.0	51.5
Accrual for shares issuable under channel stock incentive plan (f)				0.5	0.6
Cumulative foreign currency translation adjustment				(1.1)	(2.7)
Retained earnings				879.8	741.7
Contributed surplus (g)				38.9	5.9
				6,677.7	6,442.7
Total Shareholders' Equity				\$ 6,686.5	\$ 6,521.2

(b) Convertible Debenture Conversion Option

At June 30, 2004, 3.8 million (December 31, 2003 – 3.8 million) shares are reserved for issuance upon exercise of convertible debenture conversion options.

(c) TELUS Communications Inc. Preference and Preferred Shares

TELUS Communications Inc. has the right to redeem the Preference and Preferred shares upon giving three months' previous notice. On March 25, 2004, TELUS Communications Inc. issued notices of redemption for all nine classes of its outstanding publicly traded preference and preferred shares for redemption during the third quarter of 2004 for total consideration of approximately \$72.8 million. Of the redemption premium of \$3.1 million, \$0.8 million is chargeable against contributed surplus with the balance being charged to retained earnings. As July 1, 2004, was a Canadian banking holiday, the Company made a payment of \$35.8 million on June 30, 2004, for the July 1, 2004, redemption of preference and preferred shares. The net carrying amount of the preference and preferred shares has been reclassified to current liabilities, along with the associated net redemption premium.

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

Periods ended June 30, 2004	Three months		Six months	
	Number of shares	Amount (millions)	Number of shares	Amount (millions)
Common Shares				
Beginning of period	191,573,384	\$ 2,369.4	190,800,015	\$ 2,349.1
Exercise of share options (h)	9,474	0.1	59,718	1.4
Employees' purchase of shares (i)	629,349	14.5	1,301,176	32.1
Dividends reinvested in shares	41,127	1.1	92,425	2.5
End of period	192,253,334	\$ 2,385.1	192,253,334	\$ 2,385.1
Non-Voting Shares				
Beginning of period	162,088,340	\$ 3,326.2	161,042,369	\$ 3,296.6
Transitional amount for share-based compensation arising from share options (Note 2(a))	—	—	—	0.4
Adjusted opening balance	162,088,340	3,326.2	161,042,369	3,297.0
Exercise of warrants (e)	—	—	76,000	2.8
Channel stock incentive plan (f)	11,875	0.2	23,600	0.5
Exercise of share options (h)	56,824	1.2	520,908	15.8
Dividend Reinvestment and Share Purchase Plan (j)				
Dividends reinvested in shares	257,648	5.7	743,397	17.0
Optional cash payments	8,536	0.2	16,949	0.4
End of period	162,423,223	\$ 3,333.5	162,423,223	\$ 3,333.5

(e) Options and Warrants

Upon its acquisition of Clearnet Communications Inc. ("Clearnet") in 2000, the Company was required to record the intrinsic value of Clearnet options and warrants outstanding at that time. As these options and warrants are exercised, the corresponding intrinsic values are reclassified to share capital. As these options and warrants are forfeited or expire, the corresponding intrinsic values are reclassified to contributed surplus. Proceeds arising from the exercise of these options and warrants are credited to share capital.

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. As at June 30, 2004, 0.7 million (December 31, 2003 – 0.8 million) 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 0.2 million (December 31, 2003 – 0.2 million) shares for issuance under the Plan. As at June 30, 2004, shares earned, but not yet issued, are accrued as a component of Common Equity.

(g) Contributed Surplus

The following table presents a summary of the activity related to the Company's contributed surplus for the three-month and six-month periods ended June 30, 2004:

Periods ended June 30, 2004 (millions)	Three months	Six months
Balance, beginning of period	\$ 34.7	\$ 5.9
Transitional amount for share-based compensation arising from share options (Note 2(a))	—	24.7
Adjusted opening balance	34.7	30.6
Share option expense recognized in period (Note 8(a))	4.4	9.8
Share option expense reclassified to Non-Voting Share capital account upon exercise of share options	(0.2)	(0.7)
Redemption premium on preference and preferred shares (c)	—	(0.8)
Balance, end of period	\$ 38.9	\$ 38.9

(h) 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 time of grant. Options granted under the plans may be exercised over specific periods not to exceed 10 years from the time of grant. At June 30, 2004, 30.9 million (December 31, 2003 – 29.5 million) shares are reserved for issuance under the share option plans.

The following table presents a summary of the activity related to the Company's share options plans for the three-month and six-month periods ended June 30, 2004.

Periods ended June 30, 2004	Three months		Six months	
	Number of shares	Weighted average option price	Number of shares	Weighted average option price
Outstanding, beginning of period	26,640,734	\$ 25.06	25,773,832	\$ 24.85
Granted	64,500	22.06	1,736,791	24.69
Exercised	(66,298)	15.45	(580,626)	13.50
Forfeited	(422,642)	23.97	(582,722)	24.79
Expired and cancelled	—	—	(130,981)	24.76
Outstanding, end of period	26,216,294	25.09	26,216,294	25.09

(i) 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 their 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. For the three-month and six-month periods ended June 30, 2004, the Company contributed \$5.7 million (2003 – \$5.2 million) and \$11.8 million (2003 – \$10.9 million), respectively, 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. At June 30, 2004, 2.1 million (December 31, 2003 – 3.5 million) shares are reserved for issuance under the employee share purchase plan.

(j) 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, the Company, at its discretion, 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 per transaction 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 market. At June 30, 2004, 1.5 million (December 31, 2003 – 2.3 million) shares are reserved for issuance under the Dividend Reinvestment and Share Purchase Plan.

15. Commitments and Contingent Liabilities

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

On May 30, 2002, and on July 31, 2002, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued Decisions 2002-34 and 2002-43, respectively, and introduced the concept of a deferral account. The Company must make significant estimates and assumptions in respect of the deferral accounts given the complexity and interpretation required of Decisions 2002-34 and 2002-43. Accordingly, the Company estimates, and records, a liability (\$100 million as of June 30, 2004 (December 31, 2003 – \$76 million)) 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.

On March 24, 2004, the CRTC issued Telecom Public Notice CRTC 2004-1 "Review and disposition of the deferral accounts for the second price cap period" which initiated a public proceeding inviting proposals on the disposition of the amounts accumulated in the incumbent local exchange carriers' deferral accounts during the first two years of the second price cap period. The Company anticipates that the CRTC will make its determination on this proceeding prior to the end of the current calendar year.

(b) Labour Negotiations

Collective bargaining with the Telecommunications Workers Union: In 2000, TELUS commenced collective bargaining with the Telecommunications Workers Union for a new collective agreement replacing the five legacy agreements from BC TELECOM 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 (see *Canadian Industrial Relations Board Decision Letter 1088 and Decision 278* following). 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.

In January 2003, the Company and the Telecommunications Workers Union 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. Also in January 2003, the Company and the Telecommunications Workers Union agreed to an extension of the conciliation process to include a global review of all outstanding issues and a subsequent 60-day conciliation period. In the first quarter of 2004, the 60-day period concluded and the outstanding issues were not resolved.

On January 15, 2004, the Federal Minister of Labour appointed the two conciliators as mediators to continue to work with the Company and the Telecommunications Workers Union towards a possible resolution.

On January 28, 2004, the Canadian Industrial Relations Board ruled, in response to an unfair labour practice complaint filed by the Telecommunications Workers Union, that the Company must make an offer of binding arbitration to the Telecommunications Workers Union to settle the collective agreement between the parties. The Company made the offer of binding arbitration on January 29, 2004, and on January 30, 2004, the Telecommunications Workers Union accepted the offer. Under the provisions of binding arbitration, no legal labour disruption can occur.

With the assistance of mediators, the Company and the Telecommunications Workers Union have discussed the binding arbitration process including the selection of an arbitrator, terms of reference/guiding principles that an arbitrator would take into consideration, hearing location and dates, however, many of these items remain unresolved.

The Company has filed an application for reconsideration with the Canadian Industrial Relations Board and an appeal in the Federal Court of Appeal of the Canadian Industrial Relations Board's decision directing the Company to offer binding arbitration.

The operational and financial impacts of the outcome of the reconsideration and appeal processes on the Company are not practicably determinable currently.

Canadian Industrial Relations Board Letter Decision 1088 and Decision 278: On May 21, 2004, the Canadian Industrial Relations Board declared TELE-MOBILE COMPANY and TELUS Communications Inc. a single employer for labour relations purposes. The Canadian Industrial Relations Board also determined that the Mobility segment's non-unionized team members, predominantly located in Ontario and Quebec, performing work similar to their unionized Mobility segment counterparts in British Columbia and Alberta, should be included in the Telecommunications Workers Union bargaining unit without a representational vote.

On June 23, 2004, both TELE-MOBILE COMPANY and TELUS Communications Inc. filed an application to the Federal Court of Appeal for a stay and a judicial review of the Canadian Industrial Relations Board Letter Decision 1088 and the subsequent Decision 278. The stay application was granted in part on July 23, 2004. The Federal Court of Appeal held that the Mobility segment may communicate with its eastern employees affected by the Canadian Industrial Relations Board Letter Decision 1088 and Decision 278 (unlike the communication ban that continues in respect of TELUS Communications Inc.'s unionized team members represented by the Telecommunications Workers Union). The other aspects of the stay application were otherwise denied by the Federal Court of Appeal. However, the Federal Court of Appeal has invited TELE-MOBILE COMPANY and TELUS Communications Inc. to bring a new application should circumstances change such that irreparable harm becomes imminent.

Should the ultimate operational and financial impacts of the outcome of the Federal Court of Appeal process differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

(c) Microcell Telecommunications Inc.

On May 13, 2004, the Company announced its intention to make unsolicited offers to purchase for cash all of the issued and outstanding Class A Restricted Voting Shares, Class B Non-Voting Shares, Warrants 2005 and Warrants 2008 of Microcell Telecommunications Inc., which offers were made May 17, 2004. The total equity value of the transaction is approximately \$1.1 billion. The offers, which were to expire on June 22, 2004, were extended to July 22, 2004, and further extended to August 20, 2004.

(d) Commitments

The Company has bid for, or is negotiating for, certain sponsorships, including in relation to the 2010 Winter Olympic Games, that encompass material commitments.

(e) Guarantees

Canadian generally accepted accounting principles require the disclosure of certain types of guarantees and their maximum, undiscounted amounts. The maximum potential payments represent a “worst-case scenario” and do not necessarily reflect results expected by the Company. Guarantees requiring disclosure are those obligations that require payments contingent on specified types of future events; in the normal course of its operations, the Company enters into obligations which GAAP may consider to be guarantees. As defined by Canadian GAAP, guarantees subject to these disclosure guidelines do not include guarantees that relate to the future performance of the Company.

Performance guarantees: Performance guarantees contingently require a guarantor to make payments to a guaranteed party based on a third party’s failure to perform under an obligating agreement. TELUS provides sales price guarantees in respect of employees’ principal residences as part of its employee relocation policies. In the event that the Company is required to honour such guarantees, it purchases (for immediate resale) the property from the employee.

The Company has guaranteed third parties’ financial obligations as part of facility naming rights agreements. The guarantees, in total, run through to December 31, 2014, on a declining-balance basis and are of limited recourse.

As at June 30, 2004, the Company has no liability recorded in respect of the aforementioned performance guarantees.

Financial guarantees: In conjunction with its 2001 exit from the equipment leasing business, the Company provided a guarantee to a third party with respect to certain specified telecommunication asset and vehicle leases. If the lessee were to default, the Company would be required to make a payment to the extent that the realized value of the underlying asset is insufficient to pay out the lease; in some instances, the Company could be required to pay out the lease on a gross basis and realize the underlying value of the leased asset itself. As at June 30, 2004, the Company has a liability of \$1.5 million (December 31, 2003 – \$1.5 million) recorded in respect of these lease guarantees.

The following table quantifies the maximum undiscounted guarantee amounts as at June 30, 2004, without regard for the likelihood of having to make such payment.

(millions)	Performance guarantees ⁽¹⁾	Financial guarantees ⁽¹⁾	Total
2004 (balance of year)	\$ 6.7	\$ 3.5	\$ 10.2
2005	3.8	3.3	7.1
2006	3.3	2.4	5.7
2007	2.6	1.2	3.8
2008	1.9	0.4	2.3

(1) Annual amounts for performance guarantees and financial guarantees include the maximum guarantee amounts during any year of the term of the guarantee.

Indemnification obligations: In the normal course of operations, the Company may provide indemnification in conjunction with certain transactions. The term of these indemnification obligations range in duration and often are not explicitly defined. Where appropriate, an indemnification obligation is recorded as a liability. In many cases, there is no maximum limit on these indemnification obligations and the overall maximum amount of the obligations under such indemnification obligations cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of the transaction, historically the Company has not made significant payments under these indemnifications.

In connection with its 2001 disposition of TELUS’ directory business, the Company agreed to bear a proportionate share of the purchaser’s increased directory publication costs if the increased costs were to arise from a change in the applicable CRTC regulatory requirements. The Company’s proportionate share would be 80% through May 2006, declining to 40% in the next five-year period and then to 15% in the final five years. As well, should the CRTC take any action which would result in the purchaser being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the purchaser in respect of any losses that the purchaser incurred.

As at June 30, 2004, the Company has no liability recorded in respect of indemnification obligations.

(f) Claims and Lawsuits

General: A number of claims and lawsuits seeking 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 legal assessment and 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, excepting the items enumerated following.

Pay equity: On December 16, 1994, the Telecommunications Workers Union filed a complaint against BC TEL, a predecessor of TELUS Communications Inc., with the Canadian Human Rights Commission, alleging that wage differences between unionized male and female employees in British Columbia were contrary to the equal pay for work of equal value provisions in the *Canadian Human Rights Act*. In December 1998, the Canadian Human Rights Commission advised that it would commence an investigation of the Telecommunications Workers Union complaint. In February 2003, the Canadian Human Rights Commission offered to mediate a settlement of the complaint, but the Company declined the offer. In 2004, the Canadian Human Rights Commission appointed a conciliator to attempt to bring about a settlement of the complaint. If the conciliator is unable to settle the complaint, the Canadian Human Rights Commission may refer the matter to the Canadian Human Rights Tribunal for a formal hearing. The timing of the resolution of this matter is not practicably determinable, but resolution is not imminently expected. The Company believes that it has good defences to the Telecommunications Workers Union's complaint. Should the ultimate resolution of the pay equity complaint differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan: In January 2002, the Company became aware of two statements of claim filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, by plaintiffs alleging to be either members or business agents of the Telecommunications Workers Union. In one action, the three plaintiffs alleged to be suing on behalf of all current or future beneficiaries of the TELUS Corporation Pension Plan and in the other action, the two plaintiffs allege to be suing on behalf of all current or future beneficiaries of the TELUS Edmonton Pension Plan. The statement of claim in the TELUS Corporation Pension Plan related action named the Company, certain of its affiliates and certain present and former trustees of the TELUS Corporation Pension Plan as defendants, and claims damages in the sum of \$445 million. The statement of claim in the TELUS Edmonton Pension Plan related action named the Company, certain of its affiliates and certain individuals who are alleged to be trustees of the TELUS Edmonton Pension Plan and claims damages in the sum of \$15.5 million. On February 19, 2002, the Company filed statements of defence to both actions and also filed notices of motion for certain relief, including an order striking out the actions as representative or class actions. On May 17, 2002, the statements of claim were amended by the plaintiffs and include allegations, *inter alia*, that benefits provided under the TELUS Corporation Pension Plan and the TELUS Edmonton Pension Plan are less advantageous than the benefits provided under the respective former pension plans, contrary to applicable legislation, that insufficient contributions were made to the plans and contribution holidays were taken and that the defendants wrongfully used the diverted funds, and that administration fees and expenses were improperly deducted. The Company filed statements of defence to the amended statements of claim on June 3, 2002. An application for an order striking out the actions as representative or class actions was dismissed on December 17, 2003. The Company believes that it has good defences to the actions. Should the ultimate resolution of these actions differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

16. Additional Financial Information

(a) Income Statement

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Advertising expense	\$ 35.3	\$ 34.1	\$ 67.3	\$ 60.4

(b) Balance Sheet

(millions)	As at June 30, 2004	As at December 31, 2003
Accounts receivable		
Customer accounts receivable	\$ 720.3	\$ 624.1
Accrued receivables	140.6	158.4
Allowance for doubtful accounts	(70.9)	(67.6)
Other	10.2	8.9
	\$ 800.2	\$ 723.8

notes to interim consolidated financial statements

(millions)	As at June 30, 2004	As at December 31, 2003
Prepaid expense and other		
Prepaid expenses	\$ 152.5	\$ 86.6
Deferred customer activation and installation costs	66.7	77.2
Other	42.8	8.6
	\$ 262.0	\$ 172.4
Accounts payable and accrued liabilities		
Trade accounts payable	\$ 239.2	\$ 377.6
Accrued liabilities	460.7	384.1
Payroll and other employee-related liabilities	410.0	430.4
Interest payable	72.0	72.4
Other	42.3	30.0
	\$ 1,224.2	\$ 1,294.5
Advance billings and customer deposits		
Advance billings	\$ 376.5	\$ 340.9
Deferred customer activation and installation fees	66.7	77.2
Customer deposits	24.6	26.9
	\$ 467.8	\$ 445.0

(c) Supplementary Cash Flow Information

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Net change in non-cash working capital				
Accounts receivable	\$ (37.5)	\$ 53.8	\$ (76.4)	\$ 140.8
Income and other taxes receivable	22.6	(5.5)	92.5	(217.1)
Inventories	21.1	4.7	26.8	14.9
Prepaid expenses and other	(54.0)	(42.6)	(89.6)	(60.1)
Accounts payable and accrued liabilities	(110.1)	(93.5)	(71.1)	(114.8)
Advance billings and customer deposits	12.9	31.4	22.8	40.2
	\$ (145.0)	\$ (51.7)	\$ (95.0)	\$ (196.1)

17. Employee Future Benefits

(a) Defined benefit plans

The Company's net defined benefit plan costs were as follows:

Three-month periods ended June 30

(millions)	2004			2003		
	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Pension benefit plans						
Current service cost	\$ 17.6	\$ —	\$ 17.6	\$ 16.4	\$ —	\$ 16.4
Interest cost	78.1	—	78.1	76.8	—	76.8
Return on plan assets	(43.5)	(49.7)	(93.2)	(257.8)	174.2	(83.6)
Past service costs	—	0.2	0.2	—	0.1	0.1
Actuarial loss	6.2	—	6.2	7.3	—	7.3
Valuation allowance provided against accrued benefit asset	—	6.3	6.3	—	6.3	6.3
Amortization of transitional asset	—	(11.2)	(11.2)	—	(11.2)	(11.2)
	\$ 58.4	\$ (54.4)	\$ 4.0	\$ (157.3)	\$ 169.4	\$ 12.1

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

notes to interim consolidated financial statements

Six-month periods ended June 30
(millions)

	2004			2003		
	Incurring in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurring in period	Matching adjustments ⁽¹⁾	Recognized in period
Pension benefit plans						
Current service cost	\$ 35.2	\$ —	\$ 35.2	\$ 32.7	\$ —	\$ 32.7
Interest cost	156.2	—	156.2	153.5	—	153.5
Return on plan assets	(207.7)	21.2	(186.5)	(114.5)	(52.8)	(167.3)
Past service costs	—	0.4	0.4	—	0.3	0.3
Actuarial loss	12.3	—	12.3	14.6	—	14.6
Valuation allowance provided against accrued benefit asset	—	12.7	12.7	—	12.7	12.7
Amortization of transitional asset	—	(22.4)	(22.4)	—	(22.4)	(22.4)
	\$ (4.0)	\$ 11.9	\$ 7.9	\$ 86.3	\$ (62.2)	\$ 24.1

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

Three-month periods ended June 30
(millions)

	2004			2003		
	Incurring in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurring in period	Matching adjustments ⁽¹⁾	Recognized in period
Other benefit plans						
Current service cost	\$ 1.2	\$ —	\$ 1.2	\$ 1.2	\$ —	\$ 1.2
Interest cost	0.9	—	0.9	1.0	—	1.0
Return on plan assets	(0.6)	—	(0.6)	(0.2)	(0.4)	(0.6)
Actuarial gain	(0.5)	—	(0.5)	(0.3)	—	(0.3)
Amortization of transitional obligation	—	0.2	0.2	—	0.2	0.2
	\$ 1.0	\$ 0.2	\$ 1.2	\$ 1.7	\$ (0.2)	\$ 1.5

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

Six-month periods ended June 30
(millions)

	2004			2003		
	Incurring in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurring in period	Matching adjustments ⁽¹⁾	Recognized in period
Other benefit plans						
Current service cost	\$ 2.4	\$ —	\$ 2.4	\$ 2.5	\$ —	\$ 2.5
Interest cost	1.7	—	1.7	1.9	—	1.9
Return on plan assets	(1.3)	—	(1.3)	(0.4)	(0.9)	(1.3)
Actuarial gain	(0.8)	—	(0.8)	(0.6)	—	(0.6)
Amortization of transitional obligation	—	0.4	0.4	—	0.4	0.4
	\$ 2.0	\$ 0.4	\$ 2.4	\$ 3.4	\$ (0.5)	\$ 2.9

(1) Accounting adjustments to allocate costs to different periods so as to recognize the long-term nature of employee future benefits.

(b) Employer contributions

The best estimate of fiscal 2004 employer contributions to the Company's defined benefit pension plans has been revised to \$136.6 million (December 31, 2003, estimate – \$104.8 million) to reflect updated actuarial valuations and the net acceleration of discretionary funding.

(c) Defined contribution plans

The Company's total defined contribution pension plan costs recognized were as follows:

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Union pension plan contributions	\$ 10.0	\$ 10.0	\$ 19.3	\$ 19.3
Other defined contribution pension plans	1.8	1.6	8.1	6.6
	\$ 11.8	\$ 11.6	\$ 27.4	\$ 25.9

18. Segmented Information

The Company's reportable segments, which are used to manage the business, are Communications and Mobility. The Communications segment includes voice local, voice long distance, data and other telecommunication services excluding wireless. The Mobility segment includes digital personal communications services and wireless Internet services. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, and the distribution channels used. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties.

Three-month periods ended June 30 (millions)	Communications		Mobility		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
External revenue	\$ 1,189.0	\$ 1,209.2	\$ 676.6	\$ 564.1	\$ —	\$ —	\$ 1,865.6	\$ 1,773.3
Inter-segment revenue	22.1	23.4	5.6	3.9	(27.7)	(27.3)	—	—
Total operating revenue	1,211.1	1,232.6	682.2	568.0	(27.7)	(27.3)	1,865.6	1,773.3
Operations expense	711.8	714.1	396.0	366.7	(27.7)	(27.3)	1,080.1	1,053.5
Restructuring and work-force reduction costs	0.7	3.3	—	—	—	—	0.7	3.3
EBITDA ⁽¹⁾	\$ 498.6	\$ 515.2	\$ 286.2	\$ 201.3	\$ —	\$ —	\$ 784.8	\$ 716.5
CAPEX ⁽²⁾	\$ 267.7	\$ 227.4	\$ 78.4	\$ 78.1	\$ —	\$ —	\$ 346.1	\$ 305.5
EBITDA less CAPEX	\$ 230.9	\$ 287.8	\$ 207.8	\$ 123.2	\$ —	\$ —	\$ 438.7	\$ 411.0

Six-month periods ended June 30 (millions)	Communications		Mobility		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
External revenue	\$ 2,360.1	\$ 2,417.7	\$ 1,309.3	\$ 1,096.5	\$ —	\$ —	\$ 3,669.4	\$ 3,514.2
Inter-segment revenue	47.1	46.8	10.2	7.6	(57.3)	(54.4)	—	—
Total operating revenue	2,407.2	2,464.5	1,319.5	1,104.1	(57.3)	(54.4)	3,669.4	3,514.2
Operations expense	1,418.5	1,453.8	785.5	724.2	(57.3)	(54.4)	2,146.7	2,123.6
Restructuring and work-force reduction costs	16.6	9.8	—	—	—	—	16.6	9.8
EBITDA ⁽¹⁾	\$ 972.1	\$ 1,000.9	\$ 534.0	\$ 379.9	\$ —	\$ —	\$ 1,506.1	\$ 1,380.8
CAPEX ⁽²⁾	\$ 527.1	\$ 380.9	\$ 128.7	\$ 132.4	\$ —	\$ —	\$ 655.8	\$ 513.3
EBITDA less CAPEX	\$ 445.0	\$ 620.0	\$ 405.3	\$ 247.5	\$ —	\$ —	\$ 850.3	\$ 867.5

(1) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is defined by the Company as operating revenues less operations expense and 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 certain debt covenants.

(2) Total capital expenditures ("CAPEX").

19. 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 2004. As of June 30, 2004, in aggregate, \$312.1 million of specified software licences and a trademark 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 agreement is U.S.\$377 million for the period 2001 to 2008 and the commitment remaining after June 30, 2004, is U.S.\$92 million.

In the normal course of operations and on market terms and conditions, ongoing services and other benefits have been received and expensed. In connection with the 2001 disposition of TELUS' directory business to Verizon, the Company bills customers, and collects, for directory listings on Verizon's behalf. The Company owed Verizon, on a net basis and including directory rebilling and collections done on Verizon's behalf as well as dividends payable, \$41.3 million at June 30, 2004 (December 31, 2003 – \$40.9 million).

notes to interim consolidated financial statements

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Verizon agreement – Ongoing services and benefits expensed	\$ 6.7	\$ 6.8	\$ 13.3	\$ 14.3
Sales to Verizon (Verizon customers' usage of TELUS' telecommunication infrastructure and other)	\$ 13.0	\$ 9.0	\$ 23.1	\$ 21.1
Purchases from Verizon (TELUS customers' usage of Verizon's telecommunication infrastructure and other)	\$ 8.3	\$ 12.2	\$ 20.4	\$ 20.9

20. 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:

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003 (restated – Note 2(b))	2004	2003 (restated – Note 2(b))
Net income in accordance with Canadian GAAP	\$ 172.3	\$ 73.0	\$ 273.6	\$ 162.5
Adjustments:				
Operating expenses				
Operations (b)	0.1	(4.3)	1.3	(8.5)
Depreciation (c)	—	27.1	6.5	54.0
Amortization of intangible assets (d)	(20.4)	(20.4)	(40.9)	(40.9)
Financing costs (f)	2.2	2.4	4.1	4.8
Accounting for derivatives (g)	0.2	(0.8)	0.2	0.3
Taxes on the above adjustments (h)	7.9	(1.8)	13.3	(3.5)
Net income in accordance with U.S. GAAP	162.3	75.2	258.1	168.7
Other comprehensive income (loss) (i)	6.3	(103.0)	(16.2)	(83.6)
Comprehensive income (loss) in accordance with U.S. GAAP	\$ 168.6	\$ (27.8)	\$ 241.9	\$ 85.1
Net income in accordance with U.S. GAAP per				
Common Share and Non-Voting				
- Basic	\$ 0.46	\$ 0.21	\$ 0.72	\$ 0.48
- Diluted	\$ 0.45	\$ 0.21	\$ 0.71	\$ 0.48

The following is a restatement of retained earnings (deficit) to reflect the application of U.S. GAAP:

Periods ended June 30 (millions)	Six months	
	2004	2003
Balance at beginning of year	\$ (844.7)	\$ (960.6)
Net income in accordance with U.S. GAAP	258.1	168.7
	(586.6)	(791.9)
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	93.1	83.5
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	13.3	20.8
Preference and preferred share dividends	1.7	1.7
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 14(c))	2.5	—
Balance at end of period	\$ (697.2)	\$ (897.9)

notes to interim consolidated financial statements

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

(millions)	As at June 30, 2004	As at December 31, 2003
Current Assets	\$ 1,936.2	\$ 1,517.3
Capital Assets		
Property, plant, equipment and other	7,674.8	7,757.8
Intangible assets subject to amortization	2,543.3	2,666.0
Intangible assets with indefinite lives	2,954.6	2,954.6
Goodwill	3,536.3	3,536.6
Deferred Income Taxes	502.6	709.0
Other Assets	669.6	623.1
	\$ 19,817.4	\$ 19,764.4
Current Liabilities	\$ 2,076.3	\$ 2,154.7
Long-Term Debt	6,744.9	6,628.4
Other Long-Term Liabilities	1,276.6	1,367.1
Deferred Income Taxes	1,620.8	1,638.8
Non-Controlling Interest	10.5	10.7
Shareholders' Equity	8,088.3	7,964.7
	\$ 19,817.4	\$ 19,764.4

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

(millions)	As at June 30, 2004	As at December 31, 2003
Shareholders' Equity under Canadian GAAP	\$ 6,686.5	\$ 6,521.2
Adjustments:		(restated – Note 2(b))
Purchase versus Pooling Accounting (a), (c) – (f)	1,487.1	1,512.9
Additional goodwill on Clearnet purchase (e)	123.5	123.5
Convertible debentures (including conversion option) (f)	(8.6)	(8.8)
Accounting for derivatives (g)	—	(0.1)
Accumulated other comprehensive income (loss) (i)	(200.2)	(184.0)
Shareholders' Equity under U.S. GAAP	\$ 8,088.3	\$ 7,964.7
Composition of Shareholders' Equity under U.S. GAAP		
Preference and preferred shares		
TELUS Communications Inc. Preference Shares and Preferred Shares (Note 14(c))	\$ —	\$ 69.7
Common equity		
Common Shares	4,318.6	4,282.6
Non-Voting Shares	4,621.6	4,585.8
Options and warrants	41.0	51.5
Accrual for shares issuable under channel stock incentive plan	0.5	0.6
Cumulative foreign currency translation adjustment	(1.1)	(2.7)
Retained earnings (deficit)	(697.2)	(844.7)
Accumulated other comprehensive income (loss) (i)	(200.2)	(184.0)
Contributed surplus	5.1	5.9
	8,088.3	7,895.0
	\$ 8,088.3	\$ 7,964.7

(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) Operating Expenses – Operations

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Future employee benefits	\$ (4.3)	\$ (4.3)	\$ (8.5)	\$ (8.5)
Share-based compensation	4.4	—	9.8	—
	\$ 0.1	\$ (4.3)	\$ 1.3	\$ (8.5)

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.

Share-based compensation: Effective January 1, 2004, Canadian GAAP required the adoption of the fair value method of accounting for share-based compensation for awards made after 2001 (see Note 2(a) and Note 8(a)). U.S. GAAP requires disclosure of the impact on net income and net income per Common Share and Non-Voting Share as if the fair value based method of accounting had been applied for awards made after 1994. The fair values of the Company's options granted in 2004 and 2003, and the weighted average assumptions used in estimating the fair values, are set out in Note 8(a). Such impact, using the fair values set out in Note 8(a) would approximate the pro forma amounts in the following table.

Periods ended June 30 (millions except per share amounts)	Three months		Six months	
	2004	2003	2004	2003
Net income in accordance with U.S. GAAP				
As reported	\$ 162.3	\$ 75.2	\$ 258.1	\$ 168.7
Deduct: Share-based compensation arising from share options determined under fair value based method for all awards	(4.6)	(11.3)	(11.4)	(23.6)
Pro forma	\$ 157.7	\$ 63.9	\$ 246.7	\$ 145.1
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share				
Basic				
As reported (using intrinsic method)	\$ 0.46	\$ 0.21	\$ 0.72	\$ 0.48
Pro forma (using fair value method)	\$ 0.44	\$ 0.18	\$ 0.69	\$ 0.41
Diluted				
As reported (using intrinsic method)	\$ 0.45	\$ 0.21	\$ 0.71	\$ 0.48
Pro forma (using fair value method)	\$ 0.44	\$ 0.18	\$ 0.68	\$ 0.41

(c) Operating Expenses – Depreciation

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Merger of BC TELECOM and TELUS	\$ —	\$ 9.0	\$ 6.5	\$ 17.9
Asset impairment	—	18.1	—	36.1
	\$ —	\$ 27.1	\$ 6.5	\$ 54.0

Merger of BC TELECOM and TELUS: 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). As of March 31, 2004, the amortization of this difference had been completed.

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. As of December 31, 2003, the amortization of this difference had been completed.

(d) Operating Expenses – Amortization of 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.

The incremental amounts recorded as intangible assets arising from the TELUS acquisition above are as follows:

(millions)	Cost	Accumulated Amortization	Net Book Value	
			As at June 30, 2004	As at December 31, 2003
Intangible assets subject to amortization				
Subscribers – wireline	\$ 1,950.0	\$ 238.2	\$ 1,711.8	\$ 1,731.0
Subscribers – wireless	250.0	181.4	68.6	90.3
	2,200.0	419.6	1,780.4	1,821.3
Intangible assets with indefinite lives				
Spectrum licences ⁽¹⁾	1,833.3	1,833.3	—	—
	\$ 4,033.3	\$ 2,252.9	\$ 1,780.4	\$ 1,821.3

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002 and the transitional impairment amount.

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at June 30, 2004, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)

2004 (balance of year)	\$ 194.8
2005	292.2
2006	143.8
2007	72.5
2008	53.3

(e) Goodwill

Merger of BC TELECOM and TELUS: Under the purchase method of accounting, TELUS' assets and liabilities at acquisition (see (a)) 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 is periodically tested for impairment.

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 is periodically tested for impairment.

(f) Financing Costs

Merger of BC TELECOM and TELUS: 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).

Convertible debentures: Under Canadian GAAP, the conversion option embedded in the convertible debentures is presented separately as a component of shareholders' equity. Under U.S. GAAP, the embedded conversion option is not subject to bifurcation and is thus presented as a liability along with the balance of the convertible debentures. The principal accretion occurring under Canadian GAAP is not required under U.S. GAAP and the adjustment is included in the interest expense adjustment in the reconciliation.

(g) Accounting for Derivatives

On January 1, 2001, the Company adopted, for U.S. GAAP purposes, the provisions of Statement of Financial Accounting Standards No. 133, "Accounting For Derivative Instruments and Hedging Activities." This standard requires that 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.

notes to interim consolidated financial statements

(h) Income Taxes

Periods ended June 30 (millions)	Three months		Six months	
	2004	2003	2004	2003
Current	\$ (53.8)	\$ (5.5)	\$ (83.0)	\$ (206.3)
Deferred	90.8	61.1	177.2	256.7
	37.0	55.6	94.2	50.4
Investment Tax Credits	—	—	(0.5)	(1.0)
	\$ 37.0	\$ 55.6	\$ 93.7	\$ 49.4

The Company's income tax expense (recovery), for U.S. GAAP purposes, differs from that calculated by applying statutory rates for the following reasons:

Three-month periods ended June 30 (\$ in millions)	2004		2003	
Basic blended federal and provincial tax at statutory income tax rates	\$ 69.3	34.7%	\$ 49.1	37.0%
Tax rate differential on settlement of prior year tax issues	(34.2)		(2.7)	
Investment Tax Credits	—		—	
Other	(1.9)		4.2	
	33.2	16.6%	50.6	38.2%
Large corporations tax	3.8		5.0	
U.S. GAAP income tax expense (recovery)	\$ 37.0	18.5%	\$ 55.6	41.9%

Six-month periods ended June 30 (\$ in millions)	2004		2003	
Basic blended federal and provincial tax at statutory income tax rates	\$ 122.5	34.7%	\$ 81.4	37.0%
Tax rate differential on settlement of prior year tax issues	(35.8)		(49.7)	
Investment Tax Credits	(0.3)		(0.6)	
Other	(1.8)		7.5	
	84.6	24.0%	38.6	17.6%
Large corporations tax	9.1		10.8	
U.S. GAAP income tax expense (recovery)	\$ 93.7	26.5%	\$ 49.4	22.5%

(i) Additional Disclosures Required Under U.S. GAAP – Comprehensive Income

Statement of Financial Accounting Standards No. 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 currently no requirement to disclose comprehensive income under Canadian GAAP.

Three-month periods ended June 30 (millions)	2004			2003		
	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total
Amount arising	\$ 10.7	\$ (0.9)	\$ 9.8	\$ (162.0)	\$ (1.2)	\$ (163.2)
Income tax expense (recovery)	3.8	(0.3)	3.5	(59.6)	(0.6)	(60.2)
Net	6.9	(0.6)	6.3	(102.4)	(0.6)	(103.0)
Accumulated other comprehensive income (loss), beginning of period	(95.6)	(110.9)	(206.5)	135.6	(95.2)	40.4
Accumulated other comprehensive income (loss), end of period	\$ (88.7)	\$ (111.5)	\$ (200.2)	\$ 33.2	\$ (95.8)	\$ (62.6)

notes to interim consolidated financial statements

Six-month periods ended June 30
(millions)

	2004			2003		
	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total
Amount arising	\$ (23.0)	\$ (1.8)	\$ (24.8)	\$ (137.8)	\$ (2.1)	\$ (139.9)
Income tax expense (recovery)	(7.9)	(0.7)	(8.6)	(55.3)	(1.0)	(56.3)
Net	(15.1)	(1.1)	(16.2)	(82.5)	(1.1)	(83.6)
Accumulated other comprehensive income (loss), beginning of period	(73.6)	(110.4)	(184.0)	115.7	(94.7)	21.0
Accumulated other comprehensive income (loss), end of period	\$ (88.7)	\$ (111.5)	\$ (200.2)	\$ 33.2	\$ (95.8)	\$ (62.6)

(j) Recently Issued Accounting Standards Not Yet Implemented

As would affect the Company, there are no U.S. accounting standards currently issued and not yet implemented that would differ from Canadian accounting standards currently issued and not yet implemented.