

TELUS CORPORATION
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
JUNE 30, 2007

interim consolidated statements of income

(unaudited)

Periods ended June 30 (millions except per share amounts)	Three months		Six months	
	2007	2006 (restated – Note 2(b))	2007	2006 (restated – Note 2(b))
OPERATING REVENUES	\$ 2,228.1	\$ 2,135.2	\$ 4,433.7	\$ 4,215.7
OPERATING EXPENSES				
Operations	1,340.3	1,207.4	2,776.9	2,408.5
Restructuring costs (Note 6)	3.2	30.7	7.9	47.4
Depreciation	318.3	335.2	636.0	674.4
Amortization of intangible assets	72.5	46.9	122.1	110.8
	1,734.3	1,620.2	3,542.9	3,241.1
OPERATING INCOME	493.8	515.0	890.8	974.6
Other expense, net	18.5	9.6	22.3	13.9
Financing costs (Note 7)	127.2	127.5	244.8	254.5
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	348.1	377.9	623.7	706.2
Income taxes (Note 8)	93.7	18.7	173.0	134.8
Non-controlling interests	1.3	2.6	2.8	4.7
NET INCOME AND COMMON SHARE AND NON-VOTING SHARE INCOME	253.1	356.6	447.9	566.7
OTHER COMPREHENSIVE INCOME (Note 16(d))				
Change in unrealized fair value of derivatives designated as cash flow hedges	27.9	—	55.8	—
Foreign currency translation adjustment arising from translating financial statements of self-sustaining foreign operations	(6.2)	0.1	(3.8)	0.8
Change in unrealized fair value of available-for-sale financial assets	(0.1)	—	(0.1)	—
	21.6	0.1	51.9	0.8
COMPREHENSIVE INCOME	\$ 274.7	\$ 356.7	\$ 499.8	\$ 567.5
NET INCOME PER COMMON SHARE AND NON-VOTING SHARE (Note 9)				
– Basic	\$ 0.76	\$ 1.03	\$ 1.34	\$ 1.63
– Diluted	\$ 0.75	\$ 1.02	\$ 1.32	\$ 1.62
DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE	\$ 0.375	\$ 0.275	\$ 0.75	\$ 0.55
TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING				
– Basic	333.5	344.9	335.3	347.1
– Diluted	336.9	348.5	338.3	350.6

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

interim consolidated statements of retained earnings and
accumulated other comprehensive income (loss)

(unaudited)

Six-month periods ended June 30 (millions)	2007			2006		
	Retained earnings	Accumulated other comprehensive income (loss) (Note 2(b))	Total	Retained earnings	Accumulated other comprehensive income (loss) (Note 2(b))	Total
BALANCE AT BEGINNING OF PERIOD	\$ 1,080.1	\$ (1.5)	\$ 1,078.6	\$ 849.7	\$ (7.3)	\$ 842.4
Accumulated other comprehensive income transitional amounts (Notes 2(b), 16(d))	—	(176.2)	(176.2)	—	—	—
	1,080.1	(177.7)	902.4	849.7	(7.3)	842.4
Income	447.9	51.9	499.8	566.7	0.8	567.5
	1,528.0	(125.8)	1,402.2	1,416.4	(6.5)	1,409.9
Common Share and Non-Voting Share dividends paid, or payable, in cash	(250.9)	—	(250.9)	(190.7)	—	(190.7)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital (Note 16(g))	(257.4)	—	(257.4)	(294.7)	—	(294.7)
Adjustment of tax treatment of items charged directly to retained earnings	—	—	—	16.1	—	16.1
Other	3.7	—	3.7	2.1	—	2.1
BALANCE AT END OF PERIOD (Note 16)	\$ 1,023.4	\$ (125.8)	\$ 897.6	\$ 949.2	\$ (6.5)	\$ 942.7

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

interim consolidated balance sheets

(unaudited)

As at (millions)	June 30, 2007	December 31, 2006
		(adjusted – Notes 2(b)-(c))
ASSETS		
Current Assets		
Cash and temporary investments, net	\$ 2.2	\$ —
Short-term investments	54.8	110.2
Accounts receivable (Notes 12, 18(b))	571.8	707.2
Income and other taxes receivable	99.2	95.4
Inventories	158.8	196.4
Prepaid expenses and other (Note 18(b))	291.7	195.3
Current portion of derivative assets	48.7	40.4
	1,227.2	1,344.9
Capital Assets, Net (Note 13)		
Property, plant, equipment and other	7,296.7	7,466.5
Intangible assets subject to amortization	813.4	549.2
Intangible assets with indefinite lives	2,966.5	2,966.4
	11,076.6	10,982.1
Other Assets		
Deferred charges (Note 18(b))	1,064.6	956.6
Investments	30.6	35.2
Goodwill (Note 14)	3,168.8	3,169.5
	4,264.0	4,161.3
	\$ 16,567.8	\$ 16,488.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Cash and temporary investments, net	\$ —	\$ 11.5
Accounts payable and accrued liabilities (Note 18(b))	1,547.9	1,363.6
Income and other taxes payable	6.7	10.3
Restructuring accounts payable and accrued liabilities (Note 6)	28.8	53.1
Advance billings and customer deposits (Note 18(b))	609.4	606.3
Current maturities of long-term debt (Note 15)	6.4	1,433.5
Current portion of derivative liabilities	10.1	165.8
Current portion of future income taxes	258.1	137.2
	2,467.4	3,781.3
Long-Term Debt (Note 15)	4,800.5	3,474.7
Other Long-Term Liabilities (Note 18(b))	1,644.4	1,257.3
Future Income Taxes	1,018.6	1,023.3
Non-Controlling Interests	22.1	23.6
Shareholders' Equity (Note 16)	6,614.8	6,928.1
	\$ 16,567.8	\$ 16,488.3

Commitments and Contingent Liabilities (Note 17)

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

interim consolidated statements of cash flows

(unaudited)

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net income	\$ 253.1	\$ 356.6	\$ 447.9	\$ 566.7
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	390.8	382.1	758.1	785.2
Future income taxes	92.5	25.4	170.7	138.5
Share-based compensation (Note 10(a))	(8.9)	12.7	129.7	21.1
Net employee defined benefit plans expense	(21.0)	(1.3)	(45.0)	(2.9)
Employer contributions to employee defined benefit plans	(14.7)	(45.0)	(48.6)	(75.5)
Restructuring costs, net of cash payments (Note 6)	(7.3)	19.0	(24.3)	3.4
Amortization of deferred gains on sale-leaseback of buildings, amortization of deferred charges and other, net	4.3	(7.3)	(4.8)	8.6
Net change in non-cash working capital (Note 18(c))	373.1	70.8	138.8	41.0
Cash provided by operating activities	1,061.9	813.0	1,522.5	1,486.1
INVESTING ACTIVITIES				
Capital expenditures (Notes 5, 13)	(481.8)	(458.8)	(863.7)	(779.3)
Acquisitions	—	(19.5)	—	(19.5)
Proceeds from the sale of property and other assets	1.3	0.6	1.3	8.0
Change in non-current materials and supplies, purchase of investments and other	2.7	(8.4)	(7.7)	(11.4)
Cash used by investing activities	(477.8)	(486.1)	(870.1)	(802.2)
FINANCING ACTIVITIES				
Common Shares and Non-Voting Shares issued	0.2	12.5	0.6	45.7
Dividends to shareholders	(125.0)	(94.8)	(250.9)	(190.7)
Purchase of Common Shares and Non-Voting Shares for cancellation (Note 16(g))	(169.5)	(249.4)	(370.2)	(481.0)
Long-term debt issued (Note 15)	993.8	662.2	2,091.6	842.8
Redemptions and repayment of long-term debt (Note 15)	(1,811.1)	(362.5)	(2,104.6)	(615.5)
Partial repayment of deferred hedging liability	—	(309.4)	—	(309.4)
Dividends paid by a subsidiary to non-controlling interests	(4.3)	(3.0)	(4.3)	(3.0)
Other	—	—	(0.9)	—
Cash used by financing activities	(1,115.9)	(344.4)	(638.7)	(711.1)
CASH POSITION				
Increase (decrease) in cash and temporary investments, net	(531.8)	(17.5)	13.7	(27.2)
Cash and temporary investments, net, beginning of period	534.0	(1.1)	(11.5)	8.6
Cash and temporary investments, net, end of period	\$ 2.2	\$ (18.6)	\$ 2.2	\$ (18.6)
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS				
Interest (paid) (Note 18(c))	\$ (218.5)	\$ (271.5)	\$ (242.1)	\$ (284.6)
Interest received	\$ 5.6	\$ 0.8	\$ 7.5	\$ 23.3
Income taxes (inclusive of Investment Tax Credits (Note 8)) (paid) received, net	\$ (3.6)	\$ (0.7)	\$ 2.6	\$ 95.0

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

JUNE 30, 2007

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.

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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, 2006. These interim consolidated financial statements follow the same accounting policies and methods of their application as set out in the TELUS Corporation consolidated financial statements for the year ended December 31, 2006, other than as set out in Note 2, including that certain of the comparative amounts have been reclassified to conform with the presentation adopted currently. Accordingly, these interim consolidated financial statements reflect all adjustments (which are of a normal recurring nature) that are, in the opinion of the Company, necessary for a fair statement of the results for the interim periods presented.

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

2 accounting policy developments

(a) Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian generally accepted accounting principles (Canadian "GAAP"), as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be complete by 2011. The precise timing of convergence will depend on an Accounting Standards Board "progress review" to be undertaken and released by March 31, 2008.

Canadian GAAP will be converged with International Financial Reporting Standards through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the complete changeover to International Financial Reporting Standards; and standards not subject to a joint-convergence project will be exposed in an omnibus manner.

As this convergence initiative is very much in its infancy as of the date of these consolidated financial statements, it is premature to currently assess the impact of the initiative, if any, on the Company.

(b) Comprehensive income; recognition and measurement of financial instruments

Overview: Commencing with the Company's 2007 fiscal year, the recommendations of the Canadian Institute of Chartered Accountants ("CICA") for accounting for comprehensive income (CICA Handbook Section 1530), for the recognition and measurement of financial instruments (CICA Handbook Section 3855) and for hedges (CICA Handbook Section 3865) apply to the Company. Currently, the concept of comprehensive income for purposes of Canadian GAAP, in the Company's specific instance, is primarily to include changes in shareholders' equity arising from *unrealized* changes in the fair values of certain financial instruments.

The majority of the impact on the Company of adopting the other comprehensive income and related standards currently arises from the Company's cross currency interest rate swap agreements, as discussed further in Note 15(b) and, to a lesser extent, the cash-settled equity forward agreements that the Company entered into in respect of share-based compensation, as discussed further in Note 10(c).

In the application of hedge accounting to U.S. Dollar denominated long-term debt future cash outflows, an amount (the "hedge value") is recorded in the Consolidated Balance Sheets in respect of the value of the hedging items. The difference between the hedge value that would be recorded on the consolidated balance sheet subsequent to, and prior to, the adoption of the newly applied CICA recommendations, in respect of the U.S. Dollar denominated long-term debt future cash flows, is the difference between the fair value of the hedging items and the hedging asset or liability necessary to recognize the Canadian dollar equivalent of the value of the hedged items at the rate of exchange in the hedging items. This is illustrated in the following table:

As at (millions)	June 30, 2007		December 31, 2006	
	2011 Notes	2007 Notes	2011 Notes	Total
Canadian dollar equivalent of principal at rates of exchange in hedging items	\$ 2,950.5	\$ 1,483.3	\$ 2,950.5	\$ 4,433.8
Canadian dollar equivalent of principal at balance sheet date rate of exchange	2,047.0	1,357.9	2,240.2	3,598.1
Hedge value necessary to reflect rates of exchange in hedging items	903.5	125.4	710.3	835.7
Difference arising from newly applied CICA recommendations ⁽¹⁾	178.3	14.2	250.8	265.0
Fair value of hedging items	\$ 1,081.8	\$ 139.6	\$ 961.1	\$ 1,100.7

(1) The amounts as at December 31, 2006, are included in the transitional adjustments set out in Note 16(d).

Comprehensive income as prescribed by U.S. GAAP, and which is disclosed in Note 19(g), is largely aligned with comprehensive income as prescribed by Canadian GAAP, other than for pension accounting impacts. In the Company's specific instance, U.S. GAAP includes, in respect of pension and other defined benefit plans, the difference between the net funded states of the plans and the net accrued benefit asset or liability.

Implementation and application: In the Company's specific instance, the transitional rules for these sections generally require prospective implementation at the beginning of a fiscal year (the exception being in respect of the cumulative foreign currency translation adjustment, which is retrospectively adjusted for at the beginning of the fiscal year of adoption).

Costs of issuing debt securities, less amortization, are now netted against the debt security from which they arose. This resulted in a consolidated balance sheet reclassification from deferred charges to long-term debt of \$19.9 million as at December 31, 2006. Prior to 2007, costs of issuing debt securities were amortized on a straight-line basis, such costs are now required to be amortized using the effective interest method; the Company was not materially affected by the change in amortization method, which was prospectively applied.

In the further implementation of these recommendations, the Company has chosen to recognize as an asset or liability all embedded derivative instruments that exist as at January 1, 2007, and that are required to be separated from their host contract. The Company has selected this method so that there is no unnecessary difference from the application of U.S. GAAP.

In the ongoing application of these recommendations, the Company was required to select from a number of pertinent alternative acceptable accounting principles and methods and the Company has made the following selections:

Financial instrument	Classified as available-for-sale or held as part of a hedging relationship ⁽¹⁾	Classified as held for trading ⁽¹⁾⁽²⁾	Company's reason for classification selection
• Short-term marketable security investments ⁽³⁾ held as at January 1, 2007		X	• The Company has selected this method as it better reflects management's investment intentions
• Long-term investments ⁽³⁾ held as at January 1, 2007	X		• The Company has selected classification as available-for-sale as it better reflects management's investment intentions
• Stand-alone derivatives which are a part of an established and documented hedging relationship	X		• The Company believes that classification as held for hedging results in a better matching of the change in the fair value with the risk exposure being hedged

(1) The distinction between classification as available-for-sale (or held as part of a hedging relationship) or held for trading is that *unrealized* changes in the fair values of financial instruments classified as available-for-sale, or held for hedging, are included in other comprehensive income and *unrealized* changes in the fair values of financial instruments classified as held for trading are included in net income.

(2) Certain financial instruments that are not required to be classified as held for trading, may be classified as held for trading if the Company so chooses.

(3) In respect of investments in securities for which the fair values can be reliably measured, the Company determines the classification on an instrument-by-instrument basis at time of initial recognition.

- Accounts receivable available-for-sale to an arm's-length securitization trust are accounted for as loans and receivables. The Company has selected this method for accounting efficiency.
- Regular-way purchases or sales, which are those that are not net-settled, of financial assets or financial liabilities are recognized on the trade date. The Company has selected this method as it is consistent with the mandatory trade-date accounting required for derivative instruments.

- Transaction costs, other than in respect of held for trading items, are added to the initial fair value of the acquired financial asset or financial liability. The Company has selected this method as it believes that this results in a better matching of the transaction costs with the periods benefiting from the transaction costs.
- In respect of hedges of anticipated transactions, which in the Company's specific instance currently relates to inventory purchase commitments, hedge gains/losses which will be included in the cost of the inventory and will be expensed when the inventory is sold. The Company has selected this method as it believes that a better matching with the risk exposure being hedged is achieved.

Effects disclosure: The effects of the application of HB 1530, HB 3855 and HB 3865, on the Company's results of operations for the three-month and six-month periods ended June 30, 2007, are as set out in the following table:

Periods ended June 30, 2007 (millions except per share amounts)	Three months			Six months		
	Excluding effect of application of HB 1530, HB 3855 and HB 3865	Incremental effect of application of HB 1530, HB 3855 and HB 3865	As currently reported	Excluding effect of application of HB 1530, HB 3855 and HB 3865	Incremental effect of application of HB 1530, HB 3855 and HB 3865	As currently reported
Operating revenues	\$ 2,228.1	\$ —	\$ 2,228.1	\$ 4,433.7	\$ —	\$ 4,433.7
Operating expenses	1,734.3	—	1,734.3	3,542.9	—	3,542.9
Operating income	493.8	—	493.8	890.8	—	890.8
Other expenses, net	17.9	0.6	18.5	22.2	0.1	22.3
Financing costs	127.7	(0.5)	127.2	249.8	(5.0)	244.8
Income before income taxes and non-controlling interest	348.2	(0.1)	348.1	618.8	4.9	623.7
Income taxes	93.7	—	93.7	171.3	1.7	173.0
Non-controlling interests	1.3	—	1.3	2.8	—	2.8
Net income and Common Share and Non-Voting Share income	253.2	(0.1)	253.1	444.7	3.2	447.9
Other comprehensive income						
Change in unrealized fair value of derivatives designated as cash flow hedges	—	27.9	27.9	—	55.8	55.8
Foreign currency translation adjustment arising from translating financial statements of self-sustaining foreign operations	—	(6.2)	(6.2)	—	(3.8)	(3.8)
Change in unrealized fair value of available-for-sale financial assets	—	(0.1)	(0.1)	—	(0.1)	(0.1)
	—	21.6	21.6	—	51.9	51.9
Comprehensive income	\$ 253.2	\$ 21.5	\$ 274.7	\$ 444.7	\$ 55.1	\$ 499.8
Net income per Common Share and Non-Voting Share						
– Basic	\$ 0.76	\$ —	\$ 0.76	\$ 1.33	\$ 0.01	\$ 1.34
– Diluted	\$ 0.75	\$ —	\$ 0.75	\$ 1.31	\$ 0.01	\$ 1.32

The effects of the application of HB 1530, HB 3855 and HB 3865, on the Company's retained earnings for the six-month period ended June 30, 2007, are as set out in the following table:

Six-month period ended June 30, 2007 (millions)	Excluding effect of application of HB 1530, HB 3855 and HB 3865	Incremental effect of application of HB 1530, HB 3855 and HB 3865	As currently reported
Balance at beginning of period	\$ 1,080.1	\$ —	\$ 1,080.1
Income	444.7	3.2	447.9
	1,524.8	3.2	1,528.0
Common Share and Non-Voting Share dividends paid, or payable, in cash	(250.9)	—	(250.9)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital	(257.4)	—	(257.4)
Other	3.7	—	3.7
Balance at end of period	\$ 1,020.2	\$ 3.2	\$ 1,023.4

The effects of the application of HB 1530, HB 3855 and HB 3865, on the Company's financial position as at June 30, 2007, are as set out in the following table:

As at June 30, 2007 (millions)	Excluding effect of application of HB 1530, HB 3855 and HB 3865	Incremental effect of application of HB 1530, HB 3855 and HB 3865	As currently reported
Assets			
Current assets			
Cash and temporary investments, net	\$ 2.2	\$ —	\$ 2.2
Short-term investments	54.9	(0.1)	54.8
Accounts receivable	571.8	—	571.8
Income and other taxes receivable	99.2	—	99.2
Inventories	158.8	—	158.8
Prepaid expenses and other	291.7	—	291.7
Derivative assets	48.0	0.7	48.7
	1,226.6	0.6	1,227.2
Capital assets, net	11,076.6	—	11,076.6
Other assets			
Deferred charges	1,086.3	(21.7)	1,064.6
Investments	29.0	1.6	30.6
Goodwill	3,168.8	—	3,168.8
	4,284.1	(20.1)	4,264.0
	\$ 16,587.3	\$ (19.5)	\$ 16,567.8
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	\$ 1,547.9	\$ —	\$ 1,547.9
Income and other taxes payable	6.7	—	6.7
Restructuring accounts payable and accrued liabilities	28.8	—	28.8
Advance billings and customer deposits	609.4	—	609.4
Current maturities of long-term debt	6.4	—	6.4
Current portion of derivative liabilities	4.8	5.3	10.1
Current portion of future income taxes	258.1	—	258.1
	2,462.1	5.3	2,467.4
Long-term debt	4,833.0	(32.5)	4,800.5
Other long-term liabilities	1,465.2	179.2	1,644.4
Future income taxes	1,072.8	(54.2)	1,018.6
Non-controlling interests	22.1	—	22.1
Shareholders' equity			
Common Shares	2,235.3	—	2,235.3
Non-Voting Shares	3,337.9	—	3,337.9
	5,573.2	—	5,573.2
Cumulative foreign currency translation adjustment	(5.3)	5.3	—
Retained earnings and accumulated other comprehensive income			
Retained earnings	1,020.2	3.2	1,023.4
Accumulated other comprehensive income (loss)	—	(125.8)	(125.8)
	1,020.2	(122.6)	897.6
Contributed surplus	144.0	—	144.0
	6,732.1	(117.3)	6,614.8
	\$ 16,587.3	\$ (19.5)	\$ 16,567.8

(c) Income taxes arising from partnership income

In mid-2006, Canada's Accounting Standards Board's Emerging Issues Committee issued a Draft Abstract ("D59") regarding the accounting for income taxes related to entities that consolidate partnership interests that have a different year end than the consolidating entity. The Company has applied the guidance therein contained through its 2006 year

end. In March 2007, the Emerging Issues Committee issued a revised Draft Abstract ("RD59") which changed the approach to determination of the classification of future income taxes between "current" and "non-current". In May 2007, the Emerging Issues Committee removed this issue from its agenda.

Given the absence of specific guidance on the issue, the Company has adopted the policy of accounting for the current portion of the future income tax liability for partnerships to include the tax effect of differences between the accounting and tax bases of current assets and current liabilities and the tax on partnership income to be allocated during the next twelve months. The Company has retrospectively applied this policy, which has, in the Company's specific current instance, the net effect of increasing the current portion of future income tax liabilities. The consolidated balance sheet reclassification is as set out in the following table:

As at (millions)	June 30, 2007			December 31, 2006		
	Pro forma, reflecting D59 application	Incremental effect of application of policy	As currently reported	As previously reported, reflecting D59 application	Incremental effect of application of policy	As currently reported
Current liabilities						
Current portion of future income taxes	\$ 223.1	\$ 35.0	\$ 258.1	\$ 93.2	\$ 44.0	\$ 137.2
Future Income Taxes	\$ 1,053.6	\$ (35.0)	\$ 1,018.6	\$ 1,067.3	\$ (44.0)	\$ 1,023.3

(d) Financial instruments – disclosure

Commencing with the Company's 2008 fiscal year, the new recommendations of the CICA for financial instrument disclosures (CICA Handbook Section 3862) will apply to the Company. The new recommendations will result in incremental disclosures, relative to those currently, with an emphasis on risks associated with both recognized and unrecognized financial instruments to which an entity is exposed during the period and at the balance sheet date, and how an entity manages those risks. The Company is assessing how it will be affected by these new recommendations.

3 capital structure financial policies

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure which optimizes the cost of capital at acceptable risk; and (ii) to manage capital in a manner which balances the interests of equity and debt holders.

In the management of capital, the Company includes shareholders' equity (excluding accumulated other comprehensive income), long-term debt (including any associated hedging assets or liabilities, net of amounts recognized in accumulated other comprehensive income), cash and temporary investments and securitized accounts receivable in the definition of capital.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or increase or decrease the amount of sales of trade receivables to an arm's-length securitization trust.

The Company monitors capital using a number of metrics, including: net debt to total capitalization; net debt to Earnings Before Interest, Taxes, Depreciation and Amortization – excluding restructuring costs ("EBITDA – excluding restructuring costs"); and dividend payout ratio of sustainable net earnings.

Net debt to total capitalization is calculated as net debt divided by total capitalization. Net debt is a non-GAAP measure, whose nearest GAAP measure is long-term debt; the calculation of net debt is as set out in the following schedule. Net debt is one component of a ratio used to determine compliance with debt covenants. Total capitalization is defined as the sum of net debt, non-controlling interest and shareholders' equity (excluding accumulated other comprehensive income).

Net debt to EBITDA – excluding restructuring costs is calculated as net debt at the end of the period divided by twelve-month trailing EBITDA – excluding restructuring costs. The calculation of EBITDA – excluding restructuring costs is a non-GAAP measure whose nearest GAAP measure is net income; the calculation of EBITDA – excluding restructuring costs is as set out in the following schedule. This measure, historically, is substantially the same as the leverage ratio covenant in the Company's credit facilities.

Dividend payout ratio of sustainable net earnings is calculated as the most recent quarterly dividend declared per share multiplied by four and divided by basic earnings per share for the twelve-month trailing period.

During 2007, the Company's strategy, which was unchanged from 2006, was to maintain the financial policies and guidelines set out in the following schedule. The Company believes that these financial policies and guidelines, which are reviewed annually, are currently at the optimal level and provide access to capital at a reasonable cost by maintaining credit ratings in the range of BBB+ to A-, or the equivalent.

As at, or twelve-month periods ended, June 30 (\$ in millions)	Metrics	2007	2006
Components of debt and coverage ratios			
Net debt (including securitized accounts receivable) ⁽¹⁾		\$ 6,239.7	\$ 6,274.6
Total capitalization – book value		\$ 13,002.4	\$ 13,139.0
EBITDA – excluding restructuring costs ⁽²⁾		\$ 3,507.7	\$ 3,418.4
Net interest cost ⁽³⁾		\$ 495.0	\$ 571.0
Debt ratios			
Net debt to total capitalization	45 – 50%	48.0%	47.8%
Net debt to EBITDA – excluding restructuring costs	1.5:1 – 2.0:1	1.8	1.8
Coverage ratios			
Interest coverage on long-term debt ⁽⁴⁾		3.8	2.9
EBITDA – excluding restructuring costs interest coverage ⁽⁵⁾		7.1	6.0
Other measures			
Dividend payout ratio of sustainable net earnings	45 – 55%	50%	46%

(1) Net debt is calculated as follows:

As at June 30	2007	2006
Long-term debt (Note 15)	\$ 4,806.9	\$ 4,708.3
Debt issuance costs netted against long-term debt	32.5	22.2
Derivative liabilities, net	1,081.8	990.5
Accumulated other comprehensive income amounts arising from financial instruments used to manage interest rate and currency risks associated with U.S. Dollar denominated debt	(179.3)	—
Cash and temporary investments, net	(2.2)	18.6
Securitized accounts receivable (Note 12)	500.0	535.0
Net debt	\$ 6,239.7	\$ 6,274.6

(2) EBITDA – excluding restructuring costs is calculated as follows:

Twelve-month periods ended June 30	2007				2006			
	Period-to-date: add (deduct)				Period-to-date: add (deduct)			
	Comparative quarter	Prior fiscal year	Current quarter	Total	Comparative quarter	Prior fiscal year	Current quarter	Total
EBITDA (Note 5)	\$(1,759.8)	\$ 3,590.3	\$ 1,648.9	\$ 3,479.4	\$(1,721.2)	\$ 3,295.3	\$ 1,759.8	\$ 3,333.9
Restructuring costs (Note 6)	(47.4)	67.8	7.9	28.3	(16.8)	53.9	47.4	84.5
EBITDA – excluding restructuring costs	\$(1,807.2)	\$ 3,658.1	\$ 1,656.8	\$ 3,507.7	\$(1,738.0)	\$ 3,349.2	\$ 1,807.2	\$ 3,418.4

(3) Net interest cost is defined as financing costs before gains on redemption and repayment of debt, calculated on a twelve-month trailing basis (losses recorded on the redemption of long-term debt are included in net interest cost).

(4) Interest coverage on long-term debt is defined as net income before interest expense on long-term debt and income tax expense, divided by interest expense on long-term debt (including losses recorded on the redemption of long-term debt).

(5) EBITDA – excluding restructuring costs interest coverage is defined as EBITDA – excluding restructuring costs divided by net interest cost. This measure is substantially the same as the coverage ratio covenant in the Company's credit facilities.

Total capitalization decreased because of lower net debt and share capital, partly offset by higher retained earnings.

Net debt and twelve-month trailing EBITDA – excluding restructuring costs did not have a significant impact on the net debt to EBITDA – excluding restructuring costs ratio measured at June 30, 2007, when compared to one year earlier.

Interest coverage on long-term debt improved by 0.4 because of lower interest expenses and improved by 0.5 because of increased income before taxes and interest expense. The EBITDA – excluding restructuring costs interest coverage ratio improved by 0.9 due to lower net interest cost and improved by 0.2 due to higher EBITDA – excluding restructuring costs.

The dividend payout ratio for the twelve-month period ended June 30, 2007, was at the midpoint of the target guideline (45 to 55% for sustainable net earnings). The dividend payout ratio was 48% when the impacts of tax-related adjustments and the charge for adding the net-cash settlement feature for share options granted prior to 2005 in the first quarter of 2007 are excluded from earnings.

4 financial instruments

The Company's financial instruments consist of cash and temporary investments, accounts receivable, investments accounted for using the cost method, accounts payable, restructuring accounts payable, short-term obligations, long-term debt, interest rate swap agreements, share-based compensation cost hedges, as further discussed in Note 10(b)-(c), and foreign exchange hedges.

Fair value: The carrying value of cash and temporary investments, accounts receivable, accounts payable, restructuring accounts payable and short-term obligations approximates their fair values due to the immediate or short-term maturity of these financial instruments. The carrying values of the Company's investments accounted for using the cost method would not exceed their fair values.

The carrying value of short-term investments equals their fair value as they are classified as held for trading. The fair value is determined directly by reference to quoted market prices.

The fair values of the Company's long-term debt 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.

The fair values of the Company's derivative financial instruments used to manage exposure to increases in compensation costs arising from certain forms of share-based compensation are estimated based upon fair value estimates of the related cash-settled equity forward agreements provided by the counterparty to the transactions.

As at (millions)	June 30, 2007				December 31, 2006		
	Hedging item maximum maturity date	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Assets							
Financial assets designated as held for trading upon initial recognition							
- Short-term investments			\$ 54.8	\$ 54.8		\$ 110.2	\$ 110.2
- Derivatives used to manage currency risks arising from U.S. Dollar denominated revenues to which hedge accounting is not applied	2007	\$ 3.2	—	—	\$ —	—	—
			\$ 54.8	\$ 54.8		\$ 110.2	\$ 110.2
Derivatives used to manage changes in share-based compensation costs and classified as held for							
- Trading (Note 10(b))	2012	\$ 258.6	\$ 35.4		\$ —	\$ —	\$ —
- Net amounts due from counterparties			0.2				
			35.6	\$ 35.6			
- Hedging ⁽¹⁾ (Note 10(c))	2009	\$ 71.3	25.2		\$ 48.7	6.0	11.4
- Net amounts due from counterparties			0.6				
			25.8	25.8			
			\$ 61.4	\$ 61.4		\$ 6.0	\$ 11.4
Long-term investments designated as available-for-sale upon initial recognition			\$ 30.6	\$ 30.6		\$ 35.2	\$ 36.9

As at (millions)	June 30, 2007				December 31, 2006		
	Hedging item maximum maturity date	Notional amount	Carrying amount	Fair value	Notional amount	Carrying amount	Fair value
Liabilities							
Long-term debt							
Principal (Note 15)			\$ 4,806.9	\$ 5,154.4		\$ 4,908.2	\$ 5,535.9
Derivatives ⁽¹⁾ classified as held for hedging and used to manage interest rate and currency risks associated with U.S. Dollar denominated debt (Note 15(b))							
- Derivative asset	2007	\$ —	—		\$ 809.9	(40.4)	
- Derivative liability— Current	2007	\$ —	—		\$ 673.4	165.8	
- Non-current	2011	\$ 2,950.5	1,081.8		\$ 2,950.5	710.3	
			1,081.8			835.7	
- Interest payable			7.3			6.3	
Net			1,089.1	1,089.1		842.0	1,090.6
Derivatives ⁽¹⁾ used to manage interest rate risk associated with planned refinancing of debt maturing June 1, 2007	2007	\$ —	—	—	\$ 500.0	—	6.5
			\$ 5,896.0	\$ 6,243.5		\$ 5,750.2	\$ 6,633.0
Derivatives ⁽¹⁾ classified as held for hedging and used to manage currency risks arising from U.S. Dollar denominated purchases to which hedge accounting is applied	2007	\$ 115.9	\$ 5.3	\$ 5.3	\$ 14.7	\$ —	\$ (0.5)
Financial liabilities designated as held for trading upon initial recognition							
- Derivatives used to manage currency risks arising from U.S. Dollar denominated purchases to which hedge accounting is not applied	2007	\$ 105.8	\$ 4.8	\$ 4.8	\$ 141.5	\$ —	\$ (5.6)

(1) Designated as cash flow hedging items.

5 segmented information

The Company's reportable segments are Wireline and Wireless. The Wireline segment includes voice local, voice long distance, data and other telecommunications services excluding wireless. The Wireless segment includes digital personal communications services, equipment sales and wireless Internet services. Segmentation is based on similarities in technology, the technical expertise required to deliver the products and services, the distribution channels used and regulatory treatment. Intersegment sales are recorded at the exchange value, which is the amount agreed to by the parties. The following segmented information is regularly reported to the Company's Chief Executive Officer (the Company's chief operating decision maker).

Three-month periods ended

June 30 (millions)	Wireline		Wireless		Eliminations		Consolidated		
	2007	2006	2007	2006	2007	2006	2007	2006	
Operating revenues									
External revenue	\$ 1,180.1	\$ 1,189.9	\$ 1,048.0	\$ 945.3	\$ —	\$ —	\$ 2,228.1	\$ 2,135.2	
Intersegment revenue	28.7	24.8	6.7	5.2	(35.4)	(30.0)	—	—	
	1,208.8	1,214.7	1,054.7	950.5	(35.4)	(30.0)	2,228.1	2,135.2	
Operating expenses									
Operations expense	772.1	728.6	603.6	508.8	(35.4)	(30.0)	1,340.3	1,207.4	
Restructuring costs	2.8	29.8	0.4	0.9	—	—	3.2	30.7	
	774.9	758.4	604.0	509.7	(35.4)	(30.0)	1,343.5	1,238.1	
EBITDA ⁽¹⁾	\$ 433.9	\$ 456.3	\$ 450.7	\$ 440.8	\$ —	\$ —	\$ 884.6	\$ 897.1	
CAPEX ⁽²⁾	\$ 308.7	\$ 311.4	\$ 173.1	\$ 147.4	\$ —	\$ —	\$ 481.8	\$ 458.8	
EBITDA less CAPEX	\$ 125.2	\$ 144.9	\$ 277.6	\$ 293.4	\$ —	\$ —	\$ 402.8	\$ 438.3	
Operating expenses (as adjusted)⁽³⁾									
Operations expense (as adjusted) ⁽³⁾	772.1	728.6	601.8	508.8	(35.4)	(30.0)	1,338.5	1,207.4	
Restructuring costs	2.8	29.8	0.4	0.9	—	—	3.2	30.7	
	774.9	758.4	602.2	509.7	(35.4)	(30.0)	1,341.7	1,238.1	
EBITDA (as adjusted) ⁽³⁾	\$ 433.9	\$ 456.3	\$ 452.5	\$ 440.8	\$ —	\$ —	\$ 886.4	\$ 897.1	
CAPEX ⁽²⁾	\$ 308.7	\$ 311.4	\$ 173.1	\$ 147.4	\$ —	\$ —	\$ 481.8	\$ 458.8	
EBITDA (as adjusted) less CAPEX	\$ 125.2	\$ 144.9	\$ 279.4	\$ 293.4	\$ —	\$ —	\$ 404.6	\$ 438.3	
							EBITDA (as adjusted)(from above)	\$ 886.4	\$ 897.1
							Incremental charge ⁽³⁾	1.8	—
							EBITDA (from above)	884.6	897.1
							Depreciation	318.3	335.2
							Amortization	72.5	46.9
							Operating income	493.8	515.0
							Other expense, net	18.5	9.6
							Financing costs	127.2	127.5
							Income before income taxes and non-controlling interests	348.1	377.9
							Income taxes	93.7	18.7
							Non-controlling interests	1.3	2.6
							Net income	\$ 253.1	\$ 356.6

(1) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less operations expense and restructuring 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").

(3) Substantially all of the Company's share option awards that were granted prior to January 1, 2005, and which were outstanding on January 1, 2007, were amended by adding a net-cash settlement feature; such amendment resulted in an incremental charge to operations of \$1.8 and did not result in an immediate cash outflow. In respect of 2007 results provided to the Company's chief operating decision maker, operations expense and EBITDA are being presented both with, and without, the impact of such amendment.

Six-month periods ended June 30 (millions)	Wireline		Wireless		Eliminations		Consolidated		
	2007	2006	2007	2006	2007	2006	2007	2006	
Operating revenues									
External revenue	\$ 2,385.7	\$ 2,388.5	\$ 2,048.0	\$ 1,827.2	\$ —	\$ —	\$ 4,433.7	\$ 4,215.7	
Intersegment revenue	53.8	48.3	13.0	11.1	(66.8)	(59.4)	—	—	
	2,439.5	2,436.8	2,061.0	1,838.3	(66.8)	(59.4)	4,433.7	4,215.7	
Operating expenses									
Operations expense	1,677.5	1,469.0	1,166.2	998.9	(66.8)	(59.4)	2,776.9	2,408.5	
Restructuring costs	7.2	44.7	0.7	2.7	—	—	7.9	47.4	
	1,684.7	1,513.7	1,166.9	1,001.6	(66.8)	(59.4)	2,784.8	2,455.9	
EBITDA ⁽¹⁾	\$ 754.8	\$ 923.1	\$ 894.1	\$ 836.7	\$ —	\$ —	\$ 1,648.9	\$ 1,759.8	
CAPEX ⁽²⁾	\$ 579.4	\$ 570.4	\$ 284.3	\$ 208.9	\$ —	\$ —	\$ 863.7	\$ 779.3	
EBITDA less CAPEX	\$ 175.4	\$ 352.7	\$ 609.8	\$ 627.8	\$ —	\$ —	\$ 785.2	\$ 980.5	
Operating expenses (as adjusted)⁽³⁾									
Operations expense (as adjusted) ⁽³⁾	1,524.4	1,469.0	1,144.0	998.9	(66.8)	(59.4)	2,601.6	2,408.5	
Restructuring costs	7.2	44.7	0.7	2.7	—	—	7.9	47.4	
	1,531.6	1,513.7	1,144.7	1,001.6	(66.8)	(59.4)	2,609.5	2,455.9	
EBITDA (as adjusted) ⁽³⁾	\$ 907.9	\$ 923.1	\$ 916.3	\$ 836.7	\$ —	\$ —	\$ 1,824.2	\$ 1,759.8	
CAPEX ⁽²⁾	\$ 579.4	\$ 570.4	\$ 284.3	\$ 208.9	\$ —	\$ —	\$ 863.7	\$ 779.3	
EBITDA (as adjusted) less CAPEX	\$ 328.5	\$ 352.7	\$ 632.0	\$ 627.8	\$ —	\$ —	\$ 960.5	\$ 980.5	
							EBITDA (as adjusted)(from above)	\$ 1,824.2	\$ 1,759.8
							Incremental charge ⁽³⁾	175.3	—
							EBITDA (from above)	1,648.9	1,759.8
							Depreciation	636.0	674.4
							Amortization	122.1	110.8
							Operating income	890.8	974.6
							Other expense, net	22.3	13.9
							Financing costs	244.8	254.5
							Income before income taxes and non-controlling interests	623.7	706.2
							Income taxes	173.0	134.8
							Non-controlling interests	2.8	4.7
							Net income	\$ 447.9	\$ 566.7

- (1) Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") is a measure that does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers; EBITDA is defined by the Company as operating revenues less operations expense and restructuring 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").
- (3) Substantially all of the Company's share option awards that were granted prior to January 1, 2005, and which were outstanding on January 1, 2007, were amended by adding a net-cash settlement feature; such amendment resulted in an incremental charge to operations of \$175.3 and did not result in an immediate cash outflow. In respect of 2007 results provided to the Company's chief operating decision maker, operations expense and EBITDA are being presented both with, and without, the impact of such amendment.

6 restructuring costs

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Restructuring costs				
Workforce				
Voluntary	\$ 0.6	\$ 21.5	\$ 1.1	\$ 21.8
Involuntary	1.7	8.1	5.7	23.9
Other	0.9	1.1	1.1	1.7
	3.2	30.7	7.9	47.4
Disbursements				
Workforce				
Voluntary	4.9	0.3	14.1	15.7
Involuntary and other	4.7	10.2	16.8	26.2
Other	0.9	1.2	1.3	2.1
	10.5	11.7	32.2	44.0
Expenses greater than (less than) disbursements	(7.3)	19.0	(24.3)	3.4
Restructuring accounts payable and accrued liabilities				
Balance, beginning of period	36.1	41.5	53.1	57.1
Balance, end of period	\$ 28.8	\$ 60.5	\$ 28.8	\$ 60.5

In the first half of 2007, arising from its competitive efficiency program, the Company undertook a number of smaller initiatives, such as operational consolidation, rationalization and integration. These initiatives are aimed to improve the Company's operating productivity and competitiveness. The Company's estimate of restructuring costs in 2007 is not currently expected to exceed \$35 million.

7 financing costs

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Interest on long-term debt	\$ 126.5	\$ 124.5	\$ 245.7	\$ 249.9
Interest on short-term obligations and other	0.3	1.0	0.4	2.6
Foreign exchange ⁽¹⁾	5.7	3.7	7.6	4.8
	132.5	129.2	253.7	257.3
Interest income				
Interest on tax refunds	—	(1.3)	(0.2)	(1.3)
Other interest income	(5.3)	(0.4)	(8.7)	(1.5)
	(5.3)	(1.7)	(8.9)	(2.8)
	\$ 127.2	\$ 127.5	\$ 244.8	\$ 254.5

(1) For the three-month and six-month periods ended June 30, 2007, these amounts include gains of \$0.3 (2006 – \$0.1) and \$0.3 (2006 – \$0.1), respectively, in respect of cash flow hedge ineffectiveness.

8 income taxes

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Current	\$ 1.2	\$ (6.7)	\$ 2.3	\$ (3.7)
Future	92.5	25.4	170.7	138.5
	\$ 93.7	\$ 18.7	\$ 173.0	\$ 134.8

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)	2007		2006			
Basic blended federal and provincial tax at statutory income tax rates	\$	116.9	33.6%	\$	125.8	33.3%
Revaluation of future income tax liability to reflect future statutory income tax rates		(24.2)			(107.0)	
Share option award compensation		1.2			1.6	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues		—			1.3	
Other		(0.2)			(0.1)	
		93.7	26.9%		21.6	5.7%
Large corporations tax		—			(2.9)	
Income tax expense per Consolidated Statements of Income	\$	93.7	26.9%	\$	18.7	4.9%

Six-month periods ended June 30 (\$ in millions)	2007		2006			
Basic blended federal and provincial tax at statutory income tax rates	\$	209.2	33.5%	\$	237.3	33.6%
Revaluation of future income tax liability to reflect future statutory income tax rates		(27.9)			(107.0)	
Share option award compensation		(6.5)			3.1	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues		—			1.0	
Other		(1.8)			0.4	
Income tax expense per Consolidated Statements of Income	\$	173.0	27.7%	\$	134.8	19.1%

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, 2007, the Company recorded Investment Tax Credits of \$1.1 million (2006 – \$12.6 million) and \$10.6 million (2006 – \$12.6 million), respectively, \$1.1 million (2006 – \$12.6 million) and \$9.2 million (2006 – \$12.6 million) of which was recorded as a reduction of capital and the balance of which was recorded as a reduction of Operations expense.

9 per share amounts

Basic net 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 option awards.

The following table presents the reconciliations of the denominators of the basic and diluted per share computations. Net income equaled diluted Common Share and Non-Voting Share income for all periods presented.

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Basic total weighted average Common Shares and Non-Voting Shares outstanding	333.5	344.9	335.3	347.1
Effect of dilutive securities				
Exercise of share option awards	3.4	3.6	3.0	3.5
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	336.9	348.5	338.3	350.6

For the three-month and six-month periods ended June 30, 2007, certain outstanding share option awards, in the amount of 0.1 million (2006 – 0.3 million) and 0.4 million (2006 – 0.7 million), respectively, were not included in the computation of diluted income per Common Share and Non-Voting Share because the share option awards' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods.

10 share-based compensation

(a) Details of share-based compensation expense

Reflected in the Consolidated Statements of Income as "Operations expense" and the Consolidated Statements of Cash Flows are the following share-based compensation amounts:

Three-month periods ended June 30 (millions)	2007			2006		
	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment
Share option awards ⁽¹⁾	\$ 5.9	\$ (24.3)	\$ (18.4)	\$ 4.8	\$ —	\$ 4.8
Restricted stock units	9.6	(0.1)	9.5	8.1	(0.2)	7.9
Employee share purchase plan	7.1	(7.1)	—	6.7	(6.7)	—
	\$ 22.6	\$ (31.5)	\$ (8.9)	\$ 19.6	\$ (6.9)	\$ 12.7

(1) For the three-month period ended June 30, 2007, the expense arising from share options with the net-cash settlement feature, net of hedging effects, was \$1.9 (2006 – NIL).

Six-month periods ended June 30 (millions)	2007			2006		
	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment	Operations expense	Associated operating cash outflows	Statement of cash flows adjustment
Share option awards ⁽¹⁾	\$ 183.2	\$ (67.3)	\$ 115.9	\$ 9.3	\$ —	\$ 9.3
Restricted stock units	15.9	(2.1)	13.8	14.3	(2.5)	11.8
Employee share purchase plan	17.7	(17.7)	—	16.4	(16.4)	—
	\$ 216.8	\$ (87.1)	\$ 129.7	\$ 40.0	\$ (18.9)	\$ 21.1

(1) For the six-month period ended June 30, 2007, the expense arising from share options with the net-cash settlement feature, net of hedging effects, was \$175.6 (2006 – NIL).

For the three-month and six-month periods ended June 30, 2007, the associated operating cash outflows in respect of share option awards are net of cash inflows from the cash-settled equity swap agreements of \$8.3 million (2006 – NIL) and \$8.9 million (2006 – NIL), respectively. For the three-month and six-month periods ended June 30, 2007, the income tax benefit arising from share-based compensation was \$6.2 million (2006 – \$5.0 million) and \$77.7 million (2006 – \$10.4 million), respectively; as disclosed in Note 8, not all share-based compensation amounts are deductible for income tax purposes.

(b) Share option awards

The Company applies the fair value based method of accounting for share-based compensation awards granted to employees. Share option awards typically vest over a three-year period (the requisite service period), but may vest over periods of up to five years. The vesting method of share option awards, which is determined on or before the date of grant, may be either cliff or graded; all share option awards granted subsequent to 2004 have been cliff-vesting awards.

The weighted average fair value of share option awards granted, and the weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model (a closed-form option pricing model), are as follows:

Periods ended June 30	Three months		Six months	
	2007	2006	2007	2006
Share option award fair value (per share option)	\$ 15.06	\$ 12.41	\$ 12.50	\$ 12.36
Risk free interest rate	4.5%	4.3%	4.1%	4.0%
Expected lives ⁽¹⁾ (years)	4.7	4.5	4.5	4.6
Expected volatility	26.1%	32.0%	26.5%	36.0%
Dividend yield	2.3%	2.4%	2.6%	2.6%

(1) The maximum contractual term of the share option awards granted in 2007 and 2006 was seven years.

The risk free interest rate used in determining the fair value of the share option awards is based on a Government of Canada yield curve that is current at the time of grant. The expected lives of the share option awards are based on historical share option award exercise data of the Company. Similarly, expected volatility considers the historical volatility of the Company's Non-Voting Shares. The dividend yield is the annualized dividend current at the date of

grant divided by the share option award exercise price. Dividends are not paid on unexercised share option awards and are not subject to vesting.

Some share option awards have a net-equity settlement feature. As discussed further in Note 16(f), it is at the Company's option whether the exercise of a share option is settled as a share option or using the net-equity settlement feature. So as to align with the accounting treatment that is afforded to the associated share options, the Company has selected the equity instrument fair value method of accounting for the net-equity settlement feature.

In 2007, the Company amended substantially all of its share option awards that were granted prior to January 1, 2005, and which were outstanding on January 1, 2007, by adding a net-cash settlement feature; the optionee has the choice of exercising the net-cash settlement feature. The result of such amendment is that the affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments. For the outstanding share option awards that were amended and which were granted subsequent to 2001, the minimum expense recognized for them will be their grant-date fair values.

In conjunction with the amendment, the Company entered into a cash-settled equity swap agreement that establishes a cap on the Company's cost associated with the affected outstanding share option awards.

As at June 30, 2007 (\$ per affected outstanding share option award)

	Affected share option awards granted for				
	Common Shares		Non-Voting Shares		Total
	prior to 2002		after 2001		
Weighted average exercise price	\$ 36.10	\$ 30.39	\$ 21.94	\$ 26.81	
Weighted average grant date fair value	—	—	6.74	3.38	
	36.10	30.39	28.68	30.19	
Weighted average incremental share-based compensation award expense arising from net-cash settlement feature	18.16	24.76	26.47	24.86	
Exercise date fair value capped by cash-settled equity swap agreement	\$ 54.26	\$ 55.15	\$ 55.15	\$ 55.05	
Affected share option awards outstanding	539,155	1,805,769	2,353,520	4,698,444	

(c) Restricted stock units

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; the notional dividends are recorded as additional issuances of 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 restricted stock units vest over a period of 33 months. The vesting method, which is determined on or before the date of grant, may be either cliff or graded.

The following table presents a summary of the activity related to the Company's restricted stock units.

Periods ended June 30, 2007	Three months			Six months		
	Number of restricted stock units		Weighted average grant date fair value	Number of restricted stock units		Weighted average grant date fair value
	Non-vested	Vested		Non-vested	Vested	
Outstanding, beginning of period						
Non-vested	2,010,875	—	\$ 44.85	1,518,613	—	\$ 40.99
Vested	—	3,389	39.48	—	37,251	38.85
Issued						
Initial allocation	19,204	—	63.11	520,561	—	56.62
In lieu of dividends	12,185	—	62.31	25,201	—	59.91
Vested	(2,995)	2,995	40.73	(4,829)	4,829	39.92
Settled in cash	—	(2,995)	40.73	—	(38,691)	38.93
Forfeited and cancelled	(5,622)	—	43.18	(25,899)	—	40.55
Outstanding, end of period						
Non-vested	2,033,647	—	44.99	2,033,647	—	44.99
Vested	—	3,389	\$ 39.48	—	3,389	\$ 39.48

With respect to certain issuances of restricted stock units, the Company entered into cash-settled equity forward agreements that fix the cost to the Company; that information, as well as a schedule of the Company's non-vested restricted stock units outstanding as at June 30, 2007, is set out in the following table.

	Number of fixed-cost restricted stock units	Cost fixed to the Company per restricted stock unit	Number of variable-cost restricted stock units	Total number of non-vested restricted stock units
Vesting in years ending December 31:				
2007	600,000	\$ 40.91	69,725	669,725
2008	160,000	\$ 50.91		
	<u>440,000</u>	\$ 50.02		
	<u>600,000</u>		263,675	863,675
2009	400,000	\$ 64.26	100,247	500,247
	<u>1,600,000</u>		<u>433,647</u>	<u>2,033,647</u>

(d) 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 10% of their pay. The Company contributes 45%, for the employee population up to a certain job classification, for every dollar contributed by an employee, to a maximum of 6% of employee pay; for more highly compensated job classifications, the Company contributes 40%. There are no vesting requirements and the Company records its contributions as a component of operating expenses.

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Employee contributions	\$ 16.8	\$ 15.9	\$ 42.0	\$ 38.8
Company contributions	7.1	6.7	17.7	16.4
	<u>\$ 23.9</u>	<u>\$ 22.6</u>	<u>\$ 59.7</u>	<u>\$ 55.2</u>

Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. For the six-month periods ended June 30, 2007 and 2006, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices.

11 employee future benefits

(a) Defined benefit plans – cost (recovery)

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

Three-month periods ended June 30 (millions)	2007			2006		
	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Pension benefit plans						
Current service cost (employer portion)	\$ 24.9	\$ —	\$ 24.9	\$ 24.3	\$ —	\$ 24.3
Interest cost	81.7	—	81.7	79.0	—	79.0
Return on plan assets	(128.8)	6.4	(122.4)	195.0	(306.3)	(111.3)
Past service costs	—	0.2	0.2	—	0.1	0.1
Actuarial loss (gain)	2.7	—	2.7	10.5	—	10.5
Valuation allowance provided against accrued benefit asset	—	—	—	—	6.5	6.5
Amortization of transitional asset	—	(11.1)	(11.1)	—	(11.2)	(11.2)
	<u>\$ (19.5)</u>	<u>\$ (4.5)</u>	<u>\$ (24.0)</u>	<u>\$ 308.8</u>	<u>\$ (310.9)</u>	<u>\$ (2.1)</u>

(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)	2007			2006		
	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Pension benefit plans						
Current service cost (employer portion)	\$ 49.8	\$ —	\$ 49.8	\$ 48.6	\$ —	\$ 48.6
Interest cost	163.2	—	163.2	157.9	—	157.9
Return on plan assets	(237.5)	(7.2)	(244.7)	(72.1)	(150.5)	(222.6)
Past service costs	—	0.4	0.4	—	0.3	0.3
Actuarial loss (gain)	5.4	—	5.4	21.0	—	21.0
Valuation allowance provided against accrued benefit asset	—	—	—	—	13.0	13.0
Amortization of transitional asset	—	(22.1)	(22.1)	—	(22.4)	(22.4)
	\$ (19.1)	\$ (28.9)	\$ (48.0)	\$ 155.4	\$ (159.6)	\$ (4.2)

(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)	2007			2006		
	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Other benefit plans						
Current service cost (employer portion)	\$ —	\$ —	\$ —	\$ 0.9	\$ —	\$ 0.9
Interest cost	0.7	—	0.7	0.4	—	0.4
Return on plan assets	(0.3)	—	(0.3)	(0.6)	(0.1)	(0.7)
Actuarial loss (gain)	(0.5)	—	(0.5)	(0.4)	—	(0.4)
Amortization of transitional obligation	—	0.2	0.2	—	0.2	0.2
	\$ (0.1)	\$ 0.2	\$ 0.1	\$ 0.3	\$ 0.1	\$ 0.4

(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)	2007			2006		
	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period	Incurred in period	Matching adjustments ⁽¹⁾	Recognized in period
Other benefit plans						
Current service cost (employer portion)	\$ —	\$ —	\$ —	\$ 1.8	\$ —	\$ 1.8
Interest cost	1.3	—	1.3	0.9	—	0.9
Return on plan assets	(0.6)	—	(0.6)	(1.2)	(0.1)	(1.3)
Actuarial loss (gain)	(1.2)	—	(1.2)	(0.9)	—	(0.9)
Amortization of transitional obligation	—	0.4	0.4	—	0.4	0.4
	\$ (0.5)	\$ 0.4	\$ (0.1)	\$ 0.6	\$ 0.3	\$ 0.9

(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 2007 employer contributions to the Company's defined benefit pension plans has been revised to approximately \$92 million (the best estimate at December 31, 2006 was \$111 million).

(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	
	2007	2006	2007	2006
Union pension plan and public service pension plan contributions	\$ 7.2	\$ 7.4	\$ 16.0	\$ 16.1
Other defined contribution pension plans	5.5	3.8	13.4	8.7
	\$ 12.7	\$ 11.2	\$ 29.4	\$ 24.8

12 accounts receivable

On July 26, 2002, TELUS Communications Inc., a wholly-owned subsidiary of TELUS, entered into an agreement, which was amended September 30, 2002, March 1, 2006, and November 30, 2006, 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 had an initial term ending July 18, 2007; the November 30, 2006, amendment resulted in the term being extended to July 18, 2008. 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 term; at June 30, 2007, the rating was A (low).

As at (millions)	June 30, 2007	December 31, 2006
Total managed portfolio	\$ 1,080.3	\$ 1,216.1
Securitized receivables	(567.2)	(567.3)
Retained interest in receivables sold	58.7	58.4
Receivables held	\$ 571.8	\$ 707.2

For the three-month and six-month periods ended June 30, 2007, the Company recognized composite losses of \$4.9 million (2006 – \$5.6 million) and \$8.1 million (2006 – \$8.7 million), respectively, on the sale of receivables arising from the securitization.

Cash flows from the securitization are as follows:

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Cumulative proceeds from securitization, beginning of period	\$ 150.0	\$ 400.0	\$ 500.0	\$ 500.0
Proceeds from new securitizations	400.0	185.0	400.0	260.0
Securitization reduction payments	(50.0)	(50.0)	(400.0)	(225.0)
Cumulative proceeds from securitization, end of period	\$ 500.0	\$ 535.0	\$ 500.0	\$ 535.0
Proceeds from collections reinvested in revolving-period securitizations	\$ 672.6	\$ 940.6	\$ 1,774.8	\$ 1,830.6
Proceeds from collections pertaining to retained interest	\$ 78.7	\$ 119.4	\$ 208.3	\$ 246.1

13 capital assets

(a) Capital assets, net

As at (millions)	June 30, 2007			December 31, 2006		
	Cost	Accumulated depreciation and amortization	Net book value	Cost	Accumulated depreciation and amortization	Net book value
Property, plant, equipment and other						
Telecommunications assets	\$ 18,499.9	\$ 13,197.3	\$ 5,302.6	\$ 18,061.8	\$ 12,755.3	\$ 5,306.5
Assets leased to customers	725.6	580.9	144.7	693.3	550.9	142.4
Buildings and leasehold improvements	1,881.9	1,059.1	822.8	1,852.5	1,002.7	849.8
Office equipment and furniture	1,133.3	877.7	255.6	1,110.6	840.8	269.8
Assets under capital lease	18.5	11.1	7.4	18.5	9.4	9.1
Other	340.2	264.3	75.9	340.6	259.6	81.0
Land	48.8	—	48.8	48.9	—	48.9
Assets under construction	603.8	—	603.8	725.4	—	725.4
Materials and supplies	35.1	—	35.1	33.6	—	33.6
	23,287.1	15,990.4	7,296.7	22,885.2	15,418.7	7,466.5
Intangible assets subject to amortization						
Subscriber base	362.9	149.1	213.8	362.9	138.3	224.6
Software	1,655.4	1,127.3	528.1	1,306.0	1,043.4	262.6
Access to rights-of-way and other	136.8	65.3	71.5	122.3	60.3	62.0
	2,155.1	1,341.7	813.4	1,791.2	1,242.0	549.2
Intangible assets with indefinite lives						
Spectrum licences ⁽¹⁾	3,985.0	1,018.5	2,966.5	3,984.9	1,018.5	2,966.4
	\$ 29,427.2	\$ 18,350.6	\$ 11,076.6	\$ 28,661.3	\$ 17,679.2	\$ 10,982.1

(1) Accumulated amortization of spectrum licences is amortization recorded prior to 2002.

The following table presents items included in capital expenditures. Additions of intangible assets subject to amortization include amounts reclassified from assets under construction.

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Additions of intangible assets				
– Subject to amortization	\$ 52.0	\$ 31.4	\$ 394.1	\$ 49.0
– With indefinite lives	—	0.5	0.1	1.7
	\$ 52.0	\$ 31.9	\$ 394.2	\$ 50.7

The following table presents items included in capital expenditures.

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Capitalized internal labour costs	\$ 82.3	\$ 82.7	\$ 161.8	\$ 151.5

(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, 2007, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2007 (balance of year)	\$ 132.5
2008	193.1
2009	136.6
2010	68.0
2011	49.6

14 goodwill

Periods ended June 30, 2007 (millions)	Three months	Six months
Balance, beginning of period	\$ 3,169.6	\$ 3,169.5
Foreign exchange on goodwill of self-sustaining foreign operations	(0.8)	(0.7)
Balance, end of period	\$ 3,168.8	\$ 3,168.8

15 long-term debt

(a) Details of long-term debt

Series	Rate of interest	Maturity	June 30, 2007	December 31, 2006 (adjusted – Note 2(b))
TELUS Corporation Notes				
U.S. ⁽²⁾	7.50% ⁽¹⁾	June 2007	\$ —	\$ 1,357.9
U.S. ⁽³⁾	8.00% ⁽¹⁾	June 2011	2,032.7	2,227.1
CB	5.00% ⁽¹⁾	June 2013	298.0	298.0
CC	4.50% ⁽¹⁾	March 2012	298.7	—
CD	4.95% ⁽¹⁾	March 2017	686.5	—
			3,315.9	3,883.0
TELUS Corporation Commercial Paper	4.48%	Through October 2007	660.9	—
TELUS Corporation Credit Facility	—%	May 2012	—	120.0
TELUS Communications Inc. Debentures				
1	12.00% ⁽¹⁾	May 2010	49.7	49.8
2	11.90% ⁽¹⁾	November 2015	124.0	124.5
3	10.65% ⁽¹⁾	June 2021	173.3	174.0
5	9.65% ⁽¹⁾	April 2022	244.5	246.1
B	8.80% ⁽¹⁾	September 2025	197.4	198.1
			788.9	792.5
TELUS Communications Inc. First Mortgage Bonds				
U	11.50% ⁽¹⁾	July 2010	29.9	30.0
TELUS Communications Inc. Medium Term Notes				
1	7.10% ⁽¹⁾	February 2007	—	70.0
Capital leases issued at varying rates of interest from 4.1% to 16.0% and maturing on various dates up to 2013			7.6	9.2
Other			3.7	3.5
Long-Term Debt			4,806.9	4,908.2
Less: Current maturities			6.4	1,433.5
Long-Term Debt – non-current			\$ 4,800.5	\$ 3,474.7

(1) Interest is payable semi-annually.

(2) Principal face value of notes at December 31, 2006 – U.S.\$1,166.5 million.

(3) Principal face value of notes is U.S.\$1,925.0 million (December 31, 2006 – U.S.\$1,925.0 million).

(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, 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.

Series	Issued	Issue price	Principal face amount		Redemption present value spread (basis points) ⁽¹⁾
			Originally issued	Outstanding	
7.50% (U.S. Dollar) Notes due 2007	May 2001	U.S.\$995.06	U.S.\$1.3 billion	—	—
8.00% (U.S. Dollar) Notes due 2011	May 2001	U.S.\$994.78	U.S.\$2.0 billion	U.S.\$1.9 billion	30
5.00% Notes, Series CB	May 2006	\$998.80	\$300 million	\$300 million	16
4.50% Notes, Series CC	March 2007	\$999.91	\$300 million	\$300 million	15
4.95% Notes, Series CD	March 2007	\$999.53	\$700 million	\$700 million	24

(1) 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 and not more than 60 days' prior notice. The redemption price is equal to the greater of (i) the present value of the notes discounted at the Adjusted Treasury Rate (in respect of the U.S. Dollar denominated notes) or the Government of Canada yield (in respect of the Canadian dollar denominated notes) plus the redemption present value spread, or (ii) 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 2011 (U.S. Dollar) Notes, U.S.\$1.9 billion (with respect to the 2007 and 2011 (U.S. Dollar) Notes, December 31, 2006 – U.S.\$3.1 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 interest rates and fixed economic exchange rates.

The cross currency interest rate swap agreements contain an optional early termination provision which states that either party could elect to terminate these swap agreements on May 30, 2006, if (i) the highest of the long-term unsecured unsubordinated debt ratings of the Company falls below BBB as determined by Standard & Poor's Rating Services or Baa2 as determined by Moody's Investors Service or (ii) in the case of these two ratings having a difference of two or more rating increments, the lower of the two ratings is below BBB- or Baa3 or (iii) the rating for the Company's counterparties fall below A or A2.

In contemplation of the planned refinancing of the 2007 (U.S. Dollar) Notes, in May 2006 the Company replaced approximately 63% of the notional value of the existing cross currency interest rate swap agreements with a like amount of new cross currency interest rate swap agreements which have a lower effective fixed interest rate and a lower effective fixed exchange rate. This replacement happened concurrent with the issuance of the 5.00% Notes, Series CB; the two transactions had the composite effect of deferring, from June 2007 to June 2013, the payment of \$300 million, representing a portion of the amount that would have been due either under the cross currency interest rate swap agreements or to the 2007 (U.S. Dollar) Note holders (to whom the amounts would ultimately have been paid would depend upon changes in interest and foreign exchange rates over the period to maturity of the underlying debt).

To terminate the previous cross currency interest rate swap agreements, the Company made a payment of \$354.6 million, including \$14.0 million in respect of hedging of then-current period interest payments, to the counterparties. The remaining \$340.6 million portion of the payment made to the counterparties of the previous cross currency interest rate swap agreements exceeded the associated amount of the derivative liability, such excess being \$25.8 million and which was deferred and amortized over the remainder of the life of the 2007 (U.S. Dollar) Notes.

The weighted average effective fixed interest rates and effective fixed exchange rates arising from the cross currency interest rate swap agreements are summarized in the following table:

As at	June 30, 2007		December 31, 2006	
	Effective fixed interest rate	Effective fixed exchange rate (\$: U.S.\$1.00)	Effective fixed interest rate	Effective fixed exchange rate (\$: U.S.\$1.00)
2007 (U.S. Dollar) Notes	—	\$ —	7.046%	\$ 1.2716
2011 (U.S. Dollar) Notes	8.493%	\$ 1.5327	8.493%	\$ 1.5327

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.

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 at June 30, 2007, comprised a net derivative liability of \$1,081.8 million, as set out in Note 4 (December 31, 2006 – \$835.7 million). 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.

(c) TELUS Corporation commercial paper

On May 15, 2007, TELUS Corporation entered into an unsecured commercial paper program, which is backstopped by a portion of its credit facility, enabling it to issue commercial paper up to a maximum aggregate of \$800 million (or U.S. Dollar equivalent), to be used for general corporate purposes, including capital expenditures and investments. Commercial paper debt is due within one year but is classified as long-term debt as the amounts are fully supported, and the Company expects that they will continue to be supported, by the revolving credit facility which has no repayment requirements within the next year.

(d) TELUS Corporation credit facility

On March 2, 2007, TELUS Corporation entered into a new \$2.0 billion bank credit facility with a syndicate of financial institutions. The new credit facility consists of a \$2.0 billion (or U.S. Dollar equivalent) revolving credit facility expiring on May 1, 2012, to be used for general corporate purposes including the backstop of commercial paper. This new facility replaced the Company's pre-existing committed credit facilities prior to the availability termination dates of such facilities.

TELUS Corporation's credit facility is unsecured and bears 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 facility), plus applicable margins. The credit facility contains customary representations, warranties and covenants including two financial quarter end financial ratio tests. The financial ratio tests are that the Company may not permit its net 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 facility.

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

As at (millions)	June 30, 2007		December 31, 2006		
	May 1, 2012	May 7, 2008	May 4, 2010	Total	
Revolving credit facility expiring					
Net available	\$ 1,232.8	\$ 579.9	\$ 800.0	\$ 1,379.9	
Drawn	—	120.0	—	120.0	
Outstanding, undrawn letters of credit	103.7	100.1	—	100.1	
Backstop of commercial paper	663.5	—	—	—	
Gross available	\$ 2,000.0	\$ 800.0	\$ 800.0	\$ 1,600.0	

(e) Long-term debt maturities

Anticipated requirements to meet long-term debt repayments, including related hedge amounts and calculated upon such long-term debts owing as at June 30, 2007, during each of the five years ending December 31 are as follows:

(millions)	Principal	Derivative liability	Total ⁽¹⁾
2007 (balance of year)	\$ 2.3	\$ —	\$ 2.3
2008	5.6	—	5.6
2009	1.5	—	1.5
2010	80.8	—	80.8
2011	2,048.1	903.5	2,951.6

(1) Where applicable, principal repayments reflect foreign exchange rates at June 30, 2007.

16 shareholders' equity

(a) Details of shareholders' equity

As at (\$ in millions)	June 30, 2007	December 31, 2006
		(restated – Note 2(b))
Preferred equity		
Authorized	Amount	
First Preferred Shares	1,000,000,000	
Second Preferred Shares	1,000,000,000	
Common equity		
Share capital		
Shares	Amount	
Authorized	Amount	
Common Shares	1,000,000,000	
Non-Voting Shares	1,000,000,000	
Issued		
Common Shares (b)	\$ 2,235.3	\$ 2,264.4
Non-Voting Shares (b)	3,337.9	3,420.8
	5,573.2	5,685.2
Options (c)	—	0.8
Retained earnings and accumulated other comprehensive income		
Retained earnings	1,023.4	1,080.1
Accumulated other comprehensive income (loss) (d)	(125.8)	(1.5)
Total	897.6	1,078.6
Contributed surplus (e)	144.0	163.5
Total Shareholders' Equity	\$ 6,614.8	\$ 6,928.1

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

Periods ended June 30, 2007 (\$ in millions)	Three months		Six months	
	Number of shares	Share capital	Number of shares	Share capital
Common Shares				
Beginning of period	176,696,014	\$ 2,239.5	178,667,834	\$ 2,264.4
Common Shares issued pursuant to exercise of share options (f)	—	—	3,180	0.1
Purchase of shares for cancellation pursuant to normal course issuer bid (g)	(330,000)	(4.2)	(2,305,000)	(29.2)
End of period	176,366,014	\$ 2,235.3	176,366,014	\$ 2,235.3
Non-Voting Shares				
Beginning of period	157,731,460	\$ 3,388.5	159,240,734	\$ 3,420.8
Non-Voting Shares issued pursuant to exercise of share options (f)	6,200	0.2	18,717	0.6
Non-Voting Shares issued pursuant to use of share option award net-equity settlement feature (f)	3,880	—	12,089	0.1
Purchase of shares for cancellation pursuant to normal course issuer bid (g)	(2,367,300)	(50.8)	(3,897,300)	(83.6)
End of period	155,374,240	\$ 3,337.9	155,374,240	\$ 3,337.9

Amounts credited to the Common Share capital account upon exercise of share options are cash received. Amounts credited to the Non-Voting Share capital account are comprised as follows:

Periods ended June 30, 2007 (millions)	Three months	Six months
Non-Voting Shares issued pursuant to exercise of share options		
Cash received from exercise of share options	\$ 0.2	\$ 0.5
Share option award expense reclassified from contributed surplus upon exercise of share options (e)	—	0.1
	\$ 0.2	\$ 0.6

(c) Options

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

(d) Accumulated other comprehensive income (loss)

Three-month period ended June 30, 2007 (millions)	Other comprehensive income (loss)			Accumulated other comprehensive income (loss)	
	Amount arising	Income taxes	Net	Beginning of period	End of period
Change in unrealized fair value of derivatives designated as cash flow hedges					
Gains (losses) on derivatives designated as cash flow hedges	\$ (242.3)	\$ (29.8)	\$ (212.5)		
Gains and losses on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period	281.5	41.1	240.4		
	39.2	11.3	27.9	\$ (150.0)	\$ (122.1)
Cumulative foreign currency translation adjustment	(6.2)	—	(6.2)	0.9	(5.3)
Change in unrealized fair value of available-for-sale financial assets	(0.1)	—	(0.1)	1.7	1.6
	\$ 32.9	\$ 11.3	\$ 21.6	\$ (147.4)	\$ (125.8)

Six-month period ended June 30, 2007 (millions)	Other comprehensive income (loss)			Accumulated other comprehensive income (loss)			
	Amount arising	Income taxes	Net	Opening balance			End of period
				Beginning of period	Transitional adjustments ⁽¹⁾	As adjusted	
Change in unrealized fair value of derivatives designated as cash flow hedges							
Gains (losses) on derivatives designated as cash flow hedges	\$ (247.1)	\$ (30.9)	\$ (216.2)				
Gains and losses on derivatives designated as cash flow hedges in prior periods transferred to net income in the current period	328.6	56.6	272.0				
	81.5	25.7	55.8	\$ —	\$ (177.9)	\$ (177.9)	\$ (122.1)
Cumulative foreign currency translation adjustment	(3.8)	—	(3.8)	(1.5)	—	(1.5)	(5.3)
Change in unrealized fair value of available-for-sale financial assets	(0.1)	—	(0.1)	—	1.7	1.7	1.6
	\$ 77.6	\$ 25.7	\$ 51.9	\$ (1.5)	\$ (176.2)	\$ (177.7)	\$ (125.8)

(1) The transitional adjustments arise primarily from the 2007 and 2011 cross currency interest rate swap agreements (Notes 2(b), 15(b)) and are net of income taxes on the cash flow hedges of \$81.7.

The net amount of the existing gains (losses) arising from the unrealized fair value of the 2011 cross currency interest rate swap agreements, which are derivatives that are designated as cash flow hedges, and which are reported in accumulated other comprehensive income, would be reclassified to net income if the agreements (see Note 15(b)) were early terminated; the amount of such reclassification would be dependent upon fair values and amounts of the agreements terminated. As at June 30, 2007, the Company's estimate of the net amount of existing gains (losses) arising from the unrealized fair value of derivatives designated as cash flow hedges, other than in respect of the 2011 cross currency interest rate swap agreements, which are reported in accumulated other comprehensive income and which are expected to be reclassified to net income in the next twelve months is \$2.9 million.

(e) Contributed surplus

Periods ended June 30, 2007 (millions)	Three months	Six months
Balance, beginning of period	\$ 140.0	\$ 163.5
Share option award expense		
- Recognized in period ⁽¹⁾ (Note 10(a))	4.0	7.6
- Reclassified to Non-Voting Share capital account		
- Upon exercise of share options	—	(0.1)
- Upon use of share option award net-equity settlement feature	—	(0.1)
- Reclassified to current liabilities upon addition of net-cash settlement feature (Note 10(b)), net of eligible awards settled other than through use of net-cash settlement feature	—	(26.9)
Balance, end of period	\$ 144.0	\$ 144.0

(1) This amount represents the expense for share option awards accounted for as equity instruments; the difference between this amount and the amount disclosed in Note 10(a) is the net expense for share option awards accounted for as liability instruments.

(f) Share option plans

The Company has a number of share option plans under which officers and other employees may receive options to purchase Non-Voting Shares at a price equal to the fair market value at the time of grant; prior to 2001, options were also similarly awarded in respect of Common Shares. Prior to 2002, directors were also awarded options to purchase Non-Voting Shares and Common Shares at a price equal to the fair market value at the time of grant. Option awards currently granted under the plans may be exercised over specific periods not to exceed seven years from the time of grant; prior to 2003, share option awards were granted with exercise periods not to exceed ten years.

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

Periods ended June 30, 2007	Three months		Six months	
	Number of share options	Weighted average share option price	Number of share options	Weighted average share option price
Outstanding, beginning of period	10,204,913	\$ 35.15	10,569,462	\$ 31.46
Granted	51,365	63.90	1,269,573	56.90
Exercised ⁽¹⁾	(927,690)	26.88	(2,453,090)	26.86
Forfeited and other	13,330	37.57	(44,027)	31.17
Outstanding, end of period	9,341,918	\$ 36.13	9,341,918	\$ 36.13

(1) The total intrinsic value of share option awards exercised for the three-month and six-month periods ended June 30, 2007, was \$33.0 million and \$77.5 million, respectively.

In 2006, certain outstanding grants of share option awards, which were made after 2001, had a net-equity settlement feature applied to them. This event did not result in the optionees receiving incremental value and therefore modification accounting was not required for it. The optionee does not have the choice of exercising the net-equity settlement feature. It is at the Company's discretion whether an exercise of the share option award is settled as a share option or using the net-equity settlement feature. In 2007, certain outstanding grants of share option awards had a net-cash settlement feature applied to them, as further discussed in Note 10(b); the optionee has the choice of exercising the net-cash settlement feature.

The following table reconciles the number of share options exercised and the associated number of Common Shares and Non-Voting Shares issued.

Periods ended June 30, 2007	Three months			Six months		
	Common Shares	Non-Voting Shares	Total	Common Shares	Non-Voting Shares	Total
Shares issued pursuant to exercise of share options	—	6,200	6,200	3,180	18,717	21,897
Impact of optionee choosing to settle share option award exercises using net-cash settlement feature	97,133	818,782	915,915	308,119	2,105,907	2,414,026
Shares issued pursuant to use of share option award net-equity settlement feature	N/A ⁽¹⁾	3,880	3,880	N/A ⁽¹⁾	12,089	12,089
Impact of Company choosing to settle share option award exercises using net-equity settlement feature	N/A ⁽¹⁾	1,695	1,695	N/A ⁽¹⁾	5,078	5,078
Share options exercised	97,133	830,557	927,690	311,299	2,141,791	2,453,090

(1) Share option awards for Common Shares do not have a net-equity settlement feature.

The following is a life and exercise price stratification of the Company's share options outstanding as at June 30, 2007.

Options outstanding ⁽¹⁾									Options exercisable	
Range of option prices	Total								Number of shares	Weighted average price
Low	\$ 5.95	\$ 9.14	\$ 14.63	\$ 21.99	\$ 34.88	\$ 54.45	\$ 5.95			
High	\$ 8.43	\$ 10.75	\$ 19.92	\$ 32.83	\$ 47.22	\$ 64.64	\$ 64.64			
Year of expiry and number of shares										
2007	—	2,454	—	—	—	—	2,454	2,454	\$ 9.14	
2008	3,272	—	—	27,119	48,500	—	78,891	78,891	\$ 39.52	
2009	—	2,944	386,969	105,960	76,825	—	572,698	572,698	\$ 21.28	
2010	—	—	101,471	803,265	273,146	—	1,177,882	1,177,882	\$ 26.65	
2011	—	—	5,166	1,598,744	1,020,309	—	2,624,219	2,534,669	\$ 28.63	
2012	5,666	6,167	165,467	65,000	1,771,732	—	2,014,032	242,300	\$ 17.93	
2013	—	—	—	—	1,531,635	66,707	1,598,342	—	\$ —	
2014	—	—	—	—	—	1,273,400	1,273,400	—	\$ —	
	8,938	11,565	659,073	2,600,088	4,722,147	1,340,107	9,341,918	4,608,894		
Weighted average remaining contractual life (years)	3.7	3.4	3.2	3.7	4.7	6.7	4.6			
Weighted average price	\$ 7.52	\$ 10.36	\$ 16.02	\$ 24.64	\$ 39.51	\$ 56.83	\$ 36.13			
Aggregate intrinsic value ⁽²⁾ (millions)	\$ 0.5	\$ 0.6	\$ 30.8	\$ 99.2	\$ 110.2	\$ 8.0	\$ 249.3			
Options exercisable										
Number of shares	8,938	11,565	659,073	2,510,538	1,418,780	—	4,608,894			
Weighted average remaining contractual life (years)	3.7	3.4	3.2	3.7	3.3	—	3.5			
Weighted average price	\$ 7.52	\$ 10.36	\$ 16.02	\$ 24.59	\$ 36.06	\$ —	\$ 26.83			
Aggregate intrinsic value ⁽²⁾ (millions)	\$ 0.5	\$ 0.6	\$ 30.8	\$ 96.0	\$ 38.2	\$ —	\$ 166.1			

- (1) As at June 30, 2007, 8,958,160 share options, with a weighted average remaining contractual life of 3.7 years, a weighted average price of \$35.59 and an aggregate intrinsic value of \$243.9 million, are vested or were expected to vest.
 (2) The aggregate intrinsic value is calculated upon June 30, 2007, per share prices of \$63.77 for Common Shares and \$62.75 for Non-Voting Shares.

As at June 30, 2007, 0.5 million Common Shares and 16.4 million Non-Voting Shares were reserved for issuance, from Treasury, under the share option plans.

(g) Purchase of shares for cancellation pursuant to normal course issuer bid

The Company purchased, for cancellation, through the facilities of the Toronto Stock Exchange, Common Shares and Non-Voting Shares pursuant to successive normal course issuer bids; the Company's most current normal course issuer bid runs for a twelve-month period ending December 19, 2007, for up to 12.0 million Common Shares and 12.0 million Non-Voting Shares. The excess of the purchase price over the average stated value of shares purchased

for cancellation was charged to retained earnings. The Company ceases to consider shares outstanding on the date of the Company's purchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter. As at June 30, 2007, 330,000 Common Shares and 327,300 Non-Voting Shares had been purchased and not yet cancelled.

Three-month period ended June 30, 2007 (\$ in millions)

	Number of shares	Purchase price		
		Paid	Charged to share capital	Charged to retained earnings
Common Shares purchased for cancellation				
Prior to beginning of period	1,975,000	\$ 114.1	\$ 25.0	\$ 89.1
During period	330,000	20.9	4.2	16.7
Cumulative total	2,305,000	\$ 135.0	\$ 29.2	\$ 105.8
Non-Voting Shares purchased for cancellation				
Prior to beginning of period	1,716,723	\$ 96.4	\$ 36.8	\$ 59.6
During period	2,367,300	148.6	50.8	97.8
Cumulative total	4,084,023	\$ 245.0	\$ 87.6	\$ 157.4
Common Shares and Non-Voting Shares purchased for cancellation				
Prior to beginning of period	3,691,723	\$ 210.5	\$ 61.8	\$ 148.7
During period	2,697,300	169.5	55.0	114.5
Cumulative total	6,389,023	\$ 380.0	\$ 116.8	\$ 263.2

Six-month period ended June 30, 2007 (\$ in millions)

	Number of shares	Purchase price		
		Paid	Charged to share capital	Charged to retained earnings
Common Shares purchased for cancellation				
Prior to beginning of period	—	\$ —	\$ —	\$ —
During period	2,305,000	135.0	29.2	105.8
Cumulative total	2,305,000	\$ 135.0	\$ 29.2	\$ 105.8
Non-Voting Shares purchased for cancellation				
Prior to beginning of period	186,723	\$ 9.8	\$ 4.0	\$ 5.8
During period	3,897,300	235.2	83.6	151.6
Cumulative total	4,084,023	\$ 245.0	\$ 87.6	\$ 157.4
Common Shares and Non-Voting Shares purchased for cancellation				
Prior to beginning of period	186,723	\$ 9.8	\$ 4.0	\$ 5.8
During period	6,202,300	370.2	112.8	257.4
Cumulative total	6,389,023	\$ 380.0	\$ 116.8	\$ 263.2

(h) 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. During the three-month and six-month periods ended June 30, 2007, the Company did not offer Non-Voting Shares at a discount. 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 stock market. Prior to July 1, 2001, when the acquisition of shares from Treasury commenced, all Non-Voting Shares were acquired in the market at normal trading prices; acquisition in the market at normal trading prices recommenced on January 1, 2005.

In respect of Common Share and Non-Voting Share dividends declared during the three-month and six-month periods ended June 30, 2007, \$4.5 million (2006 – \$2.3 million) and \$7.7 million (2006 – \$4.5 million), respectively, was to be reinvested in Non-Voting Shares.

17 commitments and contingent liabilities

(a) Canadian Radio-television and Telecommunications Commission Decisions 2002-34, 2002-43 and 2006-9 deferral accounts

On May 30, 2002, and on July 31, 2002, the 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, an aggregate liability of \$148.9 million as at June 30, 2007 (December 31, 2006 – \$164.8 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 periodic 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. Ultimately, this process results in the CRTC determining if, and when, the deferral account liability is settled.

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.

On February 16, 2006, the CRTC issued Decision CRTC 2006-9, "Disposition of funds in the deferral account". In its decision the CRTC determined that the majority of the accumulated liability within the respective incumbent local exchange carrier's deferral account was to be made available for initiatives to expand broadband services within their incumbent local exchange carrier operating territories to rural and remote communities where service is currently not available. In addition, a minimum of five per cent of the accumulated deferral account balance must be used for initiatives that enhance accessibility to telecommunications services for individuals with disabilities. To the extent that the deferral account balance exceeds the approved initiatives, the remaining balance will be distributed in the form of a one-time rebate to local residential service customers in non-high cost serving areas. Finally, the CRTC indicated that subsequent to May 31, 2006, no additional amounts are to be added to the deferral account and, instead, are to be dealt with via prospective rate reductions.

In September 2006, the Federal Court of Appeal granted the Consumers Association of Canada, the National Anti-Poverty Organization and also Bell Canada leave to appeal CRTC Telecom Decision 2006-9. The consumer groups have filed their appeal asking the Court to direct rebates to local telephone subscribers, rather than have the accumulated deferral account funds used for purposes determined by the CRTC, as noted above. Bell Canada has also filed its appeal of Decision 2006-9 on the grounds that the CRTC exceeded its jurisdiction to the extent it approves rebates from the deferral account. These two appeals have been consolidated and are expected to be heard by the Federal Court of Appeal in the fourth quarter of 2007 with a judgement expected to be issued by the Federal Court of Appeal in the second quarter of 2008.

In the event that Bell Canada is successful in its appeal, the Company may realize additional revenue equal to the amount of the deferral account that would otherwise have been rebated by the CRTC. Should the consumer groups be successful in their appeals, the Company may be required to remit a one-time refund of an amount up to, but not exceeding, the aggregate liability of approximately \$149 million in individually small amounts to its entire local residential subscriber base. As the deferral account balance was fully provided for in previous financial statements, the potential refund will not impact the Company's subsequent income from operations. In addition, subject to the potential outcome of this leave to appeal, the Company may need to re-address its intent to extend broadband services to uneconomic remote and rural communities. The Company supports Decision 2006-9 and its designated uses of the deferral account in order to extend high-speed broadband internet service to rural and remote communities and improve telecommunications services for people with disabilities.

Due to the Company's use of the liability method of accounting for the deferral account, the CRTC Decision 2005-6, as it relates to the Company's provision of Competitor Digital Network services, is not expected to affect the Company's consolidated revenues. Specifically, to the extent that the CRTC Decision 2005-6 requires the Company to provide discounts on Competitor Digital Network services, through May 31, 2006, the Company drew down the deferral account by an offsetting amount; subsequent to May 31, 2006, the income statement effects did not change and the Company no longer needed to account for these amounts through the deferral account. For the three-month and six-month periods ended June 30, 2007, the Company drew down the deferral account by \$NIL (2006 – \$7.0 million) and \$15.9 million (2006 – \$19.9 million), respectively, in respect of discounts on Competitor Digital Network services and other qualifying expenditures.

On November 30, 2006, the CRTC issued Telecom Public Notice CRTC 2006-15, "Review of proposals to dispose of the funds accumulated in the deferral accounts", which initiated a public proceeding to consider the proposals submitted by the incumbent local exchange carriers to dispose of the funds accumulated in their respective deferral accounts. The Company expects the CRTC to render its decision in this matter in the latter part of 2007.

On July 6, 2007, the CRTC issued decision CRTC 2007-50, "Use of deferral account to expand broadband services to certain rural and remote communities". In this decision the CRTC approved the use of the deferral account for the purpose of expanding broadband services in a limited number of communities in British Columbia and Quebec. The Company is currently reviewing the implications of this decision in conjunction with its previously filed submission for use of the deferral account funds and, as directed by the CRTC, will file an update to the previously filed submission in September 2007.

(b) Guarantees

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 that 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. As at June 30, 2007, the Company's maximum undiscounted guarantee amounts, without regard for the likelihood of having to make such payment, were not material.

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 new owner'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 have been 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 owner being prevented from carrying on the directory business as specified in the agreement, TELUS would indemnify the owner in respect of any losses that the owner incurred.

As at June 30, 2007, the Company has no liability recorded in respect of indemnification obligations.

(c) 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.

TELUS Corporation Pension Plan and TELUS Edmonton Pension Plan: Two statements of claim were filed in the Alberta Court of Queen's Bench on December 31, 2001, and January 2, 2002, respectively, 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 alleged 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.

The Company believes that it has good defences to the actions. As a term of the settlement reached between TELUS Communications Inc. and the Telecommunications Workers Union that resulted in a collective agreement effective November 20, 2005, the Telecommunications Workers Union has agreed to not provide any direct or indirect financial or other assistance to the plaintiffs in these actions, and to communicate to the plaintiffs the Telecommunications Workers Union's desire and recommendation that these proceedings be dismissed or discontinued. The Company has been advised by the Telecommunications Workers Union that the plaintiffs have not agreed to dismiss or discontinue these actions. Should the lawsuits continue because of the actions of the court, the plaintiffs or for any other reason, and their ultimate resolution differ from management's assessment and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Uncertified class action: A class action was brought August 9, 2004, under the Class Actions Act (Saskatchewan), against a number of past and present wireless service providers including the Company. The claim alleges that each of the carriers is in breach of contract and has violated competition, trade practices and consumer protection legislation across Canada in connection with the collection of system access fees, and seeks to recover direct and punitive damages in an unspecified amount. Similar proceedings have also been filed by, or on behalf of, plaintiffs' counsel in other provincial jurisdictions. On July 18, 2006, the Saskatchewan court declined to certify the action as a class action, but granted the plaintiffs leave to renew their application in order to further address certain statutory requirements respecting class actions. The renewed application was heard on June 18 and 19, 2007. The Company believes that it has good defences to the action. Should the ultimate resolution of this action differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

18 additional financial information

(a) Income statement

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Operations expense ⁽¹⁾ :				
Cost of sales and service	\$ 753.7	\$ 668.2	\$ 1,477.3	\$ 1,328.6
Selling, general and administrative	586.6	539.2	1,299.6	1,079.9
	\$ 1,340.3	\$ 1,207.4	\$ 2,776.9	\$ 2,408.5
Advertising expense	\$ 74.6	\$ 56.1	\$ 140.0	\$ 110.1

(1) Cost of sales and service includes cost of goods sold and costs to operate and maintain access to and usage of the Company's telecommunications infrastructure. Selling, general and administrative costs include sales and marketing costs (including commissions), customer care, bad debt expense, real estate costs and corporate overhead costs such as information technology, finance (including billing services, credit and collection), legal, human resources and external affairs.

Employee salaries, benefits and related costs are included in one of the two components of operations expense to the extent that the costs are related to the component functions.

(b) Balance sheet

As at (millions)	June 30, 2007	December 31, 2006
Accounts receivable		
Customer accounts receivable	\$ 419.3	\$ 545.6
Accrued receivables – customer	113.2	83.2
Allowance for doubtful accounts	(61.3)	(54.8)
	471.2	574.0
Accrued receivables – other	95.5	125.4
Other	5.1	7.8
	\$ 571.8	\$ 707.2
Prepaid expense and other		
Prepaid expenses	\$ 180.6	\$ 109.9
Deferred customer activation and connection costs	69.6	69.5
Other	41.5	15.9
	\$ 291.7	\$ 195.3

As at (millions)	June 30, 2007	December 31, 2006
Deferred charges (adjusted – Note 2(b))		
Recognized transitional pension assets and pension plan contributions in excess of charges to income	\$ 925.7	\$ 826.2
Deferred customer activation and connection costs	114.9	115.4
Other	24.0	15.0
	\$ 1,064.6	\$ 956.6
Accounts payable and accrued liabilities		
Accrued liabilities	\$ 471.0	\$ 449.7
Payroll and other employee-related liabilities	394.2	383.8
Accrual for net-cash settlement feature for share option awards (Note 10(b))	172.1	—
Asset retirement obligations	4.1	4.1
	1,041.4	837.6
Trade accounts payable	375.6	427.3
Interest payable	50.9	47.7
Other	80.0	51.0
	\$ 1,547.9	\$ 1,363.6
Advance billings and customer deposits		
Advance billings	\$ 360.3	\$ 348.8
Regulatory deferral accounts (Note 17(a))	148.9	164.8
Deferred customer activation and connection fees	67.0	72.3
Customer deposits	33.2	20.4
	\$ 609.4	\$ 606.3
Other long-term liabilities		
Derivative liabilities (Note 4)	\$ 1,081.8	\$ 710.3
Pension and other post-retirement liabilities	204.6	198.7
Other	143.3	128.2
	1,429.7	1,037.2
Deferred customer activation and connection fees	114.9	115.4
Deferred gain on sale-leaseback of buildings	66.7	71.6
Asset retirement obligations	33.1	33.1
	\$ 1,644.4	\$ 1,257.3

(c) Supplementary cash flow information

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Net change in non-cash working capital				
Short-term investments	\$ 55.4	\$ —	\$ 55.4	\$ —
Accounts receivable	387.5	97.5	135.4	97.5
Inventories	0.6	35.2	37.6	23.0
Prepaid expenses and other	(29.7)	(28.6)	(100.5)	(117.1)
Accounts payable and accrued liabilities	(34.3)	(29.4)	6.0	(74.5)
Income and other taxes receivable and payable, net	(6.1)	(11.1)	1.8	101.3
Advance billings and customer deposits	(0.3)	7.2	3.1	10.8
	\$ 373.1	\$ 70.8	\$ 138.8	\$ 41.0

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Interest (paid)				
Amount paid in respect of interest expense	\$ (218.5)	\$ (240.3)	\$ (231.7)	\$ (253.4)
Forward starting interest rate swap agreement termination payments	—	—	(10.4)	—
Interest related portion of cross currency interest rate swap agreement termination payments	—	(31.2)	—	(31.2)
	\$ (218.5)	\$ (271.5)	\$ (242.1)	\$ (284.6)

19 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 except per share amounts)	Three months		Six months	
	2007	2006	2007	2006
Net income in accordance with Canadian GAAP	\$ 253.1	\$ 356.6	\$ 447.9	\$ 566.7
Adjustments:				
Operating expenses				
Operations (b)	(4.1)	(4.3)	18.3	(8.5)
Amortization of intangible assets (c)	(12.6)	(12.6)	(25.1)	(25.7)
Accounting for derivatives (e)	—	(2.4)	—	(0.6)
Taxes on the above adjustments and tax rate changes (f)	12.8	62.2	18.4	67.5
Net income in accordance with U.S. GAAP	249.2	399.5	459.5	599.4
Other comprehensive income (loss), net of taxes (g)				
In accordance with Canadian GAAP	21.6	0.1	51.9	0.8
Change in pension related other comprehensive income accounts	6.1	(1.5)	12.1	(2.9)
Change in unrealized fair value of derivatives designated as cash flow hedges	—	59.2	—	36.1
In accordance with U.S. GAAP	27.7	57.8	64.0	34.0
Comprehensive income in accordance with U.S. GAAP	\$ 276.9	\$ 457.3	\$ 523.5	\$ 633.4
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share				
- Basic	\$ 0.75	\$ 1.16	\$ 1.37	\$ 1.73
- Diluted	\$ 0.74	\$ 1.15	\$ 1.36	\$ 1.71

The following is an analysis of retained earnings (deficit) reflecting the application of U.S. GAAP:

Six-month periods ended June 30 (millions)	2007	2006
Schedule of retained earnings (deficit) under U.S. GAAP		
Balance at beginning of period	\$ (419.5)	\$ (785.5)
Net income in accordance with U.S. GAAP	459.5	599.4
	40.0	(186.1)
Common Share and Non-Voting Share dividends paid, or payable, in cash	(250.9)	(190.7)
Purchase of Common Shares and Non-Voting Shares in excess of stated capital	(205.6)	(202.6)
Adjustment to purchase of share option awards not in excess of their fair value	—	2.1
Balance at end of period	\$ (416.5)	\$ (577.3)

The following is an analysis of major balance sheet categories reflecting the application of U.S. GAAP:

As at (millions)	June 30, 2007	December 31, 2006
		(adjusted – Note 2(c))
Current Assets	\$ 1,227.2	\$ 1,344.9
Capital Assets		
Property, plant, equipment and other	7,296.7	7,466.5
Intangible assets subject to amortization (c)	2,395.3	2,156.2
Intangible assets with indefinite lives	2,966.5	2,966.4
Goodwill (d)	3,571.3	3,572.0
Other Assets	807.7	675.7
	\$ 18,264.7	\$ 18,181.7
Current Liabilities	\$ 2,467.4	\$ 3,782.2
Long-Term Debt	4,833.0	3,493.7
Other Long-Term Liabilities	1,702.3	1,550.0
Deferred Income Taxes (f)	1,383.7	1,319.7
Non-Controlling Interest	22.1	23.6
Shareholders' Equity	7,856.2	8,012.5
	\$ 18,264.7	\$ 18,181.7

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

As at June 30, 2007 (millions)	Shareholders' Equity					Total
	Common Shares	Non-Voting Shares	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Contributed surplus	
Under Canadian GAAP	\$ 2,235.3	\$ 3,337.9	\$ 1,023.4	\$ (125.8)	\$ 144.0	\$ 6,614.8
Adjustments:						
Merger of BC TELECOM and TELUS (a), (c), (d)	1,747.2	966.5	(1,334.1)	—	—	1,379.6
Share-based compensation (b)	10.5	60.9	(102.0)	—	30.6	—
Acquisition of Clearnet Communications Inc.						
Goodwill (d)	—	131.4	(7.9)	—	—	123.5
Convertible debentures	—	(2.9)	4.1	—	(1.2)	—
Accumulated other comprehensive income (loss) (g)	—	—	—	(261.7)	—	(261.7)
Under U.S. GAAP	\$ 3,993.0	\$ 4,493.8	\$ (416.5)	\$ (387.5)	\$ 173.4	\$ 7,856.2

As at December 31, 2006 (millions)	Shareholders' Equity (as adjusted – Note 2(b))						
	Common Shares	Non-Voting Shares	Options	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Contributed surplus	Total
Under Canadian GAAP	\$ 2,264.4	\$ 3,420.8	\$ 0.8	\$ 1,080.1	\$ (1.5)	\$ 163.5	\$ 6,928.1
Adjustments:							
Merger of BC TELECOM and TELUS (a), (c), (d)	1,770.1	993.0	—	(1,368.3)	—	—	1,394.8
Share-based compensation (b)	10.6	63.3	—	(131.2)	—	57.3	—
Acquisition of Clearnet Communications Inc.							
Goodwill (d)	—	131.4	—	(7.9)	—	—	123.5
Convertible debentures	—	(2.9)	—	4.1	—	(1.2)	—
Accounting for derivatives (e)	—	—	—	3.7	—	—	3.7
Accumulated other comprehensive income (loss) (g)	—	—	—	—	(437.6)	—	(437.6)
Under U.S. GAAP	\$ 4,045.1	\$ 4,605.6	\$ 0.8	\$ (419.5)	\$ (439.1)	\$ 219.6	\$ 8,012.5

(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 resulted 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

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. As of June 30, 2007, the amortization of this difference had been completed.

Effective as of the end of the first year ending after December 15, 2006, U.S. GAAP requires the full recognition of obligations associated with its employee future benefit plans as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and other Postretirement Plans". Applying this standard, the funded status of the Company's plans is shown gross on the consolidated balance sheets and the difference between the net funded plan states and the net accrued benefit asset or liability is included as a component of accumulated other comprehensive income.

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. The Canadian GAAP disclosures for share-based compensation awards are set out in Note 10.

Effective January 1, 2006, U.S. GAAP required the adoption of the fair value method of accounting for share-based compensation for awards made after 1994. Prior to the adoption of the fair value method of accounting, the intrinsic value based method was used to account for share option awards granted to employees.

On a prospective basis, commencing January 1, 2006, there is no longer a difference between Canadian GAAP and U.S. GAAP share-based compensation expense recognized in the results of operations arising from current share-based compensation awards accounted for as equity instruments. As share option awards granted subsequent to 1994 and prior to 2002 are captured by U.S. GAAP, but are not captured by Canadian GAAP, differences in shareholders' equity accounts arising from these awards will continue.

In 2007, the Company amended substantially all of its share option awards that were granted prior to January 1, 2005, and which were outstanding on January 1, 2007, by adding a net-cash settlement feature; the optionee has the choice of exercising the net-cash settlement feature. The result of such amendment is that the affected outstanding share option awards largely take on the characteristics of liability instruments rather than equity instruments; the minimum expense recognized for the affected share option awards will be their grant-date fair values. Under U.S. GAAP, the grant-date fair value of affected outstanding share option awards granted subsequent to 1994 affect the transitional amount whereas Canadian GAAP only considers grant-date fair values for affected outstanding share option awards granted subsequent to 2001; this resulted in the U.S. GAAP expense being less than the Canadian GAAP expense by \$NIL and \$26.6 million, for the three-month and six-month periods ended June 30, 2007, respectively.

(c) Operating expenses – Amortization of intangible assets

As TELUS' intangible assets on acquisition have been recorded at their fair value (see (a)), 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:

As at (millions)	Cost	Accumulated amortization	Net book value	
			June 30, 2007	December 31, 2006
Intangible assets subject to amortization				
Subscribers – wireline	\$ 1,950.0	\$ 368.1	\$ 1,581.9	\$ 1,607.0
Subscribers – wireless	250.0	250.0	—	—
	2,200.0	618.1	1,581.9	1,607.0
Intangible assets with indefinite lives				
Spectrum licences ⁽¹⁾	1,833.3	1,833.3	—	—
	\$ 4,033.3	\$ 2,451.4	\$ 1,581.9	\$ 1,607.0

(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, 2007, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2007 (balance of year)	\$ 157.6
2008	243.2
2009	186.7
2010	118.1
2011	99.7

(d) 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 effect 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.

(e) Accounting for derivatives

Under U.S. GAAP, all derivatives need to be recognized as either assets or liabilities and measured at fair value. Prior to January 1, 2007, this was different from the Canadian GAAP treatment for financial instruments as applied by the Company; see Note 2(b).

(f) Income taxes

Periods ended June 30 (millions)	Three months		Six months	
	2007	2006	2007	2006
Current	\$ 1.2	\$ (6.7)	\$ 2.3	\$ (3.7)
Deferred	79.7	(36.8)	152.3	71.0
	80.9	(43.5)	154.6	67.3
Investment Tax Credits	(1.1)	(12.6)	(10.6)	(12.6)
	\$ 79.8	\$ (56.1)	\$ 144.0	\$ 54.7

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)	2007		2006	
Basic blended federal and provincial tax at statutory income tax rates	\$ 110.9	33.6%	\$ 115.1	33.3%
Revaluation of deferred income tax liability to reflect future statutory income tax rates	(31.3)		(162.7)	
Share option award compensation	1.2		1.6	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	—		1.3	
Investment Tax Credits, net of tax	(0.6)		(8.4)	
Other	(0.4)		(0.1)	
	79.8	24.2%	(53.2)	(15.4)%
Large corporations tax	—		(2.9)	
U.S. GAAP income tax expense (recovery)	\$ 79.8	24.2%	\$ (56.1)	(16.3)%

Six-month periods ended June 30 (\$ in millions)	2007		2006	
Basic blended federal and provincial tax at statutory income tax rates	\$ 203.3	33.5%	\$ 221.3	33.6%
Revaluation of deferred income tax liability to reflect future statutory income tax rates	(35.0)		(162.7)	
Share option award compensation	(15.4)		3.1	
Tax rate differential on, and consequential adjustments from, reassessment of prior year tax issues	—		1.0	
Investment Tax Credits, net of tax	(7.0)		(8.4)	
Other	(1.9)		0.4	
U.S. GAAP income tax expense (recovery)	\$ 144.0	23.8%	\$ 54.7	8.3%

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.

Effective January 1, 2007 the Company adopted the method of accounting for uncertain income tax positions prescribed by Financial Accounting Standards Board Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes". This Interpretation is intended to standardize accounting practice for the recognition, derecognition and measurement of tax benefits to enable consistency and comparability among reporting entities for the reporting of income tax assets and liabilities. No consequential adjustments were required in the Company's financial statements as a result of that adoption.

As at January 1, 2007, the Company had net unrecognized tax benefits totaling \$277.1 million, of which \$240.5 million would, if recognized, have impacted the effective tax rate.

During the three-month and six-month periods ended June 30, 2007, the Company recognized Canadian Investment Tax Credits arising from the Company's conduct of its scientific research and experimental development activities of \$1.1 million (\$0.7 million after applicable income tax effect) and \$10.6 million (\$7.1 million after applicable income tax effect), respectively. Investment Tax Credits of \$23.9 million (\$17.4 million after applicable income tax effect)

have been abandoned and will no longer be pursued. During the three-month and six-month periods ended June 30, 2007, the Company filed additional claims for Canadian Investment Tax Credits of \$41.2 million (\$28.0 million after applicable income tax effect) that have not been recognized in the accounts.

During the three-month and six-month periods ended June 30, 2007, a tax rate reduction for 2011 was enacted which resulted in an increase in unrecognized tax benefits of \$1.9 million that would, if recognized, impact the effective tax rate.

As at June 30, 2007, the Company had net unrecognized tax benefits aggregating \$284.0 million, of which \$247.4 million would, if fully recognized, impact the effective tax rate.

In the application of both Canadian GAAP and U.S. GAAP, the Company accrues for interest charges on current tax liabilities that have not been funded, which would include interest and penalties arising from uncertain tax positions. The Company includes such charges as a component of financing costs. As at January 1, 2007, and June 30, 2007, the Company has recorded accrued interest of \$7.6 million in respect of differences between the time tax-related exposures have been funded compared to the time the tax-related exposures may have come into existence. There was no interest nor were there penalties relating to current tax liabilities charged by the Company against its income during the three-month and six-month periods ended June 30, 2007.

As at January 1, 2007, it was reasonably possible that the Company's unrecognized tax benefits (before tax) would significantly decrease, in an estimated range of between \$30 million and \$35 million, in the following twelve months for the resolution of certain Canadian Investment Tax Credits arising from the Company's conduct of its scientific research and experimental development activities.

As at January 1, 2007, and June 30, 2007, it is reasonably possible that the Company's net unrecognized tax benefits will significantly increase and decrease in the next twelve months for the following items:

- It is expected that Notices of Reassessment will be issued by various government authorities over the next twelve months that are expected to effectively settle a number of uncertain tax positions and result in both adjustments to the effective tax rate and the abandonment of any remaining unrecognized tax benefits. Certain presently unrecognized tax benefits pertaining to a number of items involving uncertainty as to the exact taxation period tax deductions may be claimed among periods of changing statutory tax rates are expected to be resolved within an estimated range of \$35 million to \$45 million. It is also expected that net unrecognized benefits estimated to range between \$40 million and \$50 million, that relate to issues pertaining to the eligibility of certain capital and operating costs will be concluded.
- It is expected that the statute of limitations for challenge by governmental authorities will lapse for certain taxation years for which tax returns have previously been filed. Such unrecognized tax benefits are reasonably estimated at \$4 million.

As at January 1, 2007, and June 30, 2007, income tax returns pertaining to taxation years that remain subject to examination by major jurisdictions are as follows:

	Restricted to Appeals	Other
Canada	1999 – 2000	2001 – 2006
United States	N/A	2003 – 2006

(g) Additional disclosures required under U.S. GAAP – Comprehensive income

U.S. GAAP 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 prior to fiscal periods beginning on or after January 1, 2007.

Three-month periods ended June 30 (millions)	2007			2006			
	Canadian GAAP other comprehensive income (loss) ⁽¹⁾	Pension and other benefit plans	US GAAP other comprehensive income (loss)	Canadian GAAP other comprehensive income (loss)	Pension and other benefit plans	Unrealized fair value of derivative cash flow hedges	US GAAP other comprehensive income (loss)
Amount arising	\$ 32.9	\$ 8.7	\$ 41.6	\$ 0.1	\$ (2.2)	\$ 91.2	\$ 89.1
Income tax expense (recovery)	11.3	2.6	13.9	—	(0.7)	32.0	31.3
Net	21.6	6.1	27.7	0.1	(1.5)	59.2	57.8
Accumulated other comprehensive income (loss), beginning of period	(147.4)	(267.8)	(415.2)	(6.6)	(169.1)	(223.7)	(399.4)
Accumulated other comprehensive income (loss), end of period	\$ (125.8)	\$ (261.7)	\$ (387.5)	\$ (6.5)	\$ (170.6)	\$ (164.5)	\$ (341.6)

(1) As the Canadian GAAP other comprehensive income amounts at June 30, 2007, reflect total-to-date amounts for the unrealized fair value of derivative cash flow hedges, the opening balance for U.S. GAAP is no longer required to determine the total-to-date accumulated other comprehensive income amount for U.S. GAAP purposes.

Six-month periods ended June 30 (millions)	2007			2006			
	Canadian GAAP other comprehensive income (loss) ⁽¹⁾	Pension and other benefit plans	US GAAP other comprehensive income (loss)	Canadian GAAP other comprehensive income (loss)	Pension and other benefit plans	Unrealized fair value of derivative cash flow hedges	US GAAP other comprehensive income (loss)
Amount arising	\$ 77.6	\$ 17.4	\$ 95.0	\$ 0.8	\$ (3.0)	\$ 56.2	\$ 54.0
Income tax expense (recovery)	25.7	5.3	31.0	—	(0.1)	20.1	20.0
Net	51.9	12.1	64.0	0.8	(2.9)	36.1	34.0
Accumulated other comprehensive income (loss), beginning of period	(177.7)	(273.8)	(451.5)	(7.3)	(167.7)	(200.6)	(375.6)
Accumulated other comprehensive income (loss), end of period	\$ (125.8)	\$ (261.7)	\$ (387.5)	\$ (6.5)	\$ (170.6)	\$ (164.5)	\$ (341.6)

(1) As the Canadian GAAP other comprehensive income amounts at June 30, 2007, reflect total-to-date amounts for the unrealized fair value of derivative cash flow hedges, the opening balance for U.S. GAAP is no longer required to determine the total-to-date accumulated other comprehensive income amount for U.S. GAAP purposes.

(h) Recently issued accounting standards not yet implemented

Single definition of "fair value". Under U.S. GAAP, effective for its 2008 fiscal year, the Company is expected to be required to comply with a unified approach to fair value measurement of assets and liabilities, as prescribed by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, "Fair Value Measurements". The Company is assessing the provisions of this statement.

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