TELUS CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

MARCH 31, 2004

consolidated statements of income

Periods ended March 31 (unaudited) (millions)	Three months 2004	Three months 2003 (restated – Note 2(b))
OPERATING REVENUES	**$ 1,803.8**	$ 1,740.9
OPERATING EXPENSES		
Operations	**1,066.6**	1,070.1
Restructuring and workforce reduction costs (Note 4)	**15.9**	6.5
Depreciation	**321.7**	318.6
Amortization of intangible assets	**88.7**	92.5
	1,492.9	1,487.7
OPERATING INCOME	**310.9**	253.2
Other expense, net	**1.2**	5.6
Financing costs (Note 5)	**145.0**	164.3
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	**164.7**	83.3
Income taxes (recovery) (Note 6)	**62.6**	(6.9)
Non-controlling interest	**0.8**	0.7
NET INCOME	**101.3**	89.5
Preference and preferred share dividends	**0.9**	0.9
COMMON SHARE AND NON-VOTING SHARE INCOME	**$ 100.4**	$ 88.6
INCOME PER COMMON SHARE AND NON-VOTING SHARE ($) (Note 7)		
– Basic	**0.28**	0.26
– Diluted	**0.28**	0.26
DIVIDENDS DECLARED PER COMMON SHARE AND NON-VOTING SHARE ($)	**0.15**	0.15
TOTAL WEIGHTED AVERAGE COMMON SHARES AND NON-VOTING SHARES OUTSTANDING (millions)		
– Basic	**353.1**	346.8
– Diluted	**355.6**	347.0

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

consolidated statements of retained earnings

Periods ended March 31 (unaudited) (millions)	Three months 2004	Three months 2003
BALANCE AT BEGINNING OF YEAR	**$ 741.7**	$ 630.4
Transitional amount for share-based compensation arising from share options (Note 2(a))	**(25.1)**	—
Adjusted opening balance	**716.6**	630.4
Net income	**101.3**	89.5
	817.9	719.9
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	**47.3**	42.7
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	**5.7**	9.2
Preference and preferred share dividends	**0.9**	0.9
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 14(c))	**2.3**	—
BALANCE AT END OF PERIOD (Note 14)	**$ 761.7**	$ 667.1

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

consolidated balance sheets

(unaudited) (millions)	As at March 31, 2004	As at December 31, 2003 (restated – Note 2(b))
ASSETS		
Current Assets		
Cash and temporary investments, net	**$ 273.5**	$ 6.2
Accounts receivable (Notes 9, 16(b))	**762.7**	723.8
Income and other taxes receivable	**117.5**	187.4
Inventories	**117.8**	123.5
Prepaid expenses and other (Note 16(b))	**208.0**	172.4
Current portion of future income taxes	**303.8**	304.0
	1,783.3	1,517.3
Capital Assets, Net (Note 10)		
Property, plant, equipment and other	**7,710.4**	7,764.3
Intangible assets subject to amortization	**790.8**	844.7
Intangible assets with indefinite lives	**2,954.6**	2,954.6
	11,455.8	11,563.6
Other Assets		
Deferred charges (Note 11)	**632.3**	610.7
Future income taxes	**532.5**	626.0
Investments	**41.6**	41.9
Goodwill	**3,118.0**	3,118.0
	4,324.4	4,396.6
	$ 17,563.5	$ 17,477.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 16(b))	**$ 1,332.8**	$ 1,294.5
Restructuring and workforce reduction accounts payable and accrued liabilities (Note 4)	**88.5**	141.0
Dividends payable	**53.8**	53.5
Accrual for redemption of preference and preferred shares (Note 14(c))	**72.8**	—
Advance billings and customer deposits (Note 16(b))	**454.9**	445.0
Current maturities of long-term debt (Note 12)	**213.1**	221.1
	2,215.9	2,155.1
Long-Term Debt (Note 12)	**6,658.2**	6,609.8
Other Long-Term Liabilities (Note 13)	**1,134.4**	1,173.7
Future Income Taxes	**1,005.1**	1,007.0
Non-Controlling Interest	**9.7**	10.7
Shareholders' Equity (Note 14)		
Convertible debentures conversion option	**8.8**	8.8
Preference and preferred shares (Note 14(c))	**—**	69.7
Common equity	**6,531.4**	6,442.7
	6,540.2	6,521.2
	$ 17,563.5	$ 17,477.5

Commitments and Contingent Liabilities (Note 15)

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

consolidated statements of cash flows

	Three months	
Periods ended March 31 (unaudited) (millions)	**2004**	2003
OPERATING ACTIVITIES		
Net income	**$ 101.3**	$ 89.5
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	**410.4**	411.1
Future income taxes	**91.8**	193.9
Share-based compensation	**4.7**	—
Net employee defined benefit plans expense	**4.9**	13.1
Employer contributions to employee defined benefit plans	**(28.6)**	(18.0)
Restructuring and workforce reduction costs, net of cash payments (Note 4)	**(52.5)**	(147.4)
Other, net	**6.1**	6.9
Net change in non-cash working capital (Note 16(c))	**50.0**	(144.4)
Cash provided by operating activities	**588.1**	404.7
INVESTING ACTIVITIES		
Capital expenditures (Note 10)	**(309.7)**	(207.8)
Proceeds from the sale of property and other assets	**12.1**	19.3
Other	**(1.0)**	5.9
Cash used by investing activities	**(298.6)**	(182.6)
FINANCING ACTIVITIES		
Common Shares and Non-Voting Shares issued	**27.0**	20.1
Dividends to shareholders	**(42.3)**	(44.8)
Long-term debt issued (Note 12)	**27.3**	17.5
Redemptions and repayment of long-term debt (Note 12)	**(34.2)**	(200.1)
Other	**—**	1.6
Cash used by financing activities	**(22.2)**	(205.7)
CASH POSITION		
Increase in cash and temporary investments, net	**267.3**	16.4
Cash and temporary investments, net, beginning of period	**6.2**	(9.0)
Cash and temporary investments, net, end of period	**$ 273.5**	$ 7.4
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS		
Interest paid	**$ 22.8**	$ 36.0
Interest received	**$ 14.2**	$ 1.0
Income taxes (inclusive of Investment Tax Credits (Note 6)) received (paid)	**$ 104.6**	$ (0.6)

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

MARCH 31, 2004 (unaudited)

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

1. Interim Financial Statements

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

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

2. Accounting Policy Developments

(a) Share-Based Compensation

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

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

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

(b) Equity Settled Obligations

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

To reflect the reclassification of the convertible debentures as a liability, certain items of the Consolidated Income Statement for the three-month period ended March 31, 2003, have been restated as follows:

Three months ended March 31, 2003 ($ in millions except per share amounts)	As previously reported	Adjustment to reflect convertible debentures as a liability	As currently reported
Operating revenues	$ 1,740.9	$ —	$ 1,740.9
Operating expenses	1,487.7	—	1,487.7
Operating income	253.2	—	253.2
Other expense, net	5.6	—	5.6
Financing costs	161.6	2.7	164.3
Income before income taxes and non-controlling interest	86.0	(2.7)	83.3
Income taxes (recovery)	(5.9)	(1.0)	(6.9)
Non-controlling interest	0.7	—	0.7
Net income	91.2	(1.7)	89.5
Preference and preferred share dividends	0.9	—	0.9
Interest on convertible debentures, net of income taxes	1.7	(1.7)	—
Common Share and Non-Voting Share income	$ 88.6	$ —	$ 88.6
Income per Common Share and Non-Voting Share			
- Basic	$ 0.26	$ —	$ 0.26
- Diluted	$ 0.26	$ —	$ 0.26

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

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

3. Financial Instruments

During the first quarter of 2004, the Company entered into two series of hedging relationships to which hedge accounting has been applied: one series of hedging relationships results in fixing the Company's compensation cost arising from a specific grant of restricted share units (see Note 8(b)) and the other series of hedging relationships results in the notional conversion of $350 million of the 2006 (Canadian Dollar) Notes from a fixed interest rate of 7.5% to a floating interest rate based upon the three-month Bankers' Acceptance Canadian Dollar Offered Rate plus a spread. In early April 2004, the Company entered into additional hedging relationships that resulted in bringing the total notional conversion of the 2006 (Canadian Dollar) Notes to $500 million with a floating interest rate based upon the three-month Bankers' Acceptance Canadian Dollar Offered Rate plus a spread.

As at March 31, 2004, the Company had entered into foreign currency forward contracts that have the effect of fixing the exchange rates on U.S.$60 million of fiscal 2004 purchase commitments; hedge accounting has been applied to these foreign currency forward contracts, all of which relate to the Mobility segment.

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

(millions)	As at March 31, 2004 Carrying amount(1)	As at March 31, 2004 Fair value	As at December 31, 2003 Carrying amount(1)	As at December 31, 2003 Fair value
			(restated – Note 2(b))	
Long-term debt (Note 12)	**$ 6,880.1**	**$ 8,085.6**	$ 6,839.7	$ 7,840.2
Derivative financial instruments(2) used to manage interest rate and currency risks associated with U.S. dollar denominated debt (Note 13)	**694.2**	**844.7**	739.6	858.6
Derivative financial instruments(2) used to manage interest rate risk associated with Canadian dollar denominated debt	**—**	**(1.0)**	—	—
	$ 7,574.3	**$ 8,929.3**	$ 7,579.3	$ 8,698.8
Derivative financial instruments(2) used to manage currency risks arising from U.S. dollar denominated purchases	**$ —**	**$ (0.3)**	$ —	$ 0.1
Derivative financial instruments(2) used to manage changes in compensation costs arising from restricted share units (Note 8(b))	**$ —**	**$ 1.8**	$ —	$ —

(1) Carrying amount of long-term debt, for purposes of this table, includes the carrying amount of the convertible debenture conversion option.
(2) Notional amount of all derivative financial instruments outstanding is $5,258.8 (December 31, 2003 – $4,822.9).

4. Restructuring and Workforce Reduction Costs

(a) Overview

Three-month periods ended March 31 (millions)	2004 Initiatives (b)	2004 Operational Efficiency Program (2001- 2003) (c)	**2004 Total**	2003 Operational Efficiency Program (2001- 2003) (c)
Restructuring and workforce reduction costs				
Workforce reduction				
Voluntary	$ —	$ —	**$ —**	$ —
Involuntary	15.7	—	**15.7**	—
Lease termination	—	—	**—**	3.4
Other	—	0.2	**0.2**	3.1
	15.7	0.2	**15.9**	6.5
Disbursements				
Workforce reduction				
Voluntary (Early Retirement Incentive Plan, Voluntary Departure Incentive Plan and other)	—	46.5	**46.5**	98.3
Involuntary and other	1.3	18.7	**20.0**	49.4
Lease termination	—	1.1	**1.1**	1.6
Other	—	0.8	**0.8**	4.6
	1.3	67.1	**68.4**	153.9
Expenses greater than (less than) disbursements	14.4	(66.9)	**(52.5)**	(147.4)
Restructuring and workforce reduction accounts payable and accrued liabilities, beginning of period	—	141.0	**141.0**	400.4
Restructuring and workforce reduction accounts payable and accrued liabilities, end of period	$ 14.4	$ 74.1	**$ 88.5**	$ 253.0

(b) 2004 Initiatives

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

(c) Operational Efficiency Program (2001-2003)

In 2001, the Company initiated the phased Operational Efficiency Program aimed at improving the Company's operating and capital productivity and competitiveness. The first phase of the Operational Efficiency Program was to complete merger-related restructuring activities in TELUS Mobility and the reorganization for TELUS Communications. The second phase of the Operational Efficiency Program, which commenced at the beginning of 2002, continued to focus on reducing staff, but also entailed a comprehensive review of enterprise-wide processes to identify capital and operational efficiency opportunities. The third phase of the Operational Efficiency Program, which commenced in the third quarter of 2002, was focused on operationalizing the initiatives identified during the second phase review and included: streamlining of business processes; reducing the TELUS product portfolio and processes that support them; optimizing the use of real estate, networks and other assets; improving customer order management; reducing the scope of corporate support functions; consolidating operational and administrative functions; and consolidating customer contact centres.

As at March 31, 2004, no future costs remain to be recorded under the Operational Efficiency Program, but variances from estimates currently recorded may be recorded in subsequent periods.

5. Financing Costs

Periods ended March 31	Three months	
(millions)	**2004**	2003
		(restated – Note 2(b))
Interest on long-term debt	**$ 163.6**	$ 173.3
Interest on short-term obligations and other	**1.8**	1.0
Foreign exchange[1]	**(0.6)**	0.4
	164.8	174.7
Interest income (including interest on tax refunds)	**(19.8)**	(10.4)
	$ 145.0	$ 164.3

(1) For the three-month period ended March 31, 2004, these amounts include gains (losses) of $(0.3) (2003 – $0.3) in respect of hedge ineffectiveness.

6. Income Taxes

Periods ended March 31	Three months	
(millions)	**2004**	2003
		(restated – Note 2(b))
Current	**$ (29.2)**	$ (200.8)
Future	**91.8**	193.9
	$ 62.6	$ (6.9)

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

Three month periods ended March 31 ($ in millions)	**2004**		2003	
			(restated – Note 2(b))	
Basic blended federal and provincial tax at statutory income tax rates	**$ 57.1**	**34.7%**	$ 30.8	37.0%
Tax rate differential on settlement of prior year tax issues	**(1.6)**		(47.0)	
Revaluation of future tax assets and liabilities for changes in statutory tax rates	**(1.3)**		0.2	
Share option compensation	**1.9**		—	
Other	**1.2**		3.3	
	57.3	**34.8%**	(12.7)	NM[1]
Large corporations tax	**5.3**		5.8	
Income tax expense (recovery) per Consolidated Statements of Income	**$ 62.6**	**38.0%**	$ (6.9)	NM[1]

(1) "NM" – Not meaningful.

The Company conducts research and development activities, which are eligible to earn Investment Tax Credits. During the three-month period ended March 31, 2004, the Company recorded Investment Tax Credits of $0.5 million (2003 – $1.2 million) of which $0.5 million (2003 – $1.0 million) was recorded as a reduction of "Operations expense" and the balance was recorded as a reduction of capital expenditures.

7. Per Share Amounts

Basic income per Common Share and Non-Voting Share is calculated by dividing Common Share and Non-Voting Share income by the total weighted average Common Shares and Non-Voting Shares outstanding during the year. Diluted income per Common Share and Non-Voting Share is calculated to give effect to share options and warrants and shares issuable on conversion of debentures.

The following tables present the reconciliations of the numerators and denominators of the basic and diluted per share computations.

Periods ended March 31	Three months	
(millions)	**2004**	2003
		(restated – Note 2(b))
Net income	**$ 101.3**	$ 89.5
Deduct:		
Preference and preferred share dividends	**0.9**	0.9
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 14(c))	**2.3**	—
Basic and diluted Common Share and Non-Voting Share income	**$ 98.1**	$ 88.6

Periods ended March 31	Three months	
(millions)	**2004**	2003
Basic total weighted average Common Shares and Non-Voting Shares outstanding	**353.1**	346.8
Effect of dilutive securities		
Exercise of share options and warrants	**2.5**	0.2
Diluted total weighted average Common Shares and Non-Voting Shares outstanding	**355.6**	347.0

For the three-month period ended March 31, 2004, certain outstanding share options, in the amount of 18.1 million (2003 – 22.6 million), were not included in the computation of diluted income per Common Share and Non-Voting Share because the options' exercise prices were greater than the average market price of the Common Shares and Non-Voting Shares during the reported periods. Similarly, convertible debentures, which were convertible into 3.8 million shares for the three-month period ended March 31, 2004, were not included in the computation of diluted income per Common Share and Non-Voting Share because the conversion price was greater than the average market price of the Non-Voting Shares during the reported periods.

8. Share-Based Compensation

(a) Share Options

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

Periods ended March 31	Three months	
(millions except per share amounts)	**2004**	2003
		(restated – Note 2(b))
Net income		
As reported	**$ 101.3**	$ 89.5
Add: Share-based compensation arising from share options included in reported net income	**5.4**	—
Deduct: Share-based compensation arising from share options determined under the fair value based method for all awards	**(5.4)**	(4.1)
Pro forma	**$ 101.3**	$ 85.4
Net income per Common Share and Non-Voting Share(1)		
Basic		
As reported	**$ 0.28**	$ 0.26
Pro forma	**$ 0.28**	$ 0.24
Diluted		
As reported	**$ 0.28**	$ 0.26
Pro forma	**$ 0.28**	$ 0.24

(1) For the three-month period ended March 31, 2004, share-based compensation arising from share options determined under the fair value based method for all awards per Common Share and Non-Voting Share would be $0.01 basic and diluted.

As only share options granted after 2001 are included, these disclosures are not likely to be representative of the effects on reported net income for future years. These disclosures reflect weighted average fair values of $7.78 and $4.26 for options granted in the three-month periods ended March 31, 2004 and 2003, respectively. Share options typically vest over a three-year period and the vesting method of options, which is determined at the date of grant, may be either cliff or graded. The fair value of each option granted is estimated at the time of grant using the Black-Scholes model with weighted average assumptions for grants as follows:

Periods ended March 31	Three months	
	2004	2003
Risk free interest rate	**3.8%**	5.0%
Expected lives (years)	**4.5**	4.5
Expected volatility	**40.0%**	40.0%
Dividend yield	**2.4%**	4.0%

(b) Other Share-Based Compensation

The Company uses restricted share units as a form of incentive compensation. Each restricted share unit is equal in value to one Non-Voting Share and the dividends that would have arisen thereon had it been an issued and outstanding Non-Voting Share are recorded as additional restricted share units during the life of the restricted share unit. The restricted share units become payable as they vest over their lives (typically the vesting period is 33 months and the vesting method, which is determined at the date of grant, may be either cliff or graded). Reflected in the Consolidated Statements of Income as “Operations expense” for the three-month period ended March 31, 2004, is compensation expense arising from restricted share units of $1.1 million (2003 – NIL).

The following table presents a summary of the activity related to the Company’s restricted share units for the three-month period ended March 31, 2004.

Period ended March 31, 2004	Three months	
	Number of restricted share units	Weighted average price
Outstanding, beginning of period	316,630	
Issued		
Initial allocation	840,099	$ 24.12
In lieu of dividends	7,488	22.35
Exercised	(73,164)	24.26
Outstanding, end of period	1,091,053	

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

9. Accounts Receivable

On July 26, 2002, TELUS Communications Inc., a wholly-owned subsidiary of TELUS, entered into an agreement (the “2002 Securitization”), which was amended September 30, 2002, with an arm’s-length securitization trust under which TELUS Communications Inc. is able to sell an interest in certain of its trade receivables up to a maximum of $650 million. As a result of selling the interest in certain of the trade receivables on a fully-serviced basis, a servicing liability is recognized on the date of sale and is, in turn, amortized to earnings over the expected life of the trade receivables. This “revolving-period” securitization agreement has an initial term ending July 18, 2007. TELUS Communications Inc. is required to maintain at least a BBB (low) credit rating by Dominion Bond Rating Service or the securitization trust may require the sale program to be wound down prior to the end of the initial term; at March 31, 2004, the rating was BBB (high).

(millions)	**As at March 31, 2004**	As at December 31, 2003
Total managed portfolio	**$ 919.7**	$ 1,036.9
Securitized receivables	**(186.9)**	(369.5)
Retained interest in receivables sold	**29.9**	56.4
Receivables held	**$ 762.7**	$ 723.8

For the three-month period ended March 31, 2004, the Company recognized losses (recoveries) of $(0.2) million (2003 – $1.2 million) on the sale of receivables arising from the 2002 Securitization.

Cash flows from the 2002 Securitization are as follows:

Periods ended March 31	Three months	
(millions)	**2004**	2003
Cumulative proceeds from securitization, beginning of period	**$ 300.0**	$ 475.0
Proceeds from new securitizations	**—**	3.0
Securitization reduction payments	**(150.0)**	(24.0)
Cumulative proceeds from securitization, end of period	**$ 150.0**	$ 454.0
Proceeds from collections reinvested in revolving period securitizations	**$ 682.5**	$ 1,018.4
Proceeds from collections pertaining to retained interest	**$ 132.3**	$ 206.5

10. Capital Assets

(a) Capital Assets, Net

	Cost	Accumulated Depreciation and Amortization	Net Book Value	
(millions)			**As at March 31, 2004**	As at December 31, 2003
Property, plant, equipment and other				
Telecommunications assets	$ 16,700.0	$ 10,777.1	**$ 5,922.9**	$ 6,002.4
Assets leased to customers	413.1	358.5	**54.6**	60.0
Buildings	1,588.1	761.5	**826.6**	832.0
Office equipment and furniture	891.1	632.0	**259.1**	265.0
Assets under capital lease	24.7	10.1	**14.6**	14.2
Other	333.4	230.4	**103.0**	113.8
Land	48.1	—	**48.1**	49.0
Plant under construction	457.8	—	**457.8**	405.0
Materials and supplies	23.7	—	**23.7**	22.9
	20,480.0	12,769.6	**7,710.4**	7,764.3
Intangible assets subject to amortization				
Subscriber base	362.9	78.6	**284.3**	289.7
Software	1,035.6	609.0	**426.6**	473.7
Access to rights-of-way and other	116.3	36.4	**79.9**	81.3
	1,514.8	724.0	**790.8**	844.7
Intangible assets with indefinite lives				
Spectrum licences(1)	3,973.1	1,018.5	**2,954.6**	2,954.6
	$ 25,967.9	$ 14,512.1	**$ 11,455.8**	$ 11,563.6

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

Included in capital expenditures for the three-month period ended March 31, 2004, were additions of intangible assets subject to amortization of $32.9 million (2003 – $19.9 million).

(b) Intangible Assets Subject to Amortization

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at March 31, 2004, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)	
2004 (balance of year)	**$ 229.4**
2005	**192.5**
2006	**84.0**
2007	**29.0**
2008	**14.7**

11. Deferred Charges

(millions)		As at March 31, 2004		As at December 31, 2003
Recognized transitional pension assets and pension plan contributions in excess of charges to income	$	**453.6**	$	426.8
Cost of issuing debt securities, less amortization		**36.5**		39.2
Deferred customer activation and installation costs[1]		**81.2**		80.8
Other		**61.0**		63.9
	$	**632.3**	$	610.7

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

12. Long-Term Debt

(a) Details of Long-Term Debt

($ in millions) *Series*	*Rate*	*Maturity*		As at March 31, 2004		As at December 31, 2003 (restated – Note 2(b))
TELUS Corporation Notes						
CA	7.5%[1]	June 2006	$	**1,572.7**	$	1,572.1
U.S.	7.5%[1]	June 2007		**1,525.0**		1,507.4
U.S.	8.0%[1]	June 2011		**2,513.3**		2,484.4
				5,611.0		5,563.9
TELUS Corporation Convertible Debentures						
	6.75%[1]	June 2010		**140.6**		140.4
TELUS Corporation Credit Facilities	—%[2]	May 2004		**—**		7.0
TELUS Communications Inc. Debentures						
1	12.00%[1]	May 2010		**50.0**		50.0
2	11.90%[1]	November 2015		**125.0**		125.0
3	10.65%[1]	June 2021		**175.0**		175.0
5	9.65%[1]	April 2022		**249.0**		249.0
A	9.50%[1]	August 2004		**189.5**		189.5
B	8.80%[1]	September 2025		**200.0**		200.0
				988.5		988.5
TELUS Communications Inc. Medium Term Note Debentures						
96-9	6.375%[1]	August 2004		**20.0**		20.0
99-1	7.25%[1]	June 2030		**0.1**		0.1
				20.1		20.1
TELUS Communications Inc. Senior Discount Notes				**0.2**		0.4
TELUS Communications (Québec) Inc. First Mortgage Bonds						
U	11.50%[1]	July 2010		**30.0**		30.0
TELUS Communications (Québec) Inc. Medium Term Notes						
1	7.10%[1]	February 2007		**70.0**		70.0
Capital leases issued at varying rates of interest from 5.1% to 18.0% and maturing on various dates up to 2008				**10.6**		10.3
Other				**0.3**		0.3
Total debt				**6,871.3**		6,830.9
Less – current maturities				**213.1**		221.1
Long-Term Debt			$	**6,658.2**	$	6,609.8

(1) Interest is payable semi-annually.
(2) Weighted average rate as at March 31, 2004 (December 31, 2003 – 4.325%).

(b) TELUS Corporation Credit Facilities

Subsequent to March 31, 2004, TELUS Corporation received $1.6 billion in commitments, which are subject to review of final documentation, for new credit facilities from a syndicate of financial institutions. The new credit facilities will consist of: i) an $800 million (or U.S. Dollar equivalent) revolving credit facility with a four-year term, and ii) a 364-day facility with $800 million (or U.S. Dollar equivalent) in available credit on a revolving basis and which is extendible at the Company's option on a non-revolving basis for one year for any amounts outstanding on the anniversary date. These new facilities will replace the existing committed credit facilities prior to the availability termination dates of such facilities.

TELUS Corporation's new credit facilities contain customary covenants; continued access to TELUS Corporation's credit facilities is not contingent on the maintenance by TELUS Corporation of a specific credit rating.

(c) Long-Term Debt Maturities

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

(millions)		Total[1]
2004 (balance of year)	**$**	**213.1**
2005		**1.6**
2006		**1,579.7**
2007		**1,870.0**
2008		**2.3**

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

13. Other Long-Term Liabilities

(millions)		**As at March 31, 2004**		As at December 31, 2003
Deferred gain on sale-leaseback of buildings	**$**	**106.4**	$	109.1
Pension and other post-retirement liabilities		**164.3**		161.3
Deferred hedging liability		**694.2**		739.6
Deferred customer activation and installation fees[1]		**81.2**		80.8
Other		**88.3**		82.9
	$	**1,134.4**	$	1,173.7

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

14. Shareholders' Equity

(a) Details of Shareholders' Equity

($ in millions except per share amounts)				**As at March 31, 2004**	As at December 31, 2003 (restated – Note 2(b))
Convertible debentures conversion option (b)				**$ 8.8**	$ 8.8
TELUS Communications Inc. Preference Shares and Preferred Shares (c)					
Authorized		Amount			
Non-voting first preferred shares		Unlimited			
Issued			Redemption Premium		
Cumulative					
$6.00	Preference	8,090	10.0%	**0.8**	0.8
$4.375	Preferred	53,000	4.0%	**5.3**	5.3
$4.50	Preferred	47,500	4.0%	**4.8**	4.8
$4.75	Preferred	71,250	5.0%	**7.1**	7.1
$4.75	Preferred (Series 1956)	71,250	4.0%	**7.1**	7.1
$5.15	Preferred	114,700	5.0%	**11.5**	11.5
$5.75	Preferred	96,400	4.0%	**9.6**	9.6
$6.00	Preferred	42,750	5.0%	**4.3**	4.3
$1.21	Preferred	768,400	4.0%	**19.2**	19.2
				69.7	69.7
Less: Reclassification to current liabilities				**69.7**	—
				—	69.7
Preferred equity					
Authorized		Amount			
First Preferred Shares		1,000,000,000			
Second Preferred Shares		1,000,000,000			
Common equity					
Shares					
Authorized		Amount			
Common Shares		1,000,000,000			
Non-Voting Shares		1,000,000,000			
Issued					
Common Shares (d)				**2,369.4**	2,349.1
Non-Voting Shares (d)				**3,326.2**	3,296.6
Options and warrants (e)				**41.1**	51.5
Accrual for shares issuable under channel stock incentive plan (f)				**0.6**	0.6
Cumulative foreign currency translation adjustment				**(2.3)**	(2.7)
Retained earnings				**761.7**	741.7
Contributed surplus				**34.7**	5.9
				6,531.4	6,442.7
Total Shareholders' Equity				**$ 6,540.2**	$ 6,521.2

(b) Convertible Debenture Conversion Option

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

(c) TELUS Communications Inc. Preference and Preferred Shares

TELUS Communications Inc. has the right to redeem the Preference and Preferred shares upon giving three months' previous notice. On March 25, 2004, TELUS Communications Inc. issued notices of redemption for all nine classes of its outstanding preference and preferred shares for redemption during the third quarter of 2004 for total consideration of approximately $72.8 million. As a result, the carrying amount of the preference and preferred shares has been reclassified to current liabilities, along with the associated redemption premium. Of the redemption premium of $3.1 million, $0.8 million is chargeable against contributed surplus with the balance being charged to retained earnings.

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

Period ended March 31, 2004	Three months	
	Number of shares	Amount (millions)
Common Shares		
Beginning of period	**190,800,015**	**$ 2,349.1**
Exercise of share options (g)	**50,244**	**1.3**
Employees' purchase of shares	**671,827**	**17.6**
Dividends reinvested in shares	**51,298**	**1.4**
End of period	**191,573,384**	**$ 2,369.4**
Non-Voting Shares		
Beginning of period	**161,042,369**	**$ 3,296.6**
Transitional amount for share-based compensation arising from share options (Note 2(a))	**—**	**0.4**
Adjusted opening balance	**161,042,369**	**3,297.0**
Exercise of warrants (e)	**76,000**	**2.8**
Channel stock incentive plan (f)	**11,725**	**0.3**
Exercise of share options (g)	**464,084**	**14.6**
Dividend Reinvestment and Share Purchase Plan		
Dividends reinvested in shares	**485,749**	**11.3**
Optional cash payments	**8,413**	**0.2**
End of period	**162,088,340**	**$ 3,326.2**

(e) Options and Warrants

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

Under the terms of the arrangement to acquire Clearnet, effective January 18, 2001, TELUS Corporation exchanged the warrants held by former Clearnet warrant holders. Each warrant entitles the holder to purchase a Non-Voting Share at a price of U.S.$10.00 per share until September 15, 2005. As at March 31, 2004, 0.7 million (December 31, 2003 – 0.8 million) warrants remained outstanding.

(f) Channel Stock Incentive Plan

The Company initiated the Plan to increase sales of various products and services by providing additional performance-based compensation in the form of Non-Voting Shares. The Company has reserved 0.2 million (December 31, 2003 – 0.2 million) shares for issuance under the Plan. As at March 31, 2004, shares earned, but not yet issued, are accrued as a component of Common Equity.

(g) Share Option Plans

The Company has a number of share option plans under which directors, officers and other employees receive options to purchase Common Shares and/or Non-Voting Shares at a price equal to the fair market value at the time of grant. Options granted under the plans may be exercised over specific periods not to exceed 10 years from the time of grant. At March 31, 2004, 28.9 million (December 31, 2003 – 29.5 million) shares are reserved for issuance under the share option plans.

The following table presents a summary of the activity related to the Company's share options plans for the three-month period ended March 31, 2004.

Period ended March 31, 2004	Three months	
	Number of shares	Weighted average option price
Outstanding, beginning of period	**25,773,832**	**$ 24.85**
Granted	**1,672,291**	**24.79**
Exercised	**(514,328)**	**13.25**
Forfeited	**(160,080)**	**26.96**
Expired (and cancelled)	**(130,981)**	**24.76**
Outstanding, end of period	**26,640,734**	**25.06**

(h) Contributed Surplus

The following table presents a summary of the activity related to the Company's contributed surplus for the three-month period ended March 31, 2004:

Period ended March 31, 2004 (millions)	Three months
Balance, beginning of period	$ **5.9**
Transitional amount for share-based compensation arising from share options (Note 2(a))	**24.7**
Adjusted opening balance	**30.6**
Share option expense recognized in period (Note 8(a))	**5.4**
Share option expense reclassified to Non-Voting Share capital account upon exercise of share options	**(0.5)**
Redemption premium on preference and preferred shares (c)	**(0.8)**
Balance, end of period	$ **34.7**

(i) Employee Share Purchase Plan

The Company has an employee share purchase plan under which eligible employees can purchase Common Shares through regular payroll deductions by contributing between 1% and 6% of their pay. The Company contributes two dollars for every five dollars contributed by an employee. The Company records its contributions as a component of operating expenses. For the three months ended March 31, 2004, the Company contributed $6.1 million (2003 – $5.7 million) to this plan. Under this plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the stock market. Prior to February 2001, when the issuance of shares from Treasury commenced, all Common Shares issued to employees under the plan were purchased on the market at normal trading prices. At March 31, 2004, 2.7 million (December 31, 2003 – 3.5 million) shares are reserved for issuance under the employee share purchase plan.

(j) Dividend Reinvestment and Share Purchase Plan

The Company has a Dividend Reinvestment and Share Purchase Plan under which eligible shareholders may acquire Non-Voting Shares through the reinvestment of dividends and additional optional cash payments. Excluding Non-Voting Shares purchased by way of additional optional cash payments, the Company, at its discretion, may offer the Non-Voting Shares at up to a 5% discount from the market price. Shares purchased through optional cash payments are subject to a minimum investment of $100 per transaction and a maximum investment of $20,000 per calendar year. Under this Plan, the Company has the option of offering shares from Treasury or having the trustee acquire shares in the market. At March 31, 2004, 1.8 million (December 31, 2003 – 2.3 million) shares are reserved for issuance under the Dividend Reinvestment and Share Purchase Plan.

15. Commitments and Contingent Liabilities

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

On May 30, 2002, and on July 31, 2002, the Canadian Radio-television and Telecommunications Commission ("CRTC") issued Decisions 2002-34 and 2002-43, respectively, and introduced the concept of a deferral account. The Company must make significant estimates and assumptions in respect of the deferral accounts given the complexity and interpretation required of Decisions 2002-34 and 2002-43. Accordingly, the Company estimates, and records, a liability ($93 million as of March 31, 2004 (December 31, 2003 – $76 million)) to the extent that activities it has undertaken, other qualifying events and realized rate reductions for Competitor Services do not extinguish it. Management is required to make estimates and assumptions in respect of the offsetting nature of these items. If the CRTC, upon its annual review of the Company's deferral account, disagrees with management's estimates and assumptions, the CRTC may adjust the deferral account balance and such adjustment may be material.

(b) Labour Negotiations

In 2000, TELUS commenced collective bargaining with the Telecommunications Workers Union for a new collective agreement replacing the five legacy agreements from BC TELECOM and Alberta-based TELUS. Following the Clearnet acquisition and subsequent transactions, the Mobility business assumed responsibility for separate negotiations for its unionized operations in British Columbia and Alberta. This is the first round of collective bargaining since the merger of BC TELECOM and TELUS Alberta and the Company's aim is to replace the multiple legacy collective agreements with a single collective agreement for the new bargaining unit.

During the fourth quarter of 2002, the Company's application to the Federal Minister of Labour, as provided for under the Canada Labour Code, requesting the appointment of a federal conciliator was granted.

In January 2003, the Company and the Telecommunications Workers Union signed a Maintenance of Activities agreement, as required by federal legislation. This agreement ensures the continuation of services to 911 emergency, police, fire, ambulance, hospitals and coast guard, with provisions to cover other potential emergency services necessary to prevent immediate and serious danger to the health or safety of the public, in the event of a work stoppage. Also in January 2003, the Company and the Telecommunications Workers Union agreed to an extension of the conciliation process to include a global review of all outstanding issues and a subsequent 60-day conciliation period. In the first quarter of 2004, the 60-day period concluded and the outstanding issues were not resolved.

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

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

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

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

(c) Guarantees

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

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

The Company has guaranteed a third party's financial obligation as a part of a facility naming rights agreement. The guarantee runs through to December 31, 2014, on a declining-balance basis and is of limited recourse.

In 2003, the Company guaranteed a customer's financial obligation to a third party in respect of telecommunication equipment that the Company is supplying to the customer. The Company could be required to make a payment to the third party in the event that the customer does not accept the telecommunications equipment as a result of a major failure of the equipment that prevents the equipment from meeting specified service levels. The guarantee runs through to July 1, 2004, and the Company has recourse to the underlying assets.

As at March 31, 2004, the Company has no liability recorded in respect of the aforementioned performance guarantees.

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

The following table quantifies the maximum undiscounted guarantee amounts as at March 31, 2004, without regard for the likelihood of having to make such payment.

(millions)	Performance guarantees[1]	Financial guarantees[1]	Total
2004 (balance of year)	$ **8.7**	$ **4.6**	$ **13.3**
2005	**2.0**	**3.9**	**5.9**
2006	**1.8**	**2.7**	**4.5**
2007	**1.6**	**1.3**	**2.9**
2008	**1.4**	**0.4**	**1.8**

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

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

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

As at March 31, 2004, the Company has no liability recorded in respect of indemnification obligations.

(d) Claims and Lawsuits

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.

16. Additional Financial Information

(a) Income Statement

Periods ended March 31 (millions)	Three months 2004	2003
Advertising expense	**$ 32.0**	$ 26.3

(b) Balance Sheet

(millions)	**As at March 31, 2004**	As at December 31, 2003
Accounts receivable		
Customer accounts receivable	**$ 679.7**	$ 624.1
Accrued receivables	**146.7**	158.4
Allowance for doubtful accounts	**(73.0)**	(67.6)
Other	**9.3**	8.9
	$ 762.7	$ 723.8
Prepaid expense and other		
Prepaid expenses	**$ 101.6**	$ 86.6
Deferred customer activation and installation costs	**69.8**	77.2
Other	**36.6**	8.6
	$ 208.0	$ 172.4
Accounts payable and accrued liabilities		
Trade accounts payable	**$ 240.5**	$ 377.6
Accrued liabilities	**461.0**	384.1
Payroll and other employee-related liabilities	**379.6**	430.4
Interest payable	**208.3**	72.4
Other	**43.4**	30.0
	$ 1,332.8	$ 1,294.5
Advance billings and customer deposits		
Advance billings	**$ 360.6**	$ 340.9
Deferred customer activation and installation fees	**69.8**	77.2
Customer deposits	**24.5**	26.9
	$ 454.9	$ 445.0

(c) Supplementary Cash Flow Information

Periods ended March 31 (millions)	Three months 2004	2003
Net change in non-cash working capital		
Accounts receivable	**$ (38.9)**	$ 87.0
Income and other taxes receivable	**69.9**	(211.6)
Inventories	**5.7**	10.2
Prepaid expenses and other	**(35.6)**	(17.5)
Accounts payable and accrued liabilities	**39.0**	(21.3)
Advance billings and customer deposits	**9.9**	8.8
	$ 50.0	$ (144.4)

17. Employee Future Benefits

(a) Defined benefit plans

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

Three-month periods ended March 31 (millions)	**2004** Incurred in period	**2004** Matching adjustments(1)	**2004** Recognized in period	2003 Incurred in period	2003 Matching adjustments(1)	2003 Recognized in period
Pension benefit plans						
Current service cost	**$ 17.6**	**$ —**	**$ 17.6**	$ 16.3	$ —	$ 16.3
Interest cost	**78.1**	**—**	**78.1**	76.7	—	76.7
Return on plan assets	**(164.2)**	**70.9**	**(93.3)**	143.3	(227.0)	(83.7)
Past service costs	**—**	**0.2**	**0.2**	—	0.2	0.2
Actuarial loss	**6.1**	**—**	**6.1**	7.3	—	7.3
Valuation allowance provided against accrued benefit asset	**—**	**6.4**	**6.4**	—	6.4	6.4
Amortization of transitional obligation (asset)	**—**	**(11.2)**	**(11.2)**	—	(11.2)	(11.2)
	$ (62.4)	**$ 66.3**	**$ 3.9**	$ 243.6	$ (231.6)	$ 12.0

(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 March 31 (millions)	**2004** Incurred in period	**2004** Matching adjustments(1)	**2004** Recognized in period	2003 Incurred in period	2003 Matching adjustments(1)	2003 Recognized in period
Other benefit plans						
Current service cost	**$ 1.2**	**$ —**	**$ 1.2**	$ 1.3	$ —	$ 1.3
Interest cost	**0.8**	**—**	**0.8**	0.9	—	0.9
Return on plan assets	**(0.7)**	**—**	**(0.7)**	(0.2)	(0.5)	(0.7)
Actuarial loss (gain)	**(0.3)**	**—**	**(0.3)**	(0.3)	—	(0.3)
Amortization of transitional obligation (asset)	**—**	**0.2**	**0.2**	—	0.2	0.2
	$ 1.0	**$ 0.2**	**$ 1.2**	$ 1.7	$ (0.3)	$ 1.4

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

(b) Employer contributions

The best estimate of fiscal 2004 employer contributions to the Company's defined benefit pension plans has been revised to $122.6 million (December 31, 2003 estimate – $104.8 million) to reflect the net acceleration of discretionary funding.

(c) Defined contribution plans

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

Periods ended March 31 (millions)	Three months 2004	2003
Union pension plan contributions	**$ 9.3**	$ 9.3
Other defined contribution pension plans	**6.3**	5.0
	$ 15.6	$ 14.3

18. Segmented Information

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

Periods ended March 31 (millions)	Communications 2004	Communications 2003	Mobility 2004	Mobility 2003	Eliminations 2004	Eliminations 2003	Consolidated 2004	Consolidated 2003
External revenue	**$ 1,171.1**	$ 1,208.5	**$ 632.7**	$ 532.4	**$ —**	$ —	**$ 1,803.8**	$ 1,740.9
Inter-segment revenue	**25.0**	23.4	**4.6**	3.7	**(29.6)**	(27.1)	**—**	—
Total operating revenue	**1,196.1**	1,231.9	**637.3**	536.1	**(29.6)**	(27.1)	**1,803.8**	1,740.9
Operations expense	**706.7**	739.7	**389.5**	357.5	**(29.6)**	(27.1)	**1,066.6**	1,070.1
Restructuring and work-force reduction costs	**15.9**	6.5	**—**	—	**—**	—	**15.9**	6.5
EBITDA(1)	**$ 473.5**	$ 485.7	**$ 247.8**	$ 178.6	**$ —**	$ —	**$ 721.3**	$ 664.3
CAPEX(2)	**$ 259.4**	$ 153.5	**$ 50.3**	$ 54.3	**$ —**	$ —	**$ 309.7**	$ 207.8
EBITDA less CAPEX	**$ 214.1**	$ 332.2	**$ 197.5**	$ 124.3	**$ —**	$ —	**$ 411.6**	$ 456.5

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

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

19. Related Party Transactions

In 2001, the Company entered into an agreement with Verizon Communications Inc. ("Verizon"), a significant shareholder, with respect to acquiring certain rights to Verizon's software, technology, services and other benefits, thereby replacing and amending a previous agreement between the Company and GTE Corporation. The agreement is renewable annually at the Company's sole option up to December 31, 2008, and it has been renewed for 2004. As of March 31, 2004, in aggregate, $312.1 million of specified software licences and a trademark licence have been acquired and recorded as capital and other assets. These assets are valued at fair market value at the date of acquisition as determined by an arm's-length party's appraisal. Assuming renewal through to 2008, the total commitment under the agreement is U.S.$377 million for the period 2001 to 2008 and the commitment remaining after March 31, 2004, is U.S.$97 million.

In the normal course of operations and on market terms and conditions, ongoing services and other benefits have been received and expensed. In connection with the 2001 disposition of TELUS' directory business to Verizon, the Company rebills, and collects for, directory listings on Verizon's behalf. The Company owed Verizon, on a net basis and including directory rebilling and collections done on Verizon's behalf as well as dividends payable, $40.5 million at March 31, 2004 (December 31, 2003 – $40.9 million).

Periods ended March 31 (millions)	Three months 2004	Three months 2003
Verizon agreement – Ongoing services and benefits expensed	**$ 6.6**	$ 7.5
Sales to Verizon (Verizon customers' usage of TELUS' telecommunication infrastructure and other)	**$ 10.1**	$ 12.1
Purchases from Verizon (TELUS customers' usage of Verizon's telecommunication infrastructure and other)	**$ 12.1**	$ 8.7

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

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

Periods ended March 31	Three months	
(millions)	**2004**	2003 (restated – Note 2(b))
Net income in accordance with Canadian GAAP	**$ 101.3**	$ 89.5
Adjustments:		
Operating expenses		
Operations (b)	**1.2**	(4.2)
Depreciation (c)	**6.5**	26.9
Amortization of intangible assets (d)	**(20.5)**	(20.5)
Financing costs (f)	**1.9**	2.4
Accounting for derivatives (g)	**—**	1.1
Taxes on the above adjustments (h)	**5.4**	(1.7)
Net income in accordance with U.S. GAAP	**95.8**	93.5
Other comprehensive income (loss) (i)	**(22.5)**	19.4
Comprehensive income (loss) in accordance with U.S. GAAP	**$ 73.3**	$ 112.9
Net income in accordance with U.S. GAAP per Common Share and Non-Voting (basic and diluted)	**$ 0.26**	$ 0.27

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

Periods ended March 31	Three months	
(millions)	**2004**	2003
Balance at beginning of year	**$ (844.7)**	$ (960.6)
Net income (loss) in accordance with U.S. GAAP	**95.8**	93.5
	(748.9)	(867.1)
Less: Common Share and Non-Voting Share dividends paid, or payable, in cash	**47.3**	42.7
Common Share and Non-Voting Share dividends reinvested, or to be reinvested, in shares issued from Treasury	**5.7**	9.2
Preference and preferred share dividends	**0.9**	0.9
Redemption premium on preference and preferred shares in excess of amount chargeable to contributed surplus (Note 14(c))	**2.5**	—
Balance at end of period	**$ (805.3)**	$ (919.9)

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

(millions)	**As at March 31, 2004**	As at December 31, 2003
Current Assets	**$ 1,783.3**	$ 1,517.3
Capital Assets		
Property, plant, equipment and other	**7,710.4**	7,757.8
Intangible assets subject to amortization	**2,591.6**	2,666.0
Intangible assets with indefinite lives	**2,954.6**	2,954.6
Goodwill	**3,536.6**	3,536.6
Deferred Income Taxes	**626.0**	709.0
Other Assets	**631.9**	623.1
	$ 19,834.4	$ 19,764.4
Current Liabilities	**$ 2,215.9**	$ 2,154.7
Long-Term Debt	**6,675.8**	6,628.4
Other Long-Term Liabilities	**1,353.1**	1,367.1
Deferred Income Taxes	**1,629.8**	1,638.8
Non-Controlling Interest	**9.7**	10.7
Shareholders' Equity	**7,950.1**	7,964.7
	$ 19,834.4	$ 19,764.4

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

(millions)	As at March 31, 2004	As at December 31, 2003 (restated – Note 2(b))
Shareholders' Equity under Canadian GAAP	**$ 6,540.2**	$ 6,521.2
Adjustments:		
Purchase versus Pooling Accounting (a), (c) – (f)	**1,502.0**	1,512.9
Additional goodwill on Clearnet purchase (e)	**123.5**	123.5
Convertible debentures (including conversion option) (f)	**(9.0)**	(8.8)
Accounting for derivatives (g)	**(0.1)**	(0.1)
Accumulated other comprehensive income (loss) (i)	**(206.5)**	(184.0)
Shareholders' Equity under U.S. GAAP	**$ 7,950.1**	$ 7,964.7
Composition of Shareholders' Equity under U.S. GAAP		
Preference and preferred shares		
TELUS Communications Inc. Preference Shares and Preferred Shares (Note 14(c))	**$ —**	$ 69.7
Common equity		
Common Shares	**4,302.9**	4,282.6
Non-Voting Shares	**4,614.5**	4,585.8
Options and warrants	**41.1**	51.5
Accrual for shares issuable under channel stock incentive plan	**0.6**	0.6
Cumulative foreign currency translation adjustment	**(2.3)**	(2.7)
Retained earnings (deficit)	**(805.3)**	(844.7)
Accumulated other comprehensive income (loss) (n)	**(206.5)**	(184.0)
Contributed surplus	**5.1**	5.9
	7,950.1	7,895.0
	$ 7,950.1	$ 7,964.7

(a) Merger of BC TELECOM and TELUS

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

(b) Operating Expenses – Operations

Periods ended March 31 (millions)	Three months 2004	2003
Future employee benefits	**$ (4.2)**	$ (4.2)
Share-based compensation	**5.4**	—
	$ 1.2	$ (4.2)

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

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

Periods ended March 31	Three months	
(millions except per share amounts)	**2004**	2003
Net income in accordance with U.S. GAAP		
As reported	**$ 95.8**	$ 93.5
Deduct: Share-based compensation arising from share options determined under fair value based method for all awards	**(6.8)**	(12.3)
Pro forma	**$ 89.0**	$ 81.2
Net income in accordance with U.S. GAAP per Common Share and Non-Voting Share		
Basic and diluted		
As reported	**$ 0.26**	$ 0.27
Pro forma	**$ 0.24**	$ 0.23

(c) Operating Expenses – Depreciation

Periods ended March 31	Three months	
(millions)	**2004**	2003
Merger of BC TELECOM and TELUS	**$ 6.5**	$ 8.9
Asset impairment	**—**	18.0
	$ 6.5	$ 26.9

Merger of BC TELECOM and TELUS: Under the purchase method, TELUS' capital assets on acquisition have been recorded at fair value rather than at their underlying cost (book values) to TELUS. Therefore, depreciation of such assets based on fair values at the date of acquisition under U.S. GAAP will be different than TELUS' depreciation based on underlying cost (book values). As of March 31, 2004, the amortization of this difference has been completed.

Asset impairment: In the first quarter of 1998, BC TELECOM took an asset impairment charge. In assessing if a capital asset is impaired, estimated future net cash flows are not discounted in computing the net recoverable amount. Under Canadian GAAP, at the time the assessment took place, the impairment amount recorded was the excess of the carrying amount over the recoverable amount; under U.S. GAAP the impairment amount recorded was the excess of the carrying amount over the discounted estimated future net cash flows that were used to determine the net recoverable amount. Under U.S. GAAP the net of tax charge taken in 1998 would be $232.2 million higher and would not be considered an extraordinary item. The annual depreciation expense would be approximately $72 million lower subsequent to when the increased impairment charge was taken under U.S. GAAP. As of December 31, 2003, the amortization of this difference had been completed.

(d) Operating Expenses – Amortization of Intangible Assets

As TELUS' intangible assets on acquisition have been recorded at their fair value, amortization of such assets, other than for those with indefinite lives, needs to be included under U.S. GAAP; consistent with prior years, amortization is calculated using the straight-line method.

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

	Cost	Accumulated Amortization	Net Book Value	
(millions)			**As at March 31, 2004**	As at December 31, 2003
Intangible assets subject to amortization				
Subscribers – wireline	$ 1,950.0	$ 228.6	**$ 1,721.4**	$ 1,731.0
Subscribers – wireless	250.0	170.6	**79.4**	90.3
	2,200.0	399.2	**1,800.8**	1,821.3
Intangible assets with indefinite lives				
Spectrum licences(1)	1,833.3	1,833.3	**—**	—
	$ 4,033.3	$ 2,232.5	**$ 1,800.8**	$ 1,821.3

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

Estimated aggregate amortization expense for intangible assets subject to amortization, calculated upon such assets held as at March 31, 2004, for each of the next five fiscal years is as follows:

Years ending December 31 (millions)		
2004 (balance of year)	$	**290.8**
2005		**274.3**
2006		**125.9**
2007		**67.4**
2008		**53.1**

(e) Goodwill

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

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

(f) Financing Costs

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

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

(g) Accounting for Derivatives

On January 1, 2001, the Company adopted, for U.S. GAAP purposes, the provisions of Statement of Financial Accounting Standards No. 133, "Accounting For Derivative Instruments and Hedging Activities." This standard requires that all derivatives be recognized as either assets or liabilities and measured at fair value. This is different from the Canadian GAAP treatment for financial instruments. Under U.S. GAAP, derivatives which are fair value hedges, together with the financial instrument being hedged, will be marked to market with adjustments reflected in income and derivatives which are cash flow hedges will be marked to market with adjustments reflected in comprehensive income.

(h) Income Taxes

Periods ended March 31	Three months			
(millions)		**2004**		2003
Current	$	**(29.2)**	$	(200.8)
Deferred		**86.4**		195.6
		57.2		(5.2)
Investment Tax Credits		**(0.5)**		(1.0)
	$	**56.7**	$	(6.2)

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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 March 31 ($ in millions)	2004			2003		
Basic blended federal and provincial tax at statutory income tax rates	**$**	**53.2**	**34.7%**	$	32.3	37.0%
Tax rate differential on settlement of prior year tax issues		**(1.6)**			(47.0)	
Revaluation of deferred income tax assets and liabilities for changes in statutory tax rates		**(0.8)**			—	
Investment Tax Credits		**(0.3)**			(0.6)	
Other		**0.9**			3.3	
		51.4	**33.5%**		(12.0)	NM(1)
Large corporations tax		**5.3**			5.8	
U.S. GAAP income tax expense (recovery)	**$**	**56.7**	**37.0%**	$	(6.2)	NM(1)

(1) "NM" – Not meaningful.

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

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", requires that a statement of comprehensive income be displayed with the same prominence as other financial statements. Comprehensive income, which incorporates net income, includes all changes in equity during a period except those resulting from investments by and distributions to owners. There is currently no requirement to disclose comprehensive income under Canadian GAAP.

Three month periods ended March 31 (millions)	2004			2003		
	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total	Unrealized fair value of derivative cash flow hedges	Minimum pension liability	Total
Amount arising	**$ (33.7)**	**$ (0.9)**	**$ (34.6)**	$ 24.2	$ (0.9)	$ 23.3
Income tax expense (recovery)	**(11.7)**	**(0.4)**	**(12.1)**	4.3	(0.4)	3.9
Net	**(22.0)**	**(0.5)**	**(22.5)**	19.9	(0.5)	19.4
Accumulated other comprehensive income (loss), beginning of period	**(73.6)**	**(110.4)**	**(184.0)**	115.7	(94.7)	21.0
Accumulated other comprehensive income (loss), end of period	**$ (95.6)**	**$ (110.9)**	**$ (206.5)**	$ 135.6	$ (95.2)	$ 40.4

(j) Recently Issued Accounting Standards Not Yet Implemented

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