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TELUS CORP
Form 6-K
August 10, 2004

Form 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of _____August _____ 2004

(Commission File No. 000-24876)

TELUS Corporation
(Translation of registrant's name into English)

21st Floor, 3777 Kingsway
Burnaby, British Columbia V5H 3Z7
Canada
(Address of principal registered offices)

Indicate by check mark whether the registrant files or will file annual reports
under cover of Form 20-F or Form 40-F:

Form 20-F _____ Form 40-F _____ X

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the
Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of
1934.

Yes _____ No _____ X

This Form 6-K consists of the following:

TELUS Corporation Second Quarter
Management's Discussion and Analysis
and Consolidated Financial Statements

Forward-looking statements

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This document and the management's discussion and analysis contain statements about expected future events and financial and operating results of TELUS Corporation (TELUS or the Company) that are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Factors that could cause actual results to differ materially include but are not limited to: competition; economic fluctuations; financing and debt requirements; tax matters; dividends; human resources (including the outcome of outstanding labour relations issues); technology (including reliance on systems and information technology); regulatory developments; process risks; health and safety; strategic partners; litigation; business continuity events and other risk factors discussed herein and listed from time to time in TELUS' reports, comprehensive public disclosure documents, including the Annual Information Form, and in other filings with securities commissions in Canada (filed on SEDAR at www.sedar.com) and the United States (filed on EDGAR at www.sec.gov). Risk factors associated with the potential completion of the Microcell Telecommunications Inc. (Microcell) bid include: approvals under the Competition Act (Canada) and by Industry Canada, realization of tax, capital and operating synergies, including reduced network expenses and subscriber churn rates, success in migrating subscribers and integrating certain systems and processes, and achieving long-term leverage targets.

See the Risks and uncertainties section in TELUS' 2003 annual Management's discussions and analysis for further information.

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

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Management's discussion and analysis - August 3, 2004

The following is a discussion of the consolidated financial condition and results of operations of TELUS Corporation for the three-month and six-month periods ended June 30, 2004 and 2003, and should be read together with TELUS' interim consolidated financial statements. This discussion contains forward-looking information that is qualified by reference to, and should be read together with, the Company's discussion regarding forward-looking statements above. TELUS' interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), which differ in certain respects from U.S. GAAP. See Note 20 to the interim consolidated financial statements for a summary of the principal differences between Canadian and U.S. GAAP as they relate to TELUS. The interim consolidated financial statements and Management's discussion and analysis have been reviewed by TELUS' Audit Committee and approved by TELUS' Board of Directors. All amounts are in Canadian dollars unless otherwise specified.

Forward looking information in this document does not include changes that may arise upon the purchase of Microcell should it proceed, unless otherwise indicated.

The following discussion is comprised of significant updates since

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Management's discussion and analysis in TELUS' 2003 Annual Report and 2004 first quarter report:

1. Core business, vision and strategy
2. Key performance drivers
3. Capability to deliver results
4. Results
5. Risks and uncertainties

1. Core business, vision and strategy

Strategic imperatives

TELUS continues to be guided by its six strategic imperatives established four years ago that serve as a guideline for the Company's actions. Some recent examples of TELUS' activities in support of these imperatives follow:

Building national capabilities across data, IP and wireless;

Partnering, acquiring and divesting to accelerate the implementation of TELUS' strategy;

Focusing relentlessly on the growth markets of data, IP and wireless

On May 13, 2004, TELUS announced its intention to acquire all of the publicly traded shares and warrants of Microcell, the Montreal-based operator of the Fido(R) (1) wireless network, through all-cash offers with an aggregate value of approximately \$1.1 billion. The offer price for each of the shares is \$29, the offer price for each Warrant 2005 is \$9.67 and the offer price for each Warrant 2008 is \$8.89. Funding for the offers will come from TELUS' available cash on hand and draw downs on its committed credit facilities. The offers were commenced by TELUS on May 17, 2004.

Management expects that the acquisition, if successful, would expand TELUS' national capabilities in the growing Canadian wireless industry, enhance TELUS Mobility's established strength as a leading national wireless carrier, particularly in Quebec and Ontario, and accelerate TELUS' growth in the wireless market. If completed, the transaction is also expected to provide TELUS with financial benefits, including tax, capital and operating synergies. On May 28, 2004, and confirmed on June 29, 2004, Microcell's board of directors recommended that its security holders not tender into the TELUS offers. On several occasions since the commencement of the offers, Microcell has publicly reported that it and its advisors were engaged in discussions with other interested parties regarding possible strategic and financial alternatives that may lead to competing bids or other transactions.

On June 4, 2004, the Competition Bureau advised TELUS that it has characterized the transactions contemplated by TELUS' offers as "very complex". Very complex merger transactions necessitate substantial assessments and a greater volume of work by the Competition Bureau than what is required in typical transactions. TELUS continues to co-operate with the Competition Bureau to facilitate its review of the contemplated transactions.

On June 22, 2004, TELUS and Microcell entered into a confidentiality agreement in which Microcell agreed to disclose certain non-public information relating to Microcell and its subsidiaries and affiliates to TELUS and its representatives. Following the execution of the confidentiality agreement, TELUS and certain of its representatives were granted access by Microcell to an electronic data room. Since that time, the Company has conducted due diligence on Microcell and its business and

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operations using the materials contained in the data room and certain other information provided in response to requests made by TELUS. In addition, members of Microcell's management team and its financial advisors for the offers made a presentation on June 29, 2004 to members of TELUS' management team. The June 22, 2004 expiry date of the offers was extended to July 22, 2004 and has been further extended to August 20, 2004.

On July 21, 2004, Microcell publicly announced that it had signed a number of additional confidentiality agreements with other interested parties. As of August 3, 2004, 78 days have elapsed since TELUS made its original offers. As of such date, the TELUS offers remain the only outstanding public bid for the publicly traded shares and warrants of Microcell. This summary is qualified in its entirety by reference to the Offers to Purchase and amendments thereto filed on SEDAR, and by reference to the Schedule TO and amendments thereto and accompanying exhibits that TELUS has filed with the United States Securities and Exchange Commission relating to its offers for the publicly traded shares and warrants of Microcell.

Providing integrated solutions that differentiate TELUS from its competitors

TELUS continues the transformation of its networks from circuit-based switching to packet-based routing. Over a year ago, TELUS began migrating voice traffic onto its Internet Protocol (IP) network or Next Generation Network (NGN), and became one of the first companies in the world to deliver carrier-grade Voice over IP calls. As of May 2004, all voice traffic placed in B.C. and Alberta destined for Province of Quebec area codes is carried over TELUS' NGN. The migration of calls is an important step in the transformation of TELUS' network into a single ubiquitous IP network design that carries high quality voice, data, and video applications - one that will eventually eliminate the need for separate networks to carry these same applications.

As a result of research and development activities TELUS has undertaken, the next phase of the IP-One(TM) product family was launched on June 14, 2004, and is currently provided to businesses in 24 cities in Ontario and Quebec. IP-One uses TELUS' NGN to route calls and data, while providing business customers with a full suite of advanced applications and services. It gives customers the opportunity to reduce operational expenses by eliminating costs associated with installing, managing and supporting three separate connections. IP-One also provides the efficiency and accessibility of integrated messaging that allows standards-based e-mail programs to retrieve voice-mail.

In the first half of 2004, TELUS introduced new consumer Internet-based services. A wireless home networking solution was introduced for residential customers in B.C. and Alberta for an additional \$8 per month plus the cost of a home networking kit. The service includes enhanced Internet access with speeds up to 2.5 megabits per second and capability to connect multiple computers through a wireless network. Higher speed dial-up services were also introduced in B.C. and Alberta for an additional \$2.95 per month and are soon expected to be introduced in Quebec. In addition, TELUS expanded the selection of legal music services by offering 75 continuous, high-quality and commercial free music channels to suit a variety of tastes for a regular monthly cost of \$4.99. Other new services are currently being readied for launch.

(1) Fido is a registered trademark of Microcell.

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2. Key performance drivers

TELUS is focused on addressing six 2004 corporate priorities to help drive operational performance. Certain recent examples of developments or progress on these priorities follow:

Reaching a collective agreement

TELUS Communications Inc. ("TCI") and the Telecommunications Workers Union ("TWU") have not made progress in reaching an agreement as a result of a number of outstanding appeals to the Canada Industrial Relations Board ("CIRB") and the Federal Court of Appeal.

In February 2004, TCI filed applications with both the CIRB and the Federal Court of Appeal seeking a review of the CIRB's earlier decisions, which imposed a communications ban and required TCI to offer binding arbitration to the TWU. On April 8, 2004, the CIRB rendered the full reasons (Decision 271) regarding the complaints that led to its earlier decisions. TCI sought reconsideration and a judicial review of the April 8, 2004 CIRB decision that imposed a further communications ban on TCI, prohibiting communications with bargaining unit employees on matters of employment and collective interest until such time as the conditions of the Canada Labour Code with respect to gaining the right to strike or lockout have been satisfied. This matter is still before the CIRB and the Federal Court of Appeal.

On May 21, 2004, in Letter Decision 1088, the CIRB declared that TELE-MOBILE COMPANY, which operates a national wireless business under the TELUS Mobility trade name, and TCI are a single employer for labour relations purposes. The CIRB also determined that TELUS Mobility's non-unionized team members, predominantly located in Ontario and Quebec, performing work similar to their unionized Mobility segment counterparts in Alberta and British Columbia, should be included in the bargaining unit represented by the TWU without a representational vote. On June 23, 2004, both TCI and TELUS Mobility filed an application to the Federal Court of Appeal for a stay and a judicial review of CIRB Letter Decision 1088. On June 24, 2004, the CIRB issued in Decision 278 the full reasons of two of three panel members supporting Letter Decision 1088. The reasons supporting one dissenting panel member's opinion were issued in late July 2004. On July 7, 2004, TCI and TELUS Mobility filed applications with the Federal Court of Appeal for judicial review of Decision 278. Those applications have been consolidated with the stay and judicial review applications filed in June 2004. The application for a stay was heard on July 19, 2004. The stay was subsequently denied, while clarifying that the communications ban does not apply to TELUS Mobility. The Federal Court of Appeal held that TELUS Mobility is free to lawfully communicate with its eastern employees affected by the CIRB's Decisions 1088 and 271 and is not subject to the April 8th communications ban imposed by the CIRB. The other aspects of the stay application were denied on the basis that although the employers provided examples of irreparable harm there was no evidence of imminent irreparable harm. The Federal Court of Appeal has confirmed, however, that TCI and TELUS Mobility may bring another application for a stay should the circumstances change such that irreparable harm is imminent. The judicial review application is scheduled to be heard in early October 2004.

Growing brand value through superior customer service

TELUS has overcome the short-term wireline customer service challenges experienced in late summer 2003 and has been consistently surpassing historical service levels on various indicators in the first half of

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2004. These indicators include not only our internal ones, but also certain ones reported to the Canadian Radio-television and Telecommunications Commission ("CRTC"). Management remains focused on continuing to maintain high levels of service through the balance of the year.

TELUS Mobility continues to deliver superior customer service by focusing on such areas as customer care and high network quality. The success of this approach is evidenced by our world-class low subscriber churn rate of 1.3% per month.

Enhancing TELUS Mobility's leadership position in wireless

TELUS Mobility continued to build on its solid performance from the first quarter of 2004. Network revenue grew by 18.8% for the second quarter and 19.6% for the first six months of 2004 when compared to the same periods last year. When coupled with a very low churn rate of 1.3% and operating efficiencies, EBITDA increased by a notable 42.2% and 40.6% for the second quarter and first six months. In addition, cash flow (EBITDA less capital expenditures) grew significantly by 68.7% to \$207.8 million for the second quarter and 63.8% to \$405.3 million for the first six months of 2004 as a result of strong Network revenue growth. It is expected that the annual target of 375,000 to 425,000 subscriber net additions will be achieved, while the 2004 annual revenue and EBITDA guidance has been increased by \$25 million and \$50 million, respectively, this quarter. Guidance for annual EBITDA was previously increased in the first quarter of 2004 by \$25 million over the original target, for a cumulative EBITDA increase of \$75 million over the original 2004 annual target. If achieved, the midpoint of the revised annual revenue and EBITDA guidance anticipates growth of 14.4% and 31.8%, respectively. The acquisition of Microcell, if successful, would accelerate TELUS Mobility's strategy of national growth principally in Quebec and Ontario.

Driving towards leadership in high-speed Internet

For the first six months of 2004, TELUS' high-speed subscriber net additions of 62,700 exceeded the net additions recorded for the same period in 2003 by 6.6% and represents half of the annual 2004 target of 125,000. The Company estimates that it has obtained the majority of the market's high-speed Internet net additions in its incumbent territories in 2004, increasing its overall market share. For the second quarter of 2004, high-speed subscriber net additions decreased to 19,100 from the 26,700 in the same period in 2003, as a result of increased deactivations, notably including those following the expiry of promotional discount periods related to recently discontinued service plans. The Company expects that the annual target of 125,000 high-speed Internet net additions will be achieved.

3. Capability to deliver results

Operational capabilities - TELUS Communications

The wireline marketplace is evolving rapidly, requiring TELUS to be more innovative, efficient and competitive. To retain and attract customers, TELUS must be able to quickly deliver innovative services and pricing packages. At the same time, the rapid pace of technological change makes it necessary to have tariff decisions made as quickly as possible, as many of TELUS' competitors are not subject to the same price and win-back regulation.

TELUS is participating in the CRTC's process for determining the

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regulatory framework for voice communication services using Internet protocol, also known as "VOIP". The Company has tabled its views that it should be able to offer VOIP, with the same regulations applied to all VOIP service providers, including cable-TV companies and foreign-based competitors. For further discussion, see Risks and uncertainties, Regulation - wireline operations.

A number of initiatives to improve internal systems and processes are underway. One project that is currently in the design stage has a mandate to simplify processes and technology for residential customers. The project will focus on streamlining processes and improving interoperability of systems, from the sales request and order entry through to service assurance, billing, and credit and collections. A parallel project seeks to establish uniform national fulfillment processes for data and enhanced services including order management. Eventually, numerous legacy systems will be decommissioned.

Operational capabilities - TELUS Mobility

With the wireless marketplace exhibiting strong growth, TELUS Mobility has managed best-in-class results in many respects. Focus on customer care, value-added solutions and superior network quality provides the customer with an exceptional service experience. With the focus on profitable wireless growth, TELUS Mobility is generating significant EBITDA margins ahead of its peer group. TELUS Mobility's performance in the marketplace and its ability to efficiently provide value to its customers, have positioned TELUS well. TELUS Mobility has previously demonstrated its ability to successfully execute on significant wireless merger integration to realize synergies and generate rapidly increasing cash flows, which should allow it to attain benefits from a successful bid for Microcell.

Liquidity and capital resources

At the end of June 2004, after making semi-annual interest payments, TELUS had a \$357.7 million cash balance and access to unutilized credit facilities totaling nearly \$1.6 billion. In addition, TELUS has obtained a fully underwritten commitment for a \$500 million (or U.S. Dollar equivalent) unsecured bank credit facility, which upon documentation, would be available until the earlier of October 31, 2005, and 364 days after the completion date of the Company's offers to purchase Microcell, should in fact this event occur. Free cash flow of \$672.8 million for the first half of 2004 benefited from the receipt of approximately \$180 million of tax refunds and \$19 million interest income, which are not expected to recur in the second half of 2004. Based on June year-to-date results and expectations for the second half of 2004, TELUS has increased its annual guidance for free cash flow to a range of \$1.15 to \$1.25 billion. The Company believes it has sufficient internally generated cash flow from operations and access to credit facilities to fund capital expenditures, make payments under restructuring programs, make planned 2004 debt repayments, pay dividends, and complete the \$1.1 billion offer to purchase Microcell.

4. Results

Critical accounting estimates

The Company's critical accounting estimates are discussed in the Company's 2003 annual Management's discussion and analysis. The preparation of financial statements in conformity with generally accepted

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accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting policy developments

Share-based compensation (Note 2(a) of the interim consolidated financial statements)

Commencing with the Company's 2004 fiscal year, the amended recommendations of the CICA for accounting for share-based compensation (such amendments arising in 2003) (CICA Handbook Section 3870) apply to the Company. The Company has selected the modified-prospective transition method (also referred to as the retroactive application without restatement method), implemented effective January 1, 2004. 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 have been restated.

Equity settled obligations (Note 2(b) of the interim consolidated financial statements)

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 (previously classified as a component of equity) and the associated interest expense correspondingly being classified with financing costs on the consolidated statements of income (previously recorded net of income taxes as an adjustment to retained earnings). 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. As a result of the reclassification of convertible debentures, minor changes were effected in historical Net debt to EBITDA ratios, and historical Net debt to total capitalization ratios. The reclassification of the associated interest expense also resulted in minor changes in historical EBITDA interest coverage ratios.

Materiality for disclosure

Management determines whether or not information is "material" based on whether it believes a reasonable investor's decision to buy, sell or hold securities in the Company would likely be influenced or changed if the information were omitted or misstated.

Quarterly results summary

(\$ in millions, except

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per share amounts)	2004 Q2	2004 Q1	2003 Q4	2003 Q3	2003 Q2	2003 Q1

Segmented revenue (external)						
TELUS						
Communications segment	1,189.0	1,171.1	1,182.4	1,186.3	1,209.2	1,208.5
TELUS Mobility segment	676.6	632.7	643.2	619.9	564.1	532.4

Operating revenues (consolidated)	1,865.6	1,803.8	1,825.6	1,806.2	1,773.3	1,740.9
Restructuring and workforce reduction costs	0.7	15.9	16.2	2.3	3.3	6.5
Net income (loss) (1)	172.3	101.3	47.8	114.1	73.0	89.5
Per weighted average Common Share and Non- Voting Share outstanding						
- basic	0.48	0.28	0.13	0.32	0.21	0.26
- diluted	0.48	0.28	0.13	0.32	0.21	0.26
Dividends declared per Common Share and Non-Voting Share outstanding	0.15	0.15	0.15	0.15	0.15	0.15

(\$ in millions, except
per share amounts) 2002 Q4 2002 Q3

Segmented revenue (external)		
TELUS		
Communications segment	1,244.2	1,233.8
TELUS Mobility segment	550.2	532.5

Operating revenues (consolidated)	1,794.4	1,766.3
Restructuring and workforce reduction costs	241.0	313.3
Net income (loss) (1)	(140.9)	(109.2)
Per weighted average Common Share and Non- Voting Share outstanding		
- basic	(0.41)	(0.35)
- diluted	(0.41)	(0.35)
Dividends declared per Common Share and Non-Voting Share outstanding	0.15	0.15

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The trend in Operating revenues continued to reflect growing TELUS Mobility segment revenues attributed to subscriber growth and improved average revenue per subscriber unit ("ARPU"). This positive trend was partly offset by decreasing TELUS Communications Segment voice local, long distance, and equipment sales revenues and soft data revenue growth, consistent with the Canadian wireline industry. The trend of decreasing Communications segment revenues includes the impacts of regulatory price cap decisions.

Significant restructuring charges were recorded in 2002 primarily as a result of the Communications segment Operational Efficiency Program, which contributed to improved operating profitability in 2003 and 2004. Restructuring charges in 2003 and 2004 were also for Communications segment restructuring activities. Net income and earnings per share reflect improved wireline and wireless operating profitability, as well as decreasing financing costs.

For five of the periods shown above, Net income and earnings per share included significant favourable impacts for the settlement of tax matters (including investment tax credits and related interest) and tax losses carried back to prior years, as shown in the table below:

(\$ in millions, except per share amounts)	2004 Q2	2004 Q1	2003 Q4	2003 Q3	2003 Q2	2003 Q1	2002 Q4	2002 Q3

Approximate Net income impact	45	13	-	19	-	53	18	-
Approximate per share impact	0.13	0.04	-	0.05	-	0.15	0.05	-

Related party transactions

In 2001, the Company entered into an agreement with Verizon Communications Inc. ("Verizon"), a significant shareholder, with respect to acquiring certain rights to Verizon's software, technology, services and other benefits, thereby replacing and amending a previous agreement between the Company and GTE Corporation. The agreement is renewable annually at the Company's sole option up to December 31, 2008, and it has been renewed for 2004. As of June 30, 2004, in aggregate, \$312.1 million of specified software licences and a trademark licence have been acquired and recorded as capital and other assets. These assets are valued at fair market value at the date of acquisition as determined by an arm's-length party's appraisal. Assuming renewal through to 2008, the total commitment under the agreement is U.S.\$377 million for the period 2001 to 2008 and the commitment remaining after June 30, 2004, is U.S.\$92 million.

Results of operations

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Consolidated highlights

(\$ in millions except per share amounts)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Operating revenues	1,865.6	1,773.3	5.2%	3,669.4	3,514.2	4.4%
EBITDA(1)	784.8	716.5	9.5%	1,506.1	1,380.8	9.1%
Net income	172.3	73.0	136.0%	273.6	162.5	68.4%
Earnings per share, basic and diluted	0.48	0.21	128.6%	0.76	0.46	65.2%
Cash dividends declared per share	0.15	0.15	-	0.30	0.30	-
Cash provided by operating activities	489.0	469.6	4.1%	1,077.1	874.3	23.2%
Capital expenditures	346.1	305.5	13.3%	655.8	513.3	27.8%
Free cash flow(2)	229.5	65.5	NM	672.8	333.1	102.0%

NM - not meaningful

Non-GAAP measures used by management to evaluate performance of business units and segments

Consolidated Operating revenue and EBITDA increased significantly in the second quarter of 2004, when compared with the same period in 2003, primarily as a result of 18.8% growth in TELUS Mobility Network revenues, with only an 8.0% increase in TELUS Mobility operations expenses. TELUS' Communications segment experienced a 1.7% decrease in Operating revenue, while reducing operations expenses by 0.3%.

Consolidated Financing costs decreased by \$15.1 million in the second quarter of 2004, when compared with the same period in 2003, as a result of lower interest on long-term and short-term debt, and increased interest income from the settlement of tax matters. Income before taxes and non-controlling interest increased by \$90.5 million to \$218.3 million in the second quarter of 2004 as compared with the second quarter of 2003, as a result of improved operating profitability and lower net financing and other costs. Decreased Income taxes, despite higher income, resulted from a favourable income tax adjustment of \$34.2 million recorded in the second quarter of 2004 for tax losses carried back to prior years and the settlement of tax matters relating to prior years, which had higher tax rates.

Basic and diluted earnings per share increased by 27 cents in the second quarter of 2004, as compared with the same period last year as a result of higher Net income, partly offset by a larger number of shares outstanding. The impact of tax settlements and related interest contributed approximately 13 cents per share.

Cash provided by operating activities increased in the second quarter of 2004, when compared with the second quarter of 2003, principally due to the recovery of income taxes associated with settlement of tax matters

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(including interest income), improved operating profitability, lower payments under restructuring programs, and lower interest expense, partly offset by an increase in contributions to defined benefit plans and other working capital changes. Increased free cash flow was net of higher capital expenditures. Communications segment capital expenditures increased by 17.7% due to investment in internal systems and processes, new service development and infrastructure to improve customer service and support new customers.

Communications segment

- Operating revenues decreased by \$20.2 million or 1.7% in the second quarter of 2004, when compared with the same period in 2003, while EBITDA decreased by \$16.6 million or 3.2% as lower revenues were only partly offset by lower operations expenses and restructuring charges.
- Total Internet subscribers increased by 10,700 in the second quarter of 2004, compared with 6,400 in second quarter of 2003, primarily as a result of lower net deactivations of dial-up Internet subscribers.
- Network access lines decreased by 21,000 during the second quarter of 2004 as a result of competition and technological substitution.
- Cash flow (EBITDA less capital expenditures) decreased by \$56.9 million to \$230.9 million in the second quarter of 2004, when compared with the same period in 2003, primarily because of an increase in capital spending and lower revenues.

Mobility segment

- Operating revenues grew by \$112.5 million or 19.9% to \$676.6 million in the second quarter of 2004, when compared with the same period in 2003, while EBITDA increased by \$84.9 million or 42.2% to \$286.2 million.
- ARPU (average revenue per subscriber unit) increased by \$3 to \$59, representing a sixth consecutive quarter of year over year increases, while blended monthly churn remained at a low 1.3%. Notably, postpaid churn was 1.0% in the quarter.
- Subscriber net additions were 113,700 or 10.6% higher than the second quarter of 2003. Notably, higher revenue-generating postpaid subscriber net additions increased by 27.7%, representing a fourth successive quarter of positive growth. Postpaid subscribers represented 91.1% of total subscriber net additions in the second quarter of 2004.
- Cost of acquisition per gross subscriber addition ("COA") improved to \$381 from \$428, a notable achievement when coupled with significant subscriber growth.
- Cash flow (EBITDA less capital expenditures) increased by \$84.6 million or 68.7% to a TELUS Mobility quarterly record of \$207.8 million.

The following discussion for Operating revenues, Operations expense, Restructuring and workforce reduction costs, EBITDA and Capital expenditures is presented on a segmented basis. All other discussion is presented for the consolidated financial results.

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Operating revenues - Communications segment	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
(\$ millions)						
Voice local	543.8	541.3	0.5 %	1,072.7	1,080.1	(0.7)%
Voice long distance	228.5	239.2	(4.5)%	458.1	490.3	(6.6)%
Data	345.7	352.4	(1.9)%	685.5	695.2	(1.4)%
Other	71.0	76.3	(6.9)%	143.8	152.1	(5.5)%
External operating revenue	1,189.0	1,209.2	(1.7)%	2,360.1	2,417.7	(2.4)%
Intersegment revenue	22.1	23.4	(5.6)%	47.1	46.8	0.6 %
Total operating revenue	1,211.1	1,232.6	(1.7)%	2,407.2	2,464.5	(2.3)%

Key operating indicators - Communications segment

At June 30

(000s)	2004	2003	Change
Network access lines(1)	4,827	4,887	(1.2)%
High-speed Internet subscribers	624.3	468.8	33.2%
Dial-up Internet subscribers	300.7	351.8	(14.5)%
Total Internet subscribers(2)	925.0	820.6	12.7%

(000s)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Change in network access lines	(21)	(26)	19.2%	(39)	(24)	(62.5)%
High-speed Internet net additions	19.1	26.7	(28.5)%	62.7	58.8	6.6%
Dial-up Internet net reductions	(8.4)	(20.3)	58.6%	(19.1)	(39.9)	52.1%
Total Internet subscriber net additions	10.7	6.4	67.2%	43.6	18.9	130.7%

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The Communications segment continued to experience an industry-wide trend of declining traditional revenues and softness in data revenue growth.

- Voice local revenue increased slightly in the second quarter of 2004 and decreased in first six months of 2004, when compared with the same periods in 2003. Included in the results for the second quarter of 2004 was a positive adjustment of \$10.2 million resulting from CRTC Decision 2004-42, released in June 2004, in which TELUS was allowed to recover costs to support local number portability and local competition capital investments for the period June 2002 to May 2004. Excluding this adjustment, the decrease was primarily as a result of fewer access lines, partly offset by a modest increase in interconnection revenue, and implementation of approved rate increases for business single and multi-line services effective June 1, 2004. Enhanced service revenues decreased in the second quarter and first six months of 2004, when compared with the same periods in 2003, but showed some growth over the first quarter of 2004.

Consumer network access lines decreased by 22,000 and 33,000, respectively, during the second quarter and first six months of 2004, as compared with decreases of 24,000 and 26,000, respectively, for the same periods in 2003. Consumer line losses resulted from competitive activity and technological substitution, including substitution to wireless. Business network access lines increased by 1,000 and decreased by 6,000, respectively, during the second quarter and first six months of 2004, as compared with a decrease of 2,000 during the second quarter of 2003 and an increase of 2,000 during the first six months of 2003. For the second quarter of 2004, growth in non-incumbent local exchange carrier ("Non-ILEC") business access lines exceeded incumbent local exchange carrier ("ILEC") business line losses to competition and migration to more efficient ISDN services. For the first six months of 2004, business lines decreased primarily as a result of ILEC Centrex line losses to competition and migration to ISDN data services. It is expected that the trend of declining network access lines will continue.

- Voice long distance revenue continued to decrease, but at a slower rate in the second quarter of 2004, compared with the first quarter of 2004. The decrease was primarily a result of fewer consumer minutes, price competition, and technological substitution. This was partly offset by a \$1 increase this quarter in certain monthly long distance plan administrative charges, effective June 2004, as well as increased business long distance minute volumes. Wholesale settlement revenues were relatively unchanged as higher volumes were nearly offset by lower prices. Price competition and substitution to alternative technologies are expected to continue.
- Communications segment data revenue for the second quarter and first six-months of 2003 included approximately \$2.8 million and \$13.6 million, respectively, of application development revenues from assets that were divested during 2003. As a result of these divestitures, 2003 revenues totaling \$17.8 million will not recur in the full year 2004. Data revenues normalized for the disposal of assets decreased by \$3.9 million or 1.1% in the second quarter of 2004 and increased by \$4.0 million or 0.6% in the first six months of 2004, when compared with the same periods in 2003.

Internet and enhanced data service revenues increased by \$11.9 million and \$16.5 million, respectively, for the second quarter and first six months of 2004, when compared with the same periods in 2003, primarily

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as a result of the 155,500 increase in the high-speed Internet subscriber base over the last 12 months, partly offset by lower introductory pricing for new subscribers and the 51,100 reduction in dial-up subscribers over the last 12 months. The decrease in dial-up subscribers is attributed mainly to conversions to high-speed Internet. Managed workplace revenues increased by \$8.9 million and \$21.2 million, respectively, due to higher functional outsourcing services. Partly offsetting growth in Internet, enhanced data and managed workplace revenues were lower basic data services and equipment sales.

- Other revenue decreased in the second quarter and first six months of 2004, when compared with the same periods in 2003, primarily as a result of lower voice equipment sales and the conclusion in the first quarter of 2004 of recognition of deferred individual line service grant revenues. The annual impact of the conclusion of individual line service grants will be lower revenues of \$6.7 million in 2004, when compared with 2003. Individual line service grants were provided in respect of the conversion of multi-party lines to single lines in high cost rural areas in Alberta in the early 1990s.
- Intersegment revenues represent services provided by the Communications segment to the Mobility segment. These revenues are eliminated upon consolidation together with the associated expense in TELUS Mobility.

Total external operating revenue discussed above included Non-ILEC revenues of \$130.6 million and \$259.0 million, respectively, for the second quarter and first six months of 2004, as compared with \$138.6 million and \$279.3 million for the same periods in 2003. This represents decreases of \$8.0 million or 5.8% and \$20.3 million or 7.3%, respectively. Growth in Non-ILEC application development revenues was affected by the disposal of certain assets in 2003 as discussed in data revenues above. Normalized for asset disposals, Non-ILEC revenues for the second quarter and first six-months of 2004 decreased by approximately \$5.2 million or 3.8% and \$6.7 million or 2.5%, respectively, as reduced revenues from lower margin equipment sales were partly offset by increased wholesale traffic and a shift towards higher quality recurring revenue sources associated with large complex contracts.

Operating revenues - Mobility segment (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Network revenue	625.5	526.4	18.8%	1,217.9	1,018.5	19.6%
Equipment revenue	51.1	37.7	35.5%	91.4	78.0	17.2%
External operating revenue	676.6	564.1	19.9%	1,309.3	1,096.5	19.4%
Intersegment revenue	5.6	3.9	43.6%	10.2	7.6	34.2%
Total operating revenue	682.2	568.0	20.1%	1,319.5	1,104.1	19.5%

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Key operating indicators - Mobility segment

(000s)	At June 30					
	2004	2003	Change			
Subscribers						
- postpaid	2,980.1	2,615.0	14.0%			
Subscribers						
- prepaid	633.7	550.1	15.2%			
Subscribers						
- total(1)	3,613.8	3,165.1	14.2%			
Digital POPs(2) covered including roaming/resale (millions) (3)	29.7	28.0	6.1%			
(000s)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Subscriber net additions - postpaid	103.6	81.1	27.7%	168.3	124.4	35.3%
Subscriber net additions - prepaid	10.1	21.7	(53.5)%	21.5	45.1	(52.3)%
Subscriber net additions - total	113.7	102.8	10.6%	189.8	169.5	12.0%
Churn, per month (%) (4a)	1.32	1.30	-	1.40	1.41	-
COA(4b) per gross subscriber addition (\$)(4c)	381	428	(11.0)%	382	427	(10.5)%
ARPU (\$)(4d)	59	56	5.4%	58	55	5.5%
Average minutes of use per subscriber per month ("MOU")	390	342	14.0%	376	329	14.3%
EBITDA to network revenue (%)	45.8	38.2	7.6 pts	43.8	37.3	6.5 pts
Retention spend to network revenue (4e) (%)	4.9	4.7	0.2 pts	4.9	4.1	0.8 pts
EBITDA excluding Acquisition COA (\$ millions)(4f)	383.2	297.3	28.9%	719.3	563.4	27.7%

- TELUS Mobility Network revenue is generated from monthly billings for access fees, incremental airtime charges, prepaid time consumed or

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expired, wireless Internet services and fees for value-added services. Network revenue increased 18.8% for the quarter ended June 30, 2004 and 19.6% for the first six months of 2004 as compared with the same periods in 2003. This growth was a result of the continued expansion of the subscriber base by 14.2% to approximately 3.6 million subscribers combined with increased ARPU. As a result of an overall 14.0% increase in average minutes of use ("MOU") per subscriber per month, an increase in roaming revenue and increased acceptance of data and Internet based products, including picture messaging, ARPU increased to a Canadian industry-leading \$59 in the second quarter of 2004 as compared with \$56 in 2003, representing a sixth successive quarter of year over year increases. Similarly, ARPU for the first six months of 2004 was \$58 as compared to \$55 for the same period last year.

Average minutes of use per subscriber per month were 390 in the second quarter and 376 for the first six months of 2004 as compared with 342 and 329 for the same periods last year. At June 30, 2004, postpaid subscribers were maintained at 82.5% of the total cumulative subscriber base as compared with one-year earlier, contributing to the significant ARPU premium TELUS Mobility enjoys over its competitors. Postpaid subscriber net additions of 103,600 for the second quarter of 2004 represented 91.1% of all net additions as compared with 81,100 (78.9%) for the corresponding period in 2003; a significant increase of 27.7%. Similarly, postpaid subscriber net additions of 168,300 for the first six months of 2004 represented 88.7% of total net additions as compared with 73.4% for the same period in 2003. This was the fourth consecutive quarter of year over year positive net postpaid subscriber growth. Moreover, total subscriber net additions for the second quarter of 2004 improved by 10.6% over the same quarter in 2003. This overall positive trend was initiated during Q4 2003 with TELUS' exclusive camera phones and picture messaging service and has continued with the recent launch of two new BlackBerry(R) (2) handhelds.

(2) BlackBerry is a registered trademark of Research in Motion Limited

Blended postpaid and prepaid churn was relatively flat at 1.32% in the second quarter of 2004 as compared with the second quarter of 2003. Churn for the first six months of 2004 was also relatively flat at 1.40% with that for the same period in 2003. Deactivations were 140,800 and 295,000 for the second quarter and first six months of 2004, respectively, as compared with 121,400 and 260,400 for the same periods last year. These were notable accomplishments in a market characterized by vigorous competition. These churn and deactivation results reflect a high level of client satisfaction, which can be attributed to improved network quality and coverage, excellent client service levels, client contracts for one to three years as part of loyalty and retention programs and specific grandfathered rate plans.

- Equipment sales, rental and service revenue increased by 35.5% for the second quarter and 17.2% for the first six months of 2004 as compared to the corresponding periods in 2003. Handset revenue increased mainly due to subscriber growth brought about by a stronger wireless market, increased promotional, retention and contracting activity, and to a lesser extent, a shift in product mix to higher price handsets. Gross subscriber additions grew to 254,500 for the second quarter and 484,800 for the first six months of 2004 as compared to 224,200 and 429,900 for the same periods in 2003. Handset revenues associated with gross subscriber activations are included in acquisition COA.

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

Operations expense - Communications segment (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Salaries, benefits and other employee- related costs(1)	414.8	415.8	(0.2)%	807.9	818.5	(1.3)%
Other operations expenses(1)	297.0	298.3	(0.4)%	610.6	635.3	(3.9)%
Total operations expense	711.8	714.1	(0.3)%	1,418.5	1,453.8	(2.4)%

Communications segment Operations expense decreased slightly in second quarter and first six months of 2004, when compared with the same periods in 2003. Increased expenses including costs associated with a new partnership and in-sourcing call centre services were more than offset by Operational Efficiency Program savings and lower Intercarrier facilities, transit and termination costs. Incremental savings in salaries, benefits and employee-related overhead costs under the Operational Efficiency Program (duration from 2001 to 2003) were \$15 million and \$38 million, respectively, in the second quarter and the first six months of 2004. Other Operational Efficiency Program savings of \$12 million for the second quarter and first six months of 2004 included reduced real estate costs and software licence fees. There were 19,036 full-time equivalent employees at the end of June 2004 (including 533 staff added for in-sourcing call centre services in Montreal and a partnership with Calgary Health Region), as compared to 18,923 full-time equivalent employees one year earlier. When adjusted for staff at new in-sourcing and partnership services, full-time equivalent employees decreased by 2.2% from one year earlier.

- Salaries, benefits and employee-related expenses decreased in the second quarter and first six months of 2004, when compared with the same periods in 2003, primarily due to Operational Efficiency Program savings. In addition, pension expense for defined benefit and defined contribution plans decreased by \$6.9 million and \$13.2 million, respectively for the second quarter and first six months, primarily as a result of increased investment returns in 2003. TELUS' Communications segment annual pension expense is expected to decrease by approximately \$25.0 million for 2004, when compared with 2003.

These reductions were partly offset by other increases. Additional costs for the new partnership with the Calgary Health Region and establishment of the new Montreal call centre were \$6.5 million and \$12.8 million, respectively, in the second quarter and first six months of 2004. These increased costs were partly offset by savings on outsourcing of approximately \$2.0 million and \$3.8 million, respectively, which are included in Other operations expense. Staff increased by 157 for these two functions since the beginning of 2004.

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Non-cash share-based compensation expense recognized commencing January 1, 2004, as discussed in Accounting policy developments, was \$4.7 million in the second quarter of 2004 and \$9.9 million during the first six months of 2004 (\$nil in 2003). Overtime, training and travel increased by \$5.8 million in the second quarter and \$16.6 million for the first six months of 2004, when compared with the same periods in 2003, and was related to activities to maintain high customer service levels, improve internal processes, emergency operations training, and an increased focus on leadership training and team development. Overtime, training and travel decreased by \$4.8 million when compared with the fourth quarter of 2003, when extra effort was expended to improve customer service and clear backlogs created in the third quarter of 2003 by a number of natural disasters, staffing and system conversion issues. All other costs collectively increased in line with inflation rates.

- Other operations expenses inclusive of \$12 million Operational Efficiency Program savings decreased in the second quarter and first six months of 2004, when compared with the same periods in 2003, principally due to: (i) reduced facilities, transit and termination costs, which decreased by \$10.0 million and \$27.4 million, respectively, as a result of lower outbound traffic volumes and lower rates for U.S. and international traffic termination, as well as migration of off-net costs to on-net facilities; (ii) lower product and services cost of sales of \$6.4 million and \$8.0 million, respectively, associated with lower equipment sales revenue; and (iii) lower bad debt expense that decreased by \$1.8 million and \$7.0 million, respectively, as a result of stringent enforcement of credit policy, more effective collection practices and reduced loss experience. Partially offsetting these lower costs were increased network support and maintenance costs with third parties of \$5.8 million and \$12.4 million, respectively and increased contract and consulting expenses of \$3.2 million and \$7.3 million, respectively, incurred for improvement of internal systems and processes. Capitalized labour has not significantly changed, while all other costs collectively increased in line with inflation rates.

Included in the total segment expenses discussed above are Non-ILEC operations expenses of \$144.4 million and \$281.9 million, respectively, for the second quarter and first six months of 2004, as compared with \$144.7 million and \$299.9 million, respectively, for the same periods in 2003. This represented decreases of \$0.3 million or 0.2% and \$18.0 million or 6.0%, respectively, as a result of asset disposals in 2003. Normalized for asset disposals, Non-ILEC operations expenses increased by \$1.9 million or 1.3% in the second quarter of 2004, and decreased by \$9.6 million or 3.3% in the first six months of 2004, when compared with the same periods in 2003. Normalized operations expenses increased in the second quarter of 2004, when compared with the same period in 2003, due to start-up process costs in support of implementing major customer contracts, before realizing the full impact of revenues. Normalized operations expense decreased for the first six months of 2004, when compared with the same period in 2003, due to lower wholesale transit and termination costs associated with lower long distance revenues and the shift away from shorter term revenue streams such as equipment sales.

Operations expense -	Quarters			Six-month periods		
Mobility segment	ended June 30			ended June 30		
(\$ millions)	2004	2003	Change	2004	2003	Change

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Equipment sales expenses	99.2	89.0	11.5%	188.4	172.8	9.0%
Network operating expenses	94.4	90.8	4.0%	196.9	176.8	11.4%
Marketing expenses	73.4	65.2	12.6%	134.8	121.1	11.3%
General and administration expenses	129.0	121.7	6.0%	265.4	253.5	4.7%
Total operations expense	396.0	366.7	8.0%	785.5	724.2	8.5%

TELUS Mobility operations expense increased in the second quarter and first six months of 2004, when compared with the same periods last year. TELUS Mobility has been able to achieve significant economies of scale as evidenced by the 14.2% growth in subscribers compared to second quarter Network revenue growth of 18.8%, with only an 8.0% increase in total operations expense.

- Expenses related to equipment sales increased in the second quarter and first six months of 2004 when compared with the same periods in 2003, principally due to an increase in gross subscriber activations and higher retention activity. The increase related in part to continued marketing promotions including camera phones. Handset costs associated with gross subscriber activations are included in acquisition COA.
- Network operating expenses consist of site-related expenses, transmission costs, spectrum licence fees, contribution revenue taxes, and other direct costs related to network operations. Transmission and site-related expenses increased to support the greater number of cell sites, a larger subscriber base, and improved network quality and coverage. In addition, Industry Canada spectrum licence fees were higher in 2004 principally due to a \$1.5 million and \$6.5 million credit received in second quarter and first six months of 2003, respectively as part of a retroactive filing with Industry Canada for years prior to 2003. Network costs, once normalized for this event, increased by 2.3% and 7.4% over the same periods last year. Further, Network roaming costs increased \$1.8 million in the second quarter and \$9.5 million for the first six months of 2004 as compared to the same periods in 2003 largely due to successful marketing efforts in non-urban roaming/resale areas. TELUS Mobility believes this variable cost increase is reflective of the overall positive industry trend of subscriber growth and increased subscriber usage evidenced in the continued strength of Network revenue growth. Management has focused efforts on containing network costs through negotiating improved leased transmission rates, roaming rates and maintenance rates with a number of telecommunications carriers and key vendors. TELUS Mobility also continued to build out microwave facilities aimed at reducing future leased line transmission costs. The digital population coverage grew by 1.7 million to 29.7 million since June 30, 2003, as a result of continued activation of digital roaming regions and network expansion.
- Marketing expenses increased primarily due to higher advertising expenses and dealer compensation costs associated with the expanded subscriber base and increased re-contracting activity. Despite the

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higher marketing expenses and significant subscriber growth, COA per gross subscriber addition improved considerably in the second quarter to \$381 and first six months to \$382 as compared with \$428 and \$427 for the same periods last year. Combined with the higher ARPU and steady churn, COA per gross subscriber addition over the lifetime revenue of the subscriber continued to improve significantly in the second quarter and first six months of 2004 as compared with 2003.

- General and administration expenses consist of employee compensation and benefits, facilities, client services, bad debt and various other expenses. General and administration expenses increased by only 6.0% in the second quarter and 4.7% for the first six months of 2004. TELUS Mobility increased full-time equivalent employees (FTEs) by 9.0% to 5,485 from 5,033 one year earlier to support the significant growth in the subscriber base and continued expansion of the client care team and company-owned retail stores, partly offset by a lower bad debt expense due to reduced loss experience.

Restructuring and workforce reduction costs by segment (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Communications segment	0.7	3.3	(78.8)%	16.6	9.8	69.4%
Mobility segment	-	-	-	-	-	-
TELUS consolidated	0.7	3.3	(78.8)%	16.6	9.8	69.4%

Restructuring costs recorded in 2004 were for a departmental reorganization primarily in the Communications segment information technology resources area that is consolidating from 15 locations to two 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 and effectiveness. No future costs are expected to be recorded under the 2001 to 2003 Operational Efficiency Program, but variances from estimates currently recorded may impact amounts ultimately recorded. Cumulative annual cost structure reductions in the Communications segment since inception of the Operational Efficiency Program have increased to approximately \$504 million by June 30, 2004.

EBITDA by segment (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Communications segment	498.6	515.2	(3.2)%	972.1	1,000.9	(2.9)%
Mobility segment	286.2	201.3	42.2%	534.0	379.9	40.6%
TELUS consolidated	784.8	716.5	9.5%	1,506.1	1,380.8	9.1%

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EBITDA margin(1) by segment (%)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Communications segment	41.2	41.8	(0.6) pts	40.4	40.6	(0.2) pts
Mobility segment	42.0	35.4	6.6 pts	40.5	34.4	6.1 pts
TELUS consolidated	42.1	40.4	1.7 pts	41.0	39.3	1.7 pts

Communications segment EBITDA decreased for the second quarter and first six months of 2004 as compared with the same periods in 2003 primarily due to lower revenues, partly offset by lower operations expenses.

Significant growth in TELUS Mobility EBITDA and EBITDA margin was attributed to profitable subscriber growth, a world-class churn rate, and successful cost containment efforts. The EBITDA margin, when calculated as a percentage of Network revenue, improved to 45.8% for the second quarter and 43.8% for the first six months of 2004 as compared with 38.2% and 37.3% for the same periods in 2003, representing positive increases of 7.6 and 6.5 percentage points, respectively.

Depreciation and amortization (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Depreciation	320.7	322.0	(0.4)%	642.4	640.6	0.3%
Amortization of intangible assets	86.9	88.1	(1.4)%	175.6	180.6	(2.8)%
	407.6	410.1	(0.6)%	818.0	821.2	(0.4)%

Depreciation and amortization expenses were not significantly changed in the second quarter and first six months of 2004. Increased depreciation and amortization for growth in data network and wireless capital assets was largely matched by lower amortization resulting from certain software applications becoming fully amortized and from write-offs of software assets throughout 2003.

Other expense (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	2.0	6.6	(69.7)%	3.2	12.2	(73.8)%

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Other expense includes accounts receivable securitization expense, income (loss) or impairments in portfolio investments, gains and losses on disposal of property, and charitable donations. Accounts receivable securitization expense decreased by \$3.9 million to \$0.7 million in the second quarter of 2004 and decreased by \$6.3 million to \$1.7 million for the first six months of 2004, when compared with the same periods in 2003. The decrease resulted from a reduction in the amount of securitized receivables prior to the second quarter of 2004. See Liquidity and capital resources - Accounts receivable sale. Losses from portfolio investments decreased by \$9.0 million to \$0.3 million in the second quarter of 2004 and decreased by \$9.3 million to \$1.1 million for the first six months of 2004, when compared with the same periods in 2003. Net gains for the disposal of non-core property, including the sale of land and several buildings, were \$2.2 million and \$4.3 million, respectively, in the second quarter and first six months of 2004, as compared with net gains of \$7.6 million in the second quarter and first six months of 2003. Charitable donations expenses increased to \$3.2 million and \$4.6 million, respectively, for the second quarter and first six months of 2004, as compared to \$0.5 million and \$1.5 million, respectively, for the same periods in 2003, as a result of earlier contributions in 2004.

Financing costs (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	156.9	172.0	(8.8)%	301.9	336.3	(10.2)%

Financing costs consist of interest expense on long-term and short-term debt (including interest on convertible debentures and amortization of debt issue costs), interest income, and foreign exchange gains and losses. See Note 5 of the interim consolidated financial statements.

Interest on long-term and short-term debt was \$167.5 million and \$332.9 million, respectively, for the second quarter and first six months of 2004 -- decreases of \$6.5 million and \$15.4 million when compared with the same periods in 2003. The decrease was primarily a result of repaying bank facilities, medium-term notes and first mortgage bonds during 2003. TELUS maintains a hedging program using cross currency swaps, and as a result, long-term financing costs were generally unaffected by fluctuations in the value of the Canadian dollar against the U.S. dollar. Debt, including Long-term debt, Current maturities and the deferred hedging liability, but excluding cash-on-hand, was \$7,581 million at June 30, 2004, when compared with \$7,577 million at December 31, 2003 and \$8,071 million at June 30, 2003. The average debt outstanding in the first six months of 2004 was \$7,573 million, as compared with \$8,217 million in the same period in 2003.

Interest income, which has the effect of reducing Financing costs, was \$10.5 million and \$30.3 million, respectively, for the second quarter and first six months of 2004 - increases of \$9.7 million and \$19.1 million, respectively, when compared with the same periods in 2003. Interest income in both years was recognized primarily as a result of tax refunds from the settlement of various tax matters dating back to prior years.

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Income taxes (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	44.9	53.8	(16.5)%	107.5	46.9	129.2%
Effective tax rates(%)	20.6	42.1	-	28.1	22.2	-

Although income before taxes increased by \$90.5 million in the second quarter of 2004, when compared with the second quarter of 2003, Income taxes decreased as a result of a \$34.2 million tax recovery associated with tax losses carried back to prior years and the settlement of tax matters relating to prior years, which had higher tax rates. Similar tax recoveries were recorded in the first quarter of 2004 and the first six months of 2003, which significantly reduced the effective tax rates for those periods. See Note 6 of the interim consolidated financial statements. The increase in Income taxes for the first six months of 2004, when compared with 2003, was primarily related to the \$171.9 million increase in income before taxes, partly offset by lower tax recoveries in 2004.

Non-controlling interest (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	1.1	1.0	10.0%	1.9	1.7	11.8%

Non-controlling interest primarily represents partners' interests in several small subsidiaries.

Preference and preferred dividends (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	0.8	0.8	-	1.7	1.7	-

No further Preference and preferred dividends will be paid as a result of the redemption of all of the publicly held TELUS Communications Inc. Preference and preferred shares by August 3, 2004.

Liquidity and capital resources

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Cash provided by operating activities (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	489.0	469.9	4.1%	1,077.1	874.3	23.2%

Cash provided by operating activities increased in the second quarter and first six months of 2004, when compared with the periods in 2003, principally due to the recovery of income taxes associated with settlement of tax matters (including interest income), improved operating profitability, lower payments under restructuring programs, and lower interest expense, partly offset by an increase in contributions to defined benefit plans and other working capital changes.

- Cash recovery of income taxes associated with settlement of prior years' tax matters was \$86.0 million (\$81.0 million net of tax installments) in the second quarter of 2004, compared with net tax installments of \$2.7 million in the second quarter of 2003. For the first six months of 2004, tax recoveries were \$197.1 million (\$185.6 million net of tax installments), compared with net tax installments of \$3.3 million in the first six months of 2003.
- EBITDA increased by \$68.3 million and \$125.3 million, respectively, in the second quarter and first six months of 2004, when compared with the same periods in 2003, reduced by offsetting investments in related working capital. Included in EBITDA were non-cash share-based compensation expenses of \$5.9 million and \$10.6 million, respectively, for the second quarter and first six months of 2004.
- Payments under restructuring and workforce reduction initiatives decreased by \$37.9 million and \$123.4 million, respectively, in the second quarter and first six months of 2004, compared with the same periods in 2003. The decrease is primarily a result of the completion of the Operational Efficiency Program, which began in 2001 and was substantially completed by the end of 2003.
- Interest received increased by \$6.7 million and \$19.9 million respectively for the second quarter and first six months of 2004, when compared with the same periods in 2003, primarily from the settlement of tax matters.
- Interest paid decreased by \$5.0 million and \$18.2 million respectively for the second quarter and first six months of 2004, when compared with the same periods in 2003. The decrease in interest paid resulted from lower debt balances.
- Employer contributions to employee defined benefit plans increased by \$39.9 million and \$50.5 million, respectively, to reflect updated actuarial valuations and the net acceleration of discretionary funding. Contributions to defined benefit plans is expected to be \$136.6 million for the full year of 2004, compared with \$46.9 million for the full year of 2003.
- Non-cash working capital included changes in proceeds from securitized accounts receivable. The Company neither reduced nor increased proceeds from securitized accounts receivables in the second quarter of 2004, whereas in the second quarter of 2003, proceeds from securitized accounts receivable increased by \$31.0 million. For the first six months of 2004, the Company made payments of \$150 million to

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reduce securitized accounts receivables, compared with a net increase in securitized accounts receivable of \$10.0 million in the same period in 2003.

Cash used by investing activities (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	341.6	286.0	19.4%	640.2	468.6	36.6%

Cash used by investing activities increased in the second quarter and first six months of 2004, when compared with the same periods in 2003, primarily as a result of increased capital expenditures. The Company received proceeds of \$4.3 million and \$16.4 million, respectively, in the second quarter and first six months of 2004 from the sale of non-strategic assets, including several properties. Similarly in second quarter of 2003, the Company disposed of non-strategic properties and monetized an investment for total proceeds of \$19.0 million. In the first quarter of 2003, the Company received proceeds of \$19.3 million from the sale of an administrative property under the terms of a sale and leaseback transaction, on which an \$8.2 million pre-tax gain was deferred and is being amortized over the term of the lease.

Capital expenditures by segment (\$ in millions, except capital expenditure intensity)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
Communications segment	267.7	227.4	17.7%	527.1	380.9	38.4%
Mobility segment	78.4	78.1	0.4%	128.7	132.4	(2.8)%
TELUS consolidated	346.1	305.5	13.3%	655.8	513.3	27.8%
Capital expenditure intensity(1) (%)	18.6	17.2	1.4 pts	17.9	14.6	3.3 pts

- Communications segment Non-ILEC capital expenditures increased by \$9.1 million to \$44.1 million in the second quarter of 2004 and increased by \$32.8 million to \$86.4 million in the first six months of 2004, when compared with the same periods in 2003. The increase in Non-ILEC expenditures was primarily to support the Company's IP strategy and delivery of services to new customers, which included several large contracts over the last year.

ILEC capital expenditures increased by \$31.2 million to \$223.6 million in the second quarter of 2004 and increased by \$113.5 million to \$440.8 million in the first six months of 2004, when compared with the same periods in 2003. The increase was due to

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significant investments in network infrastructure to improve customer service and network reliability, as well as investments in internal systems and processes, delivery of services to new customers, and the development of new services. In addition, 2003 capital spending for the same periods was constrained by the impact of the Operational Efficiency Program, which temporarily delayed certain projects. High-speed Internet (ADSL) network facilities and systems expenditures increased by \$15.3 million to \$35.9 million in the second quarter of 2004 and increased by \$31.4 million to \$72.5 million in the first six months of 2004 to support subscriber growth.

The Communications segment capital expenditure intensity ratios were approximately 22% in the second quarter and first six months of 2004, compared with 18.4% and 15.5%, respectively, in the same periods in 2003. Cash flow (EBITDA less capital expenditures) decreased by \$56.9 million to \$230.9 million in the second quarter of 2004, when compared with the same period in 2003. For the first six months of 2004, cash flow decreased by \$175.0 million to \$445.0 million, when compared with the same period in 2003, because of the increase in capital spending, lower revenues, and to a lesser extent, an increased restructuring charge of \$6.8 million. Communication segment capital expenditures for 2004 are now expected to be approximately \$950 million.

- Mobility segment capital expenditures remained steady in the second quarter and decreased by 2.8% for the first six months of 2004 when compared with same periods in 2003. TELUS Mobility continued the enhancement of digital wireless coverage and continued building microwave facilities in the second quarter of 2004 aimed at reducing future leased line transmission costs. Capital spending declined slightly over last year principally as a result of lower infrastructure equipment costs, a stronger Canadian dollar, and the timing of network capital expenditures.

Capital expenditure intensity for TELUS Mobility decreased to 11.5% in the second quarter of 2004 from 13.8% in the second quarter of 2003, due primarily to significant growth in Network revenues. Similarly, the capital expenditure intensity was 9.8% for the first six months of 2004 as compared to 12.0% last year. Although capital expenditures were generally lower in the first six months of 2004, Mobility still expects to achieve capital expenditure intensity of approximately 13% for the full year, consistent with its original 2004 capital expenditure target of approximately \$350 million. As a result of continued strong growth in EBITDA and reduced capital expenditure intensity, Mobility generated a record cash flow of \$207.8 million or 30.5% of total revenue in the second quarter and \$405.3 million (30.7% of total revenue) for the first six months of 2004 as compared with \$123.2 million (21.7% of total revenue) and \$247.5 million (22.4% of total revenue), respectively for the same periods last year.

Consolidated cash flow (EBITDA less capital expenditures) increased by \$27.7 million to \$438.7 million in the second quarter of 2004, when compared with the same period in 2003, as improved Mobility segment cash flow more than offset decreased Communications segment cash flow. For the first six months of 2004, consolidated cash flow decreased by \$17.2 million to \$850.3 million due to Communications segment lower revenues and increased capital expenditures, partly offset by increased Mobility segment cash flow. Consolidated capital expenditures for 2004 are expected to be approximately \$1.3 billion and funded from internally generated cash flows.

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Cash used by financing activities (\$ millions)	Quarters ended June 30			Six-month periods ended June 30		
	2004	2003	Change	2004	2003	Change
	63.2	174.4	(63.8)%	85.4	380.1	(77.5)%

Cash used by financing activities decreased in the second quarter and six-month periods ended June 30, 2004, when compared with the same period in 2003, as a result of the following:

- Common Shares and Non-Voting Shares issued - Proceeds received from shares issued from Treasury under the employee share purchase plan and from share-based compensation plans were \$16.8 million for the second quarter of 2004, compared with proceeds of \$21.0 million for the second quarter of 2003 under the same plans. Proceeds received from shares issued from Treasury under the employee share purchase plan, from share-based compensation plans and from warrants were \$43.8 million for the first six months of 2004, compared with proceeds of \$41.1 million for the same period in 2003 under the employee share purchase plan and share-based compensation plans.

- Dividends to shareholders - Cash dividends paid to shareholders for the second quarter of 2004 increased by \$4.5 million to \$48.3 million, when compared with same period in 2003. The increase in cash dividends arose from a larger number of shares outstanding and a lower enrolment in dividend reinvestment plans. The 15-cent quarterly dividend paid per Common Share and Non-Voting Share was unchanged. The approximate enrolment in dividend reinvestment plans was 13% for the dividend paid in April 2004 as compared with 21% in April 2003 and 24% in January 2004. Subsequent to June 30, 2004, the enrolment rate for the dividend paid on July 2, 2004 increased to approximately 19%. Cash dividends paid to shareholders for the first six months of 2004 increased by \$2.0 million to \$90.6 million, when compared with same period in 2003, primarily due to the larger number of shares outstanding.

- Payments of \$35.8 million were made in the second quarter of 2004 for TELUS Communications Inc. \$6.00 Cumulative Preference Shares, \$4.50 Cumulative Redeemable Preferred Shares, \$5.75 Cumulative Redeemable Preferred Shares and \$1.21 Cumulative Redeemable Preferred Shares. After June 30, 2004, the Company redeemed the remaining TELUS Communications Inc. Preferred shares for a total of \$37.0 million, as follows: on July 15, 2004, TCI \$4.75 Cumulative Redeemable Preferred Shares, TCI \$4.75 Cumulative Redeemable Preferred Shares (Series 1956) and TCI \$5.15 Cumulative Redeemable Preferred Shares; and, by August 3, 2004, TCI \$6.00 Cumulative Redeemable Preferred Shares and TCI \$4.375 Cumulative Redeemable Preferred Shares.

- Net debt redeemed or issued (Long-term debt issued net of Redemptions and repayment of long-term debt and Change in short-term obligations) - Net debt issues were \$7.7 million and \$0.8 million, respectively, for the second quarter and first six months of 2004, compared with net debt redemptions of \$148.2 million and \$330.8 million, respectively, for the same periods in 2003. In the first quarter of 2004, the full outstanding balance of \$34.0 million of bank facilities was repaid.

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Debt redemptions expected for the remainder of 2004 include:
 \$189.5 million of TELUS Communications Inc. Series A debentures due
 August 24, 2004, \$20 million of TELUS Communications Inc. Medium Term
 Notes due August 25, 2004 and capital leases.

Outstanding share data

The following is a summary of the outstanding shares for each class of equity at June 30, 2004 and at July 26, 2004. In addition, for July 26, 2004, the total number of outstanding and issuable shares is presented, assuming full conversion of convertible debentures, options and warrants.

Class of equity security

	Common Shares outstanding	Non-Voting Shares outstanding	Total Shares outstanding
At June 30, 2004			
Common equity - Common Shares outstanding	192,253,334	-	192,253,334
Common equity - Non-Voting Shares outstanding	-	162,423,223	162,423,223
	-----	-----	-----
	192,253,334	162,423,223	354,676,557 (1)
	-----	-----	-----
At July 26, 2004			
Common equity - Common Shares outstanding	192,527,713	-	192,527,713
Common equity - Non-Voting Shares outstanding	-	162,865,395	162,865,395
	-----	-----	-----
	192,527,713	162,865,395	355,393,108
	-----	-----	-----
Outstanding and issuable shares(2) at July 26, 2004			
Common Shares and Non-Voting Shares outstanding	192,527,713	162,865,395	355,393,108
TELUS Corporation convertible debentures	-	3,765,819	3,765,819
Options(3)	3,285,114	22,937,011	26,222,125
Warrants	-	677,412	677,412
Channel stock incentive plan	-	199,125	199,125
	-----	-----	-----
	195,812,827	190,444,762	386,257,589
	-----	-----	-----

Liquidity and capital resource measures

	June 30, 2004	June 30, 2003	Change	March 31, 2004
Period ended				

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Components of debt and coverage ratios				

Net debt (1) (\$ millions)	7,223.2	8,054.8	(831.6)	7,297.8
Total capitalization(2) - book value (\$ millions)	13,920.2	14,469.5	(549.3)	13,847.7
EBITDA (excluding restructuring) (3)				
(12-month trailing) (\$ millions)	2,976.2	2,698.9	277.3	2,910.5
Net interest cost(4)				
(12-month trailing) (\$ millions)	602.2	673.3	(71.1)	617.3
Debt ratios				

Fixed rate debt as a proportion of total indebtedness (%)	93.4	94.6	(1.2)	95.4
Average term to maturity of debt (years)	5.7	6.4	(0.7)	6.0
Net debt to total capitalization (%)	51.9	55.7	(3.8)	52.7
Net debt to EBITDA(5)	2.4	3.0	(0.6)	2.5
Coverage ratios				

Earnings coverage(6)	2.0	0.8	1.2	1.9
EBITDA interest coverage(7)	4.9	4.0	0.9	4.7
Other measures				

Free cash flow(8)				
(three-month \$ millions)	229.5	65.5	164.0	443.3
Free cash flow				
(12-month trailing, \$ millions)	1,184.6	378.9	805.7	1,020.6

The balance of Long-term debt and Current maturities of long-term debt was \$6,950.3 million as at June 30, 2004, an increase of \$119.4 million from December 31, 2003. This increase in the debt balance included a \$115.2 million appreciation in the Canadian dollar value of U.S. dollar denominated Notes as a result of an approximate 3% depreciation of the Canadian dollar during the first half of 2004. TELUS' U.S. dollar debt is fully hedged, resulting in a corresponding decrease of \$115.2 million being recorded in the Deferred hedging liability.

While the amount of utilized bank facilities decreased to \$nil from \$499 million one year earlier, TELUS converted \$500 million of debt from a fixed rate to a floating rate basis during the first six months of 2004, reducing the proportion of fixed rate debt. The net debt to total capitalization ratio measured at June 30, 2004 decreased, when compared with one year earlier, as a result of debt repayments and increased retained earnings since the second quarter of 2003. The net debt to EBITDA ratio measured at June 30, 2004 improved significantly, when compared with one year earlier, as a result of debt reduction and an increase in 12-month trailing EBITDA (excluding restructuring). The earnings coverage ratio improved significantly because of the improvement in income before interest and taxes in 2004. The EBITDA interest coverage ratio improved as a result of higher EBITDA (excluding restructuring) and lower net interest costs, including significant interest income.

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Free cash flow measures for the three-month and 12-month periods ended June 30, 2004, increased when compared with one year earlier primarily because of cash tax recoveries, improved EBITDA, lower payments under restructuring programs and lower interest payments, partly offset by increased capital expenditures.

Credit facilities

TELUS' credit facilities at June 30, 2004 consisted of:

- an \$800 million (or U.S. Dollar equivalent) revolving credit facility with a four-year term expiring May 7, 2008 (\$nil drawn along with \$102.6 million in outstanding undrawn letters of credit);
- 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 May 6, 2005 anniversary date (\$nil drawn);
- approximately \$74 million in other bank facilities (\$nil drawn and approximately \$6.4 million in committed and outstanding undrawn letters of credit).

Additionally, at June 30, 2004, the Company has accepted a fully underwritten commitment for a \$500 million (or U.S. Dollar equivalent) unsecured bank credit facility for general corporate purposes. This 364-day credit facility, upon documentation, would be available until the earlier of October 31, 2005, and 364 days after the completion date of the Company's offers to purchase Microcell, should in fact this event occur.

At June 30, 2004, TELUS had unutilized available liquidity well in excess of \$1 billion. TELUS' new credit facilities contain customary covenants including a requirement that TELUS not permit its consolidated Leverage Ratio (Funded Debt to trailing 12-month EBITDA) to exceed 4.0:1 (approximately 2.4 as at June 30, 2004) and not permit its consolidated Coverage Ratio (EBITDA to Interest Expense on a trailing 12-month basis) to be less than 2.0:1 (approximately 4.9 as at June 30, 2004) at the end of any financial quarter. There are certain minor differences in the calculation of the Leverage Ratio and Coverage Ratio under the credit agreement as compared with the calculation of net debt to EBITDA and EBITDA interest coverage. The calculations are not expected to be materially different. The covenants are not impacted by revaluation of capital assets, intangible assets and goodwill for accounting purposes, and continued access to TELUS' credit facilities is not contingent on the maintenance by TELUS of a specific credit rating.

Accounts receivable sale

TELUS Communications Inc., a wholly-owned subsidiary of TELUS, is able to sell an interest in certain of its receivables up to a maximum of \$650 million and is required to maintain at least a BBB(low) credit rating by Dominion Bond Rating Service (DBRS), or the purchaser may require the sale program to be wound down. The necessary credit rating was exceeded by two levels at BBB(high) as of August 3, 2004. The proceeds of securitized receivables were \$150 million at June 30, 2004, as compared with \$485 million one year earlier and \$300 million at December 31, 2003. Average proceeds from securitization were \$212 million for the first six months of 2004, compared with \$464 million in the same period in 2003. The Company is required to retain a minimum of \$150 million proceeds under this program to keep it active.

Credit ratings

With the May 13, 2004 announcement of TELUS' bid for Microcell, the four

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credit rating agencies covering TELUS issued press releases confirming or placing under review TELUS' investment grade credit ratings. No rating changes have occurred since March 2, 2004.

- Moody's Investors Services affirmed its 'Baa3' rating for TELUS Corporation with a stable outlook.
- Fitch Ratings affirmed its 'BBB' ratings with a stable outlook for senior unsecured debt of TELUS Corporation and TELUS Communications Inc.
- Dominion Bond Rating Service placed TELUS Corporation and TELUS Communications Inc. "Under Review with Developing Implications", indicating that the final rating determination will be made once the final terms of the Microcell transaction are confirmed.
- Standard & Poor's placed its ratings for TELUS Corporation and TELUS Communications Inc. on CreditWatch with negative implications. S&P stated that the CreditWatch reflected uncertainty with respect to the final terms and conditions of a potential transaction, but that it did not foresee a situation where the ratings would be lowered by more than one notch.

Off-balance sheet arrangements and contractual liabilities

Financial instruments (Note 3 of the interim consolidated financial statements)

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

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

Fair value: The fair value of the Company's long-term debt, including the convertible debentures, is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair values of the Company's derivative financial instruments used to manage exposure to interest rate and currency risks are estimated similarly. The fair value of the Company's debt at June 30, 2004 was estimated at \$8,704 million (\$8,699 million at December 31, 2003).

Commitments and contingent liabilities (Note 15 of the interim consolidated financial statements)

The Company has a number of commitments and contingent liabilities. The Company has \$79.5 million in outstanding commitments for its restructuring programs as at June 30, 2004. In accordance with CRTC Price

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Cap Decisions 2002-34 and 2002-43, the Company defers a portion of revenues in a deferral account, which at June 30, 2004, was \$100 million. The mechanism for disposing of balance of this deferral account, other than as already approved by the CRTC, is currently the subject of a CRTC proceeding, as discussed further in Risks and uncertainties - Regulation.

The Company announced its intention to make unsolicited offers to purchase for cash all of the publicly traded shares and warrants of Microcell. The total equity value of the transaction is approximately \$1.1 billion. The Company has bid for, or is negotiating for, certain sponsorships, including in relation to the 2010 Winter Olympic Games, that encompass material commitments.

On May 21, 2004, the Canadian Industrial Relations Board declared TELE-MOBILE COMPANY and TELUS Communications Inc. a single employer for labour relations purposes. The Canadian Industrial Relations Board also determined that TELUS Mobility's non-unionized team members, predominantly located in Ontario and Quebec, performing work similar to their unionized TELUS Mobility counterparts in Alberta and British Columbia, should be included in the bargaining unit represented by the Telecommunications Workers Union. On June 23, 2004, both TELE-MOBILE COMPANY and TELUS Communications Inc. filed applications with the Federal Court of Appeal for a stay and a judicial review of the Canadian Industrial Relations Board Letter Decision 1088. The motion by TCI and TELUS Mobility for a stay was heard on July 19, 2004, and a stay was subsequently denied, while clarifying that the communications ban does not apply to TELUS Mobility. Should the ultimate operational and financial impacts of the outcome of the Federal Court of Appeal process differ from management's assessments and assumptions, a material adjustment to the Company's financial position and the results of its operations could result.

Canadian GAAP requires 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. As at June 30, 2004, the Company has no liability recorded in respect of performance guarantees, and has recorded a liability of \$1.5 million (December 31, 2003 - \$1.5 million) in respect of financial guarantees. The following table quantifies the maximum undiscounted guarantee amounts as at June 30, 2004, without regard for the likelihood of having to make such payment.

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

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

A number of claims and lawsuits seeking damages and other relief are pending against the Company. For further discussion, see Risks and uncertainties - Claims and lawsuits.

Revised Guidance for 2004

Management has revised annual guidance for 2004. The revised guidance excludes any potential impacts of the acquisition of Microcell.

- Consolidated EBITDA increased by \$25 million to reflect improved expectations for TELUS Mobility. Guidance for Communications segment EBITDA remains at \$1.925 to \$1.975 billion; however, Non-ILEC EBITDA was reduced by \$10 million to reflect lower expectations for revenues due to continued market softness and start-up costs associated with implementation of major new contracts.
- Earnings per share increased by 20 cents to reflect revised expectation for consolidated EBITDA and additional income tax settlements.
- Communications segment capital expenditures, and consolidated capital expenditures, increased by approximately \$75 million due to additional investments planned for improvements to internal systems and processes, delivery services to new customers, and development of new services.
- Free cash flow increased by \$20 million for the items quantified in Note 2 below, while the expectation for Net debt to EBITDA has improved by 0.2 points as a results of higher EBITDA and higher cash balances contributing to a lower net debt.

Revised guidance summary	2004 revised guidance	2004 First quarter guidance	2004 Original targets
Consolidated Revenues	No change	No change	\$7.45 to \$7.55 billion
EBITDA(1)	\$2.975 to \$3.075 billion	No change	\$2.95 to \$3.05 billion
Earnings per share			

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- basic	\$1.30 to \$1.50	\$1.10 to \$1.30	\$1.05 to \$1.25
Capital expenditures	Approx. \$1.3 billion	No change	Approx. \$1.225 billion
Free cash flow(2)	\$1.15 to \$1.25 billion	No change	\$1.13 to \$1.23 billion
Net debt to EBITDA(3)	2.3 times or less	No change	2.5 times or less
Communications segment			
Revenue (external)	No change	\$4.7 to \$4.8 billion	\$4.8 to \$4.85 billion
Non-ILEC revenue	\$525 to \$550 million	\$550 to \$575 million	Approx. \$610 million
EBITDA	No change	\$1.925 to \$1.975 billion	\$1.975 to \$2.025 billion
Non-ILEC EBITDA	\$(30) to \$(40) million	\$(20) to \$(30) million	Approx. \$5 million
Capital expenditures	Approx. \$950 million	No change	Approx. \$875 million
High-speed Internet net additions	No change	No change	Approx. 125,000
Mobility segment			
Revenue (external)	\$2.675 to \$2.725 billion	No change	\$2.65 to \$2.7 billion
EBITDA	\$1.05 to \$1.1 billion	\$1.0 to \$1.05 billion	\$975 million to \$1.025 billion
Capital expenditures	No change	No change	Approx. \$350 million