

## 5.2 TELUS Corp.

TELUS Corporation, the second largest telecommunications related holding company in Canada, was created in 1999 from the merger of two Incumbent Local Exchange Carriers (ILECs), AGT and BC Tel, which operated in Alberta and British Columbia. In October 2000, TELUS acquired the national digital wireless company, Clearnet Communications Inc. and in June 2000, Quebec ILEC QuébecTel (renamed TELUS Québec<sup>1</sup>) was brought under the TELUS corporate umbrella.

In 2003, TELUS' revenues increased 2.0 percent to \$7.1 billion from the previous year. The increase in revenues was partially due to wireless revenues exceeding the decline in traditional telecommunications services revenues — local wireline and long distance services. In 2003, TELUS' net income increased to a net gain of \$332 million, as opposed to a \$231 million net loss in 2002, due primarily to significant growth in EBITDA and the lower costs due to restructuring and workforce reductions in 2003.

In 2001, TELUS Corporation simplified its corporate structure by amalgamating its major communications subsidiaries (TELUS Communications (B.C.) Inc., TELUS Communications Inc. and TELUS Mobility Cellular Inc.) into TELUS Communications Inc.

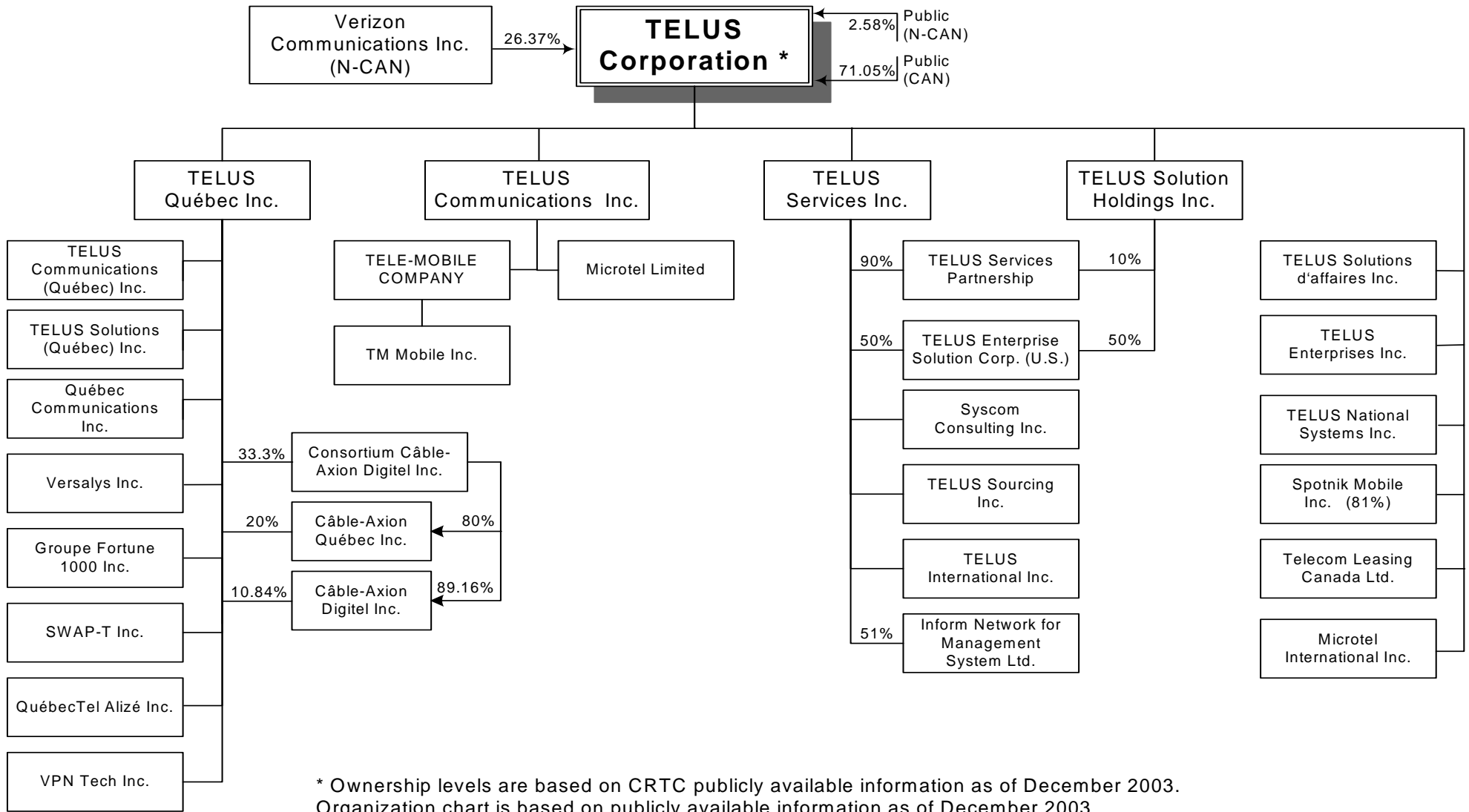
TELUS Communications Inc., TELUS Corporation's largest operating segment and the second largest telecommunications company in Canada, provides data, IP, high-speed Internet, as well as local and long distance voice services through its wireline networks. TELUS Mobility provides data, IP, local and long distance services through its wireless network. TELUS Enterprise Partnership, which includes companies that provide information technology outsourcing and e-business services, was also added to TELUS' structure.

The following paragraphs group TELUS' activities into some broad lines of business. The TELUS organizational chart puts these activities into a wider corporate view (Figure 5.2-1).

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<sup>1</sup> As of June 2001, 100 percent of TELUS Québec Inc.'s results are included in TELUS's consolidated financial statements.

Figure 5.2-1



\* Ownership levels are based on CRTC publicly available information as of December 2003. Organization chart is based on publicly available information as of December 2003.

## TELUS Communications

In 2003, TELUS' wireline revenues decreased 4.0 percent from the previous year to \$4.9 billion. The decrease in wireline revenues can be partially explained by the decline in local wireline and long distance revenues, as these fell by 1.6 percent and 5.4 percent, respectively. TELUS' wireline revenues for 2003 were broken down as follows: 44 percent from local services and access lines, 28 percent from data and Internet, 20 percent from wireline long distance services, and 6 percent from non-ILEC revenues from TELUS Communications (Québec) along with terminal equipment and other non-telecommunications related services. While most of its revenues were generated from local services and access, the only growth came from data revenues which negligibly increased by 0.1 percent from the previous year.

### *Wireline Local Services and Access Lines*

TELUS provides local wireline services in Western Canada by operating as an Incumbent Local Exchange Carrier. TELUS operates as a Competitive Local Exchange Carrier (CLEC) outside of its traditional territory, in central and eastern Canada, using its own facilities or by acting as a reseller.

Local and access revenues are earned principally by allowing customers to complete calls in their local calling areas and to access long distance networks, cellular networks and the Internet. In addition to local calling, local service revenues include enhanced calling features, such as call display, call waiting, call forwarding and voice mail. Local Service revenues also include Centrex for business customers, public pay telephones, and competitive long distance carrier access.

Local and access revenues decreased 1.6 percent in 2003 to \$2.16 billion, mostly due to price cap decision impacts imposed by the telecom regulator along with the 0.8 percent reduction in the total number of network access lines. Network access lines decreased due to the removal of second lines as a result of the migration to high-speed Internet service, the substitution of wireline telephony for wireless services, continued migration of business lines to more efficient ISDN services, and access line losses to competitors. As of December 2003, TELUS had 4,870,000 network access lines in Alberta, British Columbia and Quebec.

### *Wireline Long Distance Services*

Wireline long distance services interconnect customers in different local calling areas, and also provide domestic and international connectivity. In 2003, long distance revenues declined 5.4 percent to \$961 million.

During the third quarter of 2003, TELUS began the transition from circuit-based switching to Internet Protocol (IP) technology by launching its Next Generation Network (NGN) which is designed to carry high-quality voice, data and video applications. TELUS began the process of moving customer long distance voice traffic to its NGN network in parts of Alberta. In November 2003, TELUS launched its IP-One telephony service for business customers in Ontario and Quebec. The IP service uses TELUS' Next Generation Network to provide business customers with IP-based advanced application services and the ability to integrate voice mail, e-mail and data via TELUS' Web portal.

#### *Data and Internet Services*

TELUS provides both "traditional" data services and "enhanced" data services. Traditional data services include circuit switched, packet switched and dedicated private lines. Enhanced data services include Internet access, private intranets, wide area network outsourcing and electronic commerce. In 2003, TELUS was the second largest Internet Service Provider (ISP) in Western Canada and the third largest wireline ISP in Canada.

Data revenues increased by 0.1 percent to \$1.4 billion between 2002 and 2003. Enhanced data and Internet revenues remained flat due to lower introductory pricing, and lower revenues from data equipment sales and other services offsetting Internet-related revenue growth. TELUS' overall Internet subscribers, including high-speed and dial-up subscribers, increased by 10 percent to 881,000 as of December, 2003. High-speed Internet exhibited strong growth in subscribers, a 37 percent increase to 562,000, whereas dial-up Internet subscribers declined by 18 percent, to 319,800, when compared to 2002.

#### *Wireless Services*

TELUS Mobility is one of Canada's leading wireless communications service providers. TELUS Mobility now includes the operations of the former TELUS Mobility, Clearnet Communications Inc. and QuébecTel Mobilité.<sup>2</sup> TELUS Mobility provides wireless voice, Internet and data services across Canada through its Personal Communications Services (PCS) and Mike digital wireless networks. Roaming agreements with Nextel and Verizon offer clients enhanced North American coverage.

In 2003, TELUS wireless revenues increased 17 percent from the previous year to \$2.4 billion. The increase in revenues reflects the 14 percent increase in TELUS Mobility's wireless subscriber base to 3.4 million.

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<sup>2</sup> TELUS acquired QuébecTel in June 2000, and purchased all the shares of the national digital wireless company Clearnet Communications Inc. for \$4.1 billion in October 2000.

In March 2003, TELUS Mobility announced a roaming and resale agreement with Aliant Mobility, whereby TELUS would expand its 1X wireless data network to major centres in Atlantic Canada. Additionally, in July, TELUS Mobility announced the investment of \$20 million over three years to expand its next generation digital wireless PCS network. The expansion began in British Columbia to upgrade its existing network's digital capability and to extend service coverage to small and rural communities. Lastly, in March 2004, TELUS announced a \$4.5 million expansion of its 1X digital wireless network in rural and remote areas of Quebec.

In August 2003, TELUS Mobility, along with Canada's other national wireless carriers (i.e. Bell Mobility in collaboration with Aliant Mobility, Microcell (Fido), and Rogers AT&T Wireless), announced an agreement to establish common standards for roaming and interoperability among the public Wi-Fi locations they operate. The agreement is meant to provide wireless subscribers in Canada with convenient and secure access to public Wi-Fi locations. The agreement was signed in March 2004, with 500 new Wi-Fi locations to be introduced across Canada throughout 2004-2005. As part of the agreement, Wi-Fi usage appears on the customer's wireless bill instead of the prior method of paying in advance by credit card.

In February 2004, TELUS acquired 11 licences in rural Quebec during the Industry Canada's spectrum auction of the 2300 MHz and 3500 MHz frequency bands, spending \$58,700. TELUS is expected to use these licences to extend its fixed point wireless high-speed network.

Key historical financial data is provided in Figures 5.2-2 and 5.2-3.

Figure 5.2-2

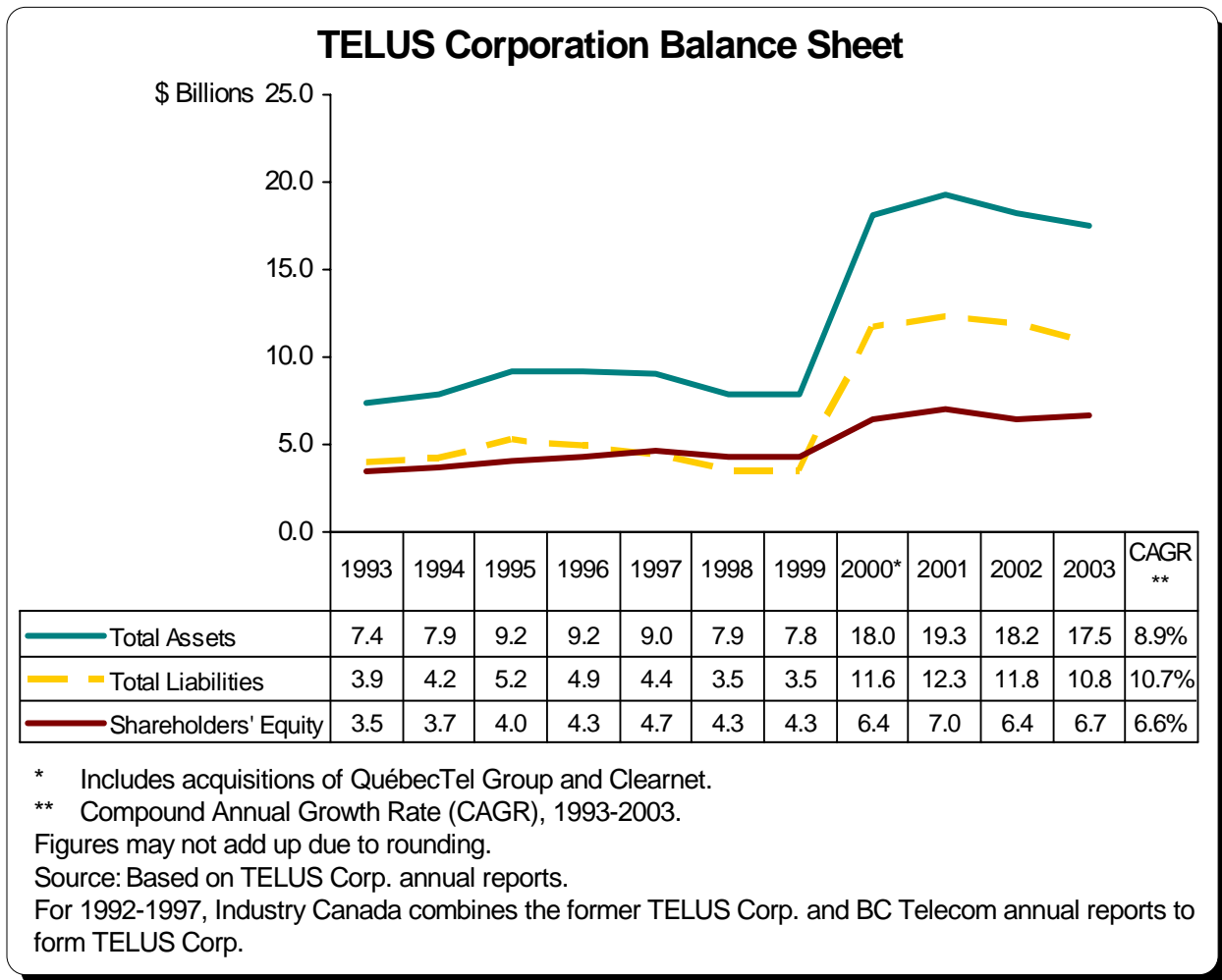


Figure 5.2-3

