

First Quarter Report

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Saskatchewan Telecommunications
Holding Corporation

First Quarter Report 2005
For the Period Ending March 31, 2005

Saskatchewan Telecommunications Holding Corporation (the Corporation) is the leading full service communications provider in Saskatchewan, providing competitive voice, data, dial-up and high speed internet, entertainment and multi-media services, security, web hosting, secure electronic transactions, text and messaging services over its digital network. The Corporation also provides cellular and wireless data services through SaskTel Mobility, security monitoring services through SecurTek, directory services through DirectWest, in-room communications services to the healthcare sector through Hospitality Network, telecommunications consulting services through SaskTel International and national

telecommunications services through Navigata Communications. SaskTel is a highly innovative and competitive communications solutions provider for its customers worldwide, delivering sound financial returns and public policy benefits to the people of Saskatchewan.

With a workforce of approximately 3,800 employees living throughout Saskatchewan, SaskTel provides communication services to more than 425,000 customers living in 13 cities and 535 smaller communities and their surrounding rural areas and about 49,000 farms. SaskTel's subsidiaries also have points of presence throughout Canada and internationally.

Financial Highlights

Consolidated Net Income

Quarter ended March 31, (\$ millions)	2005	2004	% Change
Operating revenue	\$249.2	\$228.6	9.0
Operating expenses	193.5	196.3	1.4
Income from operations	55.7	32.3	72.4
Other items	1.8	.4	<i>nmf</i> ¹
Interest and related costs	(6.9)	(8.6)	19.8
Gain on sale of investments	-	5.9	<i>nmf</i> ¹
Income from continuing operations	50.6	30.0	68.7
Income (loss) from discontinued operations	-	(0.4)	<i>nmf</i> ¹
Net income	\$50.6	\$29.6	70.9

The Corporation's consolidated net income for the first quarter of 2005 was \$50.6 million, up \$21.0 million from the same period in 2004. This was driven primarily by revenues recognized as a result of Telecom Decision CRTC 2005-6, *Competitor Digital Network Services* and increased revenue from growth services.

¹ No meaningful figure (*nmf*)

Management Discussion and Analysis

Forward - Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of the Corporation for the first quarter 2005. This discussion and analysis should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2004. Many sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties

impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel can not guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please consult Management's Discussion & Analysis in the Corporation's 2004 annual report.

Results of Operations

Operating revenues

(\$ millions)	2005	2004	Change	%
Quarter ended March 31,	\$249.2	\$228.6	\$20.6	9.0

Operating revenues for the first quarter of 2005 increased to \$249.2 million, up \$20.6 million from the same period in 2004. On February 3, 2005, the CRTC released Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*, which finalized the terms and conditions under which the Corporation is to provide digital network services to other telecommunications carriers. The CRTC determined that the Corporation's interim Competitor Digital Network Access rates are to be replaced retroactively to June 1, 2002, by rates equal to the Corporation's retail digital network access rates. Revenues of \$12.1 million have been recognized during the period as a result of these rate increases. The Corporation estimates that approximately \$16.0 million of revenue will be recorded in 2005 as a result of the decision. In addition, SaskTel Wireless (SaskTel Mobility) and SaskTel Wireline entertainment services reported increased revenues.

Operating expenses

(\$ millions)	2005	2004	Change	%
Quarter ended March 31,	\$193.5	\$196.3	\$2.8	1.4

Operating expenses for the first quarter of 2005 decreased to \$193.5 million, down \$2.8 million from the same period in 2004. This was primarily driven by decreased operating expenses due to the implementation of the Operational Efficiency Program (OEP) and decreased operating expenses in Navigata Communications Partnership.

Interest and related costs

Interest and related costs for the first quarter of 2005 decreased to \$6.9 million, down \$1.7 million from the same period in 2004. During 2004 the Corporation reduced long-term debt and converted \$100 million U.S. based debt to Canadian funds, to mitigate foreign currency risk. Accordingly, interest and related costs have decreased.

Liquidity and Capital Resources

Cash provided by (used in) operating activities

(\$ millions)	2005	2004	Change	%
Quarter ended March 31,	\$16.3	\$64.6	\$(48.3)	(74.8)

Cash provided by operating activities in the first quarter of 2005 was \$16.3 million, down \$48.3 million from the same period in 2004. Revenues from continuing operations were \$20.6 million higher during this period. Working capital requirements increased \$66.9 million during the first quarter of 2005, as compared to the same period in 2004. The accounts receivable balance at December 31, 2004 included rebates applied to customer accounts as part of the Corporation's contract with Crown Investments Corporation to administer the Lowest Cost Utility Program. The funds received for these rebates resulted in artificially high cash receipts in the fourth quarter of 2004 and artificially low cash receipts in the first quarter of 2005. At March 31, 2005 the accounts receivable balance returned to normal historical levels. Accounts payable and accrued liabilities decreased by \$31.0 million in the first quarter of 2005 as compared to a decrease of \$3.8 million during the first quarter of 2004.

Cash provided by (used in) financing activities

(\$ millions)	2005	2004	Change	%
Quarter ended March 31,	\$(32.8)	\$(39.3)	\$6.5	16.5

Cash used in financing activities in the first quarter of 2005 was \$32.8 million, down \$6.5 million from the same period in 2004. Debt repayment activities required \$0.9 million in 2005, compared to \$15.3 million in 2004 and dividend payments were \$31.2 million in 2005 compared to \$23.2 million in 2004.

Cash provided by (used in) investing activities

(\$ millions)	2005	2004	Change	%
Quarter ended March 31,	\$(20.4)	\$(21.2)	\$0.8	3.8

Cash used in investing activities in the first quarter of 2005 was \$20.4 million, down \$0.8 million from the same period in 2004. The Corporation reduced spending on capital purchases and customer accounts.

The Corporation's net spending on property, plant and equipment for the first quarter of 2005 was \$20.2 million, down \$3.9 million from the same period in 2004. Investment was made to support the telecommunications networks and meet customer demand. Additionally, SaskTel continued to invest capital to support growth and

diversification, including established initiatives such as *Max* Interactive Services, cellular expansion and multimedia development as well as on new initiatives such as Voice Over Internet Protocol (VoIP) and CommunityNet II, a program to expand SaskTel's high speed internet..

Liquidity and capital resource ratios

Debt ratio

(\$ millions)

Quarter ended March 31,	2005	2004	Change	%
Long-term debt	\$366.8	\$392.2	\$(25.4)	(6.5)
Less: cash and short-term investments	104.4	94.4	10.0	10.6
Net Debt	262.4	297.8	(35.4)	(11.9)
Equity	688.0	676.4	11.6	1.7
Capitalization	\$950.4	\$974.2	\$(23.8)	(2.4)
Debt ratio	27.6%	30.6%	3.0	(9.8)

The debt ratio after the first quarter of 2005 decreased to 27.6%, down from 30.6% at March 31, 2004. The overall level of debt decreased year over year by \$25.4 million due to debt repayment in 2004. The Corporation continues to self-finance its capital and dividend requirements.

Retained earnings increased by \$29.4 million in the first quarter of 2005 after recording net income of \$50.6 million and dividends of \$21.2 million.

2005 Outlook

The 2004 SaskTel Annual Report identified a consolidated net income target for 2005 of \$94.2 million. Results to March 31, 2005 are favourable, driven primarily by revenues recognized as a result of Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*. The Corporation anticipates increased competitive pressures and planned restructuring charges through the remainder of 2005. At this time the Corporation believes the 2005 net income will exceed the established target, primarily as a result of the CRTC decision.

Risk Assessment

The 2004 Annual Report discussed the risks and uncertainties in SaskTel's business environment. They included developments in the economic and regulatory environments, challenges faced by the defined benefit pension plan, competitive activity and more. This basic risk profile of the Corporation remains unchanged as at March 31, 2005. The Corporation continues to monitor individual risks as they change and evolve and employs the industry accepted risk management processes of identification, mitigation, transfer and assumption. Particular focus is being given to regulatory and industry developments in regards to Voice over Internet Protocol (VoIP) and competitive activity in internet and entertainment services.

Consolidated Statement of Operations

For the three months ended March 31, Thousands of dollars, (unaudited)	2005	2004
Operating revenues	\$249,247	\$228,625
Operating expenses		
Operating expenses	157,472	159,356
Depreciation and amortization	36,022	36,941
	193,494	196,297
Income from operations	55,753	32,328
Other items	1,756	438
Interest and related costs	(6,900)	(8,650)
Income before the following	50,609	24,116
Gain on sale of investments	-	5,898
Income from continuing operations	50,609	30,014
Income (loss) from discontinued operations	-	(463)
Net income	\$50,609	\$29,551

Consolidated Statement of Retained Earnings

For the three months ended March 31, Thousands of dollars, (unaudited)	2005	2004
Retained earnings, beginning of period	\$408,632	\$406,133
Net income	50,609	29,551
	459,241	435,684
Dividends	21,205	9,221
Retained earnings, end of period	\$438,036	\$426,463

See Accompanying Notes

Consolidated Statement of Financial Position

As at Thousands of dollars, (unaudited)	March 31, 2005	December 31, 2004
Assets		
Current assets		
Cash and short-term investments	\$104,563	\$141,486
Accounts receivable	91,261	57,223
Inventories	6,606	7,089
Prepaid expenses	11,073	8,921
Current assets of discontinued operations	-	27
	213,503	214,746
Property, plant and equipment	2,575,277	2,568,011
Less accumulated depreciation	1,697,191	1,675,235
	878,086	892,776
Customer accounts	42,968	44,323
Less accumulated amortization	14,073	14,825
	28,895	29,498
Investments	392	390
Goodwill	19,487	19,411
Other assets	81,293	73,909
	\$1,221,656	\$1,230,730
Liabilities and Province's equity		
Current liabilities		
Accounts payable and accrued liabilities	\$99,122	\$129,777
Dividend payable	21,205	31,215
Service billed in advance	37,503	34,169
Current portion of long-term debt	5,825	6,698
Current liabilities of discontinued operations	-	154
	163,655	202,013
Deferred revenue	7,397	6,346
Long-term debt	360,990	362,300
	532,042	570,659
Non-controlling interest	1,578	1,439
Province of Saskatchewan's equity		
Equity advance	250,000	250,000
Retained earnings	438,036	408,632
	688,036	658,632
	\$1,221,656	\$1,230,730

See Accompanying Notes

Consolidated Statement of Cash Flows

For the three months ended March 31, 2005 2004
 Thousands of dollars, (unaudited)

Cash provided by (used in):

Operating activities

Income from continuing operations	\$50,609	\$30,014
Items not affecting cash from operations (Note 2)	38,041	32,626
Other operating items (Note 3)	(72,399)	1,966
	<u>16,251</u>	<u>64,606</u>

Financing activities

Repayment of long-term debt	(885)	(15,342)
Capital lease obligations	(672)	(714)
Dividends paid	(31,215)	(23,197)
	<u>(32,772)</u>	<u>(39,253)</u>

Investing activities

Property, plant and equipment expenditures	(20,225)	(24,099)
Proceeds on sale of investments	-	3,329
Customer accounts	(484)	(633)
Other assets	301	238
	<u>(20,408)</u>	<u>(21,165)</u>

(Decrease) increase in cash from continuing operations	(36,929)	4,188
Decrease in cash from discontinued operations	-	(367)
Cash and cash equivalents, beginning of period	141,492	90,579
Cash and cash equivalents, end of period	\$104,563	\$94,400

Comprised of:

Cash of continuing operations	\$6,785	\$ -
Short-term investments of continuing operations	97,778	94,409
Bank indebtedness of continuing operations	-	(109)
Cash and cash equivalents of continuing operations	<u>104,563</u>	<u>94,300</u>
Cash of discontinued operations	-	100
	<u>\$104,563</u>	<u>\$94,400</u>

Interest Paid	\$6,830	\$8,707
<i>See Accompanying Notes</i>		

Notes to Consolidated Financial Statements, March 31, 2005

Note 1 – Interim financial statements

The interim consolidated statements of Saskatchewan Telecommunications Holding Corporation (the Corporation) have been prepared in accordance with generally accepted accounting principles in Canada. The accounting policies and methods for interim reporting purposes are consistent with those used in the preparation of the Corporation's audited financial statements for the year ended December 31, 2004. The unaudited interim statements should be read in conjunction with the Corporation's December 31, 2004 audited financial statements.

Note 2 – Items not affecting cash from operations

For the three months ended March 31, (Thousands of dollars)	2005	2004
Depreciation and amortization	\$36,022	\$36,941
Pension expense of defined benefit plans	2,359	1,003
Net share of (income) loss from significantly influenced companies	(2)	31
Foreign currency translation losses	-	1,118
Sinking fund earnings	(628)	(690)
Gain on sale of investments	-	(5,898)
Other	290	121
	\$38,041	\$32,626

Note 3 – Other operating items

For the three months ended March 31, (Thousands of dollars)	2005	2004
Changes in non-cash working capital		
Accounts receivable	\$(34,039)	\$2,123
Inventories	483	(142)
Prepaid expenses	(2,142)	315
Accounts payable and accrued liabilities	(30,964)	(3,686)
Deferred revenue	207	-
Service billed in advance	3,335	5,184
Contributions to defined benefit pension plans	(9,279)	(1,828)
	\$(72,399)	\$1,966

Notes to Consolidated Financial Statements, March 31, 2005

Note 4 – Pension costs

The table below shows the cost components of the defined benefit pension plan.

For the three months ended March 31, (Thousands of dollars)	2005	2004
Current service cost - defined benefit plan	\$(1,954)	\$(2,209)
Interest cost	(12,651)	(12,775)
Expected return on pension plan assets	14,297	13,701
Amortization of net transitional asset	2,913	2,914
Amortization of past service costs	(1,245)	(1,027)
Amortization of actuarial loss	(3,388)	(1,894)
Pension cost	\$(2,028)	\$(1,290)

Note 5 – Subsequent events

On April 1, 2005 the Corporation purchased an 85% interest in the assets of an unrelated company for cash consideration of \$1.6 million. The assets have been transferred into a partnership which is registered under the *Partnership Act*, Alberta. The Partnership, operating as The Phone Book Company, publishes directories in the Red Deer and Grande Prairie markets.

Note 6 – Comparative figures

Certain of the 2004 figures have been reclassified to conform to the current period's presentations.